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**TRANSITIONAL SUPPORT STRATEGY
FOR
THE DEMOCRATIC REPUBLIC OF THE CONGO**

January 26, 2004

Country Department 9
Africa Region

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ABBREVIATIONS AND ACRONYMS

AAA	Advisory and Analytical Activities
ACS	Administrative and Core Support
BP	Bank Procedure
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
DSA	Debt Sustainability Analysis
EMRRP	Emergency Multisector Rehabilitation and Reconstruction Program
FY	Fiscal Year
GDP	Gross Domestic Product
HIPC	Highly-Indebted Poor Countries
IDF	Institutional Development Fund
IGR	Institutional and Governance Review
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
MDG	Millennium Development Goal
MDRP	Multi-country Demobilization and Reintegration Program
MONUC	United Nations Observation Mission in Congo
NGO	Non-governmental organization
OP	Operational Policy
PCF	Post-Conflict Fund
PER	Public Expenditure Review
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SMP	Staff Monitored Program
UN	United Nations
UNDP	United Nations Development Program
TSS	Transitional Support Strategy

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EXECUTIVE SUMMARY

1. ***This Transitional Support Strategy (TSS) aims to define a road map for Bank support to the Democratic Republic of the Congo (DRC) for 2004 – 2006.*** It was designed through an extensive consultation process with a broad variety of stakeholders (Government, private sector, civil society, donors) and builds on recent analytical work by DEC and experience, in Africa and elsewhere, in dealing with post-conflict countries.

Background

2. ***Since 2001, DRC has made considerable progress towards peace, reconciliation, and economic and social recovery.*** This followed a dreadful decade of instability and conflict, which caused considerable suffering for the 58 million Congolese – of which 3.3 million died during the last round of war – and wrought havoc throughout Central Africa (with seven of DRC’s nine neighbors experiencing violent conflict over the decade).

- ***On the political / military front:*** (i) ***security has been restored*** throughout most of the country – and eruptions of violence are contained to some districts only, and gradually receding; (ii) ***a Government of national unity*** (composed of the former Government, the armed opposition movements, and civil society) was appointed on June 30, 2003, for a 24- to 30-month period leading to elections – and is functioning well; and (iii) ***the country has been re-unified*** after years of division (re-establishment of communications, resumption of trade, re-unification of institutions).
- ***On the economic front:*** (i) ***a solid and ambitious economic program***, supported by the Bretton Woods Institutions, has been implemented satisfactorily since April 2001 – on both the macro-stabilization and structural reforms sides; (ii) ***DRC has reached its HIPC Decision Point*** (although debt still remains a threat to the recovery process); and (iii) ***economic growth returned in 2002 and accelerated in 2003*** after ten years of contraction – in part due to a strong private sector response.
- ***On the social side***, the crisis remains acute, with widespread hunger throughout the country, a collapse of social services delivery, an erosion of social capital, and the accelerating spread of the HIV/AIDS epidemic. The chances for DRC to achieve the Millennium Development Goals (MDGs) by 2015 are seriously compromised.

3. ***These achievements, while important steps forward, are only the beginning of a process – and need to be consolidated.*** DRC stands at a crossroads, with very high stakes, not only for the country but for the entire sub-region.

Implementation of the 2001 Transitional Support Strategy

4. ***The 2001 TSS aimed to contribute to the transition to peace and stability in both DRC and the sub-region*** by helping the Government to: (i) meet basic and urgent needs; (ii) rebuild effective public institutions and policies; (iii) revitalize economic activity; and (iv) rebuild implementation capacity. The TSS aimed to promote “early wins” to build a track record for the then new Government, and help restore confidence.

5. ***Overall, implementation has been very successful.*** Bank support during the 2001 TSS period has been credited to have made a critical contribution to the political and economic stabilization of the country – and all performance indicators have been reached or exceeded. Key activities / milestones included: (i) clearance of Bank arrears (July 2002); (ii) re-opening of the Kinshasa Country Office (late 2001); (iii) provision of substantial, hands-on policy advice (throughout the period); (iv) approval of five new projects (since July 2001) – and their satisfactory implementation; (v) re-engagement of IFC and re-initiation of the dialogue with MIGA; and (vi) preparation and organization of a number of donor meetings (in July 2001, December 2001, May 2002, December 2002, and December 2003) and substantial efforts to ensure sound donor coordination.

The proposed Bank Strategy for FY04 – FY05

6. ***The proposed objective of the TSS is to support the recovery and transition process,*** that is to help consolidate the transition and restore the foundations for effective poverty alleviation efforts. This will be undertaken in close coordination with other donors, with a view to maximizing synergies (with expected total disbursements by donors at about \$1 billion in 2004 and again in 2005).

7. ***The TSS strategic elements are four-fold:***

- ***Security and social stability*** – with a focus on demobilization and reintegration of former combatants;
- ***High and shared growth*** – through both advisory services and investment operations, with a focus on: (i) economic management, (ii) infrastructure reconstruction and management, (iii) private sector development, (iv) natural resource management, and (v) rural development;
- ***Governance and institutional strengthening*** – through both advisory services and adjustment operations, with a focus on: (i) institutions reunification/decentralization; (ii) institutional strengthening; (iii) judicial reform; and (iv) transparency.
- ***Social development*** – through both advisory services and investment operations, with a focus on: (i) HIV/AIDS; (ii) health; (iii) education; (iv) water supply; (v) improvements in living conditions in urban centers; and (vi) social protection.

8. ***The TSS proposes a five-fold agenda:*** (i) managing the existing portfolio; (ii) providing advisory services; (iii) launching new lending operations; (iv) engaging the entire Bank Group; and (v) mobilizing and coordinating donors.

Suggested issues for discussion

- Are the proposed objective of the strategy and its strategic elements an adequate response to recent developments in DRC, in light of recent research and experience in other post-conflict countries ?
- Are the proposed focus of Bank activities and the effort made at being selective adequate, within the context of a broad international effort ?
- Do Executive Directors support the proposed continued role of the Bank to help mobilize and coordinate donors, in close coordination with other key actors ?

INTRODUCTION

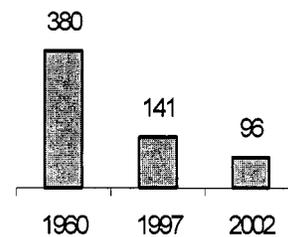
1. ***This Transitional Support Strategy (TSS) aims to define a road map for Bank support to the Democratic Republic of the Congo (DRC) for 2004 – 2006.*** It follows an earlier TSS, which was discussed by the Board on July 31, 2001 (for the period 2001 – 2003), and which provided a strategic framework for the resumption of Bank assistance after almost a decade of suspension. It outlines a proposed program for continued Bank support – to build on the substantial progress made by DRC over the last three years towards peace, political reconciliation, and economic recovery – and to help consolidate and deepen these achievements, within the context of the Poverty Reduction Strategy Paper (PRSP) process. It was prepared within the context of OP/BP2.30 on “Development Cooperation and Conflict” – with a view to moving towards a formal Country Assistance Strategy (CAS) as soon as conditions allow.
2. ***The new TSS was designed through an extensive consultation process with a broad variety of stakeholders.*** Intensive consultations were held with the Government (including a full-day retreat between the Bank and 21 ministers in charge of economic, social, and security matters on October 29, 2003), private sector and civil society (through formal consultations both in Kinshasa and in outer provinces), and other donors (in particular through a Bank-led multi-donor mission which visited DRC in November 2003, and a formal Consultative Group meeting in December 2003). The outcome of these discussions provided a useful guide for the selection of priorities for Bank assistance over the coming period.
3. ***The preparation of the new TSS is also taking place against the backdrop of the Bank’s growing experience in post-conflict countries.*** Particular attention was paid to Bank research and experience in other countries, with regard to the type of support needed to support stabilization and recovery. The proposed strategic directions reflect recent analytical work by DEC (in particular *Breaking the Conflict Trap*), as well as general orientations and best practices from the Africa Region and elsewhere (in particular *Post-conflict recovery in Africa: An agenda for the Africa Region*).
4. ***The document is organized as follows.*** Part I presents a summary of recent developments in DRC. Part II takes stock of the implementation of the 2001 TSS, discussing progress to date and highlighting some of the key lessons learned along the way. Part III outlines a strategic agenda for the years to come as it emerges from consultations with Congolese stakeholders. Part IV proposes a strategy for Bank support and a new assistance program for the coming period.

I. BACKGROUND AND CONTEXT

A. Background

5. ***The decade of political instability and conflict from which DRC is gradually emerging has been dreadful.*** After about eighty years of colonial rule, several conflicts in the immediate post-independence period, and a long period of corruption and mismanagement under President Mobutu Sese Seko, DRC, which is the second largest country in Sub-Saharan Africa (see Box 1), entered the 1990s in a state of quasi-collapse. That decade was marked by successive episodes of increasing violence: looting by the armed forces in 1991 and again in 1993, a first conflict in 1997 (which caused the fall of President Mobutu and his replacement by President Laurent-Désiré Kabila), and a second conflict between 1998 and 2003 (see Box 2) during which a reported 3.3 million people died, and many more had their lives dislocated. The level of devastation caused by these conflicts is extreme, as illustrated by the collapse of per capita income, which, at \$96 (29 cents per day) in 2002, is only a fraction of its 1960 level (see Graph 1).

Graph 1: GDP per capita



Box 1: Key data

Surface: 2.3 million square kilometers (equal to two thirds of the European Union)

Population: 58 million

GDP (2002): US\$5.5 billion

GDP per capita (2002): US\$96

Growth (2003): 5 percent (est.)

Inflation (2003): 4.5 percent

Conflict-related deaths (since 1997): 3.3 million

Life expectancy: 45 years

Infant mortality: 128 per thousand

Literacy: 64 percent

Share of population below \$1/day: 75 percent

6. ***Since 2001, and the appointment of President Joseph Kabila, there has been considerable progress on all fronts – towards peace, reconciliation, and economic and social recovery.*** Most observers have been surprised and encouraged by both the pace and the scope of recent achievements, in a context of relatively limited international support. Looking ahead, they are optimistic despite the many ups and downs that can be expected in a process which may remain difficult for some years.

Box 2: Key actors in the conflict (besides the DRC Government)

Foreign countries – fighting with the Government (Angola, Chad, Namibia, and Zimbabwe) or against the Government (Burundi, Rwanda, Uganda).

Armed opposition movements – *Rassemblement Congolais pour la Démocratie-Goma* (RCD-Goma), in the East; *Mouvement de Libération du Congo* (MLC), in the North; break-away RCD factions, in the Northeast;

Congolese militias (e.g., *Mayi-Mayi*) in the East and Northeast;

Foreign rebels, from Burundi, Rwanda, and Uganda in the East.

B. Recent military and political developments

Military developments

7. *Over the last three years, decisive progress has been made towards peace and security*, within the context of a series of agreements mediated by the international community and key bilaterals (see Box 3). Large-scale military activity has ceased since early 2001. Foreign forces withdrew throughout 2002. The UN peacekeeping force (MONUC) has deployed about 10,800 troops throughout the country. The pace of progress has accelerated since June 2003, and key early steps have been taken to unify and integrate the Government's and rebel armed forces into a restructured (and downsized) national military, as well as to disarm, demobilize, and reintegrate former combatants.

Box 3: Key political and military agreements

Ceasefire Agreement, signed in Lusaka on July 7, 1999, by all key actors in the conflict. This Agreement underlines the need to restore the DRC's sovereignty and territorial integrity and to ensure that all Congolese enjoy the same rights and protection under the law. It calls inter alia for: (i) a complete ceasefire, (ii) the deployment of a UN peacekeeping force, the *Mission d'Observation des Nations Unies au Congo* (MONUC), (iii) the disarmament of militias and armed groups, (iv) the withdrawal of all foreign forces from the DRC, and (v) the opening of an "inter-Congolese dialogue", between the Government, rebel groups, unarmed political opposition, and civil society, to lead to "a new political dispensation and national reconciliation".

Bilateral agreements between the DRC Government and the Governments of Rwanda and Uganda, signed respectively on July 30, 2002 in Pretoria and on September 6, 2002 in Luanda. These agreements provided a framework for the disarmament, demobilization, repatriation, resettlement and reintegration of foreign armed groups and for the orderly withdrawal of all foreign troops present in DRC at the time of signing.

Agreements reached within the context of the inter-Congolese dialogue:

- *36 resolutions* adopted in Sun City in March and April 2002, including key economic resolutions (endorsement of the program of economic reforms supported by the Bretton Woods Institutions and of the Interim Poverty Reduction Strategy Paper);
- *Global and All-Inclusive Agreement on the Transition in DRC*, signed on December 17, 2002 in Pretoria, which defines the objectives, principles, and institutions (including the sharing of key Government positions) for a 24- to 30-month transition period leading up to elections;
- *Transitional Constitution*;
- *Memorandum on military and security issues*, signed on March 6, 2003, in Pretoria, which defined the framework for the formation of national, integrated, and restructured armed forces, including the unification of the General Staffs of the main armed forces.
- *Final Act of the inter-Congolese dialogue*, signed on April 2, 2003, in Sun City, by which all participants formally endorsed the package of agreements reached during the dialogue.

8. ***Today, most of the country is at peace, with sufficient security for economic activities to resume at both a local level and on a country-wide scale.*** Violence subsists in some trouble spots – most notably in the Ituri district (where a European Union force intervened in mid- 2003 to put an end to an explosion of brutality), and in parts of the eastern Kivu provinces (where there are reports of widespread rape, looting, armed robberies, and arbitrary executions by armed bands and foreign fighters) – but most observers report positive trends even in these areas.

Political developments

9. ***Decisive progress has also been made towards political reconciliation,*** within the context of the inter-Congolese dialogue. Over 360 delegates representing the Government, the armed opposition, the unarmed opposition, and civil society met between October 2001 and April 2003, with the support of key bilaterals (most notably South Africa) and facilitators from the UN and the African Union. This process resulted in the adoption of a series of important agreements, leading to the establishment of a Government of national unity and transitional institutions (including a National Assembly and a Senate) – as well as to the confirmation and/or nomination of key civil servants, with a view to ensuring a balanced sharing of positions among all political forces.

10. ***A Government of national unity was appointed on June 30, 2003, for a 24- to 30-month period leading to elections,*** and President Kabila was confirmed in his functions. The Government consists of four vice-presidents (from the former Government, the two main armed opposition groups, and the unarmed opposition), 36 ministers and 25 vice-ministers, representing all key political factions. International observers and key bilaterals underline the remarkable sense of cohesiveness of the new Government and welcome its commitment to pursuing political reforms and to rapidly obtaining results, in the form of living conditions improvements for the Congolese.

11. ***Political progress has been accompanied by the actual reunification of the country,*** which had long been divided along frontlines – including the re-establishment of communications between long-divided parts of the country (facilitating family reunions as well as economic activities), the re-opening of commercial traffic on the Congo river (between Kinshasa and Kisangani) in August 2003, the re-unification of key technical institutions (already effective for the road agency, underway for the fiscal agencies and the utilities, etc.), and the harmonization of exchange rates across the country.

Prospects

12. ***Recent developments are encouraging but the situation remains fragile.*** While a major reversal of the achievements of the last years seems unlikely, the challenges ahead are daunting for peace and reconciliation to be consolidated – including: the disarmament, demobilization, and reintegration of former combatants; the restoration of public authority, rule of law, and security throughout the country, including in remote areas; a successful management of the period of political transition leading to elections (in a country where physical communications are likely to remain a challenge for the

foreseeable future); and the re-definition of relations between the central and local levels of Government.

C. Recent economic developments

The impact of the conflict

13. *The decade of recurring conflicts has had devastating effects on Congo's economy* (see Box 4). War and civil disturbance, compounded by the legacy of a long period of economic mismanagement, have taken a heavy toll on the country. Infrastructure has suffered considerable damage, in particular due to the interruption of maintenance (most of the road network is no longer passable; entire provinces do not have access to energy or clean water). Institutions are in shambles. Many people have lost their assets – whether buildings, livestock, or tools. Investment has come to a halt. Public debt has dramatically increased, while public finance management has deteriorated. The vast majority of the population survive on informal economic activities, mainly carried out by women.

Box 4: The transformation of the Congolese economy

Prior to the conflict, the Congolese economy was dominated by a broad range competitive, foreign-dominated export activities, developed around the country's extraordinary natural resources (mining, agriculture, forestry, energy). This had resulted in a relatively high level of urbanization – and it co-existed with traditional agriculture and informal activities which provided incomes to a large part of the population.

The economy has been transformed by the decade of instability and conflicts:

- ***Changes in the structure of the economy.*** The traditional export activities have almost come to a halt (at about 5 percent of GDP). The share of agriculture has substantially increased (from about 30 percent of GDP in the 1980s to 54 percent in 2001). The share of services has declined (from about 45 percent of GDP in the 1980s to 28 percent in 2001) but remains substantial.
- ***“Dollarization”.*** In a context of limited supply of “Congolese francs”, the dollar is widely used as the reference currency unit, and as reserve of value. This is particularly acute in the Eastern part of the country, where the money supply was insufficient during the conflict. In some Northern areas, the CFA Franc, of neighboring Central African Republic is preferred.
- ***Collapse of the formal private sector.*** Many enterprises have lost assets, staff, and commercial networks. The low level of Congolese's purchasing power, the deterioration of transport infrastructure, and the absence of financial intermediation are among the main obstacles for the restart of many companies.

Today the economy is based on survival / subsistence activities:

- ***In urban areas, informal activities*** – which account for about 80 percent of all activities. This includes mostly small-scale trade, services, and daily labor.
- ***In rural areas, subsistence agriculture*** – by smallholders, with relatively little commercialization (due to the poor state of rural infrastructure).

The economic program

14. ***Since April 2001, the Government has implemented a solid and ambitious program of economic reforms, supported by the Bretton Woods Institutions.*** This program has been supported by the IMF through a Staff Monitored Program (SMP), between June 2001 and April 2002, and access to the Poverty Reduction and Growth Facility (PRGF) for the period July 2002 to July 2005. It has been supported by the Bank through an Emergency Early Recovery Project (financed through an IDA grant and approved in July 2001) and an Economic Recovery Credit (approved in June 2002) as well as substantial analytical work and policy advice. Overall, implementation has been consistently satisfactory throughout the period.

15. ***This program aims both to spur economic growth and to tackle some of the deep-rooted structural issues which have hampered DRC's economic development in the past.*** Indeed, the challenge of recovery is also a challenge of transition: even prior to the conflict, DRC's successive Governments had not been able to translate the country's immense potential into actual improvements of living conditions for the population. The formal economy has been largely disrupted, and hence transformed, by years of conflict – and the challenge is not to reconstruct the earlier system, but to take advantage of the war-time changes to re-build the economy on a more solid and sustainable basis.

16. ***The results of this program in terms of macro-economic stability are significant,*** even though they need to be further consolidated. Hyper-inflation was broken by the end of 2001, and inflation is now decelerating even more quickly than envisaged (at about 4.5 percent for 2003, about half the program target). Exchange rate stability has been maintained since the Government floated the Congolese franc in April 2001. Fiscal revenues have increased from about 5.9 percent of GDP in 2001 to about 8.3 percent of GDP in 2003 – and expenditures have been brought back under control (with operations on a cash basis).

17. ***Parallel efforts have been made on the structural side,*** with significant achievements in a broad range of areas (see Box 5). Reforms have been aimed at correcting major deficiencies – to spur growth through private sector activity, and to start tackling key transparency and efficiency issues in the management of natural and public resources.

18. ***These actions have elicited a strong private sector response.*** About \$2.4 billion in new investments under consideration have been registered by the Government since early 2003 (private capital flows to sub-Saharan Africa in 2002 totaled about \$12 billion) – in a broad range of sectors (e.g., services, agro-business, constructions, natural resource exploitation). Flagship operations include a \$94 million cellular phone project by a British company, Vodaphone, a phased \$600 million investment project by Congo Korea Telecom to install a telecom backbone in the country, or the launch of a three-year program to increase offshore oil production by a Chevron-Texaco-led consortium.

Box 5: Key structural reforms since 2001

Economic governance:

- Promulgation in May 2002 of a law granting independence to the Central Bank;
- Establishment (and good functioning) of an inter-ministerial committee for economic reforms;
- Oversight and coordination of economic and financial issues, and of social and cultural affairs by two of the Vice-Presidents in June 2003.

Public expenditure management:

- Implementation of new procedures (designed with Bank support) to reinstate the full expenditure chain;
- Completion and transmission to Parliament of the audit of 2001 budget execution;
- Completion of the audit of 2002 budget execution (to be soon transmitted to Parliament).

Transparency:

- Adoption of an anti-corruption strategy, following a workshop organized with support by both the Bank and Transparency International in September 2002;
- Effective functioning of an Observatory of Professional Ethics Code since September 2003;
- Declaration of the President's personal wealth to Parliament in August 2003.

Civil service reform:

- Launch of a civil service census (with support by the Bank and Belgium);
- Initiation of an audit of the wage payment system (with support by France);
- Finalization of a retirement program (with Bank assistance).

Financial sector reform:

- Completion of audits of the Central Bank and the nine main commercial banks;
- Launch of the restructuring of three viable banks with a weak financial situation;
- Launch of the liquidation process for three non-viable financial institutions;
- Issuance of new prudential regulations reflecting international practices in July 2003.

Public enterprise reform:

- Completion of governance audits for most of the 114 Government-controlled large enterprises (and replacement of most managers as a result);
- Completion of operational and functional audits by independent auditors for about 20 major companies which have a commercial activity;
- Setting up of a Steering Committee for public enterprise reform (COPIREP) in October 2002;
- Launch of restructuring of key companies (e.g., the largest state-owned mining company, Gécamines, with a voluntary departure program for 10,000 employees already completed).

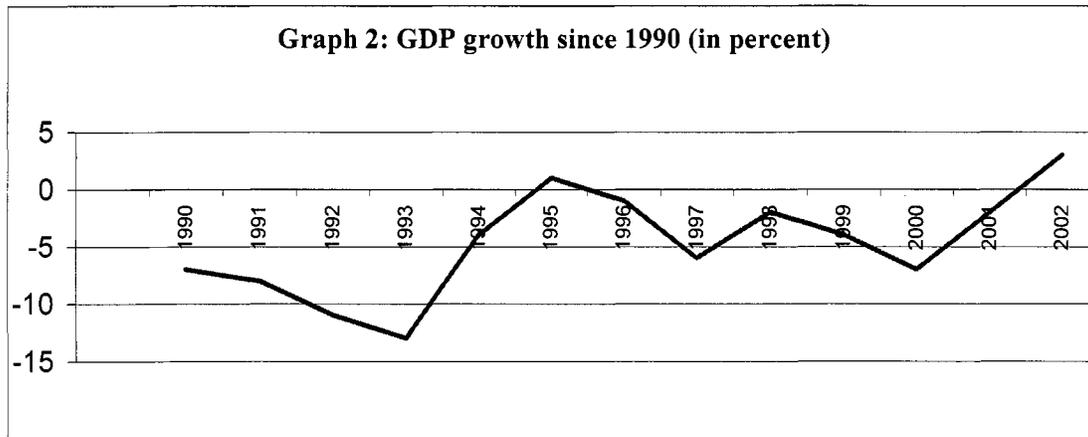
Private investment:

- Promulgation of a new investment code (prepared with Bank support) reflecting international best practices in February 2002;
- Establishment of a national investment promotion agency (ANAPI) in February 2003;
- Launch of reforms of business environment, arbitration, legal settlements, and tax regime.

Mining and forestry sectors:

- Promulgation of new mining and forestry codes (prepared with Bank support) reflecting international best practices in July 2002 and September 2002 respectively;
- Preparation of an updated mining cadastre;
- Review of concessions awarded to date in both sectors (with 143 forestry concessions, representing 25.5 million hectares, already canceled).

19. *As a result, economic growth returned in 2002* after ten years of contraction, and is accelerating (see Graph 2). Growth has been mainly pulled by the resumption of economic activity which followed the re-establishment of security and the reunification of the country (a pattern typical of post-conflict countries), an increase in agricultural production, the booming of selected services, and the comeback of the construction industry – reflecting the beginning of the transformation of the economy away from the traditional mining and export sectors.



The debt issue

20. *DRC's strong track record also facilitated the country's access to the Highly Indebted Poor Countries (HIPC) initiative.* The Government cleared its arrears to key creditors (including to the Bank in June 2002, as well as to the IMF and African Development Bank), and resumed timely service of its debt, after almost ten years of interruption. In September 2002 the Paris Club granted significant bilateral debt relief, and in July 2003 DRC reached its HIPC Decision Point – with a total relief estimated at \$6.3 billion in Net Present Value (NPV) terms (for a total stock of external debt outstanding estimated at \$7.9 billion in NPV terms and \$10.7 billion in nominal terms at end-2002). The Boards of the Bank and the IMF agreed on a floating Completion Point, (see triggers in Box 6), which could be reached in 2006.

Box 6: Triggers for HIPC Completion Point

1. Completion of a full Poverty Reduction Strategy Paper (PRSP) and its implementation for one year;
2. Continued performance in terms of macro-economic stability;
3. Effective use of budgetary savings resulting from HIPC-related debt service relief for poverty-related programs;
4. Improvements in public expenditure management;
5. Enhanced service delivery and governance in priority sectors (health, education, rural development, and infrastructure);
6. Adoption of satisfactory sectoral strategies and related implementation plans for health, education, and rural development; and
7. Improvements in public debt management.

21. *Despite access to HIPC, however, the debt issue remains a major threat to DRC's recovery* (see Box 7). In the short-term, debt relief is critical to free up resources for peace and development. However, although reaching the Decision Point made it possible to address part of the country's debt overhang, the resumption of debt service, even at a reduced level, is imposing a heavy toll on fiscal resources: external debt service is expected to represent between 32 and 40 percent of Government revenues between 2003 and 2007, before starting to sharply decline to less than 5 percent after 2010.

Box 7: The persisting debt threat

External public debt. Because of the nature of DRC's debt (and its large bilateral component), access to HIPC has provided only partial relief – and significant amounts of further assistance may be needed: it would take about \$220 million over the 2004-2007 period to reduce the debt-to-GDP ratio to 30 percent, about \$390 million to reduce it to 25 percent, and about \$550 million to reduce it to 20 percent.

External private debt. This debt amounts to about \$900 million, and poses a threat on DRC's credit worthiness and access to private capital. Discussions with the London Club are ongoing, but even with a very significant discount rate it will be difficult for DRC to face its obligations.

Internal debt. DRC has accrued a very large internal debt, estimated between \$500 and \$600 million, which is a major obstacle to the resumption of activity by key groups. Audits and negotiations are ongoing – but the amounts are such that substantial external assistance will be needed.

Prospects

22. *Overall, the situation remains fragile: assuming a 5.3 percent economic growth on average, it will take until 2060 for the country to reach the level of GDP per capita it had in 1960.* Assuming a 4 percent growth only (and a 2.7 percent population growth), it would take 200 years! While substantial progress has been made over the last period, the challenges remain daunting and have to be faced in a context of limited fiscal resources and compromised administrative capacity. The new Government has re-affirmed its commitment to implementing the economic program – but attention needs to be paid to maintaining the pace of reforms, in particular during the period of political transition, and to tackling some of the key issues associated with the country's reunification (including the reunification of fiscal systems and the effective implementation of reforms throughout the country).

D. The persisting social crisis

23. *Progress towards peace and recovery are taking place within the context of an acute social crisis*, which constitutes a major risk for the country's recovery. While political progress, economic reforms, and the return of growth have produced visible results in Kinshasa and other places (for example in Kisangani, where the re-opening of the Congo River has resulted in the halving of key commodity prices between January and October 2003), the social situation remains appalling:

- ***Hunger remains widespread throughout the country.*** Although detailed data on the humanitarian crisis are missing, rough estimates are known – but their sheer magnitude makes it sometimes difficult to grasp their significance in terms of human suffering: according to specialized UN agencies, 16 million people have critical food needs, and the vast majority of the population consume less than two thirds of the daily calories needed to maintain good health.
- ***A large number of Congolese communities have been forced into autarky,*** due to the collapse of the transport system and the widespread insecurity which prevailed in some provinces. These communities, with no access to markets for purchasing supplies and inputs or selling their produce, and no access to public services, are among the poorest. Communities living in remote areas are often completely isolated – and their living conditions are appalling.
- ***The conflict has caused “development in reverse” in the social sectors.*** Educational and medical structures have been ransacked or not maintained. Many staff have left these sectors, or even the country, and those who stayed have often not been paid for years. Supplies are missing in the absence of financial resources. As a result, social services are no longer delivered in large parts of the country, and even in large cities the situation is appalling. Despite admirable efforts by social sectors staff, only 30 percent of the population has access to basic medical care, while both school attendance and the quality of education have dropped.
- ***The decade of conflict and crisis has had a devastating impact on social capital*** – breaking up families and other solidarity networks. Large-scale displacements, violence and human rights abuses, as well as impoverishment have caused tremendous psychological suffering and a deterioration of the social fabric. As a result, traditional safety nets are no longer functioning effectively, and social networks which are key for economic recovery have also been severely disrupted.
- ***The HIV/AIDS epidemic is spreading.*** Large-scale population movements, the collapse of the public health system, the presence of foreign troops from countries with high HIV prevalence, and sexual violence during the conflicts are seen as the major causes for this accelerated spread of HIV/AIDS.
- ***A number of people are particularly vulnerable as a result of conflict:*** 3.5 million people are internally displaced and live in dreadful conditions. Although detailed data are missing, specialized agencies report a large number of victims of sexual violence and a growing number of orphans and street children.

24. ***The crisis, however, is affecting various groups of Congolese in a different manner, reflecting the combination of a number of factors:*** (i) people living in traditionally poorer provinces or areas (e.g., Maniema) tend to be more affected than those living in regions with more economic potential (e.g., mining resources in Katanga, transit activity in Bas-Congo); (ii) people living in the provinces most affected by the

conflict (in the East and Northeast) are often more affected, due to the legacy of years of violence and the continued insecurity in some areas; (iii) in a given province, people living in areas which are difficult to access, whether rural or urban, tend to be significantly more affected than those living in connected areas; and (iv) in a given community, women and isolated persons tend to be disproportionately affected.

25. *In this context, the chances for DRC to achieve the Millennium Development Goals (MDGs) by 2015 are seriously compromised.* While detailed statistical information is lacking, available indicators point to a serious deterioration in living conditions since 1990 (see Box 8): DRC's Human Development Index declined by more than 10 percent in the last ten years – and DRC ranks 167 out of 175 rated countries. The country is not likely to achieve the MDG targets by 2015, with the possible exception of target 4 (gender equality in education), target 7 (HIV/AIDS), and target 9 (environmental sustainability).

Box 8: Targets and current status of MDGs in Congo

Millennium Development Goal	1990	Target	Status	Remark
<i>Target 1:</i> Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.	n/a	n/a	75%	-
<i>Target 2:</i> Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	n/a	n/a	28%	1990 level believed to be low.
<i>Target 3:</i> Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	48%	100%	n/a	Believed to be substantially deteriorated.
<i>Target 4:</i> Eliminate gender disparity in primary and secondary education, by 2005, and to all levels of education no later than 2015.	1.35	1.00	n/a	Boys / girls ratio.
<i>Target 5:</i> Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	207	69	205	Per 1,000
<i>Target 6:</i> Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.	870	218	n/a	Per 100,000 live births
<i>Target 7:</i> Have halted by 2015 and begun to reverse the spread of HIV/AIDS	<4%	-	7.5%	-
<i>Target 8:</i> Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	n/a	n/a	n/a	Malaria believed to be very widespread.
<i>Target 9:</i> Integrate the principles of sustainable development into country policies and programs and reverse the losses of environmental resources.	Non-quantitative. Substantial progress through adoption of the new forestry code.			
<i>Target 10:</i> Halve, by 2015, the proportion of people without sustainable access to safe drinking water	36	18	70	Base level in 1980.

E. DRC at a crossroads

26. ***Overall, the window of opportunity identified in the 2001 TSS has considerably broadened.*** Still, the recent achievements, while important steps forward, are only the beginning of a process – the progress of which will depend, first, on the continued efforts by the Congolese themselves and, second, on the level and timeliness of support that the international community will be willing to provide.

27. ***DRC has moved from the first of three partly overlapping phases identified in the 2001 TSS to the second one.*** While such distinctions between phases are necessarily rough, they are useful in helping to conceptualize the way ahead. The first phase, political and economic stabilization, corresponded roughly to the 2001 TSS period and is now largely completed. The second phase, recovery, during which the basis (infrastructure, institutions, and policy) for poverty reduction in DRC would be rebuilt, is expected to roughly correspond to the new TSS. The third phase, development, will start once the country has normalized.

28. ***DRC hence stands at a crossroads – and the stakes are high.*** Determined action is needed in the coming years to consolidate and further expand recent progress – or the country could fall into a “conflict trap”: DEC research shows that about half of the countries emerging from conflict fall back into violence within five years. In view of the size and potential of the country, success is critical, not only for the 58 million Congolese, which have gone through terrifying ordeals over the last decade, but also for the entire sub-region (seven out of DRC’s nine neighbors have been directly involved in the DRC conflict or have experienced a major conflict over the last decade), and more broadly for Africa to make decisive progress towards the Millennium Development Goals.

II. IMPLEMENTATION OF THE 2001 TRANSITIONAL SUPPORT STRATEGY

A. The 2001 TSS

29. *The 2001 TSS aimed to contribute to the transition to peace and stability in both DRC and the sub-region* and to support the Government in its efforts to: (i) meet basic and urgent needs; (ii) rebuild effective public institutions and policies; (iii) revitalize economic activity; and (iv) rebuild implementation capacity. The TSS aimed to promote “early wins” to build a track record for the then new Government, and to restore confidence among Congolese, donors, and private investors.

30. *Assistance was expected to be three-fold:* (i) financial support; (ii) policy and technical advice (in close coordination with the IMF and others); and (iii) aid coordination. Within this context, the TSS made a distinction between two periods:

- *Prior to arrears clearance* – with priorities including: (i) implementation of special, grant-funded activities; (ii) normalization of relations with multilateral creditors; (iii) preparation of a comprehensive post-normalization program; and (iv) establishment of an initial track record to facilitate early access to HIPC.
- *After arrears clearance* – with priorities including: (i) provision of substantial financial support; (ii) expanded and deepened policy dialogue; (iii) provision of debt relief through access to HIPC; and (iv) opening of an office in Kinshasa.

B. Overall assessment and results

31. *Overall, Bank support during the 2001 TSS period has been credited to have made a critical contribution to the political and economic stabilization of the country* – by the highest Governmental authorities, the UN Special Representative of the Secretary General, donors, and civil society. A relationship of trust has been developed with the Government and key stakeholders (including private sector and civil society), which has been instrumental in defining and implementing the program of economic reforms currently underway and in supporting the overall recovery effort.

32. *All performance indicators set in the 2001 TSS to monitor progress and outcomes have been reached or exceeded* (see Annex 2): implementation of the 2001 TSS has indeed been largely successful.

C. Detailed implementation status

33. *Arrears to the Bank (about \$338 million) were cleared in July 2002*, with bridge financing from Belgium and France, within the context of a Bank-financed Economic Recovery Credit.

34. ***The DRC Country Office was re-opened in Kinshasa in late 2001.*** This office is now largely staffed (with four headquarters staff, four professional national and regional staff, two staff seconded by bilateral donors, seven ACS national staff, and five support personnel) and equipped. The office has played a critical role in fostering the Bank's dialogue with the Congolese authorities and in supporting rapid, effective, and transparent implementation. It has taken the lead, together with the United Nations Development Program (UNDP), in setting up and managing donor coordination mechanisms in the field. It has engaged in a systematic outreach effort toward the private sector and NGOs, which has facilitated the building of a strong constituency for reforms.

35. ***Substantial policy advice was provided to Congolese authorities,*** within the context of a dialogue which has included parliamentarians, business organizations, labor unions, faith-based groups, and civil society. The main areas of focus have included:

- ***Overall economic policy:*** cooperation with the IMF has been very close, with Bank staff focusing on a Public Expenditure Review (whose early results informed the 2003 and 2004 budgets);
- ***Support to access to HIPC:*** in close cooperation with the IMF, Bank support included hands-on policy advice, as well as preparation of a Debt Sustainability Analysis (DSA) and of a Joint Staff Assessment (JSA) of the Interim Poverty Reduction Strategy Paper (I-PRSP).
- ***Governance and fiduciary issues:*** a Country Procurement Assessment Review (CPAR) and an Institutional Governance Review (IGR) have been launched; support has also been provided, together with Transparency International, to help the Government design and implement its anti-corruption strategy;
- ***Private sector recovery:*** hands-on policy advice led to the adoption of the new investment, mining, and forestry codes, as well as to the establishment of an investment promotion agency, a steering committee for public enterprises reform, and a regulatory agency in the telecommunications sector; a sector study on public enterprise reform is being finalized; and
- ***Social sectors:*** a Health Country Status Report and an Education Country Status Report have been launched to enhance the knowledge base in these critical areas; a Risk and Vulnerability Analysis is being completed.

36. ***Five new projects were approved*** (see Annex 3 below), in line with the strategy outlined in the TSS. This includes four operations identified in the TSS (an Emergency Early Recovery Project, an Economic Recovery Credit, an Emergency Multi-sector Rehabilitation and Reconstruction Project, and a Private Sector Development and Competitiveness Project) and one operation (the Emergency Economic and Social Reunification Support Project) which was not included but was judged necessary to help stabilize the situation and respond to rapid political developments.

37. **Additional financial support was provided**, through: (i) regional projects and initiatives, including a Southern Africa Power Pool Project (approved in November 2003) and a number of special operations, within the context of the Multi-Country Demobilization and Reintegration Program (MDRP); (ii) a Bank-managed trust fund (the Emergency Stabilization and Recovery Project, financed by Belgium, Canada, the European Commission, and the Netherlands); and (iii) small grants (four from the Post Conflict Fund and three from the Institutional Development Fund).

38. **Implementation is overall satisfactory.** All projects are rated satisfactory on both implementation and development objectives ratings. Procurement and financial management systems have been put in place which ensure an effective and transparent use of available financial resources. Early results (notably from the Emergency Early Recovery Project and the Economic Recovery Credit) have been impressive and have translated into notable improvements in living conditions in Kinshasa (in particular through the rehabilitation of the city's major supply road). This was facilitated by the intensive use of non-traditional ways of working (see Box 9).

Box 9: Non-traditional ways of working for implementation

Multi-sectoral approach – including multi-sectoral projects, and multi-sectoral teams for economic dialogue.

Risk management, not avoidance – through the introduction of risk identification, early warning and rapid responses mechanism to prevent slippages and implementation issues.

Involvement of support staff in implementation – to help counterparts in the field, beyond traditional roles.

Hands-on implementation support – with substantial assistance in the early stages of implementation and close follow up of activities.

Decentralization – strong involvement of country office staff in implementation.

Regular, full-day retreats with Government – to review implementation and discuss critical issues.

39. **The 2001 TSS period also saw the re-engagement of IFC and re-initiation of the dialogue with MIGA.** IFC has approved two operations (for a total of \$26 million), although this re-engagement seems to remain somewhat constrained by staff availability to prepare investments. Following a high-level mission in March 2003, it is hoped that IFC involvement will substantially expand in the coming period. MIGA launched a high-level mission to DRC, which explored possibilities for re-engagement, but no guarantee has been issued to date (a \$3 million operation is under consideration).

40. **Finally, the Bank played a key role in mobilizing, and coordinating with, other donors**, including: (i) the preparation and organization of donor information meetings aimed at building a consensus within the international community on the need and opportunity to support DRC's recovery (in July 2001, December 2001, and May 2002), and consultative group meetings aimed at mobilizing resources (in December 2002 and December 2003); (ii) a decisive contribution to the establishment of donor coordination

mechanisms in the field (which are co-chaired by the Bank and UNDP); and (iii) the leadership of multi-donor missions in the outer provinces.

42. *The Bank's re-engagement was accompanied by a similar effort by others* – donors (with total disbursements increasing from \$210 million to about \$720 million between 2000 and 2003), creditors (who consented to an exceptional level of debt relief beyond Naples terms), and private investors.

D. Lessons learned

41. *A number of lessons have been learned along the way*, which are important for future Bank and donor support to DRC and are consistent with lessons learned in other post-conflict countries (see Box 10), including:

- *First, aid can make a difference in a difficult conflict-resolution process* – by providing the means for DRC to seize windows of opportunity as they open and by contributing to economic and social stabilization at critical junctures.
- *Second, focus on a set of realistic and specific objectives*. The realism and specificity of the objectives set out in the 2001 TSS, and the measurability of the corresponding progress and outcomes indicators, were critical in ensuring that Bank efforts remain focused and in following up implementation progress.
- *Third, three key ingredients of success are: an intense dialogue with the authorities, exceptional level of financial assistance, and hands-on policy advice*. Bank-Government dialogue has been key in launching the reform agenda. Exceptional levels of financial support have proven necessary to face the challenges associated with post-conflict recovery – and have yielded disproportionate returns. Hands-on policy advice has been essential in helping Congolese authorities define and implement in-depth economic reforms.
- *Fourth, focus on implementation*. Experience shows that substantial assistance can be implemented in DRC. Indeed, capacity constraints can be overcome with an appropriate design of implementation arrangements, hands-on support to implementation, and a dose of pragmatism and flexibility. There are now tested and effective implementation mechanisms in place (for large infrastructure, community projects, and institutional strengthening) – and a strong commitment by the Government to use them, including for Government-funded activities.
- *Fifth, work with others*. Results were achieved through a close coordination with other actors: (i) with the UN, to ensure a proper synchronization of political and economic stabilization efforts; (ii) with the IMF, on economic issues; (iii) with selected bilaterals, who played a champion role and helped mobilize others.

- ***Sixth, build a strong team of staff and supporters.*** A strong team of staff willing and able to face up to the challenges of re-engagement in a very difficult context and a considerable level of support by senior management are key elements of success.

Box 10: Lessons of post-conflict assistance programs

Over the last years, several lessons have emerged for Bank assistance to post-conflict recovery, including:

- ***Exceptional levels of financial assistance are needed for a long period.*** DEC research, analytical work in the Africa region, and experience in post-conflict countries shows that an exceptional level of financial support is necessary for about ten years to face the challenges associated with post-conflict recovery.
- ***Aid is key to prevent the fall-back in conflict.*** About half of the countries emerging from conflict return to violence within five years. Aid focused on growth and improved governance can make a critical difference.
- ***Risks need to be managed, not avoided.*** Working in a post-conflict country is often a high-risk, high-gain endeavor.
- ***Effective assistance to post-conflict countries requires an overhaul of standard approaches*** (e.g., nature, pace, and sequencing of reforms), and not only specific programs (e.g., for war-affected groups).
- ***Success is possible*** – as evidenced in Africa by the cases of Mozambique and Uganda.

III. THE ROAD AHEAD

A. A transformed environment and the need to adjust

42. *Recent developments bode well for the sustainable return of political stability and economic growth.* They also illustrate the role aid can play in the early phase of post-conflict recovery. The commitment to continued reforms, which has been reaffirmed and already demonstrated by the new Government, suggests that it will be possible to build on earlier success in the coming period.

43. *Experience in other countries, however, shows that the level and nature of post-conflict assistance (including both objectives and instruments) has to be continuously adjusted to reflect and accompany changes in the political environment.* There have been instances where external assistance, while initially very successful, has eventually failed to deliver the type of support needed for medium-term recovery – in part because the initial strategy has been adhered to for too long and because the necessary shifts have not taken place in time. In this context, the new TSS needs not only to build on past successes, but also to tailor the proposed assistance to the new conditions in DRC, including:

- *The new political context, following the appointment of the national unity Government,* which is creating a new environment – with new risks (e.g., possible lack of focus on economic issues towards the end of the transition period, as elections near) and new opportunities (e.g., a drive for rapid results by all parties which will seek votes); and
- *The reunification of the country,* after years of division; this results in a doubling of the territory (and population) where Bank assistance can be provided, including remote and politically-fragile areas; the reunification also raises significant challenges from an institutional perspective, in particular with regard to the redefinition of relations between the central Government and the provinces.

B. DRC's strategic objective for the coming period

44. *Looking ahead, the key challenge for DRC in the next two years is hence to manage the transition period, in order to consolidate peace and lay the ground for development.* Research and experience in other countries shows that the return of economic growth and improvements in services delivery can go a long way in this direction. Particular attention should be paid to avoiding repeating the mistakes of the past, in particular by tackling the current sources of instability (see Box 11).

Box 11: Causes of conflicts and sources of instability

The original causes of political instability and conflicts, in the early 1990s, are complex and multi-fold. Most observers, however, cite the interplay of three key factors as having been particularly devastating: (i) mismanagement of public revenues, compounded by widespread corruption; (ii) deteriorating delivery of social services; and (iii) foreign interest in DRC's resources, regional instability, and neighboring countries' ambitions as the support DRC enjoyed during the Cold War was waning. The ethnic dimension is not seen as having played a major role (about 300 ethnic groups live in Congo, none representing more than a few percent of the population).

The dynamics of the conflicts have transformed the political and social context. Some of the original causes of the conflict are no longer major threats to stability (e.g., the regional environment is no longer one of descent into chaos, but one of gradual stabilization; political participation is improved). Other factors have emerged, however, which could cause major instability, such as the impoverishment of large segments of the population or the creation of militias and armed groups.

The challenge is hence to focus on the current causes of instability rather than on the original causes of conflicts – while still paying attention to ensuring that these original causes do not re-emerge and that the underlying issues are effectively addressed.

C. The PRSP process

45. ***The PRSP process is expected to be instrumental in articulating DRC's development challenges.*** An Interim PRSP has been prepared through an extensive consultative process and the JSA was discussed by the Boards of the World Bank and IMF in June 2002. It is centered around three main themes: (i) restoration and consolidation of peace and sustainable good governance; (ii) macroeconomic stabilization and pro-poor growth; and (iii) community dynamics (community-led development initiatives). Preparation of a full PRSP is underway, through an extensive consultation process, with support from the Bank and other donors. The Government has formulated an action plan, budget, and timetable to that effect, and the full PRSP is expected to be completed by early 2006.

46. ***Donors have encouraged the Government to draw from the I-PRSP a priority list of operations to be implemented during preparation of the PRSP.*** This list, which is expected to be presented at a Donor Conference in Spring 2004, and could amount to up to \$7 billion for a three- to four-year period, will provide the framework for donor support and coordination in the coming period. Drawing from the I-PRSP and in view of the recent developments, it is expected to include four key strategic elements: (i) social stability and security; (ii) shared economic growth; (iii) governance and institutional strengthening; and (iv) social development.

D. The key challenges ahead

Social stability and security

47. ***Restoring and consolidating the security situation throughout the country, and in particular in areas that have been most affected by the conflict, is a pre-requisite*** for DRC's recovery to be successful. There is a broad consensus that the insecurity still prevailing in some areas is caused by the continued activity of bands of unpaid military or former militias – with a total number of fighters and former fighters in DRC estimated at up to 320,000. The challenge is hence three-fold:

- ***Pursue the efforts aimed at unifying and restructuring DRC's armed forces,*** which have already been launched. This includes in particular the integration of some of the former rebels (following a screening process) in the armed forces, and a substantial downsizing of these forces (possibly by up to half) in the short-term. It also requires follow-up programs aimed at increasing the armed forces' professionalism and accountability.
- ***Implement a smooth disarmament, demobilization, and reintegration (DDR) program,*** to provide those former combatants who have not been incorporated in the restructured armed forces or who have been affected by the downsizing effort (as well as foreign rebels operating from the DRC territory) with sustainable alternative opportunities. Support is expected to be channeled through the Multi-country Demobilization and Reintegration Program (MDRP).
- ***Ensure regular and adequate payment of members of the restructured and downsized armed forces,*** in a context still marked by memories of the mutinies and looting episodes of the early 1990s. This is closely linked to the success of fiscal mobilization efforts (within the current budget envelope, amounts allocated for such payments are minimal, at about \$12 per soldier per month), as well as with the availability of budgetary support from donors.

48. ***In parallel, substantial efforts will be needed to prepare and manage the elections process,*** which is foreseen in the agreements reached during the inter-Congolese dialogue. Although this is not an area in which the Bank will be involved, it is a key element of the recovery process – and will require substantial assistance from bilateral donors (with a total cost estimated to date at about \$200 million).

High and shared economic growth

49. ***Research and experience highlight the importance of economic growth in post-conflict situations:*** faster growth empirically reduces the risk of renewed turmoil both in the short-term and cumulatively in the longer term by raising the level of income. Such growth, however, needs to be broadly shared within the population both to play a stabilizing role and to contribute to improving living conditions.

50. ***The key challenge for DRC is to ensure that economic growth is both sustainable and broadly shared.*** In a country as richly endowed as DRC, it is no surprise that the return of peace and progress towards macro-economic stability rapidly result in renewed economic growth. But the economic history of the country over the past decades suggests that growth does not necessarily translate into enhanced living conditions for the majority of people. It also suggests that the past focus on natural resources and extractive industries (rather than, say, agriculture and services) might have contributed to the mismanagement of the economy. The objective is therefore to go beyond growth – towards shared growth (see Box 12).

Box 12: Key sources of growth in the recovery and transition period

- ***“Post-conflict rebound”***, i.e. the resumption of economic activity as a result of improved security, re-opened transport and communications links, and enhanced confidence (leading to increased consumption and investment by households);
- ***Increased agricultural production***, as part of this rebound, in particular as access to markets is restored;
- ***Private investment*** (including foreign investment) in the services and natural resources sectors, as a continuation of an existing trend; and
- ***Externally-financed reconstruction projects***, in particular for construction and trade.

51. ***This will require action in a number of areas*** – and there is a broad consensus among all stakeholders around a five-fold agenda:

- ***Consolidate macro-economic stability, fiscal mobilization, and public expenditure management*** – within the context of the economic program supported by the Bretton Woods Institutions. This is expected to be a multi-year effort, requiring both difficult political decisions and external support (budget support, institutional strengthening, and targeted analytical work).
- ***Reconstruct key large infrastructure*** which underpin economic activity (in particular in the transport and power sectors) – and improve their operation and maintenance systems. This will require sizable external financial support as well as some institutional strengthening – with a particular view to the regional dimension of this endeavor.
- ***Continue to improve the business environment***. Building on recent achievements, a series of new reforms need to be undertaken, while the recently-adopted ones need to be implemented throughout the country. External support will be needed through a mix of budget support, institutional strengthening, and targeted analytical work, as well as direct support to private sector (e.g., by IFC or MIGA).
- ***Continue to improve natural resources management***. Efforts will aim to ensure a proper and country-wide implementation of the new mining and forestry codes,

with a view to improving both transparency in allocating mining and forestry rights and management of the revenues generated in these sectors. This is expected to require external assistance in the form of policy advice and analytical work, as well as targeted capacity strengthening.

- **Revitalize agriculture**, to remedy decades of neglect and conflict-induced destruction. To ensure high and sustainable growth in this sector, the deep-rooted constraints to growth (e.g., regulatory issues, rural credit, agricultural productivity) need to be removed. But this is a complex and lengthy process – and, in view of the ongoing social crisis, visible results are needed early on to stabilize the situation and create an environment for eventual reforms. In the short-term, efforts will hence focus on opportunities for quick-wins (while also laying the ground for medium-term reforms) – which will require both financial assistance and analytical work.

Governance and capacity

52. ***There is a consensus in DRC that economic recovery and political stabilization both require the rebuilding and transformation of the State***, to deal with both the legacy of the 1980s and the impact of conflict. Key actors in the inter-Congolese dialogue, as well as private sector and civil society stakeholders, share a vision of a market-based economy in which the State would withdraw from productive sectors, and work in coalition with non-governmental networks to deliver social services. Experience of the past years shows that the situation has reached such a point that powerful constituencies all have to gain from reforms.

53. ***The challenge is to rebuild key institutions, in a country where the twin issues of governance and capacity are at the core of the development challenges***. Historical causes of institutional weaknesses – including difficulties of access, the very small number of academically-trained Congolese at the time of independence, and the long period of mismanagement and corruption – have been compounded by the decade of instability and conflict, which has left most institutions in shambles, in particular at the provincial and local levels.

54. ***To that effect, the first and foremost challenge is to ensure the adequate and regular payment of civil servants***: unless this issue is tackled, all other governance and institutional strengthening efforts are unlikely to succeed. Indeed, civil service salaries are out of proportion with the cost of living: qualified staff (e.g., doctors, magistrates) are commonly paid about \$30 a month (i.e. \$1 a day, which is the definition of extreme poverty), and there are substantial payment arrears, of up to five years, in a number of areas. This makes it very difficult for qualified civil servants to make a living without developing alternative, possibly unethical, sources of income.

55. ***Substantial efforts, by both the Government and donors, are needed***. Key priorities for the short term include: (i) pursuing fiscal mobilization efforts: despite the efforts of the last years, revenues remain insufficient to meet the basic needs of the

country; and (ii) improving the payroll system, to eliminate “ghost workers” and strengthen the payment chain. Substantial external assistance, in the form of budget assistance, is however needed for this process to succeed.

56. ***As the salary issue gets tackled, the Government has defined a four-fold agenda of action for improved governance*** – which will require external assistance in the form of advisory services and capacity strengthening, equipment, and building repairs:

- ***Redefine the relationship between the central and local levels of Government*** (including issues such as sharing of responsibilities, sharing of capacities, fiscal centralization and retro-cessions). In a complex political context, a pragmatic, sector-by-sector approach centered around the notion of improved service delivery (and reflecting both the actual capacities existing at each level and the lessons learned over the years of division) is needed, with possible quick-wins in the short-term (in particular on fiscal issues).
- ***Build and strengthen skills within a restructured public sector, at both the national and provincial levels.*** Needs are very substantial and include training, equipment, and building repairs, as well as support to organization and management. A case-by-case, institution-by-institution approach needs to be developed both to address immediate needs and to prepare for the medium-term.
- ***Restore a functioning judiciary to ensure the rule of law*** – and in particular to put an end to the culture of impunity among armed groups, to improve the security of people and goods, to ensure the respect of property rights and contracts, and thereby to create an environment conducive to private sector activity. In this context, stakeholders underline the need to strengthen the judiciary’s integrity and professionalism – as well as to carry out in-depth structural reforms throughout the judiciary.
- ***Implement the Government’s anti-corruption strategy*** – on which President Kabila and a number of Government members have placed a heavy emphasis. A very substantial increase in civil servant salaries, although not sufficient to resolve the problem of corruption, is an indispensable element of any comprehensive program of action in this area.

57. ***Particular efforts are needed to restore a functioning statistical system.*** While the information available to date is adequate to prepare emergency projects aimed at meeting the most critical needs, there is a need to gradually rebuild statistical capacity and collect systematic data throughout the country, so as to enhance the knowledge base and put in place the analytical basis which can underpin future efforts. The collapse of the pre-1990s system provides an opportunity to rebuild this institution on a sound footing – but particular efforts will be needed to ensure proper donor coordination, preferably by developing a multi-year, multi-donor program.

Social development

58. *Urgent measures are needed to rapidly improve social conditions* – and prevent a further deterioration of social indicators, which would take the country further away from eventually reaching the Millennium Development Goals.

59. *The key challenge is to overcome implementation issues in order to meet urgent needs while laying the ground for medium-term development actions.* In a country where each of the eleven provinces is about the size of a medium African country, and which has major access and capacity problems, reaching out beyond the capital and the main cities requires the development of creative implementation mechanisms. This can build on the historically well-developed networks of non-governmental service providers (mainly faith-based groups and public enterprises) – as well as on innovative implementation arrangements (such as a delegation of responsibilities to regional-level implementation agencies).

60. *Priorities are six-fold:*

- *Curbing the spread of the HIV/AIDS epidemic*, which is a threat to medium-term recovery and political stability. In the 1980s, DRC was at the forefront of the fight against the epidemic – but the decade of instability and conflict has put a halt to this effort, with dramatic consequences for many Congolese.
- *Rehabilitating the health sector*; which has suffered considerable damage during the conflict – with a view to both improve access to health services and implement public health programs throughout the country. This will require both putting in place an adequate financing system (which will have to be substantially supported by donors) and tackling a number of urgent rehabilitation issues.
- *Revitalizing the education sector*: DRC is one of the “Education For All” fast-track countries, and needs to tackle both access and quality issues. Education’s allocation in the national budget, however, has never been above 1 percent, (compared with an average of 14 percent for Sub-Saharan Africa), and substantial efforts will be needed. In a context of rapid population growth, parallel actions will need to be taken both to prevent a further deterioration of literacy rates (primary education) and to develop the skills that are required for economic recovery – with a particular focus on restoring secondary education, expanding professional education, and reforming higher education.
- *Improving water supply* – to help reduce the impact of preventable waterborne diseases, which are among the main killers in DRC. About half of DRC’s 93 established water supply stations do not function, and leaks in the distribution network are common, which contributes to the declining yields of the network. The objective is not only to rehabilitate, but also to upgrade and extend piped drinking water supplies, in a context of rapid population and urban growth.

- ***Improving living conditions in urban areas.*** Over a third of DRC's population lives in a relatively large number of urban centers – and urbanization has been accelerated by conflict, while infrastructure has not kept up. A particular challenge is to restore drainage to prevent landslides (caused by erosion resulting from extensive rainfalls), which have devastated key cities over the last years (including, but not limited to, Kinshasa), taking a number of lives and damaging essential infrastructure and to restore delivery of utilities services; and
- ***Helping the neediest*** – through a strategy that reinforces the role of families and communities in protecting vulnerable people and avoids institutionalization. Key target groups include: street children, child soldiers, child prostitutes, children employed in other physically or psychologically abusive conditions (such as in artisanal diamond mines), and orphaned children who are heads of families, as well as disabled and elderly persons without family support, people suffering from HIV/AIDS and other major diseases, and their surviving families.

IV. A BANK STRATEGY FOR FY04 – FY05

A. Operational context

61. *Bank assistance to DRC should continue to be provided within the context of OP/BP2.30* on “Development Cooperation and Conflict” – in view of the continued need for exceptional support to consolidate recent progress, and face the challenges associated with the ongoing recovery and transition process. Criteria for the preparation of a TSS are met: (i) active conflict has diminished sufficiently for Bank staff to be able travel to the area for the purpose of identifying and supervising Bank-supported activities, and for the country to prepare and carry out any such activities effectively and achieve their objectives; (ii) there is reasonable expectation of continued stability or of a sustainable formal cease-fire; (iii) there is an effective counterpart for the Bank; and (iv) there is evidence of strong international cooperation and the potential for a well-defined role for the Bank. Pre-requisites for the preparation of a formal Country Assistance Strategy (including, but not limited to, the completion of a full Poverty Reduction Strategy Paper), however, are not in place yet.

62. *The new TSS proposes an assistance program for 2004 – 2006, which will roughly cover the period of political transition.* Preparation and discussion of this TSS, which was originally planned for July 2003, was postponed in order to allow for effective consultations with the new transition Government (which was appointed on June 30, 2003), as well as with the private sector and civil society stakeholders in the reunified provinces. At the end of the TSS period, staff will review the situation (both social stability and implementation of economic reforms) as well as the status of preparation of a full PRSP, with a view to moving to a formal CAS as soon as conditions are right. In the event of delays, the Country Team would explore options such as extending this TSS.

B. Objective and strategic elements of the TSS

63. *The proposed objective of the TSS is to support the recovery and transition process*, that is to help consolidate the peace and reconciliation process and to restore the foundations (including demobilization and reintegration, physical infrastructure, policies, institutions, and social services) on which effective poverty alleviation efforts can be successfully undertaken.

64. *The specific strategic elements of the TSS are those identified in the Government’s recovery program:*

- *Support to security and social stability* – with a focus on demobilization and reintegration of former combatants, within the Multi-country Demobilization and Reintegration Program (MDRP) framework;

- ***Support to high and shared growth*** – through both advisory services and investment operations, with a focus on: (i) economic management, (ii) infrastructure reconstruction and management, (iii) private sector development, (iv) natural resource management, and (v) rural development;
- ***Support to governance and institutional strengthening*** – through both advisory services and adjustment operations, with a focus on: (i) reunification and decentralization of institutions; (ii) targeted institutional strengthening; (iii) judicial reform; and (iv) transparency.
- ***Support to social development*** – through both advisory services and investment operations, with a focus on: (i) HIV/AIDS; (ii) health; (iii) education; (iv) water supply; (v) improvements in living conditions in urban centers; and (vi) social protection.

C. Expected results, and monitoring and evaluation

65. ***The TSS proposes to assess performance against a set of indicators aimed at measuring the outcome of Bank support*** (see Annex 1). Indicators were selected on the basis of several criteria, including: simplicity, measurability, and monitorability even in the absence of detailed statistics.

66. ***Progress against these indicators will be assessed on an ongoing basis***, through regular consultations with the Government, key Congolese stakeholders, and donors (so as to integrate a variety of perspectives). Progress achieved through Bank intervention will be measured against all criteria on an annual basis – to ensure that Bank programs are managed for results and focused on making a measurable difference on the ground.

D. Donor coordination and selectivity

67. ***Efforts made during the 2001 TSS period to mobilize and coordinate donors have paid off***. While detailed data are somewhat difficult to compare and aggregate, information received at the December 2003 Consultative Group meeting (see Box 13) suggests that donors have taken steps both to increase their commitments and to accelerate implementation. Disbursements are expected to reach \$961 million in 2004 and \$1,076 million in 2005.

68. ***Donor resources are used in support of a very broad variety of activities throughout the country*** – from infrastructure repairs to community development, from support to food security to institutional strengthening. They are provided by over 23 donors, including bilaterals, UN agencies, and multilaterals, and have been channeled through a broad variety of entities – Government bodies, UN agencies, private firms, and NGOs.

69. ***Within this context, attention was paid to ensuring the complementarity of proposed Bank activities with other donors' programs.*** The Bank being a large financier may need to be involved in a broad range of sectors, but it still needs to focus and target its support to maximize impact of limited resources. The synergy between the proposed Bank program and donor activities was discussed with key donors during TSS consultations – and it is expected to be maintained throughout the period of TSS implementation through close coordination in the field. Selectivity criteria have been agreed upon with Congolese stakeholders and other donors: (i) focus on those activities which promise to have the largest pay-off with regard to supporting the recovery and transition process; (ii) focus on areas in which the Bank has a comparative advantage vis-à-vis other donors currently involved in DRC, including areas in which the Bank is already active; and (iii) focus on areas which are complementary to other activities planned or underway – by other donors or local stakeholders.

Box 13: Key messages of the December 17-18, 2003 Consultative Group Meeting

The December 2003 Consultative Group meeting, which was held in Paris, ended with three key messages:

- ***A message of congratulations for the Government*** for the political and economic achievements of the last period;
- ***A message of encouragement to the Government***, to consolidate reforms and properly manage the political transition; and
- ***A message of urgency*** to all donors to step up their support to make it possible to tackle the twin challenges of recovery and transition in a context of acute social crisis.

70. ***Attention was also paid to ensuring that Bank activities will continue to contribute to increasing DRC's absorption capacity*** for external assistance, in particular by setting up adequate mechanisms for transparent and effective implementation of externally-financed activities. This is of particular importance as substantial additional resources are expected to be made available by donors in the coming period.

E. Instruments for Bank Group assistance

71. ***The TSS proposes a five-fold agenda:*** (i) managing the existing portfolio; (ii) providing advisory services and developing a knowledge base; (iii) launching new lending operations; (iv) engaging the entire Bank Group; and (v) mobilizing and coordinating donors.

Managing the existing portfolio

72. ***Despite the portfolio being young, commitments and disbursements have already been substantial.*** Implementation to date is proceeding well, and particular efforts will be made in the coming years to maintain this level of performance. This will be the first priority for both the Government and the country team, particularly since

existing projects are the ones that are most likely to translate into actual results on the ground over the TSS and the political transition period.

73. ***This focus will translate into continuing to implement and further expand the current implementation support strategy***, including:

- ***Ensuring relatively high budget allocations*** for implementation support (commensurate with the size and complexity of the country);
- ***Strengthening the country office***, in particular to increase its reach out of Kinshasa and facilitate its involvement in the outer provinces;
- ***Continuing to develop innovative approaches to portfolio management***, including strong involvement of ACS staff in hands-on implementation support and decentralization of selected responsibilities to the field; and
- ***Reviewing on a regular basis, and possibly adjusting, implementation mechanisms*** for ongoing projects, as may be necessary (in particular to prepare for an eventual transfer of responsibilities from the ad hoc institutions created over the last two years to sectoral ministries and other relevant technical entities).

Providing advisory services and developing a knowledge base

74. ***Non-lending services are a critical component of Bank support***. Efforts will aim to ensure that the proposed analytical work can be easily and effectively translated into practical, specific policy measures which can be implemented in the short- and medium-term. The TSS proposes to focus on: (i) advisory services and hands-on support for implementation of the ongoing program of economic reforms; (ii) analytical work to strengthen the knowledge base (including key core diagnosis tasks) and prepare for new lending operations; (iii) sectoral work to support the PRSP process; and (iv) preparatory analytical work on external debt, for DRC to become eligible to the IDA facility supporting the buy-back of London Club debt.

75. ***This work will be partly financed through ongoing operations*** – in particular through the Emergency Multi-sector Rehabilitation and Reconstruction Project (for infrastructure and social sectors), the Private Sector Development and Competitiveness Project (for issues related to private sector development, mining sector, and judiciary reform), and the Emergency Economic and Social Reunification Support Project (for support to PRSP, forestry reforms, and other key economic reforms). This will help ensure that non-lending activities best meet the Government's needs – and mitigate Bank administrative budget constraints (which are strict for a country the size of DRC).

76. ***Co-financing from other donors will also continue to be sought***. A sizable portion of the analytical work supported by the Bank to date has been undertaken in close conjunction with bilateral donors – by ensuring the sharing of sub-tasks among

financiers, through targeted co-financing by key bilaterals, or through Trust Funds managed by the Bank. Such arrangements are expected to continue in the coming period.

77. *Analytical and Advisory Activities (AAA) financed through Bank administrative budget will hence focus on a limited set of targeted interventions* – to complement project-financed or co-financed activities (see table below).

Fiscal Year	Proposed Program	Remark
FY04	Public Expenditure Review (PER) (completion)	Focus on fiscal relations between central and provincial governments
	Country Procurement Assessment Report (CPAR)	Support procurement reform.
	Education Country Status Report	Support PRSP process / prepare project.
	Public Enterprises Reform Study	-
	Support to an expanded EMRRP	Support PRSP process / prepare project.
	Vulnerability study	Support PRSP process / prepare project.
FY05	Financial Sector Assessment Program (FSAP)	Support financial sector reform.
	Country Financial Accountability Assessment (CFAA)	Support reform of financial management in the public sector.
	Institutional Governance Review	Focus on service delivery
	Preparatory work for London Club buy-back	-
	Health Country Status Report	Support PRSP process / prepare project.
	Agriculture sector review	Support PRSP process / prepare project.
FY06	Poverty Assessment	Support PRSP process / core diagnosis.
	Country Economic Memorandum	Core diagnosis.

Launching new lending operations

78. *To help DRC address priority issues associated with the transition and recovery process, a substantial program of financial assistance is proposed.* The table below indicates estimated needs for each operation (project amounts may need to be adjusted in line with the evolution of the financial envelope available overall). New projects are expected to be complemented by small grants under the Post Conflict Fund (PCF) and the Institutional Development Fund (IDF).

79. *These operations are expected to center around several objectives:* (i) support reconstruction, rehabilitation, and recovery in key sectors through a series of sectoral and multi-sectoral projects; (ii) support activities aimed at stabilizing the social situation (with a focus on conflict-affected groups); (iii) support economic reforms, and in particular priority structural reforms identified as triggers for HIPC Completion Point, through balance of payments support operations (within the context of the overall implementation of the Government's economic program); and (iv) support the revival of economic activity, through interventions in support of private sector and agriculture. These projects are expected to be implemented throughout the country, with a focus on ensuring a sound distribution of benefits across all provinces.

80. *The new operations are expected to be designed in a manner that responds to the specific circumstances of a post-conflict situation.* They will be prepared under OP/BP 8.50 on emergency assistance where appropriate. In view of both the extent of the ongoing fiscal mobilization effort and the need to ensure rapid implementation, the Government will not be required to provide counterpart funds for any of the operations included in the TSS (as with projects under the 2001 TSS).

81. *These operations will be financed through an exceptional, post-conflict IDA allocation, as well as through grants under IDA 13* (under the post-conflict, debt distressed, and HIV/AIDS categories, and on the basis of an allocation reflecting post-conflict performance). This is consistent with the debt sustainability scenarios presented in the HIPC paper (which foresaw a projected total amount of possible Bank lending at these levels, with no grant element). The post-conflict allocation is expected to decrease after the fourth year (following IDA allocations procedures), i.e. after the end of this TSS.

Fiscal Year	Proposed Program	Remark	US\$ million*
FY04	Emergency Economic and Social Reunification Support Project	Multi-sector operation approved in Sept. 2003	214
	Southern Africa Power Pool Project	Regional operation approved in Nov. 2003	-
	HIV/AIDS Project	Carry over from the 2001 TSS. To be financed through a grant.	100
	Post-reunification Economic Recovery Credit	Presented to the Board together with this TSS.	200
FY05	Emergency Demobilization and Reintegration Project	Within context of MDRP.	100
	Health Sector Rehabilitation Project	Based on FY05 analytical work	60
	Education Sector Rehabilitation Project	Based on FY04 analytical work	70
	Emergency Living Conditions Improvements Project	-	50
	Emergency Social Action Program	-	50
	BOP support operation	-	70
FY06	Multi-modal transport project	Operations and maintenance	120
	Public utilities project	Power and water	100
	Agriculture project	Marketing/agro-processing focus	70
	PSD / FSD project	Support to SMEs and financial intermediation (e.g., line of credit)	40
	BOP support operation	-	70

*Total amount for FY06 will be adjusted on the basis of IDA allocations.

Engaging the entire Bank Group

82. *There is substantial interest in the private sector for re-engagement in DRC, and for support by IFC and MIGA* – as expressed during the well-attended business forums which followed the 2002 and 2003 meetings of the Consultative Group. Efforts will be redoubled to ensure an adequate involvement of both IFC and MIGA.

Mobilizing and coordinating donors

83. *Finally, the Bank will continue its efforts to mobilize and coordinate support by other donors.* The TSS proposes that the Bank continues to play a strong role in this area, through: (i) organizing and chairing annual meetings of the Consultative Group; (ii) assisting in defining multi-donor programs; (iii) continuing to play an active or leading role, as may be the case, in coordination mechanisms set in the field; and (iv) supporting the Government's efforts to gradually take the lead in the coordination effort.

F. Risk management and exit strategy

Risk management

84. *Engagement in a post-conflict context is a high-risk, high-gain enterprise.* The situation in DRC remains difficult – but the risks of engagement have to be balanced with the risks of inaction, which are considerable. Research and experience show that external assistance can play a key role in promoting the type of reforms needed for consolidating economic growth and political normalization. The approach suggested here consists of adopting a pro-active risk management strategy rather than a risk avoidance approach – to identify key factors of risks and design ways to minimize their potential impact.

85. *In this context, six key, program-level risks already identified:*

- *Regional instability and threats to the peace process.* Most observers assess the risk of renewed, large-scale conflict as low (short of a dramatic event which would overturn past political progress). Still, wars and civil conflicts have engulfed a large part of Central Africa over the last decade, including seven of DRC's nine neighbors. DRC's recovery cannot happen in isolation and requires the stabilization of the entire sub-region – and major events in the region or a further deterioration of the security situation in some areas could eventually affect the recovery and transition process.

The TSS aims specifically to support efforts to consolidate stability, and hence reduce the odds for renewed conflict in DRC. These actions are expected to be complemented by parallel programs in other countries in the region with a view to promoting an overall return to stability. The situation in DRC itself will be closely monitored (in conjunction with the UN and key bilaterals), so as to adjust the program to the political circumstances (and possibly scale down if needed).

- *Localized insecurity.* With the country largely at peace, insecurity could persist in some parts of the country, making it impossible to implement meaningful development activities in these areas.

Support under the TSS is expected to help stabilize the situation in such areas (e.g., by supporting the demobilization, and reintegration process). In case this

risk would materialize, TSS implementation will go ahead in the rest of the country, as is currently done in other African and non-African countries.

- ***Risks associated with the process of political transition.*** These risks include: major dysfunctioning within the coalition Government, possible interferences from political campaigning with the reform agenda (particularly towards the end of the period) and political paralysis in the pre-election period (with decision-makers focusing on the political process and/or engaging in populist strategies).

To manage this risk, the situation will be closely monitored in coordination with key bilaterals, so as to react early. It is worth noting, however, that these risks are associated with significant opportunities: (i) to date, Government officials have reacted to the pre-election pressure by trying to accelerate the implementation of projects and reforms, so as to demonstrate to voters their capacity to get results on the ground; and (ii) the current political framework is extremely inclusive, so that all political forces in DRC have a stake in the success of the ongoing transition process and are represented in the making of key decisions.

- ***Difficulties on the reform path.*** Reform efforts to date have been impressive and the Government has restated its commitment to maintain the pace. Still, in a post-conflict environment, such efforts are difficult – with a severe social crisis, active anti-reform constituencies in some areas, and a complex decision-making process (particularly as elections near). In this context, performance could deteriorate and reforms be delayed or not consistently implemented.

To manage this risk, the Bank will work in close coordination with IMF, UN agencies, and key bilaterals to closely monitor implementation of economic reforms, so as to rapidly identify and respond to slippages in implementation. This will include an intense policy dialogue, as well as frequent consultations with the private sector and civil society in DRC. The response will be based on an assessment of whether the TSS can be successfully implemented. Practical steps will include revisions of specific activities' implementation schedules, revision of planned interventions, and possibly partial suspension of activities.

- ***Compromised administrative capacity.*** After a decade of conflict and instability, implementation capacity remains limited, whether for Government-initiated policy reforms or for Bank-funded projects. This is compounded by the low level of civil servant salaries. It could become a critical obstacle to the effective implementation of the reform program and support of projects.

The TSS aims to address this issue by working towards strengthened administrative capacity. With regard to Bank-supported operations, experience to date shows that difficulties can be overcome if implementation mechanisms are appropriately designed and best use is made of the lessons learned.

- **Corruption.** In a country suffering from a history of widespread corruption, the influx of donor assistance raises risks of diversion or misuse of funds.

Particular attention has been paid and will continue to be paid to transparency issues during project implementation (in particular procurement and financial management). In parallel, work on corruption issues, public expenditure management, and financial management should help the Government gradually tackle this issue, which will take years to resolve.

86. ***To monitor these risks on a systematic basis, an early warning system has been put in place,*** which will help recognize and address slippages early on. This system will be based on: (i) an assessment of security developments, both in the region and in DRC, on the basis of information provided by the UN and key bilaterals; (ii) an assessment of the political developments in DRC, also on the basis of information provided by the UN and key bilaterals; (iii) an assessment of the implementation of the economic program supported by the Bretton Woods Institutions, in close coordination with the IMF; (iv) progress towards the HIPC completion point; and (v) implementation performance of ongoing projects (with a particular focus on transparency and timeliness of actions).

Exit strategy

87. ***The proposed contingency response to a possible deterioration of the political and security situation is an incremental and targeted scaling down.*** In view of DRC's recent history, the risks of renewed conflict or major policy slippages cannot be excluded. Experience shows, however, that while the security of staff needs to be preserved, suspending operations over a long period of time and closing an office makes it difficult to provide the type of rapid support which is needed when the situation improves. While the resumption of a full-scale and lengthy war could lead the Bank to consider withdrawing from DRC, the primary response to a deterioration of the security or political situation will consist in scaling down activities, rather than withdrawing.

88. ***The Bank will work in close coordination with MONUC, UN agencies, and key bilaterals to monitor political and security developments,*** so as to rapidly respond to unfolding events. The response will be based on a dual assessment – of staff security and of the probability for the TSS to be successfully implemented. Practical steps will include revision of specific activities' implementation schedules, revision of planned interventions, and possibly partial suspension of activities. The TSS proposes specific strategies for two key scenarios of negative security developments:

- ***Localized eruptions of violence or insecurity in rural areas*** (similar to the events which have affected the district of Ituri throughout 2003). Implementation of the TSS would continue, with a suspension of activities in affected areas.
- ***Renewed conflict, affecting the security situation in Kinshasa.*** This could result in a temporary relocation of non-critical staff and a possible scaling-down and/or refocusing of Bank-funded activities.

ANNEX 1: OVERALL REVIEW OF PROPOSED ACTIVITIES AND STRATEGIC OBJECTIVES

Area of focus	Strategic element	Proposed instruments
Overall	-	<u>Implementation</u> : Overall effort to ensure effective, rapid, and transparent project implementation. <u>AAA</u> : Poverty assessment; Country economic memorandum
Support to stability and security	Demobilization and reintegration	<u>Lending</u> : Demobilization and reintegration Project (FY04)
Support to shared growth	Implementation of economic reforms	<u>AAA</u> : PER (FY05); London Club buy-back (FY06) <u>Lending</u> : BOP support operations (FY04, FY05, FY06)
	Infrastructure reconstruction	<u>Implementation</u> : EERP, EMRRP, EESRSP <u>AAA</u> : Expanded EMRRP (FY04) <u>Lending</u> : Multi-modal Transport Project (FY06); Public Utilities Project (FY06)
	Support to private sector	<u>Implementation</u> : PSDCP <u>AAA</u> : Public Enterprise Reform Study (FY04), FSAP (FY05) <u>Lending</u> : PSD/FSD project (FY05)
	Agriculture	<u>Implementation</u> : EMRRP <u>AAA</u> : Agriculture Sector Review (FY05) <u>Lending</u> : Agriculture project (FY06)
Support to governance and capacity	Relationship between central and local Government	<u>Implementation</u> : EESRSP <u>AAA</u> : Institutional Governance Review (FY05), Public Expenditure Review (FY05)
	Building and strengthening skills	<u>Implementation</u> : EMRRP
	Anti-corruption	<u>AAA</u> : Combined CPAR and CFAA (FY05)
	Public expenditure management	<u>AAA</u> : PER (FY05)
Support to social development	HIV/AIDS	<u>Implementation</u> : EERP <u>Lending</u> : HIV/AIDS project (FY04)
	Health	<u>Implementation</u> : EMRRP <u>AAA</u> : Health Country Status Report (FY05) <u>Lending</u> : Health project (FY05)
	Education	<u>Implementation</u> : EMRRP <u>AAA</u> : Education Country Status Report (FY04) <u>Lending</u> : Education Project (FY05)
	Water	<u>Implementation</u> : EMRRP, EESRSP <u>AAA</u> : Expanded EMRRP (FY04) <u>Lending</u> : Public utilities project (FY06)
	Urban living conditions	<u>Implementation</u> : EESRSP <u>Lending</u> : Emergency Living Conditions Improvements Project (FY05)
	Social protection	<u>Implementation</u> : EMRRP, EESRSP <u>AAA</u> : Vulnerability study (FY04) <u>Lending</u> : Emergency Social Action Program (FY05)

ANNEX 2: PROPOSED PERFORMANCE INDICATORS
(based on standard IDA Post-Conflict Performance Indicators)

Strategic element	Performance indicators (after two years of implementation)
Security and social stability	<p>Effective functioning of the transition institutions, evidenced by sustained capacity to implement economic reforms and investment projects.</p> <p>Satisfactory implementation of reconciliation-related resolutions adopted at the Inter-Congolese dialogue, evidenced through assessment by United Nations and key bilaterals.</p> <p>Continued adequate security throughout the country for sustained economic activity, evidenced through country-wide economic growth.</p> <p>Effective integration of key former rebel groups into regular forces, including integration of general staff.</p> <p>Adoption of, and satisfactory progress in implementing, a national demobilization and reintegration program.</p>
High and shared economic growth	<p>Satisfactory implementation of the economic program supported by the Bank and IMF.</p> <p>Satisfactory progress towards HIPC Completion Point triggers related to Public Expenditure Management.</p> <p>Continued improvement in business environment, evidenced by sustained high-level of investors' interest.</p> <p>Satisfactory progress towards settling the internal debt issues (including completion of audits and reconciliation, and agreement on payment schedule).</p> <p>Continued progress towards State-owned enterprises reform, including satisfactory completion of the ongoing Gécamines restructuring.</p> <p>Continued improvement in natural resources management, evidenced through continued effective implementation of adopted reforms (in particular mining law and forestry law).</p> <p>Satisfactory implementation of Bank-financed rehabilitation projects, evidenced by progress towards their individual development objectives.</p>
Governance and capacity	<p>Adoption and satisfactory implementation of a sound budget framework for regular payment of salaries within existing budget constraints.</p> <p>Satisfactory progress towards HIPC Completion Point triggers related to governance.</p> <p>Satisfactory progress in implementing the Government's anti-corruption strategy, evidenced through timely implementation of planned activities.</p> <p>Satisfactory implementation of a departure program for civil servants who have reached retirement age.</p>

Social development	<p>Satisfactory progress towards HIPC Completion Point triggers related to social sectors.</p> <p>Satisfactory progress in implementing the Government's HIV/AIDS strategy, evidenced by timely implementation of planned activities.</p> <p>Satisfactory implementation of Bank-financed social development projects, evidenced by progress towards their individual development objectives.</p>
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ANNEX 3: STATUS OF PERFORMANCE INDICATORS FOR 2001 TSS

A. Political stabilization and peace

<i>Items</i>	<i>Progress indicators</i>	<i>Output/outcome indicators</i>	<i>Status</i>
Security	Cease-fires maintained among Lusaka signatories	MONUC positioned on fronts	Done.
Inter-Congolese dialogue and open participation in public life	Facilitator acceptable to all sides chosen Liberalization of political parties Dialogue under facilitator in progress	Facilitator in Place (Done, Feb.2001) Decree signed (Done, May2001) Reports from facilitator Satisfactory conclusion to dialogue (extends beyond TSS period)	Done. Government of national unity in place.
DDR program	DDR plan prepared for child and vulnerable soldiers Establishment of DDR	DDR plan implementation in progress for child and vulnerable soldiers Examination of other experiences by all groups (e.g. conferences where all participate) Discussions held among all parties for DDR program. Reports from MONUC	Done. Special operations for DDR of special groups underway (for a total of \$26 million). Regular meetings of MDRP partners.

B. Economic reform and recovery

<i>Items</i>	<i>Progress indicators</i>	<i>Output/outcome indicators</i>	<i>Status</i>
Maintenance of essential market linkages	No traffic backups exceeding 50 vehicles due to road washouts	Traffic on Kinshasa-Matadi road not interrupted by more than 24 hours in rainy season.	Done.
Clearance of arrears on external debt	Agreement on payments schedule and on arrears clearance mechanism Timely payments to Bank	Arrears cleared	Done (July 2002).
Steps to HIPC	Preparation of I-PRSP framework Preparation of HIPC documents	I-PRSP to Bank and Fund Boards	Done (July 2002).
Management of inflation, exchange rate and adequacy of the budget	Satisfactory progress in implementing of reform program Remain on track on IMF SMP benchmarks	Targets met as verified by mission review	Done. Satisfactory performance under PRGF.

Introduction of a modern Investment Code	Assistance solicited and received from FIAS for preparation	Adoption of Code Investment under terms of code by local and foreign investors	Code adopted (February 2002) \$2.4 billion in investment underway or under consideration.
Public enterprise reform	Preparation of action plan for reform	Begin implementation specific elements under action plan (to be defined)	Done. COPIREP established (October 2002). Gecamines restructuring underway.
Management and sustainability of the development program	Degree of coordination of policies and actions with the international community (UN, Bank, donors)	Coordination of assistance programs Donor meetings	Yearly donor meetings (Consultative Group); multi-donor missions; adoption of a common framework for investments.

C. Governance, public sector management and institutions

<i>Items</i>	<i>Progress indicators</i>	<i>Output/outcome indicators</i>	<i>Status</i>
Transparency and accountability in public expenditure	Public Expenditure Review (PER) preparation PER progress reports Independent inspections and audits of donor-financed activities Publication of public procurement of goods and services over US\$100,000	Recommendations of final PER report (FY03) Satisfactory audit reports Evidence of publication (e.g. newspapers, Official Journal)	Done. Audits of public enterprises completed. Anti-corruption strategy prepared with World Bank / Transparency International support adopted.
New mining code	Preparatory work underway as evidenced by consultative for a Beginning steps to resolve conflicts over mining claims	Promulgation of mining code Establishment of mining cadastre	Done (July 2002) Mining cadastre launched.
Independence of Central Bank	New Central Banking Law	Promulgation of Law	Done (May 2002)

ANNEX 4: STATUS OF OPERATIONS APPROVED SINCE 2001

Project	US\$ mil.	Objective	Approval / Effectiveness	Disbursed end CY03	Rating	
					IP	DO
Operations included in 2001 TSS						
Emergency Early Recovery Project	50	Rehabilitate key road between Kinshasa and the sea. Fund community initiatives; Support HIV/AIDS programs; Provide institutional support	July 2001/ Dec. 2001	100 %	S	S
Economic Recovery Credit	450	Help DRC with foreign exchange immediately after arrears clearance and support reforms (incl. in mining and forestry sectors)	June 2002 / July 2002	100 %	S	S
Emergency Multi-sector Rehabilitation & Reconstruction Project	454	Rehabilitate key infrastructure and social services delivery.	July 2002 / Nov. 2002	8 %	S	S
Private Sector Development and Competitiveness Project	120	Help improve the business environment; Support restructuring of key public companies; Join the Africa Trade Insurance Agency (ATI).	July 2003 / Dec. 2003	14 %	S	S
Operation not included in 2001 TSS, approved to respond to rapid developments						
Emergency Economic and Social Reunification Support Project	214	Support economic and social reunification through balance of payment support, institutional strengthening, infrastructure repairs, and community-driven development.	Sept. 2003 / Dec. 2003	23 %	S	S
Regional operations						
Southern Africa Power Pool Project	178	Support rehabilitation of DRC power grid (\$177 million) to facilitate regional integration of the power networks and exports to Southern Africa.	Nov. 2003 / n/a	0 %	n/a	n/a
Multi-country Demobilization and Reintegration Program (special projects)	26	Support reintegration of targeted groups of ex-fighters through a series of programs.	n/a	31 %	S	S

(*) Rating: IP = Implementation Performance Rating; DO = Development Objectives Rating

ANNEX 5: ONGOING AND PLANNED SUPPORT BY KEY BILATERAL DONORS

Belgium	324,462	Netherlands	165,675
<i>Basic health needs</i>	133,659	<i>Support to political process</i>	702
<i>Education and training</i>	37,305	<i>Contribution to UNICEF</i>	2,739
<i>Agriculture and food security</i>	21,462	<i>Contribution to OCHA</i>	4,592
<i>Basic infrastructure</i>	29,654	<i>Contribution to PAM</i>	8,078
<i>Civil society</i>	27,860	<i>Contribution to other UN agencies</i>	8,483
<i>Multisectoral program</i>	74,521	<i>Demobilization and reintegration</i>	141,081
Canada	72,902	South Africa	6,347
<i>Promotion of peace & democracy</i>	7,636	<i>Institutional support</i>	3,526
<i>Community health project</i>	3,855	<i>Support to political process</i>	2,820
<i>Financial services for women</i>	3,855		
<i>General development projects</i>	5,906	Spain	6,196
<i>Micro-Project</i>	3,007	<i>Technical cooperation</i>	2,478
<i>Cooperation</i>	1,388	<i>General</i>	3,717
<i>Food aid</i>	2,159		
<i>Humanitarian assistance</i>	7,096	Sweden	33,025
<i>Institutional strengthening</i>	3,004	<i>New Contribution</i>	9,750
<i>Civil Society</i>	2,540	<i>General Contribution</i>	6,886
<i>French-Canadian Project</i>	3,469	<i>Contribution to NGOs</i>	3,314
<i>Action for peace</i>	3,855	<i>Humanitarian assistance</i>	6,367
<i>Urgent Funds</i>	7,710	<i>Social support</i>	5,817
<i>Demobilization and reintegration</i>	11,795	<i>Health</i>	891
<i>Health</i>	2,775		
<i>Displaced and vulnerable people</i>	2,852	Switzerland	26,324
		<i>Emergency program to Kivu</i>	6,200
China	79,302	<i>Cooperation through NGO</i>	13,762
<i>Postal center</i>	3,001	<i>Refugees program</i>	3,545
<i>China - Congo commercial center</i>	3,523	<i>HIV/AIDS</i>	2,817
<i>Construction</i>	36,867		
<i>Material</i>	2,174	United Kingdom	146,025
<i>Telecommunication</i>	9,664	<i>Demobilization and reintegration</i>	28,598
<i>Nutrition</i>	604	<i>General contribution</i>	1,767
<i>General assistance</i>	15,221	<i>Support to NGOs</i>	109,306
<i>Health</i>	8,248	<i>Support to UN agencies</i>	6,355
France	34,317	US	338,907
<i>Urban development</i>	6,355	<i>Office of transition initiatives</i>	8,011
<i>Social fund</i>	2,542	<i>Governance</i>	4,000
<i>Food aid</i>	5,084	<i>Support to political process</i>	5,400
<i>Support to NGOs</i>	8,262	<i>Human rights</i>	6,030
<i>Technical cooperation</i>	6,991	<i>Civil society support</i>	2,750
<i>General</i>	5,084	<i>Basic education</i>	2,290
		<i>Assistance to refugees</i>	11,990

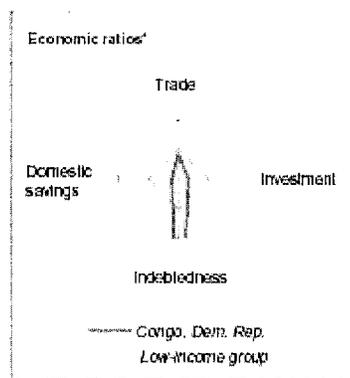
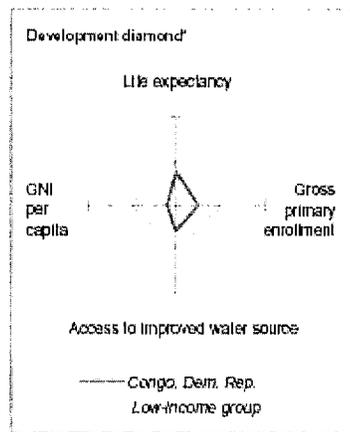
Germany	41,274	<i>Medecine for SANRU</i>	2,500
<i>Support of NGOs</i>	2,730	<i>Humanitarian assistance</i>	4,686
<i>National Parc of Kahuzi-Biega</i>	4,550	<i>Support to refugees</i>	3,578
<i>Fight against AIDS</i>	6,760	<i>Immunization</i>	21,163
<i>Fight against poverty</i>	2,599	<i>Emergency aid</i>	4,597
<i>Demobilization and reintegration</i>	2,925	<i>Humanitarian aid logistics</i>	8,272
<i>Food aid</i>	5,849	<i>Food security</i>	11,641
<i>Economic assistance</i>	4,223	<i>Health</i>	8,515
<i>Environment</i>	4,812	<i>Basic health</i>	5,479
<i>Health</i>	4,549	<i>Other humanitarian projects</i>	24,729
<i>Social</i>	2,277	<i>Training & research</i>	3,873
		<i>HIV/AIDS prevention</i>	11,305
Italy	35,123	<i>Basic health in Kasai</i>	8,300
<i>Social</i>	12,576	<i>Basic rural health</i>	25,000
<i>Health</i>	3,363	<i>Help to street children</i>	3,060
<i>Humanitarian assistance</i>	5,059	<i>Production of Casava bread</i>	3,000
<i>Nutrition</i>	14,125	<i>Urgent food assistance</i>	112,634
		<i>Other food assistance</i>	6,000
Japan	35,589	<i>Social support</i>	15,180
<i>Food aid for refugees</i>	8,467	<i>Health</i>	10,377
<i>Support to refugees</i>	15,746	<i>Nutrition</i>	4,547
<i>Immunization days</i>	7,275		
<i>Social</i>	2,556		
<i>Education</i>	370		
<i>Health</i>	1,097		
<i>Agriculture</i>	78		

ANNEX 6: DRC AT A GLANCE

Congo, Dem. Rep. at a glance

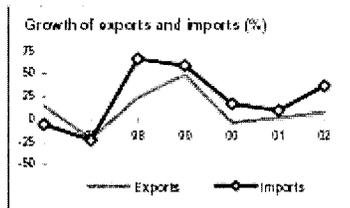
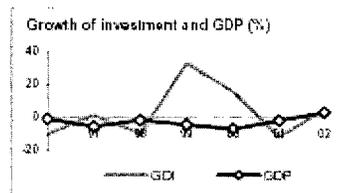
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POVERTY and SOCIAL	Congo. Dem. Rep.	Sub- Saharan Africa	Low- Income		
2002					
Population, mid-year (m/1000s)	53.8	688	2,495		
GNI per capita (Atlas method, US\$)	90	450	430		
GNI (Atlas method, US\$ bn/1000s)	5.0	306	1,072		
Average annual growth, 1996-02					
Population (%)	2.9	2.4	1.9		
Labor force (%)	2.6	2.5	2.3		
Most recent estimate (latest year available, 1996-02)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	..	33	30		
Life expectancy at birth (years)	45	46	59		
Infant mortality (per 1,000 live births)	125	105	81		
Child malnutrition (% of children under 5)	..	..	..
Access to an improved water source (% of population)	45	58	76		
Illiteracy (% of population age 15+)	38	37	37		
Gross primary enrollment (% of school-age population)	47	86	95		
Male	49	92	103		
Female	44	80	87		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1982	1992	2001	2002	
GDP (US\$ bn/1000s)	13.6	8.2	5.2	5.7	
Gross domestic investment/GDP	8.3	6.9	5.1	7.1	
Exports of goods and services/GDP	12.1	16.7	17.8	18.4	
Gross domestic savings/GDP	6.5	6.1	6.2	4.0	
Gross national savings/GDP	4.0	5.0	1.2	5.3	
Current account balance/GDP	-3.8	-10.6	-2.4	-3.9	
Interest payments/GDP	0.5	0.3	0.0	1.5	
Total debt/GDP	37.2	133.7	219.6	144.0	
Total debt service/exports	13.2	5.6	1.7	81.5	
Present value of debt/GDP	204.6	..	
Present value of debt/exports	1,029.1	..	
	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	-0.6	-3.4	-2.0	3.0	6.0
GDP per capita	-3.8	-6.3	-4.6	0.2	3.2
Exports of goods and services	2.0	7.8	2.0	8.0	..



STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	30.1	49.0	56.3	56.3
Industry	26.7	16.4	18.8	18.8
Manufacturing	14.4	4.9	3.9	3.9
Services	43.2	34.6	24.9	24.9
Private consumption	64.0	72.2	92.4	92.3
General government consumption	9.5	21.7	1.4	3.7
Imports of goods and services	14.0	17.5	16.7	21.5
	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	2.6	-0.4	-5.4	3.0
Industry	-4.5	-3.6	3.8	3.0
Manufacturing	-3.7	..	..	..
Services	-1.0	-6.7	-8.7	3.0
Private consumption	2.6	-3.3	-28.3	16.7
General government consumption	-1.6	-16.8	-5.2	16.7
Gross domestic investment	-9.8	2.8	-12.1	4.7
Imports of goods and services	3.9	12.4	10.0	37.0

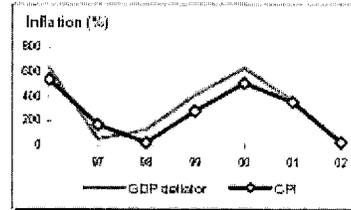


Note: 2002 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

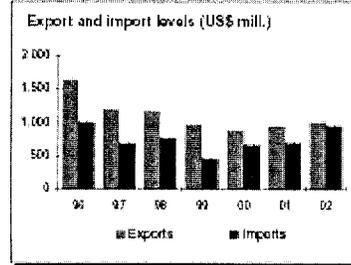
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices (% change)				
Consumer prices	36.7	4,129.2	359.9	31.5
Implicit GDP deflator	43.5	4,078.5	374.1	23.3
Government finance (% of GDP, includes current grants)				
Current revenue	..	..	5.9	..
Current budget balance	..	..	-0.8	..
Overall surplus/deficit	..	..	0.5	..



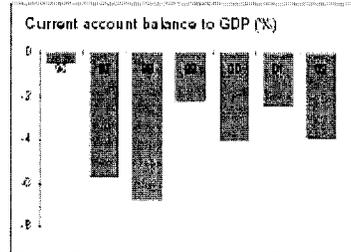
TRADE

	1982	1992	2001	2002
(US\$ m/tons)				
Total exports (fob)	..	1,246	940	1,013
Copper	489	567
Coffee	..	375	206	173
Manufactures	..	183	129	130
Total imports (cif)	702	955
Food
Fuel and energy	43	43
Capital goods	..	683	..	..
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



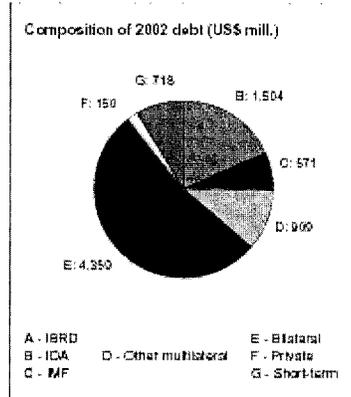
BALANCE OF PAYMENTS

	1982	1992	2001	2002
(US\$ m/tons)				
Exports of goods and services	1,658	1,360	1,015	1,100
Imports of goods and services	1,904	1,433	953	1,286
Resource balance	-246	-73	62	-186
Net income	-427	-704	-413	-203
Net current transfers	151	-89	228	278
Current account balance	-522	-866	-126	-223
Financing items (net)	362	867	137	..
Changes in net reserves	159	-1	-11	..
Memo:				
Reserves including gold (US\$ m/tons)	196	166	22	..
Conversion rate (DEC, local/US\$)	1.92E-11	2.15E-6	300.0	346.5



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US\$ m/tons)				
Total debt outstanding and disbursed	5,078	10,972	11,362	8,211
IBRD	73	81	81	0
IDA	214	1,194	1,151	1,504
Total debt service	222	77	18	913
IBRD	14	16	0	132
IDA	2	13	0	221
Composition of net resource flows				
Official grants	76	109	170	..
Official creditors	121	58	0	167
Private creditors	17	-5	0	0
Foreign direct investment	-2	-1	32	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	141	0	0	904
Disbursements	38	61	0	410
Principal repayments	8	14	0	216
Net flows	30	46	0	194
Interest payments	8	15	0	137
Net transfers	22	31	0	57



The World Bank Group: This table was prepared by country unit staff; figures may differ from other World Bank published data.

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ANNEX 7: MAP OF DRC

MAP SECTION

