Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Mar-2023| Report No: PIDC35688

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Congo, Republic of	P180093	Republic of Congo Second Fiscal Management and Inclusive Growth DPF (P180093)	P178614
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	Nov 15, 2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Congo	Ministry of Economy and Finance		

Proposed Development Objective(s)

The Program Development Objective (PDO) is to support the Government's efforts to: (i) strengthen fiscal sustainability and governance through improved revenue mobilization and public financial management (PFM); and (ii) create the conditions for inclusive and sustainable growth.

Financing (in US$, Millions)

SUMMARY

Total Financing	80.00

DETAILS

Total World Bank Group Financing	80.00
World Bank Lending	80.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The Congolese economy has undergone a protracted recession, driven by its reliance on volatile oil revenue and amplified by weaknesses in governance, triggering debt distress and a sharp increase in poverty. The protracted economic contraction since 2015 was triggered by the 2014-16 collapse in oil prices that led to a massive cut in public investment and accumulation of domestic arrears to private sector firms, including banks, which in turn undercut private investment. In the past decade, the oil sector has accounted for around 35 percent of gross domestic product (GDP), 80 percent of total exports, and 60 percent of domestic revenues. With collapsing oil revenue, exacerbated by weaknesses in governance and public financial management (PFM), the country moved into debt distress in 2017, with public debt becoming unsustainable. The COVID-19 pandemic further undercut economic activity, with GDP contracting by 6.2 percent in 2020 and 2.2 percent in 2021 but finally returning to a positive 1.5 percent growth in 2022 despite global headwinds. However, the consecutive years of recession led to a cumulative contraction of GDP per capita of 37 percent during 2014-2020, reversing previous progress in poverty reduction, with the international poverty rate (at US$2.15 a day in 2017 purchasing power parity/PPP) estimated to have reached 50.2 percent in 2020 (from 35.4 percent in 2011). Sustaining robust economic recovery and growth will require improving fiscal management, strengthening governance, and extensive structural reforms to support economic diversification away from oil. Congo's public financial management system, key to managing revenue, remains in need of strengthening despite some modernization. Improving the business environment remains critical for revenue mobilization from the non-oil economy. A critical factor for inclusive economic growth is human capital development, an area where the country lags badly, ranked 149 out of 189 countries in the 2020 World Bank Human Capital Index.

The Republic of Congo's macroeconomic policy framework is assessed to be adequate for this operation. The authorities are committed to maintaining macroeconomic stability as evidenced by fiscal consolidation measures in 2022 and as projected in the 2023 budget law and commitments made under the three-year IMF ECF program (with the second review successfully completed in February 2023). Congo is expected to continue to gradually recover from its recent protracted recession, with non-oil sector activity playing a significant role. Overall inflation is expected to remain close to the Bank of Central African States' 3.0 percent target over the medium term. The current account surplus will gradually narrow. In the most recent IMF-WB Debt Sustainability Analysis of June 2022, ROC's overall and external debt are assessed as sustainable, an outcome grounded in higher oil prices, fiscal discipline, recent debt restructuring agreements, and improved debt management. Congo's reform impetus appears robust despite recent higher oil prices, with the President appointing a new government in 2021 with a strong mandate to undertake reforms to turn around the country's economy. Despite a reshuffle of the Cabinet in late September 2022, the policy and institutional reforms adopted for the first operation of this DPF series testify to the ROC's government commitment to pursue its reform agenda.

Relationship to CPF

In supporting Government's efforts to restore fiscal sustainability and put the country on the path to economic diversification and sustainable growth, the proposed operation is closely linked to the CPF objectives and is complemented by other operations. The CPF for FY20-FY25 is structured around two focus areas, maintained by the 2021 CPF Performance and Learning Review: (i) strengthening economic management to create an improved investment climate for private sector-led growth; and (ii) building human capital and enhancing resilience for social inclusion and sustainable growth; which align with the DPF pillars. The World Bank's investment project portfolio provides support to key areas of DPF action. The first pillar is supported by the Integrated Public Sector Reform Project (P160801, FY17) and the Accelerating Governance Institutional Reforms for Sustainable Services PforR (P177468, FY23 forthcoming for Board submission). The second pillar is supported by Lisungi Social Safety Net System (P145263, FY14), Skills Development for Employability (P164234, FY18), Education Sector Support (P152910, FY16), Enterprise Development and Competitiveness Support (P161590, FY18), Digital Acceleration (P175592, FY22), Kobikisa Health System Strengthening (P167890, FY16), Lisungi Emergency COVID-19 Response (P174178, FY20), Regional Disease Surveillance Systems Enhancement (P167817, FY20), and Urban Resilience (P179190, FY24 in preparation).

C. Proposed Development Objective(s)

The Program Development Objective (PDO) is to support the Government's efforts to: (i) strengthen fiscal sustainability and governance through improved revenue mobilization and public financial management (PFM); and (ii) create the conditions for inclusive and sustainable growth.

Key Results

The main results expected from this Development Policy Financing (DPF) program encompass fiscal sustainability and governance as well as inclusive and sustainable growth. The operation is expected to deliver results from improving non-oil revenue mobilization (increasing the number of taxpayers, improving compliance, and increasing tax collection) and from improved revenue from the oil sector (from taxes, dividends from the national oil company, and better monitoring of recoverable costs). Improving the oversight of public finances and a shift to program budgeting aims to deliver more effective use of public funds (increasing the use and impact of audits, moving more procurement to sectoral ministries, and increasing compliance). Improving the business environment aims to reduce the cost of running a business (reduced the frequency of inspections). Improving service delivery in education and health should deliver more equitable and faster release of funding to school and health centers and better quality of services (service delivery units receiving formula-based allocations and higher number of units meeting minimum service quality criteria). Improving social protection by establishing a permanent safety net program will provide more and sustainable support (more households receiving social benefits, especially women) to vulnerable households and reduce poverty. Reducing gas flaring and venting aims to eventually eliminate flaring and aid compliance with commitments to zero flaring by 2030 (scaling back flaring to 2017 levels and to zero levels by 2030) and also to foster efficient use of associated gases. Improving electricity distribution and revising tariffs will encourage energy efficiency while strengthening a critical infrastructure service (cutting losses electricity supply). Improving sanitation and water services will public health, especially for the poor (increasing compliant septage sludge disposal sites, reducing energy intensity of water).

D. Concept Description

The proposed Second DPF is part of a program of three operations aimed at strengthening the ROC's fiscal management and establishing key conditions for inclusive and sustainable growth. The first pillar of the program (Pillar 1) supports policy and institutional reforms aimed at strengthening fiscal sustainability and governance through improving non-oil revenue mobilization, strengthening the regulatory framework for revenue mobilization from the oil sector, improving oversight of public finances, and strengthening the efficiency of the public procurement system. The second pillar (Pillar 2) supports reforms that will help create the conditions for inclusive and sustainable growth through improving the business environment, improving service delivery in education and health, improving social protection, reducing gas flaring and venting, improving the efficiency of electricity service delivery and tariff, and strengthening the sanitation sector and the efficiency and financial sustainability of the water sector.

The proposed operation is linked to the Government's program. The DPF series is designed to support the implementation of the Government's 2022-2026 National Development Plan (*Plan National de Développement,* PND).

Indeed, the prior actions under the first Pillar, contribute to strengthening the three “governance” poles of the government's high-level strategy and the “governance” cross-cutting area of the PND. The prior actions under the second Pillar directly support the PND’s objective of building a strong, resilient and diversified economy. This series also complements the IMF Extended Credit Facility arrangement, the 2022-24 budget support operation from the French Development Agency (*Agence Française de Développement,* AFD), and the planned African Development Bank budget support operation for 2023-2024 and their strong focus on governance and public financial management.

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

Poverty and Social Impacts

This DPF series is expected to have significant positive poverty, social, and distributional impacts. Actions aiming to increase oil and non-oil revenue are expected to have some positive indirect effect on poverty and vulnerability: improved oil and non-oil revenue will provide additional resources to the government which could help alleviate constraints on funding various poverty-fighting programs. Actions to improve the efficiency and effectiveness of public spending will benefit all recipients of government services and investments. Actions to improve the business environment will indirectly bolster growth, increase the size of the private sector by encouraging local entrepreneurship and foreign investment, and expand jobs opportunities, which will benefit the population overall. Improving the timeliness and equity of resource allocation to service delivery units in education and health is expected to have significant positive effects on poverty and social inclusion, especially for poor people and vulnerable groups (such as women). Expanding the coverage and strengthening the sustainability of the social protection system will lead to stronger safety net coverage of more vulnerable people, especially woman and especially in rural areas. Improving the quality of electricity and sanitation service delivery in the country are expected to have a direct positive social and poverty impact on the population and economic activity. Further analysis regarding these effects and on the borrower’s systems for enhancing these positive effects will pursued during preparation.

Environmental, Forests, and Other Natural Resource Aspects

This DPF series is expected to have significant positive effects on the environment, forests, and other natural resources. Reducing gas flaring and supporting an integrated gas chain will have significant positive climate effects. The 1.5 billion cubic meters of gas flared in 2021 produced some 3.8 million tonnes of CO_2 as well as methane, particulate matter, nitrogen oxides, and other air pollutants, and it is expected that a sizeable portion can be eliminated through these reforms. Elimination of gas flaring and use of associated and non-associated gas will directly contribute to the country’s greenhouse gas emission reduction commitments under its Nationally Determined Contribution and contribute towards its committed efforts to achieve Zero Routine Flaring by 2030. Emissions reduction, of course, are a global public good, with positive impacts reaching beyond Congo. Reducing losses in electricity supply will also have significant climate effects over time. Improving the financial condition of the public electricity company by contracting a concessionaire to manage distribution will allow needed investments in the electricity system to improve efficiency of transmission and distribution, leading to reductions in thermal generation and related greenhouse gas emissions compared to projections without such improvements. Last, strengthening the sanitation sector will have a significant positive environmental impact. The action aims to improve the quality of sanitation for a healthy environment in cities, considering both the positive impact on public health and on the environment. The borrower’s systems for enhancing positive effects are sufficient. Congo's legal and institutional framework for the environment is broadly aligned with international best practice.

CONTACT POINT

World Bank

Vincent De Paul Tsoungui Belinga, Fabienne Mroczka
Senior Economist

Borrower/Client/Recipient

Republic of Congo
Ferdinand Likouka
Director of Cabinet, Ministry of Planning
likoukaferdinand@gmail.com

Implementing Agencies

Ministry of Economy and Finance
Paul MALIE
Director of Studies and Planning
p.malie@finances.gouv.cg

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Vincent De Paul Tsoungui Belinga, Fabienne Mroczka

Approved By

Country Director:	Elisabeth Huybens	28-Mar-2023