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WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

BERCI	<i>Bureau d'Études, de Recherche et de Consulting International</i>
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CF	Congolese Franc
CPAR	Country Procurement Assessment Report
CPIA	Country Policy and Institutional Assessment
DDR	Disarmament, Demobilization, and Reinsertion Program
DFID	United Kingdom Department for International Development
DGI	Direct Tax Agency (<i>Direction Générale des Impôts</i>)
DGRAD	Special Revenue Agency (<i>Direction Générale des Recettes Administratives et Dominicales</i>)
DHS	Demographic and Health Survey
DOTS	Directly-observed treatment, short-course
DRC	Democratic Republic of Congo
DSA	Debt sustainability analysis
EAD	Decentralized administrative units (<i>Entités Administratives Décentralisées</i>)
EF	Equalization Fund
ESB	Budget execution report (<i>État de Suivi Budgétaire</i>)
ESW	Economic Sector Work
ETD	Decentralized territorial units (<i>Entités Territoriales Décentralisées</i>)
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GECAMINES	Copper and mining public enterprise
GER	Gross enrollment rate
GFS	Government Finance Statistics
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
HMIS	Health management information system
IDA	International Development Association
IMF	International Monetary Fund
IRC	International Rescue Committee
MAMS	Marquette for MDG Simulations
MAP	Multi-sectoral HIV/AIDS Project
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MIBA	Diamond mining public enterprise

MICS2	Multiple Indicator Cluster Survey, 2 nd Series
MinBud	Ministry of Budget
MinEPSP	Ministry of Primary, Secondary, and Professional Education
MinFin	Ministry of Finance
MinSect	Line Ministries
MinWA	Ministry of Women's Affairs
MSF	<i>Médecins sans Frontières</i>
MTEF	Medium-Term Expenditure Framework
NGO	Non-governmental organization
NPV	Net present value
ODA	Official Development Aid
OECD	Organization for Economic Cooperation and Development
OFIDA	Customs Agency (<i>Office des Douanes et Accises</i>)
OGEDep	Debt management agency (<i>Office de Gestion de la Dette Publique</i>)
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PHC	Primary health care
PPG	Public and publicly guaranteed
PRSP	Poverty Reduction Strategy Paper
PSF	<i>Pharmaciens sans Frontières</i>
SANRU	<i>Santé Rural Project</i>
SP	Deconcentrated provincial offices (<i>Services Provinciaux</i>)
SWAP	Sector Wide Approach
TENAFEP	The exam required to pass 6th grade/primary level
TOFE	Treasury Operations Report (<i>Tableau des Operations Financières et Économiques</i>)
UN	United Nations
UNAIDS	United Nations Programme on HIV/AIDS
UNICEF	United Nations Children's Fund
UNCTAD	United Nations Conference for Trade and Development
USAID	United States Agency for International Development
US\$	United States Dollar
WHO	World Health Organization

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Executive Summary

INTRODUCTION

E1. The Democratic Republic of the Congo (DRC) is an immense country about the size of Western Europe, with an estimated population of 60 million. It is emerging from decades of economic mismanagement, and a series of unrest, riots, and armed conflict supported by foreign governments. A cease-fire agreement was signed in 1999, a transitional government took office in 2001, a peace accord was signed in 2003, and in 2006, historic elections brought in a coalition government headed by President Joseph Kabila.

E2. A full Poverty Reduction Strategy Paper (PRSP) was adopted in July 2006, in which reunification, peace, and stability are named the top priorities. The surveys conducted during the preparation of the PRSP revealed that poverty is overwhelming, affecting more than 70% of the population, and over 90% in the province of Equateur. The dimensions of poverty varied substantially across regions. In areas affected severely by the armed conflicts, the lack of security was considered to be the most important cause of poverty, whereas in the isolated provinces, people were mostly concerned about scarce food and means of transportation. Shared across regions was the sentiment that institutional weaknesses, including poor governance and the lack of transparency and accountability, were contributors to poverty.

E3. Since 2001, the government has implemented a solid program of macroeconomic and structural reforms to stabilize the economy and revive productive activities: hyperinflation was broken, fiscal and monetary policies have largely been prudent, and foreign exchange rate started to float. Between 2002 and 2006, the compounded economic growth was 30%, reversing more than a decade of decline until 2001. The macroeconomic framework deteriorated as fiscal discipline weakened with the elections approaching, although it remained far better than the hyperinflationary years of the late 1990s. The new government is making efforts to restore fiscal discipline with some positive results.

E4. DRC has made significant headway in restoring sound public financial management since 2001. However, in order to address its vast development needs, the country will have to make much more progress in increasing the fiscal space, as well as in improving the efficiency of public expenditure. The challenges the DRC faces are not uncommon in post-conflict countries. For example, the standard four-phase public expenditure circuit has been restored and computerized, but it is not always used appropriately. Weakness of Treasury management, combined with often severe liquidity constraints, causes delays in processing expenditures, creating a situation where those who are politically well-connected receive payments first. The expenditure tracking after the funds leave the Treasury is almost never done. The lack of monitoring and follow-up is caused as much by the communication challenges that this vast country with very limited infrastructure faces, as the decades of economic mismanagement. Even when proper framework exists and rules are defined clearly, underpaid and demoralized civil servants often tempted by opportunities to circumvent them. The leaders of the new government are not opposing the reforms, but neither are they taking initiatives in improving

public financial management, as the politics of a fragile coalition government consume their energy and time.

E5. An immediate consequence of these challenges is that systematic data on which to base detailed analyses are scarce. This *Public Expenditure Review* (PER), therefore, relies on educated guesses and small sample surveys. Based on the available information, the bulk of the public expenditure is used for paying the public sector employees, covering the central administration's operating costs, and servicing debt. The funding to these items cannot be reduced quickly (the analyses of the civil service and how to improve its efficiency are a subject of a forthcoming civil service note) although it would be desirable to allocate a higher share of available resources to public service provision. It follows that the government is unlikely to play a large redistributive role or undertake massive public investments in the near future. Therefore, the PER advocates policies to increase the fiscal space, rather than tries to analyze the allocative efficiencies beyond calling for a gradual increase in priority sectors as resources become available, and belt-tightening in the "sovereign and institutional expenditures" category. As too little resources were allocated for public service delivery, and very few data were available on what little was allocated, it was also not possible to conduct a systematic incidence analyses to examine the efficiency and quality of the spending.

E6. Given these constraints, the PER concentrates essentially on two questions. First, how is the public expenditure circuit performing, and what could be improved to faithfully carry out the intended expenditure policies? Second, what can be done through fiscal policies to improve service provision in priority sectors? Through consultations with the authorities, the PER chose to address two social sectors, education and health, and one cross-cutting issue, gender equality. Other priority areas such as infrastructure, water, and sanitation were not included, partly due to resource constraints, and also due to the fact that expenditures in these sectors are even more reliant on foreign resources than the ones addressed in this PER, and are expected to remain so for the near future.

E7. The PER focuses on reviewing public expenditure management originating at the central government. However, in view of the ongoing decentralization process, capacity development at sub-national level will become important in the coming years. Following an ardent debate during most of 2007 over the interpretation and application of constitutional provisions on revenue sharing, a compromise solution was agreed upon in October 2007. The solution entails the transfer of some 36% of domestic revenue to sub-national levels under the 2008 budget, but with significant control and safeguard mechanisms to ensure salary payments to key social sector staff. The Bank has conducted a set of analytical studies on the decentralization process, a summary of which is in the annex.

E8. This PER is an important exercise for DRC, because the new government is under a tremendous pressure from the population to show that it could provide a better life. The perception and anecdotal evidence that the wealth in DRC is not shared equitably among the population were a leading cause of the recent war on the DRC territory. A lack of action by the government to demonstrate its commitment to move in the right direction could translate into a renewed armed conflict. Without such a demonstration of commitment, international development partners are wary of granting aid to the country, which implies stagnating investment activities, and possible debt crises.

E9. Less dramatically, the fact that the PER is unable to conduct the most basic analyses due to lack of data is an important message in itself: good statistics is an essential basis for good policy-making. The PER strongly advocates to break the cycle of apathy among line ministries of presenting an unrealistic wish-list of a budget proposal, receiving a budget allocation that has little to do with the proposal, enduring an erratic execution of even the diminished allocation, and not reporting back to the financial ministries of how exactly the public funds were used. Their experience of passing decades not receiving meaningful allocations of resources is an understandable reason for such apathy, but it is not an excuse. It is each line ministry's responsibility to present a credible budget based on its sector strategy, and report how the funds were used, so that the intended recipients of public goods and services are served. Development partners can assist where skills were lost during the long neglect.

E10. Finally, it is useful to take stock of the progress in the area of public financial management made under the transitional government, and for all the stakeholders to agree on (or at least discuss) the way forward. A functional public financial management system is a fundamental and important asset for any government, and particularly those hoping to attract foreign resources. Indeed, it is recommended that this exercise be undertaken periodically, every two years or so.

E11. The rest of the Executive Summary is organized by chapters, which are designed to read as stand-alone pieces. Chapter 2 presents the analyses of the past public financial trends and fiscal sustainability. Chapter 3 examines the current public financial management system. Chapters 4 and 5 are case studies of public financial systems in education and health sectors. Finally, chapter 6 presents the role of public expenditure management in promoting gender equality, a cross-cutting issue. The last section summarizes the recommendations with a summary matrix at the end.

CHAPTER 2: ANALYSES OF PUBLIC EXPENDITURE TRENDS AND FISCAL SUSTAINABILITY

E12. DRC's revenues as a share of GDP are among the lowest in the world. As a sign of an underdeveloped tax regime, customs and excise revenues are the largest contributor, constituting over a third of revenues excluding grants, although their share has been declining. The direct and indirect taxes are dominated by a few large corporate tax payers. Grants were the largest contributor to the overall government revenues, but at a little over US\$10 per capita (total of US\$700 million in 2006), DRC is not among the largest aid-receivers of the world. Revenues are increasing, however, in absolute terms and also as a share of GDP. Further increase is desirable and possible through improved transparency and efficiency of tax administration, particularly in the mining sector, and through enhanced oversight over revenue authorities at provincial level. Lower level governments are likely to become more interested in exerting oversight as the decentralization process makes their interest more aligned with the performance of the tax authorities.

E13. DRC's expenditure to GDP ratio is also increasing but remains among the lowest in Sub-Saharan Africa. Its capital expenditure as a share of GDP is particularly low (15% of total expenditures, or 3.4% of GDP in 2006). The largest items on the current expenditures are, in order of size, wages, "other current expenditures" – including such items as central

administration operating costs, transfers to lower level governments, and utility bills –, and debt service, of which 80% was for external debt service.

E14. Even though the wage bill was the largest expenditure item in 2006, wage levels in DRC are among the lowest in the world. Responding to pressures from striking teachers and the need to improve living conditions, the government has increased civil service wages significantly over the last years. However, wage increases have come mainly in the form of increased bonuses and allowances, while base wages (on which retirement benefits are calculated) were kept low. In addition, wage increases were significantly higher in Kinshasa than in the rest of the country. The method used to manage social pressure has led to an effective collapse of the public sector wage system, as documented in two analytical notes on public sector wages produced by the Bank during 2007. The wage system has become highly opaque and inequitable as a result, and considering the lack of progress on organizational restructuring, the wage bill remains at risk of being unsustainable.

E15. Some steps in reforming the wage system were initiated during 2007 and their overall direction is encouraging, as the measures aimed to restore some degree of transparency and predictability in the system. However, beyond technical changes to the wages system, it is urgent for the government to finally determine the accurate number of personnel on the payroll (a census is ongoing), then introduce comprehensive civil service reforms based on a decision on what type of public service that the country wants to provide and can afford. It also needs to determine the nature and scale of security threat to decide the type of armed forces the country wishes to keep and can afford. This last issue is a subject of the concurrent security sector PER.

E16. “Other current expenditures” is the line item where the scope of belt-tightening is the largest, but one of its components, transfers to lower level government, is scheduled to increase dramatically (up to 50% of total revenues, of which up to 40% to transfers and 10% through an “equalization fund,” which will mostly finance investments in infrastructure), consistent with the new Constitution (2006). While the movement away from disproportionate resource allocation to Kinshasa is a step in the welcome direction, the process of transferring resources and responsibilities to lower level governments must be managed carefully, so as not to overwhelm the local governments whose capacity may not be adequately developed, and to avoid exacerbating the existing inequalities among provinces. The compromise solution reached on the fiscal transfer mechanism reflects the above considerations in that while increasing transfers in line with constitutional provisions.

E17. A recent Debt Sustainability Analysis (2007) found that DRC is in debt distress unless debt relief is provided through the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Reduction (MDR) initiatives. After reaching the Decision Point in 2003, DRC has benefited from interim debt relief, but still struggles to meet its debt service obligations; its effective expenditure on debt service increased following the Decision Point because it was not servicing its debt before. DRC has stopped honoring its debt service obligations to the Paris Club members since July 2006, during the acute budget shortage in the election year. Debt service paid represented 14% of revenues (5.8% of exports) in 2006. Domestic debt, estimated to be over US\$1.2 billion (17% of GDP in 2005) as of end-2004, is almost entirely in arrears. The government negotiated a settlement with a majority of creditors, and is scheduled to settle its obligations in 2007-08 with financial assistance from the World Bank.

E18. The definition of “pro-poor spending” in DRC was established in 2004 based on general functional classifications. Pro-poor spending has increased substantially from 1.5% of GDP in 2003 to 5.7% in 2006 (or US\$1.5 per capita in 2003 to US\$7.7 per capita in 2006), reaching 33% of total executed expenditure. Despite these increases, DRC’s pro-poor spending remains well below the Sub-Saharan average of 10.2% of GDP in 2006 (although the definitions of pro-poor spending vary from country to country, so the figures are not necessarily directly comparable). In terms of sectoral breakdown, the government is allocating more funds to infrastructure and education, two of the priority sectors identified in the PRSP. However, expenditures on health and social protection, also identified as priorities in the PRSP, remain low.

E19. For the purpose of assessing fiscal sustainability, the PER tested a baseline scenario and five alternative scenarios using a computer general equilibrium model MAMS developed by the World Bank. The baseline scenario (scenario i) assumes that prudent macroeconomic policies and structural reforms result in average GDP growth of 6% between 2006 and 2026, and that DRC reaches the HIPC Completion Point in 2008. The baseline scenario is feasible although optimistic: it assumes robust economic performance as a result of solid reforms. The first outcome of the baseline scenario is that even with this optimistic rate of growth, the economy will not quite regain the level of per capita income attained in 1990 (it will take until 2029 to do so). However, the government will gain significant fiscal space to finance pro-poor programs (for example, reduced school fees and health clinic fees) or to make more public investments, and at the same time increase its recurrent spending (which will permit, for example, an increase of civil service wages) from 16% of GDP in 2006 to 20% in 2026. The debt will be sustainable thanks to the debt relief initiatives and prudent borrowing policies.

E20. Alternative scenarios are (ii) no reform; (iii) lower export prices; (iv) higher government consumption; (v) more non-concessional borrowing; and (vi) China financing scenario. The alternative scenarios (ii) through (v) run into crises, and hence are not sustainable unless mitigating measures are taken. The China scenario assumes a US\$3 billion concessional loan (accompanied by an additional US\$2 billion in FDI) for investment in priority projects, consistent with the available information at the time of writing. Under these assumptions, public investment is higher, debt is higher but still under the threshold level (the HIPC Completion Point is still assumed to be reached in 2008), and DRC will achieve higher GDP at the end of the projection period. The analyses show that not reforming is not a viable option, and that there is no place for complacency as the country remains vulnerable to exogenous shocks even with good economic policies. A large scale loans could be useful for the country’s development, but it must be contracted on concessional terms, used wisely, and not overwhelm the absorptive capacity.

CHAPTER 3: PUBLIC FINANCIAL MANAGEMENT

E21. Since the last PER was conducted in 2002, the authorities have made great strides in strengthening public financial management. Of the three major recommendations of the 2002 PER, strengthening the State Budget formulation process – improved exhaustiveness, reconciliation of different sources of data, reduction in off-budget items, and modernization of budget classifications – have been achieved. A second recommendation, improved execution of budget – rationalization and computerization of budget execution circuit, minimizing the expenditure executed outside of the circuit, reducing arrears, controlling the utility bills, and

strengthening the *a posteriori* controls – is also met, although some deterioration was observed during the election period. A third recommendation, publish reliable budget execution reports and implementing a double-entry accounting system is progressing, and is expected to be completed by mid-2008.

E22. Three instruments that constitute the legal framework of DRC's public finance system are the Constitution (2006), the Finance Law (1983/1987), and the General Regulations of Public Accounting (GRPA). The State Budget formulation follows (in theory) an annual cycle consisting of (i) formulation of macroeconomic framework; (ii) definition of budget framework; (iii) holding budget conference; and (iv) vote by the Parliament.

E23. The Macroeconomic Framework Commission kicks off the budget cycle with its projections. Revenue projections are produced by three tax agencies. Once the global budget envelope is determined, the Ministry of Budget issues guidelines on budget formulation so that each ministry can prepare its budget proposal. A budget conference is held to discuss the merits of the proposals, and to arrive at an agreement on trade-offs. The link between the PRSP and the budget is assured by the Ministries of Planning and Budget. Once an agreement is reached, draft budget law is submitted to the Council of Ministers, then to the Parliament. It becomes the budget law when the President of the Republic signs and promulgates it.

E24. Budget execution follows (in theory) the standard four-phase public expenditure procedure, which consists of commitment, verification, authorization, and payment. The procedure is computerized since 2003, and has (the potential of) all the properties of a modern public expenditure system. In addition to the standard procedure, there are several exceptional procedures for specific types of expenditure: emergency operations, salary payments, debt service, utility bills, and advance funds mechanism for small amounts (MAD). In the case of expenditures involving procurement, terms of reference are prepared by the line ministry requesting the procurement, and submitted to the *Conseil des Adjudications*. Once the purchase is approved by the *Conseil*, the expenditure is executed following the standard procedure.

E25. Monitoring and control is to be conducted internally by the units within the administration (Division of Budget Control in Ministry of Budget and Division of Treasury in Ministry of Finance) and by General Finance Inspectorate. External control is carried out by the Audit Office and the Parliament.

E26. In practice, the Finance law and the GRPA are outdated, and their updating is one of the more urgent tasks. The institutional framework is awkward with the function of the financial administration split between the Ministries of Budget and Finance. The roles of the two ministries often overlap and create redundancies. The collaboration and coordination between the two ministries, and other line ministries are not optimal.

E27. Line ministries do not participate effectively in the budget formulation process. They are informed of the overall budget envelope, but not the indicative envelope allocated to them. They do not make an effort to produce a realistic and credible budget proposal based on a sectoral strategy because past experience tells them that most of the spending proposals will not be approved, and even when they are, the funds fail to materialize (due to liquidity constraints, shifting priorities, and so on).

E28. Budget execution has improved considerably compared to the situation in 2003. However, large discrepancies between the budget allocation and execution results remain due to the quality of budget itself as well as control issues. In addition, execution practice deteriorated during the election period. Line ministries used the emergency procedure for normal expenditure items, claiming, justifiably, that the standard procedure took too much time. The delay is particularly acute for spending involving procurement, which takes on average 4 to 5 months between commitment and payment. Modernizing reforms recommended in the Country Procurement Assessment Report (CPAR 2003) have not yet been fully carried out. The Treasury does not have the means to manage cash adequately: partly due to the delay in implementing an adequate accounting system, the central bank is unable to share the necessary revenue and payments information with the Treasury in real time; the Treasury is not empowered to manage liquidity according to established priorities and urgency of the spending. The lack of effective Treasury management is another of the main causes of the large discrepancies between the budget allocation and execution results.

E29. Reporting has improved considerably compared to the situation in 2003 with regular production and publication of Budget Execution Reports and Treasury Operations Reports. However, mistakes and discrepancies remain in both reports, again, partly due to the delay in implementing the adequate accounting system. Moreover, the expenditures are not tracked after the funds leave the Treasury, and there is little reporting back from the line ministries and lower level governments on how the funds were actually used. Monitoring and control are lagging behind, because the entities in charge are under-funded and/or lack technical capacity.

CHAPTER 4: EDUCATION SECTOR

E30. According to the Constitution (2006), PRSP (2006), and Governance contract (2007), education is a national priority. However, the public resources available for the education sector from all sources combined are not nearly enough to assure affordable basic education for all. DRC's allocation to education is lowest of all Sub-Saharan African countries. What little resources designated to the sector are not necessarily allocated optimally based on a coherent strategy and policies. Moreover, allocated resources are not always executed, because of cash constraints, leakages, and other problems. As a result, parents of the students shoulder the bulk of costs associated with public education. This system discriminates against the poor, and often disproportionately girls.

E31. In DRC, the Framework Law (1986) and Convention (1977) constitute the legal framework for education system, which are both in urgent need of updating. Many non State actors provide primary education (both public and private schools) in the country. More than 70% of the schools are managed by churches, a little under 20% are managed by the State directly, and the rest are private schools. Private schools are mostly in urban areas, and often function without any agreement with or oversight by the State. Public schools run by churches belong to a religious network.

E32. In theory, the State provides salaries for teachers, and operating and maintenance budget for schools. Constructing non-church public school buildings is also the State's responsibility. In practice, the State pays only the salaries and a small fraction of operating costs, with NGOs,

churches, international development partners, and school fees paid by parents covering the balance. The salary level is abysmally low, hyperinflation having devoured most of its value.

E33. All teachers working for accredited schools must (theoretically) be registered officially in the database of SECOPE, a public entity responsible for managing the teachers. However, there are a large number of unregistered teachers who were hired during the long years of conflicts and confusion or whom SECOPE had not had the time or the means to register properly. These are not “ghost workers” as they do exist and work. Their salaries are paid either from those intended for departed or diseased teachers, or from school fees.

E34. In theory, the Ministry of Education participates in the budget formulation process through its proposal. In reality, its budget proposal is too large compared to the envelope available for the sector that the Ministry of Budget ends up using the last year’s allocation, adjusted for the slightly higher overall budget envelope. The result is that the priorities of the sector are not necessarily reflected in the budget allocation.

E35. The expenditure procedure for teacher salaries is long and cash-based for the most of the trajectory. The salary statements are prepared by SECOPE; names of the teachers and the amount of their salaries stay at provincial level, so the Ministry of Budget in the capital only knows the global salary envelope for each province. The funds are transferred from the Treasury to provincial branches of the central bank or to designated commercial banks. Principal public accountants of Ministry of Education (*Comptable Public Principal de l’EPSP*) representing groups of schools withdraw the money from the banks. Several persons/entities (including some that are no longer officially authorized, such as the “pay commission”) intervene in physically transporting the cash from these principal public accountants to headmasters. Headmasters are responsible for paying the teachers.

E36. The expenditure procedure for non salary items exists, but has not been used for many years. One exception is the school block grant program that was initiated in 2005, designated to partially finance schools’ operating costs. A special procedure delivering the grants directly to schools via SECOPE was used for this program. This program appeared successful and popular, but was suspended after a year when the central government ran into severe budget constraints.

E37. This PER developed and conducted a small sample expenditure tracking survey to follow every step of the expenditure circuit for teacher salaries. Although the sample size was too small (36 schools in 3 provinces, covering 2 months) to extrapolate the results to the rest of the country, the survey found interesting results. On average, over 90% of the funds that left the Treasury to pay the teacher salaries reached its destination. The rate of arrival varied across provinces, and also across different months for the same school. Many teachers received 100% of their salaries, while some received less than 60%. Even small deductions are a blow to already low teacher pay, and the unpredictability of such deductions also adds to the hardship of teachers. These deductions, however small, are illegal, and points to a lax control mechanism. The public expenditure tracking survey needs to be conducted with a larger sample size for accurate evaluation and diagnosis (it is also a HIPC CP trigger).

E38. Reporting mechanisms are also weak. Headmasters are required to return the signed receipts for salary payments to SECOPE but rarely did so. For the block grant program,

headmasters were required to keep the books, and report the use of funds to the Principal public accountants of Ministry of Education. At the time of writing, no reports from the provinces had been filed to the central administration.

E39. The new Constitution (2006) stipulates a substantial transfer of responsibilities and resources to provinces and lower level governments. At the time of writing, teachers were discussed as one of the groups of civil servants to be transferred to local governments. While this policy would seem reasonable in the long run, it is not clear that the local governments will have the necessary capacity to manage such responsibilities and resources in the near future. Careful planning and progressive approach is needed to avoid disruption of service in this important sector.

CHAPTER 5: HEALTH SECTOR

E40. Health, nutrition, and population outcomes, including the main health sector-related Millennium Development Goal (MDG) indicators, are poor in DRC. The crisis and conflicts of the past decades severely affected the health status of the population and degraded the health system. In 2001, date of the last population-representative household survey, child and maternal mortality rates were among the highest in the world. The total fertility rate was very high. The health situation is likely to have improved since 2002 with the much improved security in most of the country, although insecurity continues to affect some areas of eastern DRC severely.

E41. Coverage of basic health services has improved in recent years but remains very low. In 2001, only half of one-year-olds were vaccinated against measles; less than 1% of under-five children slept under an insecticide-treated net; only a third of children with respiratory infections and half of children with fever received treatment by a health provider. Roughly a half of children with respiratory infections do not receive treatment, and about 25% seek medication from drug sellers or others.

E42. There are significant disparities between the poor and the better-off. Barriers to health service utilization include lack of geographic access, poor functionality and quality of services, and the cost to households. There are also disparities in health facility infrastructure coverage and health worker availability between Kinshasa (and to a lesser extent Bas-Congo) and the rest of the country. The information on the availability of health workers is obscured by a large number of non-regularized health staff who works in government facilities across the country.

E43. The health service development has focused on creating a Health Zone system, which integrates a network of primary health services with a referral facility, covering an average catchment population of about 110,000. Based on a history of public-private partnership with church-based providers, non-governmental organizations play a significant role in sector development, largely through donor-financed programs.

E44. Public spending on the health sector collapsed in the 1990s. Since 2003, the budget allocation to the sector has increased but remains among the lowest in the world, totaling around US\$ 50 million, or US \$0.80 per capita in 2006. Government health spending was 3.3% of total government expenditures and 0.6% of GDP. About half of total spending was for health staff

remuneration. Expenditures on operations, supplies, and investment were relatively important, mostly financed from HIPC resources.

E45. Although the government's budgeting and reporting system has improved significantly, there are a number of issues that require urgent attention in the health sector. The health budget has little credibility as the budget proposed by the Ministry of Health does not reflect any prioritization or a realistic envelope, budget development does not involve the provinces, and only about half of the budget is executed. The allocation of available funds is not transparent, and non emergency use of the emergency procedure bypassing usual controls raises the risk of poor governance. There is no system of monitoring and reporting on the use of public funds by the Ministry of Health. It is recommended that these issues, which are largely within the control of the Ministry of Health, be addressed in the short-term.

E46. International public financing has also risen significantly, to an estimated level of up to US\$ 300 million in 2006, including humanitarian and HIV/AIDS programs. Health sector development spending, excluding HIV/AIDS programs, is expected to be around US\$ 200 million annually over the next few years, or US\$ 4 per capita. Donor support to the Health Zone system is coordinated geographically, currently reaching about 85% of the zones with varying levels of financing. Although coordination has improved in recent years, particularly at the strategic level, donor-funded programs are numerous, often with little predictability, particularly with regard to actual expenditures. About half of estimated international financing is devoted to specific diseases or issues. It is recommended that donors support government to strengthen harmonization on technical issues such as monitoring and evaluation, and improve data collection on donor budgets and expenditures in order to inform the government planning and budget allocation process.

E47. Information on financing at the health facility level shows that health services without external donor support depend on revenues from patients, raising barriers to utilization and with impoverishing effects. The largest share of health facility expenditure is for staff remuneration, including salaries and incentives for civil servant health workers, as well as remuneration of the large numbers of "unregularized" health workers.

E48. Total domestic and international public spending is currently estimated at around US\$ 250 million annually, or about US\$ 4 per capita. Minimum additional annual required resources in the next few years may be estimated at US\$ 2.50 per capita, or a total of US\$ 150 million, although implementation of the DRC health sector development strategy of expanding coverage of a comprehensive package of services will cost substantially more. The newly elected government has made health service development one of its major priorities, announcing a commitment to increased health spending. Given this, it is reasonable to suggest that US\$ 50 million of the annual gap will be filled from domestic resources, while the remaining US\$ 100 million could come from additional international financing. It should be noted that the resulting public spending on health services (excluding HIV/AIDS programs) of around US\$ 7 per capita would still leave DRC among the lowest ranked countries on this measure. The cost of implementing a comprehensive package of services needs to be estimated, along with realistic scenarios for geographic expansion of coverage, in order to inform further work on a draft medium-term expenditure framework (MTEF).

CHAPTER 6: GENDER

E49. The treatment of women in DRC is dismal, even for a country in extreme poverty with almost nonexistent social services. DRC is rated among the lowest by the United Nations Human Development Index; it is also ranked 130th out of 136 countries in the Gender Related Development Index. Girls have lower school enrollment; the maternal mortality ratio and fertility rate are among the highest in the world; women are more susceptible to HIV/AIDS; women are subject to gender-based and sexual violence, both as a result of the conflict and lack of economic independence.

E50. Sexual violence against women is a major issue in DRC, especially in the eastern part of the country most affected by the conflict. A 2005 Human Rights Watch report estimated that tens of thousands of women and girls were victims of sexual violence during the five years of conflict. A WHO study concluded that around forty thousand people had been raped in the provinces of South Kivu and Maniema and in two cities of Goma and Kalémie. Unfortunately, violence still continues in eastern Congo despite the end of conflict, primarily by combatants of armies and armed groups in the area.

E51. Domestic violence against women is also prevalent. However, as in many other countries, the social and political culture of the DRC makes it very difficult to address the issue. Women suffer from a very patriarchal system; in many rural areas in particular women are purchased through a dowry.

E52. The State budget does not allocate any resources to programs clearly directed at addressing the problem. The United Nations Peacekeeping Force (MONUC) has training programs on gender sensitization in place both for their own force and also for the police and military. This training aim to make the police and military more aware of how to deal with cases of sexual violence appropriately and also how it should be treated in the event that someone within the force is a perpetrator. The serious issue of violence against women, and possible way to address it will be discussed in more detail in the concurrent security sector PER.

E53. Laws and protocols do exist to address the equality and protection of women and girls because the gender inequality in the political, economic and social landscape is acknowledged as detrimental to the livelihood of the society as a whole. The PRSP recognizes gender as an important issue, and advocates measures to be taken to ensure equality and proper treatment for all. However, the implementation of such laws and protocols is inadequate, and the political and socio-economic situation for women does not appear to have improved significantly over the last two decades. An improvement in the execution and effectiveness of programs and initiatives directed towards addressing gender inequalities, as well as better quality statistics to measure the progress are essential in order to achieve the objectives outlined in the PRSP and move in the direction of attaining the Millennium Development Goals. The gender analysis of current policies and spending is particularly important in order to achieve these goals.

E54. In terms of institutions, there is a Ministry of Women's Affairs (MinWA) tasked with ensuring that proper attention is given to the needs of women and girls. The main role of this ministry is to identify the main problems which women face within all sectors and the subsequent mechanisms to be employed at the sector level for solving such problems. In

addition to the MinWA, the Ministry for Social Affairs also has initiatives which specifically target women, such as women's resources centers and a program to address the needs of handicapped women. Ministry of Education advocates for increased girls' enrollment (via "education for all" program), and Ministry of Health has programs for women's health. Programs at different ministries are poorly coordinated, and the fragmentation reduces the effectiveness of what little resources are allocated to promote gender equality.

E55. The MinWA received a budget allocation of US\$1 million in 2006, of which 67% was executed, amounting to only 0.05% of the total budget executed. The percentage of total funds and amount executed in 2006 was similar to that in 2005, although it was an improvement compared to 2003 and 2004. Like other line ministries, the MinWA's budget proposal does not use a realistic envelope or reflect priorities based on a clear strategy: it has prepared an ambitious set of programs, aimed at addressing issues facing women in various areas, whose total cost is estimated at US\$ 219 million, 325 times the budget allocation to the MinWA in 2006, or a little more than that to the Ministry of Defense. The MinWA used the available resources primarily for personnel and construction, with a little over half of these funds allocated to the Cabinet and the Secretary General.

E56. Budget allocations to items directly and indirectly related to gender issues within other ministries also receive a very small amount of funds. The total amount of funds allocated to all gender programming, both gender specific and those with a gender incidence, within the budget is less than 0.1%. Only two of the five programs listed on-budget in the Ministry of Social Affairs received funds in 2006. The Ministry of Health was the only other ministry with budgeted programs to address gender-related issues, which accounted for a total of 0.34% of the ministry's executed budget.

CONCLUSIONS AND RECOMMENDATIONS

E57. The DRC is at a critical juncture. For the newly elected government to move the country beyond the post-conflict recovery phase to a sustainable development phase, a concerted effort requiring a firm commitment to difficult reforms is needed. Currently, the government has very little scope for effective fiscal policy, as the bulk of the available resources are used up to finance public employee salaries, central administration operating costs, and debt service. The government must gain fiscal space through better revenue mobilization and prudent debt management. In parallel, efforts are needed to improve the efficiency of public spending, even though (or perhaps particularly because) the available resources are insufficient to address the enormous needs of the country adequately.

E58. The authorities wished the PER to act as a joint action plan between themselves and development partners to address the preponderant fiduciary concerns. Hence, the recommendations included in this PER represent a shared understanding between the authorities and the participating partners of where DRC's public finances could and should be in 18 months, and the commitment on both sides to invest the necessary efforts and resources to achieve them. They are summarized in the matrix at the end of this executive summary. In collaboration with the authorities, the task team has worked to limit the number of recommendations so as not to overwhelm the country's capacity to implement reforms. Wherever possible, the emphasis is on improving transparency and delivering basic public service to the poor, while the importance of

longer term, systemic reforms is acknowledged and preparations for them are recommended to start immediately.

E59. For macroeconomic stability and fiscal sustainability, the PER recommends, in the short run, to: (i) improve governance and tax administration so that tax revenues, particularly from mining, would increase; (ii) allocate progressively more resources to priority sectors, and improve the execution rate of the allocation, (iii) strengthen debt management and implement prudent borrowing policies and (iv) start consultations in order to develop sector-specific strategy on decentralization. Questions relating to financing, capacity, division of responsibilities, and the risk of exacerbating inequalities need to be discussed.

E60. In the medium term, the PER recommends that the authorities: (i) improve the quality and coverage of data to rationalize the structure of expenditures (with the aim of increasing resources allocated to pro-poor spending); (ii) improve macroeconomic projections; (iii) develop a medium term framework aligned with the PRSP so that multi-year programs can be planned and funded adequately; and (iv) strengthen the framework – *de jure* and *de facto* – for contracting and managing public and public guaranteed debt, including contingent liabilities.

E61. To rebuild a reliable public financial management system with requisite checks and balances, the following reforms are recommended. In the next 18 months, (i) update the legal and institutional framework; (ii) strengthen the budget formulation process with effective participation of priority line ministries; (iii) use standard procedure (reserve the emergency procedure for true emergencies) and remove unnecessary steps inserted during the electoral period that are weighing down the circuit; (iv) improve Treasury management by establishing prioritization rules, empowering the appropriate personnel, and implementing the double-entry accounting as soon as possible (HIPC Completion Point trigger); and (v) improve coverage and quality of data through enforcing the requirements for the line ministries to report the use of funds, and disseminating information effectively.

E62. In the medium term, it is recommended that (i) Treasury balance is produced in real time; (ii) public expenditures are tracked after the funds leave the Treasury by obliging the line ministries to report on public expenditure execution; and (iii) the minimum capacity to manage public finance at provincial and local governments are assured before State resources are transferred on massive scale, as stipulated in the new Constitution.

E63. For moving closer to attaining the MDG goal and realizing the government's commitment to provide quality education for all, it is necessary to increase resources allocated to the sector, ensure that human resources are managed properly, decrease fraud in public expenditure execution, evaluate the capacity of local governments to prepare for decentralization, and improve governance. In the short run, the concrete actions recommended are to (i) establish a realistic costed priority action plan for the 2009 budget; (ii) declare moratorium on regularization of personnel and creation of new schools until the teacher census and school mapping exercise are complete; and (iii) improve the arrival rate of salaries through enforcing the abolition of pay commissions and other unauthorized entities intervening in the circuit and reiterating the interdiction of unauthorized deductions from teacher salaries (and any other public funds).

E64. In the medium term, in order to decrease the school fees paid by the parents, resource allocation to education sector should be increased through more active participation of Ministry of Education in budget formulation and execution processes. Transaction costs associated with salary payments must be reduced using creative methods adapted to logistical challenges of the country; the remaining costs should be adequately funded, so as to prohibit any unauthorized deductions. Control and evaluation mechanisms should be strengthened by expanding the roles of parents, teacher unions, and NGOs. The government must put an end to the culture of impunity by enforcing laws and regulations. Effective enforcement will be possible only if adequate funds are available to pay civil servants and cover operating costs. The capacity of SECOPE, weakened during the long decades of neglect, must be rehabilitated. Finally, but not the least, it is important to start the consultation process in order to develop a sector-specific strategy on decentralization.

E65. To provide better access to quality health care for all, it is necessary to (i) allocate progressively more public funds to the health sector; (ii) build government capacity for leadership and overall management of the sector; and (iii) provide credible mechanisms for the absorption of additional funds. It will also be vital to consider various options for public-private partnership, particularly in service delivery. It is recommended that Ministry of Health participate more actively in all phases of public expenditure: budget formulation, execution, reporting, and evaluation. Civil servants working in the health sector must be managed better. As in education sector, the issue of non-regularized workers must be resolved so that clinics and hospitals can be adequately staffed based on a strategic plan, and that “unauthorized taxes,” collected in part to pay the salaries of these workers, can be eliminated gradually.

E66. The pending creation of new provinces and decentralization of responsibility for basic health services raise substantial uncertainties and challenges in all areas of health financing and policy. In particular there is a major risk that the poorer provinces will not be able to maintain the regular health worker salary payments that the central government has been able to achieve in recent years. Inequalities will be exacerbated if sufficient capacity and funds are not available to the poorest provinces for the exercise of this new responsibility. It is recommended that the Ministry of Health lead a consultation and strategy development process in order to address the multiple issues raised by decentralization.

E67. As for gender issues, it is clear that the amount of budgetary funds allocated does not match the gravity of the problems, proclamations by the government, or necessity to achieve various human development benchmarks, such as the MDGs. The priorities declared in the Constitution, PRSP, and other policy statements should be better reflected in the government’s program, and hence in the State budget. The ministries tasked with promoting gender equality need to participate more actively in the budget preparation and execution process, starting with preparing their own credible budget proposals, reflecting the priorities based on a clear strategy. It is also important that external financing is incorporated into the government’s planning (and hence the State budget) so that various programs are well coordinated and targets the overall objectives.

E68. The DRC also needs better coordinated institutions to address gender issues. In order to achieve this, the breakdown of the responsibilities between the Ministry of Women’s Affaires,

Ministry of Social Affaires and others needs to be specified. It is necessary to clarify the modalities of collaboration, coordination, and accountability with line ministries.

E69. These recommendations are feasible, but by no means easy. It will take a firm commitment from the government, and a steadfast support from development partners to implement them successfully. However, the option of not reforming is not acceptable, as is amply demonstrated in the “no reform scenario” of the fiscal sustainability analysis. The time to start acting is now.

Priority action plan for 2008-2009

Issues	Reform measures	18 months milestone	Outcome/results
Outdated legal and institutional framework	Hold workshops to validate and finalize the draft framework law on public finances and the general public accounting regulations	Draft framework law is finalized	Modern framework in place
Weak revenue mobilization	<ul style="list-style-type: none"> • Improve governance for revenues, particularly mining • Implement the tax administration reforms 	Tax revenues to reach 16% of GDP	Increased fiscal space
Sector priorities not reflected in expenditure allocation	<ul style="list-style-type: none"> • Allocate progressively more resources to priority sectors without jeopardizing fiscal sustainability • Involve line ministries in budget preparation process through complying with budget preparation calendar • Line ministries should improve the credibility and usefulness of its proposal by (i) prioritizing within a realistic envelope; and ii) involving provinces and technical departments in the budget process • Complete census on teachers and health workers, and school mapping. Meanwhile, declare a moratorium on personnel movements and accreditation of new schools • Examine the impact of school fees on girls so that appropriate measures can be taken • Improve access to family planning and reproductive care • Clarify the Ministry of WA's role as one of coordination, monitoring, and advocacy • Allocate resources for efforts to eliminate violence against women 	<p>Expenditures executed in education and health sectors to reach 10% and 4% respectively.</p> <p>'09 budget proposals in education and health sectors are based on a realistic envelope, and reflect sector priorities.</p> <p>Teacher census and school mapping completed.</p> <p>Plans to study the impact of school fees on girls developed.</p> <p>Health sector budget proposal reflects the need to improve access to family planning and reproductive health care.</p> <p>The role of MinWA clarified.</p> <p>Budget allocation for this purpose is made in 2009 budget</p>	<p>Budget allocation reflects the priorities. Priority services are delivered.</p> <p>Better information for reorganizing schools.</p> <p>Improved access to schools and health clinics by girls and women.</p> <p>Improved understanding of the situation</p>
Large deviation of budget execution from budget allocation	<ul style="list-style-type: none"> • Remove the extraneous steps in the expenditure execution circuit, and reduce processing time • Limit the use of the emergency procedure to emergencies • Improve teacher salaries payments through enforcing the decisions to (i) eliminate the Pay Commissions; (ii) prohibit unauthorized deductions from salaries • Improve budget execution of non-salary allocations to Health Zones 	<p>ELDP and ESO are removed.</p> <p>Non-emergency use of the emergency procedure is reduced to pre-election levels</p> <p>Pay commissions eliminated.</p> <p>PETS exercise in health and education undertaken (HIPC CP trigger)</p>	<p>More predictable and transparent expenditure execution</p>

Issues	Reform measures	18 months milestone	Outcome/results
Weak expenditure monitoring	Improve coverage and quality of data by (i) collecting the sectoral budget execution reports systematically; (ii) following up on public spending in priority sectors.	Sectoral ESBIs filed by education and health sectors. Follow up reports of spending in education and health sectors.	Better tracking of expenditures
Weak debt management	<ul style="list-style-type: none"> • Contract all new loans on concessional terms, and only for high return projects • Designate a unique debt information center; publish debt service projections regularly 	<p>No new non-concessional loans contracted.</p> <p>Debt service projections published quarterly. A unique debt information center established (HIPC CP trigger)</p>	Sustainable debt, and more transparency and predictability in debt management
Weak PFM at lower governments	Start consultation process to develop sectoral strategies for decentralization. Address financing, capacity, division of responsibilities and the risk of exacerbating inequalities	Action plans to improve public financial management at local governments, and sectoral strategies developed	Better managed decentralization process.

Medium term reform agenda

Issues	Reform measures	Outcome/results
MTEF needed	Train relevant staff in ministries of plan, finance, budget, and line ministries to improve macroeconomic projections and develop a costed PRSP implementing plan. Develop a monitoring and evaluation apparatus to inform decisions	Priority programs are planned and financed systematically and adequately
Outdated legal and instit'1 framework	Implement the draft finance law and General Regulations of Public Accounting	Modern framework in place
OGEDEP not associated in debt negotiations	Strengthen the framework – <i>de jure</i> and <i>de facto</i> – for contracting and managing public and public guaranteed debt, including contingent liabilities	Better managed debt, based on better information on all types of PPG debt.
Priorities not reflected in budget allocation	<ul style="list-style-type: none"> • Improve the quality and coverage of data to rationalize the structure of expenditure so that allocations to priority sectors can be increased • Institutionalize the monthly updating of data on the official websites 	Budget allocation is based on better information.
Budget execution prone to delays	<ul style="list-style-type: none"> • Institute a mechanism for end-service providers to access their budget allocations • Establish electronic network between MoF, MinBud and line ministries • Make the production of monthly Treasury balance automatic (using double-entry accounting; HPIC CP trigger) and exhaustive • Rationalize the post-Treasury expenditure circuit to reduce the high execution costs 	Less delays in budget execution
Weak PFM outside MinBud and MoF	<ul style="list-style-type: none"> • Reinforce the public financial management capacity at provincial level 	Improved public financial management at line ministries and provincial level;
The use of funds after they leave Treasury not tracked	produce quarterly sectoral budget execution reports including provincial operations Education (i) involve parents and teacher unions to monitor and evaluate the performance of headmasters, administrators and SECOPE; (ii) implement a mechanism to report any irregularities; (iii) end impunity by applying the sanctions according to the laws and regulations; (iv) reinforce SECOPE's role and capacity Health (i) strengthen the government's oversight; (ii) develop a monitoring and reporting system to understand the actual use of disbursed funds better; (iii) develop an effective monitoring system, adapted to decentralization	More oversight in expenditures in education and health sectors, and hence, better expenditure management.
Unequal treatment of women	<ul style="list-style-type: none"> • Reinforce capacity to collect information and understand the nature of victims and perpetrators of violence against women • Transform the better understanding and data to concrete action to protect women 	Environment that protects the vulnerable from predators.
Aid is insufficiently harmonized	Encourage donors to harmonize technical issues, in the areas of monitoring, evaluation, technical implementation modalities, in compliance with the Paris Declaration.	Less transaction costs, and hence, more efficient provision of aid.

Chapter 1. INTRODUCTION AND COUNTRY OVERVIEW

1.1 The Democratic Republic of the Congo (DRC) is an immense country about the size of Western Europe, with an estimated population of 60 million. Formerly the Belgian Congo, DRC won its independence in 1960. In 1965, Mobutu Sese Seko seized power and ruled the country for 32 years. While President Mobutu created a solid sense of national unity, his regime mismanaged the economy and corruption became rampant. In the early 1990s, the country's economy collapsed under hyperinflation, and a series of unrest, riots, and armed conflict supported by foreign governments ensued. Over 3 million people reportedly died during the conflict since 1998, mostly due to starvation and diseases. In 1999, a cease-fire agreement was signed, and in 2001, a transitional government took office with Joseph Kabila as its president, and the military and political situation began to stabilize. A peace accord was signed in 2003. In 2006, the first elections in four decades were held, and a coalition government took office in February 2007 with Mr. Kabila as its president.

1.2 A full Poverty Reduction Strategy Paper (PRSP) was adopted in July 2006, in which reunification, peace, and stability are named the top priorities. The surveys conducted during the preparation of the PRSP revealed that poverty is overwhelming, affecting more than 70% of the population, and over 90% in the province of Equateur. The dimensions of poverty varied substantially across regions. In areas severely affected by the armed conflicts, the lack of security was considered to be the most important cause of poverty, whereas in the isolated provinces, people were mostly concerned about scarce food and means of transportation. The sentiment was shared across regions that institutional weaknesses including poor governance and the lack of transparency and accountability were contributors to poverty.

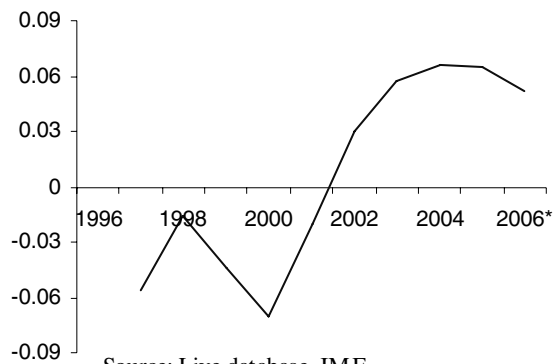
Table 1.1: Incidents of poverty

	Population (share of total)	Share of population below poverty threshold
Overall	100	71.3
Provinces		
Equateur	10.4	93.6
Bandundu	11.5	89.1
Sud Kivu	7.0	84.7
Province Orientale	12.1	75.5
Nord Kivu	8.0	72.9
Bas-Congo	5.9	69.8
Katanga	15.5	69.1
Kasai Oriental	8.5	62.3
Maniena	2.9	58.5
Kasai Occidental	7.6	55.8
Kinshasa	10.7	41.6

Source: 1-2-3 survey 2004-2005 (analysis by the authorities, AFRISTAT and World Bank)

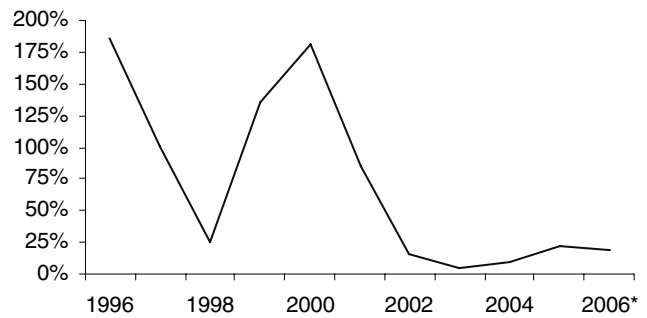
1.3 Since 2001, the government has implemented a program of macroeconomic and structural reforms to stabilize the economy and revive productive activities: hyperinflation was broken, fiscal and monetary policies have largely been prudent, and foreign exchange rate is now floating. As a result, the economy rebounded. Between 2002 and 2006, the compounded economic growth was 30%, reversing more than a decade of decline until 2001. Mining, construction and public works, and telecommunications led the recovery. GDP in 2006 was estimated to be roughly US\$8.4 billion. Foreign direct investments increased consistently since 2001, to an estimated US\$1.3 billion in 2005, in mining and other sectors such as telecommunications.

Figure 1.1: Real GDP growth



Source: Live database, IMF
2006 preliminary

Figure 1.2: Inflation (annual average)



Source: SIMA and IMF

1.4 Macroeconomic balances deteriorated beginning in late 2005, as the country entered the pre-electoral period, with inflation creeping back up to 18% towards end-2005, after a sharp decline from over 500% in 2000 to 9.2% in 2004. The cause of this reversal was the weakening of fiscal discipline, as the tensions rose during this period. The government was unable to manage the temporary expenditure spike, such as unplanned security spending and bonus to civil servants in response to social pressures. Dollarization of the economy limited the scope for using the traditional monetary instruments, translating any domestic borrowing immediately to inflation and exchange rate depreciation. Precariously low official reserves (equivalent of only 3 weeks of non aid-related imports at end-2006) also meant that the authorities had little margin of maneuver. In addition, foreign investments and disbursement of official aid slowed down during this period.

1.5 The new government, which took office in February 2007, strengthened fiscal discipline aimed at restoring macroeconomic stability, and its efforts are beginning to show at the time of this writing. Restored confidence in the stability of the country has allowed economic activities to resume.

1.6 During the last five years, the transitional government concentrated on political and socio-economic stabilization and clearance of various types of arrears inherited from the previous regime. Looking forward over the medium term, the new government's

objectives are to ensure high and shared growth and create fiscal space¹ for carrying out poverty-fighting programs. The government must create an environment conducive to economic activities through improved governance, better physical and financial infrastructure, and effective enforcement of law and order. Resource mobilization must improve, as does efficiency and effectiveness of expenditures both in terms of allocation and execution. There are many ingredients to achieve these objectives: improved fiduciary control over revenue collection and public expenditures, decentralization, reforms to create professional and accountable civil service, transparent natural resource management, and so forth. Ensuring security is *sine qua non* for all economic activities.

Table 1.2: DRC Selected economic indicators (% GDP unless otherwise indicated)

	2003	2004	2005	2006
Real GDP growth rate	5.8	6.6	6.5	4.9
Inflation (% change of CPI end of period)	4.4	9.2	21.3	18.2
Total revenue and grants	9.7	11.5	16.8	21.4
Total revenue	7.7	9.5	11.6	13.2
Total grants	2.0	2.0	5.2	8.2
Total expenditure	13.9	15.6	19.9	22.1
Current expenditure	11.1	12.8	13.7	14.5
of which wages	2.5	3.6	4.4	5.5
interest due	3.8	3.6	3.7	3.5
of which on external debt	3.6	3.3	3.2	2.9
Capital expenditure	2.7	2.8	3.4	3.4
of which foreign-financed	2.1	2.2	2.4	2.3
domestic-financed	0.6	0.6	1.0	1.0
Exceptional expenditure ¹	n/a	0.0	2.9	4.3
Overall fiscal balance (payment order basis)	-4.2	-4.1	-3.1	-0.7
GDP (billions of Congo francs)	2298.7	2601.3	3366.4	4000.7
Exchange rate period average	373.0	397.8	474.4	468.3

Source: IMF (2007)

¹Includes DDR, elections, and payments for civil service retirement program.

¹ "Fiscal space exists when a government can increase expenditures without impairing its fiscal solvency" (World Bank 2006 *Fiscal Policy for Growth and Development*).

1.7 While public financial management has improved tremendously since the transition government started the reform process after decades of mismanagement and the devastating war, it still has a long way to go. The standard four-phase public expenditure circuit is now restored and computerized, but it is not always used appropriately. The proper procedure of verification-before-payment is not always followed, which is partly a reflection of the understandable reluctance by the suppliers to deliver goods and services to the government before being paid. Weakness of Treasury management, combined with often severe liquidity constraints, causes delays in processing expenditures, creating the situation where those who are politically well-connected receiving payments first. The expenditure tracking after the funds leave the Treasury is almost never done. The lack of monitoring and follow-up is caused as much by the communication challenges that this vast country with very limited infrastructure faces as the decades of economic mismanagement. Even when proper framework exists and rules are defined clearly, the underpaid civil servants are not motivated to learn the proper procedure and are often tempted by opportunities to circumvent them. The leaders of the new government are not opposing the reforms, but neither are they taking initiatives in improving public financial management, as the fragile coalition government politics consume their energy and time. These challenges are not uncommon in post-conflict countries. To improve public financial management (and hence the quality of life for the population through better public service), the commitment of the leaders is an indispensable precondition. At the same time, the international development partners must have realistic expectations and patience, and also to deliver on their promise expressed in the Paris declaration.

1.8 The immediate consequence of the challenges described above is that the information on which to base detailed public expenditure analyses is scarce. In fact, systematic and reliable data are scarce all around. This *Public Expenditure Review* (PER), therefore, relies on educated guesses of the authorities, who know the system the best, and development partners, who bring international expertise to the exercise. It seeks to identify a small set of reforms that could be implemented in the next 18 months. The set of priority reforms is by no means exhaustive, and may not necessarily be the most important, as it was chosen with feasibility in mind. The PER also proposes a broader and longer-term (3-5 years) reform agenda. Through consultations with the authorities, the PER chose to address two social sectors, education and health, and one cross-cutting issue, gender. Other priority areas such as infrastructure, water, and sanitation were not included, partly due to constraints on resources, and also due to the fact that expenditures in these sectors are even more reliant on foreign resources than the ones addressed in this PER, and are expected to remain so for the near future. The authorities wished to have a document which acts as a joint action plan between themselves and development partners to address the preponderant fiduciary concerns directly linked to their own expenditure management system and procedures. Hence, the recommendations included in this PER represent a shared understanding between the authorities and the participating partners of where DRC's public finances should be in 18 months, and the commitment on both sides to invest the necessary efforts and resources to achieve them. It is hoped that better public financial management will result not only in more effective fiscal policies but also in access to more external financing.

1.9 This PER is one of the core analytical pieces being planned in the framework of the Country Assistance Strategy for DRC. Other analytical work include a decentralization note, a civil service reform note, a security sector public expenditure review, a country economic memorandum probing for the sources of growth, and a mining sector review. The purpose of this PER is to analyze the (civilian) public expenditure performance of the past few years, identify salient problems, and prioritize the necessary reforms to help the government make the transition from stabilization to medium term development goals, as described in their recently completed Poverty Reduction Strategy Paper (PRSP). In parallel, a Public Expenditure and Financial Accountability (PEFA) exercise is being undertaken by the authorities in partnership with the European Commission. Although the final report was not yet available at the time of writing, the findings included in the preliminary draft appeared in line with the findings and recommendations of the PER.

1.10 The government is unlikely to play a large redistributive role or undertake massive public investments in the near future due to severe resource constraints. Its role in the next few years would be limited to maintenance of peace and macroeconomic stability, and an improved provision of basic public services. The topic of maintaining peace is addressed in the security sector PER, mentioned above.

1.11 The macroeconomic framework has proved reasonably stable in the last few years when the government refrains from resorting to money-financed expenditures. Hence the first order of business is to avoid domestic borrowing in the near future. Foreign borrowing should also be contracted judiciously, since the country is still in debt distress if a debt relief is not granted under Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDR) initiatives. The analyses on the past trends in public expenditure and revenues, as well as fiscal sustainability looking forward are discussed in chapter 2.

1.12 Although the government's ability to conduct large scale investments will be limited, DRC is a country with an enormous potential for private sector investments. Even with the problems that made the country ranked the last in doing business survey, investors are flocking back into the country. While systematic data are not available (the economy is still predominantly informal), urban centers such as Kinshasa and Lubumbashi are bustling with activities, and showing signs of a boom. The challenge for the government is to keep the momentum for the economic activities going beyond the reconstruction phase through improved administration. The mining sector is likely to attract the most investment and be the source of growth in the near future, but long term sustainable growth would depend on the government's ability to improve the business climate to allow diverse industries to blossom, as well as to ameliorate the conditions for rural sector activities, on which a majority of the population still depend. Which policies are suitable for sustaining equitable and high growth will be addressed in the above-mentioned country economic memorandum.

1.13 This PER presents the progress made in the area of public expenditure (a summary of the progress status of the reforms recommended in the PER (2002) is in the annex), and an analysis of the current expenditure structure. As is discussed in the

subsequent chapters, the bulk of the public expenditure is used for paying the employees of the public sector, maintaining the institutions of the central administration, and servicing debt, with very little resources reaching the end-service providers even in the priority sectors (such as schools and clinics). Very little resources allocated for outcome producing items, combined with the very poor availability of data meant that it was not possible to conduct a systematic incidence analyses to examine efficiency and quality of the spending. By the same token, the PER has little to say about the allocative efficiencies beyond calling for a gradual increase in priority sectors as resources become available, and reducing “sovereign and institutional expenditures” (for example, decrease the overall allowance allocation to ministerial cabinets by rationalizing the number of ministries). Therefore, the PER concentrates essentially on two questions (the analyses of the civil service and how to improve its efficiency are a subject of the above-mentioned civil service note). First concerns the mechanics of the public expenditure system: how is the public expenditure circuit performing, and what could be improved to faithfully carry out the intended expenditure policies (discussed in chapter 3)? Second concerns the efficiencies of expenditures in priority sectors/areas: within the limit of the government’s resources, what can be done through fiscal policies in health and education sectors and for promoting gender equality so that better services are provided to the population, especially to the disadvantaged (discussed in chapters 4 through 6)?

1.14 This PER is an important exercise for DRC to have undertaken now, because the new government is under a tremendous pressure from the population to show that it could provide a better life. The perception and anecdotal evidence that the wealth in DRC is not shared equitably among the population was a leading cause of the recent war on the DRC territory. A lack of action by the government to demonstrate its commitment to move in the right direction could translate into a renewed armed conflict. Without such a demonstration of commitment, international development partners are wary of granting aid to the country, which implies stagnating investment activities, and possible debt crises and worse. The PER identifies incremental reforms which will be a stepping stone to larger reforms, and which could lead to improved service provision relatively rapidly.

1.15 Less dramatically, the fact that the PER is unable to conduct the most basic analyses due to lack of data is an important message in itself: statistics collection is an essential component of good economic policy-making. The PER strongly advocates to break the cycle of apathy by the line ministries of presenting unrealistic wish-list of a budget proposal, receiving a budget allocation that has nothing to do with the proposal, having an erratic execution of even the diminished allocation, and not bothering to report back to the financial ministries of how exactly the public funds were used. Their experience of passing decades not receiving meaningful allocations of resources is an understandable reason for such apathy, but it is not an excuse. It is each line ministry’s responsibility to present a credible budget based on its sector strategy, and report how the funds were used, so that the intended recipients of public goods and services are served. Development partners can assist where skills were lost during the long neglect.

1.16 Finally, it is useful to take stock of the progress in the area of public financial management made under the transitional government, and for all the stakeholders to agree on (or at least discuss) the way forward. A functional public financial management

system is a fundamental and important asset for any government, and particularly those hoping to attract foreign resources. Indeed, it is recommended that this exercise be undertaken periodically, every two years or so.

1.17 Each chapter of this PER is designed to read as a stand-alone piece, although care was taken to minimize the repetition for the benefit of the readers of the whole document.

Chapter 2. ANALYSES OF PUBLIC EXPENDITURE TRENDS AND FISCAL SUSTAINABILITY

<i>Priority recommendations</i>		
Improve revenue mobilization	<ul style="list-style-type: none"> • Improve governance to improve the tax revenues particularly from mining sector • Implement the tax administration reforms 	Start immediately
Expenditure management	Allocate progressively more resources to priority sectors, and improve the execution rate of the allocations	Starting with 2009 budget cycle
Manage debt prudently	<ul style="list-style-type: none"> • Contract all new loans on concessional terms, and only for high return projects 	Immediately
	Designate a unique debt information center to improve the collaboration and coordination among entities handling debt and publish monthly debt service projections on a quarterly basis.(HIPC completion point trigger)	By third quarter 2008
Decentralization	Start consultation process in order to develop sector-specific strategies on decentralization	Start immediately

2.1 This chapter analyzes past trends of DRC's public expenditure and revenues, and presents a fiscal sustainability analysis. The first section covers the period 2000 to 2006, i.e. from the end of President Laurent Kabila's government and to the elections in 2006 which ended the period of the transitional government (2002 - 2006). The second section presents a fiscal sustainability analysis covering the twenty year period starting in 2006. It presents six alternative scenarios, analyzing the impact of different expenditure patterns on DRC's fiscal sustainability outlook and growth.

2.1. Trends in public expenditure and revenues

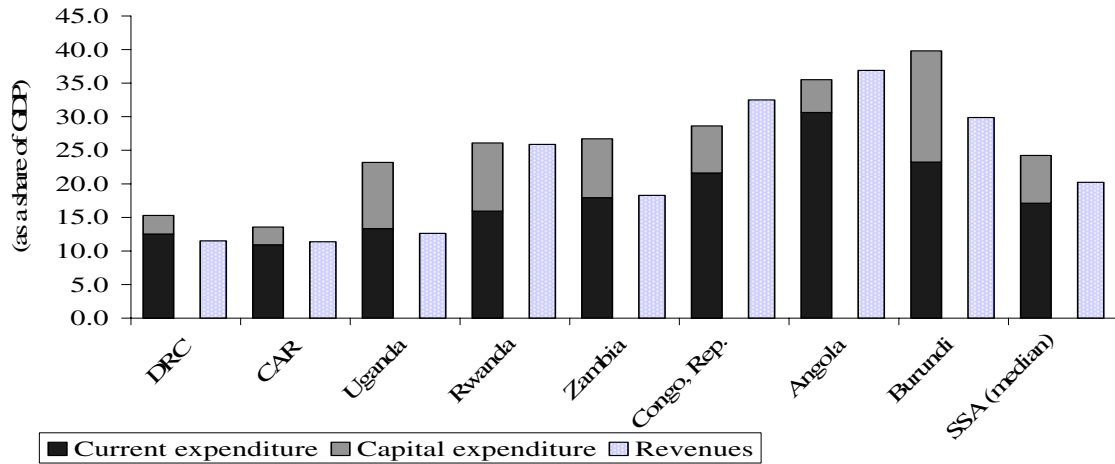
Revenues

2.2 DRC's revenues as a share of GDP are among the lowest in the world (see figure 2.1). However, the revenues have been growing steadily to reach approximately 13% or US\$1.1 billion in 2006. This performance was helped in recent years by high petroleum prices: the revenues from the petroleum sector (royalties and taxes) constituted roughly a quarter of non grant revenues in 2006. As a sign of an underdeveloped tax regime, customs and excise revenues are the largest contributor, constituting over a third of revenues excluding grant, although their shares have been declining (see figure 2.2). The share of direct and indirect taxes² is increasing, although it is dominated by a few large corporate tax payers. The grants have grown in recent years, and at roughly US\$ 370 million and US\$ 700 million respectively in 2005 and 2006, were also the largest contributor to the overall government revenues. The high disbursement of grants

² DRC still reports its revenues by collecting agencies, DGI, OFIDA, and DGRAD, rather than by GFS classifications.

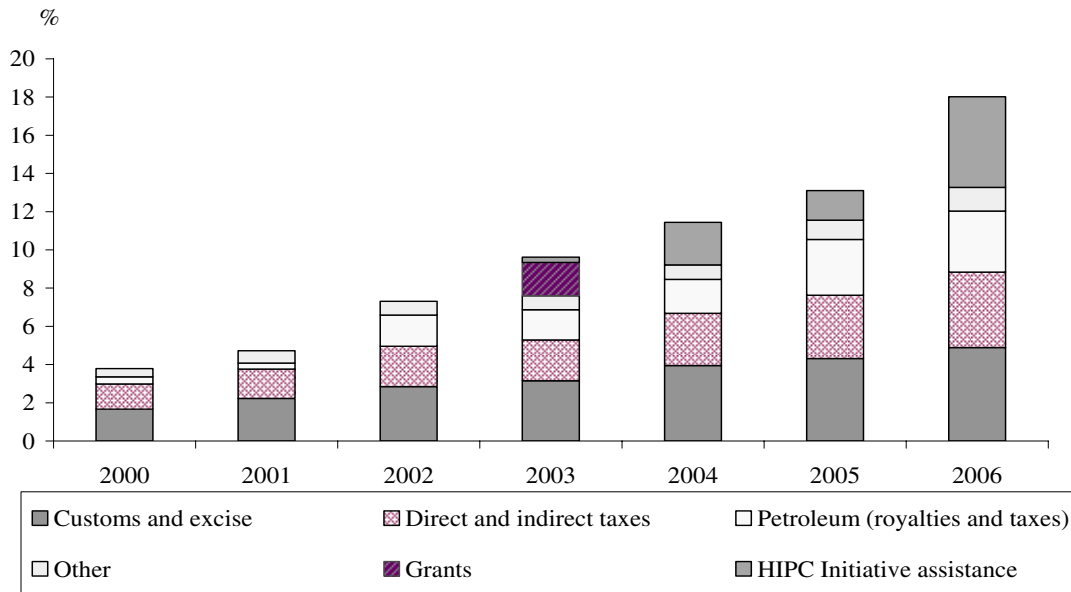
includes temporary funding for elections as well as transitional financing for Demobilization, Disarmament, and Reinsertion program (see figure 2.3).

Figure 2.1: Expenditure and Revenues in 2004



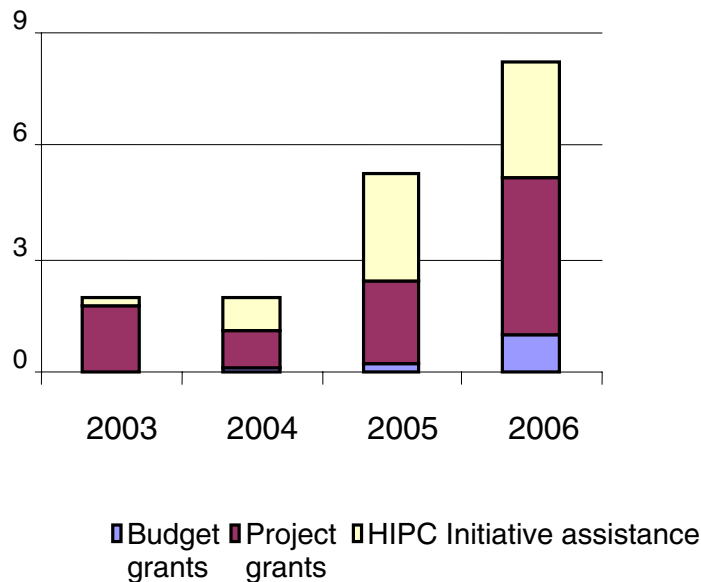
Source: World Bank Live Database

Figure 2.2: Revenues and Grants (% GDP)



Source: DRC authorities, IMF

Figure 2.3: Break down of grants (% GDP)



Source: DRC authorities

2.3 Fiscal revenues from the mining sector are low compared to their potential. The country has Africa's largest deposits of copper, cobalt, and coltan and significant reserves of diamonds and oil, many of which remain still untapped. However, the abundance of natural resources has yet to be converted to improved living standards for the population, but rather been at the heart of the many violent conflicts in DRC. Hostile environment and mismanagement have led to a collapse of the mining sector in general, and of the large state-owned mining companies such as GECAMINES (copper and cobalt) and MIBA (diamond) in particular. The mining sector accounted for about 25% of GDP in mid-1980s but barely contributed 7% to GDP in 2001.³ The revenues from mining plummeted from 25% of GDP in the mid 1980s to 0.18% in 2002, before climbing back to 0.24% in 2004.⁴ With stability restored in most parts of the country, the sector's activities resumed and its contribution to GDP climbed back to 11% in 2006. However, it is unlikely that mining revenues would reach their full potential without reforms to address the weak institutional and administrative capacities and the lack of control over its borders. The authorities are aware that mining could be a crucial driver of growth, and have started its reforms by promulgating a state-of-the-art Mining code in 2002, which improves incentives for private investment in mining. Foreign direct investments have flowed, lured by the high commodity prices and richness of DRC's mines. Restructuring of GECAMINES and other mining companies is in various stages of progress; fiscal revenues from the mining sector are projected to increase in the next 5-10 years.⁵

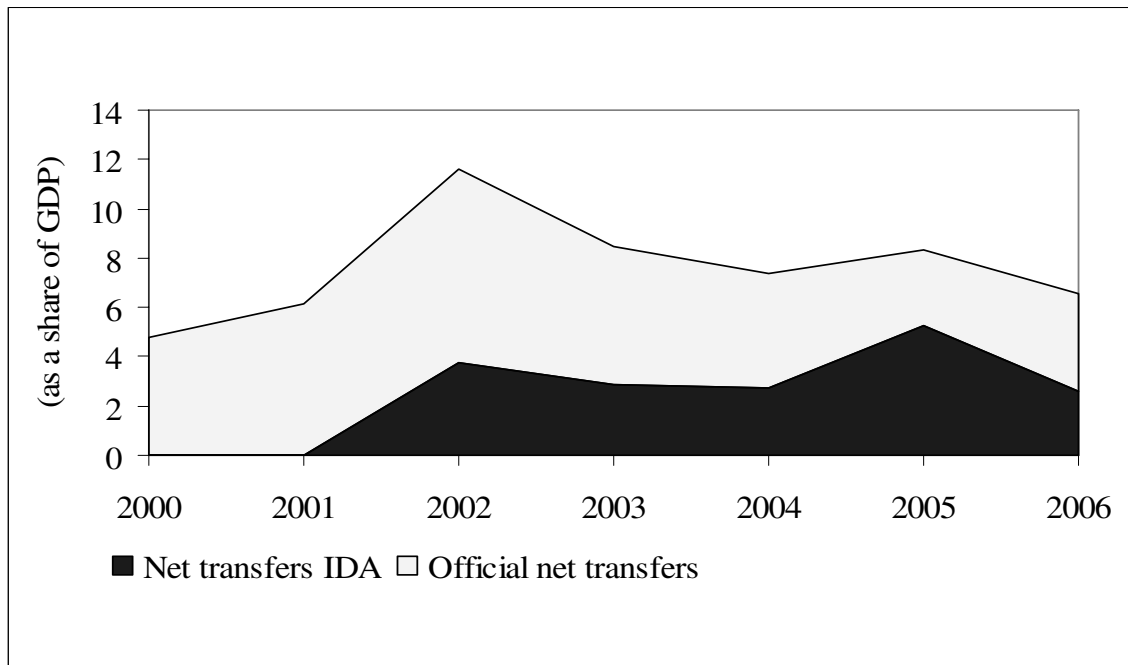
³ The decline in the formal sector was partially offset by an increase in informal mining, notably artisanal diamond mining.

⁴ IMF, "Democratic Republic of the Congo: Selected Issues and Statistical Appendix", October 2005, IMF Country Report No. 05/373.

⁵ See *Mining Sector Review* (World Bank 2007) for more details.

2.4 Official net transfers to DRC have been positive in recent years (figure 2.4). The external official net transfers to DRC declined in 2006 as the execution of foreign-financed projects slowed down during the elections.

Figure 2.4: Official Net Transfers*



* Does not include grants for election.

Source: IMF

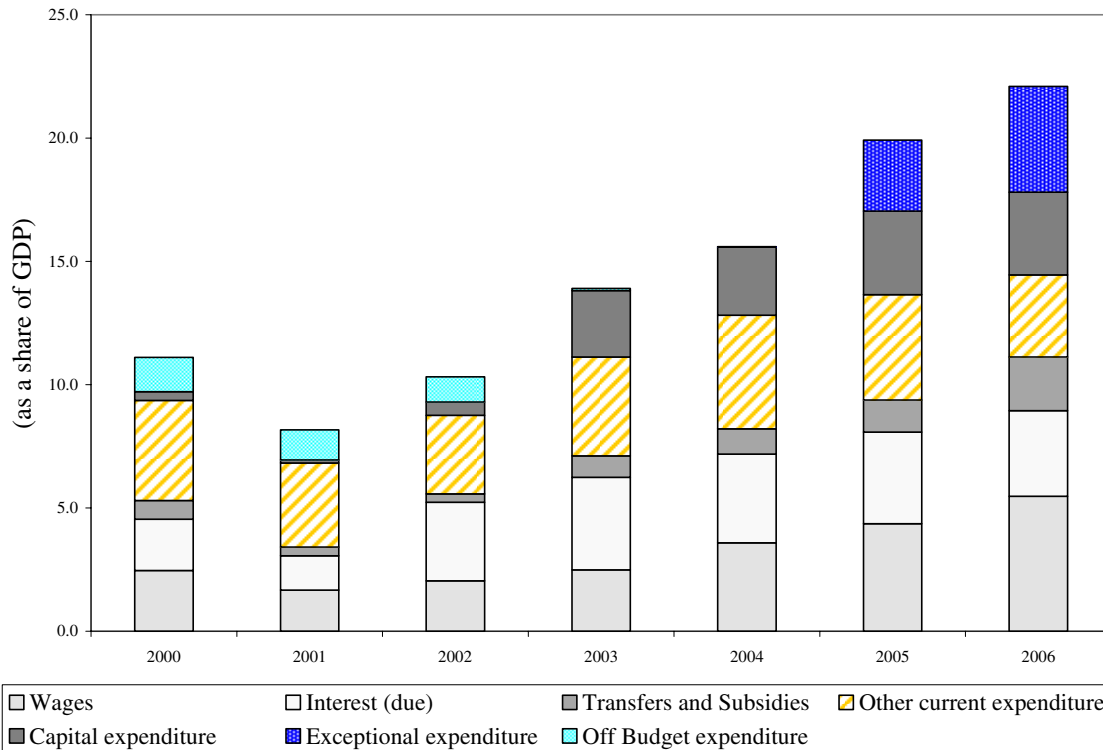
Expenditures

2.5 DRC's expenditure to GDP ratio is among the lowest in Sub-Saharan Africa. It was 9 percentage points below the Sub-Saharan African median, and exceeded only the ratio of four Sub-Saharan countries (Liberia, the Central African Republic, Togo, and Chad) in 2004 (see figure 2.1). The low level of expenditure can be explained by weak revenue mobilization and low foreign aid, amounting to 12% of GDP, far below the Sub-Saharan median of 20%. DRC's current expenditure constitutes 73% of expenditures, making capital expenditure as a share of GDP particularly low, corresponding to only 39% of the Sub-Saharan African median.

2.6 Since 2000, however, expenditure as a share of GDP in DRC has increased continuously (see figure 2.5). The wage bill was the largest expenditure item in 2006. Its share in total expenditure has been stable at about 25% since 2000. Wage levels in DRC are among the lowest in the world, since their values plummeted by 90% at the beginning of the millennium due to hyperinflation. In contrast to its share in total expenditure, the composition of the wage bill has evolved. Civil service wages constituted about 60% of the wage bill in 2003, but grew to more than 80% in 2006. It seems to reflect the efforts by the government to contain the military wage bill, but there is very little information available on this matter. The authorities are trying to grapple with the conflicting needs of paying a living wage and containing the wage bill growth through civil service and

military reforms, assisted by development partners. Military and civil service censuses are ongoing, and the payroll system is being overhauled. However, the wage issue is likely to remain one of the leading causes of inflationary pressure in the near future.

Figure 2.5: DRC: Expenditure Breakdown 2000-2006



Source: DRC authorities, IMF

2.7 The largest expenditure category in 2006 was “other current expenditure.” It covers such items as the operating costs of central administration and other public institutions, “centralized payments (*charges communes*),”⁶ and transfers to deconcentrated provincial offices and to decentralized administrative units.⁷ This category of expenditures declined steadily from 54% in 2001 to 28% in 2006 as a share of total expenditure. The share of centralized payments in other current expenditure has slowly declined from 28.5% in 2001 to 20% in 2006 as the government made efforts to control it (see chapter 3). See Box 2.1 for a discussion of the evolution of transfers to local governments.

⁶ “Centralized payments” encompass several expenditure items that share the characteristic of being centrally managed by the Ministry of Budget, such as water and electricity bills.

⁷ Deconcentrated provincial offices (*Services Provinciaux*, SPs) represent the central ministries in provinces while decentralized administrative units (*Entités Administratives Décentralisées*, EADs) are local administrations. See Box 2.1 for more discussion.

Box 2.1: Funding provincial offices and decentralized administrative units

Approximately 90% of DRC's population lives in the provinces outside the capital. The central government serves this through two types of administrative structures: the deconcentrated provincial offices (*Services Provinciaux*, SPs) representing the central ministries in the provinces, and the decentralized administrative units (*Entités Administratives Décentralisées*, EADs), which constitute the local governments, i.e. provinces, territories, communes, and villages.

While the SPs are funded by the state budget, the EADs are financed through transfers (retrocessions) from the central government, as well as local taxes which the local governments levy. In the past, transfers were stipulated to be 20% of the revenues collected by the tax agencies in the provinces, 10% withheld at the source and 10% transferred from the Treasury. However, the central government has not transferred the stipulated amounts to the regional administration: transfers to SPs and EADs combined constituted only 10% of current expenditure in 2004, 4% in 2005 and 20% in 2006.

The lack of funding from the central government induces the regional offices to impose levies and informal taxes without legal justification, opening the door for corruption. Moreover, the recording of revenues and expenditures for SPs and EADs still lacks transparency during both the budgeting and the execution process.

The new Constitution (2006) calls for more fiscal decentralization. It stipulates that 40% of revenues are to be transferred to the provinces of origin, an additional 10% to be distributed to the provinces for investment purposes in a way that would allow addressing infrastructure imbalances across provinces. The remaining 50% stays with the central government.

Major challenges have to be overcome for implementing the fiscal decentralization stipulated in the Constitution: i) appropriate legal framework needs to be set up, ii) revenue transfers must be managed so that poor provinces are not deprived of minimum funds necessary to operate; iii) expenditure responsibilities commensurate with revenues must be transferred to local governments; and iv) civil service must be overhauled to introduce an administrative system to manage public service in a decentralized environment.⁸

2.8 The third largest current expenditure item in 2006 was the interest payments, of which 80% was payments on external debt. It is decreasing as a share of GDP, revenues, and exports: debt service represented 23% of revenues (8.3% of exports) in 2004, and declined to 14% of revenues (5.8% of exports) in 2006.

2.9 DRC reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) initiative in 2003, after having rescheduled the arrears accumulated during the Mobutu era, amounting to US\$10.6 billion at end-of 2001. At the decision point, HIPC debt relief to DRC was estimated to be US\$6.3 billion (in end-2002 net present value terms). Recent Debt Sustainability Analysis (2007) found that external debt indicators would remain above the relevant policy-based thresholds⁹ for many years

⁸ For more information on decentralization in DRC, see “*République Démocratique du Congo: Note de Synthèse: Reforme de la Fonction Publique: Les Quatre Grands Axes: Décentralisation, Système des Salaires, Rationalisation, Base Juridique.*”

⁹ The World Bank's Country Policy and Institutional Assessment (CPIA) rates the DRC as a low performer. Under the joint World Bank/IMF debt sustainability framework, the thresholds for low performers are 30% for the NPV of external public and publicly guaranteed (PPG) debt to GDP ratio, 100% for the NPV of external PPG debt to exports ratio, 200% for the NPV of external PPG debt to revenue ratio, 15% of external PPG debt service to export ratio, and 25% for the external PPG debt service to revenue

to come unless debt relief is provided through the HIPC and Multilateral Debt Reduction (MDR) initiatives. If the new duly-elected government manages to carry out sound economic policies to restore macroeconomic stability and meet the triggers (complete list of triggers and their implementation status are in annex 3.3), DRC could reach the Enhanced HIPC Completion Point as early as mid-2008, and also benefit from the MDRI.

2.10 In 2006, interest payment *due* on external debt was roughly US\$300 million, representing about 3.5% of GDP. The interest payment that DRC *intended to pay* was much lower, thanks to interim debt relief. The interest on external debt *actually paid* in 2006 was roughly US\$100 million, falling short of what was planned because cash-constrained DRC stopped honoring its debt service obligations to all bilateral creditors in the second half of 2006. DRC has struggled to meet the debt service obligations since the HIPC decision point, as the rescheduling of arrears increased scheduled debt service from 2003 onward, even after interim debt relief. At the decision point, it was expected that new external resources would more than offset the increased debt service obligations, but it has not quite worked out as expected. Although official net inflows have indeed been positive since 2003 (see figure 2.4), it has been erratic and often in kind (such as consultants). Moreover, the types of project have not provided the liquidity-constrained government with enough margins of maneuver: the external funds designated to an infrastructure project, for example, cannot be used to pay the debt service, and these funds are not quite fungible, as the government would not have undertaken (would not have had the cash to undertake) the project in the absence of foreign aid.

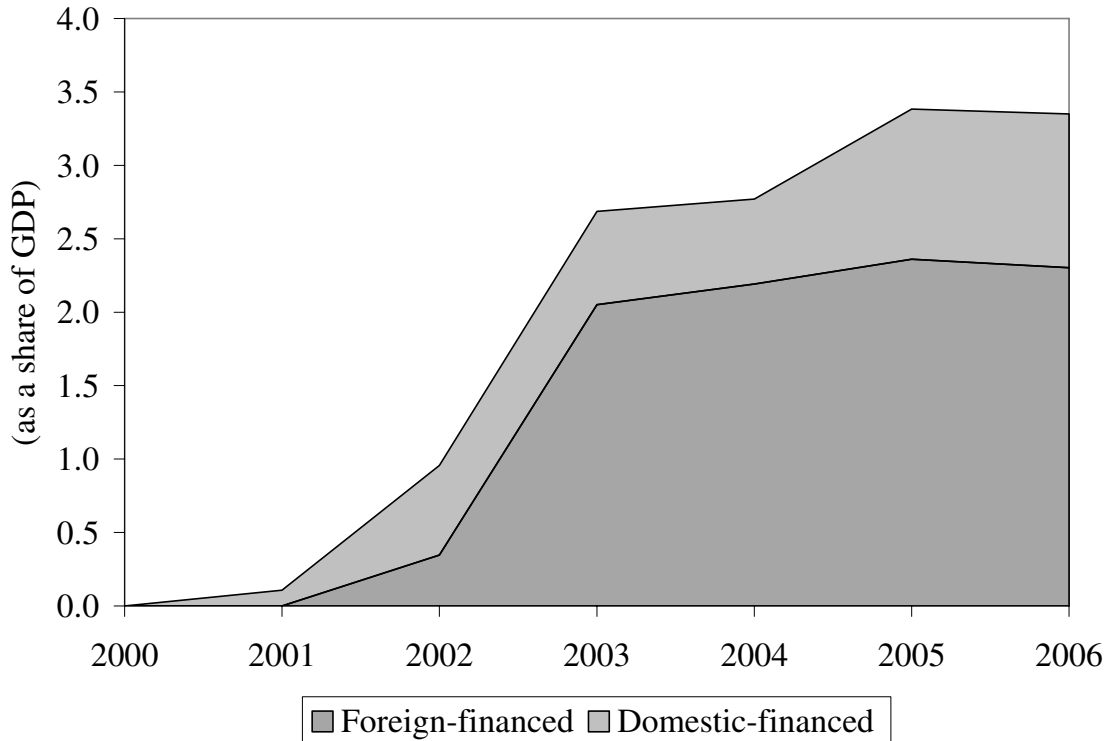
2.11 The government is working to obtain HIPC debt relief from external commercial creditors (London Club debt) with the support of the World Bank.

2.12 Domestic debt, almost entirely in arrears, was estimated to be over US\$1.2 billion (17% of GDP in 2005) as of end-2004. In 2005, with the support of the World Bank, the government negotiated a settlement with a majority of creditors. However, due to severe budget constraints, it has missed the payments for 2006, and fallen back into arrears. The government has reached new agreements with creditors, and is scheduled to settle the remaining obligations in 2007-08 with financial assistance from the World Bank.

2.13 Capital expenditure in DRC continues to be low, constituting only 15% of total expenditures in 2006, only a half of the Sub-Saharan median of 30%. However, the share of capital expenditure has increased steeply from 0.4% of GDP in 2001 to 3.4% in 2006 (see figure 2.6). This increase decelerated in the last two years, as the execution of foreign-financed projects slowed. As a consequence, the share of foreign-financed capital expenditure remained constant as a share of GDP, but dropped as a share of total capital expenditures from 79.1 in 2004% to 68.7% in 2006. Capital expenditure from the government's own resources increased nearly fourfold between 2002 and 2006, but the level of domestically-financed capital expenditure remains low at approximately 40 billion Congolese francs (US\$ 90 million), or 1% of GDP.

ratio (“Operational Framework for Debt Sustainability for Low-Income Countries – Further Considerations,” IDA/R2005-0056).

Figure 2.6: Capital Expenditure (% GDP)



Source: DRC authorities, IMF

2.14 Non-budgeted expenditures were sizeable between 2000 and 2003. The coverage of the budget increased since 2004 as previously non-budgeted expenditure items were included in the budget. Exceptional spending, covering mainly foreign financed outlays for the elections and demobilization, disarmament, and reinsertion program (DDR),¹⁰ increased substantially in 2005 and 2006.

Execution

2.15 Current expenditure execution exceeded the budget allocation during the last few years (see Table 2.1). Several line-items, such as “transfers and subsidies,” and “other current expenditures,” exceeded budgeted amounts significantly. Moreover, the execution-to-allocation ratios of these two items have increased persistently during the last few years. The wage bill execution also exceeded the budget allocation, which reflects the pressure from teacher unions and other civil servants. There are also large deviations between executed and budgeted interest payments, pointing to a weak debt management capacity (see Box 2.2). For discussions on the reasons for these discrepancies, particularly problems with the current budget preparation process, see chapter 3.

¹⁰ It also includes spending for retirement indemnities, settlements of domestic arrears, and payment for bank restructuring.

Box 2.2 : Debt Management in DRC

DRC's framework for debt management is weak and fragmented. In principle, *Office de la Gestion de la Dette Publique* (OGEDEP), which was once a *caisse autonome d'amortissement* and now a public enterprise, is tasked with recording, managing, servicing and analyzing the debt, keeping and publishing debt-related statistics, and issuing government guarantees. The Ministry of Finance has the sole authority to contract public external debt with the technical advice from OGEDEP. However, the legislation is not always respected. Since OGEDEP's assets were expropriated to finance the government's deficit during the Mobutu era, OGEDEP has not had assets to be independent. The revenues from issuing guarantees have also dried up as the government itself lost credibility. OGEDEP now receives subsidies from the Treasury to cover the operating costs. The agency is over-staffed with personnel who have become under-qualified due to decades of neglect. As OGEDEP lost its efficiency and competence, other institutions started to bypass it or substitute for its functions, further undermining its capacity to fulfill its mandates. For example, the Ministry of Finance does not inform OGEDEP systematically of the debt it contracts, let alone solicit advice from OGEDEP. The Central Bank services debt with instructions from the Ministry of Finance, which receives information from OGEDEP. However, the Central Bank manages the repayment obligations to the IMF on its own, and does not ask advice from or even share information with OGEDEP.

The project implementing agencies, established in recent years, have the responsibility for processing disbursement applications to creditors, and do not share information with OGEDEP. Exchange of information among the Central Bank, Treasury, Ministries of Budget and Finance, and OGEDEP does not take place regularly, with the exception of information regarding debt service payments made. The formal mechanism that ensures regular diffusion of information regarding critical debt indicators does not function properly. OGEDEP is informed only on an ad-hoc basis about the signing of a new loan after the fact. Information regarding new disbursements and external public and publicly-guaranteed debt managed by the Central Bank is not shared with OGEDEP.

The quality of debt management needs to be strengthened all around. Under a debt capacity reinforcement program co-financed by the World Bank and African Development Bank and executed by United Nations Conference for Trade and Development (UNCTAD), the debt recording system DMFAS 5.3 was introduced recently, and the OGEDEP staff received training on debt data recording, reporting, management, and analysis. The responsibilities of OGEDEP staff were clearly redefined under this program. Turnover of trained staff has been relatively low, ensuring institutional memory and continuity in work.

As a result of this program, the quality of the recorded data has improved and forecasts became reasonably reliable. However, external debt data are reconciled only in the context of debt relief negotiations and checks are not undertaken on a regular basis. These functions should be strengthened in order to maintain the quality of the data base. Finally, information regarding certain debt categories, such as direct debt contracted by public enterprises or non-guaranteed private debt, is likely to be incomplete in OGEDEP's data base. Moreover, OGEDEP does not have any information regarding external grants. Debt data are still not published, although the authorities have committed to do so regularly (a HIPC completion point trigger; see Annex 3).

As a country that has enormous rehabilitation and reconstruction needs and a huge potential for receiving investments, it is important to have a comprehensive public debt management strategy in place. The authorities also need to have a firm understanding of their contingent liabilities. The recent announcement for a US\$5 billion capital inflow deal with China is, in principle, very good news for a country starved for capital, but the authorities need to ensure that such a deal is compatible with debt sustainability and with the existing agreements with other development partners who are extending debt relief.

2.16 Contrary to current expenditure, the execution of capital expenditure has been below budget allocation between 2004 and 2006, largely due to slow disbursements of foreign-financed projects. Donors' concern about the security situation and fiduciary control appear to have led to the sluggish pace. It is difficult for the government to

predict foreign-financed capital expenditure because information on its disbursement projections and execution results is not readily available (see chapter 5 for a detailed discussion of this problem in the case of health sector).¹¹ This is an area where development partners can help improve public financial management concretely and immediately.

Table 2.1 : Executed Programmed Expenditures

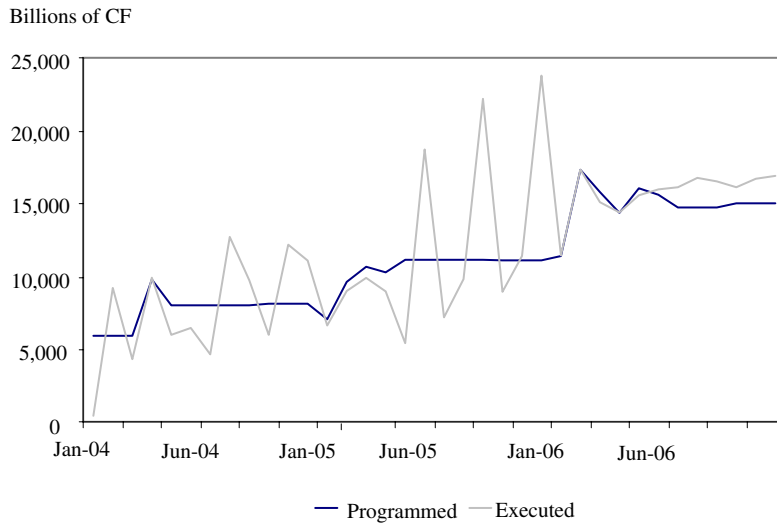
	2004	2005	2006
Programmed Expenditures (million CF)			
Total Expenditure	461,511	747,188	879,136
<u>Current Expenditure</u>	<u>205,880</u>	<u>308,534</u>	<u>413,414</u>
Wages and Salaries	88,674	123,963	180,147
Interests	20,401	69,681	92,392
Subsidies	14,225	15,895	28,221
Other Current Expenditures	82,580	98,995	112,655
<u>Capital Expenditure</u>	<u>179,152</u>	<u>233,607</u>	<u>240,652</u>
Foreign Financed	171,451	217,267	221,041
Domestically Financed	7,701	16,340	19,611
Executed Expenditures (million CF)			
Total Expenditure	330,471	528,946	726,012
<u>Current Expenditure</u>	<u>254,041</u>	<u>330,011</u>	<u>517,131</u>
Wages and Salaries	92,662	142,003	188,995
Interests	38,988	33,206	104,918
Subsidies	15,071	22,158	46,260
Other Current Expenditures	108,267	132,645	176,100
<u>Capital Expenditure</u>	<u>59,848</u>	<u>111,972</u>	<u>118,645</u>
Foreign Financed	48,081	79,659	84,312
Domestically Financed	11,767	32,313	34,333
Programmed as a Share of Executed Expenditures (in %)			
Total Expenditure	72	71	83
<u>Current Expenditure</u>	123	107	125
Wages and Salaries	104	115	105
Interests	191	48	114
Subsidies	106	139	164
Other Current Expenditures	131	134	156
<u>Capital Expenditure</u>	33	48	49
Foreign Financed	28	37	38
Domestically Financed	153	198	175

Source: DRC Authorities (TOFE) and WB Staff estimates.

2.17 The rates of execution are highly variable, depending on the type of expenditure and the availability of resources. Figure 2.7 shows that in 2004 and 2005, the executed salaries fell short of budget allocation frequently. It shows a pattern of arrears accumulation and their subsequent clearance. In 2005, the overall execution of salary expenditure was close to the budget allocation, which seems to indicate that liquidity problems rather than an unrealistic budget allocation were the cause for the arrears accumulation. In 2006 (the election year), however, salary execution continuously exceeded the budget allocation.

¹¹ At the time of this writing, the Ministry of Planning was taking the lead in centralizing this information.

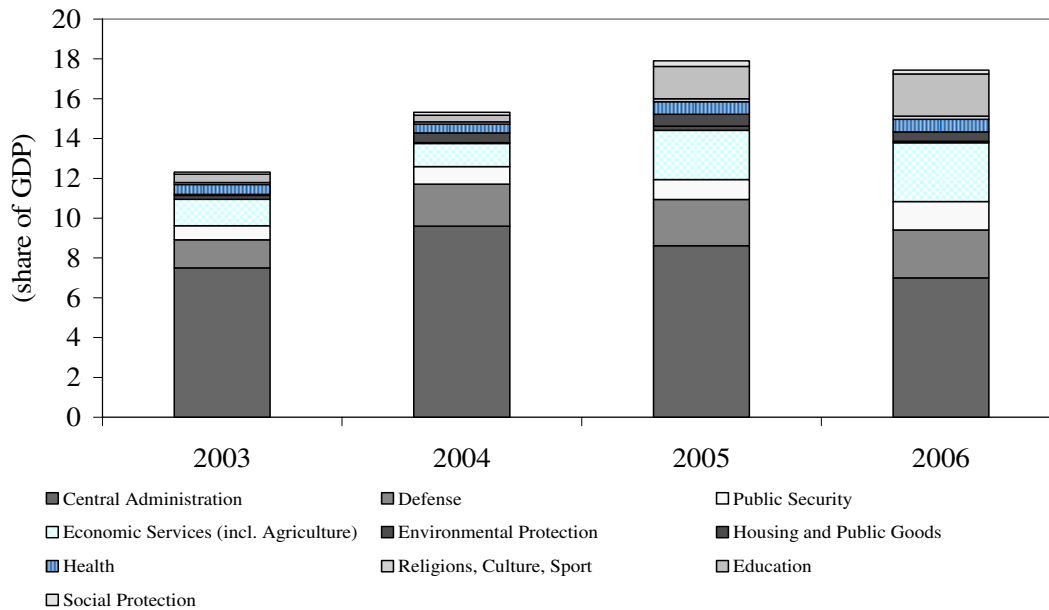
Figure 2.7: Programmed versus Executed Salaries



Source: DRC authorities

2.18 The central administration consumes the bulk of executed expenditure, although declining from nearly 10% of GDP in 2004 to 7% in 2006 (see figure 2.8). Included in the central administration budget are expenditure of the executive, the legislative, and the foreign service as well as operations related to public debt.

Figure 2.8: Executed Expenditure by Functional Classification



Source: DRC authorities

Box 2.3: Problems with DRC's expenditure data

The expenditure data in DRC present a major challenge for analysts. Their availability and coverage improved dramatically compared to 5 years ago, and in some aspects (such as a regular reconciliation between the authorization and actual payment statistics), are ahead of other countries at similar development stage. The authorities continue to work closely with development partners to make further improvements to supply data for good policy-making.

Coverage: Information on expenditures in DRC is readily available only for the central government. Data on expenditures and revenues at local levels are weak to nonexistent. Several public enterprises, such as the water and electricity companies are probably running deficits, but their accounts are not kept in a transparent fashion, and data on them cannot be obtained from the authorities. Hence, it is difficult even to guess the rough magnitude of contingent liabilities.

Foreign-financed projects: Projections on the foreign-financed capital expenditure are not available systematically, making it difficult for the government to budget for foreign-financed capital expenditure. Information regarding the execution of foreign-financed projects is provided late and is often incomplete.

Inconsistent execution reports: There exist large discrepancies between the Treasury Operations report (TOFE) and the State budget execution reports (ESB) (see table 2.2). The two are reconciled manually, which accounts for part of the errors (see also chapter 3).

Table 2.2: Budget Execution Reports versus Treasury Operations Report

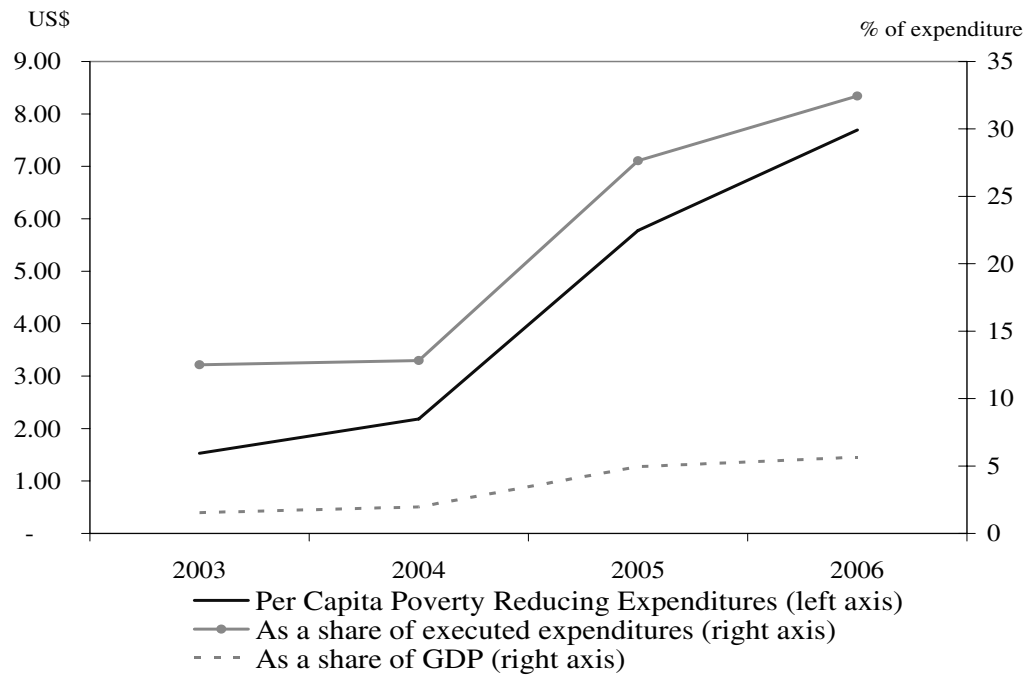
In billion CF	2004	2005	2006
Budget Execution Reports (ESBs)			
Budget allocation	528333	806171	1039561
Executed budget	399426	602622	693334
Execution rate	76%	75%	67%
Treasury Operations Reports (TOFEs)			
Budget allocation	461511	747188	879136
Executed budget	330471	528946	726012
Execution rate	72%	71%	83%

Source: DRC authorities and WB staff estimates

Pro-poor spending

2.19 The government is commendably allocating more funds to infrastructure and education, two of the priority sectors identified in the PRSP, within the limited resources (see figure 2.9). Investments in infrastructure and electricity sectors increased, driving up the expenditure on economic services. Both the budget allocation and its execution increased for education, the latter rising from 0.4% of GDP in 2003 to 2.1% in 2006 (see chapter 4 for more discussions). On the other hand, expenditure on health and social protection, also identified as priorities in the PRSP, remains low (see chapters 5 and 6).

Figure 2.9: Poverty Reducing Expenditure

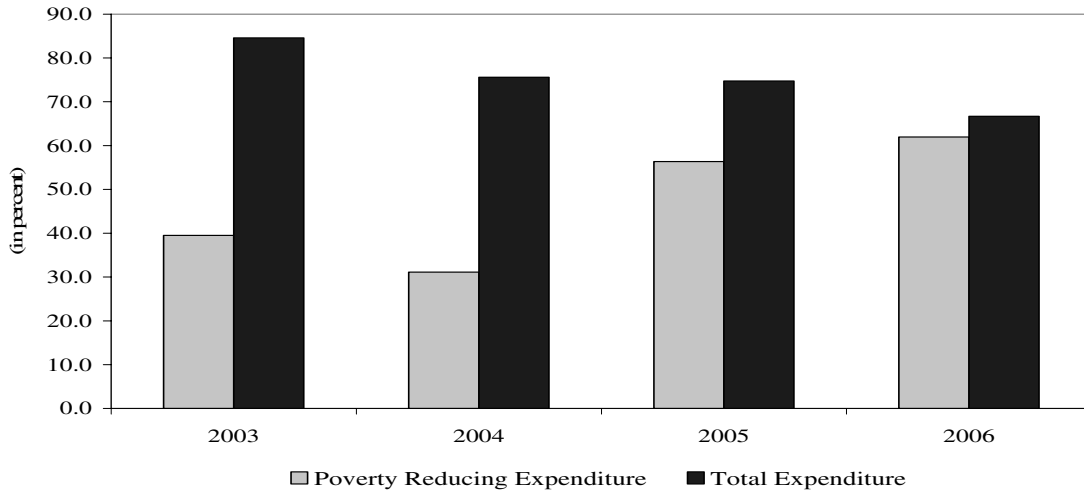


2.20 The definition of pro-poor spending in DRC was established in 2004 based on general functional classifications, and has been modified only slightly since. For each general function, certain sub-functions qualify as pro-poor spending, such as reintegration of demobilized soldiers in the functional classification “defense.” The definition of pro-poor spending in DRC is consistent with the priority sectors identified in the PRSP. However, appropriateness of the definition has not prevented instances of questionable use of funds, as reported by the recent audit of HIPC accounts. The HIPC committee, which oversees the use of HIPC resources needs to strengthen its vigilance to ensure appropriate use of funds without over-burdening the approval process for using the funds.

2.21 Pro-poor spending has increased substantially from US\$1.5 per capita in 2003 to US\$7.7 per capita in 2006, reaching 33% of total executed expenditure (see figure 2.9). Pro-poor spending as a share of GDP increased from 1.5% to 5.7% in 2006. Despite these increases, DRC’s pro-poor spending remains well below the Sub-Saharan average of 10.2% of GDP in 2006. According to the authorities, the pro-poor spending in 2006 was financed roughly equally through the HIPC savings, domestic resources, and donor projects.

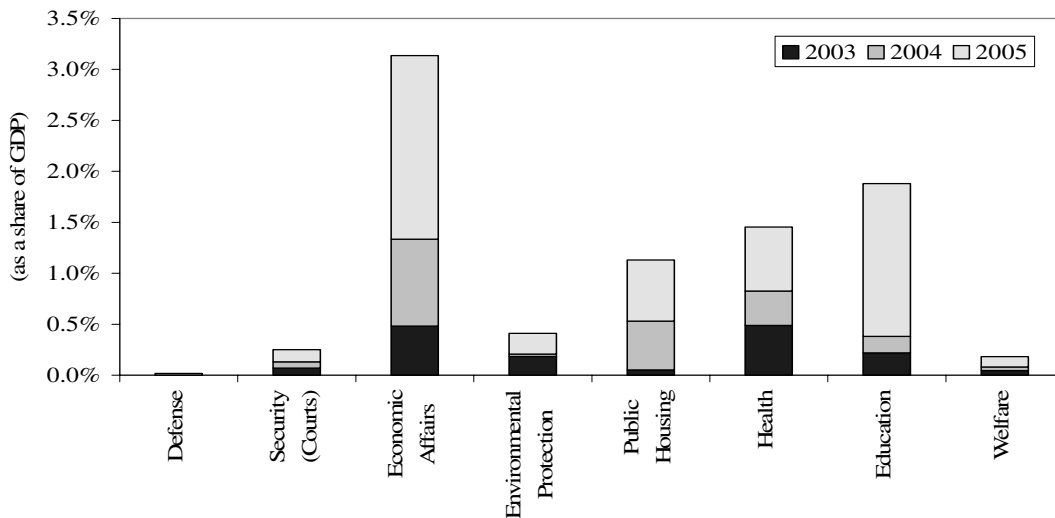
2.22 Execution rate of pro-poor spending has improved since 2003 (see figure 2.10). It is particularly high in the education sector (where the teacher salaries account for the bulk of the budget allocation). It has been low for the DDR program and health sector. For these two functions, the execution ratio amounted to 45% and 39%, respectively, in 2006. The DDR program has been plagued with implementation problems while the health sector suffers from coordination problems among various actors, governmental and external (see chapter 5).

Figure 2.10: Executed as a share of budgeted expenditure



2.23 A substantial share of pro-poor spending has been in infrastructure (classified as “economic affairs”) and education, partly as a result of strong donor involvement in these sectors (see figure 2.11). Allocations in education and health are to a large extent used to cover salary top-ups. In 2005, a block grant program for primary and secondary schools was disbursed to finance operational costs (see chapter 4).

Figure 2.11: Executed Poverty-Reducing Expenditure



2.2. Fiscal Sustainability Analysis

2.24 **The fiscal space available to the government in the near future is extremely limited**, because of low fiscal revenues, low aid inflow, especially in per capita terms,

and high share of non-discretionary spending, such as salaries and debt service, in its budget structure. The situation could improve progressively on the revenue side through reviving private sector, especially mining, improved tax administration, and debt relief. Improving fiduciary control and other governance reforms could also lead to higher inflows of official development aid (ODA). On the expenditure side, the limited resources could be made to work harder by increasing efficiency through civil service reforms, military census and DDR, better tracking of expenditure, and more adequate prioritization of expenditures throughout the entire budget process.

2.25 Fiscal sustainability is assured if the growth in expenditures does not outpace the growth in revenues, all sources combined. **In the immediate future, the government has no choice but to follow prudent fiscal policy** in order to maintain the still fragile macroeconomic stability. It entails working towards reaching HIPC completion point as soon as possible, borrowing only on concessional terms and only for investments with high returns justifying the costs of borrowing, and working together with development partners so that the committed ODA is disbursed and put to productive uses. On the expenditure side, the government must reserve the emergency procedure to true emergencies only, exercise discipline to respect the budget allocations, follow established rules to prioritize spending when it runs into liquidity constraints, and make corresponding expenditure cuts when unplanned expenditure is authorized.

2.26 **In the medium term**, there are several angles that government can pursue to increase the fiscal space. First is to **follow the reform path to maintain or outperform the solid growth performance of the recent years**. Improving security is a major contributor to an environment conducive to growth. The government should strive to contain inflation and avoid exchange rate depreciation, which will encourage economic activities in the private sector. Reforms improving the business and investment environment are expected to facilitate realizing a solid performance.

2.27 Second is to **improve revenue mobilization** through tax policy and administration reforms. How the mineral and petroleum prices evolve over the next decade will have a large impact on DRC's macroeconomic performance and revenue mobilization, although the country has little control over it.

2.28 Third is to **manage debt responsibly** to avoid debt crises and aid dependency. The country's large rehabilitation and reconstruction needs necessitate considerable foreign capital inflow. It is important to contract any new public and publicly-guaranteed debt on terms that are compatible with existing obligations, notably, under the HIPC initiative, to avoid burdening the future generations unduly. Any such inflow should be managed appropriately, either through market forces or transparent and participative public decision making process, so that it is allocated to the most productive purposes whose returns (financial, economic, and social, as applicable) justify the cost of capital. This implies the debt management capacity in DRC should be strengthened.

Box 2.4: DRC's debt

At end-2001, DRC's public and publicly guaranteed (PPG) external debt, estimated to be US\$10.6 billion, was largely in arrears. The HIPC decision point was reached in 2003 after clearance of arrears to multilateral institutions and progress towards macroeconomic stability. At end-2002, HIPC debt relief to the DRC¹² was estimated at US\$6.3 billion in NPV terms.

At end-2006, DRC's PPG external debt is estimated at US\$11.4 billion, including US\$4.5 billion to multilateral institutions and more than US\$6.0 billion to Paris Club creditors.¹³ Since the decision point, the country has benefited from substantial interim debt relief provided by major multilateral creditors. The DRC has signed debt relief agreements with a number of commercial creditors. It has also benefited from a flow rescheduling on Cologne terms and debt relief beyond HIPC assistance by Paris Club creditors. Even with the relief, however, the DRC has been unable to meet its debt service obligations to Paris Club creditors since July 2006.

Public domestic debt in DRC, almost entirely in arrears, was estimated to be below 0.5% of GDP at end-2006. In 2005, with the support of the World Bank, the government negotiated a restructuring of the debt with a majority of creditors. However, due to severe budget constraints, it has missed the payments for 2006, and has fallen back into arrears. The government has reached new agreements with creditors, and is scheduled to settle the remaining obligations in 2007 with financial assistance from the World Bank.

DRC is in risk of debt distress according to a recent joint Bank-Fund debt sustainability analysis.¹⁴ At end-2006, debt service on PPG external debt amounted to 26% of exports while the NPV of PPG external debt exceeded 300% of exports and 700% of government revenue, exceeding the policy-dependent thresholds.¹⁵ The DSA reported that even if macroeconomic policies improve substantially, as assumed under the baseline scenario, external debt indicators would remain above the relevant policy thresholds for many years to come and could worsen dramatically in the event of adverse exogenous shocks.

2.29 The government's fiscal policy and commitment to reform will determine debt sustainability as well as growth patterns. The fiscal sustainability analysis presented here uses a dynamic general equilibrium model (MAMS)¹⁶ to explore the effects of different scenarios on debt burden and other macroeconomic indicators. In particular, it analyses the macroeconomic impact of the following scenarios: i) baseline scenario -- growth and reforms of last few years to continue; ii) a historical average – no reform scenario; iii) lower than projected export prices; iv) higher growth of government consumption; v) foreign borrowing on less concessional terms; and vi) borrowing US\$ 3 billion from China on concessional terms. The decentralization scenario is not explored here, as it is a subject of detailed discussion in the forthcoming ESW on decentralization.

¹² “Democratic Republic of the Congo – Enhanced Initiative for Heavily Indebted Poor Countries – Decision Point Document”, IDA/R2003-0059.

¹³ These estimates exclude amounts of penalties and late interest due to London Club creditors. The DRC is working on a World Bank financed buy-back operation for its debt to London Club creditors.

¹⁴ The debt sustainability analysis was conducted using the Debt Sustainability Framework for Low-Income Countries. Report # 39748.

¹⁵ The World Bank's Country Policy and Institutional Assessment (CPIA) rates the DRC as a low performer. Under the joint World Bank/ IMF debt sustainability framework the corresponding thresholds are 30% for the NPV of external PPG debt to GDP ratio, 100% for the NPV of external PPG debt to exports ratio, 200% for the NPV of external PPG debt to revenue ratio, 15% for the external PPG debt service to exports ratio, and 25% for the external PPG debt service to revenue ratio. (“Operational Framework for Debt Sustainability Assessments in Low-Income Countries – Further Considerations”, IDA/R2005-0056, April 2005).

¹⁶ The MAMS (Maquette for MDG Simulations) is a dynamic CGE developed at the World Bank. The model, whose results are presented here, does not differentiate among different functions of the government. The private sector is divided into mining and non-mining sectors. The factors of production include only one type of labor, one public and one private capital stock.

2.30 The baseline scenario assumes that prudent macroeconomic policies and structural reforms attract strong foreign-direct investment and financial support from the international community.¹⁷ The baseline growth is assumed to average 6% between 2006 and 2026. This growth rate exceeds DRC's average growth of 0.7% over the last ten years, but is only 0.5 percentage points above the average real GDP growth rate since 2002. It is not overly ambitious for this country: at an average growth rate of 6% over the next 20 years, the DRC will still not have reached the per capita GDP level that it had in 1990 (it will take until 2029 to do so).

Table 2.3: Definitions of Scenario

Name	Description
(i) Baseline scenario	Average growth rate of 6%, HIPC Completion point in 2008, continued prudent macroeconomic policies, and strong growth in FDI mainly to mining sector
(ii) No reform scenario	Economy wide growth of 1%, no debt relief, lower growth in FDI and net foreign borrowing.
(iii) Lower export prices	Export prices are half of projections under the baseline scenario.
(iv) Higher government consumption	Growth of real government consumption of 7% instead of 5%.
(v) Less concessional borrowing	Increase of interest rate on foreign loans by 2 percentage points.
(vi) New China loan scenario	New loan of US\$3 billion on concessional terms, additional US\$2 billion in FDI.

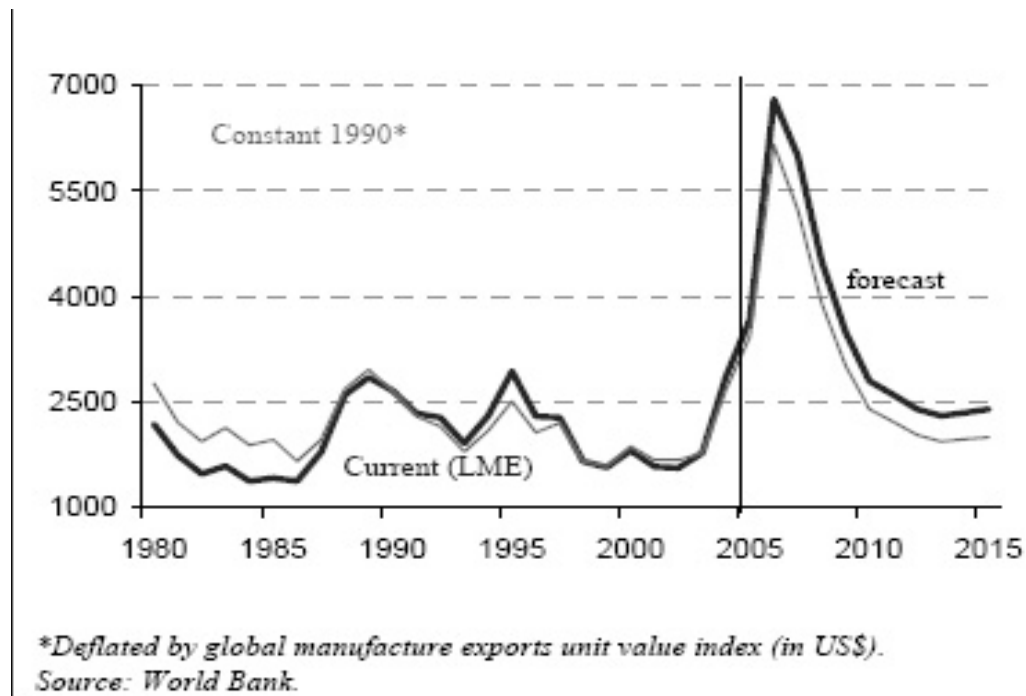
2.31 Under the baseline scenario, real GDP growth is expected to be high in the immediate future, around 7.7% over the 2008-2012 period as a result of strong private investment driven by FDI. High FDI growth of 25%, mostly to the mining sector, is expected to be sustained until 2012, declining to 6% by 2026. These high FDI growth projections are based on available information, and are plausible. DRC has Africa's largest deposits of copper, cobalt, and coltan, as well as significant reserves of diamonds and petroleum. The long years of mismanagement and insecurity caused mining sector activities to grind to a halt, reducing the share of the mining sector in GDP from 25% of GDP in the mid-1980s to less than 10% in the early 2000s. However, with the stabilization of the security and macroeconomic conditions, the recent successful transition to democracy, and high commodity prices, investors have already begun to flock back to DRC. The authorities estimate that total investments in copper and cobalt

¹⁷ The model was closed by assuming that: a) tax rates and domestic borrowing are fixed and government saving is flexible (government closure); b) foreign grants and the exchange rate are flexible and foreign borrowing is fixed (rest of the world closure); and c) fixed marginal propensity to save, savings-driven investment and a flexible absorption share of investment demand (savings-investment closure). Under scenarios (iii) to (vi), it is assumed that any additional financing need is closed through foreign borrowing instead of grants consistent with the assumptions underlying the Debt Sustainability Framework in Low-Income Countries.

projects could reach US\$3 billion through 2012, allowing output to return to levels not recorded since the 1980s.

2.32 The baseline assumes that, throughout the projection period, import prices increase by 1.5%, consistent with inflation in developed economies, while export prices are projected to decline by 1.5% annually. Strong global demand, numerous supply disruptions, lower-than-projected production growth, and small inventories have kept prices at high levels in 2006. While demand is still expected to stay strong, prices are expected to decline as new mines start operating. In particular, copper prices are expected to decline from their currently high levels as supply increases (see figure 2.12). Similarly, high demand from Asia and the lack of new major projects lead to an increase in Cobalt prices, which are expected to decline slightly after 2009.

Figure 2.12: Evolution of Copper Prices



2.33 The current account deficit is expected to increase over the projection period, reflecting DRC's need for external capital. Especially, imports related to the mining sector are expected to grow rapidly over the medium term. The assumption of falling export prices and increasing import prices is projected to lead to real exchange rate depreciation throughout 2007-2026, except in 2008 when HIPC and MDRI debt relief are expected to lead to a real appreciation.

2.34 DRC is expected to reach completion point under the HIPC Initiative in 2008. Accordingly, it is assumed to benefit from debt relief under the HIPC and MDR initiatives, leading to a significant decline in its debt-to-GDP ratio from 110% in 2007 to 28% in 2008. Similarly, debt service is expected to decline as a result of these initiatives.

2.35 Under the baseline scenario, it is assumed that the government will use the fiscal space gained through debt relief and improvement in revenues for pro-poor programs (modeled as transfers to households). Such programs could take the form of a reduction in school fees and basic health care service fees. Even with these transfers, the fiscal balance is projected to improve, reaching 1% of GDP in 2012, before starting to decline. Government's recurrent spending is projected to increase from 16% in 2006 to 20% in 2026 as public consumption¹⁸ increases, while capital spending is expected to remain at a constant share of GDP.

Alternative scenario projections using MAMS

2.36 No reform scenario. If the government does not continue the reforms, average real GDP growth is assumed to be its historic average (1%), FDI inflow to be much lower (growing at about 10%), and debt relief will not be attained. Under this scenario, the government will not gain any fiscal space, and the scope for implementing poverty-reducing programs is severely compromised. DRC will run into a debt crisis, as its public access to external financing is severely limited, debt-to-GDP ratio reaches unsustainably high 141% (see figure 2.11). Moreover, under this scenario, private consumption in real terms will be about half of the corresponding amounts under the baseline at the end of the projection period; even if the government manages to pay its employees, there will be discontent among the population at large.

2.37 Lower than projected export prices scenario. If the country is hit by an adverse terms of trade shock, the country will experience an acute worsening of fiscal and debt indicators immediately in 2007, but if this crisis is averted, other reforms continue, the HIPC completion point is reached in 2008, and foreign grants per capita in US dollar terms are the same as under the baseline, so the medium term projections are not dire. The decline in export prices leads to an exchange rate depreciation which is expected to mitigate the adverse shock and the need for foreign financing (for the given financing gap in Congolese franc, fewer dollars are needed to fill it). However, these are big "ifs," and working through the immediate crisis will require concerted and disciplined efforts by the government and development partners.

2.38 Higher government consumption scenario. This scenario assumes that the government intends to increase its consumption further. Higher government consumption may take a form of higher wage bill, higher security-related spending, or higher allocation to central government administrations. There are legitimate reasons why the government may pursue these policies, such as intensifying social pressure from labor unions, and regrettable escalation of violence in certain parts of the country. What is important is to be clear about the trade-offs and that the decisions are made in a transparent and participative manner. Under this scenario, the need for foreign financing is higher and the fiscal balance would worsen.

2.39 Borrowing on less concessional terms scenario. This scenario obviously leads to a substantial deterioration in DRC's public debt indicators. Debt service payments to the

¹⁸ Public consumption includes such items as wages and operating costs for administration.

rest would increase, leading to an increase in recurrent spending, which would need to be financed by additional new borrowing. Unless the return on the investments financed with less concessional foreign loans is high, this strategy risks that the government will allocate more resources to servicing its debt rather than on its priority programs.

2.40 Large new borrowing on concessional terms (“China scenario”). Under this scenario, a US\$3 billion borrowing on concessional terms accompanied by a US\$2 billion FDI (joint venture) is assumed, in line with the recent announcement by the authorities of their intension to enter into such an arrangement. As long as the borrowing is on highly concessional terms, the funds are used for productive purposes in line with the government’s priorities, and disbursements are in line with the country’s absorptive capacity, this arrangement could be beneficial to the country, triggering a higher growth rate, accelerating export growth, and larger fiscal space, at least initially. In the medium term, the government saving would decline substantially as the increase in net interest payments on foreign debt outpaces the increase in recurrent receipts. It should also be noted that DRC’s debt stock would increase substantially reaching 94% of GDP by 2026 even if the loan is concessional.

2.3. Conclusion and recommendations

2.41 Since the end of the open hostilities, the authorities have made significant progress in restoring the macroeconomic stability. However, there is still a long way to go before the government has the fiscal space and the capacity to use it efficiently to address the country’s immense needs. There are reforms that need to be undertaken immediately, and there are others that will take longer time to implement, but nevertheless, the authorities need to start planning for.

2.42 In the short run, it is recommended to:

- Work on governance and tax administration reforms so that tax revenues, particularly from mining, would increase;
- Allocate progressively more resources to priority sectors, and improve execution rates of the allocations;
- Ensure that new borrowing is contracted on concessional terms and is used for productive purposes that are in line with the government’s priorities, and whose returns are high enough to justify the costs;
- Designate a unique debt information center to improve coordination and collaboration among entities handling debt, and publish monthly debt service projections on a quarterly basis; and
- Start consultation process in order to develop sector-specific strategies on decentralization. Questions relating to financing, capacity, division of responsibilities, and the risk of exacerbating inequalities need to be discussed.

2.43 In the medium run, it is necessary to:

- Improve the quality and coverage of data to rationalize the structure of expenditure so that allocations to priority sectors can be increased;
- Improve macroeconomic projections, including better data collection and generation;
- Have a longer strategy aligned with the PRSP so that multi-year programs can be planned and funded adequately; and
- Strengthen the framework – de jure and de facto – for contracting and managing public and public guaranteed debt, including contingent liabilities.

Chapter 3. CURRENT SITUATION OF PUBLIC FINANCIAL MANAGEMENT

<i>Priority recommendations</i>		
Legal and regulatory framework	Workshops to validate and finalize the draft Framework law on public finances and the general public accounting regulations.	End of September 2008
Budget preparation	Compliance with budget preparation calendar so that line ministries have enough time to prepare realistic budget reflecting the sector priorities (based on the previous year's exercise)	Starting immediately for the 2009 budget cycle
Budget execution	<ul style="list-style-type: none"> • Removal of the extraneous manual steps introduced (ELDPs et ESOs) to the expenditure execution circuit (<i>chaîne de la dépense</i>) and respect the standard procedures to reduce the processing time for normal expenditure procedure • Limiting the use of public expenditure execution by exceptional procedures of budget execution to true emergencies 	Immediately
Expenditure monitoring	Improve coverage and quality of data by <ul style="list-style-type: none"> • collecting the sectoral budget execution reports systematically • increasing the use of ministerial websites for posting information 	Starting immediately

3.1. Main findings of the 2002 public expenditure review

3.1 Two main conclusions emerged from an assessment of the RDC financial management system in the context of a previous Public Expenditure Review: the existing system is weak; but an ambitious reform program is under way. The *first conclusion* reflected the impact of years of mismanagement. By July 2002, virtually none of the 15 benchmarks identified in the context of the HIPC road map had been met. The *second conclusion* reflected efforts made by the Congolese authorities to restore normal public sector management procedures, which yielded significant benefits in 2003 and the following years.

Summary of main recommendations of the 2002 Public Expenditure Review [Annex 2 presents a complete assessment on public financial management reforms since 2002].	
Recommendations	Progress
<i>Budget preparation</i> <ul style="list-style-type: none"> • Prepare a comprehensive budget and reconcile data from different sources. Reduce the number of "Budgets Annexes".¹⁹ Modernize the budget nomenclature. Implement the budget preparation schedule. Prepare realistic estimates. 	Done
<i>Budget execution</i> <ul style="list-style-type: none"> • Rationalize, simplify and computerize the expenditure circuit. Minimize the use of exceptional budget execution and control procedures. Reduce arrears. Better control centralized payments. Strengthen ex-post controls. 	Progress was made, but performance weakened in some areas in 2006.
<ul style="list-style-type: none"> • Introduce a reliable budget monitoring system (Budget monitoring reports or ESBs) covering also pro-poor spending. Develop a comprehensive accounting system for government operations. 	The quality of budget execution reports improved but more progress is needed.

¹⁹ Budgets annexes are sections of the government budget reflecting the financial operations of autonomous government agencies.

3.2 Since 2002, DRC made significant efforts to restore a more functional public financial management system. The government launched multi-year capacity-building programs to improve technical tools and institutional structures and to train the staff. These human resource development programs need to be intensified and permanent internal training systems need to be developed.

3.3 The financial management system of the DRC was evaluated not only during the PER of 2002, but also in the context of other assessment exercises (HIPC-AAA in 2003 and CFAA in 2005). These reviews provide the basis for the present evaluation, which proposes a number of measures to strengthen the country's public finance performance.

3.2. The basic principles of the Congolese budget management system

3.4 Budget management in the DRC is based on a system that in theory establishes the foundations of a rational, transparent and efficient public spending process. Existing laws and regulations clearly identify the main actors and their respective functions and provide for a flexible budget execution mechanism that can be monitored at all times (during and after execution). Finally, all budgeting and accounting operations must be reported shortly after execution and reports must be accurate.

The legal and regulatory framework

3.5 The public financial management system is based on three main legal instruments: the 2006 Constitution, the 1983/1987 Public Finance Framework Law (*loi organique*) and the 1952 General Public Accounting Regulations.²⁰ The Constitution establishes a number of basic rules concerning public financial management, namely the relations between the executive and the legislative concerning the budget (*lois des finances*). The Public Finance Law defines, according to the Constitution, the rules for budget elaboration, presentation and execution and the competencies and processes (*modalités*) describes the relationship between the government and the legislator in budget management, for budget management, and organizes internal and external controls. The General Public Accounting Regulations define the technical rules applicable to the financial operations of the government, in accordance with the Public Finance Framework Law. The legal framework is supplemented by a number of regulations, including two annual directives concerning: (i) budget preparation, and (ii) budget execution.

Box 3.1: Public financial management according to the 2006 Constitution

A new Constitution, published in 2006, defines some of the basic principles of public financial management. Public finance regulations (article 122), the structure of the budget, the budget preparation and approval process (article 126) must be defined by law; article 127 specifies that prepared and approved budgets must be balanced. A full section of the Constitution (articles 170-181) is about public finance issues; it provides for the separation of central and local government budgets, which however must be presented in the same annual budget document (articles 171 and 175); 40% of tax revenues must be transferred to local governments (article 175). The fiscal year starts on January 1 and ends on December 31 (article 172). Article 173 establishes the principle of Budget Review Laws (*loi de règlement*). Only the legislator can create taxes (article 174). Two articles (articles 176 and 177) deal with the operations of the Central Bank and articles 178 to 180 are about the Audit Office. Article 181 defines the modus operandi of the National Equalization Fund.

²⁰ The CFAA (2005) provides a detailed analysis of the Framework Law and the General Public Accounting Regulations.

The institutional framework

3.6 The institutional framework as defined in the Framework Law describes the respective roles of the government, the Parliament and the Audit Office. The government prepares the budget and executes the budget law following its approval by the Parliament. Budget execution is controlled ex post by the Audit Office.

3.7 The government relies on a number of departments and institutions to perform its budget functions. Since 2003, two ministries – the Ministry of Budget and the Ministry of Finance (MoF) are the main institutions responsible for public financial management.²¹

Box 3.2: Institutions and departments responsible for budget management

The Ministry of Budget is responsible for commitments (*engagements*) and verifications (*liquidations*) while the Ministry of Finance (MoF) is tasked with authorization (*ordonnancement*) and payment (*payments*). The **line ministries** are responsible for executing public expenditure program in their sectors. They help prepare the government budget in cooperation with the Budget and Finance ministries.

The “*Services gestionnaires de crédits*” (officers responsible for budget management in their ministries) handle commitments and validation of expenditures (under the supervision of the ministry’s Secretary General). However, “sous-gestionnaires” and budget controllers have been posted by the Budget Ministry in line ministries.

The **Budget Control Department** (Budget Ministry) reviews commitment requests and handles the commitment accounting process and the validation phase of public spending.

The **Payroll Department** (Budget Ministry) is responsible for the validation of personnel expenditures (salaries of civil servants and other government employees).

The **Treasury and Payment Authorization Department** (MoF) authorizes payments (*contrôleur de l’ordonnancement* and *ordonnateur délégué*).

The **Public Accounting Department** (Ministry of Finance) is responsible for keeping government accounts and supervising public accountants.

The **Central Bank of Congo** is the government cashier and executes payments. Government accounts are managed by the Current Account Department.

Financial management agencies are responsible for managing and executing foreign aid-financed operations. They act as *ordonnateurs délégués* and paymasters for project accounts and cash advances funded by some development partners (BCECO, BCMI, UCOP, etc.).

The **Bid Evaluation Council** prepares and approves commitments related to government contracts.

The **Budget Preparation and Monitoring Department** (Ministry of Budget) is responsible for preparing budgets and reports on execution of public expenditure execution.

The **Revenue Agencies** collect taxes, customs duties and non fiscal revenue through the Departments of Taxes (DGI), Administrative, Judicial and Property Revenue and Investment Income (DGRAD) and the Customs Office (OFIDA).

Budget preparation

3.8 The budget preparation process must comply with the established annual budget cycle, which includes: (i) preparation of the macroeconomic framework; (ii) preparation of the budget framework; (iii) organization of budget conferences; and (iv) budget approval by the Parliament.

²¹ The institutional set-up described in the Sun City agreement of 2002 established a Presidency and four Vice Presidencies; one of the Vice Presidents was responsible for economic and public financial management. Since the 2006 elections, the new institutional set up includes a President and a Prime Minister.

3.9 The budget cycle starts with the analysis of the main macroeconomic indicators which will help determine budget projections and government priorities. This macroeconomic forecasting role is performed by the Macroeconomic Framework Committee.²²

3.10 The Budget Ministry's directives concerning the preparation of the next budget are widely disseminated among government departments. They analyze the government economic policies and the macroeconomic framework that will serve as a basis for budget projections. They include broad and specific instructions concerning revenue estimates, public spending programs and the budget preparation timetable.²³

3.11 Revenue estimates must be based on results obtained during the past three fiscal years and during the first semester of the current year, taking into account changes in tax rates, macroeconomic indicators and measures taken to broaden the tax base. Revenue forecasts are based on estimates prepared by agencies responsible for collecting taxes and customs duties (DGI, DGRAD and OFIDA) under the supervision of the Budget Preparation and Monitoring Department (DPSB).

3.12 Projections of public expenditures are presented by category of expenditure, department (section and chapter) and function, in accordance with the 2004 budget nomenclature. The Budget and Planning ministries verify that the government budget is in line with the priorities of the Growth and Poverty Reduction Strategy Paper, which should guide government programs and projects.

3.13 Requests for including investment projects in the capital expenditure budget must go through the Programming and Budgeting Department of the Planning Ministry and the Budget Preparation and Monitoring Department of the Budget Ministry. The requests must provide a detailed analysis of the proposed projects.

²² The Committee includes the Budget, Finance and Planning Ministers and the Central Bank.

²³ The directives stipulate that: (i) public agencies funded by "Budgets Annexes" must indicate all their sources of revenue before calculating and submitting requests for government subsidies, and (ii) local governments (*services provinciaux*, see Box 2.1) must prepare their budget forecasts at the same time as central administration (to be submitted to Ministry of Budget to be included in the state budget as "subsidies").

3.14 In theory, the budget preparation timetable is as follows:

Period	Tasks to be performed	Responsible institutions
May	Budget Preparation Directives. Validating the macroeconomic framework	Budget Ministry (Minister's Office & Budget preparation and Monitoring Department). Macroeconomic Framework Committee.
June	Distribution of Budget Directives to line ministries.	Budget Ministry
July	(i) Workshops on budget preparation, (ii) Preparing indicative budget ceilings, (iii) Disseminating indicative budget ceilings to ministries.	Line ministries. Budget Ministry (Minister's Office and DPSB). Budget Ministry
July/August	(i) Preparation of spending programs in line with ceilings; (ii) Missions to explain instructions and collect data; (iii) Submission of budget proposals to Budget Ministry (DPSB).	Line ministries and Institutions. Budget Ministry (DPSB) Line ministries and institutions.
August	Budget conferences. Distribution of budget allocations.	Budget Ministry and relevant departments. Budget Ministry (DPSB)
September	(i) Breakdown of budget allocations. Submission to Budget Ministry. (ii) Finalization of Government budget. Adoption by the government.	Line ministries and institutions. Budget Ministry (DPSB). Government
October	Draft Budget Law submitted to Parliament.	Government
October/ November	Review and approval of budget	Parliament
December	Budget law is promulgated	President

3.15 Budget conferences are organized when line ministries have completed the preparation of their budget proposals. Each ministry presents its budget. The Budget Minister coordinates the process and makes adjustments taking into account both the needs of the ministries and the resource constraints. Then the Budget Minister prepares a draft budget law, which is submitted to the Council of Ministers.

3.16 The last two phases of the budget preparation process are the approval of the budget by the Parliament and its promulgation by the President of the Republic. When the budget has been published, it becomes the Budget Law for the fiscal year. The government is allowed to revise the annual budget through a Supplementary Budget Law also approved by the Parliament.

Budget execution

3.17 Budget execution begins as soon as the budget law has been published and the Budget Ministry has disclosed budget allocations for the fiscal year and issued directives concerning budget execution and specific allocations.

3.18 Public expenditures are executed through a computerized management information system. Since 2003, the expenditure circuit has been rationalized and computerized through budget execution software. Normalizing the chain of expenditure,

restoring the commitment phase and introducing a simple computerized management system was a major achievement and a step forward towards a transparent financial management system.

3.19 Public expenditures can be executed through standard or exceptional procedures. The standard procedure includes four phases: commitment, verification of expenditure (verifying that the service has been provided), authorization, and payment. Most of the public expenditures must go through the normal procedures. Exceptional procedures are for specific categories of expenditures or sources of financing. They are also used for types of activity which require simultaneous execution of the commitment, verification and authorization phases (for emergencies, payment of salaries, centralized payments, debt service and cash advances).

3.20 Borrowing agreements are signed by the MoF, which represents the government in dealing with international institutions and development partners. The Public Debt Management Office (OGEDEP)²⁴ manages domestic and foreign debt, executes debt service operations and helps formulate the government debt policy. Currently, OGEDEP submits projections of debt service payments for the following quarter to MoF. The agreement specifies that 15 days before the beginning of each quarter OGEDEP should inform the MoF in case of disagreements between OGEDEP projections and payments claimed by creditors during the quarter. OGEDEP monitors execution from the commitment phase to payment by the Central Bank. The government has established a foreign debt service reconciliation committee, which should meet twice each month, prepares a payment reconciliation based on data originating from all the departments concerned, including the MoF, OGEDEP, the Central Bank, Project executing agencies and the Treasury.

3.21 With respect to expenditures based on public contracts, documents describing the obligations of the contractor including project specifications must be prepared by the line ministries and submitted to the Bid Evaluation Council.²⁵ The Council is involved in the contract preparation and approval process before the commitment phase but does not participate in execution.

3.22 In contrast with the situation in 2002, the introduction of a computerized public expenditure management system should make it possible: (i) to monitor in real time public spending at the four phases of budget execution; (ii) to improve the decision-making process, including accelerating or slowing down commitments and better managing arrears, (iii) to better control the eligibility of public expenditures (if a budget allocation is not in the system since the beginning of the fiscal year, no purchase can be made on that basis through the budget), (iv) to verify that pro-poor expenditures

²⁴ OGEDEP has been established by the law No. 76-021 of September 16, 1976 as a public agency with legal and financial autonomy under the supervision of the MoF.

²⁵ The Bid Evaluation Council approves the bidding documents, including technical and other specifications, opens bids in a public session, checks the eligibility of the bids and makes its recommendation before the award. A Bid Evaluation Council operates at the central government level, in the capital of each Province, in each city and in each traditional district (Law-Ordinance No. 69-054 of December 5, 1969).

(including HIPC-financed expenditures) have been carried out in accordance with normal execution procedures and are identified on the basis of the agreed nomenclature, (v) to ensure that suppliers meet their tax obligations, and (vi) to publish budget data in the web sites of the Finance and Budget ministries.

3.23 Capital expenditures, notably foreign-financed investments, should be better integrated into the financial management information system. The number of debt-related operations handled manually should decline. The volume of centralized payments should be better controlled through a rationalization plan.

3.24 Appropriate accounting and payment at the payment phase should be based on a functional cash management plan (*Plan de Trésorerie*). Cash management plans are prepared by a cash management committee.²⁶ Their objective is to ensure that payment authorizations will be executed and will not generate additional arrears. It is at the same time a strategic document and a procedure for the management of short-term financial flows in an effective and transparent manner. The cash management plan is an important instrument in case of short-term liquidity problems. It helps the government make the most appropriate decisions in terms of: (i) adjusting the pace of commitments, and (ii) prioritizing disbursements in favor of mandatory expenditures, including staff salaries and social expenditures.

3.25 The two departments, the Treasury (*Direction du Trésor et de l'Ordonnancement*) and the Public Accounting (*Direction de la Comptabilité Publique*) are responsible for proper accounting of government financial operations. In 2003, the government decided to introduce a double-entry accounting system at the level of the Treasury.²⁷ In 2005, the government adopted a simplified accounting system and created, within the Treasury, a division responsible for centralizing all the accounting operations of the Treasury. The preparation of monthly Treasury balances (*balances du Trésor*) should make it possible to record all the accounting operations of the month and produce final balances.

Budget reporting

3.26 The public financial management system of the DRC includes a fairly comprehensive reporting system. Budget execution reports for each sector must be submitted to the Budget Ministry through the *sous-gestionnaires de crédits*. At the end of each month, a comprehensive budget execution report (*État de Suivi Budgétaire*, or ESBs) can be produced automatically through the single database common to Budget and the Treasury. A monthly Treasury balance reports the financial flows of the month and produces the overall balance of government accounts. A Table of the Financial Operations of the government (TOFE), prepared on the basis of the Treasury balance, makes it possible to monitor all the government financial operations. All these reporting

²⁶ The cash management committee includes representatives of the Finance and Budget Ministers, the Treasury and the Central Bank.

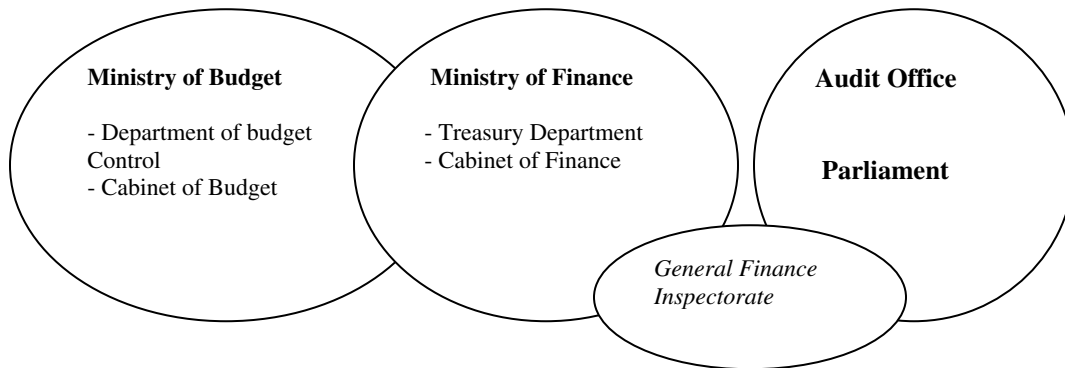
²⁷ Since then, the government prepared a simplified double-entry accounting system, including a list of all accounts, manuals of accounting procedures (for revenue, expenditures, accounts of revenue collecting agencies: DGI, DGRAD and OFIDA) and model reconciliation statements.

instruments strengthen the analytical capacity of the government and should help improve the decision-making process.

Controls

3.27 Public expenditures must be controlled ex-ante and ex-post through internal and external control mechanisms. Internal controls (administrative controls) are organized within government services before and after payment execution. External controls are performed by the Audit Office (judicial control) and the Parliament (political control). Since 2001, the government has improved internal control procedures by restoring the commitment phase and rationalizing the four phases of the expenditure circuit. In essence, internal controls verify the eligibility of the expenditure, i.e. the availability of an appropriate budget allocation, the legality of the expenditure and the provision of supporting documents.²⁸

Figure 3.1: Control mechanisms



3.28 The Minister of Budget is the principal controller of public expenditure. Internal administrative controls are performed before the payment phase by the Department of Budget Control (*Direction du Contrôle Budgétaire - DCB*) within the Budget Ministry, by the Treasury within the MoF and by the Offices of the Budget and Finance Ministers. DCB controls the commitment procedure and verifies that the service has been provided. The Treasury controls the payment authorization phase (*ordonnancement*). The Cabinet Office of the Budget Minister monitors global commitments while the Cabinet Office of the Finance Minister monitors the flows of payment authorizations and actual payments. Another type of internal control is performed by a high-level internal audit institution, i.e. the General Finance Inspectorate (*Inspection Générale des Finances*), which reports to the Finance Minister. Ex-post reviews of foreign-financed expenditures are performed by private audit firms which audit all the agencies implementing projects financed by development partners.

²⁸ The quality of internal controls is affected by the shortage of human resources and the lack of adequate training programs. Appropriate remedial measures should be taken.

3.29 The role of the Audit Office is to perform a comprehensive and permanent judicial control²⁹ of public finance operations, to ensure transparent use of public funds and to provide the Parliament, the government and the citizens with adequate information on public sector management. The role of the Parliament is to use the budget approval and budget review law to control the financial management performance of the government. The Economic and Finance Committee of the National Assembly (ECOFIN) reviews draft public finance laws and questions the performance of government officials and administrative units. Since 2005, efforts are made to invite the Committee to participate in budget conferences and involve it in the discussion of the overall budget and its main components. This facilitates the dialogue between the government and the National Assembly.

3.3. Budgeting and accounting practices – Main weaknesses

The legal and regulatory framework

3.30 A variety of diagnostic studies carried out since 2002 have shown that the legal and institutional framework was no longer adequate to support a modern public financial management system, which requires more sophisticated financial instruments. The provisions of the 83/87 Public Finance Law, which is de facto a framework law, do not meet the criteria of a transparent, fluid and efficient budget management system ensuring the traceability of public expenditures. Few people are familiar with the provisions of the General Public Accounting Regulations, which are obsolete and inapplicable in their present form. The regulatory framework is inconsistent and confusing and does not facilitate a good understanding of public financial management procedures. A public expenditure manual has been introduced in the regulatory framework (ministerial directive of 2003) to help implement the 2003 reform of the expenditure circuit. Another ministerial directive introduced a new budget nomenclature and defined pro-poor expenditures.

The institutional framework

3.31 Budget management is divided between two ministries (Budget and Finance) along the following lines: (i) the Budget Ministry prepares the budget, is responsible for the commitment and verification phases of the expenditure circuit, and produces a report on budget execution; (ii) the MoF performs the authorization and payment phases of the circuit, and produces government accounts. The division of responsibilities between the two ministries is not supported by an efficient data sharing process. They use a single budget and accounting database but experience of the past few years shows that the data recording process is generally not followed, which affects the quality of budget execution reports (ESBs of the Budget Ministry) and accounts (the Treasury balance produced by the MoF) -- both in terms of comprehensiveness and reliability.

3.32 An inter-ministerial unit (the *Cellule Informatique Inter-ministérielle* or *CII*) is responsible for managing the computerized financial management information system.

²⁹ The Audit Office issues conclusions but has no sanctioning authorities.

The CII assists the Budget Ministry and the MoF during budget preparation, budget execution and accounting operations. However, there is a risk that the computerized information system could no longer be unified if the government views the expenditure circuit, the revenue circuit, and the accounting operations as three different systems. They are three components of the same budget execution and accounting system, and must use the same computerized information system and be managed by the same technicians. The Offices of the Budget and Finance Ministers do not seem to provide adequate guidance to CII. The ongoing reform should include a reform of CII activities. Simpler procedures introduced by the CII should be of considerable assistance to the government if it supports the CII and provides adequate guidance to its management.

Budget preparation

3.33 The budget preparation process does not provide for an effective dialogue between the Budget Ministry and the line ministries. Despite the integration of macroeconomic and revenue projections, budget preparation is based on mechanical forecasts and does not encourage the review of alternative scenarios based on alternative sector policies and programs. Periodic updating of macroeconomic projections is not systematic. Budget planning is not based on a realistic vision of available resources that could have an influence on public expenditure programs. Budget forecasts often exceed the absorptive capacity of implementing departments. They also tend to underestimate (sometimes systematically) specific types of expenditures (e.g. travel costs and per diems) or the costs of specific institutions (notably: sovereign institutions).

3.34 The macroeconomic framework prepared at the beginning of the budget preparation process does not lead to the determination of indicative spending ceilings for each line ministry. Line ministries do not use data on execution of previous year to prepare realistic budget proposals. In effect, they put together a long list of future needs that go much beyond what an annual budget can realistically accommodate. The line ministries and also the Budget Ministry still find it difficult to organize the structure of their annual budgets along the sector priorities described in the PRSP. DPSB does not have the capacity to evaluate the technical proposals prepared by the line ministries. Finally, since Budget and Finance discuss investment programs without adequate participation of line ministries, the latter feel that they do not “own” these programs, which have been imposed on them.

3.35 Over the past two years less time was allocated to budget conferences and this affected discussions on budget priorities between Budget and line ministries (no budget conference was even held in 2006). In addition the Budget Ministry does not do enough to develop the budget preparation capacity of line ministries either through direct training or with the help of Budget staff posted in line ministries. In fact, the presence of Budget staff in line ministries,³⁰ which was meant to improve the budget preparation and execution performance of line ministries and accelerate the spending process, did not prove to be a useful instrument.

³⁰ *Sous-gestionnaires de crédits* (for budget preparation) and financial controllers (for budget execution).

3.36 The Budget Ministry has begun to develop an interest in results-based management. A Steering Committee has been created within the Budget Ministry to help develop Medium-Term Expenditure Frameworks (MTEFs).³¹ Five sectors (education, health, social activities, rural development and agriculture) have been selected to initiate the process. Representatives of these ministries have received special training on results-based management.

Budget execution

3.37 Several government departments – within and outside the Budget and Finance Ministries – feel that since 2005 the expenditure circuit does not function properly. Inadequate practices, including excessive use of exceptional procedures, weaken budget execution. Administrative controls slowed down the execution process.

3.38 The expenditure circuit has also been modified: (i) the expenditure verification phase was transferred from the Treasury to the DCB; (ii) two new documents have been introduced – the Budget Ministry prepares public expenditure verification statements (*États de Liquidation* or ELDPs) and the MoF prepares statements of outstanding payment authorizations (*États des Sommes à Ordonnancer* or ESOs).³² The transfer of the expenditure verification responsibility was not included in a government regulation but referred to in guidelines concerning the execution of the 2006 budget. The transfer is in fact a duplication of the same function, as the Treasury has not stopped verifying the expenditures. ELDPs and ESOs are manually prepared documents, which only duplicate data produced by the computerized financial management system (which the Offices of the Budget and Finance Ministers do not use). The unnecessary steps slowed down the expenditure circuit, prompting line ministries to resort to emergency procedures for normal spending, and reduced the transparency of public financial operations.

3.39 Other types of deviations also affect the efficiency of the expenditure circuit: (i) in 2005 and 2006, the Office of the Budget Minister decided to use exceptional procedures (letters to the Minister's Office) rather than the regular commitment process for a large number of expenditures; (ii) the list of provisory rejections of payment requests provides the basis for obtaining the review and approval of rejected expenditures and this often leads to overspending in excess of budget allocations;³³ and finally (iii) often expenditures on the list of provisory rejections remain pending for a long time. In other words, with the introduction of ELDPs commitment vouchers are no longer the main budget execution document. ELDPs now play that role; sometimes they are even used to modify the nature of the initial commitments.

3.40 The frequent use of the emergency procedure (i.e. letters to the Office of the Budget Minister) weakens budget controls and makes it very difficult to monitor public

³¹ The Steering Committee includes the “*sous-gestionnaires de crédits*” who in cooperation with DPSB will guide the MTEF process within each line ministry.

³² ELDPs are prepared by the Office of the Budget Minister to validate approval of commitments. ESOs are prepared by the MoF. Used for emergency expenditures and for the payment of salaries, they are equivalent to a final payment authorization.

³³ Notably in 2006.

spending by category of expenditure. The use of cash advance mechanism (MAD) is also problematic but to a lesser extent. In 2005, the government announced its intention to minimize the practice of letters to the Office of the Budget Minister. However, the procedure continued to be used in 2005 and 2006, either to expedite the spending process or because a Minister wanted to impose an expenditure which normally should have been rejected for lack of appropriate budget allocation. The Budget Ministry is expected to promote an efficient handling of the expenditure circuit throughout the administrative phase of public expenditure, while the Finance Ministry plays the same role during the payment phase. While the Cabinet Offices of the two ministers are responsible for approving the introduction of new documents and steps, they also complain that these additions have increased the complexity of the spending process. Since 2007, new ministerial guidelines (No. 1/2007, April 17, Ministry of Budget) recommended a return to the orthodox budget execution methods and prohibit commitments based on letters to the Budget Minister's Office. The impact of these guidelines will be evaluated when the new budget is voted and the new budget allocations are made available to spending departments.

Procurement

3.41 Line ministries complain that procurement procedures for public contracts are cumbersome. The Bid Evaluation Council does not meet regularly and this delays the processing of public contracts. Spending on public contracts takes on average 4-5 months from commitment to payment authorization and/or actual payment. Ministries argue that these delays justify the use of emergency procedures. In 2003 the procurement system was reviewed in a CPAR. The final report and recommendations were adopted in September 2004. According to the report, (i) the legal and institutional framework is obsolete and does not encourage transparency, competition and efficiency; (ii) only a few government departments have some (limited) capacity to handle procurement issues; (iii) current procedures are out of date and do not conform to generally accepted procurement management principles; and (iv) control mechanisms are inefficient.

Public investment

3.42 The Planning Ministry coordinates the selection of domestically-financed projects on the basis of budget allocations determined by the Budget Ministry. Project descriptions and cost estimates are expected to reflect sector policies when available. Externally-financed projects are managed by specialized units (implementing agencies) which act as *ordonnateurs délégués* handling payment authorizations and actual payments for projects funded by cash advances from development partners. The Planning Ministry receives data on externally-financed expenditures from development partners and submits them to DPSB (Budget Ministry). The government does not work on the basis of Public Investment Programs (PIP), but draft guidelines on PIP preparation, execution and monitoring have been prepared and discussed with Budget and Finance. The Planning Ministry does not monitor execution of investment spending; line ministries are in charge. However, DCB (Budget) and the Treasury (Finance) keep Planning informed of actual disbursements.

Management of centralized payments (“charges communes”)

3.43 An Action Plan should help rationalize the management and improve the control of centralized payments. The regulatory framework as revised in 2006 provides a definition of entities eligible for publicly funded utility service (“centralized payments”); a database on users has been prepared following an inventory of departments eligible for 5 categories of centralized payments.³⁴ Implementation of the Action Plan has been delayed, notably the preparation of water and electricity bills based on actual use. Beneficiaries and supply locations have been identified, but the water and electricity companies have not yet installed the meters. Consequently, the Treasury continues to make monthly lump sum payments to the companies until the new system becomes operational.

Public debt management

3.44 OGEDEP submits to the Finance Ministry monthly debt service payment projections and actual payments are almost on time. The Committee responsible for the reconciliation of external debt service payments does not meet regularly and does not prepare a Reconciliation Table based on data originating from different sources. OGEDEP, however, uses SYGADE to maintain the debt database, but: (i) does not publish its monthly projections of public debt service payments; and (ii) does not play its role as the single information center on public debt.

Cash management

3.45 Both cash flow projections and daily cash management practices are inadequate. Currently, cash management plans are based on: (i) broad projections of major current expenditures; and (ii) data on Central Bank operations, notably revenue data. As the transfer to Kinshasa of data concerning expected and collected revenue is particularly difficult, cash management plans do not help project but only describe the cash position of the government in a given month. As a result these plans are not transparent, do not provide the elements of a strategy for the management of short-term cash flows and do not guarantee that planned payments will be made. On a daily basis, data on revenue flows come late (not before the last day of the previous month) but forecasts of expenditures are generally accurate.³⁵ Cash management is not based on the discussion of the relative priority of expenditures and the Treasury does not have access to contingency funds or other financial instruments for the management of emergencies. Cash management plans do not help decision-makers as data on outstanding payments do not reach the Minister of Budget systematically and cannot be used to regulate new commitments.

³⁴ The 2007 budget decentralized the management of a number of centralized payments: fuel, rental of satellite (PTT), health care (Health), maintenance (Public Works) and funeral expenses (Social Affairs). The other centralized payments, notably water and electricity, need to be broken down by services and continue to be managed by the General Services Department (*Intendance Générale*).

³⁵ Since June 2007, the Kinshasa and provincial offices of the Central Bank is linked and the accounting system is online. The delays in information flow on credits and debits should no longer occur.

3.46 Weak institutional systems are partly responsible for the inadequacies of current cash management instruments. The Committee responsible for preparing cash management plans includes representatives of the Treasury, the Central Bank, the MoF and the Budget Ministry. It is chaired by an Adviser from the Office of the Finance Minister, assisted by a representative of the Central Bank. The Committee does not have the tools necessary to compare forecasts and actual transactions. It does not analyze the quality of initial forecasts and why actual spending on specific types of expenditures differs from projections. In fact, the MoF does not show a great deal of interest in the work of the Committee, which lacks authority. A manual on methodology should help improve cash flow estimates. No instrument is available to the Treasury to handle short-term cash shortages, except Central Bank advances which are costly.

Accounting

3.47 Implementation of an accounting plan progressed during the 2004-07 period. A simplified accounting plan in line with international standards was prepared in 2004 and has been gradually put in place during the following three years. The Treasury has been reorganized and the computerized information system captures in real time accounting operations. The accounting software is based on the structure of the chain of expenditure and is managed by the team responsible for handling budget execution. An accounting manual has been prepared to supplement the manual on the expenditure circuit. The budget nomenclature progresses; the classification of expenditures has been completed, the revenue classification will soon be available, and the two classifications will be harmonized to produce a final nomenclature in 2007. The length of the supplementary period – normally three months – varies from year to year. It was officially reduced in 2006 (commitments were expected to end on October 31), but in fact commitments continued until the end of the year.

3.48 The objective of a public accounting system is to provide detailed, comprehensive and reliable computerized data on government operations. The government expects a fully computerized financial management system to be in place in January 2008. The system will be comprehensive and reliable under certain conditions: (i) the structure of the Treasury must provide for a clear distribution of accounting responsibilities within the agency, which is well understood by the staff of the agency; (ii) validation of accounting entries³⁶ must proceed on a timely basis and the staff of the Treasury should feel accountable for achieving this result; (iii) technical anomalies in the revenue accounting software should be eliminated rapidly, to avoid duplicate entries of the same transactions,³⁷ and (iv) classifications of revenue and expenditures must be harmonized.

Reporting

3.49 Budget execution reports of line ministries are not produced systematically and are of poor quality. Consequently, the DPSB does not make much use of these reports. Recently, however, the Ministry of Primary and Secondary Education and Vocational

³⁶ Recording the credits and debits entries in the Treasury balance.

³⁷ Today Treasury accountants who enter accounting operations do not have access to supporting documents during the validation process.

Training (EPSP) and the Health Ministry made an effort to submit their budget execution reports submit to the Budget Ministry. The production of overall ESBs is irregular and quality needs to improve. This is largely due to delays in the transmission of data from the Central Bank (debits), the Treasury (payments) and implementing agencies: BCECO, UCOP, BCMI, PNMLS etc. (data on execution).

3.50 The Treasury prepares Treasury balances, which however are neither exhaustive nor reliable. The current software (May 2007) provides only a “static balance” and computer technicians must review the data repeatedly, notably for retained earnings. The most recent balance dates back to August 2006.

3.51 A TOFE should be prepared on a monthly basis when monthly accounts have been closed and reconciled with the BCC and, more importantly, with revenue agencies. In practice, validation of the December 2006 TOFE was still underway in May 2007. In the future TOFEs will be prepared automatically on the basis of Treasury balances.

Controls

3.52 Since the “transfer” of the expenditure verification function from the Treasury to the DCB, every expenditure is reviewed by both offices. The Budget Minister’s Office complains: (i) that control operations tend to take longer; and (ii) the quality of controls over expenditures has not improved.³⁸

3.53 *Ex post* administrative controls are performed by the General Inspectorate of Finances (IGF). In practice, IGF prepared only two reports on public expenditures in 2006 (at the beginning of the year) and most of its activities were about revenue and revenue collecting agencies. IGF reports do not lead to corrective measures aimed at improving public financial management.

3.54 Government accounts are submitted to the Audit Office after long delays (2005 accounts were submitted only in December 2006). The political context at the beginning of 2007 (and arguments with the Supreme Court on the management of equipment and supplies) will make it impossible for the Audit Office to audit the 2005 accounts before the middle of this year. Recommendations in earlier reports have not been published and are not implemented. Yet, comments from the Court on the draft Budget Review Law for 2004 have been published in the Official Gazette in December 2005. The Audit Office depends on the MoF for its operational budget, which is available irregularly. The Parliament elected in 2007 has not yet decided to act on the recommendations of the Office.

3.55 Budget execution and public accounts are controlled ex-post by the Parliament, through the ECOFIN Committees of the two Chambers, and with the help of the Court of Account. The new Committees must become fully familiar with current budget execution and accounting systems and the public financial management reforms started in 2002.

³⁸ The Budget Ministry is considering the possibility of seeking technical assistance for the management of the budget control function.

3.4. Traceability of public spending at the central and provincial levels -- Roles of line ministries and governors

3.56 The Treasury and the Central Bank channel funds to beneficiary services or suppliers through two different circuits depending on whether the funds are paid in cash or through transfers.

3.57 Cash payments to beneficiary services (for instance for payment of salaries and allowances) are generally made by Treasury accountants. However, part of the money may be taken by various intermediaries. These unofficial payments are not recorded or reimbursed.

3.58 Supplies of goods and services on public contracts are paid through transfers from the Treasury to the banking accounts of the suppliers. Proof of delivery of goods and services should be systematically validated by ad hoc committees in each ministry. These documents must be provided in support of payment requests. The relevant sector agency should verify that the goods and services provided are those requested in the purchase order. For public spending in the capital city, ex ante controls mobilize DCB investigators who monitor the expenditure until its final destination. These controls are made on an ad hoc basis but could become an instrument to verify the delivery of services. The IGF is entitled to perform ex-post controls, upon request from the Finance Minister; it could therefore also review the final destination of public expenditures.

3.59 The expenditure circuit is weak and cumbersome, but provides a global view of funds disbursed by the Treasury. However, it is virtually impossible to monitor the final destination of specific public expenditures (and their beneficiaries). The traceability of public spending in the Provinces is even more hazardous.

3.60 The role of DCB investigators is limited, if only because their ministry does not give them the necessary authority on a permanent basis. Payments are authorized without any significant effort to verify that the service has been delivered, a responsibility that has been transferred to DCB at the expenditure verification stage. IGF does not systematically review ex-post that goods and services have been delivered. Administrative units do not keep inventories of goods and materials. Initiation of a stock accounting system is not envisaged for the time being. In essence all the control mechanisms are inefficient. No procedure makes it possible to verify – after delivery – that the goods purchased have remained in a given service for the benefit of the intended beneficiary.

3.61 For goods purchased and paid in Kinshasa for delivery to one of the provinces, line ministries are responsible for deciding how the goods will be delivered and verifying the delivery. Local delegates should certify that the goods or services have reached their destination. Committees representing the parents of school children, associations operating in the neighborhood of hospital facilities, committees representing the users of specific infrastructures or NGOs should be able to verify that funds allocated to specific categories of expenditures have been spent and well used.

3.62 In the case of cash payments, notably to public sector staff, beneficiaries may have to make unofficial payments to intermediaries, which do not appear in supporting documents.³⁹

3.63 Provincial authorities cannot monitor public expenditures executed for them in Kinshasa (all the documents regarding public contracts are in Kinshasa and are not available to local authorities and beneficiary services). Information on contracts and specifications is not communicated to provincial beneficiary services. The financial teams working in governors' offices are powerless.

3.64 With respect to operations for the benefit of the City of Kinshasa, the government believes that central bank transfers to the City's bank accounts are executed on a timely basis and are not subject to illegal deductions. Since 2007, the Governor's office transfers funds to municipalities upon receipt of relevant monthly lump sums.⁴⁰ However these funds must be used on the basis of spending priorities imposed on municipal authorities. The latter must report on the use of these funds and an audit unit in the office of the governor verifies these reports. The Kinshasa Governor has created a special information network for other governors, which operates through the web site of the Kinshasa province. Governors and their financial management teams should take advantage of this service.

3.5. Deviations between executed and voted budgets

3.65 Government budgets are not based on realistic estimates. Overoptimistic forecasts lead either to overspending on budget lines or under-provision of services.

Table 3.1: Rates of execution by category of expenditure

Nature	2003	2004	2005	2006
Goods and materials	205%	102%	210%	189%
Personnel	102%	111%	105%	102%
Services	77%	118%	125%	77%
Transfers	122%	62%	44%	64%
Construction & Rehabilitation	30%	59%	44%	60%
Public Debt	83%	54%	84%	53%
Equipment	27%	33%	65%	39%
Financial Charges	29%	206%	58%	27%

Source: DRC government *États de suivi budgétaire* (various issues)

3.66 Over the past four years, standard deviations between voted and executed budgets varied between 0.24 and 0.38.⁴¹ As budget allocations to goods and materials tend to be underestimated, actual spending over the past four years always exceeded estimates. Budget allocations for construction and rehabilitation, equipment and public debt are

³⁹ A May 2007 report provides a detailed description of public sector payments for the education sector. It shows how frequently beneficiaries are victims of these practices.

⁴⁰ Since 2007, the Treasury transfers a lump sum to the provinces every two weeks.

⁴¹ Taking into account the relative weight of each category of expenditure.

never used entirely.⁴² Low rates of budget execution for the first two categories of expenditures are probably due to the difficulty of making reliable forecasts of foreign aid disbursements – the main source of financing for investment expenditures. The most important budget allocations are for personnel expenditures (18-20%) for which rates of execution are comparatively stable.

Table 3.2: Rates of execution by function

Nature	2003	2004	2005	2006
Order and security	107%	111%	108%	127%
Religious affairs, culture & sports	105%	101%	102%	124%
Defense	115%	112%	103%	112%
Education	36%	24%	84%	86%
Economic affairs	49%	40%	55%	71%
Central administrative services	103%	97%	79%	55%
Environment protection	448%	23%	70%	49%
Housing and urban equipment	26%	37%	93%	45%
Health	59%	39%	58%	45%
Social protection	29%	23%	23%	24%
Average rate	85%	75%	75%	67%

Source: DRC government *État de suivi budgétaire* (various issues)

3.67 Standard deviations between voted and executed budgets – based on a functional classification – varied between 0.15 and 0.33⁴³ over the past four years. Rates of execution always exceeded 100% for order/security and defense. For central administrative services, which account for 40-62% of total public expenditures, rates of execution declined over the past four years. Budget allocations for health and education are modest (health accounts for 4.5-5.6% of total budget allocations and education for 7-9.4%) and rates of execution are alarmingly low.

3.6. Main recommendations for public financial management

3.68 To improve the legal and regulatory framework, the government – following adequate consultations with institutions involved in public expenditure management – should draft a new Framework Law on public financial management⁴⁴ and new General Public Accounting Regulations. However, communication problems may block the process. In 2006, the Budget Ministry (DPSB) and a deputy⁴⁵ prepared separately two draft Organic Laws. A group of peer-reviewers will discuss the drafts, and will also be responsible for preparing draft General Public Accounting Regulations.⁴⁶ Based on a

⁴² Payable debt service, i.e. debt service forecasts minus debt relief.

⁴³ Taking into account the relative weight of expenditures on specific functions.

⁴⁴ *Projet de Loi Organique portant sur les Lois de Finances.*

⁴⁵ The honorable Dean of the Faculty of Law.

⁴⁶ For the first time since 1952 draft General Public Accounting Regulations are likely to be prepared shortly. As soon as the Finance and Budget ministries – with help from French advisers or the IMF – have produced a draft Framework Law and draft General Public Accounting Regulations, a donor should finance a workshop to discuss and popularize the two documents.

timetable to be proposed by this group in March 2008, the two drafts should be discussed in a validation workshop in September 2008 and finalized for implementation in 2009.

3.69 To help improve the institutional framework and the budget preparation process, the Budget Ministry should strengthen its representation in line ministries. Guidelines for its representatives (*Sous-gestionnaires*) and a timetable for their implementation should be prepared by the Budget Ministry before mid-2008. The Budget and Finance Ministries must review jointly the role of inter-ministerial IT committee (CII). New terms of reference should unify the computerized management system for all budget operations (preparation, execution, and accounting).

3.70 With the elections safely over, it is now imperative to reverse the deteriorations in public financial management, which occurred during the election period. In particular, steps should be taken immediately to address the slippages in the following three areas: budget conference, fluidity in expenditure execution, and non-emergency use of the emergency procedure.

3.71 For the preparation of the 2009 budget, budget conference must be resumed, and effective participation of line ministries must be ensured. Indicative expenditures ceilings (such as the amounts allocated in the 2008 budget, adjusted for inflation and higher overall budget envelope) should be communicated to each sector at the beginning of the process and rules concerning the organization of budget discussions between the Budget Ministry and line ministries should be implemented. Budget and Planning should associate line ministries in the discussion of the investment program (first half of 2008). A capacity-building program for line ministries (guidelines, training, implementation timetable and monitoring instrument) should be prepared by the Budget Ministry and the line ministries (first half of 2008) and implemented as soon as possible. Eventually the Budget Ministry and the line ministries will be connected in a network. The resurrection of the budget conference, and realistic proposals from line ministries (especially priority ministries such as health and education) would signal better dialogue at the budget preparation stage and are expected to improve budget execution.

3.72 The new government has already decided to return to more normal public expenditure procedures, strictly limiting the non-emergency use of the emergency procedure (use of letters to the Budget Ministry).⁴⁷ In cases of true emergencies (for example, natural disasters), the system should provide for immediate payments – to be regularized at a later stage. The use of the emergency procedure for non-emergencies should be curtailed within the next 18 months to pre-elections level, and then gradually decreased to none.

3.73 An often-cited reason for using the emergency procedure for non-emergencies was the delay in processing expenditure items using the expenditure circuit (*chaîne de la dépense*). Contributing to the delay in the processing were ELDPs and ESOs, the manual steps added during the electoral period to the otherwise automated circuit. These steps

⁴⁷ Some countries determine in advance which percentage of public spending operations can use exceptional procedures, unless in case of natural disasters.

should now be eliminated, and commitments and payment authorizations be validated online. The elimination should occur as soon as technically feasible, and well before the end of 2008.

3.74 The three reforms summarized in the preceding three paragraphs will constitute pre-conditions for the World Bank to resume the discussions for development policy operations.

3.75 Eventually, accounting operations will improve when monthly Treasury balances are prepared automatically even if it is on the basis of a simplified double-entry accounting system. For the time being, the Treasury balances are static, cannot be produced automatically, and require several interventions from computer technicians notably for retained earnings. To produce Treasury balances automatically, the software needs to be modified so that it corrects technical anomalies. It is also essential: (i) to improve the productivity of Treasury accountants; (ii) to improve on-the-job training of staff by their supervisors; (iii) to make the Treasury accountable for producing reliable balances without lengthening the accounting process through manual reconciliation committees; and (iv) to harmonize accounting nomenclatures with the budget nomenclature⁴⁸ (March 2008).

3.76 Cash management helps prioritize expenditures in case of temporary cash flow problems. Monthly (or more frequent) cash management plans should be prepared on the basis of realistic projections of revenue and expenditures. The plans should be prepared by a Committee including the main budget and financial management operators, including line ministries.⁴⁹ The best solution should be for the Treasury to prepare cash management plans based on payment authorizations (not actual payments). It should be possible to prepare these plans on the 25th day of the previous month and no later than on the 5th of the current month. The plans could be adjusted around the 20th to take into account actual revenues and emergency spending. The Treasury must be authorized to decide on priorities. In addition the Treasury should submit to the Budget Ministry on the 25th of the previous month the list of authorized payments to be executed. Eventually, a projection of expenditures in foreign currency would also be very useful for the Treasurer. A timetable will be prepared (March 2008) for measures to be taken to improve cash management. The program will also include the use of monitoring tools to compare projections and execution.

3.77 Reporting systems are critical for good budget management and accounting. Line ministries should prepare reports on execution of sector expenditures. These reports, which should be reviewed and used by the Budget and Finance ministries, could also be published on a quarterly basis on the web site of the Budget Ministry. User associations and NGOs should be able to read these reports and review data concerning the populations they represent. Comprehensive computerized ESBs should be prepared on a monthly basis (2009) and published on a quarterly basis. Technical improvements should

⁴⁸ Harmonization of revenues nomenclature is underway with help from French TA.

⁴⁹ Notably representatives of social line ministries or other ministries that will be involved in the preparation of Medium-term expenditure frameworks (MTEFs) on a pilot basis.

also make it possible to produce complete computerized Treasury balances and TOFEs on a monthly basis. A good reporting system would help analyze and eventually reduce discrepancies in rates of execution.

3.78 To widen the circulation of budget data, the Finance and Budget ministries should systematically publish monthly updates on their web sites. This would improve the credibility of public financial management operations.

3.79 Systematic efforts should be made to organize the traceability of public expenditures up to their final destination. However, beneficiaries may not always know what has been spent for them (for instance if a public contract is signed in Kinshasa to finance projects to be implemented in a province). As a result, the beneficiary services or the office of the Governor will not be able to monitor execution. Two specific measures could improve the traceability of money spent for activities outside the capital city: (i) publish public contracts and project specifications to better inform beneficiary and provincial services and encourage them to verify execution; and (ii) involve the *sous-gestionnaires* of line ministries who should be accountable for expenditures financed by local revenue or transfers.⁵⁰ Elected officials should be encouraged to monitor financial transactions and be trained accordingly. The financial management teams in governors' offices should also be strengthened (2008-2009).

3.80 Line ministries should systematically prepare quarterly reports on execution of provincial expenditures and compare results with budget estimates. User's associations and specialized NGOs should be able to review ESBs and obtain data on execution of public spending for the benefit of the populations they represent.

Monitoring of pro-poor spending

3.81 Since 2002, the budget nomenclature is in line with international standards.⁵¹ The computerized management information system uses codes based on that nomenclature. In 2003 the government adopted a definition of pro-poor expenditures based on the functional classification of government operations. The pro-poor expenditures are funded by HIPC-financed debt relief measures and government contributions. HIPC resources are located in a sub-account of the Treasury with the Central Bank entitled HIPC grants.⁵² The account is credited on the basis of scheduled debt maturities. HIPC funds are a part of the government budget. Execution of pro-poor spending is based on standard procedures.

3.82 Available instruments make it possible to prepare, execute and monitor pro-poor spending using standard procedures. A special coding has been introduced and pro-poor spending can be monitored through the expenditure circuit from the commitment to the payment phase and depending on the source of financing.

⁵⁰ Transfer is the process of transferring to local or provincial government's revenue collected by central government agencies.

⁵¹ The functional classification is in line with the Classification of Government Functions published by the United Nations and the 2001 Government Finance Statistics of the IMF.

⁵² Execution of HIPC funds in 2003 and 2005 was audited in 2007.

3.83 Pro-poor spending is also identified in budget documents and budget execution reports. Budget execution reports detail all public finance operations from the commitment to the payment phase by category of expenditure, by department, by function and by province. It is therefore possible to monitor and control pro-poor spending.

3.84 By the end of 2003, the government created a committee,⁵³ including representatives of the sectors, government institutions and the civil society, to monitor pro-poor spending. Since June 2004, the committee has begun to meet more regularly to evaluate on a case by case basis the eligibility of expenditures to be funded by HIPC resources.

⁵³ Initially the role of the committee was expected to include not only the review of budget allocations to be funded by HIPC resources but also the monitoring of execution.

<i>Summary table of recommendations on the public financial management</i>					
Themes	Actions	2007	2008	2009	Technical assistance requirements
Legal and regulatory framework	Budget and Finance create a group of peer reviewers to prepare a draft organic law on public finance on the basis of two existing drafts, with help from the drafters and TA advisers.	12/31			Yes French TA
	Validate a timetable for the finalization of the Framework law and the public accounting regulations.		3/31		Yes
	Workshops to validate the draft Framework law and public accounting regulations.		9/30		Yes
	Implementing the Framework law and the public accounting regulations.			January	
Institutional framework	Prepare guidelines for Budget Ministry staff working in Line ministries and implementation timetable (Minister's Office/DPSB/DCB)		6/30		No
	Budget and Finance ministries review jointly the TORs of CII to improve the support CII provides for budget preparation, budget execution and accounting (Minister's Offices/EDPSB/DTO).	11/31			No
	A network connects the Budget and Finance Ministries with Line ministries (CII).			12/31	Yes
Budget preparation	Determine indicative ceilings of expenditures for each sector at the beginning of the budget preparation process.	7/31			No
	Budget and Line ministries prepare a plan to better involve line ministries in the budget planning and monitoring process. The plan includes a timetable and monitoring instrument (Minister's Offices/DPSB/DTO).		6/30		Yes (French TA)
Budget execution	Prepare a plan for a return to normal budget execution procedures. The plan should include a timetable for the normalization process and organize the monitoring of the measure – monthly publication of appropriate data (Offices of Budget and Finance Ministers)	12/31			No
	Revise the 2003 public expenditure manual, including rationale for transferring validation phase from Treasury to DCB (DPSB/TA)	12/31			Yes French & IMF TA
	Updating plan of action for the management of centralized payments (Budget and Planning Minister's Offices)	12/31			No
	Publish list of beneficiaries of centralized payments (DIGCC/Finance Minister's Office)	12/31			No
	Exhaustive computerized ESBs prepared on a monthly basis			3/31	No
Accounting	Plan of action to strengthen cash management, including monitoring instrument to compare forecasts and execution		3/31		Yes IMF

	(D)TO/MoF and Budget Minister's Office).					
	Finalize software for validation of revenue and expenditure entries and increase accountability of Treasury officials with respect to accounting entries (CII, DTO).		3/31			
	Static Treasury balances replaced by monthly production of complete computerized balances (DIO)			1/9		Yes IMF
Traceability of expenditures	Publish conditions and specifications of public contracts to inform beneficiary and provincial services.		6/30			
	Strengthen capacity in financial management of public finance team in governors' offices (Budget and Finance ministries)			January		Yes
	Quarterly production of budget execution reports by line ministries including for provincial expenditures (Line ministries)			January		
	Review role of Committee evaluating poverty reduction and HIPC expenditures. Reduce number of case by case reviews (Budget and Finance ministries)				12/31	
	Systematic monthly updating of data on web sites of Finance and Budget ministries (Finance and Budget Ministers' Offices)				9/31	No

Notes:

- The training program for the staff of the Budget Ministry posted in line ministries should include the following measures: (i) updating the TORs of *sous-gestionnaires*; (ii) review the need for budget controllers; (iii) training program in budget preparation; (iv) monthly reports by *sous-gestionnaires* and comments from DPSB; (v) DPSB and *sous-gestionnaires* should participate in multi-year planning exercise; (vi) eventually a network connects line ministries with the Budget Ministry.
The program should include a timetable for implementation of each component and progress should be monitored and reported in a monitoring Table.
- A plan aimed at strengthening the role of line ministries in budget planning and monitoring should be prepared jointly by the Budget Ministry and line ministries. It should include: (i) a reference to the training program for *sous-gestionnaires*; (ii) training for sector staff on budget preparation; (iii) a timetable for quarterly meetings between Line ministries and the Ministers' Office in Budget and Finance ministries to review public expenditure issues; (iv) strict implementation of agreed deadlines for budget conferences; (v) participation of line ministries in discussions on investments between Budget and Planning; (vi) eventually a network connects line ministries with the Budget Ministry. The program should include a timetable for implementation of each component and progress should be monitored and reported in a monitoring Table.
- The plan aimed at organizing a return to normal procedures should include: (i) validation by the computerized information system of list of commitments (Budget), payment authorizations (Finance) on the validation instrument already available in the office of the Ministers; (ii) elimination of ELDPs; (iii) elimination of ESOs; (iv) updating the 2003 manual on the expenditure circuit and validating the revised document. The program should include a timetable for implementation of each component and progress should be monitored and reported in a monitoring Table
- The action plan to improve cash management should include the following measures: (i) review the composition of the cash management committee and eliminate Central Bank representatives; (ii) involve some line ministries in an advisory role; the Treasury should be fully responsible for cash management; (iii) the Treasury should have access to special resources in cases of emergency; (v) timetable for the preparation of cash management plans before the beginning of each month and for its revision by the 20th of each month.

Chapter 4. EDUCATION SECTOR

<i>Priority recommendations</i>		
Budget process	<ul style="list-style-type: none"> • Establish a costed action plan with the priorities for 2008 using a realistic budget. Active participation of the technical departments is necessary. • Until the teacher census and school mapping exercise are completed, declare a moratorium on: (i) all personnel movement including regularization of the existing teachers with informal contracts; (ii) creation and accreditation of new schools. 	2008
Expenditure management	<ul style="list-style-type: none"> • Enforce (i) ministers' council decision on eliminating the Pay Commissions; (ii) the new inter-ministerial instructions on prohibiting cut-taking from teacher salary envelopes; • Reduce the high costs of salary/operating budget circuits by rationalizing them and exploring alternatives to transporting cash 	2008
Monitoring	Conduct a public expenditure tracking survey (PETS) similar to the one conducted under this study	2008
	<ul style="list-style-type: none"> • Put in place a policy of reducing the school fees progressively • Reinforce the monitoring system by (i) involving parents and teacher unions (ii) implementing a mechanism to report any irregularities; (iii) putting an end to impunity 	Medium term
Decentralization	Start the consultation process in order to develop a sector-specific strategy on decentralization.	Start now for the medium term

4.1. Introduction

4.1 In a series of ambitious statements and documents,⁵⁴ the new government (2007) has firmly embraced a policy of: (i) poverty reduction; (ii) enhanced access to basic services; and (iii) governance and accountability based on performance. The main priorities set forth by the President of the Republic in his inaugural speech (which he called the five pillars or “*chantiers*”) reflect this vision. The education sector has always occupied a major position in the Democratic Republic of Congo (DRC) inasmuch as it provides the path for building the human resources that will become involved in the country’s economic life and in managing the country in the future. As such, investment in education is not only an essential element in the welfare of individuals, but also a key to rebuilding political and government institutions, stimulating growth, and correcting inequalities. Since colonization, the length of compulsory education has been six years for children between the ages of six and 11; Article 43 of the new Constitution (2006) makes free primary education a human right and restates the principle of compulsory education. This represents a decisive step toward education for all, fully in line with the Millennium Development Goals. However, at the present time, immediate enforcement is not possible in view of the challenges faced by the country.

4.2 The challenges are many and complex. The resources available to the education sector today are insufficient: neither government financing nor external assistance—official or otherwise—represents sufficient sources of financing, although they have played an important role in certain

⁵⁴ Speech by Mr. Gizenga, Prime Minister, before the National Assembly (February 2, 2007); speech by Mr. Kamerhe, President of the National Assembly (January 9, 2007); DSCR (April 17, 2007); Priority Action Program (PAP); and Good Governance Contract.

critical situations. And even if adequate financing were available in the near future, the current system could ensure neither the appropriate allocation of resources nor proper implementation of same. There are many reasons for this. First of all, the limited resources available to the education sector are not allocated in line with the priorities set by government policy, nor are they fairly distributed among the country's different geographic areas and social strata. Budget preparation is not carried out on the basis of a sector policy and an action plan backed up with figures. The technical departments of the various education ministries⁵⁵ are not involved in preparing the national budget, nor the commitment plan. Secondly, expenditures are currently executed (starting at the Treasury) through a very lengthy physical chain of transfers of assets. Logistical constraints (in terms of transportation and accessibility) and the weak presence of commercial banks in the country underlie this mode of payment. Thirdly, difficult living conditions and years of poor governance and impunity have created a climate conducive to the misappropriation of funds; thus, the physical and regular transfer of liquid assets does not by itself provide safeguards. There is currently no reliable tracking of expenditures (starting at the Treasury) to verify the use of public funds. Any increase in the amount of spending to be accomplished through this system is likely to generate more problems than solutions.

4.3 In addition, given the inadequacy of the budget appropriation from the government, contributions by parents of students finance a major share of the functioning of the education system at all levels. Yet the education system's strong dependency on private financing, particularly in order to pay teachers, creates pernicious incentives and prevents poor children from attending school, even at the primary level. Nevertheless, it would be difficult to eliminate this system of dependency overnight.

4.4 To reach the stated objectives, the government must confront these immense but inescapable challenges. This chapter describes the challenges to be met and proposes paths for improving management of the education system, as well as the rules on public financing. However, revitalization of the sector will also depend on the economic context, progress made with regard to planned sector reforms, and implementation of general government policy in the field. Finally, it is useful to emphasize that the results obtained come from a number of recent studies involving field research (2007)⁵⁶; these were then amplified (or confirmed) by the independent "step by step tracking" survey.

4.2. Education sector baseline review

4.5 Despite political upheaval, the collapse of government revenues, and economic recession in recent decades, the education system in the DRC continues to expand. The official figures indicate an increase in the number of schools and in school enrollment at the primary, secondary, and higher levels. This trend confirms the strong demand for education and the commitment, on the part of parents, to send their children to school. However, the education system of the DRC has not shown, to date, any significant progress toward the goal of universal primary education. Still, the opening of the 2007-2008 school year was marked by the clear intention of MEPSP to regulate the collection of school fees and embark on a courageous policy of reducing these fees.

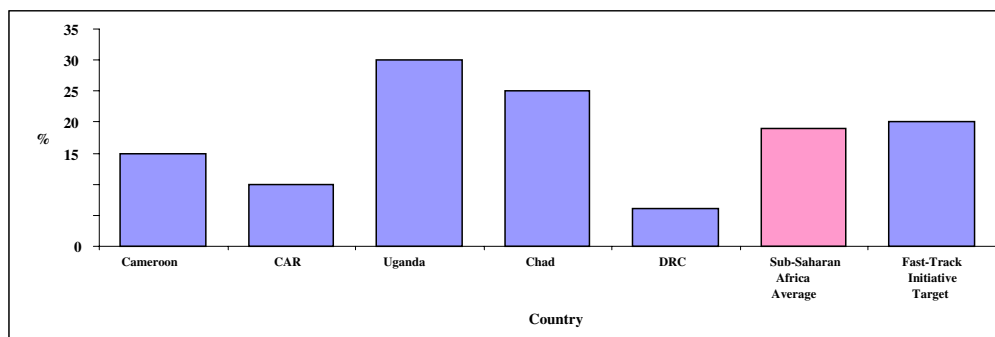
⁵⁵ In the DRC, administrative responsibility is shared among three ministries: Primary, Secondary, and Vocational Education (MEPSP); Higher and University Education; and Scientific Research. In addition, the Ministry of Social Affairs and National Solidarity shares with MEPSP the institutional responsibility for informal education.

⁵⁶ Verhaghe, J. "Notre Beau Métier": Ensuring the Quality of Primary School Teachers in the DRC (2006); Verhaghe J. « Sida: Salaire Insuffisant Difficilement Acquis »: Addressing the issue of effective teacher payroll expenditure in the DRC (2007); Verhaghe, J. User fees in primary education: *frais de fonctionnement* or *fonds de famille*? (2007).

4.6 The context of educational development in the DRC imparts major challenges: decades of decline; economic and political chaos; size of the country; low population density; cultural and ethnic diversity. Furthermore, armed conflict and poverty have created a group of more vulnerable children to provide with schooling: child soldiers, street children, and orphans (including AIDS orphans).

4.7 The education sector is now faced with a serious and deep crisis of management, both in terms of its objectives and in terms of its financing. This crisis is marked by a disconnect between school enrollment demand and the government resources allocated to the sector: the budget appropriation for primary, secondary, and vocational education remains low despite the fact that it has increased since 2002 (from 6% in 2002 to 9% in 2005). The percentage of the current budget earmarked for education in the DRC is the lowest of all African countries (see Figure 4.1).⁵⁷

Figure 4.1: percentage of government budget earmarked for education (2002)



4.8 Despite a fuller awareness of the priorities, and despite the courageous efforts made, implementation as desired is impossible in view of the inadequate resources allocated to the education sector. At the present time, for example, the constitutional objectives of compulsory school enrollment and free primary education are far from being met. The number of children enrolled in primary school is estimated at 58% (7 million versus a total of 12 million children of school age) and one third of the teachers are not *mechanized* (i.e. not listed in the SECOPE data base and, as a result, not paid by the government). In Kasai-Oriental and Nord-Kivu, more than 40% are not mechanized. It is estimated that roughly CDF 26 billion would be needed per year to mechanize all of them (beyond the CDF 60 billion that the government currently pays each year to already regularized teachers). The budget impact of recent wage negotiations between the government and the teachers' unions (August 9, 2007) concerning all *non-mechanized* personnel could run as high as CDF 52 billion. It is clear that available resources are insufficient to meet the needs.

4.9 In addition, funded activities are not always set up in the most effective way. For example, the expenditure circuits observed (wages, operating expenses) are not "watertight," and leakage, or even embezzlement, was detected at all levels of the chain. In reality, good results from education depend directly on the quality of education dispensed (teacher motivation and qualification, linked to wages and miscellaneous benefits), operating resources (budget for schools and school inspectors), and basic infrastructure (classrooms, latrines, etc.).

⁵⁷ By comparison, in 1980, nearly one quarter of the budget was spent on education. The portion of public expenditure earmarked for education began to fall drastically in 1983, dropping at that point to 17% and two years later to just 7%. For primary and secondary education, real current expenditures in 2002 were less than 4% of their total in 1980; in higher education, they were less than 3% of their 1980 level. This tremendous decline was principally due to the drop in teachers' wages, which barely increased in nominal terms, although the number of teachers continued to steadily grow

4.10 Sector indicators clearly reflect this state of crisis:

**Table 4.1: Summary of education indicators for primary education
(2006 or most recent year available)**

	DRC (a)	Sub-Saharan Africa (b)
Gross enrollment ratio (total)	64%	96%
Survival rate	44%	71%
Completion rate (total)	29% (c)	60% (d)
Repetition rate (e)	16%	16%
Dropout rate	20% (*)	36% (**)

* (1st year of primary) ** (primary school average)

(a) Source: Priorités et Alternatives Pour le Renouveau du Système Educatif (2004), p. 46.

(b) Average for 48 countries (Source: World Bank Education Statistics Database).

(c) Student survival rate between the first and sixth years.

(d) Student survival rate between the first and fifth years.

(e) Completion rate measured by the percentage of 11-year-olds in the sixth year of primary school.

4.11 Because of the shortage of resources allocated to the sector, a large contribution from households is necessary to pay all the expenses for facilities and teachers. A UNICEF/USAID survey (2007) conducted in all the provinces estimates that, in total, parents of students contribute CDF 34.6 billion (US\$63 million) per year in incentive costs for primary school teachers and some CDF 16.5 billion (US\$30 million) in school fees.⁵⁸ Furthermore, the survey confirms that “poor payers” are often expelled from school. In brief, education (just like health) is a “public” service but it’s not free. In addition, the cost does not guarantee quality for a number of reasons: the ongoing, decades-long crisis afflicting the sector (unqualified teachers, dilapidated infrastructure, nearly total absence of teaching tools), a lack of management transparency, and the inability of parents of students to hold any entity accountable. Lastly, only 35% of school fees collected (excluding the incentive bonus) is spent at the school; the rest is used to pay bonuses for managers⁵⁹ and keep their respective offices running.

4.12 To escape from this situation of crisis, concerted efforts to undertake deep reforms will be necessary.

4.3. Institutional and contractual structure

4.13 The institutional structure of the primary education sector in the DRC is characterized by the existence of many nongovernmental actors providing education services in public and private settings. More than 70% of primary and secondary schools are managed by religious denominations (“covenant” schools); under 20% are managed directly by the State (“non-covenant” schools), and the

⁵⁸ The financial contribution of parents of primary school students is estimated at roughly US \$92 million (US\$1 = CDF 550). This figure basically includes the incentive bonus, miscellaneous school fees, and the cost of the National Primary School Completion Examination (TENAFEP) – Verhaghe J., User fees in primary education: *frais de fonctionnement* or *fonds de famille?* (2007).

⁵⁹ The word “manager” is part of the jargon of the education sector. It refers to administrative officials of covenant and non-covenant schools. For example, PROVEDs and Coordinators are managers.

rest are private schools.⁶⁰ The sector's structure and management are still defined by the Framework Law (1986) and the Covenant (1977)⁶¹ even though both are substantially outmoded. MEPSP recognizes the urgency of the situation and intends to amend these key statutes.

4.14 Private schools are particularly numerous in urban areas and, in practice, an undetermined number of private schools operate without MEPSP approval. This inevitably raises the question of the quality of education dispensed. The Framework Law of 1986 formally recognizes the existence of the unsubsidized private sector (or approved private schools). Private schools must be approved by MEPSP and adopt the national curriculum. The law also includes guidelines concerning school fees, creation of the leadership structure, and records to be kept. Apart from these regulations, unsubsidized private schools manage their affairs with complete freedom.⁶² Although this sector provides important support to the education system,⁶³ it is nevertheless in full disorder: suspicious or fraudulent approvals, schools belonging to education inspectors, schools operating at the owner's residence, in a kitchen, etc. Their enrollment varies, depending on infrastructural capacity and the amount of school fees required. In addition, they contribute to certain expenses set by MEPSP and, for that purpose, a list of them is compiled.

4.15 In the public sector, church-run schools belong to a denominational network (or coordinating entity). They have signed a covenant with the State. The National Schools Management Covenant (*Convention de Gestion des Ecoles Nationales*) dates back to 1977. It is obsolete and hinders any effort to determine the responsibilities and obligations of each party or enforce management and reporting procedures.

Box 4.1: National Schools Management Covenant

The division of responsibilities between the State and religious denominations has remained obscure since a number of private schools were nationalized in 1974 and transferred in 1977. The result has been a proliferation of administrative structures, the financing for which poses an extra burden on parents. In 1977, the State signed a covenant (National Schools Management Covenant) with the four main religious denominations (Roman Catholic, Protestant, Kimbanguist, and Islamic), according to which the religious denominations must provide an education consistent with government guidelines. These guidelines concern school curricula, standards with respect to class size, teacher qualifications and wages, and the evaluation system. One important provision of the covenant is that the religious denominations manage the schools even though they belong to the State, which holds power to organize schools. However, in 1986, the Framework Law gave the Ministry of Education general power to coordinate all education authorities and no reference was made to the networks of religious denominations.

The Covenant is still in effect even though it is obsolete and full of gaps. The most serious flaws are:

- lack of clarity concerning the responsibilities and obligations of each party;
- role of parents of students in school management (even though a management committee has been formed);
- lack of reference to procedures for determining and collecting school fees (operating expenses, bonuses, examinations, rehabilitation, construction, etc.);
- lack of reference to school and network management and accounting procedures, as well as procedures for reporting to the government and to parents of students;
- inadequate network obligations to MEPSP concerning teacher management.

4.16 Theoretically, government support to the public sector is provided for:

- a) staff payment;

⁶⁰ The breakdown of students attending covenant schools is as follows: primary school – 52% Catholic, 36% Protestant, 7% Kimbanguist, and 2% Islamic; secondary school – 50% Catholic, 37% Protestant, 8% Kimbanguist, and 2% Islamic. There are other denominational networks as well: La Fraternité, Adventists, Salvationists, Orthodox, etc.

⁶¹ Framework Law 86/005 of September 22, 1986; National Schools Management Covenant (February 26, 1977).

⁶² Under political pressure, some schools are “approved” even though they do not comply with regulations.

⁶³ In Kinshasa, for example, 48% of primary school students attend private schools; in secondary school, the figure is 46%.

- b) operating expenses;
- c) maintenance and repairs;
- d) equipment replacement.

4.17 In addition, the government must bear the construction costs for new non-church-run schools; for church-run schools, however, these costs fall to the denominational networks. In reality, all construction (or rehabilitation) is now financed almost entirely through contributions from parents (network office buildings)⁶⁴ and international NGOs (school buildings).

4.18 Today, only the wages of teachers, school directors, and managers and a portion of operating costs are paid, and irregularly at that. Budgetary constraints explain (in part) the shortage of resources available to the education sector. This shortage of resources is exacerbated by the fact that the MEPSP Minister possesses legal authority to approve⁶⁵ schools without consulting the Ministries of Finance and Budget, even though this necessarily entails costs for the Treasury.

4.19 The central government is responsible for setting the minerval; paying teachers' wages; opening, closing, and approving schools; school inspections; and end-of-cycle examinations. The EADs are responsible for the administration of educational institutions. They set some school fees and propose the opening and/or closing of classes. In principle, the central government finances the operations of provincial departments. However, except for wages, payments have been rather scarce in recent years.

4.20 At the provincial level, the governor is in charge of general administrative oversight of all sectors, including education. MEPSP is represented at the provincial level by the Office of the Provincial Division Head (PROVED), which (although under the administrative oversight of the governor) answers to MEPSP for technical matters. At the sub-provincial level, PROVED is represented by the Subdivision Chiefs (SOUS-PROVEDs). The SOUS-PROVEDs are composed of three departments: personnel and finance; educational methods; and planning. In practice, these departments lack staff and resources and are not in a position to fully play their role in education administration.

4.21 The Teacher Oversight and Payroll Service (*Service de Contrôle et de la Paie des Enseignants*: SECOPE) is the national entity responsible for:

- maintaining the data base on open positions and authorized schools;
- maintaining the data base on active teachers, including their service records;
- preparing the payroll; and
- updating the data bases to reflect changes occurring in the field.

4.22 All teachers in the public sector must (theoretically) be *mechanized*, i.e. officially recorded in the SECOPE data base. Teacher mechanization becomes possible only if the school is approved by MEPSP, has received a favorable viability report from the Inspectorate and from SECOPE, and (in principle) if funding is available. However (despite the many approvals granted), mechanization was

⁶⁴ The UNICEF/USAID study (2007) demonstrates that it is parents who bear the construction costs for office buildings (PROVED, S/PROVED, Inspectorate, Coordination Units, Coordination Sub-Units).

⁶⁵ The Minister approves schools while stipulating that they cannot be covered by the Treasury until after a (favorable) viability survey has been completed by its technical staff in the field (Provincial SECOPE and Inspectorate). But the reality in the field is that: (i) ministerial orders are only rarely challenged; (ii) these schools (and their teachers), sooner or later, will be included in the MEPSP budget. The reference document authorizing the Minister to approve schools (public and private) is Circular MINEDUC/CABMIN/006/1998 of September 11, 1998.

suspended for several years for two main reasons: absence of the budget resources needed to enter new positions and staff on payroll; technical problems (obsolete computer support) and difficulties in terms of logistics and accessibility (primarily in areas under nongovernmental control during the war), complicating any effort to process changes. The system has (theoretically) been operational again since June 2007, but its human and technical resources are not adequate. The failure to process changes for many years means that a substantial portion of personnel recorded on the list and approved for payment of wages is erroneous. This discrepancy could affect more than 50% of the data base, according to an analysis of payrolls and lists prepared by managers indicating actual personnel, their names, and the size of outstanding balances each month.

Table 4.2: Regularized and non-regularized personnel (2007)
(Estimated percentages)

Indicator	Regularized	Non-regularized
Primary schools	70.4	29.6
Teachers (primary)	72.8	27.2
Teachers (MEPSP)	69.7	30.3
Students (primary)	71	29

Source: World Bank

4.4. Budget Process

4.4. A. Preparation of the government budget

4.23 In theory, sectoral ministries become involved in budget preparation once the circular containing "Instructions for preparation of the government budget for fiscal year..." has been distributed (see Chapter 3). After the budgets of the sectoral ministries have been prepared in detail, each ministry presents its budget at the budget conference. Next, the Budget Ministry, which is the principal coordinator, develops a draft budget law. Following approval by the Council of Ministers, the draft budget law is submitted to Parliament.

4.24 In reality, given the small budgets involved in comparison to needs, as well as the budget cuts made after the budget is prepared, ministries do not prepare a budget that makes it possible to prioritize activities. Budget preparation has thus become a mechanical exercise of upwardly adjusting the results of the previous year. The objective of the sectoral ministries is to be able to negotiate for maximum funding, knowing that the resources are insufficient to carry out all activities and that, of the appropriated resources, only a portion will be executed.

Table 4.3: MEPSP and total budget execution

(CF billion)	2003			2004			2005			2006		
	Budget	Executed	% exec	Budget	Executed	% exec	Budget	Executed	% exec	Budget	Executed	% exec
MEPSP	10	7	63%	24	5	21%	43	38	87%	73	65	89%
Total expenditure	335	283.1	85%	529	399	76%	806	603	75%	1,040	693	67%
GDP	2,298			2,589			3,380			3,965		

Source: ESB 2003-2006

4.4.B. Expenditure execution – de jure and de facto

4.4.B.1 Payroll circuit

4.25 Preparation of teacher pay begins with compilation of the pay list (called “listings”) by the national SECOPE, using two data bases: the teacher data base for the entire country and the data base of authorized positions. These listings, complete with figures, are sent by MEPSP to the Payroll Directorate at the Budget Ministry. In principle,⁶⁶ the listings are also sent to each provincial SECOPE and to school managers. In Kinshasa, the listings are received directly by the public accountant in charge of a particular area at the Payroll Directorate. In the provinces, the provincial SECOPE prepares a breakdown of appropriations based on school listings and the MEPSP public accountant uses this breakdown to execute payment to managers (or to schools).

4.26 The Payroll Directorate at the Budget Ministry is responsible for paying all civil servants and government employees. It prepares the payment validation statement⁶⁷ and submits it for the Budget Minister’s signature. Once signed, it is sent to the MoF via the *expenditure chain*.⁶⁸ After receiving the stamp of the Finance Minister, the Treasury Director (at the MoF) sends the computerized payment order (*Ordre de Paiement Informatisé: OPI*) to the Central Bank. The computerized payment order is distributed by the Provincial Directorates of the Central Bank, called *Caisses Congo* (CaisCongo),⁶⁹ or by the Senior Public Accountant for Expenditure (*Comptable Public Principal de Dépenses: CPPD*) for Kinshasa.

4.27 A transfer order (*Ordre de Virement: OV*) is sent by the Central Bank in Kinshasa via Internet to its provincial branches or passed on to the CaisCongo. The provincial deputy account manager (*Ordonnateur Délégué Provincial: OD*) sends the package to the provincial SECOPE, which prepares a breakdown by manager. This breakdown is then submitted for the stamp of the Provincial Payroll Commission (although some provinces do not have such a commission). After being stamped, the breakdown is sent to the OD, who prepares a notice to make funds available (*Mise à Disposition des Fonds: MAD*) addressed to the CaisCongo for the Senior Public Accountant of MEPSP, who then withdraws the funds. The withdrawal is based on a funding dispatch note (*Bordereau d’Envoi de Fonds: BEF*) issued by the CaisCongo. The accountant deposits the funds in the “strong room” of the Finance Provincial Division and pays the managers (or, in some cases, the school directors).⁷⁰

4.28 The managers pay either the payroll agents who serve as intermediaries for distant schools, or the school directors. Finally, the school directors pay the teachers.

⁶⁶ The public expenditure tracking survey and other studies have been able to show that listings were not sent regularly. In addition, in Maniema, since the managers are excluded from the payroll system, they do not receive a copy of the listings.

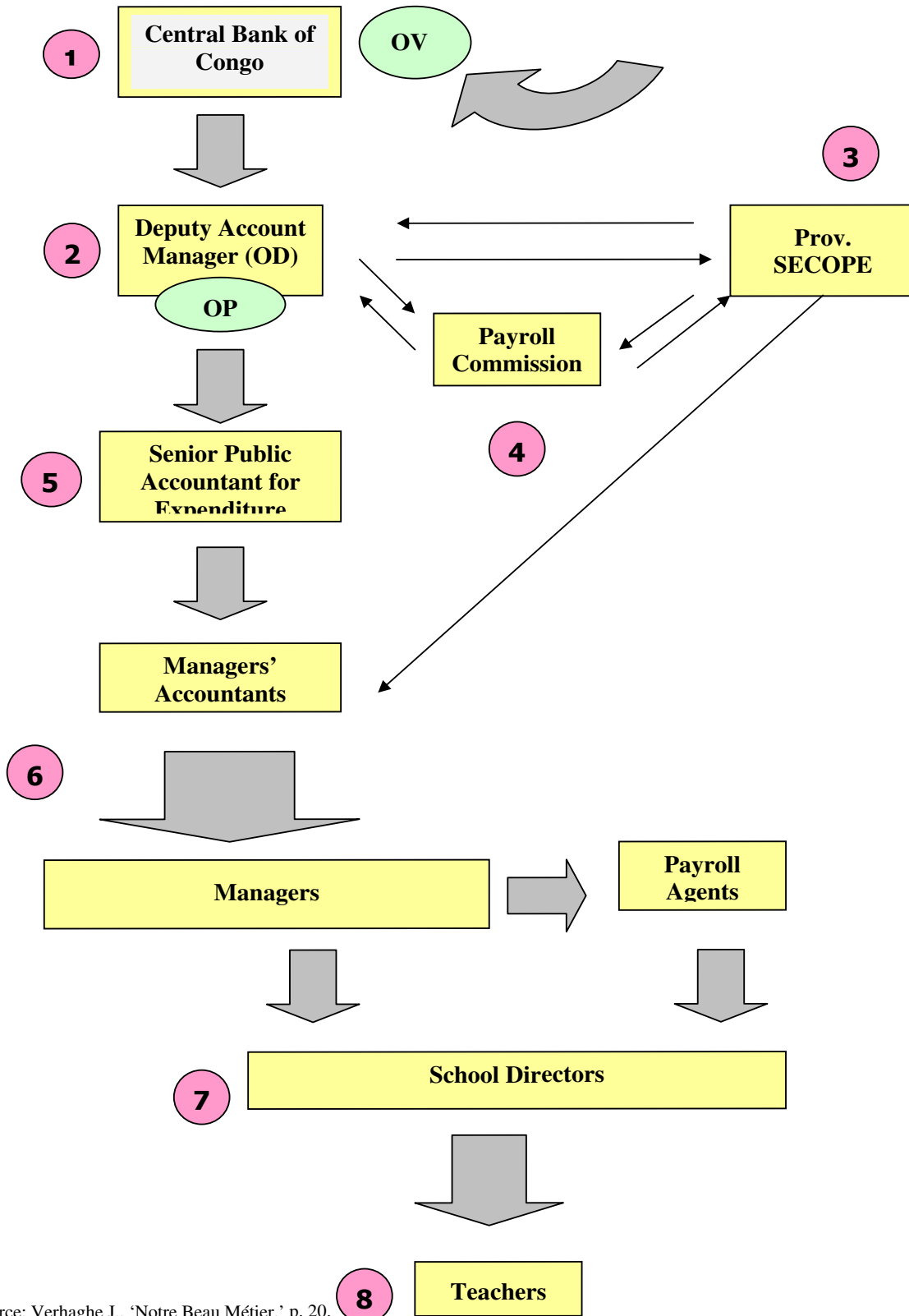
⁶⁷ The Ministries of Primary, Secondary, and Vocational Education, Higher and University Education, Defense, Justice, and Health, as well as the Bench, all handle payroll commitments for their employees. The Civil Service Ministry handles this task for all other categories of personnel.

⁶⁸ The payroll procedure is a special part of the overall expenditure process (see Chapter 3).

⁶⁹ A CaisCongo is a representative of the Central Bank in the provinces, either in the form of a branch of the Central Bank or through a commercial bank appointed for this purpose. In the latter case, the commercial banks operate within the framework of a convention and are charged with receiving funds on behalf of the Treasury and making payments on behalf of the government.

⁷⁰ In Bukavu (Sud-Kivu), the CPPD no longer withdraws funds. The payroll agents handle the withdrawal of funds directly at the CaisCongo on the instructions and in the presence of the Public Accountant. Often the school directors travel to the bank and are paid on site.

Figure 4.2: Payment of teachers' wages in the DRC, along and complex chain



Source: Verhaghe J., 'Notre Beau Métier,' p. 20.

Reporting

4.29 The directors must return the signed listings (signed by the teachers) to the managers. In principle, the managers are required to send them to the public accountant at the provincial SECOPE for them to prepare their payroll reports. The field units and provincial branches of the provincial SECOPE also prepare a payroll report, addressed to the national SECOPE, which includes, in particular, amounts actually paid, remainders, and changes observed. Maintaining the public accounting falls under the responsibility of the Office of Public Accounting at the Finance Provincial Division.

4.30 Wages not paid must be reported to the accountant by the managers. The public accountant must prepare an unpaid sums transfer note (approved by the OD and the Director of the Finance Provincial Division). The note is sent to DGRAD, which issues a collection note on behalf of the Treasury. However, in practice, this difference remains either with the school or with the managers.

Simplified Transitional Procedure

4.31 A Simplified Transitional Procedure (*Procédure Transitoire Simplifiée* or PTS) for personnel and payroll management is currently being implemented at the central level. It seeks to quickly set in place procedures for personnel and wage bill control by streamlining the existing payroll chain and making it more secure (see Chapter 2). However, recent assessments indicate that the new system does not (yet) fully incorporate all compensation paid to civil servants. In fact, a significant share of “specific bonuses” is not entered into the system because they differ from one institution to the next. This “uncaptured” share could be very high.

4.4. B.2. Non-wage expenditure circuit

4.32 Non-wage expenditures may be paid through the standard procedure or through a special expenditures (*dépenses par exception*: DPE) procedure. Since 2005, a block grant earmarked for school operating expenses⁷¹ has been disbursed under a notice to make funds available (*Mise à Disposition des Fonds*: MAD), one of the special expenditure procedures (see Chapter 3). In the case of MEPS, this grant for schools and the appropriation for the central ministry’s operations constitute all the central government’s spending from its own resources. In addition, a portion of the resources transferred to the provinces should be appropriated for the operations of each provincial ministry. In the field, deconcentrated departments do not receive any funding derived from sums transferred to the provinces.

Standard procedure

4.33 The Budget Control Directorate of the Budget Ministry prepares a commitment plan for execution of the government budget. The plan is then sent to the sectoral ministries. However, the budget commitment plan is developed too late; it arrives at the ministries in the middle of the process. Also, the priorities are set by the Budget Ministry and do not reflect those of the sectoral ministry. The commitment plan makes it possible to break down funding over time and by department, based on: (i) expected revenue; (ii) expenditure-generating events; and (iii) stated priorities. It also makes it possible to release funding gradually.

4.34 The *standard procedure* involves four stages: commitment, validation, payment order issue, and payment. The commitment involves manual preparation of a commitment note (Bon

⁷¹ Inter-ministerial Order 017 of June 14, 2005 instituted this grant. Resources released by the Heavily Indebted Poor Countries (HIPC) Initiative have been used to finance it.

d'Engagement: BDE) by the sub-manager of the sectoral ministry. This note is processed manually until it arrives at the Budget Control Directorate (*Direction du Contrôle Budgétaire*: DCB) of the Budget Ministry. Validation (verification of service rendered) consists of certification of service rendered by the credit manager. Payment order issue involves preparing a payment order consistent with the validation result (i.e. signing the order to pay). Actual payment of orders to pay is executed by the Central Bank.

4.35 In summary, once the file is approved, it is transmitted for registration in the *expenditure chain*. If the expenditure is approved, the Treasury Director at the MoF sends the file to the Central Bank by computerized payment order (*Ordre de Paiement Informatisé*: OPI). Execution of appropriations to deconcentrated departments in the provinces may follow the standard procedure or the special procedure (used when appropriations arrive irregularly). Appropriations transferred by the center are held in the account of the Deputy Account Manager of the Finance Provincial Division. Under the standard procedure, the MEPSP Provincial Division commits the expenditure, the Budget Control Office of the Budget Division takes charge of budget control (conformity and stamp), and the Provincial Deputy Account Manager handles the payment order. The special procedure involves the withdrawal of funds by departments based on a Provisional Cash Note prepared by the Deputy Account Manager. Justification of the use of funds is performed a posteriori.⁷²

School grant program

4.36 The school grant is intended for specific operating expenses, set forth under the abovementioned inter-ministerial order (Order 17 of June 14, 2005). It is paid directly to the schools through SECOPE and its provincial branches and field units. The provincial SECOPE and the school director must sign a discharge stating that the director has received the funds.

4.37 The school directors are ultimately responsible for the use of the funds. They are supposed to keep a cashbook to record receipts and expenditures, and they are required to maintain documentary evidence. Cashbooks have been distributed to each school for the purpose of keeping its accounts. The cashbook must be transmitted to the Budget Provincial Division through the MEPSP Provincial Division. The Budget Provincial Division is required to prepare a summary report on all the accounting records received from the schools of the province, addressed to the MEPSP, Budget, and Finance Ministers.

Investment

4.38 The selection and arbitration of internally funded projects are coordinated by the Ministry of Planning, based on the investment package provided by the Budget Ministry. The project descriptions and estimates are based on a sector policy program (if one exists). Projects with external resources are managed by specialized entities (implementing agencies), which play the role of Deputy Account Manager and payer to the accounts of projects receiving cash advances from development partners. The Ministry of Planning does not track the execution of investment expenditures; such expenditures fall under the sectoral ministries. It is informed about the disbursement of investments by DCB/MinBud and Treasury/MoF.

4.39 The Budget Control Directorate (DCB) plays a role in investment expenditure commitment control (DCB tracks every expenditure commitment at the central level). The government's investment budget does not include internally financed spending for primary education. The only investment expenditures planned and carried out on behalf of MEPSP for fiscal years 2005, 2006, and

⁷² In the case of Sud-Kivu, provincial departments have received no appropriations in 2007 and received just two in 2006.

2007 are those financed with resources from development partners and managed directly by these partners, or those funded by parents of students.

4.4. B.3. Transfer to provinces

4.40 The transfer of funds from the Treasury to the provinces is earmarked for two provincial entities: decentralized administrative entities (*Entités Administratives Décentralisées*: EADs) and deconcentrated entities (provincial departments). In the case of the EADs, the transfer of funds essentially consists of a transfer of 20% of the revenues collected by tax and customs officials (“financial authorities”). This transfer occurs in two phases: (i) automatic transfer of 15% of revenues collected by the financial authorities⁷³ (through an automatic drawdown at the Central Bank of Congo to the benefit of the EADs; (ii) a cross subsidy of 5%, transferred to the EADs by Treasury transfer order and through the normal budget mechanism (of commitment to payment to the province). The cross subsidy is intended to correct imbalances among provinces. The transfer of funds to provincial departments follows the normal budget mechanism (with a computerized payment order from the Treasury to the Central Bank, payable to the provinces). All transferred funds are held in the account of the Deputy Provincial Account Manager.

4.41 Beginning in the third quarter of 2006,⁷⁴ the transfer was replaced by a monthly lump sum transferred to the EADs, through automatic drawdown, based on a permanent payment order from the Central Bank. This lump sum is distributed to the provinces according to a fixed amount per province, which varies among provinces.⁷⁵ Between the third quarter of 2006 and August 2007, the principle of a monthly lump sum was followed regularly in the eleven provinces. However, the MoF has just restored, for the moment, the initial transfer mechanism (20% of revenues: 15% automatically and 5% by cross subsidy). But the government is currently working on defining a new mechanism for the transfer of funds to provinces.⁷⁶

4.4. C. Discussion

4.42 In recent decades, these chains have been adhered to less and less. Various political changes that took place in the early 1980s were not followed by the establishment of a clear legislative framework, which created confusion; as a result, the breakdown of responsibilities in the field is, in practice, largely determined by access to resources and control of same. Thus, *de facto* expenditure execution is very different from *de jure* execution. A number of baseline studies have been carried out. A UNICEF/USAID study looked at the volume of the (compulsory) contribution of households to financing of the education system, as well as its (unequal) distribution and allocation at all levels. Studies financed by DFID and the World Bank analyzed the payroll chain for teachers and the irregularities observed in the field.⁷⁷ To deepen (and “verify”) the conclusions of these studies, an additional “step by step tracking” survey of the payroll chain was conducted in connection with this review. The following section presents the methodology used, a description of the *de facto* expenditure circuit, and the results obtained from all the abovementioned studies.

⁷³ Initially, the revenues of the Large Enterprise Directorate (*Direction des Grandes Entreprises*: DGE) and those of oil producers were excluded from the basis for calculating the transfers. However, since June 2006, the revenues of DGE have been taken into account in the calculation.

⁷⁴ On instructions of the MoF.

⁷⁵ The total amount comes to roughly CDF 1.8 billion for the 11 provinces.

⁷⁶ Following a meeting between provincial governors and the central government, the Finance and Budget Ministries are in the process of defining a more appropriate mechanism of transfer to the provinces, with implementation planned for September 2007.

⁷⁷ Verhaghe, J. “*Notre Beau Métier*”: Ensuring the Quality of Primary School Teachers in the DRC (2006); Verhaghe J. “*Sida: Salaire Insuffisant Difficilement Acquis*”: Addressing the issue of effective teacher payroll expenditure in the DRC (2007); Verhaghe, J. School fee practice and policy in the DRC: *frais de fonctionnement or fonds de famille?* (2007).

4.5. Observations on expenditure execution

4.5. A. Methodology of public expenditure tracking survey

4.43 A survey of all stages of expenditure execution for primary education, from the Treasury all the way to schools and teachers (public expenditure tracking survey, or “step by step tracking”), was performed in order to better understand *de facto* expenditure execution. The principal goals of this survey were to analyze the weaknesses of the expenditure circuit, identify and locate any possible leaks, and then to assess them. An emphasis was placed on payroll, since this expenditure item accounts for the principal MEPSP budget, but the survey also tracked the disbursement of operating expenses earmarked for schools by the government.

4.44 A questionnaire was developed to be administered to all actors in the expenditure circuit, i.e. Central Bank of Congo, Payroll Commission, Deputy Account Manager, Senior Public Accountants for Expenditure, provincial branches of the SECOPE, managers of covenant and non-covenant networks, school directors, and teachers. The questionnaire is presented in Annex.

4.45 A sample of three provinces – Bandundu, Equateur, and Kinshasa – was chosen. The following criteria were used to select these provinces: vast provinces with difficult access (Bandundu and Equateur); provinces not covered by the preceding studies and for which little information was available (Bandundu, Equateur, and Kinshasa); presence of the Payroll Commission (Equateur) or absence of same (Bandundu and Kinshasa). In each province, twelve primary schools were selected. Secondary (and vocational) schools were excluded for the simple reason that it is primary schools that need to benefit most from the (limited) available resources. The schools were chosen on the basis of the following criteria: schools belonging to different networks; schools located in “educational” provinces and different districts;⁷⁸ balance between rural and urban schools. The survey-takers were thus able to visit 36 schools.

4.46 The survey covers the payment of wages of February and March 2007 for the province of Bandundu, and March and April 2007 for the provinces of Kinshasa and Equateur, as well as the payment of operating expenses to schools for school years 2005-2006 and 2006-2007.

4.47 The sample is not representative because it includes only 36 schools over two months and was not determined through a statistical methodology. The survey results are thus illustrative, but do not show the definitive current situation throughout the country. However, they do confirm and/or amplify the conclusions of the preceding studies (regarding, for example, unjustified payroll deductions).

4.5. B. Survey results and overall observations

4.5. B.1. Payroll execution – de facto

List of personnel

4.48 The personnel data bases on which the payroll is based are obsolete. They were created in 1985 with assistance from Belgium, and their computer support is limited in terms of capacity. In addition, the updating of data has been difficult since the Belgian foreign aid agency withdrew in 1990

⁷⁸ “Educational” provinces: Bandundu I, II, and III; Kinshasa Centre, Est, and Ouest; Equateur I and II. Districts: Bandundu Ville, Kwilu, Kenge (Bandundu); Sud-Ubangi, Tshuapa, Mbandaka Ville (Equateur). Future provinces: Kinshasa; Kwilu, Kwango (Bandundu); Sud-Ubangi, Tshuapa (Equateur).

and during the years of civil war, creating a flagrant discrepancy between actual personnel and the payroll. Several factors underlie this discrepancy:

- absent, deceased, transferred persons;
- substitutes;
- new recruits (new units);
- payment of personnel appointed to non-mechanized schools;
- incorrect school name;
- transfer of schools from one CaisCongo to another, creating a discrepancy between amounts transferred (breakdown) and amounts to be paid;
- addition of manual lists inserting non-mechanized schools to the detriment of mechanized schools.

4.49 Thus, SECOPE is no longer truly in a position to perform the functions of managing job positions (schools authorized by provinces, districts, zones, affiliation with CaisCongo, positions authorized by schools, job grades), managing the teacher data base (date of entry into service, date of arrival at a school, date of transfer, vacation and availability, grades, retirement, separation, departure, etc.), preparing the payroll, controlling execution, and managing change.

4.50 Furthermore, SECOPE's work is made more complicated by the existence of a Payroll Commission in some of the provinces. In 1997, Payroll Commissions took over for SECOPE in the provinces. They remain in current use in certain provinces despite the decision made by the Council of Ministers⁷⁹ in 2006 to terminate this practice. In certain cases, Special Commissions have been established by the government to replace the Payroll Commission. These commissions interfere in payroll management, create delays, and deduct amounts that are not passed along to the Treasury.

Leakage

4.51 The results of the "step by step tracking" survey are both reassuring and worrisome. According to this survey, at the schools visited and during the months involved, more than 95% of the wages disbursed by the Treasury reached teachers. But the misappropriation rate was variable: some teachers received less than 60% of what they were owed, while others (16 of 67) received 100% of their wages. This rate also varied by month in the same school, which shows that the results could be very different, depending on the choice of sample. The misappropriation rate was highest in Bandundu (5.8%), followed by Equateur (3.5%); the lowest rate was in Kinshasa (0.3%), probably reflecting the schools' proximity to the center of power and the stronger "voice" of teachers in Kinshasa. Also based on this survey, one third of all leaks can be attributed to transportation costs (which could be justifiable) while the remaining leaks represent irregular or fraudulent expenses. Eighty% of the leaks were attributed to managers (intermediaries in Bandundu and Equateur but not in Kinshasa, which moreover explains Kinshasa's low misappropriation rate), 14% to Public Accountants, and the rest to school directors.

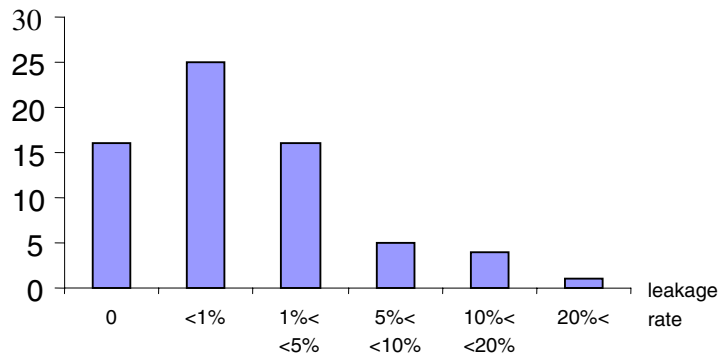
⁷⁹ 81st meeting of the Council of Ministers (May 22-23, 2006), Point 4.1. The Council of Ministers meeting of August 31, 2007 recommended once again "the elimination of Payroll Commissions, which make the payroll procedure more cumbersome." An inter-ministerial decree (MINEPSP/003/2007 of October 29 2007, signed by ministries of Civil Service, EPSP, and Interior) states that the *Commission de Paie* is dissolved and prohibited.

Table 4.4: Analysis of teacher payroll leakage

	In provinces			In Kinshasa		
	Rec'd	Transportation expenses	"Unjustified expenses"	Rec'd	Transportation expenses	"Unjustified expenses"
Public accountant	100	0	0.27	100	0	0.21
Manager	99.73	0.84	2.87	-	-	-
School director	96.02	0.13	0	99.79	0	0.10
Teacher	95.89	-	-	99.70	-	-
Number of observations	43			24		

Source: Public Expenditure Tracking Survey (2007)

Figure 4.3: Frequency of observations



Source: Public Expenditure Tracking Survey (2007)

4.52 The Public Accountants regularly seize budget funds for transportation⁸⁰ (which does not constitute a direct deduction from payroll), deduct amounts from wage packages (all networks combined) for “funds transportation, risk, and security,” and bill managers for accounting records. The managers deduct amounts from the packages for transportation expenses, tithing (Protestant network), ecumenical activities, payments by proxy, and debt repayment. In addition, they retain at the source the school fees “owed” to the networks or the government (operating expenses, minerval, insurance), which has the pernicious effect of placing greater pressure on parents and students at the time when school fees are collected. Finally, it was observed that the provincial SECOPE (probably with the complicity of the Public Accountant) subtracts amounts from each school’s package for the purpose of “payroll supervision.” Such practices are irregular or fraudulent, depending on the case, they are never justified on the basis of documentary evidence of convincing value, and they are not carried out within a concerted framework.

4.53 An analysis of the amounts deducted from teachers’ wages, extrapolated to the total work force, suggests annual losses in the range of CDF 2.7 to 14.8 billion (US\$5 to 27 million). Losses associated with nonexistent personnel are additional. The order of magnitude of these losses, assuming a percentage of nonexistent personnel in the range of 1 to 5%, falls between CDF 825 million and CDF 3.8 billion (US\$1.5 million and US\$7 million) per year.

⁸⁰ The monthly wage package provides an amount for transportation of funds appropriated to the various associations (networks). This amount is included in the listings under the heading “funds transportation allowance.”

Missing notes and notes unsuitable for consumption

4.54 Missing notes and notes unsuitable for consumption (*billets impropres à la consommation*: BICs) are two realities that further diminish actual teachers' wages. The wads of notes sent by the banks are often incomplete and/or contain old (torn) notes that cannot be passed in the marketplace. It appears that the problem primarily concerns the banks. However, in a system essentially based on the manipulation of liquid money by many actors, what is "missing" may happen at all levels. "Leaks" were observed that could run as high as 5% of the monthly wage.

Time frame

4.55 The length of the payroll preparation and payment cycle ranges around 45 days. Payment is almost never made by the stated deadline of the 20th day of each month. Delays in excess of 60 days were observed. Payment on a fixed date of the month, whatever date is chosen, would be hard to achieve in the current situation, given the length of the cycle.

Reporting

4.56 Neither the percentage nor the regularity of the reports that the school directors are supposed to prepare could be verified. The lack of listings, properly filled out, and standard forms for reporting changes appears to hinder efforts to maintain accounting records. This lack of correct listings also implies that the accountants and the provincial SECOPEs do not always prepare their reports. Teachers do not receive a detailed, individual pay sheet. They acknowledge receiving their pay by signing next to the amounts of their wages on the listings or on lists prepared by the networks. These amounts correspond to the teacher's official wages; deductions made are not indicated. Thus, in many cases, the teacher signs for an amount that he or she has not actually received. In addition, these signed listings are not necessarily subjected to controls.

4.57 Neither the percentage nor the frequency of the payroll reports that managers are supposed to prepare for the provincial SECOPE (field units and provincial branches) could be determined either. The survey found that the practice is to treat unpaid wages as remainders that can be used to pay other non-mechanized teachers. This system is sometimes detailed on so-called *harmonized* lists. In fact, these lists correspond to payroll statements indicating the list of mechanized teachers actually present, the list of substitute teachers, their pay, and the teaching positions for which they are substitutes. Preparation of these statements is haphazard, not always consistent or accurate, and omissions were noted.

4.58 The payroll report that the field units and provincial branches of the provincial SECOPE prepare for the national SECOPE contains, in particular, the amounts actually paid, remainders allocated or not, and changes observed. However, the controls are inadequate, and no criterion exists for allocating the remainders. These amounts are recorded by the Public Accountants as wages paid. The remainders are:

- not measured in their entirety for each manager;
- not reported to the Public Accountant and not subjected to controls;
- used in part to pay other teachers, but it is impossible to determine whether there is a key to the distribution of these remainders;
- also used for other purposes.

4.59 It was not possible to determine whether the Public Audit Office at the Finance Provincial Division actually possesses reports on payments of wages and operating expenses, remainders, and deductions made by the Payroll Commissions or whether the accounting is simply done on the basis of disbursements authorized and made by the Central Bank. The Public Accountants consulted for this review do send a report based on payments to managers but do not control, at least not systematically, the signed listings and the networks' payroll reports. It thus seems probable that the public accounting only reflects real disbursements.

Simplified Transitional Procedure

4.60 The national SECOPE is in the course of switching to the Simplified Transitional Procedure, but the absence of an up-to-date data base is causing problems. A census of all civil servants and government employees has been launched, but its methodology has been contested by teachers. The main problem was that the census was performed in urban centers, requiring travel by teachers, whereas teachers have neither the resources nor the time to travel.

4.5. B.2 Operating expense execution – *de facto*

Arrears

4.61 Arrears are generated when MEPSP obtains services or goods for which no expenditure commitment has been entered in the expenditure circuit. These amounts include expenditures both under and above the threshold requiring formal procurement. However, it should be noted that the commitment here is contractual and therefore not recorded in the expenditure circuit. As a result, it is not measured.

4.62 The information received indicates a volume of arrears for operating expenses ranging from 70 to 90% and for government contracts ranging from 60 to 70% for Fiscal Year N. These arrears may not be paid until FY N+1, burdening the budget, as voted, by the same amount.⁸¹ These figures should certainly be used with caution but they do reveal the existence of a problem in response to a strong fiscal constraint. This poses a major fiduciary risk (absence of control over method of selection, splitting up of contracts below the procurement threshold, privileged relationship between the contractor accepting the risks and the government, etc.).

Grant program

4.63 Within the framework of the school grant program, a plan was developed for mechanized primary, secondary, and vocational schools to receive each quarter a lump sum amount to cover certain school operating expenses. It was decided that, beginning with the third tranche, the amount allocated to each school would be adjusted to reflect school size.⁸² In reality, the first two tranches of the first year of this program were disbursed in 2005 and the third tranche was disbursed in 2006. The first tranche of the second year was paid in 2007, and solely to the schools in Kinshasa and part of Bas Congo. Since then, the program has slowed further, due to budget constraints, and resumed in August 2007.

⁸¹ Once again, the usefulness of the voted budget as a guide for the implementation of activity programs designed to meet sector policy objectives is diminished: late budget approval, commitments at a standstill by late October, and substantial arrears.

⁸² The agreement between the government and teachers' unions (August 9, 2007) stipulates that these operating expenses range between CDF 130,000 (US\$300) and CDF 500,000 (US\$1,000). The first figure corresponds to a primary school of six grades.

Table 4.5: School block grant program

Year	Tranche	Disbursed	Amount	Coverage
2005	1	October 2005	CDF 87,660	Entire country
	2	October 2005	CDF 87,660	Entire country
	3	May 2006	Variable, depending on school size	Entire country
2006	1	January 2007	Variable, depending on school size	Kinshasa, Bas-Congo (partial)

4.64 The distribution of operating expenses was monitored in the schools of the sample. An earlier survey had also been conducted in 2005 in 75 schools. The results of these surveys point to three observations. First, the majority of schools had received grants three times (four times in Kinshasa and part of Bas-Congo), but the dates of receipt do not match the dates provided by the Budget Ministry. Some schools indicated that SECOPE made the disbursement based on justification of the preceding tranche.⁸³ Second, most school directors kept cashbooks (official or in a notebook) and were able to produce the discharges issued by the provincial SECOPE upon withdrawal of the funds, although neither the cashbooks nor the discharges were systematic. Third, irregularities were observed at all levels of the chain.

4.65 Some schools had received neither the official instructions nor the cashbook at the time of disbursement of this grant. This partially explains the failure to adhere to the nature of the spending commitments (many schools used the money for rehabilitation purposes that were not authorized in the program) and the presence of makeshift cashbooks (for example, student notebooks). Document conservation often leaves much to be desired, for lack of appropriate storage places, particularly in rural areas.

4.66 Deductions were made to cover transportation expenses, as in the case of wages, with no consultation or prior agreement with beneficiaries regarding either the concept or the amount. The cost associated with travel by school directors to collect the grant was not quantified within the framework of this survey, mainly because these payments were executed only three times in three years; as a result, the persons contacted did not remember the details.

4.67 The irregularities observed at the provincial SECOPE level are as follows:

- variable deductions (as high as CDF 7,000 per school) for mission, transportation, and photocopy expenses, with no receipts provided: in Bandundu, the justification given for the deductions was solidarity with non-mechanized schools;
- false entries “proposed” to the directors of beneficiary schools to camouflage these deductions (“we’ve been asked to create a description” - Sake, Nord-Kivu);
- delivery of part of the funds and conditioning of the next disbursement on justification of the use of the first tranche (Maniema);
- misappropriation by the provincial branch director (CDF 34,737,500, i.e. roughly US\$80,000) and the field unit director (CDF 701,280, i.e. roughly US\$1,600) (Goma, Nord-Kivu).

⁸³ In Maniema (provincial SECOPE field unit of Kasongo), some schools received the first part of a tranche. The second part was to be paid upon justification of the first part. In reality, the second part was never disbursed.

4.68 At the managerial level:

- *ad hoc* contribution to the operating expenses of managers' offices. The Catholic network of Mbandaka (Equateur) imposes a "photocopy invoice contribution" (CDF 5,000 per school) and the Diocesan Coordinator of Kipushi (Katanga) has deducted CDF 7,000 per school.

4.69 At the school level:

- absence of a functional management committee (along the lines of the instructions issued), thus impeding expenditure control;
- funds used for unauthorized expenditures: wages of non-mechanized teachers, watchmen, purchase of a mobile telephone for the director, coverage of meals for teachers;
- in rural areas, predominance of handwritten receipts in lieu and in place of documentary evidence: the situation is partly due to the absence of invoice clerks among vendors, but this is also a simple procedure for justifying cash payments.

4.70 At the central level:

- misappropriation by a team of auditors (on mission from Kinshasa) of available funds in the coffers of at least 15 schools in Kananga (misappropriated amount estimated at more than CDF 265,500, i.e. US\$6,200);
- entries on the books to conceal cash payment expenditures;
- the payment of operating expenses is also an opportunity for the authorities to increase their visits to schools. Accordingly, the cashbooks reveal a number of descriptions such as "inspector transportation," "welcoming the minister's advisor," "national SECOPE travel contribution," etc. which could represent as much as 40% of the amount received.

Box 4.2: Example

A PROVED (the MEPSP Minister's representative in the province) writes in the cashbook that operating expenses offered by the government are not intended to be used for receiving school authorities who come to the school on business. However, the next page of the cashbook shows a payment of CDF 5,000 to finance the PROVED's welcome to the school.

4.71 Another phenomenon linked to the payment of operating expenses is the obligation to purchase school documents at exorbitant prices. This mainly involves control sheets (inspectorate, provincial SECOPE, etc.) and back-to-school and staff assignment reports. For example, the sub-provincial representative in Bandundu Ville sells back-to-school reports (the model is imposed) at a price of CDF 3,200 per copy. A school must purchase two of these. When a school produces its own report, the cost comes to CDF 850. Also, most of these expenditures are not justified by documentary evidence.

Controls

4.72 The expenditure controls are insufficient. The Finance General Inspectorate (*Inspection Générale des Finances*: IGF) places the emphasis on revenues and less on expenditures. This results in: (i) the absence of effective internal controls in the expenditure circuit; (ii) extremely weak and unreliable reporting; and (iii) a lack of *a posteriori* controls (inasmuch as the Audit Office lacks the resources to control execution of each ministry's expenditure, especially in the provinces). In addition, no sanctions or corrective measures are imposed on the basis of reports issued by IGF or the Audit Office.

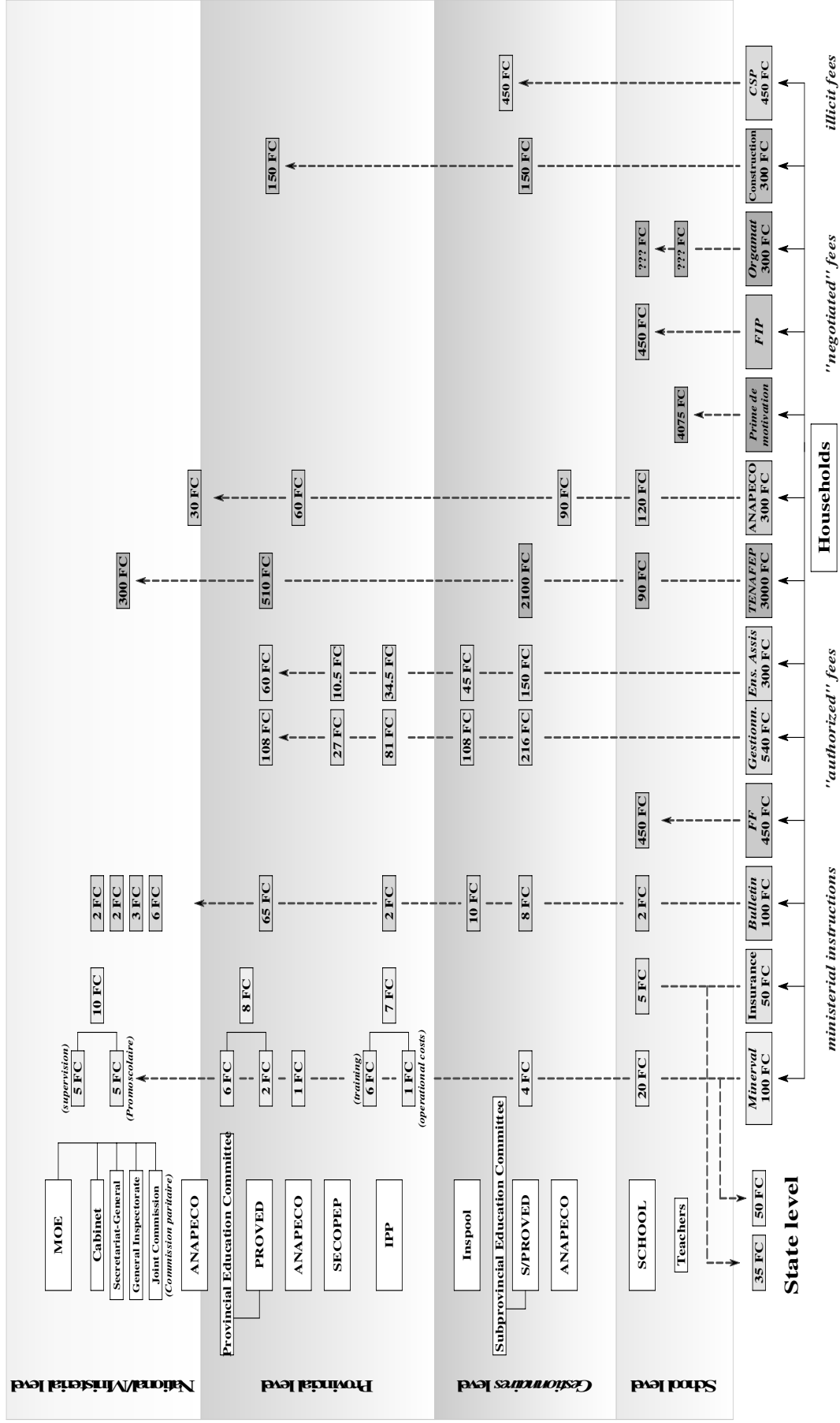
School fees paid by parents of students

4.73 Through a judicious system, parents finance virtually all education spending. The system distributes a predetermined percentage of school fees among all levels and departments of the education sector. The breakdown is based on (old) regulations issued by MEPSP or decisions made by the MEPSP provincial committees, chaired by the PROVEDs [see Figure 4.4 which details this system for the non-covenant network in Bas-Congo (2007)].

4.74 MEPSP sets the official nomenclature for authorized school fees.⁸⁴ However, the UNICEF study revealed that this accounts for just 4.5% of the fees collected in the schools. In fact, a list of 70 unauthorized fees was compiled at the primary school level. Most of these fees are decided (unilaterally) by managers at the provincial level.

⁸⁴ This mainly involves the minerval, insurance, school documents, operating expenses, and evaluation expenses.

Figure 4.4: Distribution and Allocation of school fees: Bas-Congo case 2006-2007 (non-church-run network)



FF = Frais de fonctionnement (operational costs)
 Gestion = Appui aux bureaux gestionnaires (support for administrators' offices)
 Orgamat = Organisation matérielle (material organization)
 TENAFEP = Test National de Fin d'Etudes Primaires (primary exit exam)
 ANAPECO = Association Nationale des Parents au Congo (National Association of Parents)
 FIP = Frais d'intervention ponctuelle
 Orgamat = Organisation matérielle (includes stationery for exams and teacher incentives)
 CSP = Conseil Sous-Provincial (Subprovincial Education Committee)

4.75 The incentive bonus⁸⁵ accounts for 71% of school fees (nearly CDF 34.6 billion or US\$63 million). At a minimum, this “necessary evil” guarantees the presence of a teacher at the school, which makes it critically important. In addition, the bonus constitutes: (i) the only income for *non*-mechanized teachers; (ii) a wage supplement for established teachers, i.e. government employees (estimated at CDF 2.4 billion or US\$4.5 million). This means that close to 73% of education spending financed by parents of students is absorbed in “wages” (bonuses).

4.76 Finally, according to the same study, the school administration appropriates nearly 62% of the fees collected (excluding the incentive bonus); only 35% remains at the school itself. This raises the issues of the quality of education and the appropriate use of funds. Furthermore, the schools are required to keep accounting records and are subject to controls by the hierarchy. At the managerial level, on the other hand, the records remain opaque.

4.77 Naturally enough, this de facto situation can produce a substantial student departure rate as soon as the first requests for fees are issued. It appears that, in practice, a student may be expelled from school several times during the school year. These repeated (and prolonged) absences – often during the period of examinations – reduce learning time and often lead to failure and being held back to repeat a year. The situation thus jeopardizes the DRC’s capacity to implement its education policy.

4.78 In addition, it was noted that managers directly deduct school fees “owed” to them from wage packages. Teachers and parents are thus obliged to incur these additional costs. In certain cases, the manager obtains from the school director a “discharge” recognizing the debt and permitting the manager to “deduct the difference from the director’s wages,” but there is no guarantee that this deduction is not in reality taken from the school’s total wage package that is given to the director. The latter could then spread the deduction over all the wages combined.

Transfer

4.79 The provinces manage as best they can to take advantage of transfers of 15% of the revenues of the financial authorities, since these are taken automatically at the source through leveling out at the Provincial Directorate of the Central Bank. Also, the lump sum paid to the provinces beginning in the third quarter of 2006 (in lieu and in place of the transfer) has been transferred regularly. However, it amounts to less than 15% of the funding received earlier through transfer. On the other hand, equalization funds (5% of revenues) were only rarely received⁸⁶ in 2006. This situation has a negative impact on the operations of EADs and provincial departments (including the provincial departments of MEPSP).

4.6. Decentralization

4.80 The Constitution of 2006 calls for the creation of a provincial and local civil service, as well as a transfer of skills. The arrival of elected governors and provincial assemblies has only intensified the pressure in terms of the need to transfer financial resources in order to foster

⁸⁵ The bonus effectively supplements the official wage. The estimated proportion of non-mechanized teachers is roughly 50% of all teachers.

⁸⁶ For example, in 2006 South Kivu received 5% equalization funding only once.

ownership of these skills. This will have a major impact on development of the education system and on the situation faced by teachers in particular.

4.81 Transferring education services to decentralized levels presents enormous challenges. The education sector is the leading employer of civil servants and government employees, but the impact on provincial budgets is poorly understood. For example, it is estimated that one third of teachers are not integrated into the civil service (i.e. entered in the SECOPE data base). Even in the case of mechanized teachers, their status after being transferred to the decentralized level has not yet been clarified. Will they become civil servants of the province? And if so, should 26 different statutes be anticipated? Clarification of the status of teachers must necessarily precede the start of the decentralization process.

4.82 The (planned) transfer of teachers and administrative staff to the provincial and local levels will thus necessarily entail the absorption of a substantial number of government employees. The principal problem turns out to be the financing. Preliminary estimates indicate that constitutionally mandated transfers will be insufficient in relation to anticipated spending.

4.83 At the provincial level, deconcentrated departments of central ministries are not equipped to play their new role (human resources management, wage payments, etc.). In addition, their existing capacities are not adequate to take on all these new functions. Their future needs, in terms of assuming these responsibilities, should be analyzed and calculated rigorously prior to the transfer of expertise.

4.84 Most of the prerogatives of the central government and its scope of activities in relation to that of the provinces were set forth in the framework law (1986). Accordingly, revision of this law should take into account the transfer of expertise planned under the draft law on decentralization. In particular, constitutional jurisdiction will need to be very clearly spelled out in order to be effective in the field. For example, it will be necessary to clearly define the limits of power between the Division Heads (PROVEDs) and the Provincial Ministers of Education. In any case, transitional measures will be necessary to avoid a legal vacuum.

4.7. Recommendations

4.85 The survey results and all the analyses confirm that the education sector faces a serious crisis. To improve services, the government should immediately undertake a number of actions and, at the same time, initiate medium-term reform programs. The government should appropriate a larger share of the budget to the education sector, in line with the governmental vision expressed most particularly in the DSCR. MEPSP should introduce a process of prioritization of activities reflecting sector strategy, improve the quality of education, strengthen the budget execution system, and promote stakeholder accountability.

Short term (2007-2008)

4.86 Resources available to the sector should be appropriated in line with stated priorities, especially when available resources are insufficient to satisfy all needs. To that end, budget preparation should be based on sector policy and a detailed action plan, complete with figures. Technical departments should absolutely participate in preparing the budget and the commitment plan.

4.87 Effective human resources management is necessary to improve teacher motivation and thereby improve the quality of education. Sound human resources management will also result in more effective payroll controls. Accountability should be established for SECOPE as a manager of teachers in the field. For that purpose, the necessary financial and human resources should be made available to SECOPE. Especially in the following areas, SECOPE should retain primary responsibility:

- payroll preparation;
- oversight of schools and authorized positions;
- change management;
- management of the teacher database.

4.88 Steps should be taken to simplify and streamline expenditure execution in view of the constraints of transportation infrastructure and the weak presence of commercial banks in the country's interior, as well as the fiduciary risks which these constraints entail.

4.89 A baseline review of decentralized services and a comprehensive analysis of their needs would help assess the scope of the challenges which they will face. Transfer will no doubt have a profound impact on the capacity of provinces to handle (among other items) wage payments.

4.90 Officials at all levels (including the very highest) should make a solemn commitment to reverse bad habits acquired in recent years. To that end, there is a need for: (i) reliable tracking to verify the use of public funds; (ii) regular reporting by all those involved; and (iii) *a priori* and *a posteriori* controls, both internal and external. It is important to include stakeholders, particularly parents and teachers' unions, in school management and in the monitoring of wage payments and operating expenses.

4.91 In concrete terms, the actions to be undertaken are the following:

- develop an action plan, with figures included, to address the priorities for 2008 based on a realistic budget. The Priority Action Program (2007) will serve as the basic document and frame of reference;
- declare a moratorium on: (i) mechanization and any movement of personnel; (ii) creation and approval of new schools until the teacher census and school map are completed;
- implement: (i) the decision of the Council of Ministers on the elimination of Payroll Commissions and other commissions appointed at the provincial level; (ii) the new inter-ministerial instructions⁸⁷ concerning the formal ban on deductions from wage packages.

4.92 Revision of the institutional and contractual framework for education should make it possible to redefine the roles and obligations of each party. The Framework Law (1986) and the Covenant (1977) no longer match the realities to be addressed and cannot serve as a guide to all parties. The development of clear statutes specifying the role of each party is thus indispensable

⁸⁷ An inter-ministerial decree (signed by ministries of civil service, EPSP, and Interior, MINEPSP/003/2007 of October 29 2007) formally prohibits unauthorized deduction (skimming off) from teachers' wages. This circular principally targets all public accountants and all managers.

and a matter of priority. Considering the country's size and diversity, as well as the new constitution, decentralization will be inevitable in the DRC. There is thus a need to prepare the institutional and contractual framework for this event in order to avoid an interruption of education during the transition.

4.93 In addition, it is recommended that a survey be carried out, similar to the one conducted as part of this Review, but with a broader scope and a representative sample. This would be a way to verify the conclusions of the Review in other provinces and measure total leaks and losses in a systematic manner. This survey should then be carried out again at regular intervals in order to measure progress in reforming the system. It would be useful to include a specific questionnaire to gather information on external financing (sometimes directly supplied by NGOs) and the contribution of parents of students. In addition, this survey is one of the HIPC Completion Point benchmarks.

Medium term (2009-2010)

4.94 The active involvement of MEPSp technical departments in budget preparation is indispensable. As soon as the total package for the ministry is known, these departments must be in a position to propose a commitment plan for the year, based on sector policy and an action plan complete with figures. MEPSp is also responsible for sending information on its budget execution to the MoF and MinBud. The limited size of the appropriation in comparison to needs is not an excuse for the absence of a plan for using the funding, nor for failure to submit this information.

4.95 A substantial increase in the size of the government budget earmarked for the education sector (total public funding, including transfers) is necessary to reach the objective of "education for all." This means that the school fees paid by the parents of students must be minimized, if not eliminated, to avoid placing the poor at a disadvantage. During a period of transition, a lowering of these fees could be accompanied by contributions from development partners, but it is clear that the government – central or local – must assume this responsibility in the medium term.

4.96 A policy of gradually reducing school fees so as to ease the burden on parents of students and put an end to the incentive bonus⁸⁸ should be set in place. In truth, elimination of school fees is impossible without adequate public financing of the education system and a fair wage policy.

4.97 At the same time, there is a need to lower the high costs associated with the payment of wages and operating expenses by streamlining the payment chains and by exploring alternative methods to cash payment. For example, based on voluntary sign-ups and a negotiated arrangement with commercial banks, bank accounts could be used for networks (direct payment to managers), for schools (if they hold legal status), or even for teachers. Other, more innovative

⁸⁸ Since June 2007, a number of inter-ministerial orders and circulars have been developed in support of this policy (Inter-ministerial decree on setting school fees; Ministerial Order instituting the new MinEPSP Provincial Committees, the composition of which was revised, specifically to include greater involvement of civil society and (international) NGOs active in education).

payment methods are also possible (payment through money transfer agencies set up in the DRC). The disparity among local situations suggests that several solutions should coexist.

4.98 The system of controls should be strengthened, particularly through: (i) greater involvement of stakeholders (parents and teachers' unions) in monitoring (assessing) the work of school directors, managers, and SECOPE; (ii) implementation of a mechanism (that is both effective and reliable) for exposing all irregularities; and (iii) a genuine determination to put an end to impunity and strictly enforce the law when abuses occur. Implementation of a school inspectorate, intermediaries of the Finance General Inspectorate at the sectoral level, could be considered, as well as keeping accounting records at each level.⁸⁹ Accounting support to school management committees (training, data storage) could prove useful.

4.99 Strengthen the role of SECOPE and, to that end:

- improve its logistical capacities (replace now-obsolete central computer support; equip and connect provincial offices to the central server; improve its mobility in the field);
- clearly redefine its role (advocate its “technical” independence as personnel manager; adopt a code of ethical behavior applicable to all, including disciplinary action in the event of abuses);
- ensure that signed lists are returned, along with discharges certifying the receipt of funds by the school director, to the provincial SECOPEs.

⁸⁹ Schools are required to prepare budget estimates and maintain accounting records on receipts and expenditures. The ministerial instructions for the 2007-2008 school year make this an indispensable condition for all “negotiated” school fees.

Chapter 5. HEALTH SECTOR

<i>Priority recommendations</i>		
Budget and disbursement process	<ul style="list-style-type: none"> • Improve the credibility and usefulness of the budget by i) introducing a transparent process of prioritization within a realistic total envelope; and ii) involving the provinces in the budget process, encouraging the use of Health Zone annual plans as a basis. • Establish, with donor assistance, a system to collect and compile data on the annual budget and expenditures of internationally-financed health programs • Improve budget execution of non-salary allocations to Health Zones • Curtail the use of exceptional payment procedures for Ministry of Health expenditures 	September 2008
Health human resources	Establish an accounting of civil servant and non-regularized health workers in each province	September 2008
Decentralization	Lead a consultative and policy development process for decentralization in the health sector	September 2008

5.1. Health Situation and System

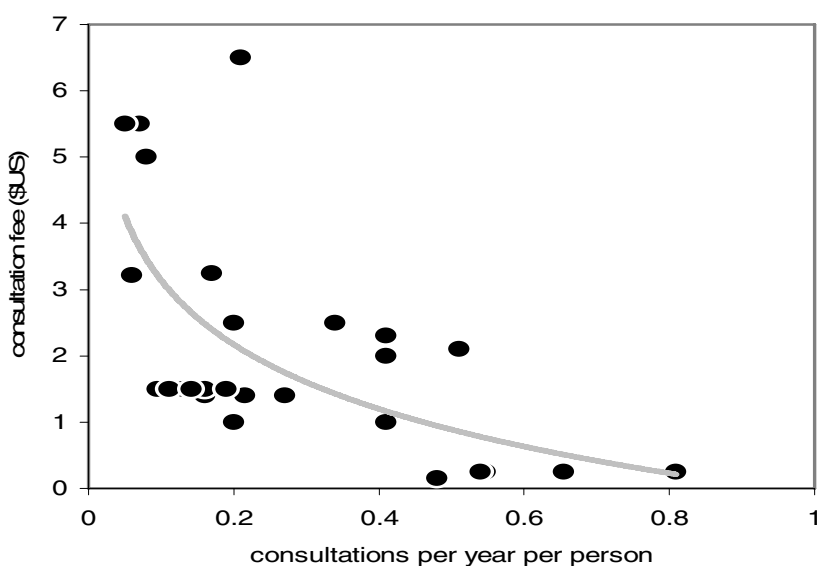
5.1 It has been estimated that excess mortality of three million or more can be attributed to DRC's civil conflicts between 1996 and 2004 (IRC, 2004). Health, nutrition, and population outcomes, including the main health sector-related Millennium Development Goal (MDG) indicators, remain very poor in DRC although there have been some improvements since the end of major conflict. Under-five mortality, during the period 2002-06 is estimated from the 2007 Demographic and Health Survey (DHS) at 148 per 1,000. Data from this survey indicate some improvement over the past few years, as the estimate is 165 for the period 1998-2001, and 172 in 1993-97. However, most of the improvement is concentrated among ages 1-4 years, likely reflecting better socio-economic factors since the end of the civil war, while infant mortality, thought to be more sensitive to health care services, hardly changed. At the same time, chronic malnutrition among under-five children may have increased, estimated at 31% in 2007 but 45% in 2007. Consistent with this very poor nutritional situation, 48% of children aged 6-59 months had moderate or severe anemia in 2007, while prevalence was 18% among women aged 15-49 years. With regard to maternal mortality, the available estimate is among the highest anywhere, at 1,289 per 100,000 births (2001 Multiple Indicator Cluster Survey, MICS2). The total fertility rate remains high at 6.3 in 2007, although better than the 2001 estimate of 7.1, largely due to improvement in urban areas. HIV prevalence among pregnant women attending antenatal clinics ranges from 2 to 8% (UNAIDS, 2007), while a national prevalence estimate awaits analysis of data from the 2007 DHS. Insecurity continues to severely affect the health situation in some areas of eastern DRC, including significant levels of gender-based violence. See Annex 5.1 for more detailed information on the health situation and health system.

5.2 Coverage of basic health services has improved in recent years but remains very low, while the poor are less likely to have access. In 2007, only 31% of one-year old children had

received all recommended vaccinations, although this is an improvement from the 23% coverage in 2001. Only 63% were vaccinated against measles in 2007, but again this is an increase from 46% in 2001. While in 2001 less than 1% of under-five children slept under an insecticide-treated net, in 2007 coverage slightly improved to 6%. Similarly, utilization of curative services is low, although has improved since 2001. Acute respiratory infection (ARI) is a major cause of mortality among children, and in 2007, 42% of under-five children with ARI symptoms received treatment from an appropriate provider, compared to 35% in 2001. Utilization of maternal health services seems to have improved substantially in recent years. In 2007, 85% of pregnant women received antenatal care, compared to 68% in 2001. Similarly, in 2007 74% of deliveries were attended by a trained health worker, compared to 61% in 2001. However, only 39% of pregnancies had adequate tetanus immunization; this, combined with the fact that neonatal mortality has hardly changed in recent years, suggests that there are serious problems with service quality.

5.3 There are large socio-economic, urban-rural and regional disparities in access to health care. In 2007, while 76% of children of mothers with secondary education were vaccinated against measles, the proportion was only 50% among children of mothers with no formal education. In urban areas, 38% of children with fever received anti-malarial medication, while the proportion in rural areas was only 25%. While 97% of deliveries in Kinshasa were in a health facility, the proportion was 39% in Equateur province. In general, many people do not access formal medical services at all and this is often related to financial barriers. In 2007, 58% of children with ARI symptoms and 55% of children with fever were not brought to a health service. Along with lack of geographic access and poor quality services, financial barriers contribute to low utilization, particularly by the poor. For example, Figure 5.1 suggests that utilization increases as consultation fees decrease, particularly below US\$ 1.

Figure 5.1: Annual Per Capita Curative Service Utilization Rate as a Function of Average Fee per Episode, DRC, 2005 (n = 26 Health Zones)

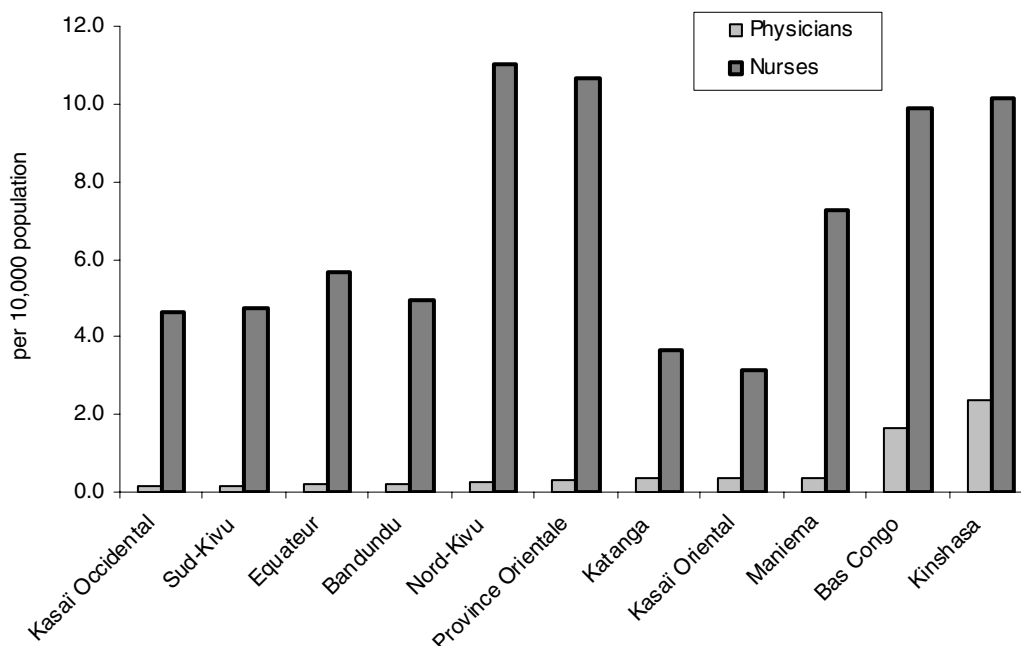


Source: Révillion (2005).

5.4 The public sector health system is organized into 515 Health Zones, each of which integrate primary and first-referral services under a single management structure, responsible for a catchment population averaging 110,000. In 2001, the number of Zones was increased by the government from 306 to 515, and there are questions about the viability of many of the new Zones. The health administration is currently deconcentrated in that the Zone, District, and Provincial health administrations depend on the Ministry of Health in Kinshasa.

5.5 Development of the Health Zone service delivery system has long been the focus of sector development, including significant public-private partnerships. Church hospitals often act as the Reference Hospital for the Zone and in many cases have staff on the civil service payroll. This long-standing experience has facilitated more recent partnerships with NGOs, usually in the context of donor-financed projects. Despite the integration represented by the Health Zone system, fragmentation of service delivery along disease or program-specific interventions is significant, largely due to the incentives created by international funding. Fragmentation is also abundantly evident at the level of the central Ministry of Health, which currently comprises 13 directorates and 52 programs.

Figure 5.2. Civil Service Physicians and Nurses per 10,000 Population, by Province, DRC 2006



Source: Estimates from data reported by DRC Ministry of Health.

5.6 The density of skilled health workers on the government payroll is very low although there are significant numbers of non-regularized workers providing services in government facilities. Overall, there are approximately 3,200 physicians and 43,000 nurses on the government payroll, for ratios of 0.5 and 7.1 per 10,000 population respectively. These ratios are among the lowest in the world, although they do not reflect the numerous health workers that are working in government facilities but are not on the civil service payroll. In Katanga for example, there are approximately 3,200 health workers on the civil service rolls, but an additional 3,600 working in government health facilities that are not regularized.

5.7 There are wide disparities between provinces in public sector health human resources. Figure 5.2 shows the ratios of civil servant physicians and nurses to population in each of the provinces, showing that the availability of government physicians in Bas-Congo and Kinshasa is much greater than in the other provinces. With regard to nurses, along with Bas-Congo and Kinshasa, there are also comparatively high numbers in Nord-Kivu, Province-Orientale and Maniema, possibly compensating to some extent for the absence of doctors. These patterns are also reflections of disparities in domestic public spending on health services, a significant proportion of which is allocated to remuneration.

5.2. Sector Strategy and Decentralization

5.8 The 2006 PRSP has five pillars, two of which are directly related to the health sector: improving access to basic social services and combating HIV/AIDS. The major thrust of the government's 2006 Health System Strengthening Strategy is development of the Health Zone system. The document is strongly critical of disease-specific programs and financing mechanisms and emphasizes that the relevant interventions (i.e. immunization, HIV/AIDS programs, family planning) need to be integrated in the minimum package of services delivered by the health system. The 1999 national HIV/AIDS strategy sets out a multi-sectoral approach in the areas of prevention, mitigation, awareness-raising, and capacity-building. In 2005, the government developed a strategy for delivery of anti-retroviral treatment, and scaling-up coverage is currently the subject of increased focus. Implementation of the strategy should benefit from rationalization of the institutional framework that involves both the national program housed in the Ministry of Health and the national multi-sectoral program under the Presidency.

5.9 The 2006 Constitution creates 26 provinces with significant responsibilities and specifies that 40% of national revenues collected in each province be returned to the province. With regard to the health sector, the Constitution specifies that health legislation and standards are the responsibility of the central government (Article 202), while the functioning of primary health care is an exclusive responsibility of the provinces (Article 204). Decentralization raises major questions and challenges for the health sector.

5.10 Most provinces will not possess the necessary resources to ensure financing of basic health services. Currently, the major responsibility that would be inherited by the provinces would be to ensure salaries, but it is not clear that the poorer provinces will be able to meet even the current wage bill, let alone other operational costs. A small number of the more well-off provinces will be able to meet current costs, and may even increase health expenditures. This will exacerbate inequalities, calling for some type of equalization mechanism. This is overall the major risk to the health sector of decentralization, observed in other countries such as Sudan and Nigeria – that the decentralized responsibilities for service delivery are not accompanied by commensurate transfers of resources and capacities, leading to service deterioration and worsening inequality between regions.

5.11 The role in the provinces of the national Ministry of Health needs to be determined. Currently, the provincial health inspectorate depends hierarchically on the Ministry of Health in Kinshasa. Whether this will remain the case in parallel with new provincial health ministries is

being debated. A related question is the respective roles of the central and provincial authorities with regard to health sector development programs (currently largely donor-financed).

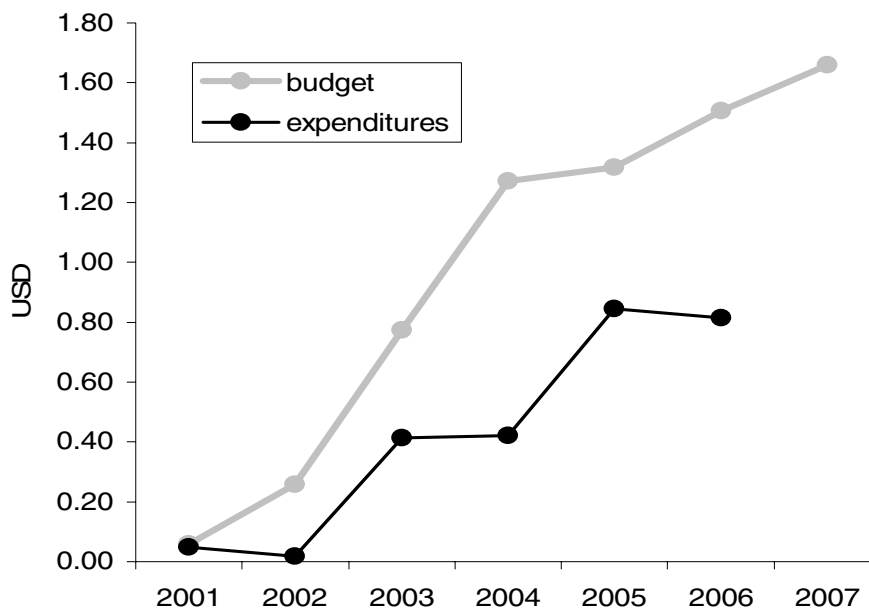
5.12 With regard to the role of the sub-provincial administrative authorities (EAD), the consensus of health officials at both the Kinshasa and provincial levels is that the Health Zones should depend directly on the provincial administrations.

5.3. Domestic Public Sector Health Spending

5.13 After collapsing in the 1990s, the government health budget allocation has increased since 2001-02 in absolute terms but is stagnant as a proportion of the total budget, and execution remains weak. The budget allocated to health increased substantially, rising from just US\$ 3 million in 2001 to over US\$ 100 million in 2007. However, the large increase in 2003 in the health budget as a proportion of the total budget has been followed by steady decreases, from 5.5% in 2003 to 4.1% in 2007. At the same time, budget execution has been around 55-65% since 2004. (See Figure 5.3). This undermines credibility of the budget process and transparency of allocations. Ministry of Health departments and, in particular the provinces, have little confidence that the amounts budgeted will be received. Also, the choice of which line items (aside from salaries) are executed during the course of the fiscal year is not transparent.

5.14 Nevertheless, actual government health expenditures have increased dramatically in recent years, totaling almost US\$ 50 million in 2006, or US\$ 0.80 per capita (see Figure 5.3). This represents a doubling of the 2003 level of around US\$ 0.40 per capita, but remains among the very lowest in the world – although consistent with DRC’s extremely low GDP per capita, as illustrated in Figure 5.4. As a proportion of GDP, government health spending is similarly low at around 0.6% in 2006, although this is an increase from 0.4% in 2003 (DRC ranks among the bottom two or three countries ranked by this measure).

Figure 5.3. Per capita government health budget and expenditures (US\$), 2001-07



Source: Estimates from data reported by DRC Ministry of Budget, IMF (2006) and World Bank (2002).

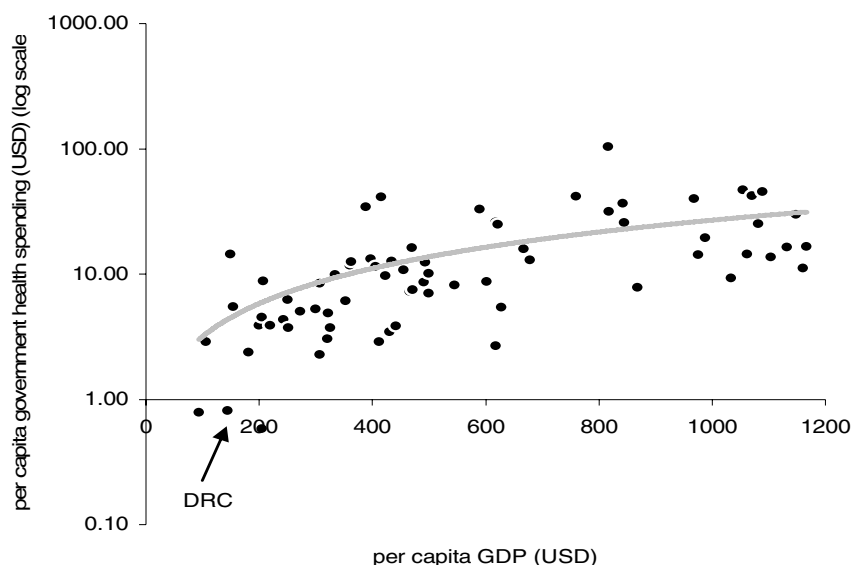
Table 5.1: Government health budget and expenditures, 2001-07

	2001	2002	2003	2004	2005	2006	2007
Health budget (CF million)	819	4,694	17,000	28,262	35,936	41,848	56,388
Health budget (US\$ million)	3.0	13.5	42.0	71.0	75.7	89.4	101.3
Total budget (CF million)	62,149	201,905	307,108	528,333	806,169	1,039,561	1,370,310
Total budget (US\$ million)	227.6	581.8	759.0	1,328.1	1,699.3	2,219.9	2,460.8
Health budget as % of total budget	1.3%	2.3%	5.5%	5.3%	4.5%	4.0%	4.1%
Health expenditures (CF million)	681	329	9,104	9,356	23,049	22,599	
Health expenditures (US\$ million)	2.5	0.9	22.5	23.5	48.6	48.3	
\ Of which % HIPC				7.3%	43.1%	56.7%	
Total expenditures (CF million)	115,147	198,406	312,339	405,800	655,500	693,334	
Total expenditures (US\$ million)	422	572	772	1,020	1,382	1,481	
Health expenditures as % of health budget	83.1%	7.0%	53.6%	33.1%	64.1%	54.0%	
Health expenditures as % of total	0.6%	0.2%	2.9%	2.3%	3.5%	3.3%	
Health expenditures as % of GDP	0.0%	0.0%	0.4%	0.4%	0.7%	0.6%	
Health expenditures per capita (US\$)	0.05	0.02	0.41	0.42	0.84	0.81	
<i>\ Memorandum items</i>							
GDP (CF million)	1,407,545	1,922,200	2,298,656	2,601,257	3,366,424	4,000,658	4,985,535
GDP (US\$ million)	5,155	5,539	5,681	6,539	7,096	8,543	8,953
GDP per capita (US\$)	100	105	105	117	123	144	147
Population (million)	51	53	54	56	58	59	61
Exchange rate (CF/US\$)	273	347	405	398	474	468	557

Source: Estimates from data reported by DRC Ministry of Budget, IMF (2006) and World Bank (2002).

5.15 The resources made available through HIPC interim relief largely financed the increase in health expenditures since 2003. The proportion of health expenditures represented by HIPC resources rose from 7% in 2004 to 57% in 2006 (Table 5.1). Budget execution of HIPC resources allocated to health in 2006 was 102%, in contrast with execution of non-HIPC resources of 38%. In 2006, operational costs and supplies received the largest amount of the HIPC resources.

Figure 5.4: Per capita government health spending vs. per capita GDP, countries with GDP per capita under 1,200 (in US dollars)



Source: DRC estimates are for 2006. Estimates for other countries are for 2004 and source is WHO.

Table 5.2: Government health budget and expenditures by category, 2006

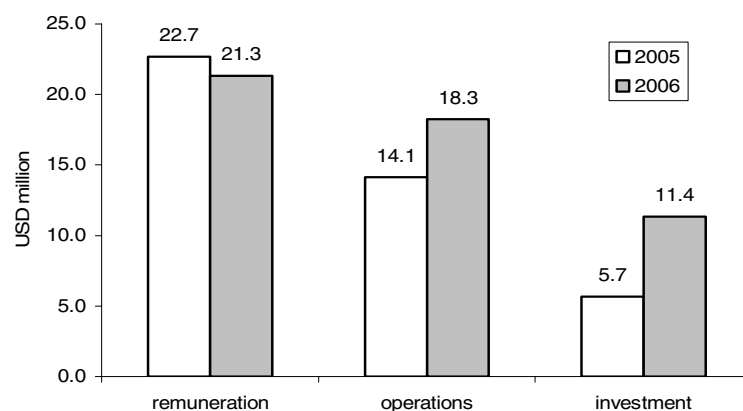
	Budget			Expenditures				% execution
	CF million	US\$ million	% of total	CF million	US\$ million	% of total	% HIPC	
Remuneration	14,183	30.3	34%	9,978	21.3	42%	31%	70%
operations/supplies	19,028	40.6	45%	8,543	18.2	36%	68%	45%
Investment	8,638	18.4	21%	5,314	11.3	22%	74%	62%
Total	41,848	89.4	100%	23,834	50.9	100%	54%	57%

Source: Estimates from data reported by DRC Ministry of Budget.

5.16 Remuneration receives the highest proportion of government funds, but spending in other categories has increased. Table 5.2 provides details on the government health budget and spending in 2006. Budget allocations to remuneration are lower than to operational costs (mostly drugs and medical supplies), but actual execution favors remuneration. The execution result for remuneration (around US\$ 21 million) is similar to that for operational costs (around US\$ 18 million) in absolute terms. In addition, the execution *rate* of investment items approached that of remuneration, so that actual spending on investment was also substantial (around US\$ 11 million). Figure 5.5 illustrates how actual expenditures on remuneration have remained stable between 2005 and 2006 while spending on operational costs and particularly investment increased substantially. This pattern represents a significant improvement from the situation in 2002, when most government health spending was allocated to the health administration in Kinshasa and health worker salaries were not paid regularly. However, it should be noted that non-salary recurrent spending on administration (12% of total spending) is

high in relation to non-salary recurrent spending on health services (24% of total spending), reflecting low spending levels for health service operations (Table 5.3).

Figure 5.5: Government health expenditures by category, 2005-06 (US\$ million)



Source: Estimates from data reported by DRC Ministry of Budget.

Table 5.3: Government health expenditures by category and type, 2006

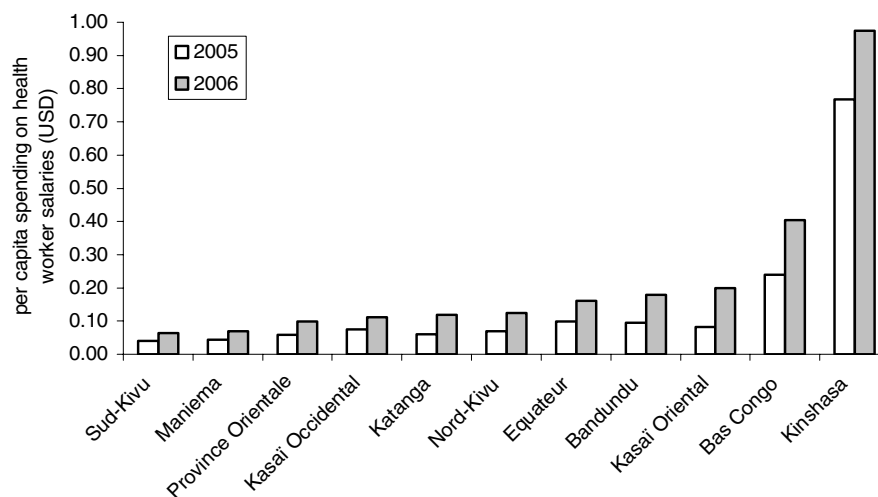
	CF million	US\$ million	% of total
<i>Remuneration</i>	<i>9,978</i>	<i>21.3</i>	<i>42%</i>
Salaries in Kinshasa	2,332	5.0	10%
Salaries in Provinces	3,913	8.4	16%
Other remuneration (Kinshasa and Provinces)	3,734	8.0	16%
<i>Operations/Supplies</i>	<i>8,543</i>	<i>18.2</i>	<i>36%</i>
Administration operations in Kinshasa	2,382	5.1	10%
Other administration operations (Kinshasa and Provinces)	376	0.8	2%
Health service operations (Kinshasa and Provinces)	5,784	12.4	24%
<i>Investment</i>	<i>5,314</i>	<i>11.3</i>	<i>22%</i>
Administration investments (Kinshasa and Provinces)	934	2.0	4%
Health service investments (Kinshasa and Provinces)	4,379	9.4	18%
Total	23,834	50.9	100%

Source: Estimates from data reported by DRC Ministry of Budget.

5.17 Public resources continue to be concentrated in Kinshasa. Although Kinshasa represents less than 10% of the population, 37% of base salaries are paid in the city (in 2006 US\$ 5 million, compared to US\$ 8.4 million in the rest of the country). Figure 5.6 illustrates government spending by province on the base salaries of health workers on a per capita basis. Much of the disparity in spending, of course, reflects the greater concentration of health workers in Kinshasa (and Bas-Congo). Partly as a result of the low spending on the health service administration outside Kinshasa (2% of total reported expenditures in the provinces, compared to 10% in Kinshasa), provincial and district health administrations continue to collect various unofficial “taxes” and fees from health facilities and other sources in order to meet their operational expenses.

5.18 Both the level and regularity of remuneration to health workers improved substantially in recent years. However, average remuneration remains very low, and many health workers are not on the public payroll, so that much remuneration relies on revenues collected from patients. Using the reported total number of civil servant health workers in 2006 of around 86,000, overall spending on remuneration translates into an average of only US\$ 250 per year, or around US\$ 20 per month. The real average may, in fact, be lower, as part of the paid remuneration that is not base salary is allocated to some health workers who are not regularized as civil servants. For example, part of the government spending on remuneration in Equateur and Katanga (as well as other provinces) is given to non-regularized health workers in the areas formerly occupied by the rebellion during the civil war. Many other health workers in government facilities in all parts of the country are also not regularized, so that they depend for their remuneration on revenues collected from patients and incentives paid by donor-funded projects. Total numbers of such non-regularized staff are not known and should be subject of an accounting exercise. Given the low level of official salaries for many categories, patient revenues serve as sources of supplements for civil servant health workers as well.

Figure 5.6: Per capita government spending on health worker base salaries by province, 2005-06



Source: Estimates refer to base salary only and are from data reported by DRC Ministry of Budget.

5.19 Of course, there are also significant differences in remuneration between health workers of different qualifications, and the government remuneration for some (particularly physicians working in Kinshasa) is reaching higher levels. The base salary of a physician can vary between US\$ 30 and 75 per month, although a number of extra incentives can raise it considerably. The transport and housing allowances provided to health workers in Kinshasa (irrespective of grade) total around US\$ 25 per month, while more importantly, the government has started paying a “hardship” allowance to all civil servant physicians in the country of US\$ 160 to 340 per month. This allowance for nurses in Kinshasa ranges from US\$ 17 to 100, and there are plans to expand its payment to nurses in the rest of the country. Although total remuneration of civil servant physicians and some nurses may be reaching more acceptable levels with these allowances, other categories of staff remain with exceptionally low official remuneration, while most non-regularized staff does not receive official salaries.

5.4. Government Budget and Disbursement Process

5.20 The initial budget proposal by the Ministry of Health is unrealistically high and hardly reflects prioritization according to a sector strategy. After receiving a circular with overall guidance from the Ministry of Budget, the Minister of Health forms a budget commission to elaborate a budget proposal. In principle, this should be accompanied by a report on the execution of the previous year's budget and on the programs and plans of the Ministry, highlighting how this fits in the government's overall priorities. In practice, the Ministry of Health's budget proposal is less a product of a strategy development process and more a reflection of the previous year's proposal (also unrealistically high). The proposal includes input from the numerous departments and programs of the Ministry in Kinshasa. These units have proliferated, in what has been termed a "survival strategy" of capturing international donor funds available for specific diseases and health issues. As a result, each department and program has a place in the budget proposal, contributing at the very outset to its lack of realism and credibility insofar as many are unlikely to receive government funds during budget execution.

5.21 The allocation between provinces of salaries and incentives largely depends on the location of civil servant health workers, which changes incrementally and is subject of an approval process in Kinshasa that involves the Ministry of Public Service. However, allocation of budget to health services for operations and investment is done by the Ministry of Health budget commission on a theoretical basis, sometimes modified by the personal knowledge and priorities of commission members. For the 2006 budget, the Ministry allocated budget to each of the 515 Health Zones and this was mostly done by equal division between the Zones, and not on the basis of empirical information on requirements.

5.22 The more important decisions are taken once the ceiling is known and this is done by a few officials on the basis of an unclear process of prioritization. The budget proposal is then submitted to the Ministry of Budget which organizes a budget conference during which the Ministry of Health explains and defends its proposal. In many years, the timeframe is too short to allow for a budget conference, limiting the opportunity to potentially improve prioritization and allocation of resources. After receiving proposals from all Ministries and completing the budget conferences, the Ministry of Budget, on the basis of estimation of overall macro-economic and fiscal conditions, specifies the budget envelope to be allocated to each Ministry. At this point, the budget commission of the Ministry of Health, and sometimes just several individual members, modify the budget proposal to fit under the ceiling, on the basis of a process of prioritization that is less than clear. The modified proposal is then incorporated by the Ministry of Budget into the government's budget proposal and submitted to Parliament.

5.23 With establishment of a dedicated unit managing a computerized database according to standard procedures published in 2003, budget monitoring and reporting by the Ministries of Budget and Finance have improved substantially. The system records detailed information on budget and execution by line item on the basis of the spending requests by the line ministries. However, once payments are made, monitoring and reporting back by the Ministry of Health (and other line ministries) are not done.

5.24 The process of further prioritization of activities to be funded when the Treasury is faced with liquidity constraints is not systematic, and does not involve the line ministries (see Chapter

3). As noted above, execution of the health budget in 2006 was only 57%, reflecting in part a lack of funds availability. Within the Ministry of Health, the Minister approves payment requests from ministry entities and initiates the disbursement process. The process of prioritization the Minister of Health uses is also not clear.

5.25 Most non-salary health expenditures in 2006 were executed using the “urgent procedure” that undermines financial oversight and controls. The standard procedure is for payment requests to be initiated by the Ministry of Health, and then go through the four phases of the expenditure circuit (see Chapter 3). There are also special procedures for certain expenditures, such as salaries, advance funds mechanism for small items, and “urgent expenditures.” Partly due to the slowness of the standard procedure, a significant number of payment requests are processed using the “urgent expenditure” procedure, involving a letter from the Minister of Health to the Minister of Budget. In 2006, 138 files were treated using the urgent procedure, totaling the equivalent of US\$ 26 million, almost the total of non-remuneration expenditures. This is a considerable increase from the 2005 figure of US\$ 5 million and represents an important undermining of the financial controls put in place since 2003.

5.26 HIPC resources are allocated to two categories of expenditures in the health sector: incentives and non-remuneration costs (medical supplies, equipment, rehabilitation, etc). The part of remuneration funded through HIPC resources are paid through the normal salary procedure. Non-remuneration expenditures are executed centrally by the government in Kinshasa, and distributed in kind to Health Zones.

5.27 The budget execution process within the Ministry of Health makes it difficult for health services outside Kinshasa to access funds for non-salary purposes. Since 2006, the State budget presents the amounts allocated to individual Health Zones for non-salary costs, along with the traditional presentation of the State budget. Some of these expenditures, financed from HIPC resources, are executed centrally in Kinshasa. However, there is no mechanism for the Zones to make payment requests. A solution would be for payment requests by the Zones to be made through the provincial health administrations under established procedures and this would entail a restructuring of the budget as well as changes in administrative procedures. The necessary measures to achieve this have been drafted but not yet approved by the Ministry of Health. In fact, although an effort to communicate the budget to the provinces was made by the Ministry of Health, starting with the 2006 State budget, it is reported that provincial administrations are not well-informed of the amounts budgeted on their behalf. Still less information reaches the District and Zone levels.

5.5. Health Financing in Selected Provinces

5.28 Fieldwork in Equateur and Katanga done as background for this chapter by a government team collected financial data from several health facilities (Misenga *et al*, 2007). Data on health facility finances from a study done in North Kivu in 2004 are also discussed (Ngaboyeka *et al*, 2005). Although these are by no means representative samples, they provide some information that can illustrate how sector financing issues are playing out on the ground in the provinces.

5.29 The budget process has little credibility in the provinces except in relation to management of human resources because remuneration is virtually the only source of funds

transferred to the provinces while decisions on other expenditures (mostly supplies and equipment financed from HIPC resources and transferred in kind) are made in Kinshasa. Both non-salary budget and expenditure allocations for health services in the provinces are made in Kinshasa with no input from the provinces. Similarly, information on the budget and its execution is not generally distributed to the provinces, still less to the Districts and Health Zones. Very little non-salary funds are transferred to the provinces. It is reported that in 2005, 17% of the budget allocation for the operational expenses of the provincial and district health administrations was committed, while in 2006, execution was 3%. In Equateur, these amounts totaled only CF 1.5 million (US\$ 3,000) in 2005 and CF 0.7 million (US\$ 1,500) in 2006. Similarly, in Katanga, these amounts were CF 1.9 million (US\$ 4,000) in 2005 and CF 0.7 million (US\$ 1,500) in 2006. The end result is that there is no incentive for the provincial health administrations to participate in the national budget process.

5.30 Nevertheless, many Health Zones produce annual plans that could provide the basis for reformed province-level budget processes. The plans are usually requested by NGOs implementing donor-funded programs and the process may have credibility because real resources are involved. It could be a starting point for restoring credibility from the bottom-up to the government budgeting process. The moment responsibility for financing health services is taken up by the provinces under decentralization will be an opportunity to establish a credible province-level budget process on the basis of Health Zone plans.

5.31 Provincial and district health administrations have resorted to unauthorized taxation of health facilities due to lack of financing from the central government. In Equateur, health facilities are obliged to transfer 2% of their monthly patient revenues to support the functioning of the Health Zone administration, 3% to the district health administration and 5% to the provincial level. In Katanga, 3% of the revenues collected by health facilities serve to finance the operations of the Health Zone administration, 3% go to the district level and 4% to the provincial level. Other sources of revenue for the district and provincial levels are a proportion of the patient payments collected by individual hospitals as well as various administrative fees, including levies on private pharmacies and drug imports. It is reported that each month, the provincial health administration in Katanga receives around CF 800,000 from hospitals, CF 600,000 from levies on pharmacies and CF 60,000 from various other fees, totaling around CF 1.5 million (US\$ 3,000). The amount collected from patient revenues in the Health Zones is not reported. In 2005, the Ministry of Health issued an instruction forbidding the provincial and district health administrations to collect these unauthorized taxes, but the practice has not stopped: for it to stop, these revenues will need to be replaced. For this reason, several donor-funded projects have included support for the administrative costs of the provincial and district health authorities.

5.32 In poorer areas, the revenues and expenditures of Health Zone administrations largely depend on whether they receive external support. Information on the finances of some Health Zone administrations is available. In Equateur province in 2007, there is currently no external support to the Zone administrations of Wangata, Bikoro and Ntondo. The Zone administrations therefore function on their 2% share of the unauthorized health facility taxes. As these areas are among the poorest in the country, these revenues are exceptionally modest, less than US\$ 100 per month, so that activity by the Zone administrations is minimal. In Katanga province, external support to the Zones of Kisanga, Kampemba and Kipushi has ended, so that the

administrations rely on the 3% collected from health facilities as well as in some cases on margins from revolving drug funds. These areas are somewhat better-off economically than in Equateur, so revenues collected by Zone administrations are higher, for example US\$ 850 monthly in Kipushi. Also in contrast with Equateur and reflecting better economic conditions is the significant presence of private sector providers in these Zones. In Kampemba, for example, there are 2 public sector facilities and 30 private, while the figures for Kipushi are 3 and 18 respectively. The private facilities do not generally contribute funds to the health administration (Misenga *et al.*, 2007).

5.33 In contrast, a study of four Health Zones in Nord-Kivu in 2004 found that significant external support was being provided to the Zone administrations by donor programs. This allowed for significant expenditures, ranging from US\$ 3,100 to 5,500 per month. On average 55% of expenditures were for staff remuneration (on top of regular government salaries, which not accounted for), while the remainder was divided between purchases of supplies and services. One percent of expenditures of the zone administrations was for taxes and contributions to other levels of the administration (Ngaboyeka *et al.*, 2005).

5.34 No individual health facilities have budgets. A recent study of 56 health centers showed that none of the facilities surveyed had an official budget (BERCI, 2004). Many, however, do keep accounts of revenues and expenditures and some of this information is discussed here. Records on regular government salary and allowance payments, however, are not available at the facility level.

5.35 Erratic donor support to the visited Health Zones has undermined services and utilization. Table 5.4 presents data on the monthly revenues in 2007 of selected health facilities in Equateur and Katanga. With some modest exceptions, none benefit from external support, except for regular government salaries that are not recorded in the table. In the case of the Equateur facilities, humanitarian programs that ended recently had provided significant support in the form of drugs, health worker incentives and technical supervision. The end of these programs has led to deterioration in services and utilization. For example, while it was supported by a humanitarian NGO, the Wendji-Secli Health Center provided 50 consultations daily. When a development program succeed the humanitarian project, direct incentive payments ceased and the provision of drugs free to the patient stopped because drug sales (at subsidized prices) were used to finance remuneration for staff. The number of daily consultations went down to 25. Currently, there is no external support, so there are 15 consultations per day. Similarly in Katanga, NGO support under a development project recently ceased in the visited Health Zones, affecting services. In Kampemba Health Zone, the reported per capita annual rate of curative consultations fell from 0.45 to 0.20.

Table 5.4: Monthly revenues of selected health facilities in Equateur and Katanga, 2007 (US\$)

	Wangata Hospital	Equateur Wangata Health Center	Wendji- Secli Health Center	Bolenge Hospital	Katanga Kipushi Health Center
<i>Revenues from patients</i>	2,522	412	281	787	1,905
Curative consultations	742	82	23	202	156
Pre-natal consultations	85	114	0	16	41
Child preventive consultations	0	6	0	1	37
Deliveries	223	32	16	14	286
Surgery	667	8	0	63	228
Lab services	152	13	0	33	368
Sale of drugs	74	85	242	271	634
Patient cards	374	21	0	0	31
Other	205	51	0	187	122
<i>Revenues from external sources</i>	0	0	0	0	134
Community	0	0	0	0	0
Government	0	0	0	0	134
Donors/NGOs	0	0	0	0	0
Church	0	0	0	240	0
Total	2,522	412	281	1,027	2,039

Source: Misenga *et al.* (2007).

5.36 Fees collected from patients are low in many areas due to the poverty of the population. The revenue figures are quite modest, reflecting the ability to pay of the population as well as the poor quality of services. For example, total monthly revenues of a large reference hospital, Wangata Hospital, are reported to be only US\$ 2,500. Not included in the table is information about Ntondo Health Zone, in a particularly poor and isolated area of Equateur. The Reference Hospital in this Zone is run by a church group and it provides only 15 consultations per day. Reported monthly revenues are only CF 100,000 (US\$ 210). The health infrastructure and equipment is very poor or lacking, and drug supply is a major problem as there is no private market. Staffing constraints are extreme, leading the only physician to train a local resident to do surgery.

5.37 The largest proportion of revenues comes from fees for services, followed by drug sales. Overall, fees for various consultations, surgery, deliveries and laboratory tests represent 60% of the revenues of these facilities. Drug sales contribute another quarter of revenues, with the rest coming from other services such as the sale of patient record cards as well as external support in two of the facilities. It is notable that fees are collected for maternal and child preventive services that are often provided free-of-charge in other countries.

5.38 External support can be important for facilities that receive it, but revenues from patients often remain significant. Table 5.5 presents data on the monthly revenues of six hospitals in Nord-Kivu studied in 2004. Here, external donor support, while significant, exceeded revenues collected from patients in only two of the facilities. Overall, donor support represented about a third of total revenues of these hospitals. By far the largest category of own revenues was fees collected for services.

Table 5.5: Monthly revenues of selected hospitals in Nord-Kivu, 2004 (US\$)

	Kirotshe	Bobandana	Rutshuru	Nyamilima	Kyondo	Oicha
<i>Revenues from patients</i>	2,416	2,100	3,824	4,641	11,071	15,898
Sale of drugs	0	0	55	1,629	1,453	0
Service fees	2,368	2,100	3,713	3,012	9,501	14,383
Other fees	49	0	56	0	118	1,515
<i>Revenues from external sources</i>	5,119	505	5,391	4,059	1,938	8,828
Government	400	0	355	0	172	6
Church	0	0	263	2,240	90	0
Donor/NGOs	4,719	505	4,773	1,820	1,676	8,822
Total	7,535	2,605	9,214	8,700	13,009	24,726

Source: Ngaboyeka *et al.* (2005).

5.39 The largest proportion of expenditures is for staff remuneration. Table 5.6 presents expenditure information from the visited facilities in Equateur and Katanga that receive minimal external support. First, these expenditures seem strikingly low, which is of course consistent with the revenues discussed above. Overall, by far the largest category of expenditures is remuneration of staff, representing about 60% of the total. Drugs and supplies account for a quarter of expenditures and the informal taxes paid to the health administrations total 6%. Again, these amounts do not include regular government payments to civil servants. If those amounts were recorded, the proportion of total spending going to remuneration would be even higher.

Table 5.6: Monthly expenditures of selected health facilities in Equateur and Katanga, 2007 (US\$)

	Equateur			Bolenge Hospital	Katanga Kipushi Health Center
	Wangata Hospital	Wangata Health Center	Wendji-Secli Health Center		
Remuneration	1,745	302	85	354	852
Drugs	69	30	193	176	348
Supplies	220	17	3	31	104
Contribution to Health Zone administration	45	5	1	0	31
Contribution to administrations	165	0	0	8	64
Community Health Committee	0	0	0	0	11
Investment	0	0	0	0	0
Other	0	2	0	113	463
Total	2,244	356	282	682	1,872

Source: Misenga *et al.* (2007).

5.40 Given total numbers of staff in the Equateur facilities, the average monthly amount distributed from own revenue ranges from US\$ 10 to 20. In the Nord-Kivu hospitals, however, with substantially higher own revenues and external support, the range is from US\$ 30 to 370 per person, with an average of US\$ 85.

5.41 Table 5.7 provides monthly expenditure data from the six hospitals in Nord-Kivu studied in 2004. In this case, where there is significant external support, expenditures on drugs are much more significant, basically reflecting the provision of free or highly-subsidized drugs supplied by donor programs. Otherwise, remuneration remains the largest category of expenditures, still representing over 50%.

Table 5.7: Monthly expenditures of selected hospitals in Nord-Kivu, 2004 (US\$)

	Kirotshe	Bobandana	Rutshuru	Nyamilima	Kyondo	Oicha
Remuneration	5,025	1,446	5,784	4,617	7,296	10,249
Drugs (sold)	0	0	63	1,680	1,801	0
Drugs (donated)	1,773	812	2,017	693	1,431	9,566
Supplies	29	103	441	446	923	3,147
Transport	3	19	10	4	28	3
Transport and other services	29	14	89	416	260	2,261
Other	164	92	110	128	1,029	1,100
Contributions and taxes	150	140	144	221	222	732
Total	7,172	2,626	8,660	8,203	12,990	27,056

Source: Ngaboyeka *et al.* (2005).

5.42 In contrast with the situation several years ago, base salaries for civil servant health workers are now generally being met by the government, while much of the budgeted extra remuneration (allowances and incentives) is also being executed. Every month, the funds for base salaries and other remuneration are transferred to the branches of the Central Bank in the provinces. In Equateur, it was found that management and approval is centralized in the provincial health administration, as the Accountant draws up the payroll and this is approved by the Administrator and then the Provincial Health Inspector. It was observed that this centralization contributes to a certain lack of transparency in the handling of these funds, leading to substantial leakages. Cash for salary payments is brought to the Health Zones by payment agents who retain a fee of CF 100 for each person receiving a salary. In addition, in this province, a separate salary payment process is in place for health workers in the area formerly administered by the rebellion as funds from Kinshasa are sent directly there rather than to the provincial health administration. In Katanga, determination of the payroll lists is decentralized to the Districts and Health Zones with the approval process in the provincial capital involving the Ministries of Public Service and Budget rather than solely the provincial health administration. After the relevant approvals, funds are transferred to branches of the Central Bank in the main cities of the province and salaries are paid by the Districts. In contrast to Equateur, this process, decentralizing responsibilities and involving a range of actors, inspires more confidence that all of the funds allocated to remuneration are indeed reaching the health workers.

5.3. International Public Sector Health Spending

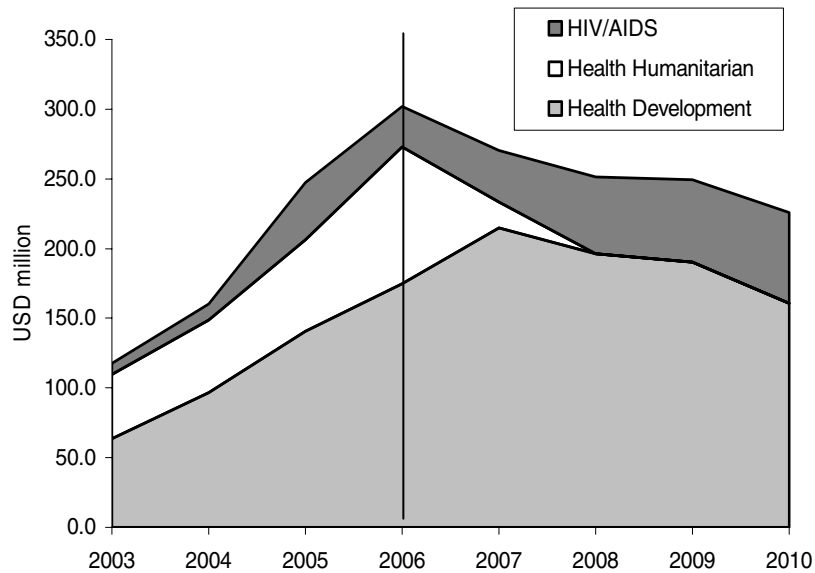
5.43 International donor support in the 1980s was instrumental in reform and development of the health sector in DRC along the Alma Ata primary health care (PHC) principles, in establishment of the Health Zone system, and in encouragement of public-private partnerships, particularly involving church-run health services. Important projects during this period were the *Santé Rural* (SANRU) program financed by USAID and the *Santé Pour Tous* project supported

by Belgium. International donor support to DRC largely ceased in the early 1990s, with the exception of substantial humanitarian assistance in the conflict areas during the war since 1997. Although substantially reduced, humanitarian programs are currently continuing in conflict-affected parts of the country. A transitional program designed to prevent further deterioration of the existing health system was supported by the European Union (EU) starting in 1994. Re-engagement in health sector development by other major donors started in 2002, including the World Bank, the African Development Bank, USAID, Belgium, and others. (Waldman, 2006) A first generation of development projects, focusing primarily on directly supporting basic service delivery, are currently coming to an end and are being succeeded by a second generation of programs that contain more institution-building components.

5.44 Most international funding for the health sector in DRC is off-budget. Information used in this section was collected from the Ministry of Health and individual donors and UN agencies. It remains difficult to collect data on actual expenditures (as opposed to commitments), although the estimates presented here are intended to be expenditures. There may also be some double counting. For these reasons, it is likely that the figures presented are over-estimated to some extent. Projections are made for 2007-10 on the basis of information on existing and planned projects. Detailed estimates are provided in Annex 5. Although the Ministry of Health is able to coordinate and negotiate the geographic targeting of most donor commitments, given the importance of international financing, its continued inability to monitor donor expenditures would undermine any improvement in its prioritization, planning and budgeting process.

5.45 International donor support to the health sector in DRC has increased substantially in recent years (Figure 5.7). International donor support to health and HIV/AIDS programs, including humanitarian projects, totaled an estimated US\$ 117 million (2.20 per capita) in 2003 and has risen steadily to an estimated total of US\$ 302 million (4.30 per capita) in 2006. Excluding HIV/AIDS and humanitarian programs, international financing for health sector development programs was an estimated US\$ 64 million in 2003 (1.20 per capita), rising to an estimated US\$ 175 million in 2006 (2.95 per capita). In 2006, estimated donor financing was 6.3 times higher than government health expenditures and represented 3.5% of GDP (Table 5.8). The OECD estimates that total international development assistance to DRC (excluding debt relief but including humanitarian assistance) was approximately US\$ 1.0 billion in 2005, which would mean that support to the health sector represented about a quarter of total international aid to the country.

Figure 5.7: Estimated and projected international donor support to health and HIV/AIDS programs, 2003-10



Source: Summary of estimates detailed in Annex 5 based on information from Ministry of Health, individual donors and UN agencies.

5.46 Given currently available information on commitments, financing of development programs is expected to peak in 2007 and then decline, although in reality actual disbursements in 2007 will likely be lower than reported and shifted to subsequent years, so that annual development spending may be in the range of US\$ 200 million over the next three years. Humanitarian funding in the next years will likely be further phased down, largely depending on the security situation in the east of the country. There has already been a significant decline in estimated humanitarian funding levels between 2006 and 2007, in the order of 80%. As there is no expected corresponding increase in development funding in the next years, DRC will have the common experience of a gap between humanitarian and development programs. On the ground, this has already manifested itself, as humanitarian programs have withdrawn from many Health Zones with no or substantially delayed replacement. Mitigating this is the fact that due to the substantial costs of logistics, security and international personnel of humanitarian programs, lower levels of development spending may prove to be sufficient to achieve similar results in terms of health services.

5.47 HIV/AIDS funding is expected to continue to rise to a level of around US\$ 60 million annually.

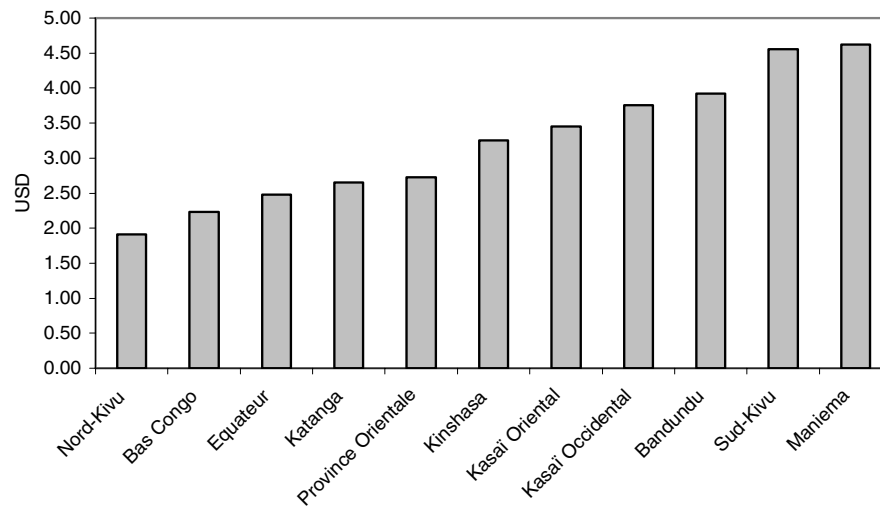
Table 5.8: Estimated and projected international donor financing of health and HIV/AIDS programs in DRC, 2003-10

	2003	2004	2005	2006	2007	2008	2009	2010
Health Development (US\$ million)	63.8	96.6	140.5	174.7	214.9	196.1	190.0	160.6
Health Humanitarian (US\$ million)	45.8	52.4	65.7	98.0	18.3	0.0	0.0	0.0
HIV/AIDS (US\$ million)	8.2	11.4	41.0	29.3	37.1	55.3	59.3	65.1
Total (US\$ million)	117.7	160.4	247.2	302.1	270.3	251.4	249.4	225.8
Health Development (US\$ per capita)	1.18	1.73	2.44	2.95	3.52	3.12	2.93	2.41
Health Humanitarian (US\$ per capita)	0.84	0.94	1.14	1.65	0.30	0.00	0.00	0.00
HIV/AIDS (US\$ per capita)	0.15	0.20	0.71	0.49	0.61	0.88	0.92	0.98
Total (US\$ per capita)	2.17	2.87	4.29	5.10	4.43	4.00	3.85	3.38
Total as % of gov't health expenditures	523%	682%	509%	626%				
Total as % of GDP	2.1%	2.5%	3.5%	3.5%	3.0%	2.5%		
<i>Memorandum items</i>								
Population (million)	54	56	58	59	61	63	65	67
Gov't health expenditures (US\$ million)	23	24	49	48				
GDP (US\$ million)	5,681	6,539	7,096	8,543	8,953	9,954		

Source: Summary of estimates detailed in the Appendix based on information from Ministry of Health, individual donors and UN agencies.

5.48 Donor commitments are poorly predictable beyond a short time horizon while actual expenditures are often erratic and slow. Internationally-financed development projects generally have a timeframe of four to five years, while some components of donor financing, particularly humanitarian, disease-specific and UN programs, have shorter commitment periods, as short as six months or one year. This reflects a major structural failing of the international aid architecture that is especially problematic for the health sector in DRC, as a significant proportion of international funds are for the recurrent costs of service delivery which require sustained and predictable support. In addition, although efforts have been made to coordinate geographic targeting of development programs, support to individual Health Zones has been erratic in many cases. Just as humanitarian programs are sometimes not replaced by development support, there have been a number of instances in recent years where development programs in particular Health Zones abruptly stop and are not replaced. Again, because health sector development in DRC requires ongoing commitment to recurrent activities (i.e. drug supply, health worker incentives, training, and supervision), much of the progress achieved during the course of a four-year project is lost when international support ends because the government is not in a position to ensure the necessary recurrent spending remains available. Finally, it is currently evident that large development projects are slow to start-up. Several projects have experienced delays of a year or more in starting significant disbursements, so that the estimates and projections for 2006-08 given in Table 5.8 are likely to be over-stated, as they will in reality be spread over a longer period of years. The net result is lower annual real spending levels. This factor similarly causes discontinuity on the ground, as planned support for individual Health Zones does not materialize for some time after a previous project has ended. Experience with the first generation of development projects suggests, however, that once implementation is started, disbursement rates speed up.

Figure 5.8: Estimated annual per capita international support to Health Zones by province, 2007-08



Source: Based on data compiled by USAID Project Axxes.

5.49 International programs are for the most part geographically coordinated, with about 85% of Zones targeted by different projects. With the exception of some disease-specific programs, the geographic targeting of internationally-funded projects is recorded, mapped and coordinated by the Ministry of Health (see map in Annex 5). Around 70 of the 515 Health Zones are not currently targeted by ongoing or planned projects. Over time, a certain amount of incoherence in this geographic coordination has developed as the strategies of donors and government have changed. For example, the first generation World Bank-funded program in the sector targeted Health Zones on the basis of their proximity to National Highway 1 in order to take advantage of multi-sectoral synergies with other activities supported by the project. The second generation World Bank-financed health project, on the other hand, targeted Health Zones grouped together into Districts in order to build the capacity of entire administrative units. USAID is also supporting a successor health project that is shifting its focus to different Health Zones due to a new strategy of supporting stabilization in conflict-affected regions. The planned GAVI-financed health system development project has targeted zones on a number of criteria, including their immunization coverage and their potential for development. The 2006 national health sector strategy specifies that resources should be first targeted to those Zones with best capacity to develop, progressively phasing support to other Zones, but some donors are not in agreement with this approach, suggesting that it will exacerbate inequalities.

5.50 Estimated international funding levels vary across provinces and across Health Zones. Figure 5.8 illustrates estimated annual per capita funding levels of the major projects providing support to Health Zones that are or will be operational during 2007-08. Missing information on some programs may skew estimates for some provinces, such as Nord-Kivu where humanitarian spending may not be reflected. Overall, the available data indicate that annual support ranges between provinces from around US\$ 2.00 to 4.50 per capita. At the same time, within provinces, financing levels are widely divergent across Health Zones. The per capita budgets of development projects providing integrated support to Health Zones range from less than US\$ 1 per capita annually to over US\$ 3. Often added are resources from disease-specific programs, but information on this is not compiled.

5.51 In contrast to the functioning Ministry of Budget tracking database for domestic public expenditures, the system of recording donor spending, a responsibility of the Ministry of Planning, is still in a nascent stage. This is a serious problem for planning, including in the area of human resources. Most donor-funded projects pay incentives to health staff (both civil servants and non-regularized workers), but it is not possible to understand the numbers and expenditures involved in order to get an idea of the real requirements in terms of health worker remuneration in the country. Some information can be obtained from project budgets, and an analysis of three projects is presented in Table 5.9. Allocations to different types of expenditures vary significantly between the three projects, all of which are designed to provide integrated support to the health system and services, mostly at the Health Zone level. For example, health worker incentives represent 25% of the GAVI Health Systems Project and 10% of the World Bank-financed project, while the budget allocated to drugs and commodities range from 16% in the GAVI project to 37% in the World Bank-financed project.

Table 5.9: Budget categories of selected health sector projects

	EU Health Program	World Bank Health Sector Project	GAVI Health Systems Project
Technical assistance, studies, training	15%	8%	22%
Health administration operations & capacity-building	25%	6%	..
Infrastructure and equipment	7%	22%	23%
Drugs and commodities	19%	37%	16%
Health worker incentives	..	10%	25%
Payments and other general financing of health services	18%	1%	..
Project management costs	15%	17%	13%
Total	100%	100%	100%

Source: Estimates from project reports.

5.52 A significant proportion of international funds are allocated to disease-specific interventions and programs. In the next few years, it is estimated that US\$ 50-60 million will be allocated annually to HIV/AIDS programs, 30-40 million to malaria interventions, 5-10 million to tuberculosis control, and 15-20 million to immunization programs. The annual total of an estimated US\$ 100 to 130 million represents half or more of the total estimated donor support to the health sector. Although these programs are for the most part integrated into basic service delivery, they continue to contribute to fragmentation and distortions. For example, each program has its own administrative, financial management, procurement, training, reporting, and monitoring and evaluation mechanisms, although for the most part they depend on the same staff in the same health facilities.

5.53 Indeed, the number of donors and projects in the health sector, each with its own implementation mechanisms, is striking and creates significant fragmentation, duplication and transaction costs. There are nine or ten major donors, many of which have several different projects, and a total of more than a dozen bilateral and multilateral donors and UN agencies active in the sector. Each donor, and often each project financed by the same donor, has different implementation mechanisms and modalities. In this situation, it is not surprising that the capacity of the Ministry of Health to engage with donors is strained.

5.54 Due to concerns about capacity limitations and the possibility of corruption, much international assistance in the health sector is implemented through dedicated governmental implementation units and non-governmental contractors, often NGOs. A typology of implementation arrangements is as follows.

- Funds are transferred directly from the donor to implementing agencies, usually UN agencies and NGOs. This is the model followed by all humanitarian programs as well as by the USAID health sector development project, whose implementing agent is a church-based NGO. This is generally the model used by the Global Fund, whose funds are managed by UNDP which then procures commodities and contracts with NGOs. Project planning and activities are agreed with the Ministry of Health, which has an overall supervisory role.
- Funds are transferred to government and procurement and financial management are handled by a governmental implementation unit outside the Ministry of Health while support to health services and other activities are contracted out to for- and non-profit organizations. This model is generally adopted by the World Bank-financed projects, which emphasize the performance-based character of contracts with NGOs to support service delivery, including significant resources allocated to monitoring and evaluation. Procurement and financial management are handled by a government project implementation unit outside of the Ministry of Health. The Ministry of Health is responsible for technical supervision of contractors and the medium-term objective is for it to take over management of the contracts. The vision underlying this approach is to encourage the government to focus its capacities on financing, supervision and regulation, while contracting non-governmental providers to develop and support health services. Such separation of purchaser and provider underlies the health systems of most OECD countries, through a combination of insurance and contracting mechanisms. However, there is little evidence that this vision has been adopted by Congolese policy-makers and it is not reflected in the recent health sector strategy which focuses on reviving the system of government-run health services.
- Province-level funds finance investment and pay for services, with management of these activities contracted out to implementing agencies. This model is developed by the EU health sector development project. Although management of the project components is contracted out to various agents, the project will establish province-level funds that will involve the government and other stakeholders in allocation decisions. The funds are to finance specific investments as well as establish a fee-for-service system by making payments for the health services provided by targeted health facilities. Underlying this is similarly an effort to separate the purchaser and the provider, but again the fee-for-service strategy is not reflected in the recent government sector strategy document, although mention is made of province-level pooled financing.
- Funds are transferred to the Ministry of Health which is then responsible for direct implementation as well as some contracting of non-governmental consultants and organizations. Financial oversight is provided by external auditors. The planned GAVI health systems development project follows this model. A planned health sector development project to be financed by Belgium may also rely on government systems in this way. The underlying vision, basically shared by the government, is the development

of programs and health services that are both funded and managed by government, largely implemented by civil servants. The basic aim is to revive the Health Zone system of the 1980s, in particular on the basis of the experience of several well-functioning demonstration projects implemented in that era.

5.55 Although the sheer number of donors, projects, and implementation strategies and mechanisms is daunting, donor coordination and joint engagement with the Ministry of Health has improved in recent years. Regular coordination meetings and working groups address technical issues and aim to achieve agreement and a coordinated approach. Some disagreements remain on particular issues, such as the strategy of prioritizing the Health Zones with the highest potential for development and the question of whether and how fees charged to patients can be reduced or eliminated. Nevertheless, overall agreement on sector strategy is represented by a 2006 note which basically supports the government health sector strategy and policies. However, coordination efforts have so far done little to address the structural factors encouraging fragmentation discussed here: multiple donors and funding and implementation mechanisms, short and differing funding cycles, poor predictability of funding levels, and little consolidation of budget and expenditure data.

5.56 Generally, the response to this type of fragmentation observed in DRC is to work to establish a SWAP framework while strengthening government systems to eventually take over funds management and implementation responsibilities. The first step – agreement on a common strategic framework that donor-funded programs will support – has been achieved on paper in DRC. However, the fact that such a high proportion of international support is dedicated to specific diseases and interventions is contradictory with the thrust of the donor and government strategies, which emphasize integrated support and development of the Health Zone service-delivery system. This reflects both the international aid architecture in the health sector (ie. the importance of issue-specific funds) as well as a strategic choice specific to the DRC context. In the post-war 2002-03 period, an explicit choice was made by the major donors and the government to prioritize service delivery over development of administrative capacity in order to address as quickly as possible the abominable health status of the population. Currently, the health situation remains very poor and this prioritization remains valid, although a number of donor-funded projects are increasing support to technical assistance and institutional development. In addition, the province-level funding mechanisms to be established by the EU project will represent an attempt to lay the basis for SWAP-like frameworks at the province level. Whether it is feasible for other donors to support such frameworks at the province level is an open question given the pending increase in the number of provinces and their generally limited administrative capacities.

5.57 Strategy and policy development by the Ministry of Health in recent years has provided the strategic and technical framework for donor-funded programs. Essentially, at the strategic level, the government's main objective of developing basic services within the Health Zone system has been adopted by the donors, although as mentioned above this is only partially reflected by funding allocations, a significant proportion of which are disease-specific. At the technical level, the government's policies and standards for the organization and staffing of the Health Zones as well as its definition of the packages of services to be delivered by PHC facilities and Reference Hospitals have been important in harmonizing the technical content of donor-funded projects. The main exception relates to the Reference Hospital, which is crucial to

the Health Zone system but which receive support neither from most disease-specific projects nor at least one significant integrated development project.

5.58 Greater governmental control over the funds and implementation of donor-financed programs will depend on reform and improvements in governance, capacity and management. Frustration with the distortions caused by disease-specific funding and lack of ownership and control associated with the use of implementation units and non-governmental contractors is palpable in the Ministry of Health's 2006 strategy paper. Although sometimes reflecting longer-term visions for how the system should be structured and financed, the implementation models prevalent in DRC are basically responses to concerns about governmental capacity and the risk of corruption. Although the amount of domestic government funds managed by the Ministry has dramatically increased, the various problems and distortions need to be addressed before more significant international financing is directly managed by government. Examples include lack of credibility of the budget, poor or absent monitoring and reporting on expenditures, continuing proliferation of issue-specific programs and departments in the Ministry of Health, concentration of spending in Kinshasa, poor funding for administrative costs in the provinces leading to "taxation" of health facilities, etc. In other words, capacity development across a wide range of areas, backed by political commitment to reform, will be necessary before there is a dramatic change in government control over most international resources. At the same time, the recently-approved GAVI health systems development project, representing financing of around US\$ 57 million, will present a crucial test case as significant responsibility for funds management and implementation will be in the hands of the Ministry of Health, using an independent financial management agent.

5.4 Health Sector Financing Requirements

5.59 Current levels of domestic and international public spending on health largely meet targets set by the government for post-conflict reconstruction. In 2004, in preparation for a donor conference, the DRC government developed a reconstruction program and cost estimates. The estimated annual requirements for health and HIV/AIDS development programs totaled US\$ 300 million, which corresponds to the peak level of international donor financing of the sector, estimated for 2006 from available donor information. The total requirement proposed in 2004 for Health Zone development and disease-specific programs, excluding HIV/AIDS, was around US\$ 220 million, which again is slightly lower than current and projected levels of international donor financing of about US\$ 200 annually. Projected annual international funding levels for HIV/AIDS programs of around US\$ 40 to 60 million, however, are somewhat lower than the 2004 proposal of around US\$ 80 million annually.

5.60 Overall, it seems that, combined with improved domestic government spending on health, the requirements set out in 2004 have been met to a significant degree. Several observations can be made about this. As discussed above, the findings of the 2007 DHS suggest that utilization of some types of services has increased, particularly facility-based, but there are indications that quality remains very poor. At the same time, coverage of many of the most effective (and cost-effective) interventions (ie, insecticide-treated nets and immunization) has improved at a slow pace and remains very low. Smaller-scale studies indicate, first, that health services and utilization do improve in Health Zones receiving international support, but second, that overall health services remain poor and that utilization rates and health outcomes remain low by

international standards. A number of factors can explain why this would be the case. First, the health situation during the conflict up to 2002 was truly abominable. Projections from the findings of retrospective mortality surveys suggested that mortality in excess of what would have been expected without the conflict totaled 3 million or higher. Huge investment was clearly required to address the situation. Second, in retrospect the 2004 proposals have turned out to be modest— around US\$ 3 per capita for non-HIV/AIDS health sector development. As discussed below, this level of spending can be considered just the start of what is required to achieve substantial progress towards the health-related MDGs, particularly if the extremely poor baseline is considered.

5.61 Given the challenges, it is not surprising that more recent estimates of requirements in a first draft of a Medium-Term Expenditure Framework (MTEF) are higher than the 2004 post-conflict reconstruction proposal. The estimated annual requirements to develop and support health services given in the MTEF draft are in the range of US\$ 430 million in the period 2008-10 (Table 5.10). This is around US\$ 6.50 per capita annually, a level of public spending on health care that would be consistent with countries with an annual GDP per capita of around US\$ 200. Based on a baseline assumption of 6% annual GDP growth (see Chapter 2) and 3% population growth, per capita GDP in DRC will reach US\$ 200 in 2021. Given these assumptions about economic growth, the level of public sector health spending given in the MTEF would increase as a share of GDP, but still in a realistic range.

5.62 Some models of the resources necessary to achieve the MDGs suggest an exponential increase in resource levels is necessary. Case studies of Ghana, Tanzania and Uganda by the UN Millennium Project estimated that achieving the health-related MDGs (including HIV/AIDS targets) over a period of ten years would require annual public spending of US\$ 16 to 22 per capita, rising to US\$ 30 to 40 (Sachs *et al.*, 2004). By this standard, current estimated total domestic and international public spending of around US\$ 5 to 6 in DRC implies a minimum annual gap of US\$ 10 per capita, or US\$ 600 million additional required resources.

Table 5.10: Draft health sector Medium-Term Expenditure Framework (MTEF), 2007-10 (US\$ million unless otherwise indicated)

	2007	2008	2009	2010
Health system strengthening	117.2	119.3	120.7	121.7
Immunization	20.7	21.7	23.5	23.2
Nutrition	5.1	5.2	5.4	5.5
Malaria	61.7	201.2	207.2	212.8
Tuberculosis	20.1	15.4	17.3	16.8
reproductive health	58.6	59.7	60.4	60.8
Total	283.3	422.5	434.4	440.8
Total per capita (US\$)	4.57	6.71	6.68	6.58
Total as % of GDP	3.0%	4.2%	3.9%	3.5%
Total as % of government spending	15.1%	20.8%	19.4%	17.6%
\ Memorandum items				
Population (million)	62	63	65	67
GDP (US\$ million)	9,379	10,163	11,218	12,533
Government spending as % of GDP	20%	20%	20%	20%
Government spending (US\$ million)	1,876	2,033	2,244	2,507

Source: DRC Ministries of Health and Finance. Staff estimates for government spending as % of GDP.

5.63 Other models provide more modest estimates but likely under-estimate the requirements for DRC. Recent modeling by the World Bank and UNICEF (Marginal Budgeting for Bottlenecks), reflected by an Africa Union strategy document, suggests considerably lower funding levels in order to achieve significant progress towards the MDGs (Africa Union, 2006), but this is due to prioritizing of a limited set of high-impact interventions. The model suggests that around US\$ 2.50 in extra public financing is required in the initial phases of scaling up basic high-impact interventions in order to improve health outcomes. However, expanding the range of the services to be provided, notably through the addition of comprehensive emergency obstetric care (i.e. surgical capacity) and HIV/AIDS treatment, brings the total annual additional cost estimate closer to the UN Millennium Project estimates for the first years of scale-up (ie. US\$ 15-20 per capita).

5.64 Such estimates from the World Bank/UNICEF model (i.e. a minimum of US\$ 2.50 additional to current spending) are likely the lower bound of what is required in DRC. In contrast to the World Bank/UNICEF model, DRC's health strategy posits delivery of a much more comprehensive package of preventive and curative services at both the primary and first-referral levels. At the same time, the World Bank/UNICEF model uses average cost estimates for Sub-Saharan Africa, many of which are likely to be underestimates in that much of the DRC that suffers from very poor transport links. In addition, the model estimates costs additional to an assumed level of current public sector health spending, and as discussed above, DRC's level of public spending on health is among the lowest in the world, so that baseline spending is likely lower than assumed by the model. Thus, the results of the model are likely to be underestimates when applied to the DRC context.

5.65 It is clear that more work on estimating the cost of implementing the DRC health sector development strategy is needed. The health sector development strategy adopted in 2006

basically intends to phase support geographically, aiming at progressively extending the geographic coverage of a comprehensive package of services. Thus, the financial requirements to implement this strategy will depend on how geographic expansion in targeting is defined. This has not yet been done in anything but an *ad hoc* manner. First, the package of health services to be supported, already defined, requires costing. Second, realistic projections of expansion of the coverage of this package are needed. Further work on the MTEF will need to reflect such analysis at the same time as remaining realistic in terms of both the likely available resource envelope and absorption capacity.

5.66 Available information on private out-of-pocket spending on health services is provided in Annex 5. Such private spending is thought to be significant, possibly in the order of US\$ 7 per capita, and has essentially supported the functioning of *de facto* privatized public sector health services in many areas. User fees and drug costs raise significant barriers to access to care for the poor, and one of the aims of domestic and international public financing is to substitute for the current level of out-of-pocket payments in order to improve access for the poor.

5.67 The newly elected government's statement of development priorities includes a commitment to improving the health status of the population, including targets for government health spending (DRC, 2007). These are 7.5% of the total government budget (excluding debt payments) in 2007, 12.3% in 2008 and 12.9% in 2009. The 2007 target is already inoperative, as the health allocation in the 2007 budget represents 5.7% of the total (excluding debt payments). Given the budget execution record described previously, even this level of spending is unlikely to be achieved. If these targets were met (and assuming that total government expenditures are around 20% of GDP, which is consistent with recent years), then government health spending would be US\$ 150 million in the first year, 275 million in the second, and 325 million in the third. Again, such increases from the 2006 level of actual expenditures of around US\$ 50 million are unlikely, although it could be noted that proportional increases of similar magnitude have occurred since 2002.

5.68 Current estimated levels of annual domestic and international public health spending (non-HIV/AIDS) total around US\$ 250 million, or US\$ 4 per capita. Assuming that a minimum of US\$ 2.50 per capita in additional annual resources are required in the initial stages of scaling-up service coverage means that an additional annual amount of US\$ 150 million is needed. Part of this, perhaps US\$ 50 million, could come from additional domestic government spending (even though this would represent a doubling of current government expenditure, it is lower than the stated target). The rest, about US\$ 100 million annually, would need to come from additional international sources.

5.69 Although elimination of user fees is being debated, available resources would not allow public provision of basic health services free-of-charge to the entire population. Evidence of the severe impact on access to health services by poor populations in DRC during the conflict led to calls for elimination of user fees (MSF, 2001). Currently, the issue has been raised in the context of development programs. Generally, Congolese health officials and other stakeholders recognize the impact of user fees on utilization and poverty, but advocate the retention of some level of fees for two main reasons. First, there is the notion that payment of fees encourages accountability between the provider and the patient. Second, the removal of fees may undermine the sustainability of the system when international support ends: a reasonable concern given the

poor predictability of international financing. In any case, the paucity of available resources makes this debate somewhat moot: currently, it is not possible to provide the basic package of health services free-of-charge to the entire population. Reducing financial barriers to utilization and the burden on households will require some combination of exemption policies and the provision of free or highly-subsidized selected high-impact services. Such strategies are already in place to a certain extent in DRC and they require strengthening in combination with the necessary external subsidies.

5.6. Conclusions and recommendations

5.70 This is an important moment in the development of the health sector in DRC. The immediate post-conflict phase is over although enormous challenges in terms of improving health services and outcomes remain. Government capacity and levels of financing have significantly improved and there is political commitment to further dramatic increases. International donor funding for health services has also expanded and a second-generation of programs is starting while humanitarian assistance is phasing out. Considerable policy development has been achieved by the government, establishing the strategic framework and technical content of health service development. However, long-standing challenges relating to quality and accessibility of health service, administrative capacity, and the risk of corruption remain, while major new questions about the pending decentralization of responsibility for basic health services to the provinces need to be addressed.

5.71 Current sector strategy assumes a substantial role for government in directly providing health services. Describing how the government had withdrawn from the sector during the 1990s, resulting in the *de facto* privatization of government health services solely dependent on revenues from patients, the 2002 PER recommended that the role of the state in the provision of health services be reconsidered. Since then, the state has reasserted itself with a substantial improvement in domestic government health spending, so that regular salaries as well as some significant allowances are now being regularly paid to health workers. Donor-financed development programs have also increased the presence of the state in the sector. In addition, strategic and technical leadership is now being provided by the government through sector plans and standards that are, for the most part, being supported by domestic and internationally-funded programs. The vision that is becoming evident, particularly in the 2006 health sector strategy, is basically a revival of the development program of the 1980s, consisting of the following elements: i) service provision through the integrated Health Zone system of a network primary health care services supported by a reference hospital; ii) significant public-sector financing combined with patient contributions; iii) mostly government provision of services through management of facilities and personnel; and iv) partnership with church-based non-governmental providers, usually managing hospitals, through agreements and sometimes government financing.

5.72 Revival of this program makes sense in that it was originally well-conceived and adapted to the DRC context, it effectively focuses on provision of basic health services with the most impact on the health situation in the country, and it builds on an administrative and service-delivery structure that has shown in some cases remarkable resilience. The inherent logic of the Health Zone system can be contrasted with the fragmented and sometimes dysfunctional divisions of responsibilities and administrative frameworks that can be observed in some other

countries in Sub-Saharan Africa. Nevertheless, the context has changed significantly since the 1980s. First, as emphasized at various points in this chapter, along with a private for-profit sector that is poorly understood but known to be important in the major cities, significant proportions of the government health system are *de facto* privatized, relying on marketing services to the population. Second, this has notably involved the creation of a significant cadre of non-regularized health workers providing services in government facilities, leading to overstaffing in areas where the population has purchasing power, combined with understaffing in the poorest rural areas. Third, international public sector financing is largely implemented through a variety of mechanisms that involve a large role for non-governmental contractors. Fourth, the upcoming creation of new provinces and devolution of responsibility for basic health services to them presents, among other challenges, the prospect of capacities, financing levels and ultimately service delivery implementation strategies, standards and practices, that vary widely between provinces.

5.73 These factors raise the question of whether, in a situation of still-limited governmental capacity, its efforts and domestic financing should be spread between all three of the major health system functions: i) stewardship; ii) financing; and iii) service provision (WHO, 2000). Along with responding to capacity limitations and governance risks, many of the major donor-funded programs are experimenting with implementation mechanisms that, in particular, would be amenable to greater separation of the stewardship and financing functions from the service provision function. Performance contracting (World Bank) and fee-for-service (EU) strategies are the main examples. However, because both the financing and large chunks of the service provision parts of donor-funded programs have not been directly in the hands of government, there is a sense the stewardship function of government has also been limited. Although it is clear, given the health situation of the population, that a focus on improving basic services should remain the priority, strengthening the capacity of the government (at the central, and now the provincial levels) to fulfill its stewardship and financing roles, may allow it to become more comfortable with private for- and non-profit service provision, so that limited public sector capacity is focused on stewardship, regulation and supervision, as well as financing issues.

5.74 The 2006 sector strategy as well as subsequent debate, indicate that the vision for development of the sector privileges to a significant extent facility-based services. In particular, there is a sense in some quarters that strategies based on community-health workers are not effective and do not deliver services of sufficient quality. Others suggest that confining the delivery of basic services (such as family planning, and malaria, pneumonia and diarrhea treatment, as well as various preventive services) to health facilities will not be cost-effective and will leave significant proportions of the population without access for some time to come. This debate may really be about the question of disease-specific programs versus more integrated service delivery, since most community- and household-based strategies are designed to deliver a single intervention or set of interventions. At the same time, there is ample international evidence that community- and household-based strategies are effective when there is adequate and sustainable support from the health system. It is evident that further discussion on this issue should focus on the delivery of an integrated package of services at the community and household levels as well as on the requirements for support from the network of health facilities through such strategies as “expanded outreach” (Economist, 2007).

5.75 Further work on these broader strategic issues should be accompanied by more focused reforms that are achievable in the short and medium terms. In the short term, the following priorities for the next 18 months are recommended.

- Budget process. Given projected increases in government spending on health, and building on progress in the budget process achieved in recent years, further work aimed at improving the credibility and usefulness of the budget is necessary. This should include notably: i) introducing a transparent process of prioritization within a realistic total envelope; and ii) involving the provinces in the budget process, encouraging the use of Health Zone annual plans as a basis.
- Disbursement process. A particularly urgent reform is to find a way for Health Zones (likely through the provinces) to access their non-salary budget allocations. In addition, the use of exceptional payment procedures for Ministry of Health expenditures needs to be curtailed in order to limit the risk of corruption.
- Health human resources. Health human resources are a crucial component of many of the important strategic issues facing the sector, including the role of the state, financing, decentralization, equity, and quality of services. In the short-term, it is recommended that government establish, province by province, an accurate accounting of civil servants and non-regularized health workers.
- Government-managed sector investment. The recently-approved GAVI health systems project, to be largely managed by the government, provides an opportunity to show international partners the extent to which the financing function of the health system can be handled by directly by government, so the fiduciary aspects of this project should receive close attention.
- Decentralization. The major questions relating to financing, capacity, division of responsibilities and the risk of exacerbating inequalities, need to be discussed. The Ministry of Health should lead a process of consultation and discussion in order to develop a sector-specific strategy on decentralization. How to ensure equity in the financing and provision of health services across the country is the major challenge.

5.76 It is recommended that a public expenditure tracking survey (PETS) be conducted as soon as possible to inform these reforms (it is also a HIPC completion point trigger).

5.77 The following reforms are recommended for the medium-term. The preparations should begin immediately so that the expected outcome could be achieved in the next few years:

- Budget and disbursement monitoring and reporting. The Ministry of Health should report the use of public resources (salary and non-salary) regularly. To do so, it is necessary to develop an effective monitoring system, adapted to the upcoming decentralization.
- Cost estimates and MTEF. Further work on medium term projections, particularly on allocation and likely implementation mechanisms, is called for. This should be based on cost estimates for the package of services to be supported (from better understanding of actual experience in DRC) and realistic projections for expansion of coverage, taking in account the likely available envelope from domestic and international sources.

- Health human resources. To achieve sustainable improvements in service delivery, it is necessary to develop and implement a strategy for rationalizing the health workforce, including reducing overstaffing in some areas and reassigning providers to underserved areas. It should be noted that, in particular, addressing the issue of non-regularized workers should not necessarily mean dramatic expansion of the health sector civil service, particularly in the context of decentralization of responsibility for salary payments to the provinces. More creative mechanisms, for example building on existing experience with partnerships with the churches and NGO contracting, should be adopted.
- Decentralization. Decentralization of responsibility for basic health services to the provinces will entail substantial challenges for many years to come, and it will be necessary in particular to invest substantial effort in building the capacity of the provincial administrations.
- Management and coordination of donors. On the donor side, it is evident that recent progress on coordination should be further extended, with the aim of reducing the strain on limited government capacity. Recognizing that harmonization of fiduciary procedures is difficult and will take time (if it is ever achieved), government should encourage donors to harmonize more technical issues, particularly in the areas of monitoring and evaluation and technical (non-fiduciary) implementation modalities such as performance standards for NGOs and health worker incentive levels and modalities. In addition, government should make an effort to compile data on the budgets and actual expenditures of donor-supported projects in order to inform its planning and allocation decisions. Greater resources should be applied to building the capacity of the Ministry of Health to improve management of donors in these areas. At the same time, donors need to seriously work on improving the predictability of funding flows to the sector.

Chapter 6. GENDER

<i>Priority recommendations</i>		
Institutional Coordination	<ul style="list-style-type: none"> • Clarify the MinWA’s role as one of coordination, monitoring, and advocacy. • Increase the total amount of funds allocated to promoting gender equality and improving the collection of sex-disaggregated data. 	For 2009 budget cycle
Violence Against Women	Allocate resources for efforts to eliminate violence against women, starting with improved understanding (through awareness building, advocacy, and training) and improved official monitoring the situation, including data collection. Better understanding and information should lead to concrete actions to protect the vulnerable.	Start immediately
Promote equality through sector policies	<ul style="list-style-type: none"> • Examine the impact of school fees on the enrollment and retention of girls, and take appropriate measures • Provide better access to family planning and reproductive health care 	Start immediately

6.1. Introduction

6.1 There is severe gender inequality in the DRC; a majority of women have a very low status in society and often experience marginalization, discrimination, and abuse. The DRC is ranked in the bottom 6% (167 of about 177 countries) in terms of a compilation of social indicators as measured by the United Nations Human Development Index (HDI). In 2006, the UN Human Development Report also ranked the DRC in the bottom 4 % (130 out of 136 countries) in terms of their Gender Related Development Index, which includes measures for life expectancy at birth, adult literacy ratio, combined gross enrollment ratio, and estimated earned income. Girls have lower primary school enrollment and completion rates than boys, both within the country and compared to other SSA countries (See Table 6.1); the maternal mortality ratio and fertility rate are among the highest in the world; women are more susceptible to HIV/AIDS than men, making up 60% of the infected population within the DRC; the incidence of gender-based and sexual violence is considered to be one of the worst in the world.⁹⁰ These findings are reflected in the most recent MICS⁹¹ done in the DRC, which reported that women faced discrimination within all facets of life. Specific concerns included the lack of proper education and healthcare, inequality in access to education, lack of access to financial resources, frequency of teenage marriage and pregnancy.

⁹⁰ At a conference held in Kinshasa on July 27, 2007, Professor Yakin Ertuck, Special Rapporteur of the United Nations Human Rights Council on Violence Against Women, denounced the situation in the Kivus in Eastern Congo as “...the worst crisis I have encountered so far.”

⁹¹ 2001/2002 MICS, Survey of Women and Children

Table 6.1: Parity in Education, 2003

	Parity for Primary Completion Rates*
DRC	0.67
Togo	0.69
Equatorial Guinea	0.70
Niger	0.71
Burundi	0.74
Uganda	0.87
Congo	0.94
Rwanda	0.97

Source: UNStats: Millennium Indicators

*Estimates for 2003 or most recent year.

6.2 Laws and regulations exist to address the equality and protection of women and girls in response to the gender inequalities present within the political, economic and social landscape, acknowledged as detrimental to society as a whole. For example, the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) was ratified by the country in 1986 and the Constitution (2006) includes two articles, 14 and 15, which are aimed to ensure the equality and security of women and establish the illegality of violence against women. Article 14 calls for the elimination of discrimination against women, and, in particular, for measures to eliminate violence against women and to ensure equal representation of men and women within national, regional, and local institutions. Furthermore, it states that the law should be adjusted to secure these rights. Article 15 calls for the elimination of sexual violence, declaring it is a crime punishable by law.

6.3 The recently completed PRSP recognizes gender equality as an important issue, and advocates measures to be taken to ensure equality and proper treatment for all. It states that economic growth is not possible without accounting for the gender dimension in order to guarantee the full participation of all members within society. Recommendations in the PRSP include programs to ensure the equal access to education at all levels for both boys and girls, facilitation of access to credit and factors of production for women, improvements made to both the access and quality of health care for mothers and children, promotion of the participation of women within local development institutions, protection of women against gender-based violence and targeting the negative outcomes experienced by women, in particular due to armed conflict.

6.4 However, the implementation of such laws and regulations is inadequate, and there is a disconnect between the laws on paper and the legal protections in practice. Based on various social indicators, the political and socio-economic situation for women does not appear to have improved significantly over the last two decades. The maternal mortality rate is estimated to have risen from 870 in 1990 to 990 in 2000 and the fertility rate has stayed constant at around 7 since 1980. Although enrollment rates at the primary and secondary levels for both sexes have improved in recent years, the gap between the two has actually increased, with the gender parity index for gross enrollment rates (primary and secondary combined) declining from 0.80 in 1999 to 0.73 in 2002. In terms of sexual violence, there are problems at many levels- officials such as police and military are among the perpetrators, and the courts lack the capacity to handle these cases properly.

6.5 An improvement in the execution and effectiveness of programs and initiatives directed towards addressing gender inequalities is essential in order to achieve the objectives outlined in the PRSP and move in the direction of attaining the Millennium Development Goals (MDGs). Many of the Millennium Development Goals have indicators which are directly related to gender equality issues, such as a reduction in maternal mortality and parity in education enrollment, and all have a gender dimension which should be taken into account. Therefore, the gender analysis of current policies and spending, and improvements in the ability to track expenditures by gender are particularly important for achieving the MDGs. In particular, it will allow for a better understanding of the proportions of men and women currently benefiting from the policies and spending as well as an improvement to reach the groups that need it most.

6.2. Institutional Framework

6.6 The government currently has a Ministry of Women's Affairs (*Ministère de la Condition Feminine - MinWA*) with the mandate to ensure that proper attention is given to the needs of women and girls (and children) in the DRC. The mandate of the Ministry is to identify the main problems which women face within all sectors and the subsequent mechanisms to be employed at the sector level for solving such problems. Therefore, the MinWA must work closely with relevant line Ministries to coordinate the appropriate measures to be implemented in order to address the identified gender issues. Currently the MinWA is working with the Ministry of Primary, Secondary, and Professional Education (MinEPSP) on a program with a component aimed to increase the participation rate of girls attending school. MinWA is also working with the Ministries of Health and Justice on initiatives to eliminate sexual violence and improve the state of reproductive health.

6.7 In addition to the Ministry for Women's Affairs, the Ministry for Social Affairs also has initiatives which specifically target women. These initiatives and programs include women's resource centers and a program to address the specific needs of handicapped women.

6.8 The MinWA has drafted a plan to address issues facing women in various areas such as education, health, economic development, agriculture, justice, and security, related to the objectives of the MDGs. The plan proposes activities and initiatives within each area to achieve the intended outcomes, and identifies the target population and the parties responsible for implementing each (i.e. ministries, donors), the cost, and the timeline, with many of the targets set for 2015. This plan seems overly ambitious considering the current capacity of the MinWA. There would need to be significant changes in the way in which the Ministry functions in order to coordinate and monitor the implementation of such activities.

6.9 Lack of coordination between ministries, constraints on human and financial resources, and limited data will pose a challenge to achieving many of the goals outlined in the proposed plan. Before many of these programs/initiatives can be accomplished, there needs to be an emphasis put on improving data collection and research, with regard to gender. In particular, there is a need to improve upon the reliability of the data and frequency of collection, especially for statistics related to social sectors. For instance, the last national statistical yearbook for education data was done in 2001/2002. Improved data will help to hone in on the appropriate target populations within each sector, and validate the many problems already identified as facing women within the DRC.

6.3. Budgetary Framework

6.10 Overall, the MinWA is allocated a very small portion of the budgetary resources. In 2006, the MinWA received a budget allocation of \$1 million, of which 67% was executed, amounting to only 0.05% of the total budget executed. The percentage of total funds and amount executed in 2006 was similar to that in 2005, although it was an improvement compared to 2003 and 2004 (see Table 6.2). In comparison, the funds allocated to the Ministry for Tourism and Ministry of Sports and Leisure in 2006 were 3.8 and 11.1 times more, respectively, than that of the MinWA. Like other line ministries, the MinWA's budget proposal does not use a realistic envelope or reflect priorities based on a clear strategy. MinWA has prepared an ambitious set of programs aimed at addressing issues facing women in various areas. The total cost of executing this proposed plan is \$219 million (15% of the total budget), 325 times the budget allocation to the MinWA in 2006, or a little more than that to the Ministry of Defense. The plan's objectives target the right issues. However, the plan seems unrealistic, both in terms of MinWA's implementing capacity and the likelihood of budget availability.

Table 6.2: Actual Budgetary Expenditures for 2003-2006

Ministry	2003	2004	2005	2006	2003	2004	2005	2006
	% exec				% total			
Health	56%	33%	55%	54%	49.7%	46.1%	25.7%	21.2%
Primary, Secondary and Professional Education	63%	21%	87%	89%	35.3%	25.0%	49.2%	61.0%
Tertiary and University Education	40%	25%	88%	82%	10.1%	11.9%	17.3%	14.8%
Human Rights	73%	102%	80%	73%	1.17%	1.02%	0.22%	0.11%
Social Affairs	32%	34%	28%	51%	2.74%	8.92%	5.00%	1.73%
Ministry of Women's Affairs	27%	25%	65%	62%	0.28%	0.69%	0.48%	0.30%
Solidarity and Humanitarian Affairs	40%	44%	77%	81%	0.76%	6.36%	2.10%	0.86%

Source: Ministry of Finance

6.11 The distribution of funds within the MinWA needs to be improved upon in order to allow MinWA to effectively; plan and execute programs and initiatives, and coordinate with other agencies implementing programs aimed at improving the condition of women in the DRC. The funds executed by the MinWA in 2006 were used primarily for personnel (34%) and construction (45%), with a little over half of these funds (53%) allocated to the Cabinet and the Secretary General. Aside from the Secretary General, the highest allocation to a single program was to construction within the Women and Development initiative (38%). The other initiatives and centers which received funds from this Ministry in 2006 were the Center for Mothers and Children in Kinshasa-Ngaba, the National Program for Promotion of Congolese Women and Economic Promotion with 7.1, 1.1, and 0.02% of the ministry's total budget, respectively. Other programs, departments and initiatives which were listed on-budget in 2006 but whose funds were not executed include studies and planning, coordination and monitoring, and general services. These units of the Ministry are essential to complete assessments of the feasibility and prioritization of proposed programs. Therefore, future allocation and execution of funding should reflect the importance of these units in order to help improve the efficiency and function of the Ministry. However, the MinWA should focus on coordinating activities aimed at improving the condition of women, which are already being undertaken by other agencies rather than trying to execute a comprehensive set of programs themselves. In addition, it will be important for

MinWA to leverage more resources from domestic and international NGOs and international organizations rather than relying solely on government budget.

6.12 On-budget items directly and indirectly related to gender issues within other Ministries also receive a very small amount of funds. The total amount of funds allocated to all gender programming, both gender specific and those with a gender incidence, within the budget is less than 0.1%. Only two of the five programs listed on-budget in the Ministry of Social Affairs, the Center for the Promotion of Handicapped Women and the Foundation of Marie Antoinette, received funds in 2006 (1.2% and 0.11%, respectively, of the Ministry's budget). The only other Ministry with programs on-budget to address gender-related issues specifically was the Ministry of Health. These programs accounted for a total of 0.34% of the Ministry's executed budget.

6.4. Sectoral Issues-Education, Health, and Security

6.4. 1. Education

Issues

6.13 **Gender disparities in education exist at all levels, with girls lagging behind, especially in secondary school and beyond.** The most recent country-wide Gross Enrollment Rate (GER) estimates⁹² for primary school are 56% for girls and 72% for boys. According to the last country-wide statistical yearbook for 2001/2002, the gender disparity in primary school was 0.79, or a 12 percentage point difference in favor of boys (56% versus 44% of total). The smallest difference was found in Kinshasa, achieving parity in enrollment, and the largest in Maniema and South Kivu, where girls made up 41% of total enrollment. In terms of both enrollment and gender parity, the larger problem lies in completion rates of primary school and transition to secondary school. The GER for secondary school is 29% for boys and 17% for girls. In 2001/2002, girls represented only 37% of total enrollment in secondary school versus 63% for boys. The gender parity index for the GER of both primary and secondary combined is 0.73, down from 0.80 in 1999. A more recent survey in Kinshasa from 2005 illustrates the increased drop-off rate for girls based on retention rates within primary school (from grade 1 to 6). Boys had a retention rate of 82% while girls were at only 68%, with a combined rate of 75%.

Benefit Incidence and Budgetary Analysis

6.14 Gender gaps in education enrollment, and thus education expenditure, disfavor girls in the DRC. Education expenditure by gender in 2002 reflect higher enrollment for boys in both primary and secondary enrollment, with a more significant difference in the latter. The government spent approximately 42% more on boys than girls for both primary and secondary education (23% and 66% more on boys for primary and secondary, respectively). Based on the trends in enrollment and expenditures, the inclusion of higher education would yield an even greater difference in spending in favor of boys.

⁹² *Annuaire statistiques*; Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2002 Revision and World Urbanization Prospects: The 2001 Revision.

6.15 There were no programs included in the MinEPSP's budget to directly target girls' education in 2006. There was one program listed on-budget, which could have had an indirect effect, Direction for Education for All, but the funds were not executed. There were no specific programs included within the budget for the Ministry for Higher and University education to target girls. The majority of funds allocated to both the MinEPSP and the Ministry for Higher and University education have been used for personnel, making up 89% and 94% of their respective total budgets in 2006.

6.16 The limited national programming to address girls' education is currently reliant on externally funded campaigns focused on primary education. One ongoing program is focused on improving the quality of primary education in conjunction with the MinEPSP and the MinWA, with a component to specifically target girls' enrollment (*Toutes les filles à l'école*). This program is fully funded by UNICEF. In 2006, the program received \$7 million and the 2007 projection is \$14 million, which is about seven times greater than the amount allocated by UNICEF in 2003. The campaign for girls' participation targets 2,200 schools chosen from nine provinces. There are two components: (i) an advocacy component funding informational posters and television ad campaigns, (ii) provision of resources to schools in which a supply pack is given to everyone as an incentive to send all children to school. The program is currently focused only on primary education but will widen its scope to include secondary education and also support learning centers where girls who missed out at a young age can complete primary education in 3 years instead of 6 years. Although there are no results on the progress of the campaign for girls' education specifically, there are promising trends according to statistics collected by UNICEF in around 26,000 classes in 11 provinces. Within this sample, the average primary enrollment for girls increased by 13.1% and the average for boys increased by 7.3%.

6.17 Funding initiatives in order to understand and address gender disparity within secondary enrollment and retention rates are essential, together with continuing programs to increase gender parity and enrollment at the primary level. There has not been a comprehensive country-wide study or survey to address this issue. However, UNICEF conducted preliminary work through informal discussions within schools, which showed the following as the main reasons that girls drop-out of school: (i) school fees, (ii) girls in puberty at primary level, and drop-outs due to early marriages, (iii) low number of female teachers, which may impact the decision whether to send girls to school, given the potential for sexual harassment or discomfort within schools. UNICEF is also conducting a national survey in 8 provinces to collect information on completion rates that will look at gender discrepancies and may provide more information on the subject.

6.18 A pilot survey done by the World Bank confirmed the negative impact of school fees on school attendance of both sexes. In addition, the survey found a bias of teachers towards male students with regard to perceptions about their relative capability in completing work. The survey also found that a larger number of drop-outs were girls during the 2005-2006 school year (See Box 6.1).

Box 6.1: Gender Survey within Primary Schools

A pilot gender survey was conducted in the province of Bandundu, with the aim of eventually implementing it country-wide. The extension of the survey could be done as part of an education PETS planned for 2007-2008. Twenty-seven teachers, directors and parents were surveyed on a variety of topics with the intent of gaining insight on reasons that girls do not attend/drop-out of school. This survey confirmed the importance of school fees as a factor in school attendance for children of both sexes. It was the number one reason cited by parents and teachers for why children were absent or no longer attending school. Other results of interest include the opinion by a majority of the teachers sampled within coed classes, both male and female, that boys are more capable than girls in doing their schoolwork. The reasons cited were that boys are more intelligent, disciplined, and attentive while girls are more timid and are responsible for helping out at home. When asked if it is important for girls to learn math, all but one teacher responded yes. Parents were asked if they would make their daughter quit school if she became pregnant, and the majority answered yes. The main reasons cited here were that it would be scandalous, it was immoral, bad for her future and the school does not allow it. A majority of both parents and teachers said that topics of family planning and sexuality should be introduced in 5th or 6th grade. In terms of indications that girls are dropping out past 6th grade (primary school), there were more instances where the proportion of girls attending the TENAFEP exam (the exam required to pass 6th grade/primary level) was less than half. In addition, in terms of drop-outs, there were more instances where the number of girls was greater than the number of boys who had abandoned school in the 2005-2006 school year. As the sample size was small, these results can not be used to give us conclusive evidence of the number of girls dropping out of school and the underlying reasons. However, it can give us an indication of why, and in particular, they can further validate the need to assess the structure of school fees within the education sector. Given the country wide statistics, and various surveys and discussions, girls' attendance rates seem especially sensitive to the existence of school fees.

6.19 Another major problem related to education in the DRC, especially for women, is illiteracy, which hinders the ability to fully participate in society. In addition, there is conclusive evidence to show that a woman's level of education also has a significant effect on many health outcomes for women and her children. The 2001 Survey of Women and Families found that for indicators on malnourishment, respiratory infections, malaria prevention and vaccinations, the children whose mother had at least primary education, and even more significantly, secondary education, had better health outcomes in these dimensions. According to the same survey, the percentage of those literate was 63%. There are significant differences due to income, age and gender. Gender accounted for a 22 percentage point difference in literacy between males and females, with only 52% of the females and 80% of males being literate. The gap between men and women decreases with age, with the gap between men and women 65+ at 52 points as compared to the gap between those 15-24 years old at 15 points. However, in the meantime, female illiteracy needs to be addressed for the current adult population. For example, in the survey, only between 8-50% of the women 35+ are literate. In 2006, there was one on-budget program listed in the Ministry of Social Affairs to specifically address illiteracy, and the funds were not executed.

6.4.2. Health

Issues

6.20 Health **indicators for women in the DRC are very grim overall.** With one of the highest maternal mortality and fertility rates in the world, the maternal health situation is in need of urgent attention. Poor maternal and reproductive health outcomes reduce the amount of

healthy and productive citizens in the economy, and have a negative affect on society as a whole. The adjusted maternal mortality ratio⁹³ is at 990 per 100,000 live births per year. To put this number in perspective, the MDG target for 2015 is 320/100,000. Women die in childbirth due to lack of access to the proper obstetric care, delays in obtaining such care, and poor quality of care when it is available. Only 46% of pregnant women have prenatal care benefits and 24% of pregnant women are assisted by medical personnel during childbirth. One-sixth of mothers are malnourished, which could contribute to the high infant mortality rate (128 per 1,000 live births compared to the sub-Saharan Africa average of 100 per 1,000).

6.21 Both contraception usage and proper knowledge of HIV/AIDS prevention are low in the DRC. According to the 2001 Survey of Women and Families, the total percentage of the surveyed women aged 15-49 who are aware of all three main ways⁹⁴ of preventing HIV transmission was only 40%. In addition, the share of surveyed women aged 15-49 married or in a union who are using (or whose partner is using) any contraceptive method was only 31%. The use of modern contraceptives is very low (4%), the total fertility rate is high (7.1), and adolescent fertility is particularly high (20% of girls aged 15-19 are giving birth). HIV/AIDS is currently more prevalent among women than men in the DRC, with women accounting for 60% of the infected population, with a prevalence rate among pregnant women at 4-8%.

6.22 Utilization of maternal and reproductive health care services in the DRC is highly sensitive to both income and level of education. As evidenced by findings from the Survey of Women and Children 2001/2002, such services seem to be highly sensitive to both income and a woman's education level. For mothers protected against neonatal tetanus, there was a 51 percentage point difference between those protected in the poorest quintile versus the richest (31 vs. 82%) and almost double the amount of mothers obtaining a secondary education, as compared to those with no education (69 vs. 37%). Similarly, for those who received antenatal care by any skilled personnel, there was around a 30 percentage point difference between both the poorest and richest (58 vs. 88%) and between those with a secondary education and those with none (83 vs. 55%).

6.23 It has been shown⁹⁵ that a link exists between a mother's education level and the likelihood for obtaining professional assistance at the time of delivery, as well as ensuring vaccinations for their children, but such a link does not seem to be there for curative care, which suggests a lack of service availability within the country. It is also likely that the prolonged civil conflict has undermined the effects of education and has caused women to become even more disadvantaged, regardless of the level of education. Both geographic and financial accessibility along with quality are found to be major problems regarding healthcare within the DRC for health care. The fee structure in the healthcare system currently is an impediment for access to all health care, which could have a significant effect for women in particular.

⁹³ Estimate derived from the model.

⁹⁴ Three main ways of preventing HIV/AIDS outlined in the survey: i) Having only one faithful, uninfected partner; ii) Using a condom every time; iii) Ensuring that only sterile needles are used for medical injections.

⁹⁵ See Health, Nutrition and Population Country Status Report for DRC (World Bank, 2005).

Budgetary Analysis

6.24 **There is a low budget allocation to reproductive and maternal healthcare, and an even lower execution.** The allocation within the health sector is also skewed towards salaries: the Secretary General received 54% of health budget allocation, 82% of which went to personnel. The overall allocation to health initiatives with a gender component was only 0.34% in 2006.

6.25 **In addition, on-budget resources allocated for gender programming within the Ministry of Health have been inconsistent.** One of the main programs is the National Reproductive Health Program, which was established in 1998. Its objective is to improve access to quality health care and improve the situation for women, with the prevention of maternal mortality as a top priority. The program has lacked proper funding and material resources. Over the period 2003-2006, this program was allocated 0, 0.34, 0.85, and 0% of the total executed budget of the Ministry of Health, respectively.

6.26 The miniscule and inconsistent allocation of the State budget to the health sector is likely to be linked to the importance of external financing in the sector (see the health chapter). Since 2004, the majority of funds for the National Reproductive Health Program have been financed by UNFPA. From 2004 to 2007, the program has received \$1.7 million, 1.3 million, 0.9 million, and 0.9 million respectively. Approximately half of the funds for 2007 went towards purchase of equipment. This program does not seem to have had a significant impact upon maternal mortality and the fertility rate. The maternal mortality rate is estimated to have risen from 870 in 1990 to 990 in 2000 and the fertility rate has stayed constant at around 7 since 1980. The program is projected to receive \$3 million in 2008, a 244% increase from 2007. An educational campaign on reproductive health at universities is being funded by UNFPA, and implemented jointly by the Ministries of Health, of Youth, and of Social Affairs. The objective is to inform students about methods for safe sex and family planning by training teachers to include it in the curriculum and to target the men in particular.

6.4.3. Security

Issues

6.27 Gender-based and sexual violence in the DRC is a major issue, especially in the eastern part of the country most affected by the conflict, and has been considered among the worst cases of human rights violations in the world. A 2005 report by Human Rights Watch⁹⁶ estimated that tens of thousands of women and girls were victims of sexual violence during the five years of conflict. A WHO study⁹⁷ concluded that around forty thousand women had been raped in the provinces of South Kivu and Maniema and in two cities of Goma and Kalémie. Unfortunately, violence still continues in eastern Congo despite the end of conflict, primarily by non-state armed groups in the area. More recently, the UN and civil society have recorded 4,500 cases of sexual violence in the first six months of 2007, with the actual number likely to be much higher

⁹⁶ Human Rights Watch, 2005. *Seeking Justice: The Prosecution of Sexual Violence in the Congo War*, HRW, Volume 17, No. 1 (A), March.

⁹⁷ United Nations Office for the Coordination of Humanitarian Affairs - Integrated Regional Information Networks (IRIN), DRC: Focus on Rampant Rape, Despite End of War, March 2004.

due to cases either unreported or in inaccessible areas.⁹⁸ In addition, sexual violence is increasingly committed by civilians, some of which were ex-militiamen, and thus could have implications for a greater demand of psycho-social treatment within the country.

6.28 The violence against women is also prevalent within the household and communities, and seems to be perceived as normal within many sectors of society. However, as in many other countries, the social and political culture of the DRC makes it very difficult to address the issue. Women live under a very patriarchal system; in many rural areas women are purchased through dowry and have a very low status in society.

6.29 Despite the articles within the constitution to denounce sexual based violence and classify it as a crime, it is very hard to get cases reported and heard for various reasons: (i) there is a cultural stigma associated with reporting rape cases, (ii) military and other officials are unwilling to treat sexual violence as a serious offense, (iii) some of the perpetrators of such acts include members of the military and police themselves,⁹⁹ (iv) victims are not protected, and (v) the judicial system is not efficient. The Ministries of Women's Affairs and of Justice are working to revise the existing law on sexual violence.

6.30 Although there are many international and national organizations working to help eliminate violence against women, there are few programs which are led and implemented by the government. The United Nations Peacekeeping Force (*Mission de l'Organisation des Nations Unies pour le Congo* or MONUC) has training programs on gender sensitization in place both for their own force and also for the police and military. This training aims to make the police and military more aware of how to deal with cases of sexual violence appropriately and also how it should be treated in the event that someone within the force is a perpetrator. The serious issue of violence against women, and possible ways to address it, will be discussed in more detail in the parallel study, DRC: Security Sector PER (forthcoming).

6.31 Therefore, it is imperative that the government strengthen its commitment to ending violence against women not only on paper, but in practice. This can be done through the establishment of various commissions to monitor and evaluate measures included in the Constitution, as well as the strengthening of criminal procedures and eliminating the impunity that currently exists for perpetrators.

Budgetary Analysis

6.32 **Currently, there is no program on-budget to directly address the issue of violence against women.** There are a couple of programs within the MinWA which might include some support to victims. The total for these programs is about 0.02% of the total budget, with even less, if anything, allocated to this particular issue. None of the other relevant line ministries, such as Defense, Justice or National Police has any money on-budget going towards programs to help alleviate the issue of violence against women. Funds going to personnel account for one third of the budget for Defense and Justice, and 85% of the budget of the National Police.

⁹⁸ UN Mission in DR Congo (MONUC) report, July 27, 2007.

⁹⁹ According to the July 27, 2007 report, MONUC estimated that in South Kivu and Ituri, close to 20% of all cases of sexual violence were committed by the Armed Forces of DRC (FARDC) and the National Congolese Police (PNC).

6.5 Recommendations

6.33 Overall, the amount of budgetary funds allocated to gender issues does not match the gravity of relevant problems, the proclamations by the government, or the necessity to achieve various human development benchmarks, such as the MDGs. MinWA's role should be one of coordination, monitoring, and advocacy. It should focus on coordinating programs undertaken by other ministries and agencies, domestic and international NGOs and other international organizations rather than attempt to implement multi-sectoral programs by itself. The total amount of funds allocated to programs designed to address gender equality issues and improve the collection of sex-disaggregated data, not just in MinWA, but in sectoral ministries (especially health, education, and prevention of violence against women) needs to be increased substantially, if the abject conditions in which a large proportion of women live are to improve.

6.34 **The DRC needs better coordinated institutions to address gender issues.** In order to achieve this, the breakdown of the responsibilities between the MinWA and Ministry of Social Affaires needs to be specified. Currently there are several women's centers and initiatives within the Ministry of Social Affairs that are very similar to those in the MinWA. There needs to be increased coordination between the ministries and possible merging of certain sections. It is also necessary to clarify the modalities of collaboration, coordination, and accountability with line ministries. Line ministries should continue to take responsibility for the implementation of relevant gender programming. In the meantime, the Ministry responsible for gender and women's affairs needs to improve their capacity for the collection of data, in order to better target the needs of the most vulnerable, and identify the most pressing problems. This combination will improve the partnership of the appropriate Ministries, and the capacity of the appropriate gender Ministry to influence decisions on allocation of funding within the line ministries to relevant programs as well as the monitoring and evaluation of such programs.

6.35 The priorities declared in the Constitution, PRSP, and other policy statements should be better reflected in the government's program, and hence in the State budget. The voice of the MinWA needs to be heard in the budget preparation and execution process. For this, there needs to be a meaningful budget conference (see chapter 3) as well as a serious effort to improve the collection and use of sex-disaggregated data.

6.36 Funds within the appropriate line ministries need to reflect appropriately the commitment by the government to eliminate violence against women, improve gender parity within education, and increase access to healthcare. It is also important that financing be incorporated into the government's planning (and hence the State budget) so that various programs are well coordinated and target the overall objectives. Priorities for the government are as follows:

- Considering the grave situation for women, especially in the eastern part of the country, a budget appropriation should be made to fund efforts to eliminate violence against women. The efforts should start with seeking to understand better the situation (through awareness building advocacy, and training) and an improved official monitoring of the situation, including data collection, so as to increase the capacity to hone in on the characteristics of the victims and perpetrators. Better understanding should be translated into concrete actions to protect the vulnerable.

- The government should consider the impact of school fees on the enrollment and retention of girls in particular, which could ultimately contribute to the case for their elimination. More studies should be done to identify reasons that girls drop-out of school at the end of primary and beginning of secondary levels, and necessary steps taken, including, if needed, the elimination or reduction of fees.
- Maternal and reproductive healthcare needs to be improved to serve the needs of the most vulnerable, especially among the rural and poor women. There needs to be an increased effort to provide better access to family planning and reproductive healthcare among these women in particular.

Annex 1: Public Expenditure Management

1. Public Finance Institutional Framework

A1. The existence of two ministries (Budget and Finance) is based on the following division of tasks: (i) the Budget Ministry prepares the budget, executes part of the administrative phase of the budget execution (commitment and verification) and produces budget execution reports (ii) the MoF is in charge of payment authorizations and payments and produces the public accounting statements. The dual roles of the Budget and Finance Ministries are not backed supported by an effective circulation of information. The budgetary data base should be used to record budget operations in general accounting. However, in recent year's data entry has not follow this principle

Ministry of Budget position regarding line ministries since 2004: the case of the *Sous-gestionnaires*

A2. The Budget Ministry is represented within the line ministries by a Budget Controller and by a *Sous-gestionnaire*. The original purpose was to enable the Budget Ministry to facilitate the involvement of the line ministries in preparing and executing the budget. The contribution from these staff members was to (i) compensate for the line ministries' lack of expertise concerning public expenditure management and (ii) facilitate the expenditure execution circuit of line ministries and its integration in the "expenditure circuit".

A3. The original objective is yet to be attained. The collaboration degree between *Sous-gestionnaires* and the Ministry of Budget needs to be strengthening. When *Sous-gestionnaires* are associated to budget preparation they find it difficult to present realistic proposals; they do not have enough instruments or tools to prepare budget proposals, other then making projections for the current year. The degree of collaboration with the Research and Planning department within line ministry on external financing projections and follow up of its execution are weak. No training on budget management was provided to *Sous-gestionnaires* since 2004, except for an update on budget classifications; capacity on procurement, sectoral issues and knowledge of technical aspects of the line ministry where they are assigned seems to be inadequate. Even when there are two *Sous-gestionnaires* in one line ministry (one on the Minister's Office and one in the administration), they feel more disconnected then involved in the financial management of the line ministry. The role of *Sous-gestionnaires* is to be significantly reinforced both at the Budget Ministry and line ministries.

A4. Providing stronger support for the *Sous-gestionnaires* should be a goal for the Budget Preparation and Monitoring Department of the Budget Ministry, both at the budget preparation phase and at the execution stage and, in particularly to follow up the Budget Commitment Plan. Preparation of the Budget Commitment Plan is systematically late and is delivered to the line ministries in the course of the year. Furthermore, the priorities are determined by the Budget Ministry and do not reflect line ministries' priorities. In addition, line ministries also commit expenditures and procurement contracts without consulting the *Sous-gestionnaire*, and, often with the Budget Minister Office agreement. This means that expenditure execution is compartmentalized (and dispersed).

The position of the Inter-ministerial IT Unit (CII) between the Budget and the Finance Ministry

A5. The institutional IT tool is the Inter-ministerial IT Unit (CII). The CII should be seen as a service provider working for the Budget and the Finance Ministries on budget preparation, but also on (i) budget execution and (ii) accounting execution. However, there could be a risk of splitting up responsibility for IT management (*Gestion informatique*) if the authorities were to see (i) the expenditure circuit, (ii) the revenue circuit, and the (iii) public accounting as three different systems without connection among them. It should be, in fact, a single budget and accounting execution chain, which must benefit from the same IT tool and use the same IT management team. The Budget and Finance Ministers' Office seem to lack leadership concerning the CII. At this stage of the reform process, the CII terms of reference need to be reviewed, and in exchange, use the benefits of procedures simplification that CII may provide, if its management receives proper support and guidance. The activity of the CII has increased since it was first set up. With a view to development, it might be necessary to consider adding a few computer engineers. The unit currently has 9 computer engineers. The institutional position of the CII is still a matter of debate, since the Finance Minister Office is not as involved as it should be in IT management. The CII should provide training for members of the Budget and Finance Ministers' staff.

2. Presentation and comprehensiveness of State Budget

A6. The State budget is presented on paper, showing the government revenues and operating and capital expenditure. It is composed of two volumes with (i) a preamble, (ii) the budget act, (iii) summary tables of revenue and expenditure, (iv) detailed revenue, (v) capital expenditure by domestic resources and external resources, (vi) exceptional expenditure with domestic resources and external resources, (vii) HIPC expenditure, (viii) the operating expenditure of institutions and ministries, along with (ix) expenditure broken down by type (payroll, government debt, financial expenses, etc.), government agencies, function, and provinces. The voluminous presentation of the State budget makes it difficult to understand it and does not clearly highlight government's objectives in priority areas. It covers the state budget: institutions, ministers offices, administrative services and central government entities.

3. Expenditure execution procedures

A7. Expenditure may be executed under the standard procedure or exceptional procedure (DPE). The standard procedure is a four-step process, including commitment, verification of service rendered, payment order, and payment. The standard procedure is used for most expenditure. The exceptional procedures are used primarily for executing expenditure of a special nature, or with special financing, or expenditure execution that calls for simultaneous action on the commitment, verification and payment order steps (emergencies, payroll, centralized payments, government debt, "ad posterior regularization," and advance funds mechanism for small amounts (MAD)).

Standard procedure

A8. The *standard procedure* covers four steps: commitment, verification (of service rendered), payment order, and payment. The verification step is responsibility of the Budget Control Department (DCB) of the Budget Ministry since the end of 2005. The Budget Control Directorate treats the commitment data and verifies the service rendered, but the Treasury (DTO) double checks the data. In fact, the Treasury and Payment Order Department still supervises verification and, more specifically, advance payments. The commitment step involves establishing the Commitment Voucher (BDE), the single commitment document that the *sous-gestionnaire* in the line ministry prepares manually. The voucher is manually processed until it reaches the data entry pool at DCB. Verification of the service rendered involves the control of expenditure calculation and certification of the service rendered by the *sous-gestionnaire*. The payment order is an administrative act that gives the order to pay in accordance with the verification result. This step involves the signature of the payment title (voucher). The Central Bank actually pays the payment voucher and automatically debits the relevant accounts. (See table below).

Exceptional procedure (DPE)

A9. This procedure is used primarily for executing expenditure of a special nature, or with special financing, or expenditure execution that calls for simultaneous action on the commitment, verification and payment order steps.

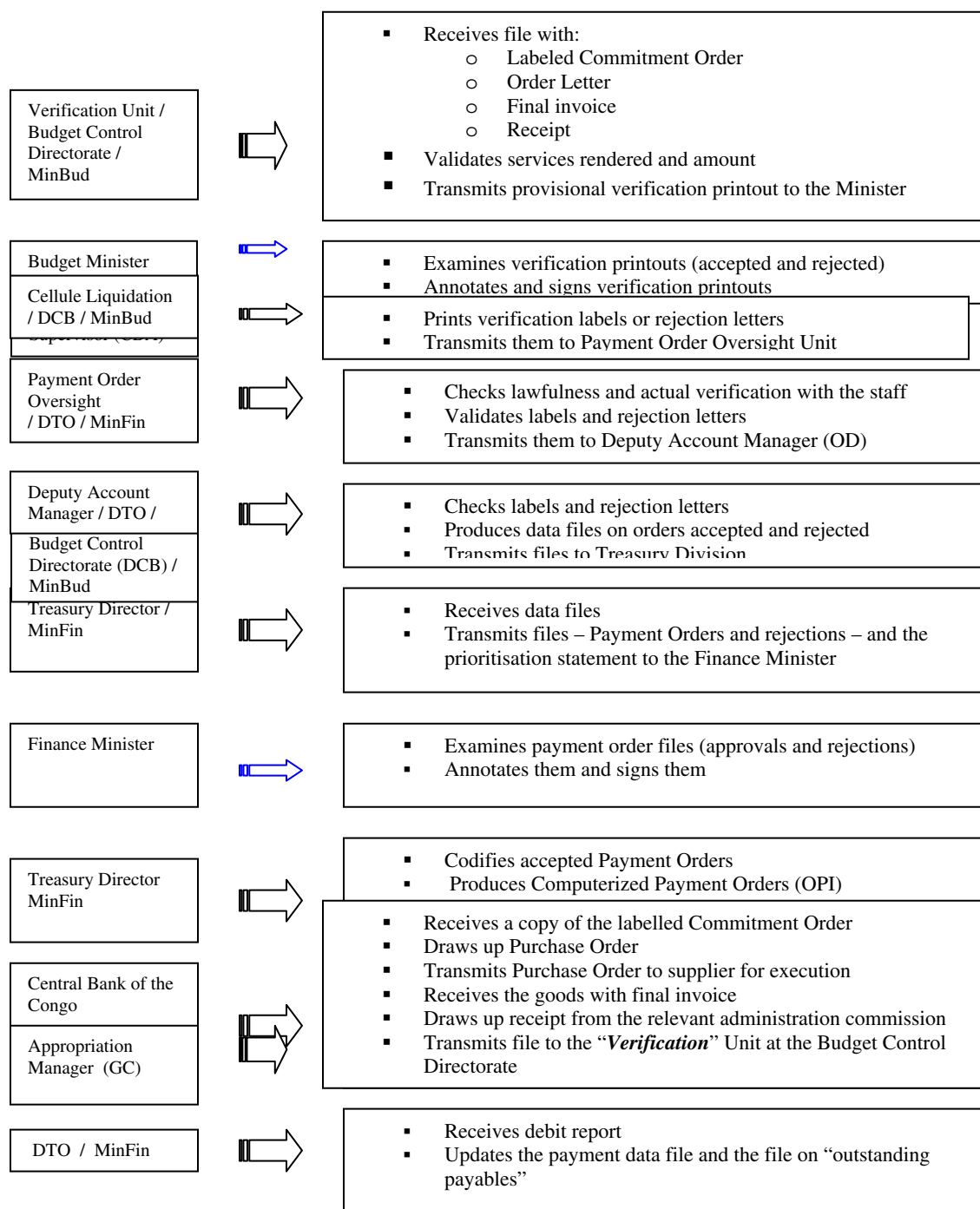
A10. *Emergency expenditure* This procedure is used for expenditure executed directly by the Budget Ministry Office.¹⁰⁰ The use of this procedure for non-emergency expenditure persisted in 2005 and 2006. Such expenditure was usually executed by means of letters to the Ministers' Office. It was often used because it is faster than the standard procedure or it was used to "push through" an expenditure that should have been rejected for lack of budget allocation. This practice does not provide an adequate traceability and weakens budget control. In 2007, the government announced its intention to return to standard budget execution procedures and to reject expenditure commitments made by sending a letter to the Budget Minister Office. The benefits of this decision will be measurable, as long as the annual budget is approved and made available to line ministries and its administrations and departments.

A11. Centralized Payments ("*Charges Communes*") covers ten expenditure items¹⁰¹ with special execution procedures. The General Services and centralized payments Department of the Budget Ministry (*Intendance Générale*) is responsible for its management for establishing the expenditure verification statements. The verification statements are established on the basis of a monthly consumption table (e.g. fuel) or on the basis of invoices from suppliers that have been certified by the General Services and Centralized Appropriations Department.

¹⁰⁰ See Chapter 3 of the 2003 Public Expenditure Circuit Procedural Manual.

¹⁰¹ Centralized payments include: fuels & lubricants, food, communications & telecommunications, water, electricity, printing, property rentals, equipment maintenance, medical and pharmaceutical costs, and funeral costs.

Annex 1. Table 1: Steps in the standard expenditure circuit



A12. “*Regularization*”. These expenditures are executed outside of the expenditure chain, without being covered by an agreement (expenditure from external resources and foreign debt service), or regulatory debits made automatically. Such expenditure is usually sensitive enough

to warrant a special procedure (which is often initiated in emergencies) and/or is presented as emergency expenditure. The practice may lead the MoF to issue a handwritten payment order and send it to the Central Bank. It is the Treasury's responsibility to introduce such expenditure into the database. The Treasury uses an adjustment screen page to enter the payment order for the expenditure and then enters the actual payment of the expenditure when it receives the debit report from the Central Bank.

A13. *Payroll*. The "2006 Budget Execution Instructions" stipulated that all personnel expenditure is executed via the "expenditure chain". The Payroll Department establishes a verification statement and submits it to the Budget Minister's signature. It is then sent to the MoF through the expenditure chain. The control of payment orders is carried out on the computerized payment orders before they are submitted to the MoF. After they are validated, the Treasury sends the payment order to the Central Bank.¹⁰²

A14. A *Simplified Transitional Procedure (PTS)* for wage payments, which is being implemented with the support of the French Cooperation, will make it possible to manage civil servants and payroll expenditure. The aim is to establish procedures to control civil servants management and the wage bill by rationalizing the current payroll expenditure chain and making it more secure. The Simplified Transitional Procedure will centralize and automate payroll and better control the payroll by: (i) creating a single payroll database to be maintained and managed by the Payroll Directorate at the Budget Ministry and (ii) by automatic computerized calculation and payroll verification using the database. The main principles of the Simplified Transitional Procedure are (i) reaffirming the role of each player, (ii) using the payroll list as a single base document, (iii) automatic quarterly verification of the payroll, (iv) sending the payroll lists with the payments to the payees (for salaries paid monthly), for their signature acknowledging receipt (double signature), (v) mandatory return of the signed payroll lists to the Treasury in order to update the accounts and the civil servants database. This means there is an interface between the expenditure chain and the Simplified Transitional Procedure. The PTS launched in July 2007; it is operational in the automatic payroll for around 50,000 civil servants à Kinshasa (teachers and scientific researchers are yet to be included in the new system).

A15. Advance funds mechanism for small amounts (*MAD*): The funds are released on the basis of a statement of needs or a forfeit representing a percentage of the line ministry appropriations in the State budget. The initial Commitment voucher corresponding to the MAD should be broken down into the same categories as the statement of needs. After the funds have been used, a "regularization" Commitment voucher is established. After verification by the Budget Control

¹⁰² The Payroll Directorate establishes the payroll verification statement for central and local government on the basis of data provided by the Civil Service Ministry (in Kinshasa this is the result of the census), EPSP, ESU, Health, and Magistrates and validates it provisionally. The verification statement is submitted to the Budget Minister for signature. Then it is revalidated by the Payroll Directorate's computer system and sent to the Inter-ministerial IT Unit so that it can be integrated into the "expenditure chain". The Payroll Directorate produces a payroll statement and submits it to the public accountant. The payroll statement gives the public accountant the right to have an authorization from the Treasury to withdrawal the funds from the Central Bank.

Department and approval by the Budget Ministry, it is integrated into the expenditure chain to adjust for the original provision. Advanced funds are used for eight categories of expenditure.¹⁰³

4. Budget execution

A16. Budget execution suffered from a deviation in standard procedures, even though they are very well known to the expenditure chain, in favor of hors standard ones. Administrative controls accentuated the deviations from the procedures and even caused a substantial reduction in the fluidity. In addition to the “new added visas,” the introduction of two further steps has made the expenditure chain more cumbersome. The new steps are just manual duplications of operations that are already handled by the automated expenditure circuit: (i) the public expenditure verification statement from the Budget Ministry Cabinet Office and (ii) the statement of payment orders from the MoF Cabinet Office. In both cases, the Ministers’ Cabinet Offices introduced these manual duplications.

A17. The expenditure circuit has not been rationalized either, as can be seen in: (i) excessive use of the expenditure procedure going directly through the Budget Minister Office rather than the expenditure chain; (ii) the possibility of reintegrating expenditures that were provisionally rejected by the Budget Control Directorate since these rejections are not confirmed by the Budget Minister Office; (iii) reintegration of provisionally rejected expenditures in the circuit, which signals failure to comply with an administrative control decision; “reintegration” leads to overruns; (iv) problems keeping commitment balances up to date since the Budget Minister Office do not confirm commitments already accepted by the Budget Control Directorate but the appropriation remains on “hold”; (v) lack of fluidity in the execution of expenditure at the MoF; the Finance Minister Office asks the Treasury to re-work dossiers for which provisional payment orders have been already issued but which are pending a decision. In addition, due to the slowness of the expenditure circuit and the exchange rate fluctuations expenditures established in the national currency are “transformed” into foreign currencies halfway through the circuit. This problem needs to be solved in the medium term by stabilizing the exchange rate and improving the fluidity of the expenditure execution circuit.

5. Accounting execution

A18. Progress on the implementation of a chart of accounts was made between 2004 and 2007. The Treasury’s automated system will be used to capture revenue and expenditure flows so that they can be entered in the accounts and *accounting entries* can be generated. This will make comprehensive automated tracking of the central government’s operations possible. Once information has been received from the Central Bank, a provisional entry is made in the government accounts. Treasury accountants validate the provisional entry when they receive the

¹⁰³ The statement of needs is established by Sous-gestionnaire and broken down by the nature of expenditure. It is sent to the Budget Minister Office along with a letter from the line ministry. The Budget Minister Office checks that budget appropriations are available and establish a public expenditure verification statement (ELDP), issues a Commitment voucher that it is sent to the Budget Control Directorate. The Budget Control Directorate then integrates the expenditure into the “expenditure chain”. After the funds have been used, the Sous-gestionnaire establishes an adjustment Commitment voucher with the justification vouchers. The Commitment voucher is then sent to the Budget Control Directorate for processing. The Treasury and Payment Order Directorate issues an “regularization order” and submits it to the line minister public accountant (discharge).

justifications (*pièces justificatives*). All revenue transactions are handled by the Treasury, but the revenue authorities need to be connected to the database server. The link between the Treasury and the revenue collection agencies is behind schedule. The implementation of a revenue chain is of utmost importance.

Annex 1. Box 1: Identified problems when entering accounting entries for validation (May 18, 2007)

- The data entry clerks receive many entries from the previous fiscal year on their screens. Yet these entries have already been included in a previous balance by manual data entry: very serious risk of double accounting of both revenue and expenditure.
- The data entry clerk enters the transaction name, pointlessly repeating existing names. The names are not standardized and chosen by the data entry clerk.
- The clerk does not consult the list of sub-accounts in the accounting manual when choosing sub-accounts. The clerk makes such choices “robotically”.
- The screen shows that there is a numbered voucher: the clerk validates the entry without looking at the voucher and does not really know where it is.
- The data entry clerk clearly lacked training and made choices robotically, e.g. the clerk validated all of the revenue entries from the Tax Directorate as “VAT and general taxes.” The clerk is not likely to realize that this entry is incorrect.
- The screen showed two different dates and two different times. Neither was the correct date and time.
- The Payment Order and Treasury Directorate’s computers are infected with viruses, but the Inter-ministerial Data Processing Unit does not seem to provide any protection against viruses.

Unless these problems are corrected, it is technically impossible to have a fair and accurate balance, meaning a balance that provides an accurate accounting of revenue and expenditure on a transaction-by-transaction basis.

A19. The public accounting software was built on the basis of the expenditure chain software, but now needs to eliminate and correct some problems in the software and in the data entry practices: a substantial amount of data on central government revenue and expenditure transactions transmitted via the link between the Central Bank and the Treasury were entered into the government accounting system manually. This means that the Treasury must verify the central government transactions that have already been entered manually in order to avoid double counting. In addition, the Treasury’s data entry clerks validate the *accounting entries* without verifying the justification vouchers.

A20. The *Treasury Balance* is being produced, but, as of the first half of 2007, the software produces a “static” balance, which means that the computer operators are required to intervene, particularly when carrying balances forward (“operations de report à nouveau”). The closing balance for one period has to be manually copied at the beginning of the next period. Yet, the users must be able to produce the *Treasury Balance* on their own, without any help. When the automated balance is operational, the Treasury would like to have (i) a phase to publicize the Treasury Balance and (ii) a phase devoted to producing a totally automated flow of funds table (TOFE).

A21. Some of the problems encountered in implementing the public accounting system include: a lack of trained personnel, problems with the “validation of accounting entries”, weak technical capacity and reliability problems with the data provided by the Central Bank. The clerks making the accounting entries at the Treasury and Payment Order Directorate received

some training in government accounting, but this must be followed up with training in accounting analysis. Sending print out expenditure files back and forth between the Treasury and the Finance Minister Office has created a serious problem with the handling and loss of documents relating to dossiers pending decisions.

Annex 1. Box 2: Central Government and Central Bank finances, from the Central Bank's point of view

Relations with the Treasury have improved greatly since 2004 with regard to (i) the reception and handling of computerized payment orders, (ii) the forwarding of debit and credit advices, and (iii) the handling of rejected items, especially the codes and item names rejected by the Treasury and Payment Order Directorate. The Central Bank says that some computerized payment orders do not include full banking details, which is why it asks for proof of the payee's identity. This means a paper document is required in addition to the computerized process. A single-stop window is operational since 2005. It includes a messaging system in the Current Account Department at the Central bank. Despite computer system improvements, reconciliation sessions are still held between the Central Bank and the Treasury to compare revenue, expenditure, and interest too. The Central Bank will soon credit and debit the Treasury's accounts in real time. This holds out hope of shorter reconciliation sessions, but the Central Bank still complains about the quality of the data entry personnel at the Treasury, which the Bank blames for many errors.

6. Reporting

A22. The production of the in year Budget Execution Reports has improved in terms of transparency since 2004. There are still problems with production delays, which depend on the Treasury, the Central Bank, execution agencies, and the Inter-ministerial IT Unit (CII). The Budget execution reports have been "standardized", but there are problems with comprehensiveness. More specifically, capturing external resources execution still needs substantial improvement by the external resources execution agencies (BCECO, UCOP, BCMI, PNMLS, etc.) and the development partners. The problem is not so serious on the budget preparation side.

A23. The CII has installed the budget execution software application at the Budget Preparation and Monitoring Directorate (DPSB) so that they can produce its own requests. The DPSB thinks that there is an urgent need for creating an IT network with the execution agencies. In addition, line ministries should provide monthly execution reports; however, DPSB would not be able to use the information received or cross-check it with the central data. The DPSB is unable to help the line ministries to produce their monthly reports. The *sous-gestionnaires* are not fully involved in execution, which means they do not have a view of the sector as a whole. Consequently, they are not prepared to draft such reports. The compartmentalization of execution in the line ministries seriously undermines the quality and comprehensiveness of the information.

7. Expenditure control

A24. In general rule, internal control has improved in comparison to the procedures in use in 2001. Internal administrative control is performed before expenditure items are paid by the Budget Control Directorate at the Budget Ministry, with checks of the commitment and verification phases, and by the Treasury (validation of payment orders), as well as by the Budget Minister Office (overall approval of commitments) and the Finance Minister Office (overall approval of payment orders and payments). Internal control is also performed by the General Inspectorate of Finance, once expenditures have been paid. The General Inspectorate of Finance seems to perform primarily spot checks at the request of the MoF and others: between 2003 and

2006, the General Inspectorate of Finance did not perform virtually any audits to the financial agencies or the beneficiary institutions. The General Inspectorate of Finance reported that no corrective action was taken in response to main findings in their reports. The MoF and the Justice Ministry have done nothing with the inspection and audit findings.

A25. External control is performed by the Audit Office and Parliament. The Audit Office primarily conducts audits of previous periods' accounts to help the Parliament with its control tasks relating to budget transactions after the end of the fiscal year. The Audit Office has two months after receiving the nominal accounts¹⁰⁴ to give its opinion, which is then presented to Parliament along with the nominal accounts for the vote on the Budget Review Law (*Loi de Règlement*). As a general rule, the Audit Office receives the information and the nominal accounts very late, which undermines the quality of its work. The working program of the Audit Office is established independently and the Auditors are independent and cannot be removed.

A26. The Parliament's task is to oversee the government's finances by means of a vote on the annual budget and the budget review. Members of Parliament have ninety days to discuss the draft budget law for the following year (e.g. 2007), but this vote must be preceded by the vote on the Budget Review Law for the previous fiscal year (2005). According to the law, Parliament is to receive the draft budget law in October. But in recent years, Parliament did not receive it until later.

¹⁰⁴ Drawn up by the Accounting Department of the MoF.

Annex 2: Status of the 2002 Public Expenditure Review Recommendations
(As of June 2007)

	MAIN RECOMMENDATIONS FROM THE 2002 PER (COVERING 2002-2005)	SITUATION AT THE END OF JUNE 2007 (2007 PER)
Chapter 1		
	Restore the Budget Law (State budget) as the core document for fiscal policy	Budget passed each year following discussions within the sectors and then within Parliament.
	Establish a budget and accounting framework that describes all budget operations.	A budget execution framework has been established. The Commitment voucher has been restored. Budget tracking is operational and the central government accounting framework is being finalized.
Wages	Employees earning the lowest wages should get most of the pay increases	An audit of the payroll system was carried out and a simplified transitional procedure is being established. A survey is being conducted by the World Bank on reforming the civil service pay system.
Provincial administrations and decentralized administrative entities	(i) Recording of budget transfers to provincial administrations and decentralized administrative entities; (ii) compliance with the execution of transfers to provincial administrations; (iii) execution of the appropriations passed for provincial government entities' operating expenditure; (iii) building public financial management capacities in the provinces.	There has been an improvement in the recording of transfers to provincial government entities and decentralized administrative entities (in the PT and budget execution reports). The decentralized administrative entities have received a set monthly lump-sum transfer since the beginning of 2007. Building public financial management capacity still has to be achieved. A World Bank analytical study is being carried out on decentralization.
Centralized payments	(i) Validation of annual consumption estimates; (ii) assessment of arrears; (iii) supervision of consumption in the future; (iv) establishment of a short-term plan of action to reduce consumption and a medium-term plan to pay off arrears (taking the contributions due from central government suppliers into account).	A Plan of Action has been prepared and implemented, but it is behind schedule. Practical measures have been taken for some general service items (telephone and fuel). The regulations and standards have been revised. An inventory of beneficiaries has been drawn up.
Capital expenditure	Financial flows for projects financed out of external resources should be tracked in the budget and in government accounting.	Tracking has been improved, but the flow of information about projects is incomplete and irregular. The information circuit still needs to be improved.
HIPC Initiative	(i) Definition/identification of pro-poor spending in the annual State budget; (ii) identification and tracking of such expenditure by establishing a special budget classification within the functional classification; (iii) evaluation of	Pro-poor spending is defined and clearly identified in the annual budget. Special earmarks on such expenditure and HIPC expenditure make it possible to identify it throughout

	<p>MAIN RECOMMENDATIONS FROM THE 2002 PER (COVERING 2002-2005)</p> <p>such expenditure and its impact; (iv) demonstration that expenditure financed by the HIPC Initiative is additional expenditure and not substitution of expenditure; (v) placing budget savings resulting from the HIPC Initiative on a special account at the Central Bank until the resources are actually used; and (vi) putting aside some of the additional resources for local government and non-governmental organizations in the <i>provinces</i>.</p>	<p>SITUATION AT THE END OF JUNE 2007 (2007 PER)</p> <p>the expenditure chain up to its destination. HIPC resources are kept on a Treasury sub-account at the Central Bank. HIPC resources should only finance pro-poor spending.</p>
<p>Chapter 5</p> <p>Involvement of various levels of government</p>	<p>(2002) (1) Definition of a strategy for using HIPC Initiative funds, specifying the distribution of resources between the various sectors and levels of government; (2) Survey of provincial administration and Decentralized Administrative Entities to assess their financial management and oversight capacities, and to ascertain the structure of their expenditure and financing. (2003) Developed and implementation of a program to enhance Decentralized Administrative Entities' financial management and oversight of their public finance activity</p> <p>(2004/2005) Gradual increase of the proportion of resources allocated to Provincial Government Entities and Decentralized Administrative Entities</p>	<p>(1) Achieved. Distribution is concentrated in the central government. (2) Not achieved – no surveys, no capacity-building program; resources allocated to Provincial Administration and Decentralized Administrative Entities have not increased</p>
<p>State Budget Preparation</p>	<p>(2002) (1) Preparation of the 2004 budget under the new budget classification and based on actual consumption in 2001/2002; (2) Integration of “off-the-books” revenue and expenditure forecasts; (3) Consolidation of external assistance estimates with a clear description in the budget; (4) Establishment of a realistic budget for annual consumption of general services; (5) Rationalization of “budgets annexes” ; specification of their status and eligibility requirements; (6) Implementation of a description of expenditure in the various execution phases; (7) Harmonization of budget forecasting and execution tools.</p> <p>(2003) (1) Preparation of the 2005 budget according to a specific timetable; (2) Development of medium-term forecasts of macroeconomic aggregates using a very simple model (support from UNDP); (3) Capacity building for Sectoral Ministries to prepare their action program to produce their budget forecasts; (4) Preparation of a correspondence table for each budget heading to describe each of the central government's main functions; (5) Implementation of a</p>	<p>State budgets are now prepared using the new budget classification. There has been an improvement in the integration of external assistance in the state budget, but it is not yet fully comprehensive. An action plan for reducing centralized payments has been developed, but its implementation is behind schedule. Practical measures have been taken for some centralized payments items, such as telephone and fuel. There have been efforts to rationalize the “budgets annexes,” but this aspect of reform is still incomplete. Budget execution reports are being produced and describe the four phases in the expenditure circuit. The budget cycle calendar was followed in 2004 and 2005, but there have been problems since then. The line ministries' budget forecasting capacity still needs to be strengthened. The new budget classification presents the main functions. The correspondence table has been developed. The Census of civil</p>

	MAIN RECOMMENDATIONS FROM THE 2002 PER (COVERING 2002-2005)	SITUATION AT THE END OF JUNE 2007 (2007 PER)
	<p>comprehensive census of civil servants.</p> <p>(2004/2005) (1) Preparation of annual budgets according to a specific timetable, with no delays in the process; (2) Towards 2005/2006, start of development of medium-term expenditure frameworks for social sectors in order to back up implementation of the full Poverty Reduction Strategy Paper.</p>	<p>servants started in 2005, but has not been completed yet. The development of medium-term expenditure frameworks in some sectors is not scheduled until 2007/2008.</p>
Budget execution	<p>(2002) (1) Rationalization and automation of the expenditure chain by 2003, including minimizing the proportion of expenditure that takes place outside of the full budget execution and control procedure; (2) Definition of a policy for controlling and curbing current consumption of general services; (3) Prevention of an accumulation of arrears in wages and other payments (not including general services); (4) Improvement of the methodology for reconciliation of Central Bank and Treasury accounts; harmonization of the presentation of data in the budget, by the Central Bank and by the Treasury</p> <p>(2003) (1) Consolidation of rationalization and automation of the expenditure chain (and revenue management); (2) Adoption of a strategy for remedying outstanding arrears (with respect to general services) owed to suppliers; (3) Elimination of expenditure that takes place outside of the regular expenditure execution and control circuit; (4) Identification of the various types of "after-the-fact" audits in use and definition of their responsibilities; proposition of a volume of verification and audits to be carried out.</p> <p>(2004/2005) (1) Start of an examination of the impact of expenditure (initiation of a series of expenditure tracking surveys); (2) Implementation of sectoral expenditure tracking surveys each year.</p>	<p>The expenditure chain has been rationalized and automated. A plan of action for general services was developed in 2004, but its implementation is behind schedule. Wage arrears have been reduced, but arrears with regard to other general services have not yet been reduced (IMF Program). Data harmonization is under way: the budget and accounting data are now in a single database. There have been efforts to harmonize the flow of funds table classification (TOFE) and the budget execution reports (ESBs). Budget support from the World Bank has helped remedy arrears with respect to the water and electricity suppliers. Expenditures are still being executed outside of the standard procedures. After-the-fact controls are in place and control has improved since 2002, but substantial improvements are still required.</p> <p>Not achieved.</p>

	<p>MAIN RECOMMENDATIONS FROM THE 2002 PER (COVERING 2002-2005)</p> <p>(2002) (1) Initiation of the system of regular monthly budget execution reports; (2) Publication and dissemination outside of the MoF of the official version of the budget execution reports at least once a quarter; (3) Presentation of the data using the budget classification</p> <p>(2003) (1) Reconciliation of data on external assistance and integration into the budget execution report; (2) Presentation to Parliament of the 2002 budget execution statement; (3) Audit by the Audit Office of 2002 budget execution; (4) Publication of the audited budget execution report and passage of the 2002 Budget Review Law by the end of 2003; (5) Preparation of a central government accounting framework to be implemented on January 1, 2004</p> <p>(2004/2005) (1) Publication of monthly budget execution reports within the MoF and quarterly statements outside of the Ministry; (2) Publication of the previous fiscal year's audited accounts before the end of the current year and passage of a budget review law by Parliament</p>	<p>SITUATION AT THE END OF JUNE 2007 (2007 PER)</p> <p>Budget execution reports are being produced using the new budget classification, which allows monitoring of pro-poor spending. Production is still irregular and the quality needs to be improved further. Efforts to publish budget information on the Budget and Finance Ministries' websites have been delayed since 2006. There are delays in the periodic integration of expenditure execution funded by external resources. An accounting framework is being implemented, but technical problems have delayed the production of a true and fair Treasury balance.</p>
<p>Specifically for the HIPC Initiative</p>	<p>(2002) (1) Initiation of discussions on the HIPC Initiative: proposals for the principles for identification, use and distribution with a common and transparent policy; (2) Implementation of a participatory mechanism for monitoring the pro-poor spending execution; (3) Supplying the first "budget execution reports" to this committee</p> <p>(2003) (1) Adaptation of the budget execution reports to identify HIPC expenditure; (2) Formalization of the oversight committee's role and its right to review the budget execution reports/expenditure on fighting poverty 15 days after the end of each quarter; (3) Development of a HIPC expenditure classification system through the expenditure chain (special flags, such as a</p>	<p>HIPC funds are identified and use and distribution are defined on the basis of the central government's main functions. HIPC funds finance pro-poor spending. HIPC funds are flagged so that its execution can be monitored in the expenditure circuit. HIPC funds are an integral part of state budget. An Oversight Committee for pro-poor spending has been set up but has never been operational. Special budget execution reports are produced on expenditure financed by the HIPC Initiative resources.</p>

	MAIN RECOMMENDATIONS FROM THE 2002 PER (COVERING 2002-2005)	SITUATION AT THE END OF JUNE 2007 (2007 PER)
	<p>special number in the classification codes, colored commitment vouchers, etc.); (4) Preparation of quarterly activity reports in at least three key sectors (health, education, and transport) for the “oversight committee”</p> <p>(2004/2005) (1) Implementation of the more detailed classification for HIPC-financed expenditure, without separating the management and tracking of such funds from overall budget management and tracking; (2) Production, before the completion point, of full integration of HIPC expenditure management and tracking into the basic budget systems.</p>	
<p>Education Chapter</p> <p>Role of the Government</p>	<p>The Government should clearly define its role vis-à-vis other stakeholders in the sector.</p> <p>Recommendations of this PER</p> <ul style="list-style-type: none"> - Revision of institutional and contractual framework for education to redefine roles and obligations of the Government vis-à-vis other stakeholders in the sector - Ensure that above considers the constitutional provision for decentralization 	<ul style="list-style-type: none"> - Ministries initiated work in 2004 on revision/reform of legal framework of education sector (<i>Loi-Cadre</i>) - Appointment of Independent Commission to undertake countrywide consultations on the reform of the legal framework and develop the new sector strategy - Analysis of impact of decentralisation on the education sector underway in collaboration with WB
<p>Sector strategy</p>	<p>Formulate a sector strategy that outlines how to:</p> <ul style="list-style-type: none"> - enhance service delivery - set priorities - collect data and assess performance - mobilise external financing resources <p>Recommendations of this PER</p> <ul style="list-style-type: none"> - A viable sector strategy directs resources to stated priorities; therefore, (i) budget preparation should be based on sector policy and detailed action plan addressing priorities, complete with figures; (ii) technical department should be involved in preparing the budget and the commitment plan - Streamlined expenditure execution of teacher payroll (to reduce fiduciary risks and delays) and in this connexion (i) reinforce 	<p>In the addition to the above:</p> <ul style="list-style-type: none"> - Education one of 5 pillars of Government’s priorities - Priority Action Program (PAP) agreed between Government and partners includes education, especially focusing on reduction of primary school fees - In addition to the CSR in-depth analyses conducted on situation of teachers, PETS focused on teacher salary chain, school fee practice and policy, barriers to enrolment and retention etc as well as field research to improve statistical data base and provide information for more effective service delivery (joint donor partnership with SECOPE) - Donors and EPSP (MOE) established partnership on

	<p>SECOPE's technical and institutional payroll management; (ii) formalize and implement government decision to end involvement of provincial Pay Commissions in payroll management; (iii) formalize and implement ban on deductions from wage packages.</p> <ul style="list-style-type: none"> - Systematically track use of public funds - Enhance transparency and accountability by involving civil society (especially parents and unions) - Conduct teacher census and school mapping 	<p>priority work plan and on broader scale are exploring how to set up a SWAp</p> <ul style="list-style-type: none"> - Donors and EPSP will undertake a comprehensive teacher census and school mapping - PURUS and PARSE (new IDA financed) projects will provide a framework to improve transparency in the use of capitation grants allocated to schools (including increased accountability and reporting, a code of conduct SECOPE etc) - WB Board of Directors approved US\$ 45M and US\$ 150M projects (PURUS education component and PARSE) to which donors are in process of providing supplementary funding
<p>Budget allocation to education</p>	<ul style="list-style-type: none"> - Increase education portion of recurrent expenses in national budget from 4-5% to 8-10% (2005) - recognize that large part of teacher salaries are paid by households and that the state should cover a larger portion of the teacher wage bill - recognize that the state should cover operating costs for decentralised entities (<i>entités décentralisées</i>) currently financed from school fees and ensure these resources reach end beneficiaries - Encourage more possibilities to transfer funds directly to schools to fill the gap from public funding <p>Recommendations of this PER Along with substantial increase of government budget earmarked for education, undertake the following:</p> <ul style="list-style-type: none"> - define a policy of gradual reduction of school fees - increase teacher salaries to replace household co-financing of salaries through user fees - provide operating costs to schools and school administrations - produce baseline review of decentralised services and a comprehensive analysis of their needs 	<ul style="list-style-type: none"> - Increase of education portion of recurrent expenses in national budget to 7.5% (2007) (and expected 10% in 2008) - Significant increase of teacher salaries (2007) and signature of new agreement on removal of salary zones (uniform salary scales countrywide) - Joint Government and donor work on identifying (i) core operating costs of decentralised administration including transportation costs for distribution of teacher salaries and schools' capitation grants and (ii) provinces' capabilities to deliver basic services after decentralization. - From 2005, HIPC funds subsidized portion of school's operating costs - Signature of inter-ministerial decree forbidding any form of deduction from teachers' salaries and explicitly ending the Pay Commission's involvement in teacher payroll management.
<p>School fees</p>	<p>Reduce school fees to increase enrolment and retention:</p> <ul style="list-style-type: none"> - temporary ban on school uniform - abolition of minerval and other fees (exam fees) 	<p>Various measures taken by the Government and the MOE to progressively reduce school fees:</p> <ul style="list-style-type: none"> - constitutional commitment to fee-free and compulsory

	<ul style="list-style-type: none"> - enforce school fee policy on provincial authorities and increase accountability mechanisms - transfer of funds directly to schools <p>Recommendations of this PER (See <i>recommendations on budget allocation to education</i>)</p>	<ul style="list-style-type: none"> - primary education (2005) signature of inter-ministerial decree on primary school fees (setting clear -lower- amounts and caps); - signature of ministerial decree on role and composition of the Provincial Education Committees (in charge of setting school fees) allowing a larger involvement and watchdog role of civil society and INGOs in the decision-making process - Ensuring continuity after HIPC financing, in 2008, PURUS project will transfer US\$ 8 M each quarter to more than 26,000 primary and secondary schools; after which PARSE will subsidize primary school operating costs. - However, school uniform still compulsory and financed by households
<p>Quality</p>	<p>Put in place measures to enhance quality:</p> <ul style="list-style-type: none"> - mobilise resources to finance training, school supplies (including textbooks) and school rehabilitation; - update curriculum and performance standards at national level <p>Recommendations of this PER</p> <ul style="list-style-type: none"> - PER recommendations are focused on strengthening and streamlining the budget execution system (teacher salaries, operating costs) so that there is a strong base for effective use of funds allocated to the sector and improve quality. 	<ul style="list-style-type: none"> - Belgian Cooperation provided textbooks (grades 5 and 6) and will deliver textbooks grades 3 and 4 in 2008. WB PARSE project plans to provide textbooks for grades 1 and 2. - Various donor projects address quality education. However, efforts need to be scaled up.
<p>Health Sector</p>		
<p>Institutional reform</p>	<p>Reorganize the Ministry in such a way as to streamline the administrative structures and thus expenses, while refraining from creating new bureaucratic structures.</p>	<p>Institutional rationalization of the Ministry of Health remains a subject of discussion with international partners. In addition, entirely new challenges are now being raised by the planned decentralization.</p>
<p>Budget</p>	<p>Prepare a detailed budget that is better allocated, rigorous and understandable. At the central level, the objective should be to ensure a minimum level of funding for key departments. At the intermediate level, there is an urgent need to reinstate operating allocations for provincial offices and to ensure that this is accompanied by less upward transfers from health services.</p>	<p>The budget has been considerably clarified and receives input from Ministry departments. However, department requests are more aspiration than reflecting the likely available overall envelope. Salaries of central ministry staff are paid and funds for operational costs are released for some departments,</p>

		<p>although there is still much dependence on issue-specific donor funds. The provinces continue to have little input in budget formulation. Transfers to the provinces for operational expenses are minimal so that “taxation” of health services continues despite a ministerial instruction to cease the practice.</p> <p>The budget breakdown has improved considerably, including specifying non-salary allocations to individual health zones. However, salaries/incentives and non-salary allocations are not integrated by health zone, and there is yet no mechanism by which health zones can request their allocated budget.</p> <p>HIPC funds are both allocated to specific budget items and their releases are tracked by the Ministry of Budget. Significant HIPC funds have been released to the health zones, largely in the form of health worker incentives and in-kind transfers of supplies and equipment, although their use is not effectively monitored. The funds are not allocated as integrated support to the Health Zones under performance contracts, but are rather used for specific expenditures.</p> <p>Wages are now regularly paid, although there are substantial numbers of unregularized health workers in public facilities who derive their income almost entirely from patient payments. Increases in remuneration for health worker civil servants have largely taken the form of special incentives, the fiscal sustainability of which may soon become a question. In addition, given their likely fiscal resources, most provinces will be unable to assume the wage bill under the planned decentralization.</p> <p>Geographic disparities in the allocation of health workers persist. Although a health human resource strategy has not been developed, this area is a major component of the recently-approved GAVI health systems development project that is to be implemented by government.</p>
	<p>Reorganize the breakdown of allocations and test the transfer of the government’s own resources based on the existing model of comprehensive support for health zones.</p> <p>Use the funds derived from the HIPC Initiative in a “virtual poverty fund” system that permits tracking of the allocation of these additional funds. A portion of the funds should be transferred to health facilities in return for performance contracts.</p>	
	<p>Continue to pay its contribution to wages, which can be considered a partial, but almost universal, subsidy of health care services.</p>	
Health human resources	<p>Develop a strategy of human resource development and management to ensure the availability of skilled staff who are much more evenly distributed throughout the country than at the present time.</p>	

Annex 3: Democratic Republic of the Congo: Progress Status of Triggers for Reaching the Floating Completion Point
(As of November 2007)

Triggers	Progress status
<p>1. PRSP Completion of a full PRSP through a participatory process and its implementation for one year, duly documented in the DRC's annual progress report, and confirmed as satisfactory by a joint staff advisory note (JSAN).</p>	<p>Ongoing. The full PRSP was completed through a participatory process, and was adopted by the government in July 2006. The PRSP and the JSAN were presented to the Bank Board in May 2007 and the Fund Board in September 2007. The document is being disseminated: flyers in four local languages are being prepared; dissemination workshops were held. The implementation plan for the strategy was endorsed by sectoral ministries, NGOs, and civil society. A priority action program (PAP) 2007-08 was developed in collaboration with development partners and sectoral ministers, to start implementing the PRSP.</p>
<p>2. Macroeconomic stability Continued maintenance of macroeconomic stability after reaching the decision point, as evidenced by satisfactory performance under a program supported by an arrangement under the IMF's PRGF.</p>	<p>Improving. Macroeconomic stability deteriorated during the period leading up to and after the elections. After the duly-elected government took office in early 2007, macroeconomic indicators improved as the new government tightened the fiscal discipline. However, the State Budget 2007 (promulgated mid-2007) used unrealistically high revenue projections to justify higher expenditures, notably for Parliamentarians' salaries. Even though the government announced its intentions to stick to the more realistic budget that was agreed with the IMF, the fiscal discipline started to weaken in the second half of 2007 as social pressure mounted. The government is working to improve the situation, and is discussing the 2008 budget with the Fund team, with the possibility of starting negotiations for a new PRGF arrangement as early as December 2007.</p>
<p>3. Use of budgetary savings resulting from enhanced HIPC Initiative-related debt service relief during the interim period for poverty-related expenditures in accordance with the I-PRSP, with supporting documentation satisfactory to the staffs of IDA and the IMF.</p>	<p>Satisfactory. The use of budgetary savings from the enhanced HIPC Initiative is aligned with the priorities expressed in I-PRSP and PRSP. The government continues its efforts to use HIPC savings to finance spending in the areas of health and education. These social sectors have received a large share of the pro-poor spending since 2003: the budget executed for these sectors has increased from 0.7% of GDP in 2003 to 2.6% in 2006. An external audit of the HIPC account was completed recently.</p>
<p>4. Public expenditure management (a) Implementation of a modernized budget-execution system, providing information from commitment to payment, and allowing for the monitoring of arrears; (b) adoption and implementation of a double-entry government accounting system and a new chart of accounts; and (c) Production of quarterly budget</p>	<p>Ongoing. (a) The budget-execution system is improving. A modernized budget execution system capable of providing information from commitment to payment is in place. Monitoring for arrears will be possible once the accounting system is fully functional, and Treasury accounts, describing the financial flows and account balance, are produced automatically in real time. Currently, the Treasury accounts are produced monthly but still manually, and are not yet exhaustive or reliable. Ministry of Finance needs to redouble the efforts meet this trigger. (b) The double-entry system is being implemented. The staff have been trained, equipment purchased, and software developed. Ministry of Finance, Central Bank, and the Tax agencies need to redouble their efforts to make the system fully operational.</p>

Triggers	Progress status
<p>execution reports using economic, administrative, and functional classifications.</p>	<p>(c) International standard classifications have been adopted. The quarterly budget execution reports are produced using economic, administrative, and functional classifications. However, line ministries do not prepare <i>sectoral</i> budget execution reports systematically. Ministry of Budget prepares the <i>general</i> budget execution reports (<i>États de suivi budgétaire</i>, or ESBs) automatically using the Budget-Treasury's unique database. For this reason, and because the accounting system is still not fully operational, the production of ESBs remains irregular and of uneven quality.</p>
<p>5. Governance and service delivery in priority sectors (a) Completion of a budget-tracking exercise on health, education, rural development and infrastructure expenditure, consisting of (i) monitoring the execution of poverty-related public expenditure; (ii) evaluation by user groups of the quality of related public services, and (iii) evaluation by service-providers of constraints to effective provision; and (b) Adoption and implementation of a new procurement code and key implementing decrees.</p>	<p>Partially done, possible problems. (a) An evaluation by user groups of the quality of public services on health and education has been conducted (World Bank: IGR 2005), and found (i) user fees (ii) poor quality of the service (iii) inaccessibility due to lack of roads and distance to the nearest facility as major problems. In particular, user fees were found to cover not just the service providers (e.g. schools and clinics), but also to subsidize the (extremely low) remunerations and operating costs of local administrations. A budget tracking exercise for these two sectors are planned to be completed in 2008. However, neither the user surveys nor budget tracking exercise has been conducted or even planned for rural development and infrastructure sectors: possible need to review what exactly would be useful and feasible for these sectors. (b) The draft procurement code was adopted in April 2006. The application laws were validated in October 2006. The final version of the code and the laws need to be adopted by the Council of Ministers, then by Parliament. After adoption, the last step is to put in place institutions compatible with the new code, and to make them operational.</p>
<p>6. Social and rural sectors Adoption of sectoral development strategies and related implementation plans for health, education and rural development, which are satisfactory to IDA.</p>	<p>Almost complete. Sectoral development strategies and related implementation plans are adopted for health and education. An agriculture sector review was completed in May 2006. The rural development strategy is under preparation.</p>
<p>7. Debt management Installation and full activation of a computerized debt-recording system, covering public and publicly-guaranteed debt that can (a) produce monthly debt-service projections, and incorporate actual disbursement and debt-service payment execution data; (b) produce advance monthly debt-service projections that will be published quarterly; and (c) support the centralization of debt information into a single center.</p>	<p>Partially done. A computerized debt-recording system covering public and publicly guaranteed debt (DMFAS) was installed, and relevant staff has been trained. The database of public debt compiled using the system still contains errors (as of September 2007), and it does not cover publicly-guaranteed debt. The debt management agency (OGEDEP) does not yet publish the debt service projections. OGEDEP also does not play the role of the single debt information center. Ministry of Finance must exert further efforts to sensitize all parties involved in any matters concerning public and publicly guaranteed debt to treat OGEDEP as the single information center (or to designate another entity to fulfill this task).</p>

Annex 4: Education Step-by-step survey questionnaires

Questionnaire A: (Document à collecter : Ordre de Virement pour les mois de Mars et d'Avril 2007, ventilation par CaisCongo reçue de L'OD provincial)

La Banque Centrale du Congo (BCC) ou la Banque Commerciale Mandataire (BIC, STANBIC, etc.)

Ordre de Virement

Question	Réponse	Commentaire Enquêteur
Par quel moyen l'OV arrive-t-il à la BCC ?		
Quelle est la date de réception de l'OV à la BCC en mars ?		
Quelle est la date de réception de l'OV à la BCC en avril ?		
La date de réception par la BCC coïncide-t-elle avec la date réelle de l'arrivée ? Si non, pour quelle raison ?		
Quel est le montant global destiné à l'EPSP ?		
Comment ce montant est-il réparti (en CaisCongo) ? (indiquer le nom de chaque CaisCongo et le montant)		
Cette ventilation correspond-elle au nombre de Caisses existantes ? Si non, quelle est la configuration actuelle ? (indiquer le nom de chaque CaisCongo et le montant et les raisons de la reconfiguration)		
Qui est informé de l'arrivée de l'OV et comment ?		
Qui en reçoit une copie ? (y compris hors BCC)		
Si l'agence est une CaisCongo hors capital provinciale, quand a-t-elle reçu l'Ordre de Transfert/Ordonnement de l'OD provincial ?		
La ventilation de l'OD est-elle arithmétiquement correcte ? (oui/non)		
Quand l'agence a-t-elle reçu l'avis de Crédit de la BCC provincial ? Par quel moyen ?		

Liquidités

Question	Réponse	Commentaire Enquêteur
La BCC (ou son mandataire) a-t-elle (souvent) des problèmes de liquidités ?		
La BCC a-t-elle pu libérer la totalité de la paie (Mars, Avril) ou a-t-elle été payée de façon échelonnée ? Expliquer (si nécessaire rédiger note au dos de la feuille).		
Comment la BCC résout-elle le problème de liquidités?		
Kinshasa approvisionne-t-elle la BCC ? Si oui, à quel rythme ? Est-ce conditionné à des requêtes pour les paiements des salaires ?		
La BCC a-t-elle sollicité un envoi de fonds récemment? Si oui, à quelle(s) date(s) et pour quel montant ?		
Quel est le délai normal pour un envoi de fonds (entre la demande et l'arrivée)?		
Comment les fonds sont-ils expédiés de Kinshasa ?		
Comment les fonds sont-ils transportés de l'aéroport local à la BCC ?		
Quel est le délai entre la réception des fonds et le début d'un paiement ?		

Paiement

Question	Réponse	Commentaire Enquêteur
A quelle(s) date(s) le CPPD a-t-il émis le ou les BEF ?		
A quelle(s) date(s) la BCC a-t-elle payé le(s) comptable(s) de l'EPSP ?		
A quelle heure les fonds ont-ils été libérés par le Caissier de l'Etat/BCC ? Si dans l'après-midi, indiquer pourquoi.		
En règle générale, quels salaires sont libérés en premier ? Existe-t-il un calendrier pré-établi ?		
Si non, qui décide sur les priorités?		
La BCC reçoit-elle des plaintes concernant des liasses incomplètes ? (oui/non), Si oui, quelles mesures la BCC a-t-elle prises pour éviter des liasses incomplètes ? (notes au verso si nécessaire)		
En cas de billets manquants qui en porte la responsabilité ?		
Quelles mesures la BCC a-t-elle prises pour retirer les vieux billets de la circulation ?		
A quand date la dernière incinération des BIC ? Quel était le montant ?		
La BCC ou son mandataire accepte-t-elle le retour des vieux billets rapportés par des particuliers ?		

Questionnaire B : (document à collecter Ordre d'Envoi des Fonds-OEF – Mars et Avril 07)

Ordonnateur Délégué (OD) provincial ou district (préciser)

Question	Réponse	Commentaire Enquêteur
Quand avez-vous été informé de l'arrivée de l'OV ?		
Quand avez-vous retiré (reçu) l'OV ?		
Que se passe-t-il quand vous êtes absent de la ville?		
Est-il arrivé qu'un paiement de salaires ait été retardé à cause de votre absence ?		
Avant d'émettre un OEF vérifiez-vous si la BCC dispose de liquidités? (oui/non)		
Combien d'OEF avez-vous émis en mars et en avril? A quelle date ? Pour quel CPPD ? De quel montant ? (indiquer date, code CPPD et montant pour chaque mois)		
L'aval/visa de la Commission de la Paie (CP) est-il nécessaire pour émettre un OEF ? (oui/non)		
Si oui, combien de temps faut-il pour l'obtenir ?		
Informez-vous SECOPEP du montant (global et/ou par <i>CaisCongo</i>) destiné à l'EPSP?		
Si oui, à quel moment ? Si non, pourquoi ne le faites-vous pas ?		
A quelle date avez-vous émis les OT pour chaque CaisCongo ?		
Comment faites-vous parvenir les OT à l'intérieur ?		

Attributions

Question	Réponse	Commentaire Enquêteur
De qui dépendez-vous administrativement ?		
Avez-vous des comptes à rendre :		
- au Chef de Division du Budget ?		
- au Chef de Division des Finances ?		
- au Gouverneur ?		
- à la CP ?		
Si oui, préciser (autre).		

Questionnaire C : (document à collecter Bordereau d'Envoi des Fonds-BEF – Mars et Avril 07)

**Comptable public (CPPD) lié à la CaisCongo
Bordereau d'Envoi des Fonds - BEF**

Question	Réponse	Commentaire Enquêteur
Quand avez-vous reçu l'OEF ?		
Que se passe-t-il si vous êtes absent de la ville ?		
Est-il arrivé qu'un paiement de salaires ait été retardé à cause de votre absence ?		
A quelle(s) date(s) avez-vous émis le(s) BEF en mars, en février?		
Avant d'émettre un BEF vérifiez-vous si la BCC dispose de liquidités?		

Retrait

Question	Réponse	Commentaire Enquêteur
A quelle date êtes-vous passé à la BCC pour le retrait ?		
Comptez-vous l'argent à la réception? Si oui, comment ?		
Comment organisez-vous « le conditionnement » de l'argent ?		
Qui décide du paiement en grosses ou en petites coupures ?		
Cette décision est-elle flexible ou influençable ? Si oui, comment ?		
Le SECOPEP est-il présent quand vous retirez l'argent de la BCC ? Si oui, quel est son rôle ?		
L'OD est-il présent quand vous retirez l'argent de la BCC ? Si oui, quel est son rôle ?		
A quelle heure êtes-vous parti de la BCC avec les fonds ?		
Quelle est la destination de l'argent après le retrait de la BCC ?		
Comment organisez-vous ce transport ?		
Payez-vous les gestionnaires dans l'enceinte de la BCC lors de la réception des fonds?		
Où trouvez-vous l'argent pour payer le conditionnement et le transport ?		
Prenez-vous cet argent dans les salaires ? Si oui, faites-vous une décharge ?		
Combien avez-vous pris en mars et en avril ? Préciser les postes de dépenses		
Ces postes et leurs montants sont-ils le fruit d'une concertation avec les gestionnaires ?		

Paiement

Question	Réponse	Commentaire Enquêteur
Vous concertez-vous avec SECOPEP avant de commencer la paie ? Si oui, à quel sujet?		
Pouvez-vous commencer la paie sans la présence du SECOPEP ? Pourquoi (pas) ?		
Comment les gestionnaires sont-ils informés du moment de la paie ?		
A quelle heure avez-vous commencé la paie ? A quelle heure l'avez-vous clôturée ?		
En règle générale, en combien de temps la paie est-elle effectuée?		
Comment assurez-vous le stockage et la sécurité des fonds ?		

Les gestionnaires signent-ils une décharge au moment du retrait ?	
La paie est-elle conditionnée par des formalités préalables? Si oui, lesquelles?	
Que se passe-t-il quand les conditions préalables ne sont pas réunies ?	

Pièces justificatives

Question	Réponse	Commentaire Enquêteur
Quelles pièces comptables exigez-vous des gestionnaires ? A quelle date ? (note au verso, distinguer théorie / pratique)		
Après de qui devez-vous justifier la dépense engagée?		

Attributions

Question	Réponse	Commentaire Enquêteur
De qui dépendez-vous administrativement ?		
Avez-vous des comptes à rendre		
- à l'OD ?		
- au Chef de Division du Budget ?		
- au Chef de Division des Finances ?		
- au Gouverneur ?		
Si oui, préciser.		

Questionnaire D : (document à collecter Ventilation SECOPEP, Listings des écoles à visiter – Mars et Avril 07)

SECOPEP (cellule)

OV

Question	Réponse	Commentaire Enquêteur
Quand êtes-vous informé de l'arrivée de l'OV ? Qui vous en a informé ?		
Avez-vous pu prendre connaissance du montant (global et/ou par <i>CaisCongo</i>) destiné à l'EPSP?		
Si oui, qui vous l'a communiqué ?		
Arrive-t-il que les montants global et par <i>CaisCongo</i> ne correspondent pas au montant sur les <i>listings</i> ?		
En mars et avril y avait-il une différence ?		
Si oui, à quel niveau et pour quel montant ?		
Que se passe-t-il quand il y a un déficit ou un reliquat ? (note au verso si nécessaire)		

Listings

Question	Réponse	Commentaire Enquêteur
A quelle date avez-vous réceptionné les <i>listings</i> de mars et avril ?		
Cette date coïncide-t-elle avec l'arrivée de l'OV ? Si possible, préciser.		
Combien d'exemplaires de <i>listings</i> recevez-vous ?		
A qui sont destinées les copies ? Qui garde l'original ?		
Qui fait des photocopies, en cas de besoin ? Qui les paie ?		

La ventilation

Question	Réponse	Commentaire Enquêteur
La ventilation est-elle une condition préalable à la paie ?		
Comment procédez-vous pour établir la ventilation ?		
A quelle date l'avez-vous établie en mars et en avril ?		
Qui en est le destinataire ?		
Quand l'a-t-il reçue ?		

Attributions

Question	Réponse	Commentaire Enquêteur
Quel est le rôle du SECOPEP dans le système de paie actuel ? (note au verso si nécessaire, mots clés)		
Le SECOPEP est-il présent lors		
- du retrait des salaires par le CPPD ?		
- de la paie effective ?		
La CP demande-t-elle une copie des <i>listings</i> ?		

Si oui, dans quel but ?	
Ce passage par la CP retarde-t-il la paie ?	
Si oui, de combien de jours en mars et en avril ? (utiliser date OV comme référence)	

Pièces justificatives

Question	Réponse	Commentaire Enquêteur
Exigez-vous une copie des <i>listings</i> acquittés ?		
Si oui, que faites-vous en par la suite?		

SECOPEP (Antenne)

Question	Réponse	Commentaire Enquêteur
Quand êtes-vous informé de l'arrivée de l'OT ? Qui vous en a informé ?		
Avez-vous pu prendre connaissance du montant global et par réseau?		
Si oui, qui vous l'a communiqué ?		
Arrive-t-il que les montants global et par réseau ne correspondent pas au montant sur les <i>listings</i> ? (par exemple, erreur sur la répartition des écoles par réseau ou paiement par une autre CaisCongo)		
En mars et avril y avait-il une différence ?		
Si oui, à quel niveau et pour quel montant ?		
Comment vérifiez-vous que les sommes allouées pour vos écoles sont correctes ?		

Listings

Question	Réponse	Commentaire Enquêteur
A quelle date avez-vous réceptionné les <i>listings</i> de mars et avril ?		
Cette date coïncide-t-elle avec l'arrivée de l'OT ? Si possible, préciser.		
Combien d'exemplaires de <i>listings</i> recevez-vous ?		
A qui sont destinées les copies ? Qui garde l'original ?		
Qui fait des photocopies, en cas de besoin ? Qui les paie ?		

La ventilation

Question	Réponse	Commentaire Enquêteur
La ventilation est-elle une condition préalable à la paie?		
Comment procédez-vous pour établir la ventilation ?		
A quelle date l'avez-vous établie en mars et avril?		
Qui en est le destinataire ?		
Quand l'a-t-il reçue ?		

Attributions

Question	Réponse	Commentaire Enquêteur
Quel est le rôle du SECOPEP dans le système de paie actuel?		
Le SECOPEP est-il présent lors		
- du retrait des salaires par le CPPD ?		
- de la paie effective ?		
La CP demande-t-elle une copie des <i>listings</i> ?		
Si oui, dans quel but ?		
Ce passage par la CP retarde-t-il la paie ?		
Si oui, de combien de jours ?		

Pièces justificatives

Question	Réponse	Commentaire Enquêteur
Exigez-vous une copie des <i>listings</i> acquittés ?		
Si oui, que faites-vous en par la suite?		
Transmettez-vous les changements constatés ? si oui à qui et sous quelle forme ?		

Questionnaire E : Croquis schématique des axes principaux à réaliser + indiquer centres de paies, distances, moyens de transports et son coût, montant par centres de paies, enveloppe globale par axe, nombre écoles et enseignants par axe.

Gestionnaires

Listings

Question	Réponse	Commentaire Enquêteur
Recevez-vous une copie des <i>listings</i> ? Si oui, qui vous la donne ?		
En mars et avril à quelle date avez-vous reçu une copie ?		
En règle générale, combien d'exemplaires recevez-vous?		
Est-ce suffisant ? Si non, en donner la raison.		
Remettez-vous les <i>listings</i> à la CP avant la paie ?		
Si oui, que se passe-t-il ensuite ?		
Ce passage à la CP retarde-t-il la paie ? Si oui, de combien de jours ?		

Retrait

Question	Réponse	Commentaire Enquêteur
Quand avez-vous été payé par le CPPD (jour et l'heure)?		
Avez-vous reçu la totalité ? Si non, en combien de tranches ? Préciser les dates. (préciser le montant et séparément ceux des écoles à visiter)		
Le montant correspond-il à la ventilation établie par le SECOPEP ?		
Etes-vous en accord ou en désaccord avec ce montant ? (note au verso)		
Le CPPD établit-il une décharge (bon provisoire, acte d'engagement, autre nom) ? En recevez-vous une copie ?		
Comment acquittez-vous la somme reçue de manière définitive ?		
Arrive-t-il que le CPPD refuse de libérer les salaires ? Si oui, pour quel motif ?		
Le CPPD déduit-il des frais de l'enveloppe salariale ? Si oui, quels montants sont soustraits et pour quels postes de dépense ?		
Cette déduction est-elle le résultat d'une concertation ? Recevez-vous une décharge ?		
Où et comment transportez-vous les salaires ensuite ?		
Quel est le coût de ce transport et qui le paie ?		

Paiement

Question	Réponse	Commentaire Enquêteur
Comment organisez-vous l'acheminement des salaires vers les écoles ?		
Détailler si possible : (cf. croquis à réaliser sur feuille libre)		
- Axes principaux et distances		
- Montant et nombre d'écoles/enseignants (par axe)		
- Mode de transport (par axe) utilisé par l'agent payeur		
- Calcul détaillé du coût du transport (par axe) et impact par enseignant		

Identifier les centres de paie sur les axes	
Estimer le temps nécessaire pour l'acheminement	
Disposez-vous de vos propres moyens logistiques pour le transport des salaires ?	
Les déductions pour le transport sont-elles le résultat d'une concertation ?	
Etablissez-vous des décharges pour ces réductions ?	
Vous arrive-t-il de faire des retenues à la source ? Si oui, pour quel motif ?	
Ces retenues sont-elles le résultat d'une concertation ?	
Au cas contraire, quelle disposition vous autorise à le faire ?	

Pièces justificatives

Question	Réponse	Commentaire Enquêteur
Combien de copies des <i>listings</i> (et annexes) faites-vous ?		
Qui demande/garde une copie ?		
Quel est le coût mensuel des photocopies ? Qui le paie ?		
Comment organisez-vous le retour des <i>listings</i> acquittés ?		

**Questionnaire F : (document à collecter Listing SECOPE acquittés et Listes harmonisées acquittées– Mars et Avril 07)
Directeurs d'école**

Retrait	Question	Réponse	Commentaire Enquêteur
	Qui vous a remis les salaires de mars et avril?		
	Quel montant avez-vous reçu (en mars et avril)?		
	A quelle(s) date(s)?		
	Avez-vous signé une décharge ? Si oui, avez-vous reçu une copie ?		
	Avez-vous compté l'argent à la réception? Si oui, de quelle façon ?		
	Vous arrive-t-il de constater des manquants ?		
	- retenues à la source par le gestionnaire (indiquer les raisons et si concertation préalable)		
	- des liasses incomplètes ;		
	- la présence de BIC		
	Si oui, à combien se chiffre le montant manquant ?		
	Le constatez-vous à la réception ou lors de la paie ?		

Transport	Question	Réponse	Commentaire Enquêteur
	Etes-vous obligé de voyager pour aller chercher les salaires ? Expliquer.		
	Si oui, qui supporte votre voyage ? Vous concertez-vous avec les enseignants ?		
	Combien a coûté votre voyage en mars et en avril ? Si possible, fournir des détails.		
	Quel a été l'impact sur le salaire de chaque enseignant ?		
	Quand êtes-vous parti ? Quand êtes-vous rentré ?		
	Quel moyen de transport avez-vous utilisé ?		
	Quel est le montant que vous avez transporté ?		
	Comment l'avez-vous sécurisé ?		
	A quelle date avez-vous payé les enseignants ?		
	Vous arrive-t-il de faire des retenues à la source ? Si oui, pour quel motif ?		

Pièces justificatives	Question	Réponse	Commentaire Enquêteur
	Comment organisez-vous le retour des <i>listings</i> (états de paie) acquittés ?		
	Arrive-t-il que vous ne les retourniez pas ? Si oui, quelle en est la raison ?		
	Arrive-t-il que vous n'avez pas été payé pour cause de <i>listings</i> non retournés ?		
	Préparez-vous la liste harmonisée ?		
	Procédez-vous à des remplacements de salaires (remplacement d'un enseignant parti par un autre)		

Questionnaire G

Enseignants (essayer de voir plusieurs enseignants séparément et sans la présence du directeur et préciser caractère anonyme de l'enquête)

Question	Réponse	Commentaire Enquêteur
A quelle date avez-vous été payé en mars et en avril ?		
Avez-vous reçu la totalité de votre salaire comme indiqué sur <i>listing</i> ? (indiquer le montant perçu)		
Si non, quelle a été la différence ?		
Savez-vous d'où vient cette différence ?		
Avez-vous constaté des billets manquants dans vos liasses ? Si oui, pour quel montant ?		
Avez-vous reçu des BIC ? Si oui, pour quel montant ?		
En règle générale, avec quelles coupures vous paie-t-on ?		
Constatez-vous parfois des retenues sur salaires sans votre accord ?		
Si oui, par qui et pour quelle raison ?		
Avez-vous compté votre argent à la réception ? Si oui, comment ?		
Avez-vous signé une décharge ?		
Avez-vous signé le listing ?		

Questionnaire H : (Croquis schématique de la séquence des visa/autorisations avant CP/ au sein Commission de la Paie/après CP – Mars et Avril 07)

Commission de la Paie (CP) (Chef de Division du Budget, OD, Chef de Division des Finances, Chef de Division de la Fonction Publique)

Fonctionnement

Question	Réponse	Commentaire Enquêteur
Quelle est la composition de la CP ?		
D'après vous, quel est son rôle essentiel? Quelles sont ses attributions ? (mots clés)		
Existe-t-il des (Sous-) Commissions de la Paie au niveau des districts ?		
D'après vous, quel est son rôle essentiel? Quelles sont ses attributions ? (mots clés)		
Comment la CP fonctionne-t-elle :		
- que fait-elle concrètement ? (mots clés type vérification, visa, etc.)		
combien de fois se réunit-elle (par mois) ?		
- à quel moment dans la chaîne des dépenses intervient-elle ?		
Le travail de la CP retarde-t-il la paie ? Si oui, de combien de jours ? Référence date OV		
Au niveau de la CP, qui a le dernier mot ? (président de la CP, droit de véto ?)		
La CP est-elle indépendante ? du Gouvernorat ?		
Selon vous, où se trouve dans la chaîne des décisions :		
- le Gouverneur ?		
- la CP ?		
- l'OD ?		
- le CPPD ?		
Pouvez-vous définir exactement le rôle de chacun ?		

Questions à poser à tous les intervenants

Etes-vous content du système de paie actuel ? (oui / non)

Si tel n'est pas le cas, quelles en sont les raisons ? (explications)

Pouvez-vous alors formuler des recommandations ?

Annex 5: Health

A27. This Annex supplements Chapter 5 in the main text of the PER with more detailed discussion of the health situation, health system organization, sector strategy, and private out-of-pocket spending on health services. The World Bank's 2005 Health, Nutrition and Population Country Status Report can be consulted for more detail on many of these issues (World Bank, 2005). Unfortunately, the findings of a population-representative household survey, the Demographic and Health Survey (DHS), conducted in 2007, are not available at time of writing, but will be important to understanding the current situation as well as trends since the last such survey in 2001.

Annex 5. Table 1: Health and Nutrition-Related MDG Indicators, DRC, most recent estimates

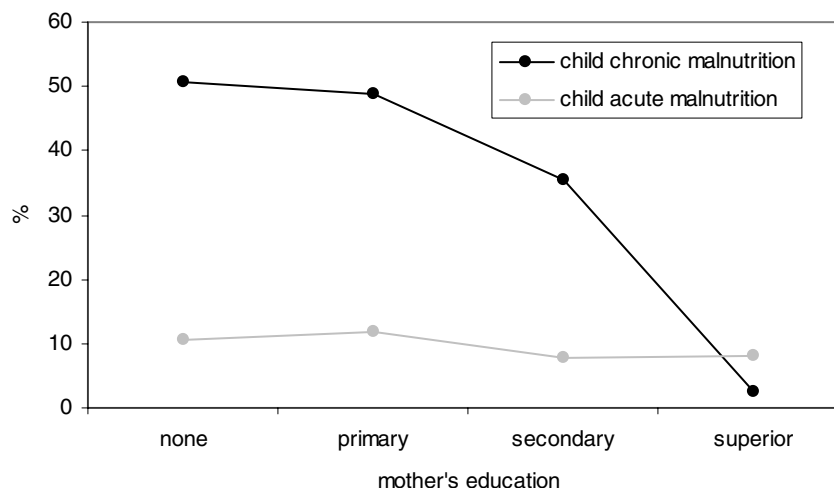
	urban DRC	rural DRC	DRC	Sub- Saharan Africa
MDG 1: Poverty and Hunger				
prevalence child malnutrition (underweight) (% under 5)	22	36	31	30
prevalence of child malnutrition (stunting) (% under 5)	29	43	38	41
prevalence child malnutrition (wasting) (% under 5)	12	18	16	10
MDG 4: Child Mortality				
under-5 mortality rate (per 1,000 live births)	158	243	220	174
infant mortality rate (per 1,000 live births)	95	144	128	86
Measles immunization (% of children 12-23 months)	65	40	48	58
MDG 5: Maternal Mortality				
Maternal mortality ratio (per 100,000 live births)	..	..	1,289	917
births attended by skilled health staff (%)	32	20	24	39
MDG 6: HIV/AIDS, Malaria, and Other Diseases				
prevalence of HIV (% adults aged 15-24)	..	..	3.2	6.1
contraceptive prevalence rate (% of women ages 15-49)	..	..	31	23
number of children orphaned by HIV/AIDS	..	..	680,000	10.2 M
proportion sleeping under insecticide-treated bednets (% children under-5)	..	..	11.5	..
proportion of children with fever treated with anti-malarials (% children under-5 with fever)	63	47	52	42
Incidence of tuberculosis (per 100,000 per year)	..	..	356	343
tuberculosis cases detection rate (all new cases) (%)	..	..	46	45
MDG 7: Environment				
access to an improved water source (% of population)	84	29	46	58
access to improved sanitation (% of population)	61	39	46	54
General Indicators				
Population	..	..	61 M	772 M
total fertility rate (births per woman ages 15-49)	6.3	7.4	7.1	5.2
life expectancy at birth (years)	..	..	51.8	49.6

Source: 2001 MICS2, DRC Ministry of Health (2007), UNAIDS (2006), United States Census Bureau (2007), World Bank (2007), WHO (2007).

1. Health Situation and the MDGs

A28. **Health, nutrition, and population outcomes, including the main relevant Millennium Development Goal (MDG) indicators, are poor in DRC although there has been some improvement since the end of major conflict.** Based on retrospective mortality surveys, it has been estimated that excess mortality of three million or more can be attributed to DRC's civil conflicts between 1996 and 2004 (IRC, 2004). Table 1 presents MDG indicator estimates; generally showing that DRC is faring worse than averages for Sub-Saharan Africa (with some notable exceptions such as delivery care and HIV prevalence). More stability in recent years has contributed to modest improvements in health indicators. Under-five mortality during the period 2002-06 is estimated from the 2007 Demographic and Health Survey (DHS) at 148 per 1,000. Data from this survey indicate some improvement over the past few years, as the estimate is 165 for the period 1998-2001, and 172 in 1993-97. However, most of the improvement is concentrated among ages 1-4 years, likely reflecting better socio-economic factors since the end of the civil war, while infant mortality, thought to be more sensitive to health care services, hardly changed.

Annex 5. Figure 1: Malnutrition among Under-Five Children by Mother's Education Level, DRC 2007



Source: 2007 DHS.

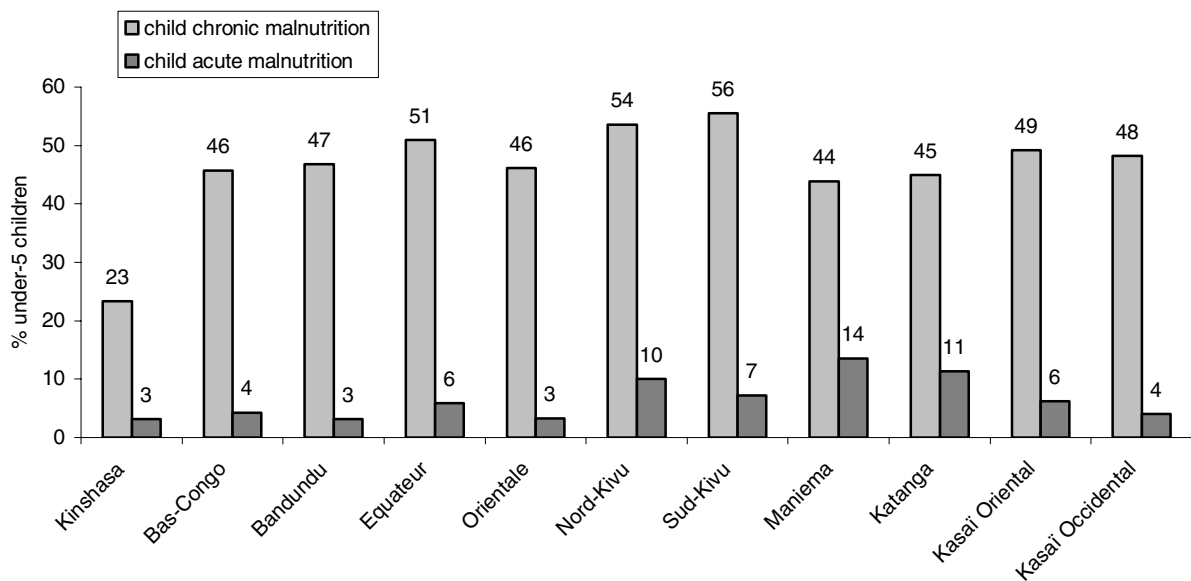
A29. At the same time, chronic malnutrition (stunting) among under-five children may have increased, estimated at 31% in 2007 but 45% in 2007. This is possibly due to the very poor economic and social conditions in the immediate post-conflict period three to four years ago, as chronic malnutrition is concentrated among the older ages. Acute malnutrition (wasting) has shown improvement, estimated at 10% in 2007 and 16% in 2001, likely reflecting general reduction of the immediate impact of the conflict on households. Consistent with this poor nutritional situation, 48% of children aged 6-59 months had moderate or severe anemia in 2007, while prevalence was 18% among women aged 15-49 years

A30. With regard to maternal mortality, the available estimate is among the highest anywhere, at 1,289 per 100,000 births (2001 Multiple Indicator Cluster Survey,

MICS2).¹⁰⁵ The total fertility rate remains high at 6.3 in 2007, although better than the 2001 estimate of 7.1.¹⁰⁶ This is largely due to improvement in urban areas, where the rate was 5.4 in 2007 and 7.4 in 2001. Insecurity continues to severely affect the health situation in some areas of eastern DRC, including significant levels of gender-based violence.

A31. Malaria is highly endemic, reported to account for over half of outpatient visits, one-third of hospital admissions, and 25-30% of child mortality (WHO and UNICEF, 2005). Population-representative survey data has similarly shown that fever is associated with 40% of child deaths (IRC, 2004). HIV prevalence is estimated at 3.2% among the general population, but this estimate will be revised once the findings of the prevalence survey undertaken by the 2007 DHS are available. Prevalence among pregnant women attending antenatal clinics ranges from 2 to 8% (UNAIDS, 2007). Estimated tuberculosis incidence is high, consistent with Sub-Saharan Africa as a whole, at 356 cases per 100,000 annually (WHO, 2007).

Annex 5. Figure 2: Malnutrition among Under-Five Children by Province, DRC 2007



Source: 2007 DHS.

A32. **Because of its population size and the severity of the health situation, DRC represents an enormous concentration of morbidity and mortality in the center of Africa.** With an estimated 61 million inhabitants in 2007, DRC is the third most populous country in Sub-Saharan Africa (after Nigeria and Ethiopia). Given the mortality and malnutrition rates estimated by the 2007 DHS, it may be estimated that, every year, over 5 million under-five children are malnourished, 250,000 infants die before their first birthday, over half a million under-five children die. The available estimate for maternal

¹⁰⁵ Note that the reference period for this estimate is 13 years before the survey date, i.e. 1988. An estimate from the 2007 DHS (with a reference period of around 1994) is not yet available.

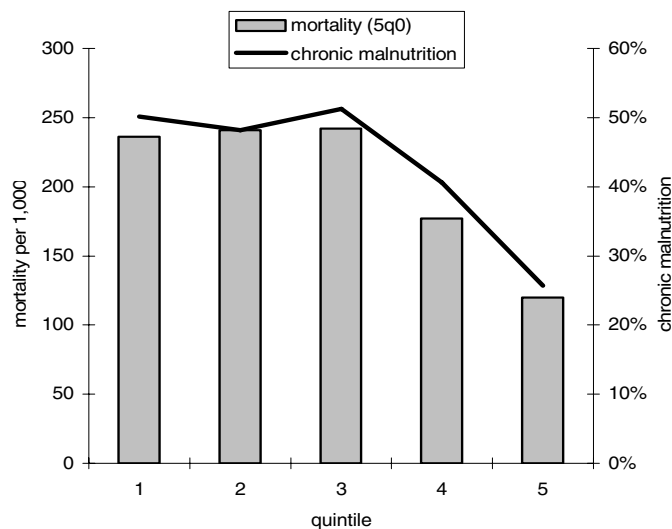
¹⁰⁶ The total fertility rate is the number of children that a woman would be expected to have if current age-specific fertility rates were to prevail over the course of her lifetime.

mortality suggests that up to 30,000 mothers may die in childbirth annually. In addition, around 150,000 under-five children are estimated to die from malaria, while over 800,000 may be infected with HIV.

A33. Poor populations suffer from worse health outcomes and there are significant urban-rural and regional disparities. Using education as a proxy for socio-economic status, Figure 1 illustrates how the prevalence of chronic malnutrition among children dramatically lowers as mothers' education level increases. Among children of women with no education, 51% are chronically malnourished, compared to 35% among children of women with secondary education. This effect is not greatly evident with regard to acute malnutrition (wasting), indicating that the short-term nutritional and illness crises that lead to acute malnutrition may tend to affect all socio-economic groups. In addition, there are large differences in health outcomes between urban and rural areas. While 52% of under-five children in rural areas were chronically-malnourished (stunted) in 2007, prevalence was 36% in urban areas. Reflective of the very poor nutritional situation, 50% of children aged 6-59 months in rural areas had moderate or severe anemia in 2007, compared to 45% in urban areas. Among women aged 15-49 years, 20% in rural areas had moderate or severe anemia, compared to 15% in urban areas. Similarly, the total fertility rate in rural areas in 2007 was 7.0, compared to 5.4 in urban areas.

A34. Figure 2 illustrates differences between provinces in the prevalence of malnutrition among children. It shows that Kinshasa has clearly lower rates of chronic malnutrition, with prevalence of 23%, than the rest of the country where prevalence is 44-56%. The highest rates of acute malnutrition are seen in the conflict-affected provinces in the east of the country. In contrast, Kinshasa does not have better rates of anemia among children and women than the rest of the country (Figure 3). The highest rates of anemia seem to be in the poor provinces (Equateur, Orientale, Kasai) and the lowest in the eastern provinces (North and South Kivu, as well as Katanga).

Annex 5. Figure 3: Socio-Economic Inequalities in Mortality (5q0) and Chronic Malnutrition among Under-Five Children, DRC 2001

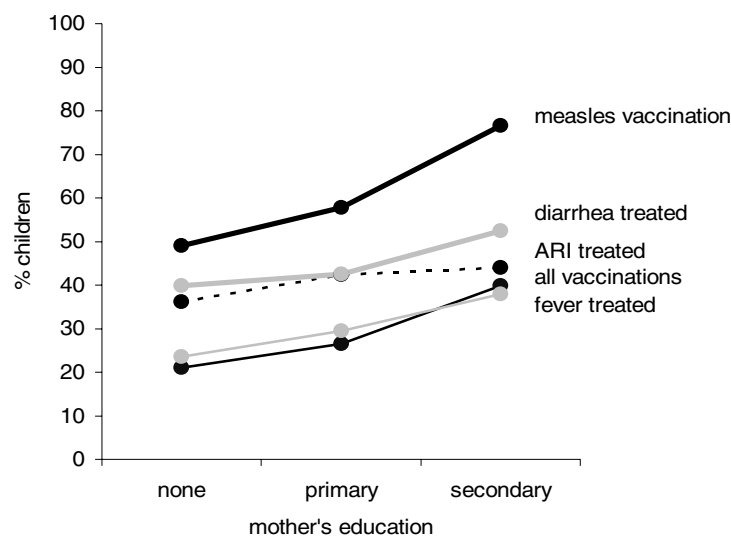


Source: World Bank (2005) from 2001 MICS2 data.

2. Health Service Utilization

A35. Coverage of basic health services has improved in recent years but remains very low while the only modest improvements in child mortality suggest problems with effectiveness and quality. In 2007, only 31% of one-year old children had received all recommended vaccinations, although this is an improvement from 23% coverage in 2001. Only 63% were vaccinated against measles in 2007, but again this is an increase from 46% in 2001. While in 2001 less than 1% of under-five children slept under an insecticide-treated net, in 2007 coverage slightly improved to 6%. Similarly, utilization of curative services is low, although has improved since 2001. Acute respiratory infection (ARI) is a major cause of mortality among children, and in 2007, 42% of under-five children with ARI symptoms received treatment from an appropriate provider, compared to 35% in 2001. At the same time, the only modest improvements in child mortality noted above, particularly with regard to infant mortality, suggest that there may still be insufficient resources being applied to cost-effective high-impact interventions (such as immunization and insecticide-treated nets) and that there may be significant problems with the quality of curative services.

Annex 5. Figure 4: Children’s Utilization of Basic Health Services by Mothers’ Education Level, DRC 2007



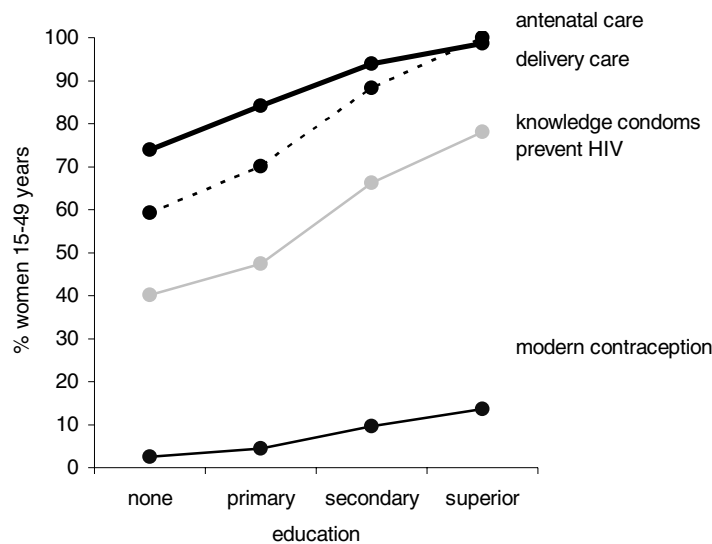
Source: 2007 DHS.

A36. Utilization of maternal health services seems to have improved substantially in recent years, but there are questions about quality and poor access to emergency obstetric care. In 2007, 85% of pregnant women received antenatal care, compared to 68% in 2001. Similarly, in 2007 74% of deliveries were attended by a trained health worker, compared to 61% in 2001. However, only 39% of pregnancies had adequate tetanus immunization in 2007; this, combined with the fact that neonatal mortality has hardly changed in recent years, suggests that there are serious problems with service quality. In addition, emergency obstetric care is poorly accessible in rural areas in particular. For example, a study of two rural hospitals in Nord-Kivu in 1995-96 concluded that only 3% of potential complicated births arrived at the referral facilities.

(Mugisho *et al.*, 2003) Administrative data from 2005 indicates that 2.3% of assisted deliveries involved a C-section (thus around 1% of total expected births).

A37. Family planning coverage remains low so that the country’s very high fertility rate is not being addressed. In 2007, 21% of women (married or in a stable union) reported using any kind of contraception, compared to 31% in 2001. Modern contraceptive prevalence was 6% in 2007, compared to 4% in 2001. In urban areas, the proportion in 2007 was 10%, little changed from the 9% estimate in 2001. This seems at odds with the decline in fertility observed in urban areas, indicating that socio-economic factors may be important (such as education and economic opportunities for women). In rural areas, modern contraceptive prevalence was 3.3% in 2007, a small change from the 2.5% estimated in 2001. Continued high fertility rates contribute to maternal mortality and generally mean that coverage of basic services, as well as overall economic growth, must first catch up with the needs of a rapidly growing population before significant progress can be made.

Annex 5. Figure 5: Women’s Utilization of Basic Health Services by Education Level, DRC 2007



Source: 2007 DHS.

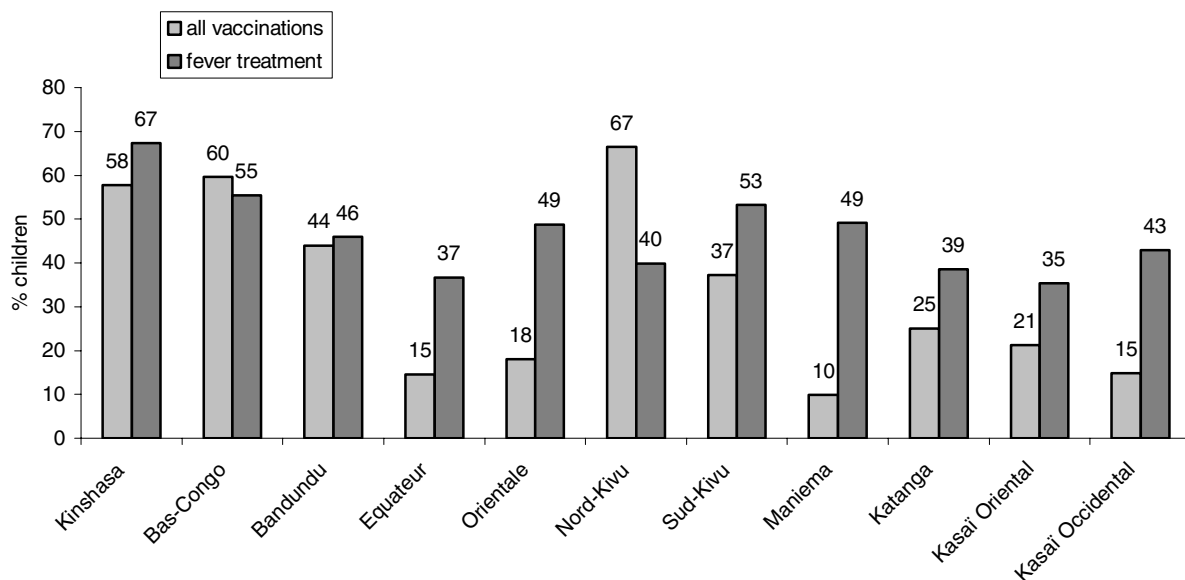
A38. Knowledge about HIV/AIDS has modestly improved in the past few years. In 2007, 92% of women aged 15-49 years had heard of HIV/AIDS, unchanged from the proportion in 2001. However, in 2007 54% knew that using a condom is one of the main ways to prevent transmission of the disease, an increase from 40% in 2001. In 2007 76% knew that having one uninfected and faithful partner is another important preventive measure, a modest increase from 70% in 2001.

A39. There are large socio-economic disparities in access to health care. Using education as an indicator of socio-economic status, Figures 3 and 4 show how utilization of basic health services increases with higher education levels. In 2007, while 76% of children of mothers with secondary education were vaccinated against measles, the proportion was only 50% among children of mothers with no formal education.

Similarly, 38% of children with fever whose mothers had a secondary education were taken for treatment, while the proportion among children whose mothers had no education was 24%. All women with secondary education had delivery care by a trained provider, compared to 59% among those with no education. Among women with secondary education, 14% used modern contraception, compared to 3% among those with no education.

A40. There are also significant urban-rural and provincial differences in health service utilization. For example, in urban areas, 38% of children with fever received anti-malarial medication, while the proportion in rural areas was only 25%. Figure 6 illustrates differences between provinces in vaccination and treatment of fever among children. It indicates that access to these basic services is highest in Kinshasa, Bas-Congo and North Kivu, and lowest in Equateur, Katanga and Kasai Oriental.

Annex 5. Figure 6: Children (12-23 months) with All Recommended Vaccinations and Under-Five Children with Fever who Received Treatment, by Province, DRC 2007



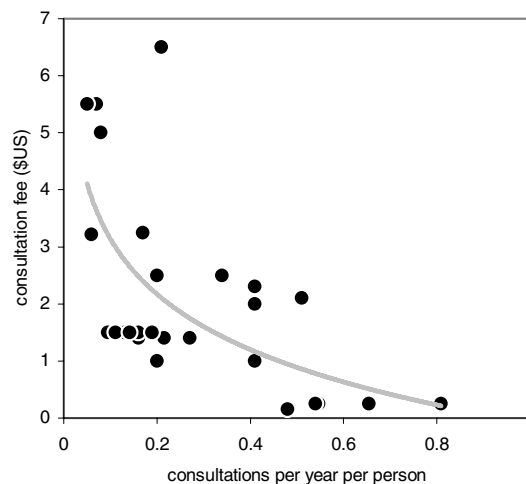
Source: 2007 DHS.

A41. In general, many people do not access formal medical services at all, with cost representing a major barrier. In 2007, 58% of children with ARI symptoms and 55% of children with fever were not brought to a health service. In many cases, the cost to households of health services prevents them from seeking care. For example, in a sample of populations living close to health facilities in nine provinces in 2004, 19% of households indicated that pregnant women lacked access to prenatal care due to its cost (BERCI, 2004). Trend data from specific Health Zones show that utilization varies with consultation fees and drug prices. Non-governmental organization (NGO) reports indicate that per capita curative consultation rates increase as donor-supported humanitarian and

development programs provide subsidies to reduce user fees and drug prices. A 2005 study comparing data obtained from 26 Health Zones receiving NGO support demonstrated the relationship between the cost of care and the rate of service utilization. It would appear that the cost of a consultation must drop below US\$1 in order to obtain service utilization rates exceeding 0.5 consultations per capita per year (Annex 5. Figure 7). The improvement in quality due to external intervention in these Zones must, of course, also be taken into account as another factor behind increased utilization.

A42. Health-seeking behavior reflects patient perceptions of cost and quality, leading many to first seek treatment from the less expensive traditional healers and drug sellers. Patients often present at public health services only after receiving (and paying for) inappropriate and ineffective care from informal sources.

Annex 5. Figure 7: Annual Per Capita Curative Service Utilization Rate as a Function of Average Fee per Episode, DRC, 2005 (n = 26)



Source: Révillion (2005).

3. Health System

Organization

A43. **The public sector health system is organized into 515 Health Zones, each of which integrate primary and first-referral services under a single management structure, responsible for a catchment population averaging 110,000.** In 2001, the number of Zones was increased by the government from 306 to 515, with implications in particular for infrastructure requirements, as each Health Zone should include a Reference Hospital on which the network of primary health care (PHC) services depends. On paper, there is currently an estimated deficit of 60 Reference Hospitals, although there are doubts about the real need for the additional facilities and the viability of many of the new Health Zones. Health Centers are the major PHC facility and are responsible for Health Areas, covering on average 10,000 people.

A44. Provincial health administrations supervise the Health Zones in each province, with a strong role in particular with regard to personnel management. Provincial health

administrations also have responsibility for provincial hospitals, although these operate largely autonomously and lack the quality of care and referral system to act as provincial referral hospitals. District health administrations act as intermediaries between the Provinces and the Zones, each covering on average 10 Zones. With the pending increase in the number of provinces to 26 under the new Constitution, it is expected that many District health administrations will become the health authorities of new provinces, while District level of the health administration will be phased out. The Provincial health administrations (and through them, the Districts and Zones) depend administratively on the central Ministry of Health in Kinshasa, which in particular has oversight over personnel matters and the payroll for health personnel. However, this administrative structure will likely soon be reorganized with growing provincial autonomy under decentralization, including in the area of personnel management and payment. Although the central Ministry of Health in principle has authority over tertiary hospitals, again these facilities operate in practice almost completely autonomously.

A45. Development of the Health Zone service delivery system has been the focus of sector development. In the 1980s, the country was a leader in PHC reforms which included integrating primary and first-referral services on the Health Zone model. Much of the thrust of development of the system since then has been on developing the Health Zones. The crisis and conflicts during the 1990s severely undermined service delivery, but in many cases Health Zone structures showed remarkable resilience. For example, Porignon *et al.* (1998) document how the Rutshuru Zone in Nord-Kivu Province maintained services in the 1990s in the face of a dramatic drop in domestic and international public financing. Support to Health Zone services has been a major focus of donor-funded sector projects (including humanitarian).

Annex 5. Table 2: Health Zones and Health Centers by Province, DRC 2005

	Estimated Population	Number of Health Zones	Number of Functional Health Centers	Population per Health Center
Kinshasa	4.9	35	231	21,059
Bas Congo	2.5	31	392	6,481
Bandundu	6.5	52	1,111	5,869
Equateur	6.6	69	259	25,663
Province Orientale	7.3	83	922	7,955
Sud-Kivu	4.1	34	255	15,926
Maniema	2.0	18	237	8,478
Nord-Kivu	5.3	34	539	9,773
Katanga	9.0	67	845	10,702
Kasaï Occidental	5.7	43	726	7,829
Kasaï Oriental	6.7	49	806	8,301
Total	60.7	515	6,323	9,594

Source: Staff estimates from data provided in DRC Ministry of Health (2007).

A46. **Despite the integration represented by the Zone system, fragmentation of service delivery along disease or program-specific interventions is significant, largely due to the incentives created by international funding.** At the same time, most internationally-funded programs, focused on basic interventions, do not provide support to the Zone reference hospital, key to the integration of hospital services and capacities with the PHC network. Fragmentation is also abundantly evident at the level of the central Ministry of Health, which currently comprises 13 directorates and 52 programs. Institutional rationalization of the Ministry has been on the policy agenda for several years without result.

A47. **There is long experience with public-private partnerships, particularly with church-based providers and NGOs.** Health services run by church groups, particularly hospitals in rural areas, are for the most part integrated into the Health Zone system. Church hospitals often act as the Reference Hospital for the Zone and in many cases have staff on the civil service payroll. This long-standing experience has facilitated more recent partnerships with NGOs, usually in the context of donor-financed projects. In addition, many Health Zones include private for-profit health services as part of their PHC network, for example requiring them to submit health management information system (HMIS) data as well as pay administrative fees, but public-private integration in planning and management is in practice minimal. As well, in the past, private and parastatal companies operated significant health services, but for the most part little remains of these systems. In Katanga, services established by the Gécamines persist and are considered part of the Health Zone system, although they operate with autonomy on a largely for-profit basis.

Infrastructure and Human Resources

A48. **The supply of health services is poor in many rural areas.** Among the possible barriers to utilization, lack of physical access to services is a major factor in many remote rural areas. In Equateur, for example, physical accessibility of services varies widely; recent surveys found that in Basankusu 42.7% of households need to walk over eight hours to reach a health facility, while in Befale and Bolomba the proportions are 21.2% and 3.6% respectively.

A49. **There are wide differences between provinces in the availability of basic health service infrastructure.** Available information indicates that there is approximately one reference hospital for 300,000 people in urban areas and for 160,000 people in rural areas. This can be compared to the official norms of 150,000 and 100,000 in urban and rural areas respectively, although these standards may not be realistic even in the medium term. With regard to primary health care (PHC) infrastructure, (Annex 5. Table 2) presents information reported by the Ministry of Health on the number of functional Health Centers by province. The official standard is for each Health Center to cover 10,000 people. On average, this standard is being met nationally, but three provinces have significantly lower numbers of facilities in relation to population. In the case of Kinshasa, this is due to population density as well as to the significant supply of services provided by hospitals and private providers, while in Sud-Kivu and Equateur the data reflect a real deficiency in health facilities. Of course, it should be noted that these

figures reflect only the availability of health infrastructure and say little about their real functionality. For example, it is preferable to have one well-functioning health facility covering 20,000 people than to have two poorly-functioning facilities each covering 10,000 people, although the latter situation meets the official standard.

Annex 5. Table 3: Civil Service Health Personnel by Province, DRC 2006

	Physicians	Nurses	Other Health Staff	Administrative Staff	Total Staff
Kinshasa	1,237	5,263	2,113	8,181	16,794
Bas Congo	443	2,671	221	1,703	5,038
Bandundu	191	7,650	168	3,552	11,561
Equateur	114	3,282	55	4,093	7,544
Province Orientale	174	4,433	112	3,363	8,082
Sud-Kivu	148	1,592	152	2,164	4,056
Maniema	49	1,054	31	504	1,638
Nord-Kivu	194	4,070	381	3,309	7,954
Katanga	333	3,035	211	3,558	7,137
Kasaï Occidental	181	6,465	207	1,894	8,747
Kasaï Oriental	123	3,391	66	4,324	7,904
Total	3,187	42,906	3,717	36,645	86,455
Per 10,000 population	0.5	7.1	0.6	6.0	14.2

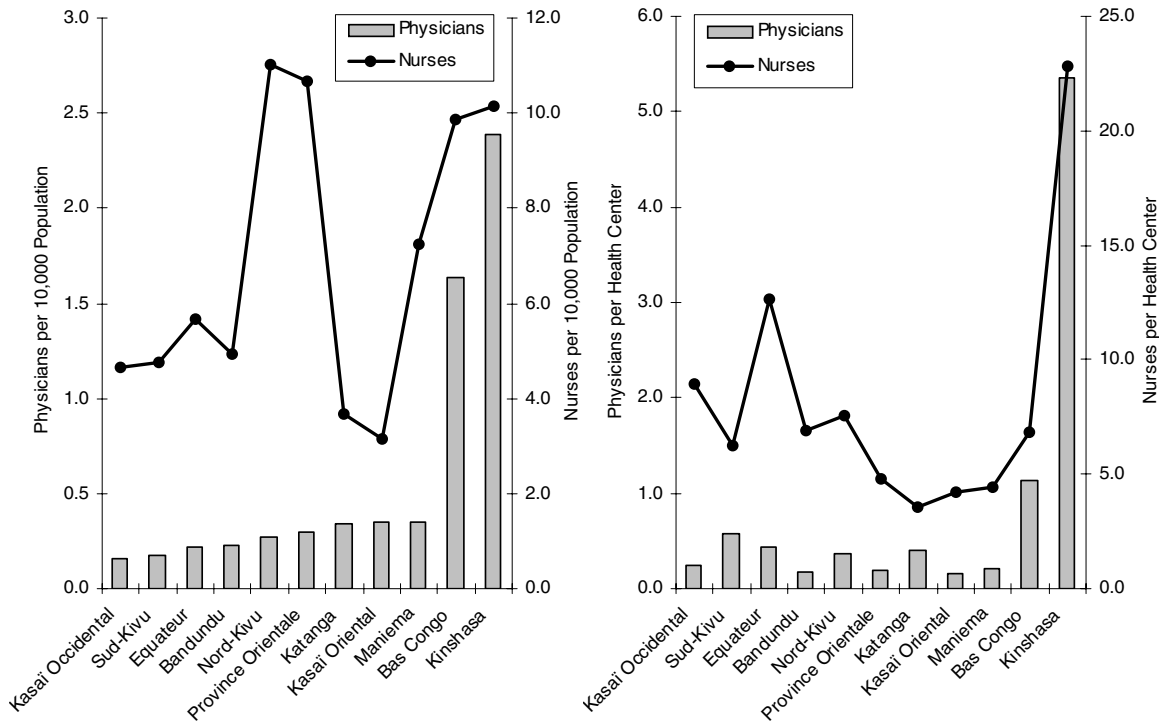
Source: DRC Ministry of Health.

A50. The density of skilled health workers on the government payroll is very low, although there are significant numbers of non-regularized workers providing services in government facilities. (Annex 5. Table 3) presents reported numbers of government health workers in 2006. It should be noted that significant additional numbers of health workers provide services in government facilities but are not on the civil service rolls, and these are not included in the table. In any case, the table provides information on the supply of government-funded services, since civil servant remuneration is an important component of domestic public expenditures. Overall, there are approximately 3,200 physicians and 43,000 nurses for ratios of 0.5 and 7.1 per 10,000 population respectively. These ratios are among the lowest in the world, although, again, they do not reflect the numerous health workers that are working in government facilities but are not on the civil service payroll.

A51. The production of trained health workers is significant, although it is unclear whether it is excessive. There has been a proliferation of training institutes, as there are currently 60 university faculties and programs training physicians, nurses and other health professionals, as well as 362 health technical institutes training nurses and technicians. Data on the annual number of new physician graduates are not available. However, in 2006, it is reported that a total of 3,609 nurses graduated from different programs across the country, a substantial increase from the 2,743 who graduated in 2004. Although there is a general sense that production of health workers may be excessive, these numbers are consistent with the size of the workforce (i.e. around 8% of the total of 42,000 nurses). It is thought that, particularly during the social and economic crisis of recent years, the health professions are seen as among the few that can reliably

generate income. At the same time, many seek employment abroad, although these opportunities are reported to be declining, particularly as questions are raised about the quality of the training received by these graduates.

Annex 5. Figure 8: Civil Service Physicians and Nurses per 10,000 Population and per Functional Government Health Center, by Province, DRC 2006



Source: Staff estimates from data reported by DRC Ministry of Health.

A52. There are significant differences between provinces in the availability of government health workers, with Kinshasa and Bas-Congo much better-off than the rest of the country. The first graph in (Annex 5. Figure 4) shows the ratios of civil servant physicians and nurses to population in each of the provinces. It suggests that the availability of government physicians in Bas-Congo and Kinshasa is much greater than in the other provinces. With regard to nurses, along with Bas-Congo and Kinshasa, there are also comparatively high numbers in Nord-Kivu, Province-Orientale and Maniema, possibly compensating to some extent for the absence of doctors. The other provinces – Kasai-Occidental, Kasai-Oriental, Sud-Kivu, Equateur, Bandundu, and Katanga – are characterized by comparatively lower densities of both doctors and nurses.

A53. Aggregate numbers of civil servant health workers compared to PHC infrastructure suggest a situation of under-staffing, but this does not factor in the often numerous non-regularized staff. Figure 8 illustrates the numbers of civil servant physicians and nurses per Health Center in each province, based on the information reported in Tables 2 and 3. This can provide an indication of the extent to which staffing levels are commensurate with PHC infrastructure, although it could be expected that a significant proportion of these staff are working in hospitals and not Health Centers. This

is surely the case in Kinshasa, which shows the highest ratios of doctors and nurses to PHC infrastructure. In the other provinces there are less than one doctor and 1-2 nurses (except in Equateur, where there are 3) per Health Center. Insofar as a proportion of these staff is likely working in hospitals, this may indicate under-staffing of the available PHC facilities. However, as noted above, the staffing figures do not include non-regularized health staff working in these facilities, so that the real staffing situation remains unknown. What can be concluded, however, is that, aside possibly from Kinshasa, the numbers of skilled staff currently on the civil service payroll are not excessive in the aggregate. This is all the more so as a significant proportion is eligible for retirement. In this case, addressing over-staffing problems, which are evident in some areas according to anecdotal reports, will likely involve reallocation of civil service staff, addressing issue of the non-regularized staff (i.e. by avoiding regularizing them), and retiring eligible personnel.

A54. The number of physicians and nurses on the government payroll has increased substantially compared to 1998, although increase in the number of physicians has only kept pace with population growth. The reported number of civil servant physicians increased from 2,058 in 1998 to 3,052 in 2004 and 3,187 in 2005. However, due to population growth, the ratio of physicians per 10,000 population remained similar at 0.4 in 1998 and 0.5 in 2004-05. The increase in the number of nurses on the civil service payroll exceeded population growth. In 1998, there were 27,162 reported government nurses, which increased to 20,298 in 2004 and 42,906 in 2005. The resulting ratios per 10,000 population were 5.6 in 1998, 6.6 in 2004 and 7.1 in 2005.

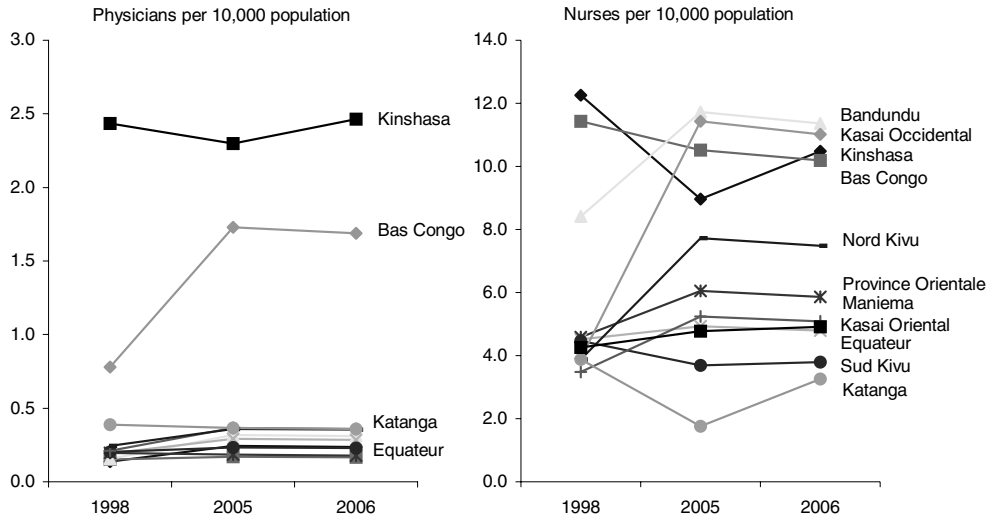
A55. Although the number of civil servant physicians increased in most provinces since 1998, the disparities between Kinshasa/Bas-Congo and the rest of the country hardly changed. Figure 9 illustrates trends in reported numbers by province. In Kinshasa, the density of government physicians declined slightly between 1998 and 2004, but shows an increase in 2005. In Bas-Congo, in contrast, there was a dramatic increase in the number of physicians between 1998 and 2004, with a slight decrease in 2004-05 (always in relation to population). The other provinces showed an increase in the density of physicians between 1998 and 2004, except for Katanga, where a decrease is observed.

A56. With regard to nurses, there is a mixed picture, with decreases in density between 1998 and 2004 evident in Kinshasa, Bas-Congo, and Katanga in particular (followed by rebounds in Bas-Congo and Katanga between 2004 and 2005), and increases in particular in Bandundu, Kasai-Occidental, and Nord-Kivu between 1998 and 2004.

A57. While most private non-profit health services are linked to the public sector system, there is little information on for-profit services, although they are known to be significant particularly in the cities. Most private non-profit services, run by church groups and NGOs, are reflected in the official reported information on health infrastructure (Table 2) and usually support or are integrated into the Health Zone structures. However, there is little information on the supply of private for-profit services in the country. It is known from household-level utilization data that informal providers

play a significant role. For example, as mentioned above, the 2001 MICS found that 25% of children with fever received care from drug sellers. Anecdotal evidence indicates that private for-profit providers are important in the major cities, particularly Kinshasa.

Annex 5. Figure 9: Trends in Civil Service Physicians and Nurses per 10,000 Populations, by Province, DRC 1998-2006



Source: Estimates from data reported by DRC Ministry of Health.

4. Sector Strategy

A58. **The PRSP (2006) emphasizes development of basic health services through the Health Zone system and the prevention of HIV/AIDS among the most vulnerable groups.** The PRSP has five pillars, two of which are directly related to the health sector: improving access to basic social services and combating HIV/AIDS. The major thrust of the strategy to improve access to health services is to develop the Health Zones, including:

- a) developing management capacity;
- b) developing health human resources;
- c) rationalizing and expanding the coverage of health facilities;
- d) improving service quality;
- e) improving financing in order to reduce financial barriers to utilization; and
- f) developing partnerships with communities, church organizations and NGOs.

A59. Also emphasized in the strategy is development of the intermediate administrative levels (Districts and Provinces) and reform of the central ministry.

A60. The HIV/AIDS pillar emphasizes prevention as central to the strategy, and includes a significant focus on vulnerable at-risk groups. Improving access to treatment, attenuating the socio-economic impact of the epidemic and improving coordination and monitoring and evaluation are other elements of the strategy (DRC, 2006).

A61. **The 2006 Health System Strengthening Strategy focuses on development of the Health Zone system.** This follows the lines of the PHC development program of the 1980s, inspired by the model of several demonstration Zones that functioned well with external support and technical assistance during that era. The document is strongly critical of disease-specific programs and financing mechanisms and emphasizes that the relevant interventions (ie. immunization, HIV/AIDS programs, family planning) need to be integrated in the minimum package of services delivered by the health system. Investments in the Health Zones are to be done incrementally, starting with those with the highest potential. Consistent with the PRSP, development of the Health Zone system is to focus on improving the capacities of the Zone management teams, rationalizing the functioning of health services, improving quality, and encouraging community participation. The strategy also addresses system-wide issues that affect the development and functioning of the Health Zones: i) rationalization of the central and intermediate levels of the health administration; ii) reform of health financing mechanisms particularly in favor of pooled donor funding at the province level; iii) improving partnership with the private sector and inter-sectoral coordination; iv) developing health human resources; and v) encouraging operational research.

A62. The strategy provides a framework for more detailed policy work in various technical areas (DRC Ministry of Health, 2006b). In particular, standards for Health Zone organization and the packages of services to be delivered at the primary and hospital levels have been developed and refined (DRC Ministry of Health, 2006a). A major remaining priority for policy work is the area of human resources for health, while pharmaceutical supply policy will also require attention.

A63. **The 1999 national HIV/AIDS strategy sets out a multi-sectoral approach in the areas of prevention, mitigation, awareness-raising, and capacity-building.** It covers the period 1999-2008 and will soon require revision, presumably following the emphasis in the PRSP on prevention among vulnerable groups. The 2002 operational plan of the national HIV/AIDS program sets out six areas of focus: i) communication for behavior change, particularly among youth and at-risk groups, and including condom promotion; ii) blood transfusion safety; iii) treatment of sexually-transmitted infections; iv) care for people living with HIV/AIDS; v) prevention of mother-to-child transmission; vi) epidemiological surveillance and operational research (DRC Ministry of Health, 2002). In 2005, the government developed a strategy for delivery of anti-retroviral treatment, and scaling-up coverage is currently the subject of increased focus. Implementation of the strategy should benefit from rationalization of the institutional framework that involves both the national program housed in the Ministry of Health and the national multi-sectoral program under the Presidency. The relationships between these and other actors, such as the project management of the World Bank-financed Multi-sectoral HIV/AIDS Project (MAP) and the Country Coordinating Mechanism (CCM), are to be reviewed and greater representation from civil society, notably people living with HIV/AIDS (PLWHA) will be encouraged.

A64. **The new Constitution mandates decentralization of responsibility for basic health services to the provinces.** The 2006 Constitution creates 26 provinces with significant responsibilities and specifies that 40% of national revenues collected in each

province be returned to the province. With regard to the health sector, the Constitution specifies that health legislation and standards are the responsibility of the central government (Article 202), while the functioning of primary health care in particular is an exclusive responsibility of the provinces (Article 204), and this division of responsibility seems to be how the Constitution is generally understood. However, the Constitution may open the door to ambiguity by also stating that concurrent responsibilities include those over medical institutions, the hiring of senior medical personnel and the prevention of epidemics (Article 203).

A65. Decentralization raises major questions and challenges for the health sector.

The government is currently developing laws to implement the decentralization provisions of the Constitution. A number of issues are crucial to the health sector.

- a) In the area of financing, the major problem is most provinces will not possess the necessary resources to ensure financing of basic health services. Currently, the major responsibility that would be inherited by the provinces would be to ensure salaries, but significant increases in public funding levels for the health system are envisioned in the medium-term, and it is not clear that the provinces (even less so than the central government) are in a position to meet these requirements.
- b) A small number of the more well-off provinces will be able to meet the costs, and likely increase the current level of expenditures in these provinces. For example, the provincial government in Katanga has indicated its intention to increase health worker remuneration once it takes responsibility for this. However, this would not be the case in most other provinces, exacerbating inequalities across the country. Some type of equalization mechanism is clearly required.
- c) A related question, again in the context of envisioned increases in investment in the sector, is the respective roles of the central and provincial authorities with regard to health sector development programs (currently largely donor-financed).
- d) Another major uncertainty is the capacities of the health administrations in the newly-created provinces. It is expected that many of the current Health Districts will become provincial health administrations but their capacities are currently generally weak.
- e) This raises the question of the role in the provinces of the national Ministry of Health. Currently, the provincial health inspectorate depends hierarchically on the Ministry of Health in Kinshasa. Whether this will remain the case in parallel with new provincial health ministries is being debated.
- f) Finally, a major uncertainty is the role of the sub-provincial administrative authorities. These are mentioned in the Constitution and may have significant responsibilities independent of the provinces. Their role in the provision of health services and their relationship with the Health Zones has not been determined. Generally, the consensus of health officials at both the Kinshasa and provincial levels is that the Health Zones should depend on the provincial administrations.

A66. Overall, the major risk to the health sector of decentralization, observed in other countries such as Sudan and Nigeria, is that the decentralized responsibilities for service

delivery are not accompanied by commensurate transfers of resources and capacities, leading to service deterioration and worsening inequality between regions.

5. Domestic Private Health Spending

A67. Partial cost recovery through user fees has long been part of the system and in the 1990s households became practically the only source of financing for health services. In the 1980s, a system of service fees and the sale of drugs, based on the Bamako Initiative, were introduced along with the Health Zone reform (Haddad and Fournier, 1995). The strategy at that time consisted of encouraging an increase in consultation fees in order to support quality improvements, while at the same time developing exemption schemes to prevent the poorest from losing access. In Sub-Saharan Africa, the cost-recovery experience usually resulted in recovery of a low proportion of costs, dysfunctional exemption systems, and low utilization of services (Arhin-Tenkorang, 2000). In the 1990s in DRC, due to the collapse of international and domestic public funding, households became the main source of financing for health services. Service utilization dropped due to deterioration in services and the financial barrier represented by user fees. Nevertheless, it can be noted that financing by patients made it possible to maintain a minimum level of health care in many areas.

A68. The cost of care is a serious barrier to health service utilization. Various studies have shown that the proportion of sick people who either do not seek or do not receive care can be high. The 2001 MICS2 found that 40% of children with symptoms of acute respiratory infection had not been seen by a medical provider. In all studies in which this was measured, inability to pay was the major reason, with the percentage of cases excluded by financial barriers ranging from 7 to 30%. In addition, a large proportion of the sick resort to self-medication. For example, the MICS2 found that about 14% of children with symptoms of acute respiratory infection had received medication from a private pharmacy or medicine seller, while an additional 10% had been treated only by relatives or friends.

Annex 5. Table 4: Proportion of cases not receiving care, total and for financial reasons, DRC

	(% of cases)		Source
	Did not seek/ receive care	Did not receive care for financial reasons	
Basankusu (Equateur)	36	29	MSF (2001)
Lisala (Equateur)	24	19	"
Kilwa (Katanga)	28	23	"
Kimpangu (Bas-Congo)	20	10	"
Inongo (Bandundu)	22	18	"
Nord-Kivu	19	15	Soeters (2003)
Kasai-Oriental	16	7	PSF (2003)
9 provinces	23	19	BERCI (2004)*

* Refers to prenatal consultations; the sample was drawn from target populations of health care facilities.
Source: World Bank (2005).

A69. The impoverishing effect on households of out-of-pocket payments may manifest itself in reduction of capital, accumulation of debt, and diversion of resources away from productive activities. For example, a 2003 study in Nord-Kivu found that that 24% of patients had been forced to sell some possessions to pay their medical bills, whereas 12% had gone into debt, and 6% had borrowed money from their families (Soeters, 2003). A 2004 survey of populations living near health facilities found that 35% of patients who had received care had been unable to pay their entire bill (BERCI, 2004). An example of the effect of the cost of health care on one household interviewed during field research for this document is given in Box 1.

A70. There are several fee-collection systems. The two main options are as follows: i) one fee per illness episode, which covers all interventions and drugs prescribed for the same consultation; and ii) fee-for-service, by which all interventions and prescriptions are billed separately. A single fee per episode is often adopted when external support is available to subsidize drugs and pay health worker incentives. This method has the advantages of streamlining billing and facilitating subsidies of services and drugs. The main disadvantage is the need for rigorous monitoring of drug consumption. The fee-for-service method may, on the one hand, reduce over-use of medications by patients due to the disincentive of the user fee, but on the other hand may encourage over-prescription in situations where health workers profit from drug sales. The latter situation is often observed in DRC in situations where health workers are mostly dependent on user fees and drug profits for their remuneration. Finally, the prescription of medications that can only be found at a private pharmacy, on the pretext that they are more effective than the generic drugs supplied by the public facility, is often the result of collusion between the health provider and the private drug seller.

Annex 5. Box 1: The cost of health care for a Katanga family

Kalala Ilunga, 5 years old, was diagnosed with pneumonia at the health center in Kipushi, Katanga Province. Pneumonia, along with malaria, is among the most common diseases treated at the center. Kalala's mother and father brought him to the center after he became lethargic and feverish, after coughing for some days. They did not bring him earlier because of the cost. The male nurse at the center (over) prescribed injections of three different antibiotics and recommended keeping the child for several days in the health center under observation. The consultation with the nurse cost CF 200, while each day of inpatient care would be CF 150. However, the total prescribed seven-day antibiotic treatment would cost the family CF 6,000 to 7,000 (US\$ 13-15). The health center sells drugs at a margin which, along with the consultation fees, contribute to most of the remuneration of the health workers, most of whom are not regularized civil servants. Because this is a relatively prosperous area, the health center functions adequately from patient revenues.

However, the prescribed drugs (evidently excessive in number) were not available at the health center so the father was sent to buy them at a private pharmacy (raising the possibility of collusion between the nurse and the private pharmacy). He first went to his sister to borrow CF 2,100 and bought two days of treatment. According to the physician in the health center, it is likely that this dose would lead to sufficient recovery so that the family would bring the child home.

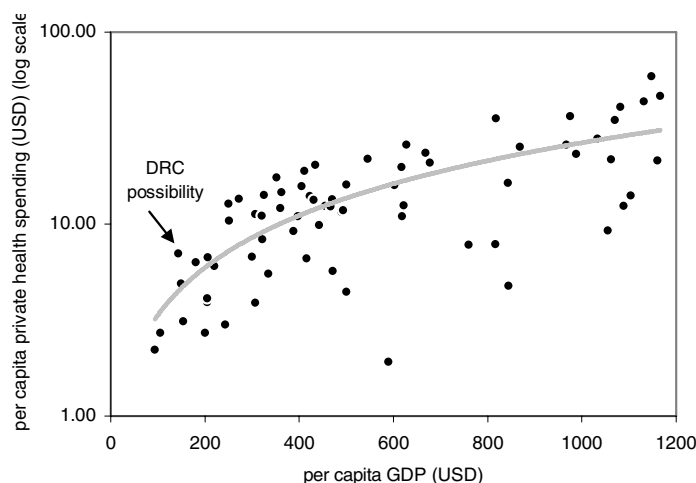
Part of the family's stock of seed beans would need to be sold to pay the debt to the father's sister. He is a primary school teacher whose income relies on fees paid by students' families. His monthly income is CF 15,000 (US\$ 32), supplemented by the harvest from part of a hectare of land, 10 km from their house, that he bought for CF 25,000 two years ago. Ilunga's mother works the land, but can only cultivate a fraction of it, and the family does not have the capital to exploit the rest of the hectare. Ilunga's mother is 25, with four children, and says that whether she has more children will be decided by God. She does not visit the family planning services provided by the maternity clinic near the health center.

Kalala is well-nourished and has recovered, so is more fortunate than many of his peers. However, it is evident that even the Ilunga family is caught in a "poverty trap." Despite the family's capital in the form of a hectare of land and the father's education allowing work as a teacher, a simple illness was enough to significantly reduce the family's savings and undermine its prospects of getting ahead.

A71. Exemption policies are generally poorly applied unless the health facility is reimbursed for services provided to their beneficiaries. Only a small proportion of the population benefits from exemptions by being designated as indigent by the local administration. A survey of catchment populations of health facilities in nine provinces in 2004 found that only 1.4% of patients possessed a card designating them as indigent (BERCI, 2004). The local administration is supposed to reimburse the Health Zones for care provided to indigents, but this rarely happens. In fact, the administration's failure to reimburse health facilities for the cost of care for civil servants and soldiers who are exempt is a significant burden, eventually borne by higher fees paid by other patients (Maltheser, 2004). In some situations, NGOs have provided reimbursement to health facilities for care provided free of charge to the poor, significantly raising utilization (Dijkzeul and Lynch, 2006).

A72. The practice of obliging patients who have received care to remain in the facility until their families have paid the bills has been widely reported. This practice seems to be particularly common in cases of Caesarian sections, which are billed at US\$ 100-150, unaffordable for many households. The 2004 study in nine provinces found that 28% of respondents said that health facilities obliged patients to stay in the facility until the family paid their bills (BERCI, 2004).

Annex 5. Figure 10: Per capita private health spending (US\$) vs. per capita GDP (US\$), countries with GDP per capita under US\$ 1,200



Source: WHO estimates for 2004. IMF estimates for DRC GDP for 2006

A73. **Although elimination of user fees is being debated in DRC, available resources call for a strategy involving exemptions and free or highly-subsidized provision of selected high-impact services.** Evidence of the severe impact on health service utilization among poor populations in DRC during the conflict led to strong calls for elimination of user fees (MSF, 2001) and questioning of the practice of including cost-recovery in humanitarian programs as a sustainability strategy required by donors (Poletti, 2003 and Dijkzeul and Lynch, 2006). This discussion in the humanitarian context mirrored debates in the 1990s about cost-recovery in the health sector in general. Currently, the issue has raised its head again in DRC in the context of development programs. In particular, a health project financed by the United Kingdom is designed to pilot and measure the effect of the elimination of fees for basic services. Generally, Congolese health officials and other Congolese stakeholders recognize the impact of high user fees on utilization and poverty, but advocate the retention of some level of fees. One reason given for this position is the notion that payment of fees encourages accountability between the provider and the patient. An empirical study of the extent to which this occurs would be interesting (although undoubtedly difficult to design). A second major reason given is the proposition that the removal of fees will undermine the sustainability of the system when international support ends. Given the lack of predictability of international financing discussed above, this seems to be a reasonable concern. Although health facilities would, of course, be able to reinstate fees when external support ends, the drop in utilization may be deeper than it would be otherwise, although again there is no empirical evidence on this issue.

A74. In any case, given the available domestic and international resources, this debate is somewhat moot in that there is not enough money available to finance the basic package of services free-of-charge for the entire population. It is clear that reducing financial barriers to utilization and the burden on households will require some combination of exemption policies and the provision of free or highly-subsidized selected

high-impact services. Such strategies are already in place to a certain extent in DRC and they require strengthening in combination with the necessary external subsidies.

A75. There have been numerous experiments with community-based health insurance schemes but these are difficult to scale-up among such a poor population.

The largest and most thoroughly studied is the co-operative insurance of Bwamanda (Equateur), which insures its 114,000 members for hospital care. There are also many different arrangements that protect themselves against the risk of catastrophic expenditure but these involve only a small number of people. The 2004 study of nine provinces found that 2.4% of households had their health care costs covered by a co-operative insurance (BERCI, 2004). It should be noted that such programs are not easily reproduced and do not necessarily benefit the poorest. In Bwamanda, for example, although hospitalization is greater among the insured than in the rest of the population, the poorest remain the least likely to be insured (Criel *et al.*, 1999). The failure of at least one pilot community insurance scheme, supported by external aid, has been studied in Masisi, Nord-Kivu. The reasons for its failure included weak design (leading to over-consumption of services), and the lack of a feeling of ownership on the part of those who were insured (Noterman *et al.*, 1995).

A76. Unfortunately there are no population-representative data to allow for an estimate of the magnitude of private financing for health services.

In 1980, the World Bank estimated that annual per capita private health spending in DRC was about US\$ 5.60. A 2003 survey in Nord-Kivu estimated per capita private health expenditures at US\$ 6.50 (Soeters, 2003). Based on models of data from other countries, WHO's imputed estimate is that 70% of total health spending in DRC in 2004 was from private sources, almost entirely out-of-pocket payments. The estimates provided above for domestic and international public spending in 2004 (excluding humanitarian and HIV/AIDS programs) total around US\$ 2.00 per capita. Assuming that this is 30% of total health expenditures (so that total health spending is around US\$ 9.00) results in a (very) rough estimate for private out-of-pocket spending of around US\$ 7.00 per capita. This is consistent with the Nord-Kivu study as well as with the country's level of GDP (Annex 5 Figure 10).

Annex 5. Table 5: Estimated and Projected International Donor Financing of Health and HIV/AIDS Programs in DRC by Donor, 2003-10

Health Programs (US\$ million)		2003	2004	2005	2006	2007	2008	2009	2010
	Program								
Belgium	Support Central MoH	3.4	6.2	8.0	8.4	9.4	33.2	33.2	33.2
	Support Provinces	3.3	3.3	3.3	3.3	2.5	0.0	0.0	0.0
	Support Districts	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
	Support Zones	7.4	8.7	8.7	9.1	10.0	0.0	0.0	0.0
	Humanitarian	0.8	2.3	4.9	5.4	0.0	0.0	0.0	0.0
Canada	Development	0.2	0.9	1.1	1.2	1.1	0.0	0.0	0.0
	Humanitarian	3.8	0.0	0.0	1.4	0.0	0.0	0.0	0.0
Germany	Development	0.9	0.7	0.3	0.3	0.4	0.0	0.0	0.0
	Humanitarian	0.0	0.5	0.7	1.2	0.7	0.0	0.0	0.0
United States	Avian influenza	0.0	0.0	0.0	1.2	0.2	0.2	0.2	0.2
	Malaria	0.1	0.0	0.1	0.0	6.7	2.5	2.5	0.0
	Child survival	10.2	8.1	8.5	8.6	8.7	8.7	8.7	8.7
	Infectious diseases	3.1	5.1	5.1	3.7	8.5	8.5	8.5	8.5
	Reproductive health	1.3	4.9	4.8	5.8	4.9	4.9	4.9	4.9
	Immunization	0.0	0.0	3.7	0.0	3.7	0.0	0.0	0.0
	Humanitarian	18.5	12.5	10.3	13.6	2.1	0.0	0.0	0.0
	Development	0.0	0.0	0.0	0.0	14.0	14.0	14.0	14.0
	Malaria	0.0	6.0	9.0	0.0	0.0	0.0	0.0	0.0
	Humanitarian	3.9	3.0	10.6	8.6	0.0	0.0	0.0	0.0
African Development Bank	Development	0.0	0.0	0.0	0.0	7.6	7.6	7.6	7.6
	Development	0.0	0.0	3.4	48.4	39.5	3.8	17.5	0.0
European Union	Humanitarian	13.9	30.3	31.2	24.8	6.4	0.0	0.0	0.0
	Immunization	9.2	9.2	9.2	9.2	9.2	7.2	6.4	0.0
GAVI Alliance	Development	0.0	0.0	0.0	0.0	0.0	18.9	18.9	18.9
	Malaria	0.0	1.4	18.6	6.5	5.4	0.0	0.0	0.0
Global Fund	TB	1.6	4.2	1.1	5.4	3.9	5.8	5.8	2.8
	Reproductive health	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0
UNFPA	Humanitarian	0.0	0.0	0.0	14.0	7.8	0.0	0.0	0.0
UN CERF	Various	16.8	24.3	26.8	35.5	26.4	26.4	26.4	26.4
UNICEF	Immunization	0.0	0.0	15.3	6.2	8.7	0.0	0.0	0.0
	PMJRR	6.0	13.3	13.3	13.3	6.0	6.0	0.0	0.0
World Bank	PARSS	0.0	0.0	0.0	8.4	35.4	35.4	35.4	35.4
	Kinshasa project	0.0	0.0	0.0	0.0	0.0	13.0	0.0	0.0

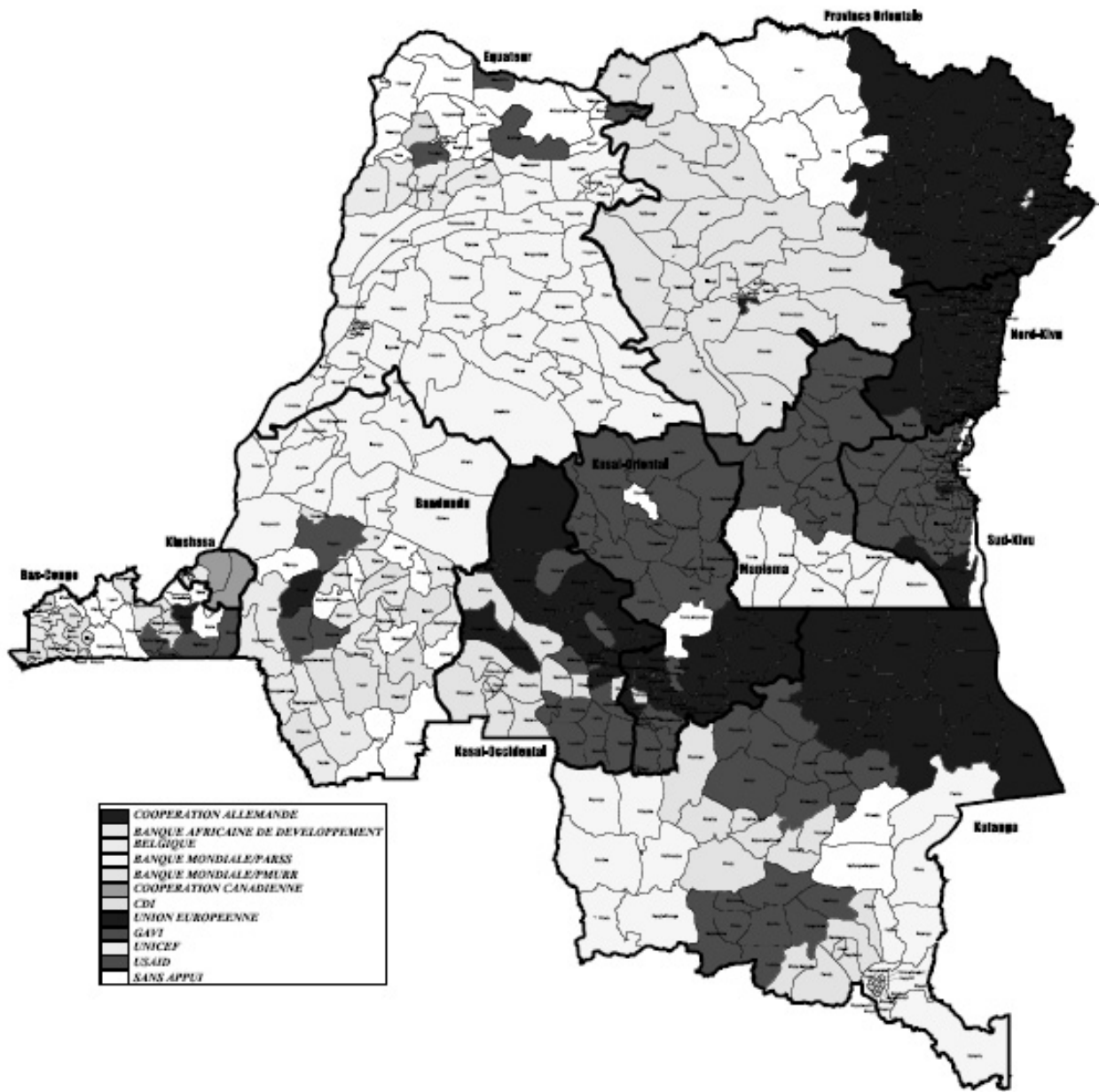
Other donors	Humanitarian	4.8	3.9	8.0	29.0	1.3	0.0	0.0	0.0
Total Health		109.6	148.9	206.2	272.7	233.2	196.1	190.0	160.6

HIV/AIDS Programs		2003	2004	2005	2006	2007	2008	2009	2010
(US\$ million)		Program							
Germany	HIV/AIDS	1.9	1.8	1.5	1.3	1.3	1.3	1.3	1.3
United States	HIV/AIDS	5.8	5.8	7.0	7.2	10.9	10.9	10.9	10.9
Global Fund	HIV/AIDS	0.0	3.2	18.1	13.1	9.2	23.4	23.4	23.4
UNICEF	PMTCT/pediatric	0.5	0.5	0.7	1.1	1.7	1.7	1.7	1.7
World Bank	MAP	0.0	0.0	13.6	6.6	14.0	18.0	22.0	27.8
Total HIV/AIDS		8.2	11.4	41.0	29.3	37.1	55.3	59.3	65.1

Grand Total Health & HIV/AIDS		117.7	160.4	247.2	302.1	270.3	251.4	249.4	225.8
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Source: Staff estimates based on information provided by the DRC Ministry of Health and individual donors and UN agencies.

Map of Donor Support to Health Zones, 2007



Source: DRC Ministry of Health and USAID Axes Project.

Annex 6: Decentralization

1. Introduction and Context

A77. Over the last ten months the decentralization process has emerged as the key issue on the governance agenda in the Democratic Republic of Congo. Whereas the country faces a large number of deep challenges in establishing an effective and democratic governance system, few issues have aroused more political debate than the decentralization process, which has engaged the senior political leadership of the country, up to the President, in a drawn out debate. The decentralization debate has also become a microcosm of all other key issues inherent in the reform of the governance system, as it touches upon the reform of the public service, and notably the public sector wage system, the public financial management system, the delivery of basic public services and transparency and the fight against corruption, which represent the main cross-cutting governance issues in the Government program. The process also has implications for other areas of the governance agenda, in particular the reform process in the extractive sector and revenue collection issues related to this. The latter issue is discussed in depth in a World Bank study on mining sector reform (World Bank, forthcoming).

A78. The decentralization process in the DRC is an inherently political process, and part of the broader peace and reconciliation process that has taken place over the last five years. In this context decentralization is part of the process of seeking a new equilibrium and national consensus that provides a more widely accepted sharing of resources while maintaining the national integrity of the country. This sets the process apart from the often donor driven decentralization processes in other African states and also requires from the international community a different, less technical and more politically conscious approach.

A79. The Constitution of the 3rd Republic presents the political consensus that was achieved in 2005-6. It provides the broad parameters for the decentralization process but leaves several issues with regard to the details of the implementation arrangements to be decided. For instance, even though it was expected that the Organic Law on Decentralization would have been adopted before the 2006 elections, parliament failed to reach consensus. Other pieces of legislation, such as the Law on Programming the Decentralization process and legislation on key aspects of public financial management and public service, were also not adopted. At the same time, the Constitution is highly specific on other issues, in particular on the division of competencies and on the level of fiscal transfers (40% of domestic revenue).

A80. In the meantime, the political process has moved on, as Provincial Assemblies and Governors were elected in late 2006 and early 2007 respectively, leading to a demand for prompt implementation of the Constitution, in particular regarding the intergovernmental fiscal arrangements. This has exacerbated the problems of an unfinished legal framework, i.e. Constitutional definitions of competencies and transfer levels combine with a lack of clarity on transitory modalities and aspects of supervision and coordination between levels of government. In addition, the central government effectively curtailed transfers in the first half of 2007, putting all provinces on a lump-sum payment of about 6-7% of domestic revenue, instead of the 20% that was common practice before the elections. Taken together, the lack of legal clarity and unilateral actions on the side of the central government created a crisis of confidence between

central and provincial leaders, leading to the emergence of a highly politicized and acrimonious debate on the decentralization process in the first half of 2007. However, following a direct intervention by President Kabila, and the National Decentralization Forum in early October 2007, some key principles underlying the process have been agreed, and the decentralization debate has become more constructive, with more attention devoted for the tremendous technical and operational challenges ahead.

A81. This note, which is the result of joint work by experts from the World Bank and the European Commission, considers technical aspects of the various elements of the decentralization debate. It summarizes and pulls together the conclusions of a series of technical notes that have been produced between April and October 2007, notably the Note on Transitory Arrangements in the Decentralization process (June 2007), the Note on Fiscal Aspects of Decentralization and Competency Transfers, the Note on Human Resource Aspects of Decentralization, as well as Briefs on aspects of guidance and control system ('Tutelle') (September 2007) and the creation of the National Equalization Fund (September 2007) and an impact assessment of the Decentralization Process on Education Sector Reform (October 2007). All these notes were developed in close consultation with government counterparts and the donor community.

2. Competency Transfers and Fiscal Intergovernmental Relations

A82. As noted in the introduction, the main focus in the decentralization debate has been on when and how to increase the level of transfers to 40% of domestic fiscal revenue. Even though this issue in itself poses some serious technical questions, the picture becomes even more complex when considering the transfer of expenditure assignments, as laid out in the constitution. As per the 2006 constitution, sub-national expenditure assignments include most of the elements of pre-school, primary and secondary education, the regional public service, key aspects of the management of delivery of health services as well as a number of other functions.

A83. The danger in conducting the debate on transfers in isolation from a discussion on expenditure assignments is obvious, the discussion on '40%' provides an illusion that provinces would have significant resources at their disposal, while in reality it is unclear whether 40% of revenues would be sufficient to even ensure the effective fulfillment of transferred obligations. Furthermore, issues of the repartition of resources between provincial and local level remain to be elaborated in the context of the definition of the responsibilities of the latter group of entities, providing for further uncertainty on this issue. In addition, the discussion on competencies is decoupled from the debate on public investment spending, which is covered under a separate mechanism, the National Equalization Fund ('*Caisse Nationale de Péréquation*' or CNP), which is conceived as a national fund for investments in the provinces and will receive 10% of domestic budget revenues as per the Constitution.

A84. The Note on Fiscal Aspects and Competences (2007) reviews the aspects of revenue transfers and expenditure assignment in an integrated manner and the Note on Education present an impact assessment of the potential cost of education expenditures by province. In addition, the Note on Equalization provides options for the ongoing debate on the creation of the CNP. The below discussion of options synthesizes the detailed analysis presented in these notes.

Competencies: gradual or 'big bang'?

A85. Global practice on competency transfers basically distinguish between two models, the 'big bang' model of immediate transfers of competencies or a gradual, phased approach.

A86. Big bang models, such as for instance applied in Indonesia and the Philippines, are either based on political imperatives, such as the need to pre-empt centrifugal tendencies in a given countries, or on the principle of a 'clean break' with a previous system. The Indonesian case, for instance, included an immediate transfer of responsibilities as a way to prevent the break up of the country. Similarly, the Russian case saw rapid federalization as a response to separatist tendencies in some constituent republics. The Philippine case, even if a further example of a rapid transfer of competencies, followed a longer preparation process of some five years, similarly to another case of 'big bang' decentralization, that of Poland.

A87. Phased approaches to competency transfers are based on a different logic, which is to transfer responsibility in line with absorption capacity, including budget management capacity. The Spanish and Slovak cases provide good examples of this type of approach, while in Africa Tanzania would provide the most suitable parallel.

A88. The choice of model has significant implications for the discussion on fiscal aspects of decentralization, while the former model requires a rapid step up in transfers (and/or revenue assignments) the latter is usually paired with a gradual, but defined increase in transfers (and/or revenue assignments).

A89. Whereas the two approaches might at first glance appear to be mutually contradictory, there are some elements of (pragmatic) mixtures between the two. For instance, in Indonesia, even though a 'big bang' model was applied, central government, by agreement, retained responsibility for some key aspects of service delivery, by taking responsibility for managing wage payments of public officials at regional level. The resources required for wage payments were subsequently deducted from the transfers to be made. Thus, it is important to emphasize that the speed of implementation is only one dimension, sequencing and maintaining balance are equally important.

A90. The case of the DRC on the one hand shows features of the 'big bang' cases highlighted above, notably the case of Indonesia with its strong political imperative for decentralization. In addition, the impending division of 11 provinces into 26 would seem to provide a further argument for a rapid resolution of the definition of competencies, along the lines set out by the Constitution.

A91. However, initial calculations on the impact on education wage transfers illustrated the risks inherent in decoupling these two elements of the debate. The first cost calculations on the transfer of education competencies, completed following the agreement on wage reform in the education sector between the Government and Trade Unions in August 2007, clearly showed the risks inherent in decoupling the debate on fiscal transfers from that on competency transfers. An initial review of potential resource sharing scenarios showed that virtually all of the provinces would be unable to fund education sector expenditures.

Annex 6. Table 1: Provincial expenditures on Education versus Fiscal Transfer Scenarios

Projected Provincial Transfers as Percentage of Education Wages

2008 Budget Wages	Education Sector Note Projections									
	CON	CP	SO	SO-Progr	Budget	CON	CP	SO	SO-Progr	Budget
Bandundu	<u>6.6%</u>	<u>18.6%</u>	121.2%	<u>61.4%</u>	143.8%	<u>5.6%</u>	<u>15.8%</u>	102.8%	<u>52.1%</u>	122.0%
Bas-Congo	160.4%	153.9%	196.3%	127.6%	276.2%	127.7%	122.5%	156.3%	101.6%	219.9%
Équateur	<u>15.4%</u>	<u>38.3%</u>	275.0%	140.0%	252.8%	<u>12.1%</u>	<u>30.2%</u>	216.8%	110.3%	199.3%
Kasaï-Occidental	107.1%	116.6%	279.4%	149.2%	299.6%	<u>86.3%</u>	<u>93.9%</u>	225.0%	120.1%	241.3%
Kasaï-Oriental	<u>57.4%</u>	<u>72.8%</u>	255.7%	133.2%	350.1%	<u>45.5%</u>	<u>57.7%</u>	202.6%	105.5%	277.4%
Katanga	299.6%	308.3%	544.5%	358.9%	481.5%	225.6%	232.1%	410.1%	270.3%	362.6%
Kinshasa	1180.6%	1116.5%	329.6%	284.9%	227.4%	667.6%	631.4%	186.4%	161.1%	128.6%
Maniema	<u>10.2%</u>	<u>36.0%</u>	439.2%	222.6%	243.8%	<u>8.4%</u>	<u>29.6%</u>	361.2%	183.1%	200.5%
Nord-Kivu	<u>70.6%</u>	100.7%	331.7%	184.5%	313.2%	<u>55.6%</u>	<u>79.2%</u>	261.0%	145.2%	246.5%
Orientale	<u>25.9%</u>	<u>56.9%</u>	388.1%	200.7%	326.6%	<u>20.8%</u>	<u>45.6%</u>	310.6%	160.7%	261.4%
Sud-Kivu	<u>82.0%</u>	104.3%	306.6%	167.7%	282.5%	<u>67.2%</u>	<u>85.5%</u>	251.3%	137.4%	231.6%

Source: Estimates for 2008 education wages are from 2008 draft budget. The Constitutional (CON), *Commission Paritaire* (CP), Solidarity (SO), Progressive Solidarity Estimates are based on 2008 revenue projections, allocated according to different criteria (see Fiscal Note, next section). Estimates for the CON, CP, SO scenarios do not deduct the 5% charges for revenue collection by the OFIDA, DGI, DGE, DGRAD.

A92. Annex 6 Table 1 highlights the financing challenges for particular provinces under various transfer allocation scenarios that have thus far formed part of the national debate. The various options set out in Table 2 are discussed in more detail below. Even just considering education expenditures, which are mainly composed of wages, it is clear that under the Constitutional and initial *Commission Paritaire* scenarios, most provinces would be unable to finance even teachers' wages. For example, under a literal interpretation of the constitution, Bandundu would only have financed 6.6% of its teacher expenses. The various alternative scenarios, with a greater emphasis on equity principles and the inability to assign particular revenues such as customs to a particular province, do allow provinces to cover basic costs, although with significant variations. The current nature of the debate has apparently cemented the claims of the provinces to all 40% of domestic revenues in 2008. However, the simulations highlight that various phased transfers of both functions and corresponding revenues may also represent feasible options that could be managed over a 2-3 year period (e.g., as outline in the progressive Solidarity Scenario).

Annex 6. Table 2: Provincial Fiscal Transfer Allocation Options

Literal Constitutional (CON)	40 % of all non-petroleum revenues where collected (including customs & large tax payers)
Commision Paritaire (CP)	40% of all non-pertroleum revenues where collected, except Ofida, where partially allocated on basis on population (20%)
Solidarity Scenario (SO)	Revenue classified as type A (easily linked to final location of collection) and type B (customs and large tax payers). Oil producer revenues (type C) excluded. 40 % of A based on location of collection, 40% of B revenues based on population (50%), area (30%), and equal lump sum for each provinced (20%). Type C revenues excluded
Progressive Solidarity Scenario (SOP)	Same as solidarity scenario, but only 20% of B revenues distributed in 2008 (pending full transfer of functions). 30% in 2009, and 40% in 2010.
2008 Budget Scenario	Proposed for 2008 budget assigns DGI and DGRAD revenues on collection basis, and all other non-oil on population basis

A93. Considering the above, as well as the conclusions of the Note on Human Resource Capacity and other assessments (IMF, 2005), it might be argued that it would not be prudent for DRC to follow a fully fledged ‘*big bang*’ approach. Additional arguments against a ‘big bang’ approach are that: a) preparatory work to establish structures and capacity at provincial level has not yet been conducted and b) that the in-depth fiscal analyses of the fiscal viability of individual provinces under different modalities of resource and competency transfers still remained to be conducted.

A94. At the same time, however, the clear and strict allocation of functions, in accordance with the constitution, the planned administrative reorganization (division of provinces) and political imperatives may make a relatively rapid decentralization of functions all but inevitable. Considering these two contravening arguments, as well as international practice, the following options have been explored in discussions between Government and its development partners:

- a. a phased transfer of competencies, according to an accelerated schedule, which would see the completion of the transfer by the time the new administrative structure of the state is to be created. A tentative schedule for such an accelerated transfer is presented in the Fiscal and Competencies Note;¹⁰⁷
- b. a solution whereby a formal transfer of functions would take place, but accompanied by an agreement between central and provincial governments for the central government to temporarily continue to manage certain aspects of these functions (in particular salary payments), the cost of which would be deducted from transfers.

¹⁰⁷ The basic premise of the proposals in this note is to start with systemic functions, which are essential conditions for other functions to be performed effectively. These would include public service management and financial management. This could then be followed by essentially local functions (such as spatial and urban planning, housing etc.) and in a second and third phase by social services, including, at a final stage, education

A95. Following the discussions at the National Decentralization Forum in October, it was agreed that a variant on the second option would be the most reasonable solution for the DRC at this point in time; functions and resources would be transferred in accordance with constitutional provisions, but wage payments are to be made protected items in provincial budgets, and based on lists of accredited officials established by central government as of end 2007. Thus, whereas the logic of the constitution would be respected, important safeguards to prevent a collapse of public services were also agreed

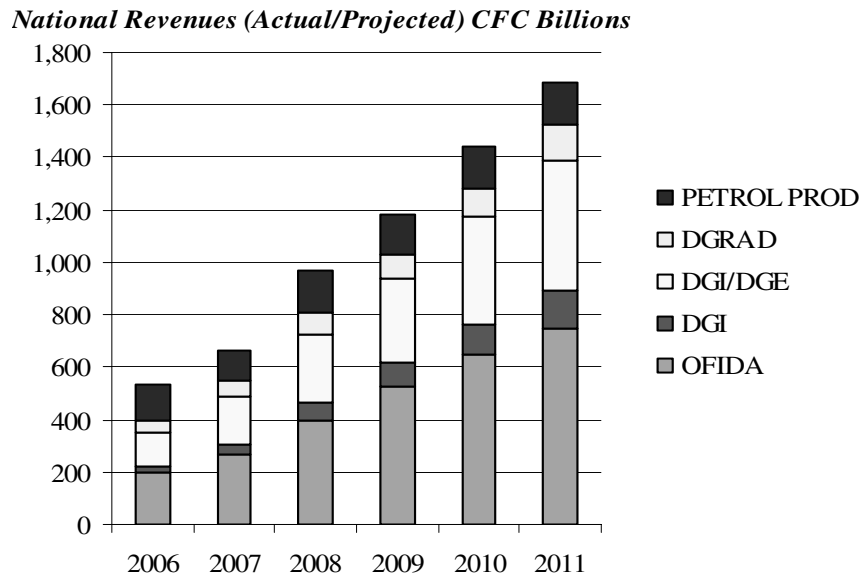
Fiscal aspects: balancing entitlements, equity and viability

A96. The policy debate in the DRC has focused so far primarily on the issue of resource transfers, and the modalities (and speed) of the implementation of Constitutional provisions. The discussion in the above section has shown that advancing fiscal aspects of the decentralization process in isolation from a debate on functional transfers will overlook key issues, such as the real cost of fulfilling key functions. Nevertheless, unless the principles underlying the implementation of the constitutional provisions on resource allocation are agreed, it is difficult to envisage the conduct of a more rational debate on functional transfers and other key issues of the decentralization process.

A97. ***How much revenue would each province receive under different fiscal allocation criteria?*** The bulk of domestic revenues in DRC are collected by the central government, through collection entities. These include customs (OFIDA), fees and charges (DGRAD), direct taxes (DGE), large taxpayers (DGE), and oil-related revenues (that are collected by both DGI and DGRAD). The various allocation scenario assume that different revenues can be directly attributed to a province, or whether some other criteria of allocation (e.g., population is more suitable). Depending on the projected growth of each individual revenue category, this will not only impact the overall pool of fiscal resources allocated to the provinces (e.g., a vertical share of 40% of domestic non-oil revenues), and whether particular revenue pools have more favorable prospects (e.g., large taxpayer receipts versus customs). Annex 6. Figure 1 highlights the main revenue pools by type and how they are projected to develop over time.¹⁰⁸ Of the CFC 969 billion in domestic revenues projected for 2008, the most important revenue pool was customs and duties administered by OFIDA (40.7%), large taxpayer revenues administered by DGE (26.6%), petroleum related revenues (16.9%), fees and charges administered by DGRAD (8.2%), and direct taxes administered by DGI (7.6%).

¹⁰⁸ As per IMF and government estimates.

Annex 6. Figure 1: Domestic Revenue Projections, by Type (2006-2011)



Constitutional interpretations, equity and viability

A98. There are multiple ways of interpreting the constitutional provisions that 40% of domestic revenues should be transferred to the provinces, and that this should be done by withholding such revenues at the source. The logic inherent in the constitution is based on two premises:

- a. that individual provinces will be viable entities under this scenario
- b. that all revenues can be automatically attributed to individual provinces

A99. The analytical work presented in the Fiscal and Competencies Note, has highlighted that neither of these premises is valid. Firstly, a literal interpretation of the constitution, using the contribution that each province makes to domestic revenues as a basis for transfer, would create unacceptable disparities in allocated revenue per capita by province. Secondly, it would make more than 75% of all provinces financially unsustainable (see Annex 6. Table 3). Thirdly, several important revenue categories (off shore oil revenues, most customs revenues and revenues collected by the central Large Taxpayers Unit, which are all paid in Kinshasa) are not attributable to individual provinces, and therefore further exacerbate large income disparities, mainly between Kinshasa and other provinces with important customs posts and, on the other side the rest of the country.

A100. The purely constitutional approach to transfers does not recognize these issues of inequality. Annex 6. Table 3 highlights the significant provincial revenue disparities evident under an application of a literal constitutional interpretation. As a first modification it is generally agreed that oil sector revenues, or at least those that are generated through off-shore

operations,¹⁰⁹ should be set aside from the intergovernmental revenue allocations. This in view of their temporary nature and the high degree of volatility in the size of these revenues. This provision is therefore applied to all of the scenarios presented below. It should also be noted that these scenarios deal only with provincial revenue due to revenue sharing (transfer). They do not include any own revenue generated by the provinces. Increasing these own revenues will in the longer term need to play a larger role, in order to create a stable fiscal basis for the provinces.

Annex 6. Table 3: Transfers per province per capita: pure constitutional interpretation

	2008	2009	2010	2011
Bandundu	215	246	285	338
Bas-Congo	4,153	4,822	5,642	6,669
Equateur	263	304	354	419
Kasaï Occidental	1,566	1,784	2,050	2,439
Kasaï Oriental	954	1,089	1,252	1,487
Katanga	3,450	4,159	4,905	5,700
Kinshasa	34,896	41,286	50,207	59,163
Maniema	165	198	234	273
Nord Kivu	810	964	1,138	1,332
Province Orientale	331	396	465	542
Sud Kivu	1,030	1,199	1,397	1,648
Average	5,349	6,322	7,624	8,976

The ‘Commission Paritaire’ scenario: not enough solidarity

A101. The two problems highlighted above have been recognized by Congolese policy makers, and were discussed in the context of the ‘*Commission Paritaire*’ (CP). This commission is constituted of representatives of the central government, of the provincial governors and of the provincial assemblies. It was established in June 2007. The conclusions of the technical work done by the CP highlights both the issue of disparities and the problems of attributing certain revenue categories to individual provinces. In its conclusions, the CP therefore suggested to take customs revenues (about 26% of total domestic revenue) out of the equation for direct allocation and to divide this in part according the location where the revenue was raised (80%) and in part according to a formula (20%) based on the size of the population. The CP scenario has a certain equalizing impact. However, in the CP proposals the disparities between income levels per capita remain unacceptable, and they put the viability of a large number of provinces further into doubt, especially considering the expenditure categories that would be transferred, such as primary and secondary education. Annex 6 Table 4 below presents the transfer scenarios according to the CP, and highlights that this scenario is still subject to significant disparities.

¹⁰⁹ Representatives of the province of Bas-Congo have argued for the allocation of 40% of the on-shore revenues to be transferred to this province, as these revenues are generated there

Annex 6. Table 4: Transfer level CP scenario 2008-2011

	2008	2009	2010	2011
Bandundu	610	694	797	949
Bas-Congo	3,984	4,630	5,423	6,407
Equateur	654	748	862	1,024
Kasaï Occidental	1,703	1,940	2,229	2,652
Kasaï Oriental	1,208	1,378	1,582	1,881
Katanga	3,550	4,272	5,035	5,854
Kinshasa	33,002	39,139	47,751	56,236
Maniema	582	670	775	918
Nord Kivu	1,156	1,355	1,586	1,865
Province Orientale	727	845	978	1,154
Sud Kivu	1,310	1,516	1,760	2,081
Average	5,349	6,322	7,624	8,976

Source: Staff estimates

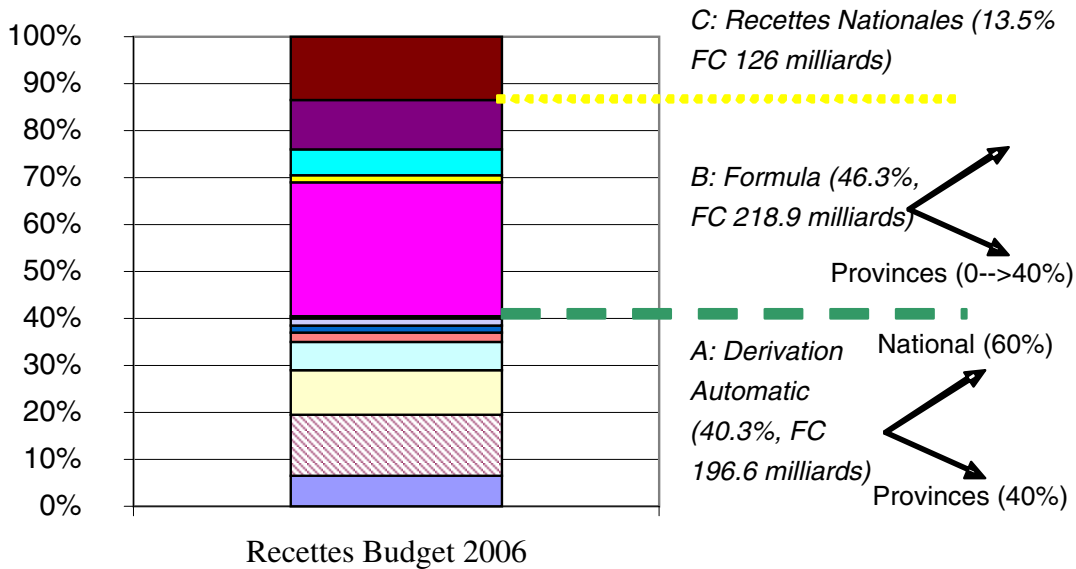
Solidarity scenario: improved levels of equity, but questions remain

A102. Therefore, neither the pure constitutional scenario, nor the solution proposed by the CP provide satisfactory solutions to the essential requirements of viability, equity and the feasibility to identify the actual origin of revenues), a third alternative scenario was developed in the context of the development of the background note on fiscal and competency aspects of decentralization.

A103. This scenario builds on some of the same elements as those developed for the CP, in particular the feasibility to attribute revenues to specific provinces. The main difference between the solidarity scenario and the CP scenario is that under the solidarity scenario both customs revenue and the large taxpayer unit's revenue are taken out of the equation for direct allocation¹¹⁰. These two revenue sources are proposed to be allocated according to a formula that augments the allocations that are based on equity principles. There is limited technical feasibility of identifying the origin of exported and imported goods (as exemplified by the problems that have arisen on the same issue in the Republic of Congo). There is an increased risk that such a process would create large opportunities for fraud and corruption. Therefore, under the solidarity approach, a different mode of allocation of the custom revenues across the provinces is required. Similarly, many revenues generated by the Large Taxpayers Unit at the Tax Administration in Kinshasa actually represent revenue generated by sources in different provinces, notably in Katanga, but also by many others. Therefore, the allocation of these two sets of revenues through a formula would enhance the equity and viability of a larger number of provinces and it would be more equitable with regard to the limited feasibility to attribute revenues to a particular province.

¹¹⁰ In addition to off-shore oil sector revenues

Annex 6. Figure 2: Revenue allocations under the solidarity model



- C. Hydrocarbures/Droits Administratives
- C. Hydrocarbures/Pétroliers Producteurs
- B. Revenues des sociétés (Produits pétroliers)
- B. Revenues des sociétés
- B. Droits et Taxes à l'exportation
- B. Droit et taxes à l'importation
- A. Autres
- A. Recettes Domaniale (Autres)
- A. Recettes des Participations
- A. Recettes Domaniales (Mines)
- A. Recettes Judiciaires
- A. Recettes Administratives
- A. Impôts sur les revenus (non-pétrole/sociétés)
- A. Direct Taxes
- A. Droit de Consommation

A104. The allocation mechanism for the Customs and Large Tax Payer revenue sources is proposed to be a simple and transparent formula, based on the factors population (50%), territory (30%) and lump sum (20%). The first two reflect specific aspects of the cost of public services (in particular in education and health) and the third aims to guarantee a basic level of income for all provinces. The simulation results for this approach are presented in tables 6 and 7 below. It should be noted that this approach also proposed a gradual phasing in of transfers (starting from 28% in 2008 to 36% in 2010, which is the same level as under the other two scenarios), which makes total transfer levels lower than the other two scenarios for 2008 and 2009. This is obviously contingent on the decision on the modality and speed of functional transfers as per the above discussion. Annex 6 Tables 5 and 6 highlight the projected development of transfers to individual provinces under this scenario, including a breakdown (A versus B) of revenues assigned on a location of collection versus formula basis.

Annex 6. Table 5: Transfer levels per capita, solidarity scenario by Component

	2008	2009	2010	2011
Bandundu	3,972	4,651	5,593	6,611
Bas-Congo	5,082	6,008	7,243	8,526
Equateur	4,704	5,511	6,627	7,832
Kasaï Occidental	4,083	4,780	5,738	6,782
Kasaï Oriental	4,246	4,973	5,974	7,060
Katanga	6,270	7,516	9,039	10,567
Kinshasa	9,743	11,622	14,155	16,621
Maniema	7,104	8,325	10,012	11,831
Nord Kivu	3,807	4,486	5,400	6,364
Province Orientale	4,956	5,817	6,995	8,259
Sud Kivu	3,851	4,527	5,444	6,423
Average	5,349	6,322	7,624	8,976

Annex 6. Table 6: Transfer levels per capita, solidarity scenario by Component

	2008		2009		2010		2011	
	A	B	A	B	A	B	A	B
Bandundu	52	3,920	61	4,590	74	4,590	87	5,519
Bas-Congo	1,525	3,557	1,843	4,165	2,234	4,165	2,605	5,009
Equateur	84	4,620	102	5,409	123	5,409	143	6,505
Kasaï Occidental	277	3,806	324	4,456	379	4,456	447	5,359
Kasaï Oriental	177	4,070	209	4,765	244	4,765	286	5,730
Katanga	1,996	4,275	2,511	5,005	3,020	5,005	3,452	6,018
Kinshasa	7,096	2,647	8,523	3,099	10,429	3,099	12,216	3,726
Maniema	97	7,007	121	8,204	147	8,204	168	9,865
Nord Kivu	429	3,378	531	3,955	644	3,955	742	4,756
Province Orientale	171	4,785	215	5,603	258	5,603	295	6,737
Sud Kivu	362	3,490	442	4,086	531	4,086	615	4,913
Average	1,360	3,989	1,652	4,670	2,009	4,670	2,338	5,616

A105. The calculations under this scenario are overall much closer to the criteria outlined above (equity, viability, alignment with constitutional principles) than the results generated by the other two options. It brings the system closer to generating an acceptable basic level of income for all provinces, does not adversely affect the ability of richer provinces to meet their expenditure obligations on a per capita basis and it is true to the spirit of the constitution. Thus, from a fiscal, economic and developmental point of view this would clearly be the more desirable option.

The agreed option, Solidarity with central guidance

A106. Discussions at the National Decentralization Forum and subsequent technical work by a mixed Commission of Experts have led to the identification of a consensus position on the fiscal aspects of decentralization, one of the key preconditions to move the process forward. The consensus view elaborated following the Forum has the following main features:

- a. It follows the logic of the categorization of revenues set out under the ‘solidarity’ scenario (attributable revenue, non attributable revenue and ‘off shore’ revenue, as well as the principle of applying different principles of distribution according to this categorization)
- b. A simpler formula (based on a population co-efficient only) has been devised for non-attributable revenue

- c. Although a re-allocation of resources between Kinshasa and Bas-Congo (on an ad hoc basis) was introduced during the Forum discussions, this has not yet been reflected in the final 2008 budget proposal.¹¹¹

A107. In addition to the revenue side aspects, risk mitigation measures have been proposed on the expenditure side. Based on a calculation of actual wage expenditure under transferred functions, wage enveloped will be protected items and provinces will be obliged to base wage payments, at least in 2008, on the staffing lists provided by the central government, thus postponing de facto some delicate problems of human resource transfers.

A108. Initial estimates of the impact of the above scenario shows that a large majority of provinces would be fiscally viable, albeit with very limited room for maneuver in terms of expenditure, at least for the fiscal year 2008. Annex 6 Table 7 presents projected fiscal allocations to individual provinces as set out in the 2008 budget. DGI and DGRAD revenues are assigned on a collection bases. The bulk of other non-oil revenues (OFIDA, DGE) are assigned on a population estimate. Based on estimates of wage costs, all provinces would be able to cover education, health, agriculture, traditional authorities, public functions transferred to the provinces. However, a number of provinces such as Bandundu and Kinshasa would have limited room to maneuver beyond these expenditures given prevailing wage liabilities. Given recent pressures to increase wages in education, the realism of these wage estimates for the full year of 2008 may also need to be verified.

Annex 6. Table 7: Provincial Transfers and Wage Expenditures, FY 2008 Budget

	PC Total	PC by Collection	PC by Population	Education Wages/Total	Provincial Wages/Total	Population (2008 Budget)	Ratio to Alternative Pop Figures
Bandundu	4,373	22	4,351	69.5%	86.9%	7,637,700	108%
Bas-Congo	8,254	3,903	4,351	36.2%	48.5%	3,387,437	87%
Equateur	4,396	45	4,351	39.6%	57.3%	6,364,842	98%
Kasaï Occidental	4,415	64	4,351	33.4%	46.5%	5,326,850	99%
Kasaï Oriental	4,409	58	4,351	28.6%	41.4%	5,874,994	132%
Katanga	7,775	3,424	4,351	20.8%	31.5%	6,230,738	71%
Kinshasa	6,800	2,449	4,351	44.0%	80.0%	7,184,001	99%
Maniema	4,426	75	4,351	41.1%	60.9%	1,515,381	89%
Nord Kivu	4,802	451	4,351	31.9%	46.8%	3,398,078	75%
Province Orientale	4,461	110	4,351	30.6%	44.3%	6,732,660	93%
Sud Kivu	4,661	310	4,351	35.4%	49.2%	3,291,783	76%
	5,347	995	4,351	37.4%	54.9%	56,944,464	93%

A109. Whereas the compromise solution has a number of positive features, several important issues remain to be addressed:

- Fiscal estimates rely heavily on provincial budget estimates for own revenues. These estimates show a wide variation, posing a risk of building a system of shifting sands, especially once the protected status of wage expenditures will be eliminated;¹¹²

¹¹¹ Based on the so-called 'osmosis' principle, which considers the inter-linkage between the Kinshasa and Bas-Congo economies

¹¹² Wage expenditures will be mandatory items for the provinces at least for the year 2008. Provinces will be obliged to pay wages as per staff lists drawn up by the central government

- In several instances, provinces do not appear to have budgeted adequate resources for non-salary related staff cost (*frais de fonctionnement*), which, if not properly analyzed could lead to the problem of fiscal viability re-entering through the backdoor
- The legal basis for the above system is still far from complete. Whereas it may be possible to operate, for the first half of 2008, based on interim regulations, the rapid adoption of an amended Organic Public Finance Law, based on a decentralized public expenditure management context remains an urgent priority
- While population figures provide a simple and transparent criterion for allocating the bulk of transfers to the provinces, the lack of even basic data in DRC means that additional clarification may be needed as to the choice of numbers used for the interim allocations pending a full census. For example, Annex 6 Table 9 highlights that there are significant differences between the population figures used in the 2008 budget, versus those projecting forward 2002 baseline figures.
- Whereas there appears to be broad agreement on the interim solutions for wage bill management, a number of problems (establishment of real staff numbers, creation of payroll management capacity in the provinces and at local level) remain as urgent as ever, and there is a risk that a solution to these fundamental problems may be postponed indefinitely, thus leaving the process in a ‘half-way house.’¹¹³

A110. Therefore, whereas political brinkmanship and a (reluctant) willingness to compromise have created what appears for the time being to be a viable solution to the fiscal and competency transfer dilemmas in the DRC, a number of crucial issues remain to be addressed over the coming months (the first three issues above) or throughout 2008 (the last issue above). Only once these points will have been addressed the process will be on solid ground.

Financial management capacity: how to effectively manage transferred resources

A111. Apart from the political and technical questions surrounding the definition and phasing in of transfer mechanisms, an important capacity building agenda remains, in particular at provincial, and later also at ETD level. Discussions with provincial authorities have revealed an important agenda of establishing strengthened local systems for managing public resources. In particular, the development of new rules and procedures for managing the expenditure chain is an urgent issue, as existing legislative and regulatory frameworks do not account for the existence of a provincial government or provincial ministers.

A112. The nature of the relation between the adoption procedure of the provincial budgets and that of the national budget needs to be urgently clarified (see the point on the credibility of estimates above). Furthermore, conflicts have emerged in a number of provinces due to the lack of fulfillment of the role of the assemblies in the adoption of provincial budgets. Similarly, the relation between the provincial government and the tax, customs and administrative fee collection agencies needs to be clarified. Whereas it is clear that these agencies will continue to be subordinated to the central government, a linkage between the revenue management, budget preparation and expenditure managements systems needs to be defined and made operational in the relevant IT systems. In addition, a serious effort in capacity building of the newly appointed

¹¹³ The case of Indonesia shows the real nature of this type of risk

provincial governments (ministers and their cabinets) will be required, as most of the appointees are new to public management processes.

Conclusions

A113. Finally, it is important to emphasize once more that in the medium term it is essential that the fiscal aspects of decentralization are put on a firm and stable basis. There will continue to be uncertainty about provincial revenues based on the volatile nature of the political agreements that underpin the revenue sharing arrangements. Ultimately, there will need to be a re-allocation of taxes and other revenue categories between the levels of government, large improvements in own revenue generated by the provinces and a fundamental reform of the tax administration, to enhance its accountability and to bring the tax administration in line with the new reality of the decentralised state system. A first step in this reform process is the revision of the nomenclature of taxes.

A114. Finally, a similar exercise on fiscal transfers remains to be conducted at the level of each province on the allocation of responsibilities and of resources between the provinces and the Decentralized Territorial Units (ETD).

3. Capacity: Creating a suitable Human Resource Base

A115. The Constitution of the DRC foresees the creation of a Provincial and Local Public Service, as one of the elements of the decentralization process. Whereas this is a key condition for other elements of the reform process to succeed, there has been surprisingly little interest in this issue, notably at the central government level. Provincial governors have frequently risen the disconnect between the principle of decentralized governance and a centrally managed civil and public service. Equally, provincial officials have highlighted the risks that the lack of clarity on issues of subordination poses for institutional stability at provincial level. The risks include a disconnect and overlap between the parallel public service systems, which would be both fiscally expensive and unnecessary, and the degradation of the quality of the existing public service at provincial level, which so far had been relatively unaffected by the malaise in the public service at central level. Furthermore, based on international experience, decentralization processes pose serious organization and management issues, in particular the question of whether and how to transfer staff currently working at de-concentrated government agencies to the provincial public service to-be-defined.

A116. Several fundamental issues are to be addressed if a working public service system at all levels of government is to be created. Some of these issues are elements of overall reforms that are long overdue, such as public service wage system reform and the management and redeployment of staff between de-concentrated and decentralized units. Others are more specific to the provincial level, such as the creation of human resource management systems at provincial level that would be able to handle issues of recruitment and career management and the issues referred to above, i.e. decisions on ways of handling the transfer of personnel that will most likely need to accompany the transfer of competencies, and how to handle the cases of staff that may not meet the requirements posed by the new responsibilities assigned to the provinces.

Systemic Issues

A117. Recent studies of the public service system in the DRC (World Bank, 2007) highlight several key systemic challenges:

- To modernise the civil service system and amend its legislation in order to bring it up to improved standards of efficiency in service delivery and human resources management by means of reinforced values like merit, results, performance and professionalisation;
- To fill the normative vacuum by setting rules and procedures for the management of the new decentralised civil service;
- To ensure consistency between the legal base and organization of the national and sub-national civil services with the new constitutional order; and
- To make the public administration a more attractive employer for young skilled professionals by reforming and improving the public sector wage system through systematic and sound reform measures.

A118. The current civil and public service system, while upholding the illusion of an integrated system, is in fact a system fragmented along sectoral lines, based on more than 27 legal statutes that provide significantly different employment conditions for different professional groups in the public service. The harmonization of this system, and the development of a small number (4-5) model statutes for specific professional groups (general public service, education, health and social services, civil security) is a pre-condition for the development of a manageable provincial public service system, as provincial statutes will invariably be based on the central model. In this line of reasoning, chaos at central level will bring chaos in the provinces. The modernization of the legal base for the civil and public service system therefore needs to be well aligned with the creation of the provincial public service.

A119. Along with the creation of a modernized (set of) statutes for the civil and public service, the development of secondary legislation and rules and procedures that would enhance the chances of developing a merit based and professional public service is a further priority, as provincial legislation would be likely to follow the central examples.

A120. A second element of systemic issues is the public service wage system. Even if there are some 27 different statutes are currently in place, they invariably create opaque and inadequate wage systems, based on a plethora of bonuses and allowances and very low base wages. Whereas more recently the establishment of a more transparent system has become an issue for discussion, notably in recent discussions on education wages, the principles of transparency and predictability are still far from being respected.¹¹⁴ In addition, there are large differences between provincial and Kinshasa wage levels, mostly brought about by differences in allowances, which are not justified by differences in responsibility or difficulty of the job. A separate World Bank study addresses specifically the reform of the public service wage system, and proposes a medium term strategy to address these issues. It is highly important that decisions on a wage reform strategy be taken rapidly, so that these can be taken into account when designing wage systems at provincial level. Specifically, provincial level wage systems should respect the same

¹¹⁴ This is a problem in particular in the general public service, where base pay is between 5-10% of real pay

principles as those applicable overall (equal pay for equal work, merit, transparency and predictability). In addition, whereas regions may be given the right to vary salary levels, it is important that variations remain within a certain defined level (e.g. $-20 > X < +20$). For this to work, central level wage system issues would need to be addressed at least at the level of strategy and policy.

A121. Finally, central rules for transfer and deployment of public servants would need to be set, along with attestation procedures, which would ensure an orderly transfer, where appropriate, of staff between the current de-concentrated units and the new provincial public service.

A122. Another set of systemic issues is evolving around the organizational aspects of decentralization. In part these issues derive from the lack of clarity regarding the relations between central and provincial level and to the incomplete devolution of functions between these levels of government. As a result, a number of organizational difficulties have emerged. The existing de-concentrated entities (Divisions and '*Régies Financières*') find themselves in a position of uncertainty with regard to their tasks and responsibilities and the hierarchical relation with central and provincial government. In most provinces it is assumed that these entities will support the provincial authorities, but the extent of their involvement and responsibilities for provincial functions is not clear. On the other hand, the new provincial governments, who lack adequate staff of their own, expect full support and allegiance from these de-concentrated entities. At occasions, this situation has led to conflicts and confusion, and more frequently demotivated staff and resistance. There are cases where staff work enthusiastically for the provincial authorities, motivated by the opportunity to advance their home province, but this is not common, especially among the '*Régies Financières*,' which are centralized entities with a national staff rotation program.

A123. In the meantime, new organizational structures have been set up at the provincial level. In accordance with the Constitution, the Governors have appointed provincial ministers. These will be supported by ministries, but at present, these are not yet firmly established or staffed. Nevertheless, the organizational shape of the provincial governments is becoming clear, based on the job titles of the provincial ministers. Ideally, these job titles should reflect the competences that the Constitution transfers to the provinces to ensure that all tasks and responsibilities are adequately covered. A review of the job titles of the ministers in the 11 provinces shows that there is a wide variety in job titles and in the division of labor in the provincial governments. All provinces bar one (Bas Congo) have limited themselves to the maximum of 10 ministers prescribed by the Constitution¹¹⁵. The Ministry of Interior has made an attempt to regularize the scope and responsibilities of these ministers but this happened after their appointments and this guidance was therefore widely ignored by the provinces. The result is a variety that reflects the circumstances of the provinces, but also the need to have a number of core government responsibilities covered by the ministers. For example: all provinces have a minister responsible for Finance (often combined with Economy), Planning and Budgeting (mostly combined, but separated from Finance), and Territorial Administration (including decentralization and the relations with ETDs). Not well assigned among these core functions is public administration. Seven of the provinces have not clearly allocated this function to one of the ministers. Beyond these core government tasks, the provincial ministries show a wide variety of combined

¹¹⁵ Bas Congo has added one Commissaire General des Mines with the rank of Provincial Minister.

responsibilities. In most cases these combinations make sense, in order to limit the size and cost of the provincial administration. The only concern could be that in five provinces Health and Education are combined into a single ministry. This may create difficulties as these are large sectors with complex problems and huge numbers of staff which from FY2008 onward will become a responsibility of the provincial governments.

A124. One of the key risks inherent particularly to this element of the reform process is a disconnect between the rapidly advancing debate on fiscal decentralization (and increasingly on transfers of competencies) and the very slow movement in the public service reform process. Whereas ideally the three above issues, normative base, wage system and transfer principles, should be addressed in each province on the basis of a central strategy, this may prove to be elusive if the speed and direction of the public service reform process is not increased dramatically. This poses, yet again, the risk of a legal vacuum, which could generate a disorderly process in the development of provincial public service systems. Therefore, if the reform process at central government level does not move forward, it could be foreseeable that provinces themselves move forward on the definition of provisional rules and procedures for public service management. In this regard, adherence to good practice principles, both in recruitment, career management and wage policy, are crucial.

Provincial level issues

A125. Considering the fact that central level reforms on the legal statute and wage and management systems for the public service may not move fast enough to address the immediate needs of the provinces in building up their public service systems, it is important that capacity issues at provincial level are addressed without delay. Table 8 below sets out the essential elements of a strategy to address this immediate need. The steps highlight the complexity of the issue, which has repercussions for three levels of government:

- For central government level, which will face the need to reduce the role, functions and staffing levels of de-concentrated agencies in a significant way;
- For provincial level, where legal and organizational frameworks as well as management capacity will need to be created, and processes to decide whether and how to absorb current staff at de-concentrated agencies will need to be defined and implemented
- For local (ETD) level, that will have to establish, eventually, its own capacity to handle public service management issues. ETDs face specific challenges in this regard, due to remoteness and the small size of units, which will require the pooling of resources and capacity to handle HRM issues.

Annex 6. Table 8: Essential steps to building up provincial public service systems

<i>Steps for creation HRM capacity</i>	<i>Enabling conditions</i>
Creating provincial capacity	
<ul style="list-style-type: none"> ◦ Definition of the provincial authorities (ministries) responsible for public service management ◦ Establishment of provisional provincial rules and procedures for public service management ◦ Create capacity to handle payroll and personnel database management ◦ Create processes and capacity to manage recruitment of provincial staff, from deconcentrated entities or from the local labor market. ◦ Staff new provincial public service systems 	<ul style="list-style-type: none"> -- Resources for establishing the ministry staff -- Procedures for competitive recruitment based on overall legal principles and existence of a control mechanism -- Development of planning tools for assessing staffing needs -- Establish interface with the public finance ministry for management the payroll system
Review of de-concentrated agencies	
<ul style="list-style-type: none"> ◦ Review of competencies and coordination mechanisms between the provincial structures and de-concentrated entities ◦ Adoption of the juridical instruments providing for a new set of competencies and coordination mechanisms ◦ Adaptation of the structures of de-concentrated entities ◦ Create processes and capacity to manage attestation of de-concentrated entity staff ◦ Adaptation of the number of posts, including retirement of staff older than 56 years in all deconcentrated entities. ◦ In coordination with the provincial ministries, manage the (partial) transfer of staff from deconcentrated entities. 	<ul style="list-style-type: none"> -- Clear and transparent relations between provinces and de-concentrated agencies, prevention of overlap in competencies and functions -- Clear procedures and mechanisms to manage the retirement of superfluous staff
Managing capacity at sub-provincial level (ETD)	
<ul style="list-style-type: none"> ◦ Create capacity to manage exclusive competencies allocated to the ETD. ◦ Transferring public service management authority to decentralized bodies. ◦ Set up inter-municipal services to support HRM in local authorities 	<ul style="list-style-type: none"> -- Formal allocation of personnel management authority to the ETD. -- Establish clear rules for personnel transfers from de-concentrated agencies -- Establishment of pools of personnel that can provide support to individual ETD based on a rotation schedule -- Sufficient funds to cover operational cost for support functions to the ETD.

A126. The essential steps outlined above are complex, and will take significant time to put in place. In the current situation there is in most provinces an uneasy co-habitation of public and civil servants (who are still accountable to the central government) and provincial ministers. These ministers are appointed by the elected governors and formally they do not have authority over the de-concentrated units that operate at the provincial level. This has already led to budget preparation processes in provinces being handled by small groups of politically appointed officials (cabinet staff), without being able to draw (sufficiently) on the more experienced staff available in de-concentrated units. This is a clear indication of the need to find a solution to this anomaly, caused by the co-existence of outdated legal statutes with new political realities.

A127. Once legal and competency issues are addressed, a significant capacity building agenda will remain. Provincial governments do not currently have the capacity, the manpower or the systems to handle career and wage bill management, and they have limited, if any, capacity to manage recruitment and dismissal processes. In addition, to take responsibility for the management of a provincial public service will include the need to negotiate with trade unions on employment conditions and wage levels. This is currently handled exclusively by the central government.

A128. Like many aspects of the decentralization process, human resource management issues both poses opportunities and risks. The creation of provincial public service systems may help unblock stalemates on crucial issues such as statutory and wage reform, as provinces, in the absence of central legislation, could establish their own legal regimes, within the constraints of constitutional principles (which outline in some detail the principles on the organization and management of the public service is to be based), including more rational and viable wage systems. However, at the same time this poses risk of fragmentation and disparities in civil service employment conditions, which is far from desirable in a decentralized unitary state. It also poses risks for the very limited capacity to manage public service issues at provincial level, both in terms of career and wage system management and in terms of negotiation capacity with the trade unions.

A129. Considering the above, it is essential that rapid initiatives are put in place to assist provinces in putting in place management capacity for the provincial public service. In addition, in the absence of progress in reforming employment systems at central government level, provinces could need to be assisted in drawing up provisional rules and regulations for the provincial public service, until key issues at central level might be unblocked.

4. Central guidance and control

A130. The Constitution provides, at a general level, guidance to the management of relations between the central level and the provinces and, in a more limited way, between the Provinces and the ETD. The Constitution clearly distinguishes between exclusive powers (at provincial and central government level) and concurrent powers.

A131. The Constitution focuses on the legal aspects of these relations, i.e. the powers of the national and provincial assemblies to adopt laws that affect the lower levels of government. The background Note on issues of control and supervision raises a number of options to operationalize these legal provisions, in particular with regard to public expenditure management and budgets. The note provides examples of the different options for ex-ante and ex-post control.

A132. It should be noted that the Constitution does not provide clarity on the issue of authorities the competencies which are to be shared between the national and the provincial authorities, apart from reaffirming the acknowledged legal hierarchy according to which a national law shall prevail on a provincial law. The principle of subsidiary should help filling the gap, providing for that an action should in principle be taken at the level which is the closest to the citizen for as long as it appears as the level where the action can be carried out more effectively.

A133. A first and crucial task is to provide detailed guidance to central and provincial authorities on the nature and implications of the changes in the guidance and control function of the central government. This implies adopting appropriate legislation and appears particularly urgent as the last months have already shown an increasingly uneasy cohabitation between provincial ministers and their cabinets, whose authority is derived from the Governor, and the de-concentrated entities, which are subordinated to the central ministries.¹¹⁶

A134. The delay in the creation of a Constitutional Court, foreseen in the Constitution, makes taking decisions on such issues highly complicated in the interim assured by the Supreme Court alone.

Budgetary and financial control

A135. As far as the control of budget and finances is concerned, the principles set out by the constitution (providing for a decentralization unitary state) leave open four options to define control systems in this area:

- a. Ex-ante control of budgets by the central government, based on a review of budgets adopted by the provincial assemblies. Central authorities would in this case submit their observations to the provincial authorities and ask the provincial executive and assemblies to reflect these in an amended version. Under this model, in case of disagreement the view of the central authorities could prevail and be reflected in a veto, but only in case of three specific circumstances, being; a) a lack of balance between revenues and expenditures; b) the lack of commitments on obligatory expenditure items, and; c) the lack of respect for budget adoption deadlines;
- b. A review modality (*'droit de regard'*), under which the central government would review provincial budgets following their adoption by the assemblies, and provides its comments to the provincial authorities without, however, giving a veto right. Review would be limited to obligatory expenditure items;
- c. Third, and [in our view] the most literal interpretation of article 171 of the constitution, the provinces would only send their budgets to the central government for notification and consolidation within the central government budget;
- d. An accounting control carried out by the regional audit institutions could be added to the third option above, to provide an opinion on the economic viability of the provincial budgets, notably on the balance between revenues and expenditures. The creation of regional audit institutions would be a precondition in this regard.

A136. In our view, a combination of the third and fourth control systems would be the closest to the spirit of the constitution, though in view of the serious capacity constraints that remain at provincial level the second option might also pass scrutiny. It is important, however, to emphasize that whatever the option selected, budgets will continue to be subject to ex post legality control. Finally, ex-post control by the Supreme Audit Institutions would also apply to provincial budgets.

¹¹⁶ Traditionally these units also reported to the Administrative Directors at Provincial level. However, since these are centrally appointed positions this does not resolve the current stalemate on issues of administrative subordination

Legality control

A137. On the control of legality of provincial and local government acts, there are equally two potential options in the context of the DRC constitution:

- a. Simple ex-post review, which would apply in any case
- b. Ex-post review combined with ex-ante review. The latter would be applicable only to the acts passed by ETDs, not by the provincial authorities, and would be limited to certain categories of acts, as for instance: a) budget acts; b) organizational structures and; c) decisions related to the status of personnel.

A138. In terms of the options outlined above, control functions over the legal acts of ETDs could be assumed either by the provinces or by the central government. In the case of the DRC, considering the size of the state and the potential cost of establishing a review system managed by the central government, it would be preferable to move towards a system where the provinces would take on this role. However, in view of the still weak capacities at this level, it would be desirable to postpone a transfer of these responsibilities for a certain period of time, to prevent an overload of the provincial institutions.

A139. The scope and depth of control and guidance systems, both in terms of financial and legal issues, is curtailed by the definition, in the constitution of the DRC as a decentralized unitary state. In line with international practice and norms, this limits the options to be explored in this regard. In view of the still recent establishment of elected provincial authorities, one option to be considered is the introduction of light control mechanisms, along the lines set out under the 3rd and 4th options under the financial control section, along with the definition of a transitory period during which the ‘*droit de regard*’ would continue to apply.

5. Managing public investments: the ‘*Caisse de Péréquation*’

A140. The Constitution prescribes the creation of an Equalization Fund (EF), the *Caisse de Péréquation*, which would absorb 10% of national revenues. This Fund would only provide resources for investments in the provinces. Within the constitutional definition there is a range of options for the role of the EF and for its institutional model.

A141. The EF provides the basis for a stronger element of solidarity in the financial relations between the provinces and the central government. It should be noted that this, in part, may compensate for the lack of solidarity that has so far emerged in the proposals on transfer. At the same time, however, it is difficult to imagine that the investments funded by the EF could be managed effectively if provinces lack the basic means to build up their internal capacity to manage these investments.

A142. There are several options for the institutional model for the EF. However the Note argues in favor of an institutional model that is run by representatives of both the central State and the provinces, is a reliable funding agency for useful infrastructure development and is able to build consensus between the provinces and the State.

A143. There are several models that can be considered to determine the eligibility criteria for accessing the EF's funds by the provinces. It is essential that these criteria are transparent,

updated and open for scrutiny and that they are based on data that easily accessible given the scarcity of quantitative data in DRC. The Note indicates that for the effective functioning of the EF there is a need to develop a detailed planning and appraisal mechanism that will enable the provinces to prepare plans and investment proposals that produce the most viable investment initiatives and that allows the EF to select the most appropriate proposals. Moreover, the Note recommends several selective principles for the investments in the provinces such as: respecting the decentralization legal framework for competences, co-financing, programming, compatibility with the national investments program, and auditing.

A144. As a funding agency, the EF will have specific capacity demands, which will need to be met by a relatively lean organization that minimizes the overhead cost burden of the EF. The EF will be regularly audited and placed under democratic control in order to make sure it remains accountable. The Agency will have to develop legal and financial selection criteria.

A145. The EF will also impose capacity demands on the provinces. It is expected that preparation of public investment proposals that are submitted to the EF will need to meet these access criteria. At a minimum these proposals will need to spell out the economic and financial case for the proposal. In addition, the proposals would need to look at the impact of the proposal, for example on income levels of the population or revenue generated for the province. To prepare such proposals will require certain capabilities in provincial government which at the moment do not yet exist.

A146. The EF is a key element in the financial solidarity system between the State and the provinces and between the provinces. Therefore, it is important to put in place this institution in the first phase of the decentralization process. In this regard, the experience of the EU in managing regional development funds could be particularly instructive.

6. The Education Sector

A147. A final background note pays specific attention to the education sector. The education sector constitutes the main part of the public sector wage bill (about 45%), as well as almost 50% of public sector employment. At provincial level these levels are even higher; the proportion of education wages in total wage bill expenditures in the provinces is likely to range between 57 and 85% (see table 9 below). At the same time, the Constitution foresees a significant decentralization of the sector, with most functions in pre-school, primary and secondary education (apart from setting standards and curricula and inspection) to be transferred to provincial and ETD level.

Annex 6. Table 9: Wage Bill Estimates per Province (FC mln, 2008, total Education)

Province	Total wage bill	EPSP wage bill	EPSP share of total
Bandundu	27,368	23,224	85
Bas-Congo	12,708	10,119	80
Équateur	14,048	11,072	79
Kasaï-Occidental	9,751	7,852	81
Kasaï-Oriental	9,343	7,402	79
Katanga	13,352	10,055	75
Kinshasa	37,985	21,479	57
Maniema	3,355	2,759	82
Nord-Kivu	6,622	5,212	79
Orientale	11,498	9,203	80
Sud-Kivu	6,618	5,425	82
Total RDC	152,648	113,800	75

Source: Ministère de Budget et MEPSP, Novembre 2007.

A148. This poses three main questions: first, the viability of decentralization of functions in the light of the large unfinished education reform agenda at central government level, second, the ability, both fiscal and capacity wise, of provincial governments and ETDs to take on, in the short term, the responsibilities assigned by the Constitution and, third, the need to align the organization of the education sector with a decentralized service delivery modality.

Unfinished central government reforms

A149. There are several ongoing initiatives to address the irregularities in the education sector. These include, in particular, the question of the large number of non-accredited teachers working in the system, which is a result of two separate developments. First, the inability (financially and organizationally) of the central government to treat accreditation processes, leading to a backlog of an estimated 50 000 cases. These teachers are currently directly paid by parents through a system of ‘primes’ which the government is trying to eliminate. Second, a large number of teachers in the post-conflict provinces are ‘*nouvelles unites*,’ which means that not only are they not accredited, but also that their positions are not authorized by the central government (though they were authorized by the provincial authorities during the conflict period). It is important that the exact number and accreditation/integration processes are clearly defined before a transfer of education competencies, or at least before expenditure responsibilities are transferred. If not, provinces will be faced with unknown levels of expenditure assignment. Whereas this is currently also a problem at the level of the central government, the problem would be seriously exacerbated if spread over 11 provinces.

A150. A second key issue is the management of salary payments, which has been identified as a major issue in the Public Expenditure Review (World Bank, forthcoming). The complex system of salary payments is known to lead to significant ‘leakages’ of funds and less than full payment of teachers. Whereas transferring responsibility to the provinces and ETDs may shorten the ‘delivery line’ for salary payments, it should be noted that part of the problems in the salary payment system are due to weaknesses in the control environment at provincial level, that would need to be addressed before salary payments are transferred.

A151. Thirdly, the wage system itself poses problems. Some of the features of this issue were discussed in section three above. Salaries are not harmonized across the country (in the current system there are three salary zones, i.e. Kinshasa, Lubumbashi and the rest of the country, but the differences between these are based on payment or non payment of 'primes' not of differences in base pay levels), and consist in a large proportion of a) allowances and indemnities and b) direct payments by parents. Discussions (August 2007) between the government and the trade unions have sought to address part of these issues (integration of part of indemnities and allowances in base pay, move towards two salary zones instead of three, official elimination of parent contributions).

A152. Finally, reforms in the sector have barely started to have an impact on the issues with regard to accountability and performance of the education system. Extensive systems of additional payment by parents remain in place without adequate accountability. Oversight over schools and teacher performance remains limited without parent involvement. These are all issues that in due course will need to be addressed in the context of decentralization, in particular with regard to the roles of ETDs in the education sectors.

A153. Whereas it might be impossible to address all the above issues before functions are transferred, an effort should at least be made to calculate the impact of wage system reform and integration and accreditation of teachers. This would imply that even if competencies be partially transferred, the central government will need, through an interim arrangement, to guarantee wage payments for a period of time.

Fiscal and Institutional Capacity in the Provinces and ETDs

A154. The organizational and fiscal capacity of the provinces to take on the responsibilities assigned by the constitution is currently not in place. In terms of organizational capacity, the issues in the education sector are a microcosm of those discussed in the section on human resources above. There is no clarity as yet on the process for separating functions and resources between the centrally subordinated education departments at provincial level and the emerging education management structures at provincial level. Whereas for some aspects of the system the situation is clear (i.e. inspections will remain centrally subordinated) for others this is not. This makes provincial governments ill-equipped, at this point in time, to take on large scale responsibilities in the sector. It is unlikely that this issue will be solved quickly in the absence of the required legislation. Therefore, unless satisfactory interim arrangements are put in place, this is likely to create serious organization and management problems in the education system.

Aligning organizational models

A155. The organizational model of the education sector will require a major adaptation in order to comply with the new realities of decentralization as envisaged by the Constitution. One important factor in this regard is that the state is not the only, or even the main provider of education in DRC. The non-state education sector (mainly faith based schools) is the main provider of these services. This will provide its own dynamic in the decentralization of the education sector.

A156. Another aspect to be considered is that the geographical dimension of the education system does not necessarily coincide with the administrative territorial division. This will need to be adapted in order to enable ETDs to play a major role in the decentralized model for the education sector.

A157. The organizational structure of the education sector is very elaborate. It will need major changes in order to adapt to the new reality of decentralization. Most effected are the departments for supervision and inspection of the schools at lower levels. The role and nature of administrative supervision will need to undergo fundamental changes in the future.

A158. A summary review of key issues to be addressed to ensure a successful decentralization process in the education sector highlights the challenges faces by the DRC authorities. This confirms again the need for the process to be properly designed from a technical perspective, to prevent institutional and political turmoil that could affect social stability and put the viability of the whole process in danger. The case study also shows the inter-linkages (and mutual impact) between what remains a largely unfinished central level reform agenda and the challenges faces at provincial level. Whereas the decentralization process in some instances may help unblocking frozen reform issues at central level, in other aspects there is a clear risk of currently irresolvable issues at central level being transferred to provincial level and putting an undue burden on their currently limited fiscal and administrative capacity. This is an important point to be considered in making the final decisions on the phasing and programming of the decentralization process.

7. Conclusions

A159. The previous sections include a brief review of the key issues outlined in a set of five policy notes and briefs developed jointly by World Bank, EU and government experts. The key issues and recommendations that follow from the analysis are the following:

- i. Fiscal solidarity should remain an important element of the debate on fiscal transfers, even if solutions have been identified that would assure the fiscal viability of most provinces, a number of questions remain on the model that need to be urgently answered;
- ii. A detailed assessment of the cost of competency transfers should be done urgently, as a rudimentary assessment for the education sector has already raised several important issues to be addressed before education competencies are transferred;
- iii. The political and administrative infrastructure of the provinces is starting to develop, with the political side of provincial governments now in place and functioning in all provinces. This now needs to be followed by a rapid resolution of issues related to the definition of authority of provincial authorities over current public and civil servants working at provincial level. There are a number of modalities that could be used to separate the remaining central and provincial public servants, based on international practice, in particular in areas where the provinces have exclusive competencies. The definition of an orderly process of staff transfers, including a recruitment and attestation processes, is a matter of urgency, as is the design of, at the very

least, interim arrangements at provincial level to define the mode of cooperation between ministers and public servants subordinated to the central government;

- iv. The elaboration of permanent consultation mechanisms between central and provincial governments is urgent. This should help prevent situations such as the one highlighted for the education system, where centrally managed negotiations between trade unions and the government have generated agreements that could impose serious fiscal burdens on provincial authorities (and effectively make most of them unviable), if competencies would be transferred along with expenditure assignments in 2008. Such mechanisms should be used to define common positions between central and provincial authorities before such negotiations are initiated;
- v. It is essential that clarity is provided on the schedule of the introduction of some key reform measures at central level that are crucial to the ability of provincial authorities to function effectively, including public service reforms (legal, wage system, etc.), crucial elements of sector reforms (in particular in education) as well as the introduction of key framework laws on public financial management.

A160. Provided the above measures issues are carefully considered and appropriate pragmatic and practical solutions are addressed, decentralization would still hold significant potential benefits to the DRC. The dynamic environment at provincial level and the rapid formation of provincial structures provides an indication of the interest and commitment that exists at sub-national level to address the key issues facing the population. It is important that this momentum is built upon to make decentralization work for DRC's citizens and to view decentralization as a potential 'win-win' process, rather than to think in terms of short term political objectives.

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