



**The World Bank**

DRC Foundational Economic Governance Reforms DPO (P177460)

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# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 11-May-2022 | Report No: PIDA34137

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

Country Congo, Democratic Republic of	Project ID P177460	Project Name DRC Foundational Economic Governance Reforms DPO series (P177460)	Parent Project ID (if any)
Region Eastern and Southern Africa	Estimated Board Date 15-Jun-2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	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**

<b>Total Financing</b>	250.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	250.00
World Bank Lending	250.00

**Decision**

The review did authorize the team to appraise and negotiate



## B. Introduction and Context

### Country Context

**The Democratic Republic of Congo (DRC), the largest country by surface area in Sub-Saharan Africa (SSA) and with a population estimated at 92.4 million<sup>1</sup>, 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, DRC suffers from a grave humanitarian crisis and human development indicators are among the lowest in the world. With abundant and diverse natural resources, to include significant mineral resources, a strategic location at the center of Africa, bordering nine countries, and a large and young population, DRC has considerable economic potential. Nevertheless, it has been unable to convert its ample potential into sustainable economic growth and shared prosperity. The most common thread through time is the quest of certain vested parties to exploit and benefit from DRC's immense natural resources, and the legacy of colonization, bad governance, mismanagement of natural resources, and protracted conflict and violence have all contributed to limited progress in building human capital and infrastructure and resulted in economic underperformance and high levels of poverty.

**DRC's complex political context has hampered implementation of reforms since 2010, when DRC reached the Completion Point for the Highly Indebted Poor Countries initiative, but there are strong indications that a different trajectory is currently possible.** The relatively peaceful power transition after the December 2018 election was followed by a period of strained relations when the former president's party held the majority in Parliament. A new coalition, detached from the previous president, was formed in late 2020 and a new government established in April 2021. This has opened the way for the authorities to move forward on critical reforms, ahead of the Presidential elections scheduled for December 2023.

**Against this backdrop, the proposed Development Policy Operation (DPO) series will build the foundations for sustainable growth by strengthening governance to set a path for DRC to green, resilient, and inclusive development.** The policy and institutional reforms supported by this DPO series frame a medium-term agenda that is expected to shift the dynamic towards strengthened governance with improved accountability. To achieve this goal, the operation is structured as a programmatic series of two single-tranche DPOs, across three pillars. Designed as a re-engagement DPO series, it will build on the opening for reform implementation through a first operation (DPO1), consolidating reform momentum through a second operation (DPO2), ahead of the planned December 2023 Presidential elections.

### Relationship to CPF

**This DPO series is closely aligned with the World Bank Group Country Partnership Framework (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 World Bank Risk and Resilience Assessment 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 Prevention and Resilience Allocation (PRA) approved for DRC as part of the CPF. 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.

<sup>1</sup> World Bank (April 2022): Macro Poverty Outlook (estimate, the latest census took place in 1984).



### C. Proposed Development Objective(s)

The proposed Development Objective of this DPO series is to support 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

Key results by end 2023 include:

- Pillar 1: Percentage of central non-wage expenditures of the Ministries of Primary Education and Health are directly executed (budget commitment authority) by the Ministries: 50%; The DRC Extractives Industries Transparency Initiative (IETI) Secretariat tracks and accounts for the percentage of mining royalties distributed to provinces (25%), Decentralized Territorial Entities (ETDs) (15%) and Mining Fund for Future Generation (FOMIN) (10%) and for the 0.3% of turnover allocated to mining communities;
- Pillar 2: US\$200 million new private investments in long distance fiber optic cables since 2021; Audited financial statements and annual reports of six strategic State-Owned Enterprises (SOEs) [SNEL – power, REGIDESO – water, SCTP – port, RVA – airports, SNCC – railway, GECAMINES – copper] are publicly disclosed for 2021 and 2022;
- Pillar 3: The legality of concession contracts is ascertained; non-compliant contracts are cancelled; and valid contracts are published; DRC's annual forest cover losses reported through the National Forest Monitoring System are below 667,867 hectares (ha) per year; Effective governance mechanism for climate services established to inform national resilience strategies.

### D. Project Description

**The 2019-2023 National Strategic Development Plan (PNSD) places people at the center of government action to combat poverty.** Further, the PNSD lays out a vision for the country's development: to become a middle-income country with a diversified and inclusive economy within the next two decades. The plan is estimated to cost US\$25 billion and has five pillars: (i) human capital, social, and cultural development; (ii) good governance, state authority, and peacebuilding; (iii) consolidation of economic growth, transformation, and diversification; (iv) territorial development, reconstruction, and modernization of infrastructure; and (v) environmental protection, climate change, and sustainable development.

**The proposed DPO series will build the foundations for sustainable growth by strengthening governance to set a path for DRC to green, resilient, and inclusive development.** The policy and institutional reforms supported by this DPO series frame a medium-term agenda that is expected to shift the dynamic towards strengthened governance with improved accountability. To achieve this goal, the operation is structured as a programmatic series of two single-tranche DPOs, across three pillars. Designed as a re-engagement DPO series, it will build on the opening for reform implementation through a first operation (DPO1), consolidating reform momentum through a second operation (DPO2), ahead of the planned December 2023 Presidential elections.

- **Pillar 1: Strengthening the management of public expenditures and mining royalties.** This pillar will support the establishment of core public financial management (PFM) functions. The national budget will serve as an effective tool for implementing the government's development priorities only if its execution is improved and if fiduciary risks are addressed. While strengthening expenditure management, the operation also supports improved domestic revenue mobilization (DRM) and strengthened management of mining royalties. Increasing revenues is



a priority for meeting critical development needs, in an equitable manner, in the context of a sustainable fiscal framework.

- **Pillar 2: Liberalizing telecoms and strengthening SOE transparency and governance.** This pillar supports the opening up of the telecom sector. In addition, this pillar aims to strengthen the transparency and governance of SOEs that operate in key economic sectors (ports, airports, railway, energy, water and mining).
- **Pillar 3: Strengthening governance for sustainable forestry.** This pillar will strengthen the governance of the forestry sector, recognizing that continued weak governance and mismanagement impede the realization of benefits that the forest sector can bring nationally and globally. This pillar also aims to strengthen the availability and transparency of the information-base for DRC's climate resilient development, including forest and land use sectors.

## 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 proposed DPO series, gathering on a regular basis key institutions responsible for the various policy areas (e.g. CTR, COREF, COPIREP, EITI, Ministry of Environment and Sustainable Development). In addition, the MOF is coordinating the involvement of international partners, especially IMF, CAFI and African Development Bank (AfDB).

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

### Poverty and Social Impacts

**Strengthening Public Financial Management systems through the Pillar 1 is expected to have indirect positive impacts on poor and vulnerable households.** Strengthening the management of expenditures and of non-tax revenues will generate additional revenues that provide the fiscal space for positive and redistributive impacts on the poor. Supported by strengthened expenditure management the additional revenues provide the opportunity to directly alleviate poverty and vulnerability through the expanded coverage of safety net programs. Moreover, better capturing mining royalties will allow for keeping a greater part of the added value in the country, which, when accompanied by the improvements in factor productivity, can have significant impacts on poverty reduction and inclusion. Actions that aim to share mining revenues with provinces, decentralized territorial entities and affected communities are expected to contribute to increased pro-poor spending through more information from local authorities about needs and to a reduction in spatial disparities. Exploiting the full pro-poor potential of this prior action will require strengthening the capacity for spending at the local level. Similarly, embedding strong Citizen Engagement will ensure adequate and meaningful involvement of all beneficiaries.

**Liberalization of the telecommunications sector, as well as reforms improving transparency and strengthening the corporate governance of SOEs, under Pillar 2, are expected to increase private sector activity, create jobs and improve service delivery, leading to direct and indirect positive impact on well being.** The liberalization of the telecom sector is



likely to result in a reduction of costs to consumers and greater access to mobile and internet services. Access to telecommunication media (phones, internet) are associated with significant increases in productivity, even among the poor. Lower internet and mobile costs also improve connectedness of communities and can thereby increase social cohesion. Improved transparency and management of SOEs contributes to better fiscal management, and help improving the allocation of domestic revenue. In particular, as in the case of Pillar 1, better management of SOEs will increase the fiscal room for higher pro-poor spending.

**The sustainable management of forestry envisaged in Pillar 3, conducted with strong citizens' engagement and accountability mechanisms, are expected to promote development and poverty reduction.** This pillar aims to strengthen governance of the forestry sector which is a requirement for sustainable forestry for the benefit of DRC's population. Reducing deforestation will build resilience to climate shocks and support livelihoods. Strengthened management of forests will include short-term mitigation measures for some communities that will transition from reliance on forests for subsistence and fuel or use slash and burn practices, through the REDD+ process.

#### 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 prior actions which focus on strengthening transparency and governance of forest resources are likely to have a positive impact on the country's environment, forest and natural resources. One prior action should lead to a reduction of illegal forest exploitation while another will provide timely information to address deforestation and forest degradation. A functional National Framework for Climate Services (NFCs) will enable co-production, tailoring, delivery and use of science-based climate predictions and services and will support the implementation of climate resilient development strategies. The positive impacts are supported by the requirement under law no. 11/009 of July 9, 2011, on the fundamental principles of environmental protection. One prior action could lead to additional investments in provinces, ETDs and communities. However, possible negative effects will be assessed and addressed through the proposed SESA under ENCORE (P171762). The new Telecom Law is expected lead to more future investments. However, for such investments, the Environment Impact Assessment (EIA) process is mandatory and must be done before any project commences.

#### G. Risks and Mitigation

**The risks associated with this DPO series are high,** considering DRC's deep institutional and political fragility. However, the current government has demonstrated a strong commitment to reforms and an ability to deliver on its commitments, as demonstrated by the successful implementation of the International Monetary Fund (IMF) Extended Credit Facility (ECF) approved in July 2021; the promulgation of a new Telecom Law (long delayed by vested interest groups); and actions to improve the corporate governance of SOEs (change of management at GECAMINES, the copper SOE, and launch of competitive recruitment for the leadership of the water and energy SOEs and the road maintenance fund). Continued strong World Bank Group and IMF engagement is expected to sustain the reform momentum ahead of the scheduled elections.

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**APPROVAL**

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**Approved By**

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