



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 13-Sep-2022 | Report No: PIDC34639



**BASIC INFORMATION**

**A. Basic Project Data**

Country Congo, Democratic Republic of	Project ID P179141	Project Name DRC Foundational Economic Governance Reforms DPO series (P179141)	Parent Project ID (if any) P177460
Region EASTERN AND SOUTHERN AFRICA	Estimated Board Date Feb 22, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

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

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

**SUMMARY**

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

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

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

- DRC witnessed the first relatively peaceful power transition following the 2018 Presidential elections (delayed by two years), with the inauguration of President Tshisekedi in January 2019.** The initial years of President Tshisekedi's mandate were characterized by a complex political coalition, which hampered reform efforts. A new coalition was formed in December 2020 and a new Government established in April 2021, with the objective to accelerate implementation of



the PNSD for 2019-2023. This Government has demonstrated its ability to undertake critical reforms, with notably the approval of a new Extended Credit Facility (ECF) with the International Monetary Fund (IMF) in July 2021 after nearly a decade of hiatus (the last IMF program was interrupted in 2012) and the approval of the first World Bank DPF since 2005. There is therefore a narrow window of opportunity to support an accelerated reform momentum in DRC.

2. **DRC's development challenges are enormous.** DRC, the largest country by surface area in Sub-Saharan Africa and with a population estimated at 92.4 million<sup>1</sup>, is a deeply fragile country. DRC has a long history of conflict, political upheaval and instability, and authoritarian rule, which have impacted economic growth, led to weak institutions and deep-rooted governance challenges, and hampered the delivery of services to the Congolese people. Almost twenty years after the official end to the Congo Wars, DRC suffers from a grave humanitarian crisis and human development indicators are among the lowest in the world. With abundant and diverse natural resources, DRC has considerable economic potential. Nevertheless, it has been unable to convert its ample potential into sustainable economic growth and shared prosperity.

3. **DRC's fiscal position and inflation are adversely impacted by the war in Ukraine even as its external position improves through higher prices for mineral exports.** DRC is a net importer of petroleum and petroleum products and therefore will see its import bill increase due to higher oil prices. However, the prices of metals and minerals DRC exports, especially that of cobalt, have also increased and remain elevated despite recent declines. Overall, DRC faces a positive terms-of-trade shock, and the current account balance is expected to improve and be balanced in 2022. However, in the current environment, and in the absence of an adequate social transfer program, the government is likely to only partially pass-through international prices to limit the impact on vulnerable populations. As a result, higher international fuel prices have given rise to domestic subsidies and could reduce the fiscal space for higher priority spending. Despite the fuel subsidy, rising imported food and fuel prices are exerting pressure on inflation, exacerbating the vulnerability of the urban poor.

#### Relationship to CPF

4. **This DPO series is closely aligned with the WBG CPF for DRC for FY22-26 (No. 168084-ZR) discussed by the Board of Executive Directors in February 2022, as it contributes to each of the three focus areas:** (i) Strengthen stabilization efforts for reduced risk of conflict and violence; (ii) Strengthen system for improved service delivery and human capital development; and (iii) Strengthen economic governance for increased private sector investment. The 2021 Risk and Resilience Assessment has identified governance failures as a major driver of fragility in DRC. Efforts at strengthening governance are cutting across the three CPF pillars and are at the core of the new DRC CPF. The DPO series includes a strong governance focus across all policy areas and it complements governance milestones supported under the Prevention and Resilience Allocation (PRA) approved for DRC as part of the CPF. The new CPF considered resuming the use of DPF in DRC, if there is an adequate macroeconomic and policy framework and government track record and commitment to a substantive policy reform program.

5. **Reforms under this proposed DPO series reinforce and complement other IDA-financed operations in DRC.** The US\$250 million Enhancing Collection of Revenue and Expenditure Management Project (ENCORE, P171762), approved in December 2021, supports the establishment of core PFM functions at the national and provincial levels. This includes a focus on strengthening mining revenue management and SOE governance. The US\$500 million Kinshasa Multisector Development and Urban Resilience Project (Kin Elenda, P171141), approved in March 2021, supports increased transparency of the water SOE. The US\$600 million Access Governance and Reform for the Electricity and Water Sectors Project (AGREE, P173506), approved in March 2022, aims to strengthen the governance and performance of the power and water SOEs. The US\$500 million Transport and Connectivity Support Project (PACT, P161877) aims to rehabilitate

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



sections of the national road network and to strengthen the transparency and operations of the national road fund (FONER). The DPO series support key legal and institutional reforms pursued under the Strengthening Hydrometeorological and Climate Services Project (P159217). The US\$300 million Forest and Savanna Restoration Investment Program under preparation (ForSTRIP, P178642, planned for FY23) aims to scale up successful efforts undertaken under the US\$55 million Improved Forested Landscape Management Project (P128887) which has tested new approaches to improve community livelihoods and forested landscape management, and to reduce greenhouse gas emissions from deforestation and forest degradation.

### C. Proposed Development Objective(s)

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

#### Key Results

7. Key results by end 2023 include:

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

### D. Concept Description

8. **The proposed DPO series will build the foundations for sustainable growth by strengthening governance to set a path for DRC to green, resilient, and inclusive development.** The policy and institutional reforms supported by this DPO series frame a medium-term agenda that is expected to shift the dynamic towards strengthened governance with improved accountability. To achieve this goal, the operation is structured as a programmatic series of two single-tranche DPOs, across three pillars. Designed as a re-engagement DPO series, it will build on the opening for reform implementation through a first operation (DPO1, approved in June 2022), consolidating reform momentum through a second operation (DPO2), ahead of the planned December 2023 Presidential elections.

- **Pillar 1: Strengthening the management of public expenditures and mining royalties.** This pillar supports the establishment of core public financial management (PFM) functions, in line with the Government of DRC 2022-2028 Public Finance Reform Strategic Plan and its 2022-2024 Operational Action Plan. This pillar thus supports strengthening expenditure management by establishing core treasury and accounting functions; and



strengthening domestic revenue mobilization and management of mining royalties.

- **Pillar 2: Liberalizing telecoms and strengthening SOE transparency and governance.** This pillar supports the opening up of the telecom sector, with the implementation of a modernized telecom legal framework, in line with the DRC National Digital Plan Horizon 2025. In addition, this pillar aims to strengthen the transparency (through the publication of an annual report on SOE financial and operational performance) and corporate governance of SOEs that operate in key economic sectors (ports, airports, railway, energy, water and mining), with a specific focus on the power and water SOE (and the national road fund) through the competitive recruitment of their leadership team. This is aligned with the September 2021 Ministry of Portfolio's roadmap for SOE reform and the 2022-2028 Public Finance Reform Strategic Plan.
- **Pillar 3: Strengthening governance for sustainable forestry.** This pillar will strengthen the governance of the forestry sector, recognizing that continued weak governance and mismanagement impede the realization of benefits that the forest sector can bring nationally and globally. It supports the completion of a review of forest concessions, with the view of cancelling illegal concessions and disclosing all legal concessions. This pillar also aims to address deforestation and forest degradation, through the adoption of a sustainable national agriculture policy that integrates the principles of conservation of high value forest. This pillar also strengthens the availability of the information-base for DRC's climate resilient development, with the approval of a new Meteorological law. This pillar supports the DRC engagements highlighted in the Central African Forest Initiative Letter of Intent signed in November 2021.

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

### Poverty and Social Impacts

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

### Environmental, Forests, and Other Natural Resource Aspects

10. Preliminary assessment shows that the policy action focusing on strengthening transparency and governance of forest resources is likely to have a positive impact on the country's environment, forest and natural resources if proper mitigation measures are in place, as it should lead to a reduction of illegal forest exploitation. DRC is vulnerable to several climate related hazards, including flooding and gully erosion. The policy action supporting functional hydromet services will enable effective management of climate variability and ensure that meteorological and hydrological information is tailored to decision makers across a wider series of sectors, such as agriculture, health, energy, water resources management, natural disaster prevention, in turn enabling greater investment in community resilience to climate risks. Other policy actions (related to telecom, mining, sustainable agriculture) will likely lead to additional or more future investments with their associated potential downstream environmental risks and impacts. However, per the Law no. 11/009 of July 9, 2011, on the fundamental principles of environmental protection, for such initiatives, the Environment



Assessment is mandatory and must be done before any project or policy is adopted and implemented. Adopting a National Sustainable Agricultural Policy will likely lead to significant pest and disease risks, and environmental occupational health risks. To identify and mitigate these risks, the DRC authorities are conducting a policy centric Strategic Environment and Social Assessment (SESA). The authorities will also undertake a SESA to support the development of strategies to mitigate negative environment and social impacts in areas with increased investments related to the mining sector.

**CONTACT POINT**

**World Bank**

Guillemette Sidonie Jaffrin, Sandra El Saghir  
Program Leader

**Borrower/Client/Recipient**

Ministry of Finance  
Honore Tshiyoyo  
Coordinator  
tshiyoyodijiba@minfinrdc.com

**Implementing Agencies**

Ministry of Finance  
Honore Tshiyoyo  
Coordinator  
tshiyoyodijiba@minfinrdc.com

**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):

Guillemette Sidonie Jaffrin, Sandra El Saghir

**Approved By**

Country Director:

Albert G. Zeufack

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