



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 07-Apr-2022 | Report No: PIDC33665



**BASIC INFORMATION**

**A. Basic Project Data**

Country Congo, Republic of	Project ID P178614	Project Name Republic of Congo First Fiscal Management and Inclusive Growth DPF (P178614)	Parent Project ID (if any)
Region AFRICA WEST	Estimated Board Date Nov 30, 2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance, Budget and Public Portfolio	Implementing Agency Ministry of Finance, Budget and Public Portfolio		

**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 finance management (PFM); and (ii) create the conditions for inclusive and sustainable growth.

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

**SUMMARY**

<b>Total Financing</b>	50.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	50.00
World Bank Lending	50.00

**Decision**

The review did authorize the preparation to continue



## B. Introduction and Context

### Country Context

**The country's economy contracted for the seventh consecutive year in 2021, resulting in debt distress and a sharp increase in poverty.** This protracted recession led to a cumulative contraction of GDP by 28 percent between 2014 and 2020, which in conjunction with population growth, led to a drop in per capita GNI by over 50 percent from US\$3,990 in 2014 to US\$1,830 in 2020. The recession reversed previous progress in poverty reduction, with the international poverty rate (at \$1.9 a day) estimated to have peaked at 51.9 percent in 2020 (from 39.6 percent in 2011). This recession followed the end of the last commodity super cycle of 2002-2014, highlighting the economy's extreme vulnerability to fluctuations in global demand and prices for its oil exports. Revenue mobilization is an urgent priority to create fiscal space to support the country's development agenda and protect the economy from the volatility of oil prices. A critical factor in managing its revenues is the quality of Congo's PFM system, which 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. Lastly, ensuring long-term viability of Congolese economy would call for a sustainable and responsible management of natural resources and appropriate policy responses to climate changes impacts.

**The Republic of Congo's macroeconomic policy framework is judged to be adequate.** Congo is expected to gradually recover from its seven years economic recession. Despite rising food prices due to the Russian-Ukraine crisis, overall inflation is expected to remain moderate, consistent with CEMAC inflation targets of three percent. The current account balance is expected to further improve in 2022, fueled by the impact of the Russian-Ukraine crisis on oil prices before narrowing in 2023-2024. The gradual economic recovery and payment of arrears to the private sector will positively impact the financial sector. The fiscal balance is expected to remain positive. According to the most recent IMF-WB Debt Sustainability Analysis (DSA) of January 2022, the Republic of Congo's overall and external debt are assessed as sustainable. Debt is expected to continue to fall, but clearance of arrears is required to end the current episode of debt distress. Since the presidential elections in March 2021, reform momentum has accelerated with the new government given a strong mandate to undertake reforms to restore the country's economic and fiscal sustainability. The macroeconomic policy framework is supported by a three-year IMF Extended Credit Facility program approved in January 2022.

### Relationship to CPF

**The proposed operation's PDO, to support Government's efforts to improve revenue mobilization and public finance management; and create the conditions for inclusive transformation and sustainable growth is closely linked to the CPF objectives.** The CPF for FY20-FY24 is structured around two focus areas: (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 were maintained by the 2021 CPF Performance and Learning Review. The reforms supported under the proposed operation contribute directly to the two CPF areas by focusing on institutional, legal, and regulatory reforms to improve revenue collection and the impact of public spending on disadvantaged groups. DPF measures should protect poor and vulnerable households by safeguarding public spending in the social sectors (i.e., education, health, and social protection) and supporting an improved business environment for private sector growth.



### 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 finance management (PFM); and (ii) create the conditions for inclusive and sustainable growth.

#### Key Results

**The main results expected from the operation encompass fiscal sustainability and governance as well as inclusive transformation 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 maximizing revenue from the oil sector (increasing revenue and increasing the transparency of the oil sector). Improving the oversight of public finances aims to deliver more effective use of public funds while improving cash management should increase the efficiency of public expenditure and prevent domestic arrears. Improving the business environment aims to reduce the cost of starting and running a business. Improving service delivery in education and health should deliver more funding and better quality of services. Reducing gas flaring and venting aims to eventually eliminate flaring and aid compliance with commitments to zero flaring by 2030. Increasing the amount of legally protected forests will help prevent land use change and assist the country in meeting its Nationally Determined Contribution commitments.

### D. Concept Description

**The proposed programmatic Development Policy Operation (DPF) designed around two pillars will help strengthen the Republic of Congo's fiscal management and foster an inclusive transformation and sustainable growth.** Pillar 1's policy and institutional reforms aim to strengthen fiscal sustainability and governance through measures to improve revenue mobilization and PFM. Pillar 2's actions will help create the conditions for inclusive and sustainable growth. Given Congo's past and current fiscal challenges (including low domestic revenue mobilization and debt distress), strengthening fiscal sustainability and the PFM system through the first pillar is critical to reducing the country's debt burden, building resilience to future shocks, and expanding fiscal space to fund investments in infrastructure and human capital. The second pillar consists of reforms that accelerate growth while making it more inclusive and more sustainable, with actions to improve the business environment and enable the development of new growth sectors, including through improved delivery of infrastructure services (power and water supply). It also addresses critical shortcomings in the delivery of basic public services, which have held back human capital development and poverty reduction in recent years. These two pillars reinforce each other. Domestic revenue mobilization is critical to fund investments in infrastructure and human capital needed for sustainable growth. A diversified economy is necessary for broad-based growth that generates more revenue.

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

#### Poverty and Social Impacts

**This DPF series is expected to have substantial positive impact on poverty reduction.** Actions aiming to increase oil and non-oil revenue are expected to have some positive indirect effect on poverty and vulnerability: higher 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 and jobs opportunities, which will benefit the population overall. Improving service delivery in education and health and improving social protection are expected to have significant positive poverty and social effects, especially for



poor people and vulnerable groups. The additions to funding and improved quality of services expected will directly benefit the poor and vulnerable. Stronger safety net coverage is expected for more vulnerable people, especially woman and especially in rural areas. The poverty and social impacts of expanded forest protection are still to be determined. Further information on analytic knowledge regarding these effects and on the borrower's systems for enhancing these positive effects will be included after concept review.

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

**Reducing gas flaring and venting and increasing the amount of legally protected forest will have significant positive effects on the environment, forests, and other natural resources.** The move towards elimination of gas flaring will help Congo comply with commitments to Zero Routine Flaring by 2030 and to commitments to reduce its carbon emissions under its NDC. These actions will provide global benefits to the environment, not local benefits to Congo. The expansion of protected forest will provide local benefits, preserving the natural environment directly. The other policy actions are not expected to have a significant impact on the environment, forests, and other natural resources. These impacts are straightforward and do not require analytic support. 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. The framework is defined by the National Environmental Action Plan (PNAE) adopted in 1996 and then revised in 2021 to link it to the Paris Agreement on the limitation of greenhouse gases and the 2021 Nationally Determined Contribution (NDC) document. The Ministry of Environment, Sustainable Development and the Congo Basin is responsible for establishing policy guidelines for the environment. It is accompanied by the Ministry of Forest Economy on policies for forests and the protection and conservation of natural resources. Article 2 of Law No. 003/91 stipulates that "any economic development project in the People's Republic of Congo must include an environmental impact assessment", and is supplemented by Decree No. 2009-415, which sets out the scope, content and procedures for environmental and social impact assessments.

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**APPROVAL**

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**Approved By**

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