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Report No.: 65064

PROJECT PERFORMANCE ASSESSMENT REPORT

DEMOCRATIC REPUBLIC OF CONGO

ECONOMIC RECOVERY CREDIT
(CREDIT NO. 3660 DRC)

POST-REUNIFICATION ECONOMIC RECOVERY CREDIT
(CREDIT NO. 3862 DRC)

REPUBLIC OF CONGO

POST-CONFLICT ECONOMIC REHABILITATION CREDIT
(CREDIT NO. 3560 COB)

ECONOMIC RECOVERY CREDIT
(CREDIT NO. 4008 COB)

December 21, 2011

IEG Country, Corporate, and Global Evaluations
Independent Evaluation Group

Currency Equivalents (annual averages)

Democratic Republic of Congo

Currency Unit = CDF

2005	US$1.00	437.96
2006	US$1.00	437.00
2007	US$1.00	437.00
2008	US$1.00	459.11
2009	US$1.00	817.00
2010	US$1.00	906.00

Republic of Congo

Currency Unit = XAF

2005	US$1.00	532.66
2006	US$1.00	539.60
2007	US$1.00	492.79
2008	US$1.00	457.06
2009	US$1.00	446.00
2010	US$1.00	471.00

Abbreviations and Acronyms

ACC	Anti-Corruption Commission
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CPIA	Country Policy and Institutional Assessment
DPL	Development Policy Lending
DRC	Democratic Republic of Congo
DRC-ERC-I	Democratic Republic of Congo Economic Recovery Credit
DRC-ERC-II	Democratic Republic of Congo Post-Reunification Economic Recovery Credit
ERC	Economic Recovery Credit
GDP	Gross Domestic Product
HIPC	Heavily-Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IFIs	International Financial Institutions
IMF	International Monetary Fund
IEGCC	IEG Country, Corporate, and Global Evaluations
I-PCP	Interim Post-Conflict Program
I-PRSP	Interim Poverty Reduction Strategy Paper
MDRI	Multilateral Debt Relief Initiative
M&E	Monitoring and Evaluation
NACS	National Anti-Corruption Strategy
OPCS	Operations Policy and Country Services
PAD	Project Appraisal Document
PD	Program Document
PER	Public Expenditure Review
PFM	Public Financial Management
PIP	Public Investment Program
PPAR	Project Performance Assessment Report
PRGF	Poverty Reduction and Growth Facility
PRGS	Poverty Reduction and Growth Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
RoC	Republic of Congo
RoC-ERC-I	Republic of Congo Post-Conflict Economic Rehabilitation Credit
RoC-ERC-II	Republic of Congo Economic Recovery Credit
SMP	Staff-Monitored Program
SNPC	*Société Nationale de Pétrole du Congo*
SOE	State-Owned Enterprise
TA	Technical Assistance
TSS	Transitional Support Strategy
WGI	Worldwide Governance Indicators

Fiscal Year *(for both countries)*

Government: January 1 – December 31

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This report was prepared by Dusan Vujovic and Nestor Ntungwanayo (Task Managers), based on contributions from John Sinclair, consultant. Peer and Panel Reviews were respectively provided by Rene Vandendries and Jorge Garcia-Garcia, IEGCC Consultants. Research assistance was provided by Min Joo Kang and Agnes Santos. Vikki Taaka and Myrna Capino Medina provided administrative support.

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IEG Mission: Improving World Bank Group development results through excellence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This is a multi-country Project Performance Assessment Report (PPAR) for four Development Policy Operations (DPOs) in the Democratic Republic of Congo (DRC) and the Republic of Congo (RoC) during 2001 to 2006.[1] Besides ensuring the integrity of the Bank's self-evaluation process by verifying the Bank's work in producing expected results, the multi-country PPAR provides an opportunity to compare processes and results at the cross-country level and to extract lessons from them. In particular, this PPAR evaluates four credits implemented in a setting of fragile[2] post-conflict and resource-rich countries, with entrenched lack of governance and transparency and therefore aims to inform the Bank's knowledge stock that will inspire future dialogue and engagement with this category of clients.

The two operations for the Democratic Republic of Congo are:

The Economic Recovery Credit (P057293) in the amount of $450 million equivalent was approved on June 13, 2002 and became effective two weeks later. It was slated to be delivered in three tranches: the first on effectiveness ($410 million) and two floating tranches, one for forestry ($15 million) and another for mining ($25 million).[3] The credit was closed on June 30, 2003.

The Post-Reunification Economic Recovery Credit (P082443) in the amount of $200 million equivalent was approved on February 26, 2004 and made effective on May 13, 2004, six weeks after its planned date of effectiveness. It was disbursed in four tranches: the first on effectiveness ($85 million) and three floating tranches, to be released on condition of progress in reforming the retirement program ($47.5 million), in clearing the debt to private creditors ($42.5 million) and in ensuring timely utilities payments ($25 million). The credit was closed on December 31, 2005, six months after its planned closing date.

The two operations for the Republic of Congo are:

The Post-Conflict Economic Rehabilitation Credit (P073316) in the amount of $37.5 million equivalent was approved on July 31, 2001 and became effective one week later. It was disbursed in a single tranche upon effectiveness. The credit was closed on June 30, 2004, one year after its planned closing date.

The Economic Recovery Credit (P083627) in the amount of $30 million equivalent was approved on December 7, 2004 and made effective on March 16, 2005. It was to be disbursed in two tranches: The first tranche of about $17 million was disbursed on effectiveness, and the

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[1] In this PPAR, the four credits will be referred to as DRC-ERC-I, and DRC-ERC-II for the Democratic Republic of Congo, and RoC-ERC-I, and RoC-ERC-II for the Republic of Congo.

[2] The term 'fragile' is used throughout the text to describe these two countries, following current international practice, rather than using LICUS (Low Income Countries Under Stress) or the more specific Post-Conflict that was used in some project titles and certainly also correctly describes the country situations.

[3] While the approved credit amounted to US$450 million, the disbursed amount totaled US$481.10 million, owing to SDR appreciation against the US$.

second, of about $13 million, was cancelled since most of the conditions for disbursement were not met. The credit was closed on schedule in December 2006.

This PPAR was prepared by Dusan Vujovic and Nestor Ntungwanayo (Task Managers), based on contributions from John Sinclair, Consultant, under the direction of Ali Khadr and Ismail Arslan. Martha Ainsworth provided thorough and useful comments. It is based on relevant Bank and Fund documents and on interviews with involved staff. An Independent Evaluation Group (IEG) mission visited the two countries in February 2009 to discuss performance with officials engaged with the projects, representative donors, staff of the Bank resident mission and other stakeholders. Their cooperation and assistance in preparing the report is gratefully acknowledged.

This PPAR was shared with the Bank's Regional Management and the two governments, but no comments were received from either party.

Executive Summary

1. This Project Performance Assessment Report (PPAR) assesses four Development Policy Operations (DPOs) that were used to support two fragile and post-conflict countries (Democratic Republic of Congo [DRC] and Republic of Congo [RoC]) in their reengagement with the donor community, and draws conclusions and lessons from the implementation results of the four credits.

2. The common feature of these four credits is that they were the early Bank operations designed to support fragile and post-conflict countries, characterized by internal weak capacity, reduced ownership, and a political leadership confronted to a wide-range of priorities. Moreover, these countries are endowed with rich natural resources, and have had difficulties to ascertain governance and transparency in the management of public resources.

3. The immediate objective of the four credits was to help the beneficiary countries to clear external arrears, and reengage with the donor community. The reengagement was also an opportunity for the two post-conflict countries to regain access to bilateral and multilateral financial support, and most importantly to benefit from extended debt relief. Moreover, the operations aimed to unleash reforms supporting sustained growth through reviving the private sector and increased management of public and natural resources.

4. The two-pronged objective of helping to clear external arrears to the Bank and to reengage with the donor community was achieved promptly and in a satisfactory manner in both countries. However, these two results were not ends in themselves. They were intended to pave the way for a larger dialogue between the respective governments and domestic and external partners on the best ways to create the conditions for sustained economic growth, improved management of natural and public resources, and poverty reduction. All four credits pursued objectives falling under these three themes.

5. This PPAR led to the identification of five findings which are summarized below.

6. **First**, the four operations were timely and effective in reestablishing access to development assistance (by helping to clear past arrears to the International Development Association [IDA] and the International Bank for Reconstruction and Development [IBRD]) and in securing critical budget support to governments during the initial post-conflict years. The operations were also effective in mobilizing and coordinating donor support, and enabling both countries to gain full access to substantial debt relief benefits extended under the enhanced highly indebted poor countries (HIPC) initiative.

7. **Second**, the design of DPOs was overly complex and displayed less-than-full consistency between objectives and measures supported. The four operations covered a wide range of critical thematic areas. They restarted the pre-war reform efforts or initiated critical policy and institutional changes in the areas of macroeconomic stabilization and growth, governance, public sector reforms, improved financial discipline, financial sector reform, private sector development, and improved management of natural resources (in mining, forestry, and oil). In some cases, the reform efforts were sustained over two or more operations in roughly the same form; in other cases the focus of reforms shifted from general towards more specific sector

issues; and, in quite a few cases, entire policy areas were dropped after the first operation with little or no justification, despite the fact that the objectives remained highly relevant, and progress in achieving them was negligible. As regards to consistency, there was a mismatch between the predominantly long-term structural and institutional reform objectives pursued by the DPOs, and the short-tem nature of the policy measures undertaken in the context of the four credits. Faced with the urgency to respond promptly to country post-conflict needs and realizing that little could be done within a short time span in the immediate post-conflict situation, Bank teams favored credit designs that were clearly skewed towards fast disbursements based on front-loaded policies. In most instances, the short term measures and actions were not sustained and/or followed up so as to reach the ultimate objectives.

8. **Third**, the results framework underlying the four post-conflict DPOs was weak and ineffective. This was partly due to the lack of recent analytical and advisory work or a reliable knowledge base of country-specific circumstances, and partly due to inadequate focus and coverage of the results frameworks followed in the four operations. Instead of being simple, realistic, selective, and balanced across key dimensions of post-conflict recovery, with wide national ownership and sufficient donor buy-in, the results matrices in the four DPOs were almost the exact opposite. The proposed set of objectives was too wide and comprehensive in thematic coverage, especially in the initial operations. The results frameworks were incomplete in providing an integrated view of the results chain. They failed to provide evidence that the proposed reform programs enjoyed broad national ownership among key political and social stakeholders, and sufficient donor buy-in.

9. **Fourth**, there was insufficient active coordination and synergy in sequencing policy and reform actions undertaken in both countries in the context of the DPOs versus the enhanced HIPC initiative agenda. In situations where DPO-supported reforms were well-defined, coordinated, and sequenced with the forthcoming HIPC events, we observed positive synergy both at the level of specific policy actions and related reform areas. In contrast, when DPOs supported ambitious and unclear objectives that were not coordinated and sequenced with policy triggers contained in the future HIPC events, the apparent gaps created mixed incentives and led to delays in the implementation of important reforms.

10. **Fifth**, the failure to secure sustained policy and institutional support as well as technical assistance was a roadblock on the path towards improved governance and management of natural resources. After almost a decade of attempts to improve governance, transparency, and efficiency in managing natural resource sectors, the results are negligible and, more importantly, have not been sustained. Less than six months after passing the HIPC completion point triggers and receiving the largest debt relief in history, DRC awarded resource concessions in a non-transparent manner, indicating that it has yet to take a critical and irreversible step in the direction of improved governance and transparent natural resource management.

11. Achievement of development outcome was rated *unsatisfactory* for both credits to the **Democratic Republic of Congo**. For the Democratic Republic of Congo Economic Recovery Credit (DRC-ERC-I), the rating was based on the following elements. The relevance of the objectives was modest and the relevance of design was negligible. Regarding efficacy, performance can be summarized as follows: (i) there were limited results in macro-stability, financial sector reform, mining and forestry, and (ii) negligible progress was recorded in

governance and state-owned enterprises (SOE) reform. For the Democratic Republic of Congo Post-Unification Economic Recovery Credit (DRC-ERC-II), the relevance of objectives was substantial while the relevance of design was modest. As regards achieved results, there was substantial achievement in the settlement of domestic debt arrears, modest achievement in sustaining macro-stability, and negligible progress in defining a medium-term development strategy, launching civil service reform, and reforming public utilities. In both cases, the main reasons for poor performance were an ambitious reform agenda for the limited implementation capacity and weak ownership of reforms.

12. Achievement of development outcome was rated *unsatisfactory* for both credits to the **Republic of Congo**. In the case of both credits, the relevance of objectives was substantial, while the relevance of design was rated modest. For the Republic of Congo Post-Conflict Economic Rehabilitation Credit (RoC-ERC-I), overall progress in achieving the credit's objective was limited. First, privatization of targeted state-owned banks had limited impact. Second, there was no progress in other privatizations (of water, electricity, and railway), and the reform of the autonomous Port of Pointe Noire and the review of the labor code simply did not take place. Third, the progress in reforming the postal service and telecommunications was at a preliminary phase and has not reached a no-reversal point. Fourth, all attempts to increase transparency in the management of the oil sector and forestry stalled, and procurement reform scarcely took off. For the Republic of Congo Economic Recovery Credit (RoC-ERC-II), achievement of outcome at the credit closure was as follows: (i) the majority of actions slated to address governance issues in the oil sector stalled, (ii) none of the significant actions proposed by the credit to improve the efficiency of the public investment program was completed, and finally (iii) there were significant irregularities and corruption issues in the settlement of domestic arrears.

13. The comparative analysis of the implementation of the four operations points to the following lessons:

14. **First,** in a post-conflict environment, a DPO instrument supporting an overly heavy reform program yields weak results. Deep reforms changing the patterns of governance and public sector management require adequate preparation, including political economy assessment, consensus-building effort and wide political and social ownership. In the absence of such thorough preparation, the likelihood of success is low, irrespective of potentially huge long run gains for the country and society. Likewise, reliance on windows of opportunity of narrow support for reform based on a single "reform champion" increases the risks of setback and failure if they are not supported by a strong political and social constituency. In both countries, and for each operation, ownership of reforms was permanently elusive, and was only assured fleetingly by the lure of arrears clearance or debt relief. Engagement of the political leadership and ownership of reforms by respective governments followed a pattern of temporary commitment to reforms for immediate returns.

15. **Second**, the absence of an up-to-date knowledge base and shared diagnostics handicaps the design and the efficacy of a Development Policy Operation. The design of the four DPOs was based on partial, imperfect, and sometimes outdated information due to lack of recent economic and sector work (ESW) and poor statistics. The knowledge gap was acute in practically all areas of policy intervention. This adversely affected the design of policies, undermined capacity building efforts, and severely constrained a meaningful choice of priorities

and sequencing of reform steps within and across operations. Some prior engagement in analytical and advisory work, and perhaps even providing for selected diagnostic work under the credit(s), could have helped: fill the knowledge gap; inform sector policies; build political consensus and social ownership of reforms; enable improved service delivery; enhance the design of second round operations; and increase the overall likelihood of achieving desired outcomes.

16. **Third**, the principles of efficient operation and standard (or good) practice approach to design and implement Bank operations cannot easily be "transposed" to post-conflict environments. When squeezed by time (both in project preparation and ESW), staff are likely to replicate the known program design solutions with minimal (often superficial) customization. First round and to some extent second round operations in DRC and RoC suffered from this drawback. The scope of proposed reforms was very similar to standard practice, despite the evident differences on the ground in DRC and RoC. The gap was further exacerbated by the inadequacy of the standard supervision effort relying on Washington-based staff and limited presence in the field. Post-conflict situations demand strong management and senior technical staff presence to build quality of dialogue and support for reforms, and to nurture partnership across a wide political and social spectrum.

17. **Fourth**, selectivity in the choice of objectives and simple credit design are key to success in post-conflict environments. The reform program supported by the four DPOs entailed a comprehensive set of complex long run reform objectives that could not possibly be achieved in a difficult post-conflict environment over the fairly limited life of the projects with severely constrained set of mostly short-term policy instruments. If a small subset of objectives that ultimately recorded modest achievements had received undivided attention, the results could have been much better moving the credit outcome into the satisfactory outcome range of the rating scale.

Caroline Heider
Director-General
Evaluation

1. Country Context and Economic Performance

1.1 This multi-country Project Performance Assessment Report (PPAR) covers four development policy operations (DPOs) implemented in two neighboring post-conflict and fragile states over the 2001- 2006 period. Two operations were extended to the Democratic Republic of Congo (DRC) in 2002 and 2004, and two went to the Republic of Congo (RoC) in 2001 and 2004. The overarching objective was to assist the new governments in normalizing relations with external creditors and in financing the post-conflict recovery. The first critical task was to facilitate the repayment of arrears to multilateral organizations, including the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD). The framework for World Bank activities in DRC and RoC was provided through successive transitional support strategies (TSS). The first TSS for DRC was discussed by the Board in July 2001, and the second in January 2004. In the case of RoC, the first TSS was discussed by the Board in January 2001, and the second in September 2003. The first post-conflict country assistance strategies (CAS) were prepared in 2007 for DRC and in 2009 for RoC, long after the second round of DPOs were closed.

1.2 A comparative assessment of the four credits will be developed in the next chapter and the four annexes devoted to the evaluation of each credit. The rest of the first chapter is about the country context and economic performance and will set the stage. The second chapter will present an overview of the performance of the credits implementation in two sub-chapters. First, it will present key results achieved in the context of the four credits, including the achievement of objectives and outcome for each credit, but also the risk to development outcome, the performance of both the Bank and the Borrower. Second, it will summarize key findings and lessons distilled from the comparative analysis of the implementation of the four credits. The four annexes (Annex A1 and Annex A2 for the Democratic Republic of Congo, and Annex B1 and Annex B2 for the Republic of Congo) will provide an in-depth assessment of the four credits.

Democratic Republic of Congo

1.3 DRC, formerly Zaire, has a long history of poor leadership, gross mismanagement and internal/regional conflict. Between 1965 and 1997, under the regime of Mobutu Sese Seko, DRC saw a gradual disintegration of the state, increasing human rights abuses and the loss of most social infrastructure. In 1997, the Mobutu regime was overthrown by Laurent Kabila. The ensuing civil war finally ended in early 2001, following the assassination of Laurent Kabila and a strong international intervention. His son, Joseph Kabila, was selected to lead a 'transitional' government. The fighting during the 1990s took (directly and indirectly) between 2 and 3 million lives, and caused immense suffering of too many, mostly women and children.

1.4 When the Bank resumed its operations in DRC in 2001, the country was faced with enormous challenges. The population, estimated at 51 million, the fourth largest in Africa, was exhausted by years of bitter war, starvation, and suffering. The capital city was flooded with refugees. The private sector has nearly collapsed. The rural society was isolated and pushed back into subsistence mode. The limited infrastructure was almost totally shattered. In 2000, the average per capita income was $224, down from an estimated $380 in 1960. With 70 percent of the population living below the poverty line and life expectancy estimated at 44 years, DRC is one of the lowest ranked countries in the UNDP's human development index. The same adverse factors that contributed to declining incomes, combined with severely limited internal transportation capacity, led to exceptionally fast urbanization. Kinshasa, the capital of DRC, has a population exceeding 8 million.

1.5 Basic functions of the state recovered slowly while the key sectors—mining and forestry—operated far below potential, often controlled by local power-brokers who diverted earnings for private gain or to finance 'private' militias and war operations. During the early post-conflict years between 1998 and 2000, DRC was a very fragile country burdened by ongoing conflicts, extreme uncertainty and poor prospects of recovery. Piecemeal improvements and partial normalization of government operations and modest economic revival were the most one could hope for.

1.6 Despite many difficulties and grim prospects, the 2001-2006 period was also the time of hope and new beginning for the DRC. Despite the readiness of Joseph Kabila's transitional government to work with the international community, normalization was a hesitant, incremental process. A key milestone was reached in June 2003 by forming a viable and legitimate government of national unity led by Joseph Kabila.

1.7 The Bank and most donors had suspended economic assistance to DRC through a better part of the 1990s. At the first sign of a viable peace prospect, the Bank made an extraordinary effort to swiftly support the country along four dimensions: (i) developing a transitional support strategy; (ii) preparing a substantial development policy operation that would help both clear arrears and establish a policy and institutional reform footprint for years to come; (iii) leading and coordinating multiple donors to secure sufficient external financing that would take DRC safely to joining the ongoing highly-indebted poor countries (HIPC) process; and (iv) reestablishing a credible World Bank field presence in order to maintain complex policy dialogue under tense political circumstances and ongoing hostilities. The Bank initiated positive actions on all the above fronts. However, unrealistic demands under multiple constraints with limited resources adversely affected the quality of the first DPO, the $450 million Economic Recovery Credit (2002-03), assessed in Annex A1. It is less clear why the same pattern was extended to the second DPO, the $200 million Post-Reunification Economic Recovery Credit (2004-05), assessed in Annex A2, as well as a third, follow-on DPO[1] and parallel HIPC initiatives (decision point in 2003 and completion point in 2010). Post-HIPC dialogue on the sustainability of reforms briefly revived since mid-2009 was a welcome new opportunity to take stock of institutional reforms and seek their continuation under the current partnership strategy.

1.8 Progress toward the HIPC completion point provided the authorities with a policy reform framework that supported the country's efforts to enhance macroeconomic stability, address weaknesses in public financial management and economic governance, and reform the social sectors in the context of an International Monetary Fund (IMF) Extended Credit Facility approved in March 2010. As a result, DRC's macroeconomic performance was strong in 2010. Real gross domestic product (GDP) growth was above 7 percent, inflation fell to below 10 percent for the first time in several years, and the external position improved. The above

[1] Transitional Support Economic Recovery approved on December 8, 2005.

positive developments were underpinned by prudent fiscal and monetary policies. However, the country has yet to focus on structural reform priorities needed to consolidate macroeconomic stability, sustain high growth, and improve the business environment.

Republic of Congo

1.9 RoC declined on the economic front since the 1960s. This decline occurred despite the country's modest population size (estimated at 3.2 million in 2000) relative to the resource base, its substantial endowment with arable land, rich tropical forests, important mineral resources, and substantial oil production (the 5th highest in Africa). Gross national income (GNI) per capita, which was about $1,100 in 1990, fell to about half that level by 2001 and only recovered to the 1990 level in 2006. Human development indicators are below the averages of low-income countries despite the fact that the country's income is in the lower middle-income range. The population is plagued by substantial inequalities and is politically marginalized. Some 60 percent of the population lives in urban areas, due to a continuing influx of the poor into the capital city, many historically driven by war-related fear rather than opportunity.

1.10 RoC suffered three rounds of civil conflict in the 1990s. At the height of the crisis in late-1999, an estimated 810,000 people, close to one-third of the population, were displaced. Strikingly, the displaced population was mostly from urban areas, mainly from the capital, Brazzaville, forced to take refuge in the forests. The fighting involved the army and four main militias, some of which had links to the old Marxist regime and some to more centrist forces aligned with the man who emerged as the (still current) president, Denis Sassou N'Guesso. The 1990s were thus a decade of massive social dislocation and human suffering through hunger, violence and sexual abuse, and destruction of large parts of the physical and economic infrastructure.

1.11 The cycle of civil conflict was finally broken by a cease-fire in December 1999, leading to a first stable government under President N'Guesso. This peace has essentially survived until now, despite local fighting with one remaining group, finally settled in March 2003 and also continuing small-scale but disruptive fighting along the route of the main rail-line to the port at Pointe-Noire, the second largest city, which remained the locus of most private sector activity, as well as the centre for the key, all off-shore, oil sector (roughly 65 percent of GNP).

1.12 The early developmental challenge for ROC was to stop the economic decline and instead build upon the 'peace dividend' to create the foundation for a more diversified and sustainable economic growth that would provide for accelerated poverty reduction, better governance, and the consolidation of peace. The early results were at best mixed. Economic activity has restarted and there was a very substantial reconstruction[2] effort, largely financed by the government with its oil revenues. The recovery has not been deep-rooted or broad-based. During the period of civil war (1990-99) most of the social indicators declined, but by 2005 some had recovered roughly to their 1990 levels. The urban population continued to be plagued by severe structural unemployment as the economy failed to diversify.

[2] This is evident in the capital with many new and modern key government buildings, in stark contrast with the situation in Kinshasa.

1.13 Rising oil prices, combined with increasing production, has since accelerated economic growth, surging by nearly 13 percent in 2005 and growing roughly 6 percent in 2006-07. The natural resource driver of the economy, oil, has been for long subject to non-transparent management. However, in the run-up to achieving the enhanced HIPC completion point, progress was made in the quality of accounting, in the realized prices, and in reconciling transfers with budget data. The oil sector is also volatile and vulnerable, even if earlier indications of supply limitations have now been reversed with new wells coming on-stream. Price growth in 2007/08 was high, but has fallen back with global price declines.

1.14 The country's performance under a recent IMF's Extended Credit Facility and the HIPC framework has been threatened by domestic and global developments, including a presidential election in 2009, the global financial crisis, and a plunge in world oil prices in 2009 which reduced RoC's oil revenue by about a third. By the end of 2009, the country had made some significant achievements. In January 2010, the IMF and World Bank approved the enhanced HIPC debt relief in the amount of $1.9 billion, freeing up financial resources for health, education, and other social services.

1.15 RoC still faces considerable challenges ahead, including: (i) an expected decline in oil production over the next few years; and (ii) urgently needed structural reform to diversify the economy and reduce its dependence on this commodity. RoC also needs to manage its debt better, to continue raising the quality of its spending, and to ensure that recent efforts to bolster oil sector governance and commercialization yield the highest possible returns to the people of Congo. While the last few years have been ones of political stability, the root causes of civil conflict (fragmentation of the social fabric among political clans, lack of voice and participation in the use of oil) are still largely there. There is also growing poverty for many, limited restoration of basic services and a burgeoning, largely jobless,[3] young population.

[3] Less than 30 percent were employed, of which only 2 percent was in the formal sector (DSS 2003).

2. Recovery and Rehabilitation Operations: Summary, Findings, and Lessons

SUMMARY OF CREDITS IMPLEMENTATION

2.1 This PPAR reviews four DPOs delivered in DRC and RoC during the immediate post-conflict period (FY2000-2007), in support of efforts to consolidate and sustain peace, restore security, and revive economic activity after years of devastating civil wars.

2.2 In the absence of medium-term country programs, the four DPOs were designed as stand-alone operations and funded by IDA credits under initial TSS presented to the Board in January 2001 for RoC and July 2001 for DRC.

2.3 Throughout the preparation and implementation of the four DPOs the two countries did not have a full poverty reduction strategy or a medium-term country assistance/partnership strategy. In the case of DRC, the first post-war CAS was presented to the Board in November 2007, seven months after the first poverty reduction strategy paper (PRSP) was submitted and more than six years after the first TSS. In the case of RoC, the process was even longer: the first post-war CAS was discussed in May 2009, almost a year after the submission of the first PRSP in June 2008, and about eight and one-half years from the first TSS.

2.4 The total IDA resources committed to the four operations amounted to $717 million equivalent at the time of negotiations. Due to SDR appreciation against the US dollar, the total disbursed amount was higher ($736.2 million), even after allowing for the cancelled $13 million tranche to RoC. About $681.1 million of the actual disbursements went to the DRC, and $55.1 million went to RoC.

2.5 The four IDA credits were disbursed in multiple tranches following the achievement of corresponding sets of policy and institutional actions. A large portion of the funding provided under the first round of operations was intended for clearance of arrears to IDA and IBRD accumulated during the war years. In the case of DRC, $338 million were directly earmarked for that purpose, leaving $143 million for budget support. In the case of RoC, the funds provided under the first DPO partially compensated the government which had already cleared $63 million of arrears to IBRD and IDA.

2.6 In addition to assisting the governments of DRC and RoC to clear arrears and, thus, reestablish their access to external financing and, equally important, qualify for debt relief extended under the enhanced HIPC initiative, the four DPOs also pursued a full range of priority development objectives relevant in post-conflict fragile situations.

Achievement of Development Objectives

DEMOCRATIC REPUBLIC OF CONGO

2.7 The two-pronged objective of the Democratic Republic of Congo Economic Recovery Credit (DRC-ERC-I) was to (i) help settle the outstanding bridge financing used to clear DRC's arrears to IDA and IBRD and (ii) achieve progress in key policy and structural reforms. Performance toward achieving the credit objective included the following:

- DRC-ERC-I operation helped to reengage with the donor community as a large share of resources made available under the first tranche was used to settle the outstanding bridge financing provided by the donors to clear the country's arrears to IDA and IBRD.

- Out of the seven policy objectives that the credit supported, the efficacy in achieving results was modest in five of them (macro-stability, public financial management (PFM), financial sector reform, mining, and forestry), and negligible in two (governance and state-owned enterprises [SOE] reform).

- The main reason for relatively poor performance was an overly ambitious reform agenda for the limited implementation capacity and the weak ownership of reforms, exacerbated by a mismatch between front-loaded short-term measures used and long-term development goals pursued.

- Based on the above results, this review rates the achievement of project objective as *negligible.*

2.8 Credit objectives of the Democratic Republic of Congo Post-Unification Economic Recovery Credit (DRC-ERC-II) were pursued in five main policy areas: (i) national program implementation, (ii) macroeconomic policy framework, (iii) civil service reform, (iv) domestic debt, and (v) management of public utilities (water and power).

- The second operation did not benefit sufficiently from the experience acquired in DRC-ERC-I and faced many problems demonstrated earlier: complex and unbalanced design, with unclear priorities and weak implementation.

- The loss of reform interest due to competing priorities, and declining economic performance eroded the overall credit outcome, but renewed interest in reforms was triggered during the run-up to HIPC completion point in the last two years.

- Results included (i) the settlement of domestic debt arrears, (ii) modest achievement in sustaining macro-stability and improving public expenditure management, and (iii) limited progress in shaping and consistently implementing a well-structured and prioritized medium-term development strategy, in launching civil service reform, and in reforming public utilities. On the basis of the above elements, this review rates the achievement of credit objective as *negligible.*

Republic of Congo

2.9 The objectives of the Republic of Congo Post-Conflict Economic Rehabilitation Credit (RoC-ERC-I) were to: (i) pursue and deepen structural reforms halted by the conflict and (ii) improve governance and transparency in the management of the country's natural wealth and public funds. Key achievements under the RoC-ERC-I include:

- Moderate advances in reforms enabling greater scope for private sector operations; and introduction of a new public procurement system. The reform agenda did not achieve its goal of privatizing public utilities (water, electricity, and railway), where few results were achieved.

- On balance, while recognizing the achievements in key areas of governance in the management of natural resources and public funds, this review notes a serious loss of the reform momentum in the 2004-2008 period caused mainly by the weak political ownership.

- Based on the above results, this evaluation rates the achievement of credit objective as *negligible.*

2.10 The Republic of Congo Economic Recovery Credit (RoC-ERC-II) aimed to achieve three objectives: (i) help improve the quality of management and transparency in the oil sector, (ii) assist in the design of a sound public investment program, and (iii) contribute to an orderly resolution of large domestic debts.

- The political ownership of reforms during the active credit period (2005-2006) turned out to be weak, especially after the disbursement of the first tranche. A weak results framework and the absence of effective monitoring and evaluation (M&E) arrangements affected most policy actions and reforms envisaged under the project, which were partially implemented, delayed or stalled, blocking the disbursement of the second tranche.

- As of the credit closing date, the only partial success was the clearance of the domestic arrears. Few measures were underway to ensure transparency in the oil sector, and no significant action was implemented to improve the public investment program. As part of a wider effort to meet the completion point triggers under the enhanced HIPC initiative, the government resumed many of the reforms and policies initiated under the second operation, after being dormant for few years.

- The contribution of the domestic debt resolution plan, the new accounting systems in the oil sector, and the improved appraisal rules and more stringent execution for public sector investment projects, started to show impact only in 2008-2009.

- On balance, while recognizing the importance of proposed reforms for improved governance in the oil sector, better public investment performance and improved financial discipline for private sector growth, this review notes the low outcome performance when the credit was active, and reiterates the weak political ownership of reforms during credit implementation.

- On the basis of the above evidence, this PPAR rates the achievement of credit objective as *negligible.*

Achievement of Development Outcome

2.11 Achievement of development outcome was rated *unsatisfactory* for both credits to the **Democratic Republic of Congo**. For DRC-ERC-I, the rating was based on the following elements. The relevance of the objectives was modest and the relevance of design negligible. Regarding efficacy, performance can be summarized as follows: (i) limited results in macro stability, financial sector reform, mining and forestry, and (ii) negligible progress in governance and SOE reform. For DRC-ERC-II, the relevance of objectives was substantial while the relevance of design was modest. As regards achieved results, there was substantial achievement in the settlement of domestic debt arrears, modest achievement in sustaining macro-stability, and negligible progress in defining a medium-term development strategy, launching civil service reform, and reforming public utilities. In both cases however, the main reasons for poor performance were an ambitious reform agenda for the limited implementation capacity and weak ownership of reforms.

2.12 Achievement of development outcome was rated *unsatisfactory* for both credits to the **Republic of Congo**. In the case of both credits, the relevance of objectives was substantial, while the relevance of design was rated modest. For RoC-ERC-I, overall progress in achieving the credit's objective was limited. First, privatization of targeted state-owned banks had limited impact. Second, there was no progress in other privatizations (of water, electricity, and railway), and the reform of the autonomous Port of Pointe Noire and the review of the labor code simply did not take place. Third, the progress in reforming the postal service and telecommunications was at a preliminary phase and has not reached a no-reversal point. Fourth, all attempts to increase transparency in the management of the oil sector and forestry stalled, and procurement reform scarcely took off. For the ERC-II, achievement of outcome at the credit closure was as follows: (i) the majority of actions slated to address governance issues in the oil sector stalled, (ii) none of the significant actions proposed by the credit to improve the efficiency of the public investment program was completed, and finally (iii) there were significant irregularities and corruption issues in the settlement of domestic arrears.

Risk to Development Outcome

2.13 **Democratic Republic of Congo**. The situation improved markedly in mid-2009 as the country resumed the majority of reforms as part of an effort to meet the triggers for the completion point under the enhanced HIPC initiative which was achieved in mid-2010.

2.14 Going forward, the identified main risks (weak ownership of reforms and possible policy reversals) to development outcomes will remain, especially if the country fails to complete institutional reforms and embark on a sustainable growth path based on efficient use of its ample natural resources. Dormant reforms for years were swiftly revitalized and implemented. This fast approach to reach HIPC completion point triggers raises doubts about the broad ownership of reforms and sustainability of policy changes recently implemented to comply with the poverty reduction and growth facility (PRGF) and HIPC requirements. Because of the pressures and incentives to reach the HIPC completion point that underpins actual performance, this review rates the risk to development outcome as *significant* for both credits.

2.15 **Republic of Congo**. Initially, government incentive to swiftly implement policy reforms was motivated by the need to obtain credit resources to finance budget deficit. Afterwards, the policy reforms were short-lived and government incentive was lost with a substantial increase in budget revenues from oil based on revived oil production and higher world prices. Most reforms were stalled after the initial policy push during 2001-2003, and went dormant after achieving the HIPC decision point in January 2006.

2.16 By January 2010, when the Republic of Congo acceded to debt relief under the enhanced HIPC initiative and the Multilateral Debt Relief Initiative (MDRI), most risks to development outcome had been mitigated. Going forward, the risk of another discontinuation or reversal of institutional reforms remains present and increases as government incentives to sustain difficult reforms start to wane once the incentives of the recent HIPC debt relief disappear. Given the large remaining reform agenda in the areas of improved governance, public (investment) resource management, and financial stability, the risk to development outcome remains *significant*.

Bank Performance

2.17 **Democratic Republic of Congo**. Overall, this review rates Bank's performance in securing quality at entry and supervision in DRC as *moderately unsatisfactory* for both credits. The design of both credits was heavily tilted towards early disbursement based on front-loaded and process-oriented actions and policies, visibly at odds with the long-term nature of development objectives pursued by most reforms supported under the credits. Quality at entry would have benefited from a stronger results framework and chain, and sensible monitoring and evaluation arrangements. As regards to supervision, the Bank office in Kinshasa was newly opened and staffing on the ground was thin. Bank team was effective in developing good rapport with the government, despite difficult circumstances on the ground, but the frequency and effectiveness of supervision were hampered by dependence on few Washington-based staff.

2.18 **Republic of Congo**. This review rates Bank's performance in securing quality at entry and supervision in RoC as *unsatisfactory* for both credits. Design of reforms involved complex political economy issues. A technical assistance (TA) project to support the reform program was launched with a one-year delay. The supervision effort was not sufficient to meet the implementation challenges posed by the ambitious reforms program in a country with depleted administrative resources and weak technical capacity. The second operation failed to develop an appropriate results framework, to build critical capacity and step-up dialogue and advocacy so as to mitigate possible obstacles to reforms posed by vested interests. Staff turnover created a discontinuity in the oversight of operations. The Bank was at times slow in responding to government's requests, and supervision missions were exceptionally infrequent. At times, the policy dialogue became uneasy or it was stuck over important reform issues, with little innovative ideas for solving the problems.

Borrower Performance

2.19 **Democratic Republic of Congo.** Overall, Borrower performance in implementing both credits is rated as *moderately unsatisfactory*. DRC authorities were cooperative in early reforms and took pride in macro-economic performance successes. However, with the move to more complex and often politically sensitive actions, the performance started to weaken, the prime reason being weak political ownership and engagement. The Ministry of Finance was the main implementing agency responsible for the overall coordination along with the Central Bureau of Coordination (BCECO). The broad scope of reform objectives required the active role of other ministries and agencies. A high-level inter-ministerial committee (ECOFIN) was responsible for monitoring and evaluation. However, due to inadequate monitoring and evaluation arrangements, key implementation problems went un-noticed until it was too late to correct them.

2.20 **Republic of Congo.** Overall, borrower performance in implementing both credits is rated as *unsatisfactory*. The government actively collaborated with the Bank team during credit preparation and appraisal, made timely policy and institutional changes to meet all Board presentation conditions and tranche release conditions. However, following the disbursement of the credit, the government could not secure continued ownership and shepherd the implementation of an ambitious reform agenda. There was a lack of clarity in defining leadership for the reform program supported under the second ERC. The negotiating Minister was dismissed immediately after the credit approval, and replaced by a successor who had to go through a steep learning curve before assuming leadership in the implementation of the credit reform agenda. The two ad-hoc committees entrusted with implementing multiple complex reforms did not have sufficient professional capacity or political and institutional leverage to carry out the complex reforms proposed under the credit. The appointment of a senior staff from the Ministry of Finance to improve coordination and enhance the leverage of implementing agencies came late (two years after credit approval) and did not produce the expected impact.

KEY FINDINGS AND LESSONS

Findings

2.21 **The four operations were timely and effective in reestablishing access to development assistance (by clearing past arrears to IDA and IBRD) and in securing critical budget support to governments during the initial post-conflict years**. The operations were also effective in mobilizing and coordinating donor support, and enabling both countries to gain full access to substantial debt relief benefits extended under the enhanced HIPC initiative.

2.22 **The design of DPOs was overly complex and displayed less-than-full consistency between objectives and measures supported**. The four operations covered a wide range of critical thematic areas. They restarted the pre-war reform efforts or initiated critical policy and institutional changes in the areas of macroeconomic stabilization and growth, governance, public sector reforms (in particular public financial management, civil service reform, and state-owned enterprises), improved financial discipline, financial sector reform, private sector development, and improved management of natural resources (in mining, forestry, and oil). In some cases, the reform efforts were sustained over two or more operations in roughly the same form (indicated with straight arrows in Table 1); in other cases the focus of reforms shifted from general towards more specific sector issues (for example, from general issues of governance to specific issues of transparency in the oil sector in RoC); finally, in quite a few cases (four policy areas in DRC and six policy areas in RoC) entire policy areas were dropped after the first operation with little or no justification, despite the fact that the objectives remained highly relevant and progress in achieving them was negligible (indicated with stop signs in Table 1).

Table 1. Evolution of the Reform Agenda in Economic Recovery DPOs in DRC and RoC

	DRC-ERC-I		***DRC-ERC-II***		***RoC-ERC-I***		***RoC-ERC-II***
POLICY AREAS	**ECONOMIC RECOVERY CREDIT (2002-03)**		**POST-REUNIFICATION ECONOMIC RECOVERY CREDIT (2004-05)**		**POST-CONFLICT ECONOMIC REHABILITATION CREDIT (2001-04)**		**ECONOMIC RECOVERY CREDIT (2004-06)**
Macro, growth reforms			Medium term development program				
	Macroeconomic stabilization	➡	Macroeconomic stability		Economic stability	⊘	
					Structural reforms	⊘	
Governance	Governance	⊘			Governance	⊘	
Public sector reform	Public financial management						
			Public expenditure management reform		Better management of public funds	➡	Public expenditure reform
	Public enterprise reform						
Financial discipline		➡	Settlement of domestic debt arrears				Resolution of domestic debt
			Regular payment of utilities				
Financial sector	Financial sector reform	⊘			Privatization of banks	⊘	
Private sector development					Regulatory framework for business	⊘	
Natural resources	Mining sector reform	⊘					
	Forestry sector reform	⊘			Transparency in forestry	⊘	
					Transparency in oil	➡	Transparency in oil

Note: ⊘ = Reforms stopped; ➡ = Reforms sustained

Source: Table established on the basis of Project Appraisal Documents (PADs) and President's Reports for the four DPOs.

2.23 **There was a mismatch between the predominantly long-term structural and institutional reform objectives pursued by the DPOs and the short-term nature of the policy measures and actions undertaken in the context of the four credits**. Faced with the urgency to respond promptly to country post-conflict needs—in restoring relations with the international financial institutions and the donors, and in securing the necessary external financing for economic recovery—the credit designs were clearly skewed towards fast disbursements based on front-loaded policies. Realizing that little could be done within a short time span in the immediate post-conflict situation, Bank teams favored easy short-term measures, process steps, adoption of programs and action plans, and the preparation of laws and decrees. These actions were suitable to initiate reforms, but provided a poor overall match for the predominantly long-term structural and institutional reform objectives pursued by the DPOs.

The number of policy actions and reforms peaked around project effectiveness and tranche release dates, and then descended to a low holding pattern[7] until revived under the next DPO or a drive to meet HIPC decision or completion point requirements.

2.24 **The results framework underlying the four post-conflict DPOs was weak and ineffective**. This was partly due to the lack of recent analytical and advisory work or a reliable knowledge base of country-specific circumstances, and partly due to inadequate focus and coverage of the results frameworks followed in the four operations. Instead of being simple, realistic, selective, and balanced across key dimensions of post-conflict recovery, with wide national ownership and sufficient donor buy-in, the results matrices in the four DPOs were almost the exact opposite. The proposed set of objectives was too wide and comprehensive in thematic coverage, especially in the initial operations. The objectives lacked clear priorities in policy and reform implementation. The results framework was incomplete and weak in providing an integrated view across all critical dimensions of post-conflict recovery (security, political, economic, and social dimensions). It failed to provide evidence that the proposed reform programs enjoyed broad national ownership among key political and social stakeholders, and sufficient donor buy-in. The results matrices were uneven in some places, incomplete, overly complex, and non-transparent in relating predominantly short-term policy actions to intermediate and final outcomes. Going beyond narrow monitoring of implemented policy actions, the results matrices did not provide a consistent framework to promote the design and use of intermediate and final outcome indicators, and a basis for effective M&E arrangements.

2.25 **In retrospect, while there were common areas of reforms between the DPOs and the enhanced HIPC initiative agenda, coordination and synergy was not always warranted**. Common areas covered by the "floating triggers" included the finalization of a full PRSP, macro stability, alignment of public expenditure priorities with poverty alleviation, public finance or expenditure management, governance, natural resource management, social and rural sectors, and external debt management. Additionally, in the case of the RoC, the triggers included one aspect of structural reforms (adoption of a new regulatory framework for telecommunications). One would assume some synergy in implementing the DPO reforms and the HIPC decision and completion point triggers. In reality, however, acceleration of policy reforms in the run-up to HIPC decision and completion points have had both positive and unintended negative effects. In situations where DPO-supported reforms were well-defined, coordinated, and sequenced with the forthcoming HIPC events, we observed positive synergy both at the level of specific policy actions and related reform areas. A good example of positive synergy through coordinated reform effort was the introduction of improved fiduciary arrangements for HIPC-financed expenditures under the first DPO in DRC. It resulted in early implementation (September 2002) and had a positive impact on related policies in public finance management area.

2.26 In contrast, when DPOs supported ambitious and unclear objectives that were not coordinated and sequenced with policy triggers contained in the future HIPC events, the gaps created mixed incentives and led to delays in the implementation of important reforms. A good example of "negative synergy" is procurement reform supported under the first DPO in DRC. A vaguely-defined objective and misplaced emphasis on administrative steps ("appoint independent observers in the public procurement commission") compromised the opportunity to

[7] In some cases policies went completely dormant or even experienced a reversal.

pass and start implementing new procurement law before the HIPC completion point. As a result, procurement reforms were put on hold after the DPOs, and the new procurement law was passed only in April 2010, just before the HIPC completion point (June 2010). The first implementation report will be produced well after the HIPC resources had been released.

2.27 Given the significant overlap between policy areas covered under the four DPOs and the respective HIPC programs, there was surprisingly little active coordination in dividing and sequencing policy and reform actions related to long-term development objectives such as governance, improved public sector, and natural resource management. The most notable synergy was realized through corrective interventions supported under the HIPC completion point as the "floating triggers" revived, and invigorated reforms missed and/or dropped under previous DPOs or PRGF operations. Paradoxically, there were even cases where significant incentives offered through enhanced HIPC initiative sent mixed signals to governments in DRC and RoC and possibly diminished the reform effort supported under regular operations.

2.28 **The failure to secure sustained policy and institutional support as well as technical assistance was a major roadblock on the path towards improved governance and management of natural resources**. After almost a decade of attempts to improve governance, transparency and efficiency in managing natural resource sectors, the results are negligible and, more importantly, have not been sustained. Less than six months after passing the HIPC completion point triggers and receiving the largest debt relief in history, DRC awarded resource concessions in a non-transparent manner, indicating that it has yet to take a critical and irreversible step in the direction of improved governance and transparent natural resource management.

Lessons

2.29 The review of the implementation of four development policy operations in DRC and RoC focused on recovery and rehabilitation in the immediate post-conflict period and led to the distillation of a number of lessons as described below.

2.30 **In a post-conflict environment, a DPO instrument supporting an overly heavy reform program yields weak results**. Deep reforms changing the patterns of governance and public sector management require adequate preparation, including political economy assessment, consensus building effort and wide political and social ownership. In the absence of such thorough preparation, the likelihood of success is low, irrespective of potentially huge long-run gains for the country and society. In the post-conflict environment, a DPO instrument can be effective if the reform program is well calibrated to a context of weak technical capacity and multiple priorities. In both countries, and for each operation, ownership of reforms was permanently elusive, and was only assured fleetingly by the lure of arrears clearance or debt relief. Ownership of reforms by respective governments followed a pattern of temporary commitment to reforms for immediate returns. Incentives to governments, leadership and ground conditions lacked for a successful pursuit of the ambitious reform agenda in both counties.

2.31 **The absence of an up-to-date knowledge base and shared diagnostics handicaps the design and efficacy of a Development Policy Operation**. The design of the four DPOs was based on partial, imperfect, and sometimes outdated information due to lack of recent economic and sector work (ESW) and poor statistics. The knowledge gap was acute in practically all areas of policy intervention. This adversely affected the design of policies, undermined capacity building efforts, and severely constrained a meaningful choice of priorities and sequencing of reform steps within and across operations. Some prior engagement in analytical and advisory work, and perhaps even providing for selected diagnostic work under the credit(s), could have helped: fill the knowledge gap; inform sector policies; build political consensus and social ownership of reforms; enable improved service delivery; enhance the design of second round operations; and increase the overall likelihood of achieving desired outcomes.

2.32 **The principles of efficient operation and standard (or good) practice approach to design and implement Bank operations cannot easily be "transposed" to post-conflict environments**. When squeezed by time (both in project preparation and ESW), staff are likely to replicate the known program design solutions with minimal (often superficial) customization. First round and to some extent second round operations in DRC and RoC suffered from this drawback. The scope of proposed reforms was very similar to standard practice, despite the evident differences on the ground in DRC and RoC. The gap was further exacerbated by the inadequacy of the standard supervision effort relying on Washington-based staff and limited presence in the field. Post-conflict situations demand strong management and senior technical staff presence to build quality dialogue and support for reforms, and to nurture partnership across a wide political and social spectrum.

2.33 **Selectivity in the choice of objectives and simple project design are key to success in post-conflict environments**. The reform program supported by the four DPOs entailed a comprehensive set of complex long-run reform objectives that could not possibly be achieved in a difficult post-conflict environment over the fairly limited life of the projects with severely constrained set of mostly short-term policy instruments. If a small subset of objectives that ultimately recorded modest achievements had received undivided attention, the results could have been much better moving the credit outcome into the satisfactory outcome range of the rating scale. This is confirmed by two recent DPOs[8] implemented during 2007-2010 in Liberia, another fragile country. Satisfactory credit outcomes achieved in the context of the two credits are strongly correlated, at least partially, to the simplicity of the operations and the specificity of their objectives.

[8] The two Liberia credits are: (i) Re-engagement and Reform Support Program (P102915) approved on April 04, 2007 in an amount of $430 million and (ii) A Second Re-engagement and Reform Support Program approved on May 21, 2009 in an amount of $4 million.

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Annex A1. Democratic Republic of Congo: Assessment of the Economic Recovery Credit, 2002-2003

Annex Table A1.1. Principal Ratings, DRC-ERC-I

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Unsatisfactory
Institutional Development Impact**	Modest	Modest	———
Risk to Development Outcome	———	———	Significant
Sustainability***	Likely	Likely	———
Bank Performance	Satisfactory	Satisfactory	Moderately Unsatisfactory
Borrower Performance	Highly Satisfactory	Satisfactory	Moderately Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that is an independent desk validation of the ratings, based on the evidence in the ICR.
**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.
***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Annex Table A1.2. Key Staff Responsible, DRC-ERC-I

Project	*Task Manager*	*Sector Manager*	*Country Director*
Appraisal	Brendan Horton Eric R. Nelson	Cadman Atta Mills	Emmanuel Mbi
Completion	Eric R. Nelson	Cadman Atta Mills	Emmanuel Mbi

Objectives and Policy Areas

1. The $450 million Economic Recovery Credit to DRC (DRC-ERC-I) was approved in June 2002. It was designed with three tranches. The first tranche of $410 million was released upon effectiveness and disbursed on July 3, 2002. Two floating sector tranches, one for mining ($25 million) and another for forestry ($15 million) were released as sector conditions were satisfied in 2003.[9] Of the first tranche, an amount of $330 million was used to settle the outstanding bridge financing provided by the donors to clear DRC's arrears to the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD).

2. **Objectives.** The DRC-ERC-I was the centerpiece of the Bank's Transitional Support Strategy (TSS) discussed by the Board in July 2001. The overall objective of the Bank's re-engagement strategy was to support the transition to peace and stability focusing on four areas: (i) meeting basic and urgent needs; (ii) rebuilding effective public institutions and policies; (iii) revitalizing economic activity; and (iv) rebuilding administrative and implementation capacity. The TSS provided three modes of assistance: financial support, policy and technical advice, and aid coordination.

[9] Due to SDR appreciation against the dollar, total disbursed amount was $481.10 million, released in three tranches of $436.4 million for the core tranche, $16.5 million for the forestry sector tranche, and $28.2 million the mining sector tranche.

3. The stated overall objective of the DRC-ERC-I was to help advance the TSS goals of supporting economic stabilization and structural reforms as a basis for recovery within the framework of the interim poverty reduction strategy paper (I-PRSP). More specifically, according to the President's Report (World Bank, 2001a, para. 46), the operation aimed to support the government's efforts to pursue policy and structural reforms needed to:

- achieve and sustain ***macroeconomic stability***;
- improve ***governance*** and reduce corruption with the objectives of fostering private sector development and increasing the supply of public services;
- improve ***public financial management***, especially regarding public expenditures;
- continue the reform and restructuring of the ***public enterprise sector***;
- begin the reform of the ***financial sector***, especially the restructuring of commercial banks;
- support policy actions in the ***forestry sector*** in anticipation of implementation of new regulations; and
- provide support to urgent special actions within the ***mining sector*** that support prospects for fostering restructuring of the sector.

4. This statement of objectives somewhat differs from the one contained in the policy matrix attached to the Letter of Development Policy (World Bank 2001a, Annex 3). The policy matrix takes a broader view of the macroeconomic and governance objectives to include the relevant aspects of the "public financial management" objective. More specifically, the macroeconomic management objective includes macroeconomic stability as well as relevant aspects of public revenue and public expenditure management. Likewise, the governance objective also includes pertinent dimensions of public expenditure management.

5. This review will follow the definition of objectives adopted by the President's Report to ensure consistency in evaluating the "relevance of objectives" and Bank performance in ensuring "quality at entry."

6. **Policy Areas.** Annex Table A1.3 provides a summary of policy actions envisioned under DRC-ERC-I to ensure the achievement of credit objectives. The efficacy of proposed policy actions and the status benchmarks proposed in the President's Report are discussed later under achievement of objectives.

Relevance of Objectives and Design

7. **Relevance of Objectives**. The seven objectives selected by the first DRC operation bear only loose resemblance to the priority objectives set in the country and Bank strategic documents. As indicated in Annex Table A1.4, the I-PRSP identifies three main pillars, and 17 sub-pillars. Only two DRC-ERC-I objectives are directly mapped into I-PRSP objectives (governance and macroeconomic stabilization). The remaining five objectives loosely correspond to two sub-pillars (i) B1 - Stabilize and rehabilitate macroeconomic environment and (ii) B6 - Promote productive sectors and exports.

Annex Table A1.3. Policy Actions Associated with DRC-ERC-I 2002 Objectives

Objectives and Action Areas	*Policy Actions/ Tranche Release Conditions/Prior Actions*	*Status of Policy Action as of Date*
(A) MACROECONOMIC STABILIZATION		
A.1. International Creditworthiness (Clearance of Arrears to IFIs)		
	Clearance of arrears to the World Bank (IBRD, IDA) and IMF	✓ July 2002
A.2. Satisfactory Macroeconomic Policy Framework		
	Move to floating exchange rate regime, depreciate Congolese Franc	✓ May 2001
A.3. Monetary Policy		
	Liberalize interest rates	✓ May 2001
	Reduce Central Bank financing of budget deficit	✓ June 2001
	Enact legislation granting independence to Central Bank	✓ April 2002
	Publish presidential decree requiring that all payments have prior approval of the ministry of finance.	✓ April 2002
A.4. Structural Measures		
	Liberalize prices (except electricity, water and public transport)	✓ July 2001
	Liberalize petroleum prices, establish transparent pricing formula, and periodically adjust	✓ June 2001
	Liberalize diamond markets, publish legislation/regulations	✓ May 2001
(B) GOVERNANCE		
B.1. Improve Public Sector Governance and Reduce Corruption		
	Workshop on governance and corruption	~ August 2002
	Governance and anticorruption strategy and action plan	~ December 2002
	Implement code of conduct for public officials	~ September 2002
	Prepare omnibus law on corrupt practices and the creation of anti-corruption institutions	~ September 2002
	Create anti-corruption commission	~ December 2002
B.2. Improve Legal, Judicial, and Regulatory Framework for Private Sector Development		
	Promulgate law on the creation of commercial courts	~ July 2001
	Promulgate new investment code	~ February 2002
	Revise labor code	~ December 2002
	Publish mining code, regulations, and mining cadastre	~ October 2002
	Promulgate new forestry code and application decrees	~ October 2002
(C) PUBLIC FINANCE MANAGEMENT		
C.1. Improve Public Revenue Management		
	Deposit all tax and non-tax revenues with the Central Bank	Since June 2001
C.2. Improve Public Expenditure Management (PEM) and Control		
	Strict management of expenditures on cash basis	✓ June 2001
	Reinstate full expenditure management procedures	✓ June 2001
	Approval of the 2002 budget by parliament	January 2002
	Improve PEM in collaboration with the IMF and the World Bank (e.g. through Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Report (CPAR), Africa Action Plan (AAP)	✓ July 2001
	Conduct public expenditure review for 2003 Budget preparation	~ September 2002
	Fiduciary arrangements for HIPC-financed expenditures	~ September 2002
	Improve oversight of public expenditures	~ June 2003
	Strengthen internal and external audit functions	~ December 2003
	Appoint independent observers of the public procurement commission	~ September 2002
	Independent audit of government accounts (annually)	~ March 2003
(D) PUBLIC ENTERPRISE REFORM		
D.1. Public Enterprise Reform Strategy		
	Undertake financial audit of all state enterprises	~ March 2001
	Workshop on public enterprise reform	~ September 2001
	Establish public enterprise reform committee and nominate key managers	~ June 2002
	Form thematic and sector reform groups (telecom, energy, transport, legal and regulatory, social safety nets)	~ June 2002
	Conduct operational audits of key public enterprises	~ October 2002
	Audit cross-debts between public enterprises and government	~ April 2003
	Prepare a strategy for restructuring, liquidating, or privatizing public enterprises	~ December 2002

Objectives and Action Areas	*Policy Actions/ Tranche Release Conditions/Prior Actions*		*Status of Policy Action as of Date*
D.2. Modernize Legal, Regulatory, and Fiscal Framework for Public Enterprises			
	Revised law on public enterprises (approved by cabinet and ready for submission to parliament)	~	October 2002
	Legal framework for privatization (approved by cabinet and ready for submission to parliament).	~	October 2002
	Reformed tax regime for public and private enterprises (draft law accepted by relevant ministries and ready for submission to parliament)	~	November 2002
D.3. Reform Key Economic Sectors			
	Telecommunications	~	May 2002
1.	Office Congolais des Postes et Telecommunications (OCPT)	~	June 2003
	Postal Service	~	June 2003
(E) FINANCIAL (BANKING) SECTOR REFORM			
E.1. Prepare Financial Sector Restructuring Strategy		**~**	**June 2003**
E.2. Reform Legal and Regulatory Framework for the Financial Sector			
	New banking law	~	February 2002
	New credit union law	~	February 2002
	Reform and harmonize accounting systems and tax regimes for the banking sector		Tbd
	Review prudential regulations against international norms	~	March 2003
	Implement new legal framework for the financial sector	~	March 2004
E.3. Strengthen the Central Bank			
	Adopt a central bank charter granting its full independence	~	May 2002
	Conduct an audit of the central bank	~	September 2002
	Formulate an action plan based on audit results	~	December 2002
E.4. Restructure the Banking Sector			
	Create banking sector restructuring commission	✓	during 1998
	Based on five private bank audits place two banks (Nouvelle Banque de Kinshasa [NBK] and Banque de Credit Agricole [BCA]) under liquidation	~	May 2002
	Revoke operating license of Banque Congolaise du Commerce Exterieur (BCCE) and start its liquidation or privatization procedure	~	September 2002
	Complete audits of remaining private banks	~	September 2002
	Identify all banks to be liquidated, restructured, or privatized	~	September 2002
	Prepare restructuring plans for viable banks (based on audit results)	~	December 2002
(F) MINING SECTOR REFORM			
F.1. Reform Legal and Regulatory Framework for the Mining Sector			
	Declare moratorium on new mining concessions until the adoption of the new mining code	~	January 2002
	Promulgate the new mining code	~	May 2000
	Prepare and publish new mining sector regulation	~	October 2002
	Create a commission for validation of mining titles issued under the new mining code	~	May 2002
	Publish a full list of all mining titles granted since 1995	~	June 2002
	Publish a complete list of confirmed, contested and abandoned mining titles	~	November 2002
	Promulgate new mining cadastre decree	~	May 2002
F.2. Diamonds			
	Subscribe to Kimberly accord on conflict diamonds	~	April 2002
F.3. Restructuring of Gecamines			
	Create a permanent committee at the presidency for restructuring Gecamines	~	May 2002
	Prepare a comprehensive Gecamines restructuring study	~	November 2002
	Adopt Gecamines restructuring strategy and implementation plan	~	December 2002
	Prepare and implement voluntary departure (retirement) program to reduce overstaffing		

Objectives and Action Areas	Policy Actions/ Tranche Release Conditions/Prior Actions		Status of Policy Action as of Date
(G) FORESTRY SECTOR REFORM			
G.1. Reform Legal and Regulatory Framework for the Forestry Sector			
	Clarify the status of forestry exploitation contracts: annul contracts in breach of tax or contractual obligations; suspend contracts in inhabited zones or areas where operators are prevented from complying with the terms of contract; prepare a complete list of validated, annulled, suspended, or contested contracts.	~	May 2002
	Establish a moratorium on new allocations, extensions or renewals of existing concessions pending definition of rules under the new forestry law	~	May 2002
	Present a new forestry code as a law or a presidential decree.	~	October 2002
	Publish (in the national press) the ministerial decree on the competitive bidding rules and the award of concessions.		tbd
	Execute forestry taxation study to rationalize forestry tax structure and improve revenue collection.	~	December 2002
	Publish new forestry code (in the national press).	~	November 2002
	Publish new forestry code regulations (in the national press).	~	December 2002

Source: World Bank President's Report
✓ = fully met as of indicated date; ~ = partially met as of indicated date.

Annex Table A1.4. Interim 2002 PRSP Pillars and DRC-ERC-I 2002 Objectives

Interim PRSP Pillars	*DRC-ERC-I 2002 Objectives*
A. PEACE AND GOOD GOVERNANCE	
A1. Restore and consolidate peace	
A2. Care for the victims	
A3. Guarantee stability on the borders and promote neighborly relations	
A4. Ensure good governance	**II. GOVERNANCE**
B. MACROECONOMIC STABILIZATION, REHABILITATION, AND PRO-POOR GROWTH	**I. MACROECONOMIC STABILIZATION**
B1. Stabilize and rehabilitate macroeconomic environment	**III. PUBLIC FINANCIAL MANAGEMENT** **IV. PUBLIC ENTERPRISE REFORM** **V. FINANCIAL SECTOR REFORM**
B2. Use realistic macroeconomic framework	
B3. Promote savings, investment and pro-poor growth	
B4. Promote employment	
B5. Rehabilitate and rebuild infrastructure	
B6. Promote productive sectors and exports	**VI. MINING SECTOR REFORM** **VII. FORESTRY SECTOR REFORM**
B7. Rehabilitate and rebuild the socio-economic framework of poor communities	
B8. Look after the victims of natural disasters	
B9. Promote bilateral and multilateral cooperation	
C. COMMUNITY DYNAMICS	
C1. Enhance and consolidate the institutional framework and grassroots governance	
C2. Create a Federal framework for Community Dynamics	
C3. Create a national support mechanism for Community Dynamics	
C4. Create grassroots conditions for equitable growth and sustainable development	.

Source: World Bank PRs; I-PRSP, TSS.

8. As much as greater selectivity was desirable, the choice of objectives supported under the DRC-ERC-I was not well aligned with the most urgent national priorities in the immediate post-conflict period marked with continued hostilities and ample security risks. National strategy documents (I-PRSP and PRSP) put great emphasis on achieving peace and security, the restoration of the rule of law, care for the victims, and basic economic and social revival, and bottom-up re-integration through community initiatives. The DRC-ERC-I operation was completely oblivious of these urgent security and socio-economic stabilization needs of the time.

9. Instead, DRC-ERC-I adopted an unrealistic technical approach to reforms and pushed for a large institutional reform agenda with little consideration for: (i) the complexity and scope of demands that the implementation of comprehensive reforms imparts even in completely stable political and security environments; (ii) the political economy of reforms in natural resources management, in reforming state owned enterprises (SOEs), financial sector, and public administration; and (iii) technical, logistical, and institutional capacity constraints.

10. Although the proposed reform agenda was relevant for DRC needs in the longer run, within the relatively short timeframe of the first post-conflict development policy operation (DPO), such ambitious approach lacked sufficient ownership and support in the government and resulted in stop and go phases.

11. On the basis of the above indicated-elements, this review rates the relevance of objectives for the immediate needs of DRC as *modest.*

12. **Relevance of Design.** The design of the Bank's intervention needed to be attuned to an economy and institutions under tremendous cumulative stress, with all parties anxious to turn around a disastrous domestic situation and seize the political opening created by the initial Lusaka peace accord. The DRC-ERC-I was the centerpiece of the Bank's response under the TSS approved in mid-2001.

13. First and foremost, the project design had to overcome the challenge of clearing large arrears to IDA and IBRD accumulated during the war years. Together with a coordinated resolution of arrears to the International Monetary Fund (IMF) and African Development Bank (AfDB), this was a necessary precondition to restore DRC's creditworthiness and enable effective re-engagement of international financial institutions (IFIs.)

14. The second design challenge was to come up with a set of immediate policy actions and institutional reforms that would jump-start the process of change across a wide front including macroeconomic stability, public finance, public enterprises, financial sector, and two key real sectors (mining and forestry). Expectedly, the design produced a heavily front-loaded set of interventions tilted towards short-term policies and nominal legal change in support of truly long-term objectives.[10] The broader political ownership of the proposed measures was not tested beforehand and, as it soon turned out, the support proved to be weak in areas that affected vested interests. This was obvious in natural resource and public financial management.

[10] The disbursement structure was also heavily front-loaded. The first tranche disbursed on effectiveness tranche was over 90 percent of the credit, leaving little funding and limited leverage for the sector tranches and a long list of broader medium-term policy sub-objectives.

15. The third design challenge, to secure sufficient Bank's leverage in advancing reforms in natural resource management, was addressed through two floating sector tranches for forestry and mining. Unfortunately, both tranches were overly focused on the submission and passage of relevant legislation, and less on implementation which proved to be a critical bottleneck.

16. The credit fell short of addressing most important design challenges faced by DRC in the immediate post-conflict years: need for continued policy and institutional support secured through programmatic lending; proper timing and sequencing of short-term and medium-term policy measures; effective capacity building within a well-defined realistic results framework and proper monitoring arrangements (M&E). Instead, it was assumed that the scope and continuity of institutional interventions would be secured through policy coordination and synergy between DPOs and investment credits.[11] In part, this was true during the implementation of DRC-ERC-I and few years beyond when the first IMF Poverty Reduction and Growth Facility (PRGF) provided a unifying framework for key policies and structural reforms. Unfortunately, that framework fell apart in late 2005 when the program was stopped.

17. Overall, the design was inconsistent: it was dominated by heavily front-loaded short-term measures addressing complex long-term institutional development issues. Furthermore, the chosen actions put too much emphasis on laws and process steps largely inappropriate for DRC circumstances at the time, due to weak implementation and enforcement capacity, and weak regulatory environment. The design was also burdened with uneven tranche amounts and an obvious sector policy bias in the design of triggers for the release of small mining and forestry sector tranches. This eroded incentives for the implementation of general reforms and contradicted the basic principles of general budget support behind development policy operations.

18. In short, based on the heavy bias towards short-term process and legal actions, weak results framework, with no explicit long-term outcome target/indicators or baseline data, and negligible provisions for monitoring progress, this review rates the relevance of design as *negligible*.

Achievement of Objectives (Efficacy)

19. **Macroeconomic Stabilization.** In the early 2000s, DRC economy was dilapidated by a devastating civil war, years of mismanagement, financial, and economic isolation. With inflation in excess of 500 percent annually, a free-falling exchange rate, dwindling international reserves and fast growing arrears with bilateral donors and international financial organizations, DRC was at the verge of collapse. After more than ten years of noncooperation, the country entered a staff monitored program (SMP)[12] with the IMF in June 2001. The objective of the SMP was to break

[11] DRC-ERC-I was complemented by two IDA omnibus investment projects planned under the TSS: an Emergency Multi-sector Rehabilitation and Reconstruction Project and a Private Sector Development and Competitiveness Project. They facilitated important support for some DRC-ERC-I activities.

[12] A Staff Monitored Program (SMP) is an agreement between national authorities and IMF staff to monitor the implementation of the authorities' economic and financial program during a specified period—normally 12–18 months. Such staff monitoring does not represent endorsement of the program by IMF Executive Board or involve Fund financing.

the hyperinflation, stabilize the economy, reverse the falling GDP, and lay down the foundation for post-war reconstruction.

20. Under IMF leadership, and with active Bank participation, the country adopted a set of macroeconomic policies combining the liberalization of prices and the exchange rate (move to floating regime) on the one hand, with restrained fiscal and monetary policy and restoration of orderly budgetary procedures on the other. Within 12 months, the economy was turned around. In July 2002, the SMP was replaced with a multi-year PRGF for the 2002-2005 period.

21. Bank contribution in this area consisted in helping the country to reengage with the donor community, which started by providing the country with resources to clear external arrears towards IDA and IBRD. Contribution was continued through the provision of budget support and technical assistance to enhance revenue collection and public expenditure management, and to revive the private sector, and in particular in the key areas of mining and forestry.

22. The initial results were remarkable. The average annual inflation was reduced from 357 percent in 2001 to 25 percent in 2002, and less than 13 percent in 2003. The GDP decline in 2001 (-2.1 percent) turned into positive economic growth of 3.5 percent in 2002 and 5.8 percent in 2003. The current account deficit of more than $250 million in 2001 was reduced by 70 percent in 2002 and turned into a surplus in 2003. Capital outflows stopped and international reserves reached 3 weeks of imports in 2003, up from 1 week in 2001.

23. Even better economic growth (6.6 percent) and external performance (foreign exchange reserves at 5.4 weeks of fast growing imports) were recorded during 2004. The country seemed to be on a sustainable macro path, albeit some signs of softening monetary policy became visible as the year-end inflation started to increase.

24. In 2005, the situation gradually deteriorated. Unplanned surges in government spending, mostly driven by security-related expenditures, were monetized and created inflationary pressures. The PRGF program went off-track before the final sixth review was completed in December 2005.

25. GDP growth at over 6 percent per annum was sustained through 2008, at the cost of declining international reserves (down to $78 million or 1 week of imports at the end of 2008, and further down to a historically low level of only $30 million in February 2009), growing government fiscal deficit, and accelerating inflation. DRC was in a highly vulnerable situation when the global financial crisis hit in September 2008. Within months, it became clear that the country would not be able to sustain its external debt of more than $13 billion, equal to 93 percent of GDP, 150 percent of exports and 500 percent of government revenue. With collapsing export prices and protracted low export demand, DRC was headed for a massive debt distress situation with no solution in site. With the IMF program off-track, the HIPC completion point was beyond reach.

26. In summary, the achievement of macro-stability objective went through two phases. In the initial phase, under the auspices of the IMF (SMP1 and PRGF1) and the Bank (DRC-ERC-I), DRC managed to break the hyperinflation of the war years. The second phase was marked by inadequate fiscal and monetary performance: exogenous fiscal shocks (caused by unpredictable security related expenditures) were not met with adequate policy response which jeopardized macroeconomic stability and credibility of the authorities. Overall, based on the uneven

performance of the country to establish a stable macroeconomic environment when the credit was active and the immediate years thereafter, this review rates the achievement of the macro-stability objective as *modest*.

Annex Table A1.5. DRC: Selected Economic Indicators

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
					ANNUAL PERCENTAGE CHANGE				
Income and expenditure									
Real GDP	-6.9	-2.1	3.5	5.8	6.6	6.5	5.1	6.3	6.2
CPI	513.9	359.9	31.5	12.9	4.0	21.3	13.1	16.9	17.3
External sector									
Exports $US	-8.0	-1.0	22.2	24.6	35.3	14.3	12	109.6	7.2
Imports $US	49.0	19.0	35.4	37	43.3	41.1	10.8	81.8	27.6
Terms of Trade (2000=100)	100.0	92.8	106.0	130.0	135.3	152.3	*134.2*	138.1	140.3
Real Effective Exchange Rate (2005=100)	339.7	264.4	124.4	108.0	101.9	100.0	111.6	108.2	107.4
					AS A PERCENT OF GDP				
Gross domestic investment	n.a.	8.1	9.0	12.2	12.8	13.8	10.6	18.3	22
Gross domestic saving	4.5	3.2	4.0	5.0	4.0	5.9	-0.6	8.8	8.6
Private consumption	n.a.	88.2.	89.3	83.8	83.5	86.4	78.8	74.5	80.8
Government consumption	n.a.	4.9	5.5.	6.3	7.7	11.3	12.7	10.7	12.3
Imports GNFS	21.4	20.7	26.1	33.3	39.2	42.7	44.4	37.9	38.6
Exports GNFS	22.4	18.6	21.2	26.1	30.4	34.5	30.7	27.2	23.3
CA excl. off. Transfers	n.a.	n.a.	n.a.	-1.5	-7.7	-15.7	-9.9	-9	-24.7
CA incl. off. Transfers	n.a.	n.a.	n.a.	5.3	-2.7	-10.8	-2.1	-1.5	-15.9
CA incl. off. transf. after debt relief	n.a.	n.a.	n.a.	3.3	-5.3	-6.5	2.4	3	-12.3
Overall balance of payments	-6	-1.6	-2	-3.9	-4.1	-3.1	-0.7	-2.5	-2.3
Agriculture	n.a.	48.5	47.0	45.1	42.5	40.5	39.6	38.5	37.4
Mining	n.a.	10.6	11.2	12.1	13.1	13.8	13.2	12.7	13.4
Industry	n.a.	9.6	10.0	10.5	11.9	12.8	13.1	13	12.6
Services	n.a.	29.6	29.7	30.6	30.8	31.1	32.1	33.6	34.7
Government revenues	n.a.	6.5	7.9	7.7	9.5	11.3	12.9	14.8	18.5
Government total expenditures	11.1	7.9	7.8	10.3	15.3	20.5	21.5	18.9	23.0
Domestic primary fiscal balance	-6.0	-1.6	0.1	-2.6	-5.8	-9.1	-8.7	-4.2	-4.5
Overall deficit excl. grants	-6.0	-1.6	0.1	-2.6	-5.8	-9.1	-8.7	-4.2	-4.5
Overall deficit incl. grants & relief *	-6.0	-1.6	0.5	-0.6	-3.8	-3.9	-2.8	-2.6	0.4

Source: IMF: Article IV Consultation, Country Report No. 09/02 and 09/12, January 2009. World Bank DDP data base.
* Overall deficit figures for 2006 and 2007 include relief from IMF, IDA and AFDB.

27. The third phase started with the second PRGF and is still ongoing, has a real chance of succeeding if the massive international financial support gathered behind HIPC completion point relief is met with greater ownership of reforms and consistent implementation of agreed policies and structural reforms. At that critical point, a major package (centered around a second PRGF) was put together by the IMF to remove DRC from debt distress situation, and satisfactory policy and institutional (structural) reform performance allowed DRC to successfully reach the HIPC completion point in June 2010. In addition, DRC received a new SDR allocation and signed a huge deal with China, which included a $3.2 billion mining project with a consortium of enterprises and a $3 billion public infrastructure project. The signing bonus alone was estimated to be $250 million payable later in 2010.

28. **Governance and Anti-corruption Agenda**. The stated objective was to improve governance and reduce corruption to foster private sector development and increase supply of public services.

29. DRC-ERC-I included a range of immediate steps aimed at supporting the governance and anti-corruption agenda: (i) preparation and adoption of anti-corruption strategy; (ii) creation of an anti-corruption commission; (iii) promulgation of a legal basis (an omnibus law on corrupt practices) and creation of the necessary enforcement mechanisms; (iv) adoption and implementation of a code of conduct for public officials; and (v) procurement overhaul.

30. Despite notable efforts by the government and support from the international community, the implementation and effects of these actions fell considerably short of expectations.

31. The *national anti-corruption strategy* (NACS) was approved on time (November 2002), but had significant design shortcomings since it failed to: (i) identify the underlying causes of corruption; (ii) assess the prevailing legal and institutional framework; (iii) draw pertinent lessons from previous (unsuccessful) attempts to fight corruption; (iv) prioritize and sequence proposed actions and assign responsibilities; and (v) provide for adequate monitoring and evaluation arrangements. Weak strategy design was followed by an even weaker implementation. In short, the national anti-corruption strategy was not well designed, it had very little (if any) political support, and it never got implemented.

32. For a number of years, IDA and the international community avoided the issues of governance and corruption in DRC. By 2007, the concerns with deteriorating quality of governance and growing cases of corruption became so large that the international community practically imposed a Governance Compact on the Government of Antoine Gizenga as a condition for continued donor support and engagement in DRC. The Governance Compact put emphasis on transparency (publication of extended information), enhanced control mechanisms (mainly through watchdog institutions), priority processing of high-visibility cases, and implementation of Extractive Industries Transparency Initiative (EITI) principles. Although the compact was intended to revive and follow-up on the 2002 national anti-corruption strategy, this was not the case since it did not have the key ingredients of a national strategy: definition of objectives, assignment of responsibilities, and support of broad stakeholders.

33. The *Anti-Corruption Commission* (ACC) was created with a six-month delay, but became operational after the legal basis was approved in July 2004. The commission faced many operational challenges: it lacked experience, professional expertise and managerial skills, limited financial resources, paid low salaries irregularly, and depended on (erratic) donor support. Its deliberations were severely constrained and its low public image eroded by apparent problems of nepotism, political influence, infighting, deep mistrust, and antagonism among the ACC members. As a result, the ACC was not effective in implementing the NACS and the relevant laws, as well as launching and supervising anti-corruption initiatives.

34. The new *anti-corruption law* was an important step in the right direction, but its effects on fighting corruption appear limited due to design problems, significant delays in approval and effectiveness, and exceptionally weak enforcement.

35. A new *code of conduct for public officials* was enacted on time (October 2002) and it applied to all individuals holding public office or being paid by the state. The code was designed to fight negative values and misconduct (corruption, misappropriation of public funds, misuse of labor, favoritism, nepotism, and conflict of interest). It required all public officials to declare

assets and defined disciplinary measures for breaching the provisions of the code. In an environment where ethical behavior was no longer the norm, implementing the code was a major challenge. An independent oversight body, the Observatory of the Code of Ethics for Public Officials (OECP) was created in October 2002 with full administrative and financial autonomy to effectively oversee the implementation of the Code. This did not happen, because OECP's operation was hampered by weak capacity, limited resources, and lack of political will.

36. *Procurement overhaul*. Public procurement reform was one of the priorities identified in the 2002 NACS as a means of reducing the scope for corruption. A public procurement reform commission, the *Commission de la Réforme des Marchés Publics* (COREMAP) and a national working group were jointly leading the reform of public procurement. Independent observers were appointed to the commission and a new tender system was put in place to prevent the widespread single-sourcing and the related corruption that it fueled. But the full implementation of the new procurement system was stalled by the lack of trained staff and managers, weak information systems (including the blacklisted and eligible firms), and the failure to establish tender boards in the provinces. The Bank was absent both from the design and implementation of the procurement overhaul effort in DRC and, apparently, followed a different approach in the 2004 Country Procurement Assessment Report (CPAR).

37. Overall, aside from sporadic evidence on policy actions and temporary improvements in some dimension of governance during the DRC-ERC-I operation (2002-2003), there were no systematic progress indicators on the implementation of the national governance and anticorruption strategy and the priority action plan. Multiple external sources, aggregated under the Worldwide Governance Indicators (WGI), show some improvement in the quality of governance during the 2000-2008 period, but insufficient to conclude that the situation has changed in a significant way (Annex Box A1.1).

38. With low effectiveness of proposed policy actions and the Bank's early disengagement, the achievement of the DRC-ERC-I operation in improving governance and reducing corruption is rated as *negligible*.

39. **Public Sector Financial Management**. The stated objective was to improve overall public sector financial management, especially targeting improved management of public expenditures through: (i) general public expenditure reviews; (ii) expenditure tracking and monitoring surveys in the context of HIPC; and (iii) better public expenditure oversight. The project document envisioned a single benchmark for this objective: Parliamentary approval of the 2003 budget, including the allocation of recurrent and capital expenditures to key development ministries and agencies, acceptable to IDA.

40. A public expenditure review (PER) was conducted in 2002 as planned, but it remains unclear to what extent its findings influenced the quality of the 2003 budget. Tracking of poverty related expenditures was done jointly by IDA and IMF as a part of the 2002 PER exercise. The results obtained on the basis of standard 15 HIPC tracking benchmarks were then used to design HIPC completion point triggers.

Annex Box A1.1. Quality of Governance

Figures A-F provide a time series of six aggregate governance indicators for DRC produced by Worldwide Governance Indicator (WGI) for the 2000-2008 period.

Figure A. Voice and Accountability
(Percentile Rank (0-100)

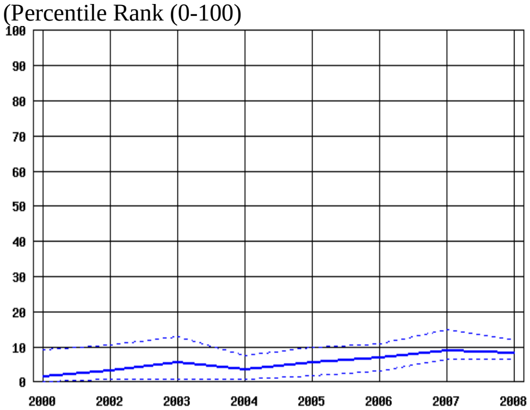


Figure B. Political Stability
(Percentile Rank (0-100)

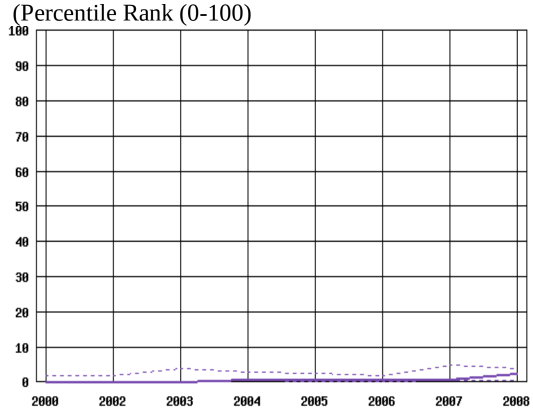


Figure C. Government Effectiveness
(Percentile Rank (0-100)

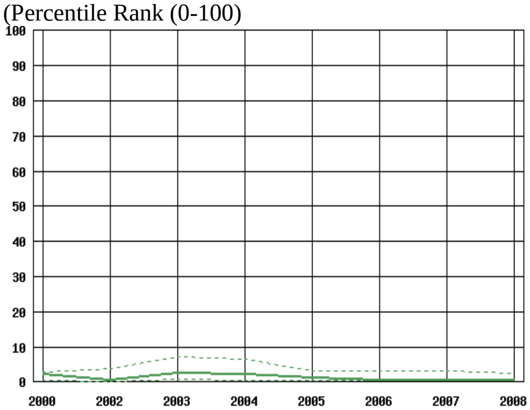


Figure D. Regulatory Quality
(Percentile Rank (0-100)

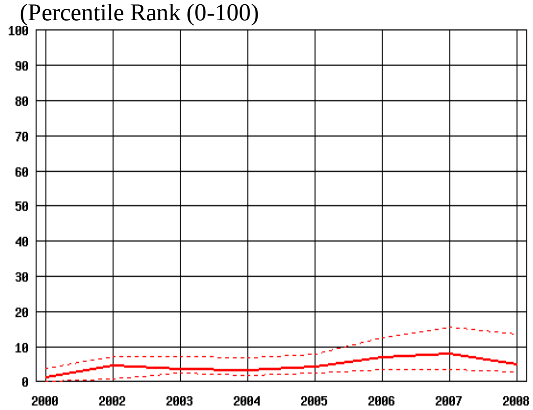


Figure E. Rule of Law
(Percentile Rank (0-100)

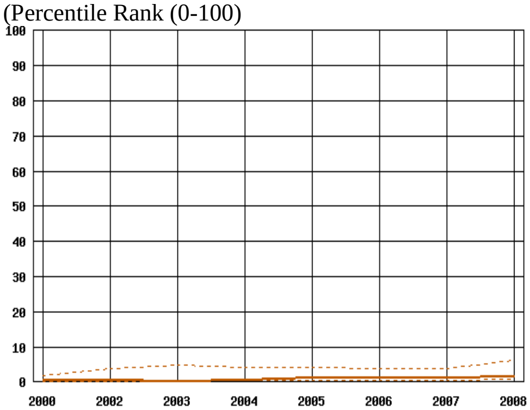
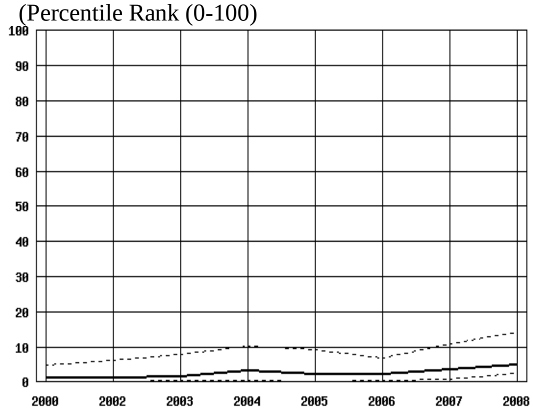


Figure F. Control of Corruption
(Percentile Rank (0-100)



Note: The governance indicators aggregate the views on the quality of governance provided by a large number of survey institutes, think tanks, non-governmental and international organizations. The WGI do not reflect the views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Sources: Worldwide Governance Indicators, *www.govindicators.org*; Kaufman and others 2009.

41. In parallel, strong efforts were made to establish satisfactory fiduciary arrangements for HIPC-financed expenditures. Although HIPC funds are an integral part of the state budget, they are intended to finance pro-poor spending. To ensure the intended use of HIPC resources, they were defined on the basis of the central government's main functions, and flagged so that their execution can be tracked and monitored in the expenditure circuit. An oversight committee set up to monitor pro-poor spending has never become operational. Instead, special budget execution reports are produced on expenditure financed from HIPC resources; an audit of HIPC accounts has been conducted in 2007 and reported in the 2008 PER. Progress was much more limited in the area of public expenditure oversight. The internal audit, done by The General Inspectorate of Finance appears to be reduced to spot checks requested by the Ministry of Finance, with virtually no audits of financial agencies or beneficiary institutions. Furthermore, the findings of audit reports do not lead to any corrective action.

42. The external audit of government accounts was conducted by the Audit Office which is not truly independent as the Ministry of Finance controls its operational budget. The information on budget execution was usually submitted after long delays, the audit findings and recommendations were not made public, and there was no evidence if they have been implemented. In the medium run, improved public sector financial management was further constrained by the absence of a medium-term expenditure framework and the lack of integrated fiscal and budget framework (under a single ministry of finance instead of the three ministries—for finance, for budget, and for planning). Overall, based on some improvements in budget management (streamlined processes, regular public expenditure reviews, better expenditure tracking systems, better coordination with the central bank), this review rates the achievement in the area of improved public sector financial management as *modest*.

43. **Public Enterprise Reforms (including privatization)**. The stated objective was to continue the reform and restructuring of the public enterprise sector to increase its contribution to growth and poverty reduction. Intermediate benchmarks included: (i) the establishment of a public enterprise reform committee; (ii) the adoption of a reform strategy for the public enterprise sector; and (iii) the promulgation of a new legal framework for public enterprises and privatization.

44. At the outset of reforms in DRC, the state was the largest economic agent with 51 purely state-owned enterprises and about 44 mixed enterprises, covering all the sectors of the economy. Expectedly, excessive state ownership, in combination with price controls and inadequate legal system, created governance problems and gaps in the delivery of key social services. Therefore, the underlying development objective supported under the operation was to ensure that public enterprises deliver basic services on a sustainable and profitable basis and, thus, reduce fiscal pressure caused by their losses. In the longer run, it was expected that the privatization of some state-owned enterprises would attract foreign direct investment and generate exceptional fiscal revenues, while the reformed public enterprise sector would improve the investment climate and the overall business environment for the private sector.

45. A public enterprise reform committee (COPIREP) was established in June 2002. The committee showed good performance in advancing its core mandate, despite reported problems with overstaffing and heavy organizational structure. Its effectiveness was adversely affected by the lack of clear reform strategy and constantly changing reporting arrangements.

46. The concept of reform was based on the assumption that (by June 2002) special thematic strategy groups would develop reform options for all state-owned enterprises in key sectors. In addition, the government committed to facilitate the reform process by: (i) completing operational audits for all principal public enterprises (by October 2002) and (ii) identifying financial claims between state-owned enterprises and the government.

47. The overall strategy and the decision algorithm for selecting SOEs to be restructured, liquidated, or privatized were to be adopted by December 2002. In the absence of clear progress, these issues temporarily disappeared from the Bank / IMF radar screen until the resumption of structural reforms in 2008-2009 leading to HIPC completion point in 2010.

48. The reform of the state enterprise sector, the need for sizeable privatizations, and the emergence of a strong private sector required significant changes to the legal and regulatory framework, and in the fiscal system. Revisions of the law governing state enterprise activities and the approval of the new privatization law were both planned for October 2002. Due to weak political will and a myriad of obstacles, the actual approval took place in July 2008. Other related activities planned under the credit were also delayed, including reform of the tax system, measures to eliminate payment arrears between SOEs and the government, as well as legal and administrative procedures to promote small and medium-sized companies as a generator of new employment and economic growth.

49. Overall, progress in implementing state enterprise reform was hampered by the weak political ownership. Equally important, attempts at reform were faced with a strong internal opposition from the regulatory authority for state-owned enterprises: The *Conseil Supérieur du Portefeuille*. Early efforts by the presidency to improve knowledge and build ownership of state enterprise reform did not produce desired short term effect. The situation did not change in the following years. Based on very limited progress in reforming the state enterprise sector this review rates achievement as *negligible*.

50. **Financial Sector Reform**. The stated objective was to begin the reform of the financial sector that would ultimately help create an effective and sustainable modern financial system capable of providing effective financial intermediation (mobilize savings, finance productive investment, secure payments, and provide a range of financial services) throughout the country. This was to be achieved by: (i) reforming the legal and regulatory framework for the banking sector; (ii) restructuring the central bank and improving its management and operations; and (iii) restructuring commercial banks and other financial institutions such as insurance companies, microfinance, and specialized financial institutions.

51. The starting point was very low. At the end of the war in 2001 the financial sector in DRC was in complete disarray, from the very unstable macro-monetary environment to deteriorating operating conditions faced by most commercial banks. Loss of confidence in the banking system led to reduction of deposits (to less than 2 percent of broad money (M2) and, consequently, a dramatic decline of banking activity (credit to the economy stood at less than 1 percent of GDP).

52. Despite the low start, progress in reforming the financial sector was more substantial than in other areas. This is partly owed to the fact that Bank actions were fully synchronized with

significant support the financial sector received from the IMF. This was particularly visible in joint efforts to secure independence of the central bank and prune the banking system by eliminating several non-viable banks and creating restructuring plans for vulnerable banks. In 2002, the parliament approved a new banking law and the revised central bank charter, which assigned the responsibility for banking sector supervision to the central bank and reaffirmed its independence in the conduct of the monetary and exchange rate policy. In parallel, a Global Framework for Restructuring the Congolese Financial System prepared in March 2002 under the auspices of the central bank, provided a coherent framework for deeper legal, regulatory, and accounting reforms for all subsectors of the financial system including commercial banks, credit unions, microfinance, insurance, and specialized financial institutions.

53. To improve the quality of data reporting and better manage financial sector risks, the new legislation called for regular audits of the central bank and key commercial banks. More recent financial sector studies (IMF 2007b) indicate that substantial improvements have taken place in the 2001-2006 period. By the end of 2006 only 11 large commercial banks were in operation. The state had minority shares in two large banks and nine were 100 percent foreign owned. The level of concentration was moderate and declining: the largest bank had 25 percent share of the market in 2006 versus 33 percent share in 2005. Although the banking sector strongly dominates the financial market (75 percent), it is relatively small compared to GDP, country area, and population: at the end of 2006, banking sector assets barely exceeded 10 percent of GDP; with 60 branches covering an area equal to Western Europe and only 100,000 bank accounts serving about 60 million people, DRC had one of the lowest bank penetration rates in the world.

54. The trust in the banking system has improved over the years: despite many difficulties, private deposits increased from 1.9 percent of GDP in 2001 to 6.1 percent in 2006, but the brunt of the growing credit potential still does not reach the private sector to finance new jobs and economic growth. The share of private sector credit in GDP was 2.8 percent at the end of 2006. This vividly confirms the continued existence of lending barriers (mostly caused by unreliable enterprise data), difficulties in managing foreign exchange risks (caused by large extent of dollarization), lack of financial discipline, and imperfections in protecting creditor rights.

55. The commercial bank restructuring plan, key policy action envisaged under the DRC-ERC-I operation, has been approved and largely implemented. As a result, the banking sector became more stable and liquid. Both the soundness and performance improved over time: the share of non-performing loans has been low and declining, and profitability has been increasing in recent years (both in returns to assets and to equity). But many risks still remain high. For the most part, these are liquidity risks from unpredictable macroeconomic situation, foreign exchange risks due to large extent of dollarization, and credit risks stemming from lending concentration on few enterprises. By contrast, interest rate risks appear to be small.

56. Going forward, binding constraints and key risks faced by the banking sector are more related to the regulatory performance of the central bank and the quality of the business environment, than the portfolio or performance of commercial banks *per se*. On the central bank side, key improvements could come from better oversight function, full alignment of prudential regulation and supervision with international standards, transparent enforcement of bank licensing and closing procedures, and the introduction of modern payment systems. On the

business environment side, key improvements could come from better information on creditworthiness through public registries or private credit bureaus.[13]

57. Overall, based on policies initiated under DRC-ERC-I operation and related IMF programs, as well as follow-on policies revived within the framework of ensuing HIPC completion point, this review rates the achievements in restructuring the banking sector and reforming the financial sector as *modest.*

58. **Mining Sector Reform.** The stated objective was to provide support to urgent special actions within the mining sector that support prospects for fostering its restructuring. The operation had two prior actions which were met before submitting the credit documents to the Board: (i) submission of the new mining code by the president to the national assembly and (ii) maintaining the existing moratorium on signing any new investment agreements that are incompatible with the provisions of the new mining code.

59. In addition, the credit envisaged four conditions to be met before the release of the floating tranche. The first required Gecamines[14] to adopt a program of mutually-agreed voluntary separation with its labor unions. The remaining three called for the establishment (by decree) of:

i. a permanent Gecamines restructuring unit at the presidency level responsible for strategy, asset management, and oversight of the program for mutually-agreed voluntary separations;
ii. an autonomous mining registry (cadastre); and
iii. a commission for the validation of mining titles.

60. The credit document proposed a set of progress indicators for the implementation of the new mining cadastre[15] and the restructuring of Gecamines.[16]

61. Most agreed actions were done on time: the new mining code was adopted by parliament in June 2002; the commission for validation of mining titles was established by decree in March 2003, but became operational after the credit closing date in June 2003; the mining registry was established by decree in April 2003; Gecamines issued a letter on voluntary separation program in April 2003; a permanent Gecamines restructuring committee was established by decree in March 2003; the restructuring of the mining cadastre is an ongoing activity and the standard of service could not be confirmed during field interviews in February 2009; strategic audit of Gecamines was

[13] In recent Doing Business reports, DRC scored very low on the availability and quality of information to assess creditworthiness of individuals and companies. Information provided by the *Centrale des Risques* is limited and unreliable, standards for accounting and auditing practices are poor, collateral and property registries are not generally available, contracts are difficult to enforce.

[14] Gecamines: *La Générale des Carrières et des Mines* is the main DRC copper mining company.

[15] Completion of the restructuring of the mining cadastre, with validation of at least 90 percent of the existing permits.

[16] These included: (i) completion of a Gecamines restructuring study; (ii) independent audit of severance payment calculations for Gecamines workers; and (iii) the adoption of a program to scale down Gecamines' work force to economically justifiable level by 2004, including social protection benefits to laid off workers (such as severance payments, unpaid wages, and other benefits).

completed in March 2003 by an independent consulting firm (IMC) and approved by the government in June 2003; and a Gecamines restructuring program was prepared in September 2003.

62. Despite initial successes with the agreed policy actions, follow-up implementation efforts were slow and the performance of the mining sector improved less than expected. As shown in Annex Table A1.6 below, between 2001 and 2008 value added in the mining sector grew on average by 9.5 percent, which is significantly above the average GDP growth rate in that period (6.0 percent), but much less than needed to restore the pre-war size and scope of the mining sector.

Annex Table A1.6. DRC: Mining Sector Dynamics, 2001-2008

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2001-2008*
IN BILLION OF CONGOLESE FRANCS, 2000 PRICES									
Mining	31	34	38	44.6	50.6	51.1	52.4	58.4	
GDP	291	301	318.3	339.5	366.2	386.7	410.9	436.2	
ANNUAL GROWTH RATE									
Mining	0.8%	9.7%	11.8%	17.4%	13.5%	1.0%	2.5%	11.5%	9.5%
GDP	-2.1%	3.4%	5.7%	6.7%	7.9%	5.6%	6.3%	6.2%	6.0%

Source: IMF 2007a and IMF 2010b.

63. Overall, mining sector reforms supported under the DRC-ERC-I operation helped revive some of the growth potential, but fell significantly short of restoring its pre-war potential in production and exports. Based on the above evidence, this review rates project achievement in reforming the mining sector as *modest.*

64. **Forestry Sector Reform.** The stated project objective was to support policy actions in the forestry sector in anticipation of implementation of new regulations. The reforming approach to the forestry sector was focused on legal reform, improved governance, and modernization. The longer-run development objective was to rehabilitate the sector in a sustainable, transparent, and inclusive manner by creating a new legal and regulatory framework, ensuring full compliance with the new laws, ensuring greater transparency, and improved governance in managing the forest resources, including increased participation of local communities in the management of forest resources and incomes.

65. The starting point in the forestry sector was more difficult than in mining: the sector was more fragmented, had less sophisticated management structure, and inherited a heavy legacy from the war period when weak institutions permitted creation of many non-transparent new logging concessions. To rehabilitate the sector, a new legal framework had to be accompanied with a freeze on new concessions until a thorough clean up of the worst abuses from the past had been completed.

66. Policy actions supported by the project closely followed this logic. The purpose of the single condition for the release of the forestry tranche[17] was to accelerate the preparation of the new modern legal framework for the forestry sector. This was followed by three benchmarks with appropriate progress indicators to:

[17] Submission of a new Forestry Code (satisfactory to IDA) to parliament for approval.

- Adopt a new forestry code, with continued moratorium on transformation of historically-filed claims under the old code into exploitation rights;
- Complete a legal review of all existing forestry contracts (original, extended, renewed) for conformity with contractual terms and new regulations; and
- Annul (by ministerial decree) all forestry contracts not in conformity with contractual terms and new regulations.

67. All conditions were met in full and mainly on time. A new modern Forestry Code was promulgated in August 2002. DRC completed a review of forestry (logging) contracts covering 45 million hectares out of 60 million hectares. The review resulted in the annulment of 163 contracts and the return to the state of about 25 million hectares of forestry land. A moratorium on new contracts was issued in 2002 until full compliance with the new Forestry Code could be assured. New rules for issuing logging contracts were published in October 2005.

68. The implementation of the new legislation proceeded with mixed success after the release of the forestry tranche. While actions to terminate past illegitimate concessions went on as planned, the enforcement of the moratorium on new contracts was less successful due to strong political 'interference' at a local level. In addition, aspects of equity and community participation in the use of forest resources were not dealt with in the DRC-ERC-I operation, which may have contributed to circumstances reviewed in the 2006 Inspection Panel report focused on the Bank's role in protecting the rights of Pygmies as Indigenous Peoples.

69. Overall, the reforms in the forestry sector started under the DRC-ERC-I operation had the right scope and intent, but *modest* achievements.

Ratings

OUTCOME

70. DRC-ERC-I somewhat over-reached itself both in terms of breadth and depth of reform objectives set for a 12-month implementation timeframe. The relevance of the objectives was modest and the relevance of the design was negligible. Out of seven objectives supported under the credit, the efficacy in achieving results was modest in five of them (macro-stability, public financial management (PFM), financial sector reform, mining, and forestry), and negligible progress was recorded in two (governance and state-owned enterprise reform). The main reason for relatively poor performance was an overly ambitious reform agenda for the limited implementation capacity and relatively weak ownership of reforms, exacerbated by a mismatch between front-loaded short-term measures used to pursue long-term development goals. On that basis, this review rates the project outcome as *unsatisfactory*.

71. Going beyond limited success in implementing the proposed policy and institutional reform agenda, the DRC-ERC-I operation made a positive contribution to economic and political stabilization of DRC and demonstrated the necessity of long-run institutional reforms.

RISK TO DEVELOPMENT OUTCOME

72. Going forward, the main risks to development outcomes will continue to come from weak ownership of reforms and possible reform reversals under political and social pressures, especially if the country fails to complete institutional reforms and embark on a sustainable growth path based on efficient use of its ample natural resources (in mining and forestry). The fast approach adopted in implementing HIPC completion point triggers casts doubts about the genuine ownership of reforms and sustainability of policy changes recently implemented to comply with the PRGF and HIPC requirements.

73. Overall, given the pressures and incentives to reach the HIPC completion point, this review rates the risk to development outcome as *significant.*

MONITORING AND EVALUATION

74. **Design**. The President's Report briefly discusses monitoring and evaluation arrangements in the section "Credit Implementation, Monitoring and Disbursement Arrangements" (page 30). It specifies that IDA and the IMF will monitor the evolution of the macroeconomic framework, while a special inter-ministerial technical committee will be responsible for monitoring specific policy indicators related to the program and regularly inform the responsible ministry and IDA. Although the report did not provide further details on the content of monitoring and other aspects of M&E design, it stated that monitoring was expected to follow the relevant matrices on program benchmarks (page 32) and the government's comprehensive policy matrix (Annex 3), since the monitoring information was to be used by the government and IDA to ensure continued program implementation.

75. **Implementation**. The limited evidence on the implementation of the M&E arrangements indicates that collected information pertained mostly to administrative, legal, and qualitative information on the status of policy actions supported under the credit, and it was not used during project implementation.

76. **Utilization of M&E Data**. In all, the results of M&E effort played almost no role in the project implementation.

77. Based on the above elements, this PPAR rates the quality of monitoring and evaluation as *negligible.*

Bank Performance

78. **Quality at Entry.** The Bank promptly reacted to the narrow window of opportunity created by the transition government following the initial peace agreement and developed this operation under a very tight timeframe. This generated a truly exceptional level of enthusiasm, commitment, and engagement of Bank staff and management to seek a bold start of a clean long-term development agenda. In doing that, the Bank team overestimated DRC political readiness and professional capacity to respond. Capacity building efforts launched within the project and in a separate technical assistance (TA) activity could not quickly restore the necessary administrative and reform implementation skills. The true absorptive capacity of a country that

just exited one of the bloodiest regional wars in history, and continued to operate under security risks and widespread social and economic pressures was much more limited than originally estimated. The war had destroyed not only the physical and social infrastructure, but the value system and the very fabric of the society. The full reform agenda advocated by this operation was too complex and too ambitious to implement in a short time for a country whose governance and economy had to be rebuilt almost from scratch.

79. Critical aspects of dialogue and consensus-building effort before the operation were fairly limited and did not address the problems of weak ownership of difficult reforms. Furthermore, the proposed project design was heavily tilted towards early disbursement based on front-loaded short-term process oriented actions and policies. This was at odds with the long-term nature of the development objectives pursued by most reforms supported under the DRC-ERC-I operation.

80. Project design would have been more relevant if it had provided continuous incentives and a better match between proposed actions (policies) and objectives. One way of doing that could have been accomplished by: (i) separating earmarked resources[18] from policy-based tranches; (ii) more even sizing and spacing of policy-based tranches; (iii) better matching the time-horizon of proposed actions and policies with the nature of the development objectives pursued; and (iv) finding the right balance between process-oriented legal actions and results-oriented implementation actions.

81. Finally, quality at entry would have benefited from a stronger results framework, completely missing from the President's Report. A fuller results chain would have helped achieve greater selectivity of objectives and improved sequencing of reforms, better design of policy and reform actions, and sensible monitoring and evaluation arrangements.

82. Overall, this review rates Bank's performance in securing quality at entry as *moderately unsatisfactory*.

83. **Quality of Supervision.** The Bank experienced problems in supervising the credit implementation: (i) the Bank office in Kinshasa was newly opened and (ii) the team was under pressure to deliver. Staffing on the ground was thin and the team depended on a few Washington-based staff. The Bank had a very good collaboration with the Fund team on macroeconomic issues, and a core group of bilateral donors and UN agencies in their areas of specialization.

84. During credit preparation and implementation, the main risks to development outcome were associated with weak ownership of reforms and possible policy reversals. These risks increased with the complexity of reforms and lack of preparation. Unfortunately, the limited time available for project preparation and the dire situation on the ground after the war did not allow for proper stakeholder engagement, consensus-building activities, or political economy analysis prior to Board approval. Continuous policy dialogue with the government was the only viable venue left to monitor and manage the evolving risks related to political ownership of reforms and possible policy reversals.

[18] Used for the repayment of a bridge loan to temporarily finance DRC arrears to IDA and IBRD.

85. As it turned out, both risks identified earlier materialized under deteriorating security and political situation and eroding incentives caused by declining availability of resources. At the same time, the quality of policy dialogue declined as the PRGF program went off-track in 2006. The situation improved markedly in mid-2009 as the country resumed the majority of reforms started under DRC-ERC-I as part of an effort to meet the triggers for the completion point under the enhanced HIPC initiative achieved in mid-2010. Consequently, the main risks to development outcomes in the important areas of macroeconomic stability, improved governance, PFM, financial sector reform, and SOE reform were at least temporarily mitigated.

86. Bank relationship with the government was very positive based on the quality of dialogue established at the highest level of government when President Kabila visited Washington within days of his appointment. Accordingly, close relations and frequent interactions existed at the level of core ministries including the Ministry of Economy, the Ministry of Finance, and the Ministry of the Budget.

87. At the technical level, the frequency and effectiveness of supervision was hampered by weak or non-existent monitoring and evaluation arrangements and dependence on Washington-based staff. Within those constraints, the Bank team made a genuine effort to oversee the implementation of an ambitious reform agenda under very difficult circumstances on the ground, to flag problems as they became visible, and to attempt corrective actions when feasible.

88. Based on the above evidence Bank performance in securing quality of supervision is rated as *moderately satisfactory*. Overall, Bank performance in delivering credit to the client is rated as *moderately unsatisfactory*.

BORROWER PERFORMANCE

89. **Government Performance.** At the start of the DRC-ERC-I operation the country has just emerged from a long and very debilitating civil war. The president, senior policy-makers, and leading bureaucrats in the government were anxious to re-engage with the Bank and other IFIs. They were very cooperative and eager to embrace and implement the complex policy agenda supported by this operation. It should be noted that the reform agenda was perceived as a set of policies they received, rather than policies they had actively shaped.

90. As DRC-ERC-I moved to implementation, it became clear that a decade of war had depleted the well of human capital and eroded many social values. As reforms deepened, proposed actions were met with resistance, opposition, and outright obstruction as well as technical and administrative problems caused by the lack of knowledge and weak capacity. Initially, abundant confidence at higher political levels (ministers and vice-presidents) was sufficient to remove these obstacles and move forward. With the passage of time, these beneficial interventions gradually disappeared. More mundane political interventions took center stage, often catering to populist expectations opposed to reforms.

91. Faced with growing populist pressures and opposition from vested interest groups, the initial enthusiasm and ownership of difficult reforms started to wane. As tangible incentives associated with the implementation of reforms also diminished, government support declined below the critical level leading to serious reform delays, stalled implementation of laws and

policies, and even to some policy reversals. In short, government performance went from full support to reform agenda supported by the credit (*satisfactory*) to a loss of political ownership motivated by populist expectations (*unsatisfactory*). On average, this review rates government performance as *moderately unsatisfactory*.

92. **Implementing Agency Performance.** The Ministry of Finance was the main implementing agency responsible for the overall coordination, along with the Central Bureau of Coordination (BCECO). The broad scope of reform objectives required the active role of other ministries and agencies. The Ministry of Environment was responsible for mining and forestry. The high-level inter-ministerial committee (ECOFIN) was responsible for monitoring and evaluation. The Central Bank led banking sector reforms. A special unit in the president's office was responsible for restructuring Gecamines. A special Steering Committee led the reform of state-owned enterprises. The governance policy area was coordinated by the Anticorruption Commission, The *Inspection Générale des Finances* and the *Cour des Comptes*, and the Public Procurement Commission. Coordination between various ministries and agencies was good in all aspects of project implementation. However, due to inadequate monitoring and evaluation arrangements, key implementation problems caused by deteriorating political ownership of difficult reforms went un-noticed until it was too late to take corrective action. On that basis, this review rates implementing agency performance as *moderately unsatisfactory*. Overall, the Borrower performance is rated as *moderately unsatisfactory*.

Annex A2. Democratic Republic of Congo: Assessment of the Post-Reunification Economic Recovery Credit, 2004-2005

Annex Table A2.1. Principal Ratings, DRC-ERC-II

	*ICR**	*ICR Review**	*PPAR*
Outcome	Unsatisfactory	Unsatisfactory	Unsatisfactory
Institutional Development Impact**	Modest	Negligible	
Risk to Development Outcome	———	———	Significant
Sustainability***	Unlikely	Unlikely	
Bank Performance	Unsatisfactory	Unsatisfactory	Moderately Unsatisfactory
Borrower Performance	Unsatisfactory	Unsatisfactory	Moderately Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that is an independent desk validation of the ratings, based on the evidence in the ICR.
**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.
***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Annex Table A2.2. Key Staff Responsible, DRC-ERC-II

Project	*Task Manager*	*Sector Manager*	*Country Director*
Appraisal	Eric R. Nelson	Cadman Atta Mills	Emmanuel Mbi
Completion	Emilie A. Mushobekwa	Yvonne M. Tsikata	Pedro Alba

Objectives and Policy Areas

1. **Objectives.** The overall objective of the Post-Reunification Economic Recovery Credit (DRC-ERC-II) was to provide critical financing necessary to advance structural reforms and improve transparency and the quality of governance. More specifically, the objectives of the credit were pursued in five main policy areas:[19] (i) national program implementation, (ii) macroeconomic policy framework, (iii) civil service reform, (iv) domestic debt, and (v) management of public utilities (water and power). The progress to achieve objectives in the above areas is summarized in Annex Table A2.3 below.

2. **Policy Areas.** The DRC-ERC-II credit was approved in February 2004 (jointly with a new transitional support strategy). The credit amount of $200 million was released in four tranches. The first general tranche ($85 million) was disbursed upon effectiveness in May 2004. Three floating tranches, related to civil service retirement plan ($47.5 million), settlement of domestic debt arrears ($42.5 million), and payment of utilities by the government ($25 million), could be released in any order upon meeting the required triggers.

[19] Definition of credit objectives in the Program Document and the Credit Agreement was not fully consistent. The Program Document identified three objectives on page 14 as follows: (i) supporting the continued implementation of economic reforms, (ii) supporting civil service reform, and (iii) addressing the domestic debt issue. The Credit Agreement identified five specific objectives on pages 15 and 16 as follows: (i) progress in carrying out the national program, (ii) maintain a macroeconomic policy framework, (iii),civil service reform, (iv) domestic debt, and (v) management of public utilities (water and power). This PPAR has limited its assessment to the five objectives spelled out in the credit agreement, because they were more specific.

3. The policy areas supported by the credit mirrored both the credit objectives, and the conditionalities to be fulfilled for the release of the credit tranches. First, in order to create an environment conducive to reforms, the credit required the maintenance of a stable macroeconomic framework and an adequate implementation of the national development program, and these were the main policy areas underpinning the credit design. Second, the three other policy areas were those in which benchmarks have to be fulfilled before the release of the credit floating tranches: (i) civil service retirement plan, (ii) settlement of domestic debt arrears, and (iii) payment of utilities by the government.

4. The alignment between the credit objectives and the government policy priority areas is presented in the table below, together with the progress achieved at credit closure, and at the time of this PPAR.

Annex Table A2.3. Policy Actions Associated with DRC-ERC-II Objectives

Objectives and Action Areas	*Policy actions/ Tranche release conditions / Prior actions*	*Status of Policy Action at project closure*	*Status of Policy Action at the time of this PPAR*
(I) Medium-term National Development Program	Satisfactory progress in carrying out the national development program.	A policy matrix was prepared in 2004, but was too comprehensive and too ambitious. Implementation progress was negligible.	(i) A full-fledged PRSP with stronger selectivity and prioritization was discussed by the Board in September 2007. (ii) Limited implementation progress.
(II) Macro-economic Stability	Satisfactory macroeconomic framework.	In 2004-05, economic growth was relatively strong, inflation was down, public revenues were increasing and external position was well under control.	(i) Macroeconomic situation gradually deteriorated during 2006-2007 and reached alarming lows in early 2008, became unsustainable, and the country approached a point of external debt distress. (ii) Starting 2009, macroeconomic outcomes improved following performance under the second SMP and the current extended credit facility.
(III) Civil Service Reform	To carry out institutional audits of selected ministries.	Institutional audits carried out in the ministries of planning, finance, budget and agriculture.	Same as at credit closure.
	To carry out audit of service delivery systems in the ministries of health, education, justice, and rural development.	Audit of service delivery in the ministries of territorial administration, health, education, and justice.	Same as at credit closure.
	To brainstorm on completion of general census of civil servants, elaboration on and validation of TORs for census.	Completed.	Same as at credit closure.
	Recruitment of group in charge of leading the census, by international procurement. Carrying out the field work of the census.	Completed.	Same as at credit closure.
	Creation of a revised personnel file to serve for payments of civil servants and for the new payment system.	Not available at the credit closure.	Same as at credit closure.

Objectives and Action Areas	*Policy actions/ Tranche release conditions / Prior actions*	*Status of Policy Action at project closure*	*Status of Policy Action at the time of this PPAR*
	Definition of a framework for retirement program of civil servants already at retirement age.	A retirement program with two components was prepared: (i) retirement of 73,769 civil servants having spent 30 years or longer in service, or in service for 50 years at end-2003 and (ii) creation of a commission of staff from the ministries of civil service, finance, budget and interior to determine procedures for paying out the retirement packages in Kinshasa and the provinces.	Same as at credit closure.
	A strategy and implementation plan setting forth: (i) the legal and administrative steps to carry out the transition of civil servants from duty into retirement (ii) a program including proposed target groups, payment modalities, and the cut-off-date for being eligible to the retirement package (iii) a transparent mechanism to identify retirees, disbursement and control procedure.	A retirement strategy adopted by the government in 2005, comprising the sequencing of actions, a calendar, the calculation method, and the salary scales.	Same as at credit closure.
	Departure of first group of civil servants into retirement. Second group of departures.	Not completed yet at the credit closure.	(i) Payment of benefits to the first group of eligible retirees (6,000 people; $2.7 million) was completed as planned. (ii) The second group of retirees was never implemented due to lack of funding.
	A strategy and implementation plan of publication of relevant information pertaining to beneficiaries of retirement packages.	Not completed yet at the credit closure.	Same as at credit closure.
(IV) Settlement of Government Arrears	(i) The stock of debt has been validated by the borrower. (ii) A commercial bank, acceptable to the association, has been appointed by the borrower, to effect payment to entitled creditors.	Total stock debt of commercial debt as of 12/31/2001 determined.	Completed.
	A cut-off date for submitting claims completing or modifying already submitted claims to be included in the stock of debt, has been published.	Exhaustive list of creditors and debts published in the official gazette.	Completed.

Objectives and Action Areas	*Policy actions/ Tranche release conditions / Prior actions*	*Status of Policy Action at project closure*	*Status of Policy Action at the time of this PPAR*
	An agreement has been concluded with creditors representing at least 75 percent of the stock of debt on a common discount factor, applicable to the entire stock of debt.	Agreement was reached on the terms of payment and discount rate with private domestic creditors.	Completed.
	Appointment of a commercial bank, after competitive selection, to effect payments to creditors.	Domestic debt arrears were paid through the Commercial Bank of Congo over a period of 3 years starting 2005.	(i)The settlement of debt arrears to private creditors followed well-organized, multi-staged process. (ii) The process was based on a well-organized dialogue.
(V) Enhanced Management of Public Utilities	An action plan has been adopted and carried out to control utility use and related centralized payments.	Unknown progress.	An action plan was adopted by utility companies that aimed to improve the reliability, transparency, and accountability of their billing procedures to public administration.
	The power company (SNEL) and water company (REGIDESO) have begun to implement respective action plans to improve their reliability.	Action plans with water and electricity companies to improve billing was adopted.	Since January 2005, the government has made flat-rate payments into two trust accounts rather than payments based on actual consumption. The utility companies were slow in identifying public consumption of their services and installing meters.

Source: World Bank President's Report.

Relevance of Objectives and Design

5. **Relevance of Objectives.** The three pillars (continuing economic and structural reforms, launching civil service reform, and improving financial discipline) were broadly aligned with the Bank's transitional support strategy, the 2002 interim PRSP objectives, (detailed in Annex Table A2.3) and the expected objectives of the future full PRSP then under preparation. The relevance was even stronger at the level of the five specific objectives: (i) medium-term development program; (ii) macroeconomic stability; (iii) civil service reform through staff retirement program; (iv) settlement of domestic debt arrears; and (v) regular payments of utilities (water, power).

6. Four years after the end of the civil war, DRC needed a medium-term development program with comprehensive diagnostics, clearly stated-strategy, priorities, and sequencing of important institutional and policy reforms leading to greater scope for private sector-based growth and efficient utilization of ample natural resources.

7. At a more specific level, DRC needed a strong signal that the government was willing to implement reforms and play a responsible role in modernizing the civil service, delivering sustained macroeconomic stability, observing full financial discipline (in payment of government debts and utility bills), and securing a more efficient management of public expenditures.

8. With the exception of a newly-launched civil service reform effort, most objectives represented a continuation of some aspects of the reforms already started under the DRC-ERC-I

operation. It should be noted, however, that the second operation was both more focused and specific in the choice of targets and consequently more selective as it omitted four prominent reform areas: governance, reform of state-owned enterprises, mining, and forestry.

9. The five reform objectives supported under DRC-ERC-II remain relevant to this date. First, due to delayed approval and slow implementation in the initial years, the timeframe of the 2006-2008 PRSP was extended till the end of 2010 and the preparation of a medium-term development program very much remains a relevant objective. Second, macroeconomic stability was an elusive target during much of the 2005-2009 period. DRC began to regain a grip on internal and external stability only in the past 12 months with the help of an IMF program and a renewed policy effort within the HIPC completion point drive. The real challenge to sustaining macro-stability will come after the beneficial impact of debt relief wears out and the country has to face new (internal or external) shocks. Third, civil service reform was only started with the staff retirement program supported under DRC-ERC-II, and it will remain a relevant reform objective in the medium run. Fourth, the problem of past domestic debt arrears may become obsolete after successful settlement exercises, but prevention of future arrears will continue to be a relevant objective. Finally, orderly payment of utilities is likely to continue to be a relevant reform objective until proper metering systems and market pricing of utilities is fully in place.

10. Overall, the relevance of objectives supported under DRC-ERC-II is rated as *substantial*.

11. **Relevance of Design.** The design of DRC-ERC-II was uneven across the five objectives, both in terms of tranche release conditions and in terms of the nature of policy actions supported under the credit. In the case of domestic debt, there was a good balance between the statement of credit objectives, the definition of implementation steps, and appropriate benchmarks, as well as tranche release conditions, which jointly captured the essential steps towards achieving the objective. In other cases, like payment of utilities or civil service reform, too much emphasis was put on laws and process steps, preparation of action plans, strategies, and the like, instead of implementation of policies and actions leading to achieving results. This design weakness is particularly inappropriate in DRC post-conflict circumstances dominated by inadequate implementation and enforcement capacity and weak regulations.

12. Another peculiar design feature of the project was the unofficial earmarking and ring-fencing of DRC-ERC-II proceeds under specific floating tranches to particular uses (for example, for funding the staff retirement program). This approach was inconsistent with the general budget support nature of the DPOs.

13. The project had a very simplified results matrix with, in most cases, a weak or non-existent results chain. The design made negligible provisions for monitoring and evaluation arrangements. Despite very detailed listings of objectives, sub-objectives, and specific actions provided in the policy matrix attached to the program document, there were very few quantified targets and associated baseline values that could be monitored based upon accessible indicators, rather intermediate process-type outputs.

14. Overall, the relevance of design is rated as *modest*.

Achievement of Objectives (Efficacy)

15. As already indicated, the first pillar (continuation of economic and structural reforms) had three specific objectives which will be separately evaluated and rated: (i) medium-term development program; (ii) macroeconomic stability; and (iii) public expenditure management reform.

16. **Medium-term Development Program.** The objective was to secure continued implementation of economic reforms through a well-structured comprehensive medium-term development program that would help the country prioritize and sequence institutional and policy reforms, meet HIPC completion point triggers, and ensure long-run pro-poor private-sector based growth in line with its abundant resource endowment. This was to be achieved through a timely evolution of the present development program towards a full PRSP (Poverty Reduction and Growth Strategy [PRGS]) planned for mid-2005, leading to a HIPC completion point expected in the third quarter of 2007.

17. The only benchmark (and the general $85 million tranche release condition upon credit effectiveness) was formulated as satisfactory progress in carrying out of the program.

18. The program (detailed in the DRC-2004 Policy Matrix attached to this report as Annex Table D1.2) had very comprehensive coverage with nine essential reform objectives:

- ***Alleviating poverty*** through a range of policies to be developed within the forthcoming PRSP;
- ***Consolidating and maintaining peace*** (through disarmament, demobilization and reintegration of ex-combatants) ***and improving governance*** (institutional reforms and fight against corruption);
- ***Reforming financial sector*** and improving financial intermediation through restructuring and rehabilitation of banks, and better policy and regulatory framework;
- ***Enabling private sector development*** that would be the engine of future economic growth and job creation;
- ***Advancing public enterprise reform*** to improve its management and ensure reliable provision of services on a commercial basis, private sector involvement (through partnerships, concessions, and sale of shares);
- ***Improving natural resource management*** (in both forestry and mining) to secure their transparent management; efficient and environmentally sustainable contribution to post-conflict recovery and future economic growth; rural development and poverty reduction while preserving the integrity of the ecosystems and the environment over the long term;
- ***Enhancing the performance of social sectors*** through development and implementation of sector strategies and studies aligned with HIPC triggers and the necessary rehabilitation of infrastructure in health, education, and social sectors;
- ***Supporting agriculture and rural development*** to improve food security of rural populations in the short-run and develop a long-term rural development strategy geared to achieving sustained growth in agricultural production and incomes; and

- ***Rehabilitate infrastructure*** at the national level and modernize the legal and regulatory framework for the operation of key infrastructure sectors (energy and water).

19. Unfortunately, the program was too comprehensive and overly ambitious given limited available resources and severe capacity constraints. In most areas, progress was negligible. Preparation of a full-fledged PRSP (PRGS) with stronger selectivity and prioritization of actions was delayed till mid-2006, and the discussion at the Bank's Board took place only in September 2007, more than half way through the initial coverage period (2006-2008).

20. The new government confirmed its commitment to the PRGS medium-term framework and prepared a Policy Action Plan to guide and accelerate implementation in the remaining period (July 2007-December 2008). Despite these efforts, it was clear that stated PRGS objectives could not be met within the initially set timeframe given the weak alignment between budgetary resources and medium-term priorities, and low efficiency of government interventions. On that basis, and in the context of accelerated efforts to meet the HIPC completion point triggers by the mid-2010 deadline, the authorities decided to keep the existing set of objectives and extend the implementation horizon until the end of 2010.

21. Overall, given that progress in shaping and consistently implementing a well-structured and prioritized medium-term development strategy has been fairly limited, this review rates the achievement in this area as *negligible*.

22. **Macroeconomic Stability.** The operation followed a standard (mostly implicit) objective of consolidating and maintaining macroeconomic stability as a conducive environment for economic revival, continuation of institutional reforms, and resumption of long-run growth. The only benchmark (a $85 million general tranche release condition) was a very broad requirement of maintaining a satisfactory macroeconomic policy framework.

23. Specific macroeconomic targets set at the time of project preparation were to: (i) accelerate economic growth to 6 percent in 2004 and 7 percent in 2005; (ii) contain inflation at 6 percent in 2004 and 5 percent in 2005; (iii) allow a current account deficit of 4.1 percent of GDP in 2004 to be financed by a large increase in external assistance; (iv) increase government revenues to 9 percent of GDP in 2004; and (v) reorient public expenditures towards poverty reduction.

24. During 2004-05, economic growth was relatively strong (6-7 percent per annum), inflation was down, public revenues were increasing and external position was well within financing possibilities. In 2005, the macro situation started to deteriorate. Surges in expenditures caused by a combination of politically-driven pre-election drives and unplanned military spending in response to a flare-up of regional fighting created larger budget deficits. As a rule, these deficits got financed by the central bank (monetized), leading to a sharp increase in inflation. In the fixed-exchange rate regime of the time, this caused appreciation of the currency and depletion of foreign exchange reserves.

25. There was little progress in improving government revenues either in terms of increasing the share in GDP or tapping the large natural resource base in mining and forestry. Reorientation

of public expenditures was also slower than expected caused by pre-emptive increases in security-related expenditures and inefficient process of aligning budget expenditures with social sector expenditures and other priorities of the government.

26. After a successful attempt at correcting fiscal slippages in early 2005, budgetary discipline slackened again in the second half of the year causing a consolidated fiscal deficit to reach 8 percent of GDP (against a 2 percent deficit target under the PRGF). This caused a surge in inflation to 21.3 percent at the year end. IMF let the PRGF expire in March 2006 without completing the sixth and last review, due to fiscal slippages and related inflationary pressures, as well as delays in implementing structural reforms.

27. In April 2006, IMF presence was down-graded to staff monitored programs. The ensuing macro policies were mixed. On balance, the macroeconomic situation gradually deteriorated during 2006-2007 and reached alarming lows in early 2008, when foreign exchange reserves declined to one week of imports, inflation accelerated to over 50 percent per annum, budget deficits became unsustainable, and the country approached a point of external debt distress. A major change in the macroeconomic situation took place in the past 12 months, after significant improvements in performance under the second SMP and the current Extended Credit Facility (ECF - similar to PRGF).

28. In short, as already indicated under DRC-ERC-I, the achievement of macro-stability objective went through three phases. In the initial phase, until the HIPC decision point, DRC managed to break the hyperinflationary tendencies started during the war years. The second phase was marked by mixed macroeconomic performance due to inadequate fiscal and monetary performance, which led to steady deterioration of both external and internal position. The third and still ongoing phase started with the second PRGF (ECF) in mid-2009 and enjoyed a massive international financial support gathered behind HIPC completion point. It will be successful if the relief assistance is met with greater ownership of reforms and consistent implementation of agreed policies and structural reforms.

29. Overall, just like DRC-ERC-I, this review rates the achievement of the macro-stability objective as *modest*.

30. **Civil Service Reform**. The stated objective was to assist the government in financing the retirement package for workers who had reached retirement age. The operation identified one complex benchmark which also served as a release condition for the $47.5 million floating tranche of the civil service retirement plan. It specified four elements of a retirement action plan: (i) the retirement process; (ii) definition of target groups, explanation of benefits, and eligibility dates; (iii) identification of beneficiaries, disbursement procedures, and control mechanisms; and (iv) disclosure policies and procedures.

31. In a broader context, the retirement program was expected to trigger the wider process of civil service reform that will ultimately bring in new qualified staff and restore public service delivery, efficiency, and integrity of public administration.

32. Donor support for civil service reform has been present for years. The need for a comprehensive civil service reform strategy has been repeatedly emphasized by development

partners as indicated in the joint IDA-IMF staff assessments of the 2002 I-PRSP and 2007 PRSP. Strong donor support was voiced under the coordination of UNDP and Belgium (with participation from the EU, AfDB, France, and IDA) although the harmonization workshop scheduled in 2003 never took place due to differences in approach.

33. Regarding specific implementation benchmarks under DRC-ERC-II, an institutional audit was done for selected ministries (planning, finance, budget, and agriculture), albeit following different methodologies and no follow-up. An audit of service delivery was done for health, education, justice, and rural development. A survey of service users and providers was done for health and education.

34. A general census of civil service was done in Kinshasa with limited coverage (that is, excluding teaching personnel and employees of the ministry of defense who wanted to do their own census). Data-gathering in other parts of the country was done based on domestic financing at a very slow pace (completed in 4 provinces out of 17 planned). Central civil service database (for personnel and payroll management) was planned to be based on general civil service census data, but it was never completed.

35. The civil service retirement plan was prepared and implemented with limited success. The strategy was adopted by the cabinet of ministers in February 2005 as part of the tranche release condition. Payment of benefits to the first group of eligible retirees (6,000 people; $2.7 million) was completed as planned. The retirement package for the second group of retirees (with about 27,000 eligible retirees in Kinshasa to be paid about $13 million) was never implemented, due to lack of funding, and despite the earmarked resources under the floating tranche.

36. Overall, the implementation of the retirement plan was not successful, due to technical capacity constraints and lack of funding. With less than 10 percent of the initial target (of 80,000-90,000 beneficiaries) reached, this review rates the achievement of the civil service reform objective as *negligible*.

37. **Domestic Debt Reduction Settlement.** The stated objective was to help the government settle domestic debt arrears to the private sector by following an orderly process and partially financing the cost of the operation.

38. The project contained one complex benchmark which also served as a release condition for a $42.5 million floating domestic debt tranche. The benchmark had four structured points:

- validation of the stock of debt pursuant to procedures satisfactory to IDA;
- publication (in the official gazette, and in the press/media) of a cut-off date after which domestic creditors are precluded from: (i) submitting further claims to be included in the stock of debt, or (ii) completing or modifying already submitted claims to be included in the stock of debt;
- an agreement, binding under the laws of DRC, having been concluded between the government and its creditors representing at least 75 percent of the stock of debt, pertaining to a common discount factor, or discount factors as the case may be, satisfactory to the association, applicable to the stock of debt; and

- appointment of a commercial bank, acceptable to the association, following the application of a transparent competitive selection process satisfactory to IDA, called upon to effect payments to creditors.

39. Implementation of the benchmarks included: (i) audit of government arrears to the private sector; approval of a settlement strategy and action plan; (ii) certification and reconciliation of private enterprises claims on the state; and (iii) negotiations with creditors; and actual settlement according to a payment implementation schedule over the 2005-2008 period.

40. The settlement of debt arrears to private creditors followed a well-organized, multi-staged process, led by a special section in the ministry of finance, supported by Bank-funded consultants. The process was based on a well-organized dialogue with a diverse range of private creditors, followed by a complex negotiation to agree on payment schedules and appropriate discount rates.

41. The process took more time than anticipated and the cost exceeded Bank's funding provided under DRC-ERC-II, but the government closed the gap and successfully achieved this objective. This review rates the achievement of this objective as *substantial*.

42. **Payment of Public Utilities.** The stated objective was to assist the government in making timely regular flat-rate payments of current bills to the water (REGIDESO) and the power (SNEL) companies for 2004. The essential reform objective was to ensure regular government payments to key public suppliers of utilities (water and power in particular), establishing mechanisms to prevent the accumulation of new payment arrears pertaining to water, electricity, petroleum products, and telecommunications.

43. The project had a single complex benchmark which also served as a release condition for the $25 million utility payment tranche. The benchmark required the adoption of two action plans, by the government and utility companies. The government action plan called for a commitment to control its utility use and expenditures following a clear implementation schedule. The action plan adopted by utility companies (REGIDESO and SNEL) called for a commitment to improve the reliability, transparency, and accountability of their billing procedures to public administration, to be achieved following clear implementation schedules. A separate government protocol with these companies would specify expenditure plans for the funds that would be transferred to them.

44. Since January 2005, the government has made flat-rate payments into two trust accounts established by the utilities rather than payments based on actual consumption. The utility companies were slow in identifying public consumption of their services and installing meters, partly as a result of lack of funding to purchase and install meters. Flat payments represent a temporary and incomplete remedy for the problem. It is not clear that the DPO represents the right instrument to support improved operation of public utilities.

45. Overall, this review rates the achievement of this objective as *negligible.*

Ratings

OUTCOME

46. The country context and the role of DRC-ERC-II were not very different from the first operation. If anything, the second TSS and the I-PRSP provided a much clearer medium-term framework for assessing priorities and defining the outcomes sought by DRC-ERC-II. This was only partially reflected in the credit design through greater selectivity and narrower focus of chosen objectives. More importantly, the second operation did not benefit sufficiently from the experience gathered in DRC-ERC-I and continued to face many problems demonstrated earlier: complex, broad, and unbalanced design, with unclear priorities and weak implementation. The overall project outcome was further eroded by the rapid loss of political ownership and declining economic performance across a broad range of macro-economic and institutional management indicators. These tendencies continued well beyond project implementation period (2004-2006) until renewed interest in reforms has been triggered during the run-up to HIPC completion point in the last two years.

47. The objectives of DRC-ERC-II were substantially relevant (more so than the first operation), but the relevance of design was only modest. With solid performance in only one policy area (settlement of domestic debt arrears), at best modest achievement in sustaining macro-stability, and no detectable achievement in three objectives (defining medium-term development strategy, launching civil service reform, and reforming public utilities), the overall outcome of DRC-ERC-II is rated as *unsatisfactory*.

RISK TO DEVELOPMENT OUTCOME

48. In the coming years, weak ownership of reforms and possible reform reversals under political and social pressures, may re-emerge if present institutional reforms do not take hold and the country cannot assume a stable long-run growth path based on efficient use of its ample natural resources (in mining and forestry). The fast approach adopted and the pressures to reach completion point triggers cast doubts on the genuine ownership of reforms and sustainability of policy changes recently implemented to comply with PRGF and HIPC requirements.

49. Overall, limited ownership of reforms and the uncertainty surrounding the sustainability of policy changes support a rating of *significant* as regard to the risk to development outcome.

MONITORING AND EVALUATION

50. **Design**. The program document did not contain a separate discussion of the design and implementation of M&E arrangements. It simply indicated that progress and outcome indicators will be monitored by Bank staff in the areas of civil service reform and internal debt management, based on the indicators contained in the policy matrix (Annex 3 of the program document). The program document did not identify the overall institutional responsibility for M&E within the government, but the policy matrix in many instances provided the names of agencies responsible for policy implementation and monitoring of outcomes. As a rule, this was accompanied by some (albeit rough) indication of timing, but the matrix did not contain specific targets or benchmarks by which progress could be measured.

51. **Implementation**. An incomplete M&E design led to weak implementation: an extensive collection of monitoring information was very heterogeneous in quality and pertained mostly to administrative, legal, and qualitative information on the status of specific policy actions supported under the credit (policy matrix).

52. **Use of the Data**. In all, the results of M&E effort played almost no role in the credit implementation.

53. Overall, the credit lacked outcome targets and monitoring and evaluation arrangements. This PPAR rates the quality of credit monitoring and evaluation as *negligible*.

BANK PERFORMANCE

54. **Quality at Entry.** DRC-ERC-II showed many of the same weaknesses as the first operation. The Bank missed the chance to change the way the operation was designed, implemented, and supervised. The Bank was drawn into the DRC-ERC-II operation despite an apparent lack of clarity regarding the strategic directions of DRC institutional and policy development. Arguably there was a tight timeframe and a need to be responsive to the opening represented by the new transition in the government, but neither pressure should have affected the preparation of the credit this time around.

55. The program document again overstated DRC commitment to reform and capacity to respond. Despite opting for greater selectivity, the Bank over-designed the operation and tried to do too many things at once at different levels of engagement. This view was supported by both Bank staff and borrower counterparts. The Bank reduced the size of the credit, but did not scale-back sufficiently its scope and the number of the planned activities and associated conditionality.

56. The design (and consequently monitoring) was focused on process steps, not development outcomes. With the exception of clear-cut support to improved financial discipline based on the resolution of domestic debt arrears, all other elements of the program were not well researched. This was particularly true as regards to the objectives of developing new medium-term development framework, continuing public expenditure management reform, and launching the civil service reform.

57. Important areas of reforms started in DRC-ERC-I were simply dropped without any explanation (governance, SOE reform, mining, and forestry), and others (such as issues related to much needed private sector development as DRC ranks the latest in doing business indicators) were just omitted without much discussion.

58. The results framework was simplistic. As in DRC-ERC-I, this operation would have benefited from a stronger results framework in identifying priorities, sequencing reforms, or informing a sensible monitoring and evaluation framework for the achievement of development results.

59. Overall, this review rates Bank's performance in securing quality at entry as *moderately unsatisfactory.*

60. **Quality of Supervision.** After a number of years in Kinshasa, the Bank's presence has been well-established, enabling the team to meet the challenges of supervising a DPO and monitoring the economic developments and reform performance. The team collaborated well with the Fund, bilateral donors, and UN agencies in their areas of specialization. It also had a good relationship with the government at the level of core ministries implementing the policy actions that the credit supported.

61. Budget limitations and the lack of local staff prevented greater frequency of supervision missions. The effectiveness of supervision effort was hampered by weak or non-existent monitoring and evaluation arrangements and dependence on Washington-based staff. Besides, the project design focused on process steps, rather than development outcomes, making monitoring very difficult, despite substantially-increased field capacity and well-connected Bank office in Kinshasa.

62. Within those constraints, the Bank team made a genuine effort to oversee the implementation of an ambitious reform agenda under very difficult circumstances on the ground, to flag problems as they became visible and to attempt corrective actions when feasible.

63. Overall, Bank performance in securing quality of supervision is rated as *moderately satisfactory*. This PPAR rated Bank performance in delivering the credit to client as *moderately unsatisfactory*.

BORROWER PERFORMANCE

64. **Government Performance.** Reportedly, during project preparation and the initial stages of implementation, DRC authorities were cooperative and took pride in early reform and macro-economic performance successes. However, with the move to more complex and often politically sensitive actions, the performance started to show growing weaknesses, delays, and limited performance. Indeed, these problems reflected both deficiencies in technical capacities and communication caused by excessive reliance on intermediaries, such as project implementation units (PIUs), and weak engagement of line ministries, especially in the design stages. But the prime reason was weak or ambiguous political ownership and engagement. The DRC-ERC-II operation was more important as a source of budget support, and thereafter in diagnosing development problems, shaping the reform agenda and stepping-up implementation effort. Combined with changes in the government and the overall loss of political ownership for difficult institutional reforms, this resulted in progressively weaker government performance under DRC-ERC-II. On average, this review rates government performance as *moderately unsatisfactory*.

65. **Implementing Agency Performance.** The Ministry of Finance continued to be the main implementing agency with active involvement of other line ministries and agencies. On the positive side, the government managed to meet the conditions of tranche release without the need for any waivers. The fiduciary environment has been improving, and the government has been making progress in terms of budget execution and monitoring.

66. On the other hand, the government did not deliver in most policy areas. This was most visible in the area of public utilities where the government still pays a flat rate for the use of

water and electricity. In the civil service retirement program, benefits were being paid with large delays and the program stalled, despite nominally earmarking the tranche funds. Changes in the companies responsible for the civil service census created implementation delays and affected the quality of the information gathered. Finally, there were substantial delays in completing important elements of the medium-term development program which affected the project as well as the preparation of the full PRSP. It should be noted that the performance of implementing agencies has been constrained by the lack of resources and logistical difficulties, but part of the problem can certainly be attributed to coordination and communication problems caused by attitudes and indirect effects of waning political ownership of reforms supported under the project.

67. Based on the above evidence, the implementation agency performance is rated as *moderately unsatisfactory*. Overall borrower performance is therefore rated as *moderately unsatisfactory*.

Annex B1. Republic of Congo: Assessment of the Post-Conflict Economic Rehabilitation Credit, 2001-2004

Annex Table B1.1. Principal Ratings, RoC-ERC-I

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Unsatisfactory	Unsatisfactory
Institutional Development Impact**	Modest	Modest	———
Risk to Development Outcome	———	———	Significant
Sustainability***	Likely	Likely	———
Bank Performance	Satisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Unsatisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that is an independent desk validation of the ratings, based on the evidence in the ICR.
**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.
***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Annex Table B1.2. Key Staff Responsible, RoC-ERC-I

Project	*Task Manager*	*Sector Manager*	*Country Director*
Appraisal	Salomon Samen	Cadman Atta Mills	Emmanuel Mbi
Completion	Slaheddine Khenissi	Cadman Atta Mills	Pedro Alba

Objectives and Policy Areas

1. **Objectives**. The Post-Conflict Economic Rehabilitation for the Republic of Congo (RoC-ERC-I) was designed to support the government's 2000-2002 Interim Post-Conflict Program (I-PCP). The I-PCP reflected key socio-economic challenges faced by the country at the end of the war and the status of the dialogue with the donor community.

2. The objectives of the credit were to: (i) pursue and deepen structural reforms halted by the conflict and (ii) improve governance and transparency in the management of the country's natural wealth and public funds (President's Report, paras 37 and 41).[20]

3. An implicit goal was to provide budget resources to clear external arrears toward IDA and IBRD. Outcomes were expected in the (i) privatization of Banks, key public utilities, and oil downstream activities, (ii) improved legal and regulatory framework for business, (iii) transparency in oil resources management, (iv) transparency in forestry resources, and (v) improved governance and accountability in the management of public funds.

[20] The statement of credit objectives is based on the President's Report (World Bank (2001a), para 41 and Annex B1: Matrix of Policy Actions. The credit agreement does not explicitly state the project objectives but rather refers to the "program of actions, policies and objectives" described in the government's Letter of Development Policy (LDP, Annex C, World Bank 2001a), which in turn relies on the interim PCP. Despite somewhat different wording, the LDP provides a fully consistent statement of objectives in the areas of structural reforms (section 6), and transparency and good governance (section 7).

4. **Policy Areas**. In order to achieve the credit objectives, the government committed to implement prior actions and reforms in two major policy areas: (i) the pursuit of structural reforms and (ii) the improvement of governance and transparency in the management of the country's natural wealth and public funds. Annex Table B.1.3 provides a detailed account on the alignment of the credit policy areas to the intended objectives and the implementation status.

5. The credit was designed as a one-tranche operation to be disbursed upon: (i) satisfactory clearance of arrears to the Bank and (ii) the refund of outstanding balances in the already closed special accounts related to the Bank's past portfolio.

6. **Implementation Experience.** The credit was approved on July 31, 2001 and became effective on August 8, 2001. The conditionality for tranche release was swiftly met, and the credit was disbursed in a single tranche immediately after effectiveness. The final amount disbursed ($37.9 million) was slightly different from the approved amount ($37.7 million), due to exchange rate fluctuations. Proceeds from the credit together with the government's own resources were used to clear the arrears with the Bank ($4.7 million with IDA and $58.3 million with IBRD), thus triggering normalization of relations with the Bank and other donors. The project was closed on June 30, 2004, a year after the original closing date. A one-year closure extension was granted to provide the government with an opportunity to complete the most difficult reforms agreed in the credit program.

Annex Table B1.3. Policy Actions Associated with RoC-ERC-I Objectives

Objectives and Action Areas	*Policy Actions/Tranche Release Conditions/ Prior Actions*	*Status of Policy Actions at Credit Closure*	*Status of Policy Actions at the time of this PPAR*
(I) PURSUE AND DEEPEN STRUCTURAL REFORMS			
I.1. Privatization of banks, key public utilities, and oil downstream activities	Finalization of the privatization of all commercial banks.	Three remaining state-owned banks privatized; but remained weak, and one was later renationalized.	As of end-2010, five commercial banks are privately owned, the entire banking sector is relatively sound and well capitalized, and is considered one of the most stable in the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) zone.
	(i) Release of request for bidding proposals for the concession of water and electricity companies. (ii) Approbation by the government and adoption by parliament of the water and electricity code, with implementation decrees.	Codes governing water and electricity sectors were approved. Privatization of water and power companies was unsuccessful.	Reforms of the water and electricity utilities completely stalled. Public firms continued to experience acute management problems and absorbed large budget subsidies.
	Release of request for bidding proposals for the concession of the railway company.	Railway company privatization was unsuccessful.	There have been preliminary steps towards a private concession of the railway.
	Adoption of a social action plan accompanying privatization. Program	Unknown progress.	The social action plan did not take place.
I.2. Improved legal and regulatory framework for business	Progress in the reform of the posts and telecommunications sector.	Telecoms privatization progress was mixed.	Progress in the postal service and telecommunications sector included the repeal of the public operator monopoly over international gateway services and the provision of wireless services.

Objectives and Action Areas	*Policy Actions/Tranche Release Conditions/ Prior Actions*	*Status of Policy Actions at Credit Closure*	*Status of Policy Actions at the time of this PPAR*
	(i) Approbation by the government and adoption by parliament of the posts and telecommunication codes. (ii) Publication of a decree on the split of posts and telecommunication.	Unknown progress.	There was an adoption of a decree setting conditions of management of frequency consistent with the best international practice, as well as the passage of a new legal package comprising laws instituting a regulatory agency for the sector, the regulation of the electronic communications, and the postal sectors.
	Progress in the reform of the autonomous Port of Pointe Noire.	Unknown progress.	An external financing package was secured in March 2009 to help finance the rehabilitation of the port's facilities and was thereafter put under concession for management by a private company.
	Approbation by the government and adoption by parliament of the investments chart.	Progressive investment code adopted, including the reduction of the corporate tax rate.	Implementation was unsuccessful.
	Strengthening of one stop investment window.	Unknown progress.	Implementation was unsuccessful.
	Launching of a study to review labor code constraints.	Unknown progress.	Implementation was unsuccessful.
(II) IMPROVE GOVERNANCE AND TRANSPARENCY IN THE MANAGEMENT OF THE COUNTRY'S NATURAL WEALTH AND PUBLIC FUNDS			
II.1. Transparency in oil resources management	Approbation by the government and adoption by parliament of the petroleum code with implementation decrees.	Code governing petroleum distribution was approved.	Same as at credit closure.
	Signing of a framework formalizing relationships between the national oil company, SNPC, and the government.	Completed.	The practice of collateralized debt was discontinued.
	Launching of the first audit of state oil company (SNPC) and subsequent generalization of two annual audits for SNPC.	Unknown progress.	An external audit of the SNPC for 1999-2000 accounts and 2001 consolidated accounts.
	First report publication of SNPC activities as provided under the framework between SNPC, and the government.	Unknown progress.	Overall the thrust of these reforms was weak, and effectiveness in improving the management of the oil-sector remained lukewarm.
II.2. Transparency in forestry resources	Publication of implementation decrees of the forest code.	Code governing forestry sector was approved.	Same as at credit closure.
	Assessment of forestry tax collection for current fiscal year.	Unknown progress.	Same as at credit closure.
	Mapping of existing and proposed national protected areas network, with phasing of all steps leading to final protected area status.	Unknown progress.	Same as at credit closure.

Objectives and Action Areas	*Policy Actions/Tranche Release Conditions/ Prior Actions*	*Status of Policy Actions at Credit Closure*	*Status of Policy Actions at the time of this PPAR*
II.3. Improved governance and accountability in the management of public funds	Satisfactory clearance of arrears to the Bank. Refund of the outstanding balances in the special accounts of the closed operations of past portfolio.	Completed.	Same as at credit closure.
	Institutionalization of the general auditor's office and publication of related implementation decrees.	Unknown progress.	Same as at credit closure.
	Effective launching of audit of a few public funds management.	Efforts to establish an auditor general were negligible.	Same as at credit closure.
	Review of public procurement rules, and procedures, and practice	Progress in the procurement was negligible.	Some progress took place in the run-up toward the HIPC completion point.

Source: Compiled from President's Report and other Bank reports.

Relevance of Objectives and Design

7. **Relevance of Objectives.** The objectives of RoC-ERC-I were substantially relevant as they addressed critical development constraints of a post-conflict situation and were consistent with both the government's strategy and the Bank's TSS. The credit aimed to address core issues affecting the country: high level of indebtedness, the role of the state, private sector development, public sector governance, and accountability in the management of natural resources. The credit objectives were consistent with government policies and priorities set out in the Letter of Development Policy and the Bank's TSS adopted in January 2001.

Annex Table B1.4. Interim Post-Conflict Program Pillars and the Post-Conflict Economic Rehabilitation Credit Objectives

I-PCP Pillars	*RoC-ERC-I Objectives*
(B) Structural Reforms	**(A) Pursue and Deepen Structural Reforms**
• Pursue structural reforms halted by the conflict	• Privatization of banks, key public utilities, and oil downstream activities • Improved legal and regulatory framework for business • Improved business incentives
(C) Transparency and Governance	**(B) Improve Governance and Transparency in the Management of the Country's Natural Wealth and Public Funds**
• Improve governance and transparency in the management of the country's natural wealth and public funds	• Transparency in oil resources management • Transparency in forestry resources • Improved governance and accountability in the management of public funds

Sources: World Bank 2001a (PR); Government of Congo (2000), Interim Post-Conflict Program for Congo (2000-2002).

8. Furthermore, the timing of the credit and the content of reforms supported under it were consistent both with the immediate needs on the ground and the longer-run priorities of the country.

9. More specifically, the relevance of project objectives was confirmed in three critical dimensions:

- **Enabling reengagement with the donor community** by: (i) assisting the government in shaping its on-going reform program as the necessary long-term context for donor financial and institutional support and (ii) resolving past debt service arrears and bringing external debt under control as a technical pre-condition for the resumption of support from the donor community.
- **Rebalancing the roles of the private and public sector** by**:** (i) transforming the private sector into a main vehicle for job creation and economic growth and (ii) refocusing the state on its key responsibilities in delivering public services (health, education, infrastructure) and securing the rule of law.
- **Improving governance** by addressing the core issues of transparency and accountability in the public sector. Initially, lack of accountability and open corruption were among the prior origins of the regional war. Corruption enabled and fueled the conflict, and lasting peace and prosperity can hardly be achieved without a major improvement in the quality of governance.

10. In substance, these objectives have remained relevant to this day as they:

- Enabled the consolidation of large external debt and provided a basis for active dialogue with the main creditors; the external debt sustainability agenda culminated in January 2010 with the completion point under the enhanced HIPC initiative;
- Supported government efforts to remain a stronger provider of public goods and gradually withdraw from the productive sectors, thus providing greater scope for private-sector led growth in the non-oil sectors of the economy. Ongoing efforts to strike a better balance between public and private sector are based on government retrenchment from public utilities, and its expanded role in strengthening physical infrastructure and enhancing efficiency in public investments; and
- Maintained the necessary momentum for enhancing governance and transparency in the management of public resources, primarily in the oil sector.

11. Despite some progress towards greater transparency in the oil sector and stronger PFM system, improved management of natural and public resources remains an important part of the overall reform agenda. On that basis, the relevance of RoC-ERC-I objectives is rated as *substantial*.

12. **Relevance of Design.** The credit design was inadequate, due to an overly ambitious reform agenda in relation to government implementation capacity, and a weak results matrix to track progress. In the immediate post-conflict period, the Republic of Congo had a lot of competing priorities,[21] including (i) consolidating peace and securing economic revival; (ii) strengthening government implementation capacity; and (iii) stopping corruption that thrived during the war and continues to plague progress in governance. Also, the country was operating on shaky political grounds caused by divisions and fragile political arrangements which barely

[21] Extracted from the country I-PCP, and the Bank's TSS.

supported progress towards normality; a clear consensus on stabilizing the political situation and moving the country forward was urgently needed.

13. To ensure the achievement of improved governance, macroeconomic stability, and the return of the economy on a sustained growth path, project performance was to be evaluated against 20 reform benchmarks identified during appraisal (Annex Table D3). The wide set of benchmarks replicated the entire government reform agenda. The credit would have been more effective in supporting the government's efforts to reengage with the donor community if it had focused on a subset of the most important and realistically-sequenced reforms, and ensured a better mapping between activities supported under the credit and the final objectives. On the positive side, the Bank envisioned strengthening internal technical capacity through a TA project, but there was a delay in its preparation and approval.

14. Instead of a standard results matrix, the credit document had a reduced matrix of progress and outcome indicators (Annex B2 of the President's Report, World Bank 2001a, page 24). This matrix summarized the four intended outcomes[22] related progress and outcome indicators, identified means of verification, provided linkages to the government development matrix, and listed key assumptions. The development objectives used in the matrix differed from the credit objectives and the matrix did not provide baseline values or clearly defined measurable outcome indicators and benchmarks. Some of the outcome indicators were not specific enough to capture the content of the reforms supported under the program or, more importantly, gauge progress towards stated objectives.

15. Overall, as clearly demonstrated through implementation difficulties, the design of the project was inadequate as the weak knowledge of the economy prevented a meaningful selection of priorities and sequencing of reforms within a well-defined results framework. Instead, the credit pursued a wide range of policy actions and an overly ambitious reform agenda for what the country could carry out. On that basis, the relevance of design of the credit is rated as *modest.*

Achievement of Objectives (Efficacy)

16. **Pursuing and Deepening Structural Reforms**. Under this objective the credit aimed to ensure that structural reforms undertaken by the government would provide enhanced scope for private sector growth and an increased share in the economy after decades of a state-centered growth.

17. The government privatized three state-owned banks, but the privatized banks remain weak and one was later re-nationalized. Privatization of the water and power companies was unsuccessful as bidders were not prepared to commit the large required investments, the railway privatization was unsuccessful. Some progress occurred in reforming the telecommunication sector, as the Office of Posts, Telephone and Telecommunications (PTT) successfully split into two entities and two private cellular providers were licensed. However, a regulatory authority was not established, and the government reversed an earlier decision and restored the monopoly on international calls to the incumbent land-line company.

[22] Intended outcomes on page 24 of the President's report were (i) improved management of the reform process, (ii) improved management of external debt and adequacy of the budget, (iii) improved budget formulation and efficiency, and (iv) transparency and account in the public sector.

Annex Box B1.1. RoC: Update on Recent Developments in the Credit Reform Agenda

The implementation of this objective continued beyond the project closure date on June 30, 2004. The government's progressive retrenchment from banking, key public utilities, and downstream oil sector activities was pursued to restore the confidence of private economic operators, improve the overall business climate, as well as improve the performance of the state-owned enterprises through lower costs, improved management, and better fiscal impact. As of end-2010, the five commercial banks are privately owned, the entire banking sector is relatively sound and well capitalized, and is considered one of the most stable in the CEMAC zone (see Annex Table B1.5 below).

Nevertheless, the country continues to suffer from low levels of financial intermediation, even by regional standards. Less than 3 percent of the population has a bank account, reflecting both the limited number of bank branches and high fees for opening and maintaining bank accounts. In 2006 and 2007, the oil windfall profits and robust economic activity led to the rapid expansion of deposits: time and savings deposits grew by 60 and 21 percent respectively. By contrast, private-sector credit grew at a much slower rate: on average only 4 percent annually during 2004-2006 period, and by 8 percent in 2007, indicating the presence of other barriers to private sector growth.

Annex Table B1.5. RoC: Banking Sector Financial Soundness Indicators, 2004–07
(in percent, at year end, unless otherwise indicated)

	2004	*2005*	*2006*	*2007*
CAPITAL ADEQUACY				
Regulatory capital to risk-weighted asset	4	12	14	16
Capital (net worth) to assets	3	4	4	4
ASSET QUALITY				
Nonperforming loans	7	3	2	3
Provision as % of past-due loans	28	84	67	81
EARNINGS AND PROFITABILITY				
Net profit (before tax)/net income	8	23	42	
Return on equity	13	33	76	---
LIQUIDITY				
Liquid assets/total assets	39	34	61	72
Loan/deposits	57	64	27	26

Source: IMF Country Report No. 09/74. 2009.

Privatization of the oil distribution sector was successful as the state monopoly company (Hydro-Congo) was replaced by global private distribution companies (Total, Exxon, Chevron, and Texaco). It is worth noting that in January 2010, following a dispute over accounting irregularities involving a local bank and senior figures from the regime, Chevron (US) returned its 25 percent stake in the oil distribution sector to the government oil company (SNPC). The privatization of key public utilities (water, electricity, and railway) completely stalled, aside from launching preliminary steps towards a private concession of the railway.

Regarding the legal and regulatory framework for business, the state retrenchment from productive economic activities was the main tool to secure greater scope for private sector growth. Specific programs were scheduled in the areas of forestry, postal service, and telecommunications, as well as the port authority and the water and electricity utilities.

Progress in postal service and telecommunications sector included the repeal of the public operator monopoly over international gateway services and the provision of wireless services, the adoption of a decree setting conditions of management of frequency consistent with the best international practice, as well as the passage of a new legal package comprising laws instituting a regulatory agency for the sector, the regulation of the electronic communications, and the postal sectors.

Regarding the privatization of the Port of Pointe Noire, an external financing package of EUR67.1 million was secured in March 2009 to help finance the rehabilitation of the port's facilities, and was thereafter put under concession for management by a private company (Bolloré Group). Finally reforms of the water and electricity utilities completely stalled, as those public firms continued to experience acute management problems, and absorb large budget subsidies.

Improved business environment: A number of initiatives aimed at improving the business environment that took place since the start of the first operation had very limited success. The government and the parliament placed great hopes in the new investments chart which enabled the launching of a one stop investment window and held promise to improve the business and investment climate, but the implementation turned out to be unsuccessful.

Limited achievements were noted in other policy areas supported under the credit. Most notably, the government's intention to address the social and labor constraints to privatization by adopting a social action plan and reviewing the labor code constraints completely failed as these activities never took place.

The lack of progress in improving business environment is confirmed by the most recent results of the Doing Business indicators for 2010. By end-2009, it still took 169 days to start a business, and the cost of the operation was estimated at 244 percent of the income per capita. Despite some notable effort to improve business environment, the status of the Republic of Congo as a business destination for private sector investors remains ambiguous. The country has continued to score poorly with regard to indicators and procedures related to costs, ease of operation and institutional effectiveness, protection of property and investors' rights, enforcement of contracts, lengthy administrative procedures, and rigid labor legislation. On a positive note, the mining sector continues to attract foreign direct investments, as illustrated by an Anglo-Swiss and an Australian mining firms, which have been active in the exploration of iron ore since 2009, as well as South African farmers that are planning to invest in the agriculture sector.

18. Codes governing the water, electricity, petroleum distribution, and forestry sectors were approved as envisioned, but not all of the implementing regulations were promulgated. A study of forest taxation was completed by the Bank and the government which resulted in a number of promising recommendations, which were not implemented. The investment climate was improved by the adoption of a progressive investment code and reduction of the corporate tax rate. There was no information on the downstream oil privatization, or the adoption of a social action plan to support privatization

19. At the credit closure in 2004, the overall progress in achieving the credit objective was limited. First, privatization of targeted state-owned banks had limited impact. Second, there was no progress in other privatizations (of water, electricity, and railway), and the reform of the autonomous Port of Pointe Noire and the review of labor code simply did not take place. Third, the progress in reforming the postal service and telecommunications was at a preliminary phase and has not reached non-reversal point. Fourth, all attempts to increase transparency in the management of the oil sector and forestry stalled. On the basis on the above evidence, achievement of the first credit objective is rated *modest.*

20. Overall, this review provides updates (see Box above) on achievements in the following areas: (i) the banking sector was restructured, privatized and stabilized; (ii) the state monopoly on gas distribution operations was replaced by private firms competing in the market; (iii) reforms in the forestry sector led to greater competition and transparency in awarding concessions, ensuring sustainability of the forest resource base, and securing improved fiscal revenue collection, (iv) the Port of Pointe Noire was rehabilitated and put under private concession, and (v) the postal and communication sector was liberalized and an upgraded regulation was put in place following good international practice.

21. However, most of the above reform progress was completed only recently, years after the credit closure, and often represent the first step in implementing deeper institutional reforms.

Moreover, there was almost no progress in the privatization of public utilities (water, electricity and railway), the upgrading of the labor code, and the adoption of the social action plan.

22. **Improved Governance and Transparency in the Management of the Natural Wealth and Public Funds.** Under this objective, the credit aimed primarily to: (i) enhance transparency and governance in the management of the oil sector; (ii) pursue transparency reforms in the management of forestry resources; and (iii) improve governance and accountability in the management of public funds. Limited progress was achieved during the credit life period. As noted under the previous objective, following credit closure, the reforms were dormant for a number of years and were revived only recently as the government and the donor community focused on meeting the triggers for the completion point under the enhanced HIPC initiative.

23. During the credit implementation period (2001-2004) and beyond (2005-2007), progress to improve transparency in the oil sector was very slow. The government took steps to: (i) phase out earmarking of oil revenue and centralize all revenues in the state budget; (ii) conduct an external audit of the state oil company (SNPC) for 1999-2000 accounts and 2001 consolidated accounts; and (iii) stop incurring oil-collateralized debt. Overall, the thrust of these reforms was weak, and effectiveness in improving the management of the oil sector remained lukewarm. Despite all efforts, the general perception of opaque management in the oil sector largely prevailed.

24. In the forestry sector, the government completed a comprehensive and participatory forest and environmental sector review, and adopted laws expected to improve its economic and fiscal performance by allowing greater competition and transparency in awarding forest concessions, and ensuring sustainability of the forest resource base.

25. In public procurement, the goal was to strengthen institutional and legal arrangements. Procurement reform touched many interests and proved to be quite a challenging task in a post-conflict environment with weak commitment to reforms and lack of domestic capacity in project implementation. As a result, the government failed to launch the procurement reform while the project was active and returned to this issue at the end of 2008 by adopting a procurement reform action plan. A new procurement code, adopted in May 2009, offered a legal and regulatory framework fully aligned with international best practice. The code provided suitable institutional, administrative, and operational arrangements for general procurement directorate, regulatory authority, and a contract management authority. Five line ministries (including health, education, and agriculture) created fully staffed and equipped procurement units. Detailed procurement manuals, standard bidding documents, and general conditions of contracts have been prepared and shared with all relevant agencies, followed by a training program currently underway. The effects of the new procurement system will be known when the audit of the use of public funds takes place.

26. The momentum of reforms in oil management was revived at the same time. SNPC made improvements in the quality of accounting and internal controls: better audit reports for 2006-2007 (with reduced number and severity of reservations) were followed by the introduction of a new accounting system. Both SNPC and COTRADE, the national oil trading firm, began to transfer revenue on the basis of realized prices. The transfers were reconciled with budget data, certified on a quarterly basis by an international audit company and posted on the government's

website. Statistical analysis of price differentials confirmed that sales were done at competitive and fair market prices.

27. Weak performance in achieving better public resource management is confirmed by low ratings received for the quality of public sector management under the Bank's Country Policy and Institutional Assessment (CPIA) indicators, as well as by the Worldwide Governance Indicators measure of the quality of governance. As indicated in Annex Table B1.6, the overall quality of public sector management did not show any improvement between 2001 and 2008 as the average rating remained at 2.6 for a maximum rating of 6. Within the flat average score, there were sporadic improvements in selected dimensions of public sector management supported under the project. Most notably, property rights and anticorruption activities recorded marginal improvements which were not sustained beyond the life of the credit. There were two exceptions to this rule: on the positive side, improvements in revenue mobilization were sustained throughout the 2001-2008 period; on the negative side, the quality of public administration never showed any sign of change and remained flat at a low 2.5 score.

Annex Table B1.6. Public Sector Management and Institutions, CPIA Rating 2001-2008

Yearly CPIA	*Property Rights & Rule-based Government*	*Quality of Budget. & Financial Management*	*Efficacy of Revenue Mobilization*	*Quality of Public Admin.*	*Transparency, Accountability. & Corruption in Public Sector*	*Average*
2001	2.5	3.0	2.5	2.5	2.5	2.6
2002	3.0	3.0	3.0	2.5	3.0	2.9
2003	2.5	3.0	2.5	2.5	3.0	2.7
2004	2.5	3.0	3.0	2.5	3.0	2.8
2005	2.0	3.0	3.0	2.5	2.5	2.6
2006	2.5	3.0	3.0	2.5	2.5	2.7
2007	2.5	2.5	3.0	2.5	2.5	2.6
2008	2.5	2.5	3.0	2.5	2.5	2.6

Source: OPCS : IDA Resource Allocation Index (IRAI), 2008.

28. The WGI shows a similar pattern of weak average performance over the 2000-2008 period. As detailed in graphs below (see Figures G-L in Annex Box B1.2), improvements recorded in the initial years of RoC-ERC-I could not be sustained. Advances made in improving voice and accountability, rule of law, and anti-corruption during 2002-2004 were invariably followed by partial policy reversals which kept the Republic of Congo within the bottom 10 percent of all countries. The only exception was political stability which continuously improved over the years bringing the Republic of Congo out of the bottom quarter by 2008. On average, this review rates the achievement of the second objective during the period when the credit was active as *modest.*

Annex Box B1.2. RoC: Governance Indicators, 2000-2008

Figures G-L provide a time series of six aggregate governance indicators for DRC produced by Worldwide Governance Indicator (WGI) for the 2000-2008 period.

Figure G: Voice and Accountability
(Percentile Rank (0-100)

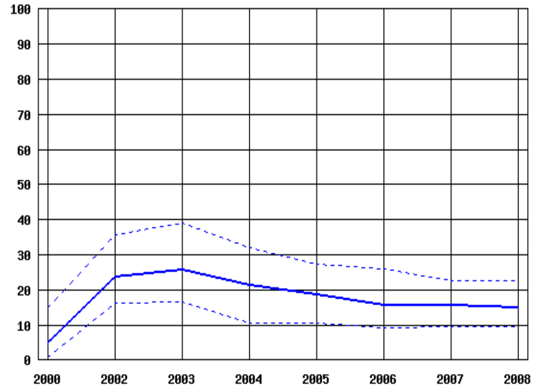


Figure H: Political Stability
(Percentile Rank (0-100)

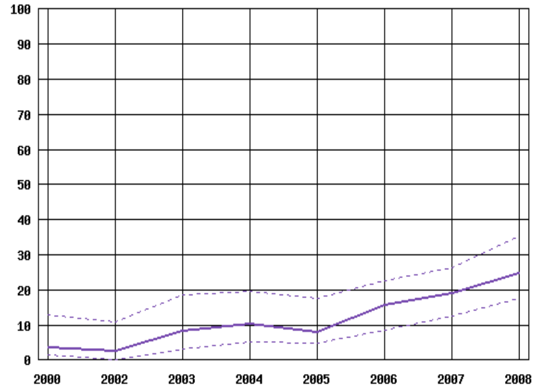


Figure I: Government Effectiveness
(Percentile Rank (0-100)

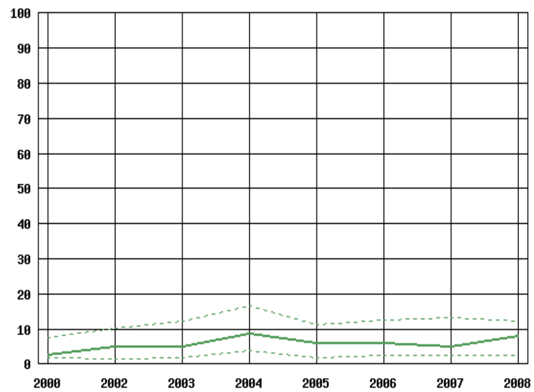


Figure J: Regulatory Quality
(Percentile Rank (0-100)

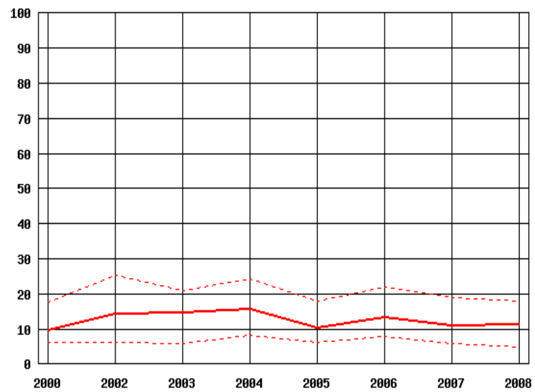


Figure K: Rule of Law
(Percentile Rank (0-100)

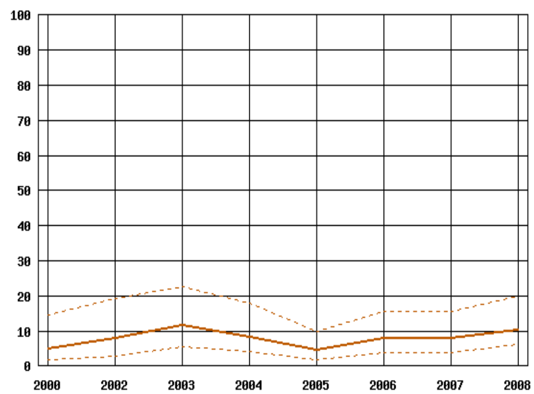
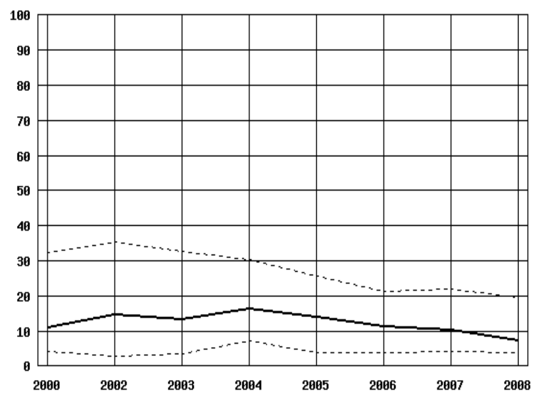


Figure L: Control of Corruption
(Percentile Rank (0-100)



Note: The governance indicators aggregate the views on the quality of governance provided by a large number of survey institutes, think tanks, non-governmental and international organizations. The WGI do not reflect the views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Sources: Worldwide Governance Indicators, *www.govindicators.org*; Kaufman and others 2009.

29. Overall, despite weak results in improving the management of public resources during the life of the credit, institutional changes and policies supported under this project were resumed in recent years leading to important achievements including: (i) significant improvements of the quality of governance and transparency in the oil sector confirmed by the results of independent periodic audits of the national oil company, better flow of information from SNPC and COTRADE to the treasury and timely reconciliation of realized oil prices and proceeds with the budget data; (ii) better performance of the forestry sector based on greater competition and transparency in awarding forestry concessions, leading to improved management of forest resources and increased fiscal revenues; and (iii) introduction of public procurement systems and institutions at the central government level and in key line ministries, although audit of public funds lagged.

30. To a large extent, the resumption of reforms was owed to a coordinated effort by the government and international community to reach the completion point under the enhanced HIPC initiative in January 2010. Sustaining this effort beyond the debt relief completion point and ensuring broad ownership for continued improvements in the management of public resources remains a major challenge.

Ratings

OUTCOME

31. The relevance of objectives of the credit was substantial. On the contrary, the relevance of design was modest. The implementation of RoC-ERC-I contributed significantly to economic revival in the immediate post-conflict period. It helped bring domestic and external debt under control, and notably improved government ability to design and implement reform programs.

32. At the credit closure in 2004, the overall progress in achieving the credit's objective was limited. First, privatization of targeted state-owned banks had limited impact. Second, there was no progress in other privatizations (of water, electricity, and railway), and the reform of the autonomous Port of Pointe Noire and the review of the labor code simply did not take place. Third, the progress in reforming the postal service and telecommunications was at a preliminary phase and has not reached non-reversal point. Fourth, all attempts to increase transparency in the management of the oil sector and forestry stalled, and the procurement reform hardly took off.

33. Due to weak results framework and the absence of effective M&E arrangements, many policy actions and reforms implemented during the credit implementation period (2001-2004) and beyond (2005-2007) were not followed by consistent longer-term policies and reforms and, thus, did not contribute tangibly to the achievement of outcomes. These reforms were resumed in recent years as the country strived to meet the completion point triggers under the enhanced HIPC initiative.

34. On balance, while recognizing the achievements in key areas of debt management, and in improving the quality of governance in the management of natural resources and public funds, this review notes a serious loss of the reform momentum in the 2004-2008 period caused mainly by the weak political ownership. On that basis, this evaluation rates the overall outcome of the RoC-ERC-I operation at credit closure as *unsatisfactory*.

RISK TO DEVELOPMENT OUTCOME

35. The country has been severely hit by the global economic crisis, which slowed GDP growth, lowered oil prices, and adversely affected the current account balance, capital flows, and access to global financial markets. The growing external debt overhang was rapidly becoming an overwhelming concern and the government sought solution by advancing the completion point process under the enhanced HIPC initiative.

36. Expectedly, the HIPC completion point triggers overlapped with the brunt of the policy and institutional reforms advanced in 2001-2004 under RoC-ERC-I and IMF programs. Efforts towards meeting HIPC triggers *de facto* meant resumption and completion of the initial post-conflict reform agenda. It is hard to tell if the revived interest in reforms stalled in 2004-2007 represents a genuine change in ownership or just a temporary maneuver necessary to meet the completion point triggers. In the latter case, the main risk going forward could come from another decline in the ownership of reforms.

37. Regarding risks to other outcomes in banking and budget, it is likely that reforms and improved performance will be sustained in the banking sector and in the budget process. Likewise, the privatization of the Port of Pointe Noire, and the liberalization of the postal service and telecom sectors will probably be sustained, and eventually deepened. By contrast, initial progress made in the management of the oil and forestry sectors, and in public procurement is still very preliminary. Unless continuously supported by the government and key stakeholders, these reforms could easily be stalled or reversed by vested interests.

38. Overall, the risk to development outcome is rated as *significant.*

MONITORING AND EVALUATION

39. **Design.** The President's Report remains almost entirely silent on the design of the monitoring and evaluation arrangements. Indirectly, the core M&E framework is provided in a short matrix of progress and outcome indicators used in lieu of a full-fledged results matrix. The matrix of progress and outcome indicators does not provide baseline values, it does not specify measurable outcome indicators, and it does not assign responsibilities in M&E (between the Bank and the government, and between ministries within the government). Both the Bank and government teams failed to put in place an effective M&E arrangement.

40. **Implementation.** Absence of clear M&E design, capacity constraints, and lack of coordination among implementing agencies, resulted in a poor M&E implementation: the M&E function was rudimentary as it provided mostly administrative, legal, and qualitative information on the status of policy actions supported under the credit.

41. **Use of the Data.** Expectedly, the limited information produced by the M&E system did not play almost any role in the project implementation.

42. On the basis of the above information, this PPAR rates the quality of monitoring and evaluation as *negligible*.

BANK PERFORMANCE

43. **Quality at Entry.** The Bank was quick to exploit the opportunity to prepare this operation, assist the government, and mobilize donor support. The project objectives were consistent with strategic goals of the government's interim post-conflict program and the Bank's transitional support strategy.

44. The project design was hampered by the lack of up-to-date knowledge of the economy and failure to effectively utilize Bank experience from other post-conflict countries. On the knowledge side, the analytic and advisory activities were out of date and led to a weak results framework and unrealistic policy actions. The nature, number, and scope of reforms were overwhelming for a post-conflict country.

45. Experience from other post-conflict countries was not fully used in the project design, particularly in the reforms involving complex political economy issues. The Bank team did not recognize the delicate and controversial nature of the key reforms advanced by the project, including the privatization agenda (for banks and public utilities), and the drive to improve governance in the oil and forestry sectors, and increase the transparency and accountability in the public sector.

46. In terms of content and coverage, the credit mirrored the entire country reform program. Greater selectivity and simpler project design would have increased Bank's leverage with the government, better aligned implementation arrangements with severely limited capacity, and elevated buy in from key stakeholders. Similarly, greater clarity, consistency in defining credit objectives, for instance, and a full results chain might have increased the effectiveness of the credit and facilitated the design and implementation of adequate M&E arrangements.

47. Given the severe capacity constraints in the country, the proposal to combine the adjustment operation with a technical assistance project was quite appropriate, but the timing was off. Instead of going in tandem with or even preceding the adjustment operation, the TA project was launched almost a year later, creating a gap in capacity to process and implement reforms.

48. Due to the above shortcomings, this review rates Bank performance in securing quality at entry as *moderately unsatisfactory*.

49. **Quality of Supervision.** The Bank took a number of steps to facilitate the supervision of the credit. A country office was opened in 2001 with a resident Country Manager. The economic team fielded multiple supervision missions. Sector specialists often joined the economic team to monitor specific aspects of credit implementation. All supervision missions were fully documented with back-to-office reports and aide-memoires.

50. Unfortunately, the supervision effort was not sufficient to meet the implementation challenges posed by the overly ambitious reforms program in a country that lacked administrative resources and capacity in the key ministries. The effectiveness and quality of the supervision effort was lowered by numerous staff changes in the country team, (both the country director and the country economist were changed while the project was active), delayed responses to government requests, and long periods of absence from the country between supervision missions.

51. Based on the above facts, the quality of supervision is rated as *unsatisfactory*. The overall Bank performance in supporting the delivery of this credit is also rated as *unsatisfactory*.

BORROWER PERFORMANCE

52. **Government Performance.** Nominally, the government was reasonably well prepared for this operation through an interim post-conflict program for 2000-2002, an emergency post-conflict assistance program (with the IMF), and the ongoing preparation of an interim PRSP. The government actively collaborated with the Bank team during preparation and appraisal, made timely policy and institutional changes to meet all Board presentation conditions (prior actions) and tranche release conditions upon effectiveness. However, following the disbursement of the credit, the government could not secure continued ownership and shepherd the implementation of an overly ambitious reform agenda. There was a lack of true political and social consensus regarding the (reduced) role of the state in the economy, the implementation of far-reaching privatizations, and the need to improve the quality of governance in managing oil and forestry resources and public finance. A better domestic consultation process and more open dialogue with key donors (IFIs and bilateral donors especially) could have revealed these risks and informed a stronger advocacy and consensus-building effort preceding the inclusion of these reforms in the project.

53. This review rates government performance as *unsatisfactory*

54. **Implementing Agency Performance**. Credit implementation was initially entrusted to two different units: (i) the inter-ministerial technical committee and (ii) the privatization committee. To improve coordination among the implementing agencies, the government in 2003 appointed a senior staff in the ministry of finance to monitor the implementation of credit reforms and report directly to the minister of finance.

55. In practice, the performance of implementing agencies was inadequate. The two ad-hoc committees entrusted with implementing reforms did not have sufficient professional capacity, and political and institutional leverage to push through for the complex reforms. The appointment of a senior staff member from the ministry of finance to improve coordination and enhance the leverage of implementing agencies came late (two years after credit approval) and did not produce the desired impact. Moderate improvements in implementation arrangements could not possibly compensate for the absence of a clear political and social consensus to carry out an ambitious privatization agenda (of commercial banks, public utilities, postal service and telecom, railways and the Port of Pointe Noire), management reforms in key sectors (oil and forestry), and other structural reforms.

56. Overall, weak ownership of proposed reforms, revealed soon after the disbursement of credit resources, led to partial and delayed implementation, and slowed progress even in areas where the government had full administrative control (e.g. procurement) and did not face opposing political and social sentiments.

57. This review rates implementing agency performance as *unsatisfactory*, and overall borrower performance as *unsatisfactory*.

Annex B2. Republic of Congo - Assessment of the Economic Recovery Credit, 2004-2006

Annex Table B2.1. Principal Ratings, RoC-ERC-II

	*ICR**	*ICR Review**	*PPAR*
Outcome	Unsatisfactory	Unsatisfactory	Unsatisfactory
Risk to Development Outcome**	High	High	Significant
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	Unsatisfactory
Borrower Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that is an independent desk validation of the ratings, based on the evidence in the ICR.
**As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Annex Table B2.2. Key Staff Responsible, RoC-ERC-II

Project	*Task Manager*	*Sector Manager*	*Country Director*
Appraisal	Slaheddine Khenissi	Cadman Atta Mills	Emmanuel Mbi
Completion	Claude Leroy-Themeze	Yvonne M. Tsikata	Pedro Alba

Objectives and Policy Areas

1. **Objectives.** The Republic of Congo Economic Recovery Credit (RoC-ERC-II) aimed to deal with high level of indebtedness, lack of transparency and poor governance in the management of natural resources, and shortcomings in the management of public resources and investments. In essence, the RoC-ERC-II continued and deepened the essential elements of the unfinished reform agenda launched under RoC-ERC-I. The second operation internalized some lessons learned from the first operation as it was better focused on few priority actions.

2. The objectives of RoC-ERC-II as stated in the President's Report (paragraph 69) were to: (i) help improve the quality of management and transparency in the oil sector; (ii) assist in the design of a sound public investment program to permit more efficient use of available resources; and (iii) contribute to an orderly resolution of large domestic debts. As indicated in the table below, these objectives were fully consistent with the policies scheduled to be implemented by the government.

3. **Policy Areas**. The credit was part of the Bank's transitional support strategy approved in August 2003 which aimed to assist the government in its efforts to scale-down, enhance, and reposition the public sector through better management of public resources, greater transparency, and improved management in the oil sector. The credit was designed to be disbursed in two tranches. The first tranche was to be released upon project effectiveness, while the release of the second tranche was contingent on meeting seven conditions in the following policy areas: (i) transparency in the oil sector; (ii) public investment program; and (iii) domestic debt.

Annex Table B2.3. Policy Actions Associated with RoC-ERC-II Objectives

Objectives and Action Areas	*Policy Actions/Tranche Release Conditions/Prior Actions*	*Status of Policy Actions at Credit Closure*	*Status of Policy Actions at the time of this PPAR*
(I) Improve the Management of, and Transparency in the Oil Sector	Provision of documentary evidence establishing that the national oil company (SNPC) action plan related to transparency in the oil sector has been implemented.	• Implementation of action plan to reform the SNPC was significantly behind schedule. • Sound procurement procedures adopted, but not implemented. • Audit of SNPC not completed.	(i) The quality of accounting and internal financial controls in SNPC has improved. (ii) In addition to achieving better audit reports for 2006 and 2007 already mentioned under the first RoC-ERC I operation, SNPC moved to a new improved analytical accounting system for 2008. (iii) Finally, both the oil trading company (COTRADE) and SNPC continue to transfer fiscal revenues to the budget on the basis of realized prices.
(II) Assisting in the Design and Adoption of a Sound Public Investment Program	Adoption and implementation of an action plan aimed at reforming and improving the management of investment projects funded by domestic revenues.	Action plan for strengthening Public investment Programming did not materialize.	There were: (i) adoption of a more strategic system for the selection of important investment projects; (ii) enhanced management of the capital investment budget, including unification of the budget process, introduction of a multi-year budget programming, increased transparency and better budget management; (iii) introduction of an efficient M&E system; and (iv) mandatory preparation and approval of feasibility studies and project costing for all public investment projects.
	Submission of draft public investment program (PIP) for FY06 and FY07.	Draft PIP for 2006-2007 was incomplete.	A project evaluation fund was established in 2006 to provide financing and technical support for project appraisals. The new procedures led to increased compliance with budget guidelines.
	Submission of physical and financial audit reports for public investment expenditures for FY04.	Report on the physical and financial execution of public investment expenditures for 2004 was never completed.	Starting in 2006, all projects eligible for budget financing required a detailed assessment of the capacity of the implementing agency and an in-depth audit of the public investment budget execution for the previous year.
(III) Contributing to the Resolution of the Domestic Debt Issue	Evidence establishing that the amount of arrears pertaining to the stock of domestic debt has been validated.	Government's commercial debt audited in 2005.	Same as at credit closure.
	A cut-off date for submission of claims or completion or modification of claims by creditors has been published.	A strategy to settle the above arrears was adopted by the government in 2005.	A four-step plan was adopted: (i) validation of the payment claims through an independent audit; (ii) negotiation of terms and adopt equitable payment modalities; (iii) efficient payment of arrears through a competitively selected commercial bank; and (iv) introduction of mechanisms that would prevent accumulation of new arrears.
	An agreement has been concluded between the Borrower, and domestic creditors representing 75% of arrears regarding the common discount factor or factors applicable to the entire stock of domestic debt.	Nothing to report.	Domestic creditors would be paid in accordance with a 2005-2011 payment schedule that provided a choice of three repayment periods and associated discounts (two year period with 66 percent discount; four year period with 35 percent discount; and six year period with 25 percent discount).

Objectives and Action Areas	*Policy Actions/Tranche Release Conditions/Prior Actions*	*Status of Policy Actions at Credit Closure*	*Status of Policy Actions at the time of this PPAR*
	A commercial bank has been appointed by the borrower in a transparent manner to effect payment to entitled domestic creditors.	Completed as planned.	Entitled domestic creditors are being paid according to a 2005-2011 payment schedule. Deviations from agreed modalities, significant irregularities, and corruptions problems have been reported.

4. **Implementation.** The credit was approved in December 2004, became effective in March 2005, and was closed as scheduled on December 31, 2006. The first tranche in the amount of $17 million was released upon effectiveness on March 16, 2005. The second tranche ($13 million) was ultimately cancelled since the release conditions were not met**.** Failure to achieve conditions lowered the available resources for budget support and, more importantly, prevented the achievement of project objectives.

Relevance of Objectives and Design

5. **Relevance of Objectives.** Although RoC-ERC-II was formally a stand-alone operation, it retained a great deal of continuity in the development objectives introduced under RoC-ERC-I. By emphasizing the need for improved transparency (in the oil sector), better public resource management (through improved public investment program), and greater financial stability (through resolution of domestic debt arrears), RoC-ERC-II pursued the unfinished reform agenda set out in the first operation and implemented with mixed success. These objectives were critically relevant at the time of credit preparation and remained relevant to this date, as visibly confirmed by their inclusion in the set of triggers for the enhanced HIPC initiative completion point reached in December 2010.

Annex Table B2.4. I-PRSP Pillars and RoC-ERC-II Objectives

I-PRSP pillars	*RoC-ERC-II Objectives*
I. Consolidation of peace and promotion of good governance	I. Improve management of, and transparency in the oil sector
II. Consolidating the macroeconomic framework and revamping key sectors	II. Contribute to the resolution of the domestic debt
III. Accessing to basic social services and Social welfare	
IV. Infrastructure Development	III. Assist in the design of a sound Public Investment Program
V. Human Immunodeficiency Virus (HIV)/Acquired Immune-deficiency Syndrome (AIDS) Prevention	

Source: Interim PRSP for the Republic of Congo, World Bank, (2004a) and RoC-ERC-II Program Document, World Bank, (2004b).

6. The objectives were also aligned with the government's own strategy and reflected the growing international experience. Effectively, RoC-ERC-II utilized lessons learned from the first operation and from other post-conflict countries by being more selective in the choice of objectives, more timely in the transfer of resources, simpler in design and better aligned with the critical priorities jointly identified by the authorities of the Republic of Congo and the donor community. Based on research findings and experience from other post-conflict environments,

the second operation placed added emphasis on reversing the collapse of infrastructure during the war years (through improved public investment program) and on introducing tighter control and better management of proceeds from natural resources to ensure their intended development use and prevent diversion into resurgence of rebel activities.

7. The relevance of resolving domestic debts was equally strong as the collapse of the financial discipline became a major hindrance to macroeconomic stability, and the external and internal credibility of the government, as well as a critical obstacle to privatization process and further private sector growth.

8. In short, the objectives supported under RoC-ERC-II: (i) built on the performance of the first DPO and sought to push forward the reform agenda, (ii) maintained the momentum of reengagement with the donor community and sustained the domestic consultation process on policy and development issues, and (iii) laid the foundations for continued IMF programs, and for progress towards meeting the (decision and completion point) requirements under the enhanced HIPC initiative. On that basis the relevance of objectives is rated as *substantial.*

9. **Relevance of Design.** RoC-ERC-II opted for a two-tranche operation design with uneven distribution of conditionality. The credit had no prior actions and the first tranche disbursed automatically upon effectiveness with no triggers or conditions attached. Seven conditions with varying degrees of complexity were all attached to the second tranche. The four conditions related to objectives I and II (see Annex Table B2.4 above) were based on approval and implementation of complex documents[23] with almost no detail on the critical monitoring variables. By contrast, the remaining three conditions related to objective III sought a well-defined numeric result or a simple confirmation that agreed actions have been completed.[24] In short, despite a much stronger focus of the second operation and a reasonable alignment between proposed policy actions and intended outcomes, the nature of triggers (grounded in complex policy documents) created an incentive bias and huge implementation difficulties.

10. These problems were further exacerbated by the absence of a clear results framework relating to policy actions for intermediate and longer-term development outcomes. The results matrix presented in the President's Report (Annex 3) maps policy actions to development objectives,[25] and assigns policy responsibility to respective ministries, but falls short of identifying precise outcomes and measurable outcome indicators. Consequently, it does not provide a basis for a consistent M&E framework.

11. Overall, relevance of design is rated as *modest*.

[23] The documents included detailed action plans for the oil sector and public investment program; public investment program for two fiscal years; and detailed audit reports for public investment expenditures.

[24] For example, two triggers for "domestic debt clearance" sought a confirmation that an agreement covering 75 percent of arrears has been signed and that a bank to effect payments has been appointed following transparent procedure.

[25] With a confusing addition of "Poverty reduction" to the three development objectives identified in the project document.

Achievement of Objectives (Efficacy)

12. **Improve Management and Transparency in the Oil Sector.** RoC-ERC-II intended to build on progress achieved under the RoC-ERC-I and to step-up governance and transparency in the oil sector. The credit intended to enhance transparency in the management of the oil company (SNPC) and streamline the relationship between the state and companies operating in the oil sector. When the credit closed at the end of 2006, the only activity that was completed was the preparation of departmental operational manuals for the SNPC. All other key credit benchmarks were missed at the closure date. The modeling of oil reserves and potential state revenues did not take place. The final audit of two oil companies (SNPC and CORAL) was not completed in time. A valorization study of SNPC historical costs was not done till much later. The reconciliation of cross debts (claims) between the oil companies and the state, with appropriate adjustments in the budget were not accomplished by the end of 2006.

13. As already discussed under the achievement of objectives of RoC-ERC- I (see Annex Box B1.1), weak performance in public resource management is confirmed by low ratings received for the quality of public sector management under the Bank's CPIA indicators, as well as by the WGI measure of the quality of governance.

14. While many of the specific activities supported by the credit did not take place on time or as sequentially planned, there were two important achievements essential for improving the transparency and the quality of management in the oil sector. First, the quality of accounting and internal financial controls in SNPC continued to improve. In addition to achieving better audit reports for 2006 and 2007 already mentioned under RoC-ERC-I operation, SNPC moved to a new improved analytical accounting system for 2008. Second, both COTRADE and SNPC continued to transfer fiscal revenues to the budget on the basis of realized prices. Standard procedures are in place to reconcile the transfers with budget data, certify and audit the realized prices, and publically disclose the results. Independent analysis of price differentials shows that RoC oil is sold at competitive market prices.

15. In addition, it should be noted that, following credit closure at the end of 2006, much of the unfinished agenda in the oil sector management reform has been included in the set of triggers for the enhanced HIPC initiative completion point. Overall, based on actions completed during the life of the credit, this review rates progress in achieving greater transparency and improved management in the oil sector as *modest.*

16. **Upgrade Public Investment Program to Promote Economic Growth and Better Social Service Delivery.** In line with general findings of the Public Expenditure Review (World Bank, 2007), the credit intended to help upgrade the preparation, appraisal, and selection of public investment projects, as well as enhance the transparency in the execution of the public investment program. At credit closure, some of the activities were launched, but none of the significant actions proposed by the credit were completed and achievements towards improved efficiency of the public investment program were negligible.

17. Efforts to improve credit preparation, follow rigorous selection, and ensure efficient execution and monitoring of public investment projects continued beyond the credit closure at the end of 2006. Most actions were assumed under the set of triggers for the HIPC initiative.

The HIPC framework increased stakes and provided the necessary incentives to achieve significant progress till the completion point in January 2010. To start with, based on sustained dialogue with key external donors, at the end of 2008, the government adopted an action plan to improve the management of public projects. Main features of the action plan were: (i) clear delineation of responsibilities in handling public investment projects, including responsibility for capacity building and decentralized approach; (ii) adoption of a more strategic system for the selection of important investment projects based on progressive linkages with the budget preparation process and the medium-term national development strategy (PRSP); (iii) enhanced management of the capital investment budget, including unification of the budget process, introduction of a multi-year budget programming, increased transparency and better budget management; (iv) introduction of an efficient M&E system for all investment projects and programs; and (v) mandatory preparation and approval of feasibility studies and project costing for all public investment projects.

18. A number of concrete steps were implemented towards improved transparency in the PIP execution. Starting in 2006, all projects eligible for budget financing required a detailed assessment of the capacity of the implementing agency and an in-depth audit of the public investment budget execution for the previous year. A project evaluation fund was established in 2006 to provide financing and technical support for project appraisals. Since 2007 draft public investment budgets have been shared with IDA and staffs' comments have been taken into account. The new procedures led to increased compliance with budget guidelines and enabled significant improvements in the implementation of investment projects, as confirmed in a report on the implementation of the investment budget in the first quarter of 2009.

19. There was good progress in upgrading the quality of Public Investment Programs, and in improving the selection of public investment projects and enhancing the transparency in their execution. However, performance achieved during the credit life is rated as *modest.*

20. **Resolution of Domestic Debt Arrears**. Large external and domestic arrears had become an endemic feature of the Congolese economy in the post-conflict period. The initial clearance of external arrears with IFIs in 2001-2002 was expected to provide a new start and generate enough momentum to establish a lasting financial discipline and gradually clear all other outstanding external and internal arrears in an orderly and transparent fashion. Improved macroeconomic stability, greater transparency, and more efficient public financial management supported under the IMF and Bank programs, provided a favorable environment in which the government moved early in 2003 to settle a portion of domestic arrears (1.9 percent of GDP) based on initial increase in oil revenues. However, the process of settling domestic commercial arrears of the government started to slow down in 2004 (1.4 percent of GDP) as it became increasingly difficult to overcome resource limitations, lack of ownership, and vested interests.

21. To reinvigorate the domestic debt resolution process, the RoC-ERC-II operation supported the preparation and adoption of an actionable broader strategy to address arrears in an orderly, systematic, and transparent manner. Building on similar exercises in DRC and other countries, the strategy followed a four-step sequence including: (i) validation of the payment claims through an independent audit; (ii) negotiation of terms comparable to those expected under the forthcoming HIPC and adopt equitable payment modalities; (iii) efficient payment of

arrears through a competitively selected commercial bank; and (iv) introduction of mechanisms (payment discipline) that would prevent accumulation of new arrears.

22. The first three measures represented conditions for the release of the second tranche, and the fourth was maintained as a performance criterion in all ongoing and subsequent IMF programs, as well as HIPC triggers (for both decision point in 2006 and completion point in 2010). As already mentioned,[26] these conditions were only partially met and the second tranche was never disbursed.

23. The stock of domestic commercial arrears as of end-2003 totaling almost $300 million was audited in 2005 and a strategy to settle domestic arrears was adopted on schedule. The action plan stipulated that domestic creditors would be paid in accordance with a 2005-2011 payment schedule that provided a choice of three repayment periods and associated discounts (two year period with 66 percent discount; four year period with 35 percent discount; and six year period with 25 percent discount). The preparation of the action plan was done on a very tight timeline which did not provide for adequate involvement of domestic creditors or feedback from the Bank. Furthermore, the implementation materially deviated from the agreed modalities, with significant irregularities and corruption problems.

24. Most importantly, the resulting reduction in outstanding arrears of government commercial payments to the private sector was slow. Despite the action plan, cumulative reduction in arrears during the RoC-ERC-II period was only 4.2 percent of GDP. Government incentives and performance significantly improved in the run-up to HIPC completion point, and the reduction in arrears reached 8.7 percent of GDP during 2007-2009.

Annex Table B2.5. RoC: Change in Domestic Arrears

2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
IN BILLIONS OF CFA FRANCS							
-5.0	-39.5	-29.5	-50.0	-88.0	-90.0	-143.0	-124.0
IN PERCENT OF GDP							
-0.2%	-1.9%	-1.4%	-2.0%	-2.2%	-2.5%	-3.0%	-3.2%

Source: IMF 2010a.

25. In all, a strategy to settle domestic arrears was adopted and implemented. Entitled domestic creditors have been paid according to the 2005-2011 payment schedule. However, the stock of domestic arrears could not be entirely cleared, and there were deviations from agreed modalities with significant irregularities and corruption problems in the settlement. Based on the above, this review rates the credit achievement in resolving domestic debt arrears as *modest.*

[26] See Annex Table B2.3.

Ratings

OUTCOME

26. The implementation of RoC-ERC-II started or maintained policy actions and reforms which are important for improved transparency and the quality of management in the oil sector, better management of public investment resources and the resolution of domestic commercial debt arrears. Unfortunately, the political ownership of reforms during the active credit period (2005-2006) turned out to be rather weak, especially after the disbursement of the first tranche. In combination with a weak results framework and the absence of effective M&E arrangements, most policy actions and reforms envisaged under the credit were only partially implemented, delayed, or stalled.

27. Achievement of outcome at the credit closure was as follows: (i) the majority of actions slated to address governance issues in the oil sector stalled, (ii) similarly, none of the significant actions proposed by the credit to improve the efficiency of the public investment program was completed, and finally (iii) there were significant irregularities and corruption issues in the settlement of domestic arrears.

28. Admittedly, after being dormant for few years, many of the reforms and policies initiated under the RoC-ERC-II operation were resumed in recent years as part of a wider effort by the government to meet the completion point triggers under the enhanced HIPC initiative. The contribution of prominent policy actions supported under the credit, such as domestic debt resolution plan, new accounting systems in the oil sector, improved appraisal rules and more stringent execution for public sector investment projects, started to show only in 2008-2009.

29. On balance, while recognizing the importance of proposed reforms for improved governance in the oil sector, better public investment performance and improved financial discipline for private sector growth, this review reiterates the weak political ownership of reforms during project implementation. The temporary loss of the reform momentum was reversed only within the broad based joint effort to meet the triggers for the completion point under the enhanced HIPC initiative. Based on the above elements, this evaluation rates the overall outcome achieved during the life period of RoC-ERC-II as *unsatisfactory***.**

RISK TO DEVELOPMENT OUTCOME

30. By January 2010, when the Republic of Congo accessed to debt relief under the enhanced HIPC initiative and the Multilateral Debt Relief Initiative (MDRI), most risks to development outcome have been mitigated through realized improvements in the transparency and management in the oil sector, better selection and execution of public sector investment projects, and settlement of domestic commercial arrears.

31. Going forward, the risk of another discontinuation or reversal of institutional reforms remains present and increases as government incentives to sustain and pursue difficult reforms start to wane and the benefits of the recent HIPC debt relief disappear. In that context, the main risks to development outcomes will continue to come from weak political ownership of difficult institutional reforms and, to a lesser extent, from social pressures to maintain state jobs and

public expenditures beyond the limits of sound fiscal sustainability. These risks are likely to resurface faster in the presence of new macroeconomic difficulties triggered either by poor economic performance or adverse exogenous shocks. Obviously, the best way to mitigate those risks would be a decisive action to complete ongoing reforms and implement them with full vigor. An important dimension would be wide ownership of reforms forged through continued dialogue with key domestic and external stakeholders.

32. Given that the reform agenda looms large in the areas of improved governance, public (investment) resource management, and financial stability, the risk to development outcomes remains *significant*.

MONITORING AND EVALUATION

33. **Design.** The RoC-ERC-II operation offered a clear definition of project objectives but failed to provide a solid basis for effective M&E arrangements. The results matrix presented in the project document (see World Bank 2005a, annex 3) did specify some elements of an M&E design, but failed to identify a set of outcome indicators, baseline values, data sources, and institutional responsibilities. Furthermore, the credit did not provide a results chain establishing linkages between policy actions supported under the project and the achievement of longer-term outcomes sought by Bank interventions.

34. **Implementation.** Expectedly, partial specification of M&E design carried over to weak M&E implementation arrangements. The credit document did not indicate which institutions on the side of the Bank or the borrower will be responsible for the implementation M&E tasks, what would be the logistical arrangements, and the calendar of M&E activities to gauge the progress toward credit outcome.

35. **Use of Data.** Not surprisingly, the information coming from inadequately designed and poorly implemented M&E arrangements has not and could not be used in the credit implementation. Despite multiple setbacks during credit implementation, there was no recorded attempt to revisit the M&E arrangements and secure better monitoring of project outcomes.

36. Overall, the PPAR rates the overall quality of monitoring and evaluation for this credit as *negligible.*

BANK PERFORMANCE

37. **Quality at Entry.** In designing the RoC-ERC-II operation, the Bank team focused on three objectives from a wider list of reforms initiated in the first operation: (i) improved transparency and the quality of management in the oil sector, (ii) greater efficiency in the selection and execution of public investment projects, and (iii) resolution of domestic commercial debt arrears. The credit proceeds (especially the first tranche) were needed to reduce the financing gap associated with the economic program of the government agreed with the donor community, and to enable an early access to HIPC resources made available upon reaching the decision point. The credit objectives were relevant to the needs of the country and fully consistent with the core reform agenda discussed with domestic stakeholders and the donor community at that time.

38. Despite significant streamlining and scaling down, the credit objectives remained ambitious and exceeded the existing political commitment from the government and readiness of domestic stakeholders. Lessons learned from the first operation (to aim for greater simplicity, selectivity, and focus) were not sufficiently applied in the design of the second operation. Limited results achieved in the implementation of RoC-ERC-I did not impart enough realism in the design of the second operation.

39. In the RoC-ERC-II operation, the Bank took into account experience from other post-conflict countries and some of the lessons learned from the implementation of RoC-ERC-I, especially regarding the need to reduce scope of the program and focus on fewer priority reforms, and to keep the credit design simple and implementable in post-conflict circumstances. The most important lesson coming out of RoC-ERC-I, emphasized in IEG's ICR Review as a typical lesson for many post-conflict countries,[27] was not sufficiently taken into account: progress in the area with strong vested interests and complex political economy issues requires prior consensus-building exercises. Otherwise, very valid objectives of improved governance, better public resource management, and greater financial discipline may be stalled in mid-stream compromising the credibility of the government and the Bank.

40. A conscious choice to further pursue strategically important objectives of improving governance in the oil sector, enhancing management of public (investment) resources, and resolving large domestic arrears required much stronger preparation (including analytical work and dialogue with key stakeholders), full institutional support, and adequate incentives. Approximately half of the limited resources under RoC-ERC-II were disbursed upon effectiveness with no strings attached. All essential reforms were back-loaded and attached as conditionality for the release of the second tranche which never got disbursed. Faced with declining political support for difficult reforms, the government opted for an easy way out by delaying agreed actions and sacrificing the second tranche resources, with no consequences for the HIPC process and only marginal impact on the combined resource transfer obtained through the HIPC decision point.

41. Notwithstanding substantial progress made in the achievement of objectives advanced by RoC-ERC-II in the context of meeting requirements for the enhanced HIPC initiative completion point, it must be emphasized that the second operation failed to: (i) furnish adequate preparation of key institutional reforms (analytical work, stakeholder dialogue, and political economy analysis); (ii) develop an appropriate results framework with clear monitoring and evaluation arrangements; (iii) build critical capacity through timely and effective TA; and (iv) step-up dialogue and advocacy in the country and among donors to mitigate possible obstacles to reforms posed by vested interested.

42. On that basis, IEG rates Bank's performance in securing the quality at entry of RoC-ERC-II as *unsatisfactory*.

43. **Quality of Supervision**: Implementation of RoC-ERC-II came at a time of change in the Bank's country team and leadership**.** Concurrent changes of country director, sector manager,

[27] "Good Practice Note for Development Policy Lending: Development Policy Operations and Program Conditionality in Fragile States." OPCS, The World Bank, June 2005.

and task manager, and the long hiatus in appointing the successors created a discontinuity in the oversight of this operation. The Bank was slow in responding to government's requests, and supervision missions were exceptionally infrequent. More frequent missions could have enabled a better dialogue and early detection of problems (especially loss of reform momentum and weakening ownership), secured greater borrower commitment, and identified appropriate interlocutors to help identify and resolve outstanding issues that needed to be resolved. At times, the policy dialogue became uneasy or became completely stuck over important reform issues, with little or no innovative ideas to find solutions or overcome problems.

44. Based on the above arguments, IEG rates Bank's performance in securing quality of supervision as *unsatisfactory*. Overall Bank performance is rated as *unsatisfactory*.

BORROWER PERFORMANCE

45. **Government Performance**. The government's performance in implementing RoC-ERC-II was inadequate. There was a lack of clarity in defining leadership for the reform program supported under RoC-ERC-II and a dilution of responsibility in preparing and carrying out the agreed policy actions and institutional reforms.

46. First, there was an unplanned change in leadership. The minister of finance, who was the main interlocutor for the project during preparation, was dismissed immediately after the credit approval. The responsibility to shepherd difficult institutional reforms fell on a successor who did not lead the credit negotiations and had to go through a steep learning curve before assuming leadership in the implementation of the credit reform agenda. Second, there was a fair bit of ambiguity regarding institutional responsibility and the ownership of reforms supported under the credit. The presidency and a number of ministries (for planning, finance, forestry, oil, and diamonds) each had a role to play in the credit implementation. In the presence of weak political base for reforms supported under the credit, this ambiguity became a critical stumbling block for continued project implementation. On that basis, this review rates government performance as *unsatisfactory*.

47. **Implementing Agency Performance**. The government appointed an existing committee in the ministry of finance to be the implementing agency, along with a senior officer from the ministry of finance to coordinate and supervise the implementation of the credit. Although the committee was responsible for the implementation of economic reforms, the arrangement was inadequate: the committee and the senior officer had a larger mandate and could not focus enough attention on credit implementation, nor did they command sufficient resources and logistics to secure adequate traction for the reforms that the credit supported. Cross ministerial coordination was also a problem: the level of commitment and ownership in the line ministries was relatively weak and the senior staff coordinator did not have sufficient authority to supervise reforms in the line ministries responsible for the oil sector and public investment program. Performance of the implementing agency is rated as *unsatisfactory*, with an overall rating of the borrower performance of *unsatisfactory*.

Annex C. Basic Data Sheet

A. Democratic Republic of Congo

ANNEX TABLE C.A1. ECONOMIC RECOVERY CREDIT (CREDIT NO. 3660 DRC, 2002, P057293)

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*[1]	*Actual as % of appraisal estimate*
Total project costs	450.00	481.10	107%
Loan amount	450.00	481.10	107%

Project Dates

	Original	*Actual*
Initiating memorandum	09/15/2000	12/17/2001
Negotiations	04/15/2002	04/19/2002
Board approval	09/14/2000	06/13/2002
Signing		06/28/2002
Effectiveness		07/03/2002
Closing date	06/30/2003	06/30/2003

Staff Inputs

	No. of Staff Weeks	*US$ ('000)*
Identification/Preparation	72.94	605
Appraisal/Negotiation	-	-
Supervision	100.98	574
ICR	8	4
Total	181.92	1,180

[1] Disbursed amount was larger than the approved amount, owing to SDR appreciation towards the US dollar currency.

ANNEX TABLE C.A2. MISSION DATA

	Date (month/year)	No. of persons	Specializations represented
Identification/ Preparation	12/2001	2	Economists
		1	Mining Specialist
		1	Private Sector Development Specialist
		1	Counsel
		1	Financial Sector Specialist
		2	Forestry Specialists
		2	Consultants
		1	Research Analyst
		1	Junior Professional Associate
		2	Team Assistants
Appraisal	04/2002	2	Economists
		1	Mining Specialist
		1	Private Sector Development Specialist
		1	Counsel
		1	Financial Sector Specialist
		2	Forestry Specialists
		2	Consultants
		1	Research Analyst
		1	Team Assistant
Supervision	07/2002	3	Economists
		1	Public Sector Reform Specialist
		1	Mining Specialist
		1	Private Sector Development Specialist
		1	Counsel
		2	Financial Sector Specialists
		2	Forestry Specialists
		5	Consultants
		1	Procurement Specialist
		1	Operations Officer
		2	Team Assistants
Completion		2	Economists
		1	Mining Specialist
		1	Financial Sector Specialist
		1	Forestry Specialist
		2	Consultants
		1	Mining Specialist
		1	Junior Professional Associate

ANNEX TABLE C.A3. POST-REUNIFICATION ECONOMIC RECOVERY CREDIT (CREDIT NO. 3862 DRC, 2004, P082443)

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	200	200	100%
Loan amount	200	200	100%

Project Dates

	Original	*Actual*
Initiating memorandum	04/15/2003	11/14/2003
Negotiations	01/12/2004	01/16/2004
Board approval	09/15/2003	02/26/2004
Signing		03/09/2004
Effectiveness		05/13/2004
Closing date	06/30/2005	12/31/2005

Staff Inputs

	No. of Staff Weeks	*US$ ('000)*
Identification/Preparation	57.83	309,072.85
Appraisal/Negotiations	-	-
Supervision	52.55	214,074.19
ICR	21.18	75,079.83
Total	**131.56**	**598,226.87**

ANNEX TABLE C.A4. MISSION DATA

	Date (month/year)	*No. of persons*	*Specializations represented*
Identification/ Preparation	Nov - Dec 2003	2	Lead Economists
		2	Sr. Economists
		1	Financial Management Specialist
		1	Sr. Private Sector Development Specialist
		1	Sr. Procurement Specialist
		1	Forestry Specialist
		1	Economist
		1	Junior Professional Associate
		1	Consultant
Appraisal	Jan 2004	2	Lead Economists
		2	Sr. Economists
		1	Sr. Public Sector Specialist
		1	Sr. Procurement Specialist
		1	Forestry Specialist
		1	Economist
		1	Junior Professional Associate
		1	Lead Financial Specialist
		1	Consultant
Supervision	May 2005	2	Sr. Economists
		2	Economists
		2	Program Assistants
Completion	Apr - May 2006	1	Sr. Economist
		1	Economist
		2	Consultant
		1	Program Assistant

B. Republic of Congo

ANNEX TABLE C.B1. POST-CONFLICT ECONOMIC REHABILITATION CREDIT (CREDIT NO. 3560 COB, 2001, P073316)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	37.50	37.7	100.5
Loan amount	37.50	37.7	100.5

Project Dates

	Original	*Actual*
Initiating memorandum	02/28/2001	04/23/2001
Negotiations		06/08/2001
Board approval	06/29/2001	07/31/2001
Signing		08/08/2001
Effectiveness		08/08/2001
Closing date	06/30/2003	06/30/2004

Staff Inputs

Stage of Project Cycle	*Actual/Latest Estimate*	
	NO. OF STAFF WEEKS	US$ ('000)
Identification/Preparation	12.88	103
Appraisal/Negotiation	17.55	122
Supervision/ICR	51.9	235
ICR	5.05	66
Total	**87.38**	**528**

ANNEX TABLE C.B2. MISSION DATA

	Date (month/year)	*No. of persons*	*Specializations represented*
Identification/ Preparation	04/2001	1	Sr. Telecommunications Eng
		1	Sr. Counsel
		1	Finance Officer
		1	Operations Analyst
		1	Lead Operations Officer Economists
		3	Consultants
		2	Team Assistant
		1	
Appraisal	06/2001	1	Sr. Energy Economist
		1	Operations Analyst
		1	Lead Operations Officer
		1	Sr. Counsel
		1	Sr. Telecommunications Eng
		2	Economists
		1	Consultant
Supervision	07/2002	3	Economists
		1	Sr. Telecommunications Eng
		1	Operations Analyst
		1	Lead Financial Specialist
		1	Operations Officer
		3	Consultants
Completion	09/2004	1	Consultant
		1	Economist

ANNEX TABLE C.B3. ECONOMIC RECOVERY CREDIT (CREDIT NO. 4008 COB, 2004, P083627)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	30.00	17.6	59.00
Loan amount	30.00	17.6	59.00
Cofinancing			
Cancellation		12.4	41.00

Project Dates

	Original	*Actual*
Initiating memorandum	11/30/2003	04/06/2004
Negotiations	07/12/2004	07/12/2004
Board approval	04/30/2003	12/07/2004
Signing		12/16/2004
Effectiveness		03/16/2005
Closing date	12/31/2006	12/31/2006

Staff Inputs

Stage of Project Cycle	*Actual/Latest Estimate*	
	NO. OF STAFF WEEKS	**US$ ('000)**
Identification/Preparation	31	205
Appraisal/Negotiation	29	132
Supervision/ICR	73	294
Total	**133**	**632**

ANNEX TABLE C.B4. MISSION DATA

	Date (month/year)	*No. of persons*	*Specializations represented*
Identification/ Preparation	04/2001	1	Sr Telecommunications Eng
		1	Sr Counsel
		1	Finance Officer
		1	Operations Analyst
		1	Lead Operations Officer
		3	Economists
		2	Consultants
		1	Team Assistant
Appraisal		1	Sr Energy Economist
		1	Operations Analyst
		1	Lead Operations Officer
		1	Sr Counsel
		1	Sr Telecommunications Eng
		1	Economists
		1	Consultant
Supervision		3	Economists
		1	Sr Telecommunications Eng
		1	Operations Analyst
		1	Lead Financial Specialist
		1	Operations Officer
		3	Consultants
Completion		1	Consultant
		1	Economist

Annex D. Objectives Tables by Operation

ANNEX TABLE D1. CORE OBJECTIVES AND ACHIEVEMENTS: DRC-ERC-I, 2002, P057293

Objective/Policy Area	*Achievements*	*Assessment*
A. ECONOMIC STABILIZATION AND STRUCTURAL REFORMS		
1. Governance		
Strengthening the rule of law. Reinforcing the judicial system. Creating a legal and regulatory environment for private sector development. Reducing corruption in the public sector.	Draft anti-corruption legislation produced. Action plan for implementation prepared Code of ethics and good conduct for public officials was prepared. Anti-corruption commission established; TOR covered corruption, fraud, smuggling, and money laundering	In practice most actions were: a) largely process-orientated and b) only partially achieved. In some areas no actions/achievements listed in the ICR. Limited capacity-building. Key area of procurement reform had no actions and still weakly governed. DRC still has lowest country score on WB Doing Business index. DRC has very low Transparency International (TI) Corruption Perception ranking.
2. Public Sector Financial Management		
Modernizing budgetary processes at all stages from commitment to payment. Modernizing and simplifying the tax regime to enhance revenue generation, with the IMF. Introducing competitive tariff reform and value added tax with the IMF. Promoting the observance of international fiduciary or prudential standards with the IMF.	Budget law for FY2003 with classification of recurrent and capital expenditure components. Budget preparation processes at various stages were streamlined. Expenditure tracking system established, inter alia to support poverty expenditure tracking. Improved fiscal data communication between Ministry of Finance and Central Bank of Congo.	In practice several actions were: a) largely process-orientated and b) only partially achieved. In some areas (e.g. trade) no actions/ achievements were listed in the ICR. Limited capacity-building. Creation of separate finance and budget ministries added layers to processes and reduced transparency. A PER reviewed issues in 2002.
3. Public Enterprise Reform (and PSD)		
None specified	Legal framework elaborated. Steering Committee established. Legal framework for promoting public-private partnership formulated. The fiscal regime and corporate tax structures were reviewed to increase incentives. A review of indebtedness of public enterprises was undertaken to help settlement with private creditors. Sectoral working groups established. Audit of state owned enterprises completed. A capacity building seminar.	Most actions were largely process-orientated. There was no initial action plan in the PD. The PSD aspect was initially an add-on. Limited overall impact with continuing poor governance. Delivery of even core public services often fragile and/or absent. PSD interest, especially foreign, very selective and cautious. Poor score in WB Doing Business.
4. Financial Sector Reform		
Reforming banking sector legal and regulatory framework.	New financial legislation was drafted. An overall financial sector strategy was completed and adopted.	While still often process-orientated, a broader array of actions completed.

Objective/Policy Area	*Achievements*	*Assessment*
Restructuring the Central Bank of Congo.	New legislation for autonomous central bank enacted. An audit of operations of the central bank was completed.	Central bank played substantial role in policy actions. Private banking very limited.
Reform of commercial banks.	Non-viable public and private sector banks identified and liquidated. Additional audit of remaining banks. Restructuring plans for four financial institutions completed.	Three public sector banks liquidated.
B. MINING SECTOR REFORM		
Reforming the legal and regulatory framework for mining operations.	A new mining code was drafted and adopted by parliament. Decrees on implementation of mining legislation; establishment of a commission to validate mining concessions. Commission created to oversee restructuring of Gécamines. A program for the voluntary departure of Gécamines employees was implemented.	In practice many actions were: a) largely process-orientated and b) only partially achieved/implemented. Limited capacity-building, especially in core line ministry. Mining code not implemented. Many actions substantially delayed. Voluntary departures delayed until 2004.
C. FORESTRY SECTOR REFORM		
Creating the legal foundation for good governance. Modernize the forestry code Fostering good governance in forestry management. Environmental sensitivity	Action plan on governance implemented; this involved reasserting public control over public forests, moratorium on new forest concessions pending implementation of the new code and simplification of forestry tax system. New forestry code drafted and adopted.	In practice key actions were at process/codification level. The capacity to implement was not substantially improved. Existing concessions were reviewed for consistency with new code. But follow-up was limited/partial. The critical moratorium was seriously breached and political forces often impeded implementation. Many actions delayed to later years (during 2004 operation). Small-holders and environment issues received lower effective priority.

Explanatory Note: This table summarizes materials from the initial PD and the subsequent ICR. It follows structure of objectives in main text which reflected same documents. Some overlap existed in those documents between coverage/scope of the sub-objectives.

ANNEX TABLE D2. CORE OBJECTIVES AND ACHIEVEMENTS: DRC-ERC-II, 2004, P082443

Objective/Policy Area	*Achievements*	*Assessment*
A. IMPLEMENTATION OF ECONOMIC AND STRUCTURAL REFORMS		
1. Poverty Reduction		
Poverty survey	Poverty survey completed December 2004	- Report of poverty survey delayed
Draft poverty review strategy	PRSP drafted in 2005	- PRSP much delayed; only completed in 2006
2. Peace and Improvement of Governance		
Demobilization and reintegration	Finalization of the national demobilization, disarmament and reinsertion (DDR) program in December 2004.	- Reinsertion and reintegration phase delayed to 2005
Anticorruption code	Anti-corruption law promulgated in 2005. Law against money laundering adopted.	- TI Index remained very poor
Public expenditure management and public administration reform	Simplified transitional payroll system. Central database of civil servants. Implementing double-entry accounts.	- Implementation delayed to late-2006
Procurement	Audit of procurement system finalized. New procurement code implemented.	- New code not operational by 2006 (left to serve as HIPC trigger).
Civil service/CSR	Completed audits for four ministries: planning, finances, budget, and agriculture. A central database of civil servants was planned.	- Database/census delayed and this in turn delayed CS retirement activity (see B. below)
Decentralization and judicial sector reform	Decentralization law was submitted to parliament. Review of the Congolese judicial system was completed in draft in 2004 for a workshop.	- No legal adoption by 2006; implementation started only in 2008 - Limited follow-up
3. Financial Sector Reform		
Restructuring of commercial banks.	Licenses cancelled for non-viable banks. Two more commercial banks closed (making total of five). Implementation of regular supervision for banks.	- Successfully accomplished
4. Private Sector Development (PSD)		
Judicial Reform Taxation Labour Regulation New Customs Code Also Domestic Debt, Utilities (see C. below)	New customs code. Action plan on direct and indirect taxes. Decree on application of Labor Code.	- Labor code only adopted in part
5. Public Enterprise Reform		
Action plans for key enterprises	Implementation of technical committee of COPIREP, a public enterprise reform committee. Action plans prepared for reform of public enterprises: e.g. Gécamines, SNCC, LAC, OCPT and SNEL	
6. Forestry, Social Sector, Infrastructure, and Rural Development		
Reforms to forestry code	Forestry code adopted and contracts not in line with it were cancelled/subject to moratorium; new tax code introduced.	- Ongoing, limited to few key entities
Strategies for health, education and social protection	Health Status Report in 2005; "Education for All" action plan adopted in 2004; social protection plan was finalized in 2005.	- Moratorium was breached in a number of cases

Objective/Policy Area	*Achievements*	*Assessment*
Rehabilitation of Rural Feeder Roads Urban water project	Bridges were repaired, 5,000 km of rural tracks and 850 ha of irrigated land were rehabilitated. Kasa-Vubu urban rehabilitation and Selembao erosion works were executed.	- Social service delivery is still a major issue; health and education strategies both moved to HIPC trigger list - But rural development (RD) strategy made HIPC trigger
B. SUPPORT FOR CIVIL SERVICE REFORMS: FACILITATING RETIREMENTS		
Develop strategy and action plan, including defining payment modalities Mechanism for identification of retirees, disbursement procedure, and fund release. Publication of regulations, calendar of payments. Facilitate actual payments.	Strategy adopted by Council of Ministers; two groups defined for support – first involved about 6,000 persons. Census exercise implemented by bilateral donor. Initial batch paid.	- Census delayed; 2nd donor needed to complete - Payments delayed into 2006; inadequate fund for completing task - Limited coverage (96,000 estimated as eligible) - Tranche released (Nov 05) based on plan only, ahead of completion
C. DEBT REDUCTION		
1. Private Sector		
Publication of plan, including submissions of debt stock. Negotiations and agreement of creditors to repayments due. Appointment of a commercial bank to effect creditors' payments. Payments to creditors.	Action plan for resolving of internal debt problems approved. Agreement with creditors, with help of outside consultants, on amounts due and discounting. Payments made via appointed banker Banque Commerciale du Congo.	- Complex but well-organized and successful negotiations with creditors - Discount factor deemed appropriate - Tranche released on basis of plan only but still required extension of closing date of DPL - Bank funding inadequate and DRC could not cover balances
2. Public Utilities		
Plans to be developed for both government role and that of two utilities (water/REGIDESO and power (SNEL) covering: - reliability, transparency, and accountability in billing procedures - regulatory framework to insure timely bill payment	Action plans developed by two utilities. Tranche released based on plans.	- Utilities did not develop viable longer-term plans agreed with government; utilities were very different; approaches proposed seen as very complex; metering not instituted nor most other aspects of plans - Funds released early (Aug 05) but based only on plans for one-off coverage of flat rate contributions; no modern tariff or metering introduced

Explanatory Note: This table summarizes materials from the initial PD and the subsequent ICR. It follows structure of objectives in main text, which reflected same documents. Some overlap existed in those documents between coverage/scope of the sub-objectives.

ANNEX TABLE D3. CORE OBJECTIVES AND ACHIEVEMENTS: ROC-ERC-I, 2001, P073316

Objective/Policy Area	*Achievements*	*Assessment*
A. ECONOMIC STABILITY AND STRUCTURAL REFORM		
1.Privatization		
Privatize all commercial banks.	Three remaining commercial banks, BIDC, CAIC and COFIPA, privatized.	This was to be a Bank's flagship under this project, but failed dismally. - Basically successful; but banks still weak and one was renationalized - Potential buyers hesitant and demanding many concessions from government
Privatize public utilities; water, electricity, telecommunications, railway, oil downstream activities and all forestry companies.	Privatization of water, electricity, and Congo Ocean Railway - not successful. Telecommunications liberalization initially successful. PTT split.	Setback when SOTELCO's monopoly reversed.
Approve codes for water, electricity, oil distribution and forestry.	Codes approved for water, electricity, and petroleum distribution. Also new forestry code.	Some implementation decrees not issued.
2. Other Structural		
Expand scope for private sector development. Improve investment climate; business incentives. Draft investment charter. Launch study on labor code.	One-stop investment window. Lowered corporate taxes. National investment charter adopted in 2003. A committee for the review of labor code was set up in 2001.	General: - Poor investment climate remained; measures largely not enacted or seen as ineffectual. - Macro-reform was very slow and often flawed. Its agenda was very broad and little got beyond study stage. - WB 'Doing Business' index is very poor and investors were very hesitant on privatization. - No follow-up noted on implementing labor code.
B. GOVERNANCE AND TRANSPARENCY		
1. Oil		
Transparency and accountability for oil resources. - audits of SPNC - publish production and forecasts Transparency and accountability in oil revenue.	International auditor hired for 2003 payments to the government. Centralized all oil revenue in the Treasury. Established Hydrocarbons Unit in Ministry of Finance to monitor sector, notably revenue. Information on management of oil resources public via government's website.	- Audits were seriously flawed at first and very late - A new unit in charge of oil revenue is effective in the treasury - SNPC governance still lacks transparency; website info ok but limited Overall modest but low-key gains in capacity.
2. Forestry		
Assess/certify revenues from forestry taxation.	Taxation study carried out.	- But no regulations
Propose new taxation policy.	New fiscal regulations issued.	- Not implemented
Improve coordination between Ministry of Finance and the Ministry of Forestry.	Government committed to reforms	- Limited progress overall on management enhancement; forestry felt disengaged from reform design
Transparency in allocations of forest concessions.	Updated legal framework adopted to facilitate implementation	- No action
Assess the status of all logging permits Designate nationally protected areas. (ICR4)	Forest Code adopted in 2000 Principles of management, conservation, and sustainable use of forest ecosystems were defined.	

Objective/Policy Area	*Achievements*	*Assessment*
3. Other		
Establish auditor-general office		- Staffed very late (2005)
Procurement Reform		- Negligible progress

Explanatory Note: This table summarizes materials from the initial PD and the subsequent ICR. It follows structure of objectives in main text, which reflected same documents. Some overlap existed in those documents between coverage/scope of the sub-objectives.

ANNEX TABLE D4. CORE OBJECTIVES AND ACHIEVEMENTS: ROC-ERC-II, 2004, P083627

Objective/Policy Area	*Achievements*	*Assessment*
A. ENHANCED TRANSPARENCY AND GOVERNANCE (NOTABLY IN OIL SECTOR)		
1. Oil Sector		
SNPC:		
Action plan for SNPC: - reform the accounting framework - implement new reporting system - verification of foreign oil companies costs, notably for crude; also for past costs - audits, including foreign companies' data - adoption of sound procurement procedures	Action underway: System is in place and its adjustment to SNPC procedures and rules continues. Study completed for 2003; past costs not done Action completed and all reservations on 2002 audit lifted. Process underway. Draft procurement manual prepared.	Overall: slow, partial and often late. Action plan not agreed as final. Not completed Delays as fitted into existing processes. RoC/SPNC said Bank was very late with funding of studies and 'no-objections' on expenditures Audits delivered late and often partially. Started to appear on RoC website, but late. Procurement reform not finalized or put into operations
Finance Ministry:		
Enhanced role/ staffing of Hydrocarbons Unit	Unit staffed up	
2. Natural Resources (forestry, diamonds)		
Certification of forestry revenues. Launch of Forestry Management Units. Develop and expand the network of nationally protected areas. Study of enhanced taxation Reverse suspension from the Kimberley Process Certification Scheme. - Create a unit in Directorate of Mines - Hold conference of regional actors	Forestry revenues audited in 2005 and to be carried annually. Taxation report submitted - Grant of CFAF 100 million to organize local diamond producers and ensure better "traceability" - Conference held	Unit is now actively pursuing its role Forestry ministry felt itself 'out of the (reform) loop' Forestry Management Unit not completed. This action was not completed in 2007 Partial action on taxes Kimberley certification restored in 2007
B. Improved Public Investment Program (in support of Poverty Reduction)		
Finalization of I- PRSP - Preparation of poverty survey. - Workshops on PRSP, participation process, decentralization and gender. Developing indicators for pro-poor expenditures. Implementation of a pro-poor budget. Approve and publish an action plan on public investment management reform.	PRSP adopted in 2004. Poverty survey finalized in 2006. Participatory workshops were organized in 2005 and 2006. Process underway. Actual composition of public expenditure impossible to track; functional budget classification absent, incomplete computerization and integration of public expenditure management systems. Action plan not finalized.	The intention to introduce a pro-poor perspective was not implemented beyond I-PRSP document. It was not internalized in budget monitoring or design. No substantive progress made to improve public investment. Policy area on public investment was not implemented. Consultant's work on pro-poor budgets largely ignored. PIP reform delayed and no movement to the medium-term expenditure plan (MTEP). Overall, implementation of improved public investment plan was very unsatisfactory.
C. Resolution of Domestic Debt Issues (notably for private sector)		
Prepare and implement a plan to reduce domestic arrears. This involved design, validation of claims, negotiations with creditors, secure payments. Review of public investment by sector. National plan to combat fraud and corruption. Establish a formal and permanent framework for collaboration between the government and private sector.	Domestic commercial arrears audited in 2005 to create list of valid claims. Payments made based on pre-set formula. Review initiated, but not completed by the government. Anti-corruption plan adopted, but not implemented. No formal framework for dialogue put in place.	Component on settlement of domestic arrears was implemented but flawed on several fronts – no negotiations, some concerns at overlooked and also overpaid claims, process was late. Review not completed

Explanatory Note: This table summarizes materials from the initial PD and the subsequent ICR. It follows structure of objectives in main text, which reflected same documents. Some overlap existed in those documents between coverage/scope of the sub-objectives.

Annex E. List of People Met

DEMOCRATIC REPUBLIC OF CONGO

Government and ex-Government Officials

Armand Borrey,	Directeur de Cabinet du Ministre du Plan
Dieudonné Essimbo,	Président de la Cellule Technique des Réformes- Ministère des Finances
Ephreim Ghonda,	Conseiller du Ministre du Budget
Jean Claude Nachega,	Conseiller du Premier Ministre
Jeroen Willems	Gouvernance Economique
José Sele, Conseiller	Ministère des Finances (Institutions de Bretton Woods

Other Donors, Civil Society and Private Sector

André Mushama	COPIREP	
André Tshikay	UPPE	
Guindo Adama	UNDP	
Jean-Claude Mailhot,	Coopération Canadienne	Directeur,
Kasanda Ngoyi,	Immeuble Gécamines	Coordonnateur du CTCPM
Matata Mapon	BCECO, Directeur Général	
Stephane Veringa,	Fédération des Entreprises	Secretary-General

WB and IMF

Jean Clement	IMF, Mission Chief	
Mr Matungulu	IMF, Mission Chief	
Arend Kouwenaar	IMF, Resident Rep., (2002-05)	Chief Division
Brian Ames	IMF, Mission Chief, (2007-)	Mission Chief, current
Cyrille Briancon	IMF, Mission Chief, (2005-07)	Former Mission Chief
Joachim Batomene,	IMF	Conseiller (Kinshasa)
Robert Christopher York	IMF,	Mission Chief
Emmanuel Mbi,	World Bank	Country Director
Eric Nelson	World Bank	Economist
Marie Françoise Marie-Nelly	World Bank	Country Director
Markus Kosner	World Bank	Sector Leader
Pedro Alba	World Bank	Country Director
Pierre De Raet	World Bank	Consultant
Eleodoro Mayorga	World Bank	Oil sector (Actual)
Guiseppe Topa	World Bank	Forestry
Ivan Rossignol	World Bank	Domestic Debt
Paulo de Sa	World Bank	Mining
Tony Verheijen	World Bank	Civil Service Reform
Alain Catalan	World Bank	Consultant
Franck Bessette	World Bank	Public Sector Specialist
Helena Ramos	World Bank	Consultant
Brendan Horton	World Bank	Lead Economist
Jan Walliser	World Bank	Sector Manager
Onno Ruhl	World Bank	Country Manager
Xavier de Victor	World Bank	Country Program Coordinator

REPUBLIC OF CONGO

World Bank

Emmanuel Mbi,	World Bank	Country Director
Marie Françoise Marie-Nelly	World Bank	Country Director
Pedro Alba	World Bank	Country Director
Salomon Samen	World Bank	Country Economist
Brendan Horton	World Bank	Lead Economist
Tony Verheijen	World Bank	Lead Public Sector Specialist
Jan Walliser	World Bank	Sector Manager
Onno Ruhl	World Bank	Country Director
Xavier de Victor	World Bank	Country Manager
Alassane Diawara	World Bank	Sector manager