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Report No: 53053-ZR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 168.8 MILLION
(US$255.0 MILLION EQUIVALENT)

TO THE

DEMOCRATIC REPUBLIC OF THE CONGO

FOR A

MULTIMODAL TRANSPORT PROJECT

MAY 26, 2010

Transport Sector
Country Department AFCC2
Africa Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective April 30, 2010)

Currency Unit	=	Franc Congolais
CDF1	=	0.00108 US$
US$1	=	0.66176 SDR

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADS-B	Automated Dependent Surveillance–Broadcast
AFD	*Agence Française de Développement* (French Agency for Development)
AfDB	African Development Bank
ANR	*Agence Nationale de Renseignements* (National Intelligence Agency)
ATS	Air Traffic System
BCECO	*Bureau Central de Coordination* (Central Coordination Office)
BIVAC	*Bureau d'Inspection, d'Evaluation, d'Estimation et de Contrôle* (Bureau of Inspection, Valuation, Assessment and Control)
BTC	Belgian Technical Cooperation
CAC	*Commissaire Aux Comptes* (Auditor)
CAS	Country Assistance Strategy
CEEC	*Centre d'Evaluation, d'Expertise et de Certification des substances minérales, précieuses et semi-précieuses* (Evaluation, Expertise and Certification of Minerals, Precious and Semi-Precious Substances Center)
CEPTM	*Cellule d'Execution du Projet de Transport Multimodal* (Multimodal Transport Project Unit)
CDF	*Franc Congolais* (Congolese Franc)
CFAA	Country Financial Accountability Assessment
CFMK	*Chemin de Fer Matadi Kinshasa* (Matadi to Kinshasa Railway)
CFU	*Chemin de Fer des Uélés* (Uélés Railway)
CMDC	*Compagnie Maritime du Congo* (Congo Shipping Line)
CNDP	*National pour la Défense du Peuple* (National Congress for the Defense of the People)
COPIREP	*Comité de Pilotage de la Réforme des Entreprises du Portefeuille de l'Etat* (Piloting Committee for State-Owned Enterprises)
CP	Cooperating Partners
CPAR	Country Procurement Assessment Review
CQ	Consultant's Qualifications
DA	Designated Account
DAC	*Direction de l'Aviation Civile* (Directorate of Civil Aviation)
DC	Direct Contracting
DEMIAP	*Détection Militaire des Activités Anti-Patrie* (Military detection of Anti-fatherland Activities)
DFID	Department for International Development, United Kingdom
DGM	*Direction Générale des Migrations* (General Directorate of Migration)

DGRAD	*Direction Générale de Redevances Administratives et Domaniales* (General Directorate of Administrative and State Charges)
DRC	Democratic Republic of Congo
DVDA	*Direction des Voies de Désserte Agricole* (Directorate for Agricultural Feeder Roads)
EA	Environmental Assessment
EBITA	Earnings Before Interest, Taxes and Amortization
ECOREC	*Commission Economique et de Reconstruction* (Economic and Reconstruction Commission
EDF	European Development Fund
EIRR	Economic Internal Rate of Return
EMF	Environmental Management Framework
EMP	Environmental Management Plan
EU	European Union
FA	Financing Agreement
FAC	Force Account
FDLR	*Forces démocratiques de libération du Rwanda* (Democratic Liberation Forces of Rwanda)
FEC	*Fédération des Entreprises du Congo* (Congolese Federation of Enterprises)
FM	Financial Management
FNC	*Forces Nationales du Congo* (National Armed Forces of Congo)
FY	Fiscal Year
GDP	Gross Domestic Product
GDRC	Government of the Democratic Republic of Congo
GET	*Groupe d'Etudes sur les Transports* (Transport Study Group)
GP	Governance Plan
HF	High Frequency
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IATA	International Air Transport Association
IC	Individual Consultant
ICAO	International Civil Aviation Organization
ICB	International Competitive Bidding
IDA	International Development Association
IFI	International Finance Institution
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Reports
ILS	Instrument Landing System
IMC	Inter-ministerial Monitoring Committee
IMF	International Monetary Fund
IPDP	Indigenous Peoples Development Plan
IPDF	Indigenous People Development Framework
IPP	Indigenous People Plan
IRR	Internal Rate of Return
ISA	International Standards on Auditing
ISDS	Integrated Safeguards Data Sheet

LAC	*Lignes Aérienes Congolaises* (Congo National Airlines)
LC	Letter of Credit
LCS	Least Cost Selection
LIB	Limited International Bidding
LRA	Lord's Resistance Army
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MDRP	Multi-country Demobilization and Reintegration Program
MDTF	Multi-donor Trust Fund
MDTF-F	Multi-donor Trust Fund for Forest Governance in DRC
MECNT	Ministry of Environment, Nature Conservation, and Tourism
METT	Monitoring and Evaluation Tracking Tool
MIPW	Ministry of Infrastructure and Public Works
MIS	Management Information System
MoC	Ministry of Commerce
MoF	Ministry of Finance
MONUC	*Mission de l'Organisation des Nations unies en République démocratique du Congo* (United Nations Mission in the Democratic Republic of Congo)
MoP	Ministry of Portfolio
MoT	Ministry of Transport
MRD	Ministry of Rural Development
MTP	Multimodal Transport Project
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
OCC	*Office Congolais de Contrôle* (Congolese Control Office)
OdR	*Office des Routes* (Road Management and Maintenance Agency)
OdV	Road Construction Office
OFIDA	*Office des Douanes et Acci*ses (Office of Customs and Excise)
OGEFREM	*Office de Gestion du Fret Maritime* (Office of Maritime Cargo Handling)
OMMR	Output-Based Management and Maintenance of Roads
ONATRA	*Office National des Transports* (National Transport Office)
OPCS	Operations Policies and Country Services
OVD	*Office des Voiries et Drainages* (Office of Roads and Drainage)
PA	Project Agreement
PAD	Project Appraisal Document
PAFAM	Project Administrative, Financial and Accounting Manual
PAR	*Programme d'Appui à la Réhabilitation* (Rehabilitation Support Program)
PCN	Project Concept Note
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PF	Process Framework
PFM	Public Financial Management
PIC	Public Information Center
PID	Project Information Document
PME	Project Management Entity

PMPTR	*Programme Minimum de Partenariat pour la Transition et la Relance* (Government Minimum Partnership Program for Transition and Recovery)
PMURR	*Projet Multisectoriel d'Urgence de Réhabilitation et de Reconstruction* (Government Emergency Multisector Rehabilitation and Reconstruction Project)
PPP	Public Private Partnership
PRIC	Public Railway Investment Company
PSC	Project Steering Committee
PSDCP	Private Sector Development and Competiveness Project
PSI	Pre-Shipment Inspection
PSO	Public Service Obligations
QCBS	Quality and Cost Based Selection
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
RVA	*Régie des Voies Aériennes* (National Airways Management Agency)
RVF	*Régie des Voies Fluviales* (National Waterways Management Agency)
RVM	*Régie des Voies Maritimes* (National Marine Ways Management Agency)
SA	Subsidiary Agreement
SBD	Bank Standard Bidding Documents
SIL	Specific Investment Loan
SNCC	*Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC)
SNCZ	*Société Nationale des Chemins de Fer Zaïrois* (National Railway Company of Zaire)
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
SSS	Single Source Selection
TOR	Terms of Reference
TU	Traffic Units
VHF	Very High Frequency
VSAT	Very Small Aperture Terminal

Vice President:	Obiageli Katryn Ezekwesili
Country Director:	Marie-Françoise Marie-Nelly
Sector Director	Inger Andersen
Sector Manager:	C. Sanjivi Rajasingham
Task Team Leader:	Pierre Pozzo di Borgo

DEMOCRATIC REPUBLIC OF CONGO
MULTIMODAL TRANSPORT PROJECT

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DEMOCRATIC REPUBLIC OF CONGO

DRC MULTIMODAL TRANSPORT PROJECT (MTP)

APPRAISAL DOCUMENT

AFRICA

AFTTR

Date: May 26, 2010 Country Director: Marie Françoise Marie-Nelly Sector Manager/Director: C. Sanjivi Rajasingham/Inger Andersen	Team Leader: Pierre A. Pozzo di Borgo Sectors: Railways (70%); Ports, waterways and shipping (10%); Aviation (10%); Public administration- Industry and trade (5%); Public administration- Transportation (5%) Themes: State enterprise/bank restructuring and privatization (50%); Corporate governance (10%); Infrastructure services for private sector development (10%); Administrative and civil service reform (10%); Export development and competitiveness (20%)
Project ID: P092537 Lending Instrument: Specific Investment Loan	Environmental category: Partial Assessment Joint IFC: Joint Level:

Project Financing Data

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 255.00
Proposed terms:

Financing Plan (US$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	176.00	200.00	376.00
IDA Grant	0.00	255.00	255.00
Total:	176.00	455.00	631.00

Borrower: Democratic Republic of Congo
Represented by :
Ministry of Finance
Boulevard du 30 juin
BP 12997
Kinshasa
Congo, Democratic Republic of Fax: 243 880 23 81

Responsible Agency:
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117, Bld du 30 juin, Blg ONATRA
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Congo, Democratic Republic of
Tel: (243-81) 691-4754 Fax: 001 408 868 5973

Société Nationale des Chemins de fer du Congo (SNCC)
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République Démocratique du Congo
Tel : (+243)991 008 004 and (+243)993 577 812 and (+243)997 029 350
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République Démocratique du Congo
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Tel: (+243)81 053 10 31
E-mail: regiedesvoiesfluviales@yahoo.fr and masinianatole@yahoo.fr

Estimated disbursements (Bank FY/US$m)									
FY	2011	2012	2013	2014	2015	2016			
Annual	60.00	80.00	60.00	30.00	15.00	10.00			
Cumulative	60.00	140.00	200.00	230.00	245.00	255.00			

Project implementation period: Start June 22, 2010 End: December 31, 2015
Expected effectiveness date: October 22, 2010
Expected closing date: December 31, 2015

Does the project depart from the CAS in content or other significant respects? ***Ref. PAD I.C.***	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? ***Ref. PAD IV.G.***	[ ]Yes [X] No
Have these been approved by Bank management?	[ ]Yes [ ] No
Is approval for any policy exception sought from the Board?	[ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? ***Ref. PAD III.E.***	[X]Yes [ ] No
Does the project meet the Regional criteria for readiness for implementation? ***Ref. PAD IV.G.***	[X]Yes [ ] No

Project development objective ***Ref. PAD II.B., Technical Annex 3***

The Multimodal Transport Project's (MTP) development objectives are: (i) to improve transport connectivity in the Democratic Republic of Congo (DRC) so as to support national economic integration, (ii) to restore *Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC - SNCC) financial and operational viability, and (iii) to implement a sector wide governance plan and strengthen transport state-owned enterprises (SOEs) operational performances.

Project description ***Ref. PAD II.D., Technical Annex 4***

The proposed US$255 million equivalent will be allocated among the following components (see Annexes 4 and 5 for more detailed information):

- ***Component 1 (US$218.85 million) – SNCC recovery plan:*** The collapse of SNCC would have incalculable consequences on the Congolese economy, including on the potential future growth of its mining sector as its network connects DRC's copperbelt to its main export routes. Due to this urgent need for financial assistance and considering the minimal size of the intervention required to deliver sustainable results for SNCC (US$617 million), the MTP will dedicate nearly 90 percent of its funding to the SNCC recovery plan. This money will complement the US$373 million (US$200 million from the Chinese line of credit, and US$173 million from Government of the Democratic Republic of Congo (GDRC) and/or SNCC) already pledged by the government towards SNCC Recovery Plan as well as the US$25 million earmarked for it under the existing Private Sector Development and Competitive Project (PSDCP). Component 1 will support the reform of SNCC management and operations through: (i) the signature of a five year management contract with an internationally selected private operator which will replace the existing private operator hired under a stabilization contract which will be extended by a year through August 2011 before project's effectiveness to ensure continuity of private management of SNCC, (ii) payments of up to 1,675 voluntary retirees' departing indemnities and social security pension contributions; (iii) financing of track and rolling stock rehabilitation and upgrade, (iv) reimbursement of SNCC eligible operational costs (mainly fuel, electricity and water bills), (v) training of key new and existing personnel, (vi) monitoring of project's impact, (vii) funding of a study to review SNCC relationship with mining operators and development of a transparent tariff policy in support of mobilizing financing from mining companies, and (viii) funding of financial and procurements audits. Overall, US$73.35 million will be used for the rehabilitation and upgrade of almost 700 km of rail network infrastructure, US$51.05 million for the rehabilitation of equipment and rolling stock, US$54 million will be dedicated to reimburse eligible operational costs and US$20 million to support the retirement plan. The remaining US$20.45 million will cover personnel recruitment and training costs, the financing of the SNCC management contract until 2013, technical support during implementation works, audits of annual financial accounts and procurement activities as well as impact monitoring surveys for Component 1. In complement, the Chinese credit line grant of US$200 million will enable SNCC to acquire new rolling stock and railway track construction materials while the government will contribute US$44 million in support of SNCC's operating expenses. The US$104 million contribution from GDRC and/or SNCC will be used to pay the salary arrears due to SNCC employees. In addition, GDRC will contribute the equivalent of US$25 million through tax exemptions on Component 1 activities. The Chinese grant will be managed by the Ministry of Public Works through the *Agence des Grands Travaux et de la Reconstruction* who will be purchasing the equipment for SNCC under the technical leadership of SNCC.

- ***Component 2 (US$25.45 million) – Operational performance strengthening and improved governance of the sector:*** This component will: (i) finance the acquisition of urgently needed equipment for selected transport SOEs [*Régie des Voies Maritimes* - National Marine Ways Management Agency (RVM), *Régie des Voies Aériennes* - National Airways Management Agency (RVA), *Office National des Transports* - National Transport Office (ONATRA) and *Régie des Voies Fluviales* - National Waterways Management Agency (RVF)] in order to improve their overall performance while allowing them to devote limited internal resources towards restructuring, (ii) pay for the retirement indemnities of 77 RVF agents using an approach similar to that used for SNCC, (iii) pay for an internal diagnostic of the Ministry of Transport (MoT) so as to identify possible reorganizational scenarios, (iv) finance MoT's agents training and MoT equipment, (v) finance the annual audits of SOEs procurement and financial activities that will be used to strengthen from the project onset SOE fiduciary governance, and (vi) allow the development of a sector wide governance plan which will then be tailored for adoption by each individual SOE. The funds of Component 2 have been allocated as follows: US$1.80 million to the MoT, US$1.40 million to RVM, US$3.85 million to RVF, US$10 million to RVA and US$8.40 million to ONATRA.
- ***Component 3 (US$2 million) – International trade procedures simplification:*** To prepare for the implementation of international trade agreements and in light of the ongoing study on the facilitation of international trade, the MTP will support the development of an international trade procedures simplification strategy and the associated action plan, including materials, equipments and basic infrastructure investments designed to facilitate the flow of goods along DRC main international trade transport corridors.
- ***Component 4 (US$8.70 million) – Project management:*** This final component will fund the cost of the Project Management Entity (PME) located within the MoT (*Cellule d'Exécution du Projet de Transport Multimodal*, CEPTM) in charge of the MTP. This PME will have two Project Units. The first one will be located in Lubumbashi within the SNCC and manage MTP's Component 1 (Component 4 A) while the second one will be based in Kinshasa to manage Components 2 and 3 of the MTP (Component 4 B).

Which safeguard policies are triggered, if any? ***Ref. PAD IV.F., Technical Annex 10*** The project is categorized B as Environmental Assessment (OP/BP 4.01), Indigenous Peoples (OP/BP 4.10), Physical Cultural Resources (OP/BP 4.11), and Involuntary Resettlement (OP/BP 4.12) are triggered
Significant, non-standard conditions, **if any**, for: ***Ref. PAD III.F.*** Board presentation: None. Effectiveness conditions above and beyond standards conditions are: • The SNCC Subsidiary Agreement has been executed on behalf of the government and SNCC; • The government has modified the order establishing the CEPTM under terms of reference satisfactory to the International Development Agency (IDA), and has appointed the following staff to the Project Unit for Component 1 of the Project (SNCC recovery plan) within the CEPTM to assist in managing Component 1 of the Project all under terms of reference and with qualifications and experience satisfactory to IDA: a Project Unit manager and experts in administration and finance, accounting, procurement, and monitoring and evaluation; • The government has caused the CEPTM to adopt an Administrative, Financial, Accounting and Procurement Manual (AFAPM) in a form and substance satisfactory to IDA; and • The SNCC Stabilization Contract has been modified under terms satisfactory to IDA. The Project Legal covenants are: • The government shall by not later than December 31, 2011 adopt a governance plan under terms satisfactory to IDA and immediately thereafter take all measures and provide sufficient resources to implement said plan in a manner satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said plan without the prior written agreement of IDA; • The government shall cause RVA, RVF, RVM, ONATRA and SNCC to respectively adopt by not later than June 30, 2012 the tailored governance plans under terms satisfactory to IDA and immediately thereafter take all measures and provide sufficient resources to implement said plans in a manner satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said plans without the prior written agreement of IDA; • The government shall by not later than December 31, 2010 hire Individual External Financial and procurement auditors for RVA, RVM, ONATRA and SNCC and an external financial auditor for the CEPTM under terms and conditions and with qualifications and experience satisfactory to IDA; • The government shall cause RVA, RVF, RVM, ONATRA and SNCC by not later than January 1, 2013 to maintain for the remainder of the implementation of the Project the expenses related to their respective Board of Directors at or below the rate of 0.5 percent of the annual turnover of their respective companies; • The government shall throughout the implementation of the Project avoid, and shall cause entities under its authority to avoid, taking any action or omitting to take any action which might jeopardize the financial and operational viability of RVA, RVF, RVM, ONATRA and SNCC;

- The government shall ensure that RVA, RVF, RVM, ONATRA and SNCC do not, throughout the implementation of the Project, enter into arrangements or contracts (including employees promotions and salary increases) that could materially and/or adversely affect the ability of RVA, RVF, RVM, ONATRA and SNCC to perform any of their respective obligations under the Project Agreements and/or affect their financial viability, unless otherwise agreed in writing with IDA;
- The government shall adopt by not later than December 31, 2011 a national plan for the cross-debt annulment of the SOEs, including RVA, RVF, RVM, ONATRA and SNCC, under terms and conditions satisfactory to IDA and shall cause said agencies to implement the plan thereafter;
- The government shall cause SNCC by no later than December 31, 2011 to enter into a management contract with a private operator under terms and conditions satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said contract without the prior written agreement of IDA;
- The government shall maintain and carry out the SNCC Stabilization Contract until such date as the private operator and SNCC shall have signed the management contract under terms satisfactory and conditions satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said contract without the prior written agreement of IDA;
- The government shall provide, promptly as needed, the funds, facilities, goods, services and other resources required for the Project and shall allocate by not later than October 31, 2010 the necessary resources in its annual budget for the purpose of the Project. Without limitation to this, the government shall:
  a) Open and maintain an account by not later than September 15, 2010 (the Counterpart Account) in a commercial bank on terms and conditions satisfactory to the Bank;
  b) Promptly thereafter, and by no later than September 30, 2010 make an initial deposit into the Counterpart Account, in an amount equivalent to US$22 million and by not later than June 30, 2011 in an amount equivalent to US$22 million to finance the Recipient's financial contribution to the Project;
  c) Ensure that amounts deposited into the Counterpart Account shall be used exclusively to finance expenditures made or to be made by SNCC in respect of reasonable cost of works, goods and services for the Project.
- No disbursement in support of SNCC can occur until the government has provided evidence satisfactory to IDA that SNCC has adopted a legal asset protection plan for its rolling stock, satisfactory to IDA and consistent with the DRC law;
- The government shall cause SNCC to carry out SNCC Retirement Plan Agreement under terms satisfactory to IDA and shall ensure that SNCC shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said agreement without the prior written agreement of IDA;
- No disbursement in support of SNCC can occur until (i) a first installment for the payment of departure indemnities and social security pension contributions of all SNCC eligible voluntarily departed retirees' as of the Effectiveness Date, unless the government has provided evidence satisfactory to IDA that the salary arrears, departure indemnities and social security pension contributions and any outstanding SNCC social debt of these retirees have been fully accounted and certified, under terms and conditions satisfactory to IDA, by an independent auditor under terms and conditions satisfactory to IDA; and (ii) subsequent

quarterly installments for the payment of departure indemnities and social security pension contributions of additional SNCC eligible voluntarily departed retirees unless the government has provided the same type of evidence as under paragraph (i) above;

- The government shall cause SNCC to carry out by not later than March 31, 2011, a plan for the liquidation of the SNCC salary arrears and social debt, not financed with the financial assistance of IDA, for all its employees and voluntarily departed eligible retirees as of December 31, 2010, under terms satisfactory to IDA. To this effect, the government shall:

  a) By not later than January 31, 2011 or any other later date agreed with the Association, adopt the report, prepared under terms satisfactory to IDA, by an independent auditor, hired under terms and qualifications and experience satisfactory to IDA, certifying the amount of salary arrears and outstanding social debt owed by SNCC to its employees and voluntarily departed retirees of SNCC as of December 31, 2010, under terms satisfactory to IDA;

  b) Unless otherwise agreed with IDA, by not later than March 31, 2011, March 31, 2012, March 31, 2013, March 31, 2014 and March 31, 2015 deposit or cause SNCC to deposit the sum equivalent to twenty (20) percent of the certified amount referred to paragraph (a) above in a commercial bank account, under terms satisfactory to IDA, and thereafter promptly pay or cause SNCC to promptly pay the pro rata amounts to each employee of SNCC and each of the voluntarily departed retirees of SNCC on account of salary arrears and outstanding social debt not financed by IDA in accordance with DRC's law;

  c) If SNCC anticipates by not later than February 28 of any year throughout the implementation of the Project that it will be unable to make the payments referred to in paragraph b) above, it shall take all measures to alert the government and IDA in due time so as to enable the government to make sufficient provisions to ensure the payment in due course.

- The government shall cause RVA, RVF, RVM, ONATRA and SNCC to prepare and implement by not later than December 31, 2011 and throughout the implementation of the Project an Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS) prevention and treatment program under terms and conditions satisfactory to IDA;
- Within three months of effectiveness, the CEPTM will have appointed under terms of references and qualifications acceptable to IDA one internal auditor and one accountant located in the Project Unit based in Kinshasa and one Internal Auditor for the Project Unit located in Lubumbashi;
- Within three months of effectiveness, the CEPTM will have acquired and installed under terms of references acceptable to IDA an accounting software;
- The overall Financial Management system will be maintained operational during the entire project duration;
- The CEPTM will maintain staff satisfactory to IDA at all times during Project's implementation;
- Retroactive Financing of up twenty (20) percent or US$51 million will be provided for payments made within one year prior to the date of the Project's Financing Agreement but on or after June 30, 2009 for eligible Project expenditures;
- No disbursements in favor of ONATRA can occur until such time that: (i) ONATRA has adopted the reform strategy note, and (ii) has signed a legally binding Subsidiary Agreement with the government under terms and conditions for both documents that are satisfactory to

IDA;

- No individual disbursement in favor of RVM and/or RVF and/or RVA can occur until such time that each company has signed a legally binding individual Subsidiary Agreement with the government under terms and conditions satisfactory to IDA;
- No disbursement in support of RVF retirement plan can occur until the salary arrears for the employees of RVF have been fully accounted, certified and paid by RVF, or alternatively by the government, to RVF employees and voluntarily departing eligible employees pursuant to the RVF Recovery/Retirement Plan in accordance with DRC's laws and has been duly authorized or ratified and is legally binding upon the government and RVF in accordance with its terms;
- The government shall cause SNCC to establish by not later than March 31, 2011 and thereafter maintain an Environmental Unit throughout implementation of the Project, with terms of reference, composition and resources satisfactory to IDA, responsible for the coordination and follow-up activities related to managing the environmental and social impacts of SNCC activities and safety of the SNCC railway transport network; and
- The government shall carry out and cause RVA, RVF, RVM, ONATRA and SNCC to carry out the Project in accordance with the provisions of the Environmental Management Plan (EMP), the Environmental and Social Impact Assessment (ESIA), the Resettlement Action Plan (RAP), the Indigenous People Plan (IPP), as the case may be, under terms and conditions satisfactory to IDA and, except as IDA shall otherwise agree, the government shall not amend, abrogate, or waive, or permit to be amended, abrogated, or waived, the aforementioned, or any provision of either one thereof, without the prior written agreement of IDA.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

Country issues:

1. Despite its rich endowments in natural resources and the dynamism and entrepreneurship of its population, the Democratic Republic of Congo (DRC) has been affected by a series of economic and political crises since its independence. These crises have culminated in the late 1990s and early 2000s in several years of devastating conflict. Today, DRC is one of the poorest countries in the world, with a per capita gross domestic product (GDP) of about US$180 (2008). Although significant progress has been made over the last five years, DRC's political, economic and social challenges remain daunting.

2. The physical and social devastation caused by decades of mismanagement and conflict is extreme. Likewise, the living conditions of most of the 64.2 million Congolese are dire, and the sharp deterioration of DRC's social indicators over the last twenty (20) years jeopardizes the prospects for Africa as a whole to make decisive progress towards the Millennium Development Goals (MDGs). Today, the contrasts are stark between the southern and western sections of the country where the rule of law has been reestablished and the eastern part of the country where extreme violence and urgent humanitarian needs persist.

3. DRC's political environment remains complex and the regional stakes are high, with seven out of DRC's nine neighbors having experienced a major conflict over the last decade. The security situation in the eastern provinces has improved but remains fragile. The democratically-elected government has been in place since early 2007 but decision-making has sometimes been slow, leading to delays in carrying out needed reforms. The next presidential elections are planned for 2011. In March 2009, the government and the key rebel group, "the National Congress for the Defense of the People (*Congrès National pour la Défense du Peuple*, CNDP)" signed an agreement to integrate rebel combatants into the national army. The national authorities have since regained control of most of the territory and its borders, although the *Forces démocratiques de libération du Rwanda* (FDLR) and the Lord's Resistance Army (LRA) remain a source of insecurity for civilians in the Kivus region and the Orientale Province. The disarmament and reintegration program remains a challenge with significant budget costs. In October 2009, an inter-ethnic dispute in the northwestern part of the country (Equateur province) triggered an armed conflict that displaced large numbers of people; the regular army, supported by United Nations Mission in DRC (MONUC),[1] gained control of the main cities; but the situation remains volatile, as another incident occurred in early April 2010 in the provincial capital of Mbandaka. Security-related challenges, thus, continue to weigh on the central government and DRC's economy.

4. On an economic level, the consequences of the 2008 international economic crisis have had a negative impact on the Congolese economy following six years of consecutive strong annual GDP growth rates averaging six percent. The negative impacts of this crisis started to be

[1] In French, *Mission de l'Organisation des Nations Unies en République Démocratique du Congo.* MONUC's peacekeeping mandate is expiring at the end of May 2010, and the Government is demanding MONUC's withdrawal within a period of 18 months, ahead of the next presidential elections planned for mid 2011. A UN Security Council resolution reviewing MONUC's mandate is expected in mid-May.

felt by the Congolese economy in the third quarter of 2008 and only abated by mid-year 2009. Current forecasts predict that the economic growth rate in 2009 will be at 2.8 percent (see Annex 1 for more details).

5. The downturn of 2008/2009 was mainly caused by a sharp reduction in mining export volumes and values as a consequence of the international economic crisis. Lately, however, an encouraging recovery of mining exports has been observed, mainly due to a sharp recovery of copper prices on the world's markets (US$7,500/ton in January 2010 versus a low of US$3,750 in April 2009). Due to the expected continued recovery of the world economy and the consecutive demand in mining products, DRC's GDP growth rate is predicted to accelerate to 5.4 percent in 2010 and reach about 7.0 percent both in 2011 and 2012.

6. DRC's macroeconomic policies were tightened in 2009. A new three-year arrangement under the Extended Credit Facility (ECF) was approved by the Executive Board of the International Monetary Fund (IMF) on December 11, 2009. The program performance through the end of 2009 appears to have been satisfactory, with all quantitative benchmarks have been met. Although there had been delays on the structural reform front, all structural benchmarks under the program were implemented by the end of April. There had also been progress in implementing the Highly Indebted Poor Countries (HIPC) Completion Point triggers. If all goes as planned, IMF Board consideration of the first review of the ECF arrangement and HIPC Completion Point under HIPC should take place in July 2010. Nevertheless, the country's economic situation will remain fragile for the foreseeable future. Even if one assumes a six percent average economic growth rate going forward, it would take until 2029 for DRC to regain its 1990 GDP per capita. In the short to medium term, the mining sector is expected to be the main engine of DRC's economic growth although providing a nurturing environment for the agricultural sector development is likely to be critical to ensure that the future benefits of the country's economic growth reach its poorest members.

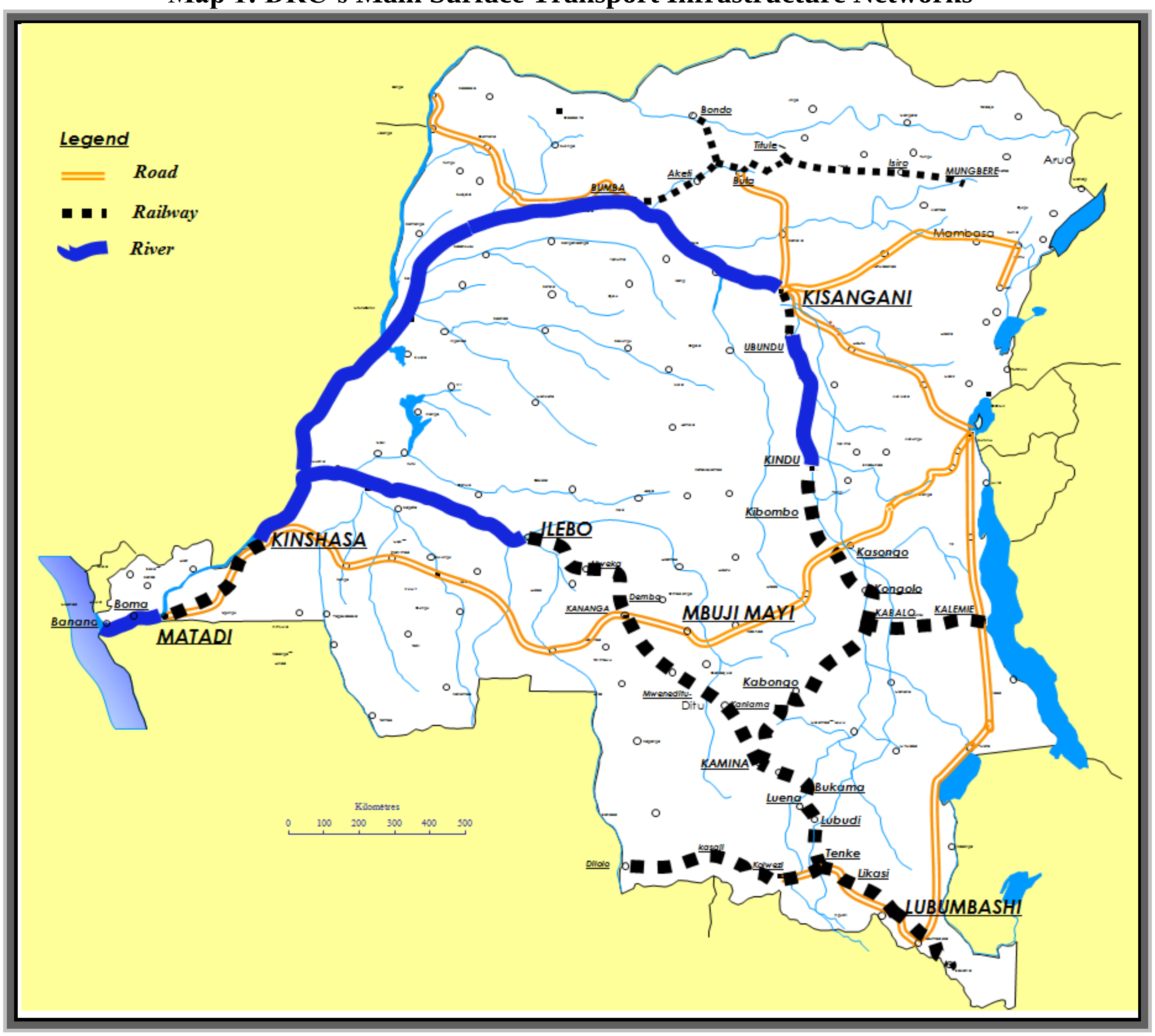
7. The development of the transport sector in DRC is a major element of the government's policy towards economic growth and poverty reduction. This sector is a key enabler in increasing agriculture sector output, improving internal and external trade competitiveness, supporting mining sector growth and combating the economic malaise that affects isolated communities. Unfortunately, the transport sector is currently experiencing a deep crisis due to the recent civil unrest but also because of chronic mismanagement and corruption by the government officials appointed to manage its state-owned enterprises (SOEs). Consequently, the sector's performance is currently limiting GDRC's ability to achieve its short and medium term economic growth goals.

Transport sector issues:

8. Today, the bulk of DRC's territory is inaccessible. Out of ten provincial capitals, only one is connected by road (Matadi) with the capital city Kinshasa while three are only accessible by river (Mbandaka, Kisangani and Bandundu) and six only by air (Kananga, Mbuji-Mayi, Lubumbashi, Kindu, Goma, Kisangani and Bukavu). Communication between these capitals and other provincial centers as well as access to rural areas is often not possible. Since national unity and economic stability are the government's two top priorities, improving the transport sector's performance constitutes de facto a vital goal for GDRC.

9. The transport sector in DRC reflects the variety and the immensity of the Congolese countryside as it relies on an intermodal network of transport infrastructures (see Map 1 below). Indeed, the sector is based on four main sub-networks of roads, railways, airports, and interfaced maritime and river ports. These sub-networks are operated and maintained by public and private actors, who provide either formal or informal commercial transport activities. All the largest transport companies in DRC either by employment, assets value or simply turnover are SOEs. Their domination of the transport sector is both at the heart of the problems facing the sector as well as the solution. The transport activities managed by SOEs generated an estimated annual turnover of about US$300 million in 2008, or 2.6 percent of the country's GDP. This figure represents, though, only a fraction of the economic weight of the sector as it does not account for the share of the informal sector and the privately organized part of the formal sector for which reliable information is not available. The real economic weight of the transport sector is thus estimated to be more than likely in the 5 to 10 percent range of DRC's GDP.

Map 1: DRC's Main Surface Transport Infrastructure Networks



Source: World Bank, 2010

10. DRC's port/maritime sub sector is organized around three ports with sea access – Matadi, Boma and Banana – which are located in the mouth of the Congo River. The port of Matadi is the largest of the three and accounts for 95 percent of total traffic (about two million tons in 2007)[2], most of which is linked to the economic activity of the Bas Congo and Kinshasa regions. DRC's river network is extensive with about 16,238 kilometers of navigable waters and lakes. Consequently, the Congo River and its tributaries provide a vital, lowest cost, transport access to most of DRC's hinterland. Both rail and road networks are built for the most part in connection and complement of the river network (see Annex 4 for more details). The largest part of DRC's river transportation services is provided by small, informal, private operators for which activity statistics do not exist.

11. In the setting of DRC's multimodal transport network, roads play an essential connectivity role. Even though road transport services are mainly provided over short distances due to the low quality and density of the road network, they contribute largely to national and international trade and provide essential rural access connections. Road transportation, like river transportation, is mainly provided by hundreds, if not thousands, of informal private operators. The core road network covers the entire country (152,400 km) and can be divided into three categories (national road, rural access roads and urban roads). Only 5 to 10 percent of these roads are in fair to good condition, the rest is impassable, stripped from all signaling and in need of rehabilitation.

12. DRC has three separated railway networks with a total length of 5,033 km. The estimated total freight volume transported by rail in 2008 was one million tons translating into about 420 million ton-kilometers. The *Chemin de fer Matadi-Kinshasa* (Matadi to Kinshasa Railway - CFMK) operated by the *Office National des Transports* (National Transport Office - ONATRA) is a 366 km long track from Matadi to Kinshasa linking the country's main port to the capital and the navigable section of the Congo River. The *Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC - SNCC) railway network in the south-east of the country is the largest in DRC (3,641km) and part of the only integrated railway network in sub-Saharan Africa. On this interconnected system goods can be transferred by rail from DRC via Zambia to the ports of Durban in South Africa and Dar-es-Salaam in Tanzania. Ninety percent of the overall freight traffic is carried on the section between Kolwezi, Tenke, Lubumbashi and Sakania and is linked for a significant part to the mining traffic generated by DRC's Copperbelt activities. In 2009, SNCC estimated transport volume reached 218 million ton-kilometers or 90 percent below the peak volumes attained in 1975 (see Annex 4 for more details). The third and last railway network in DRC is the *Chemin de Fer des Uélés* (Uélés Railway - CFU), a 1,026 km long 0.6 meter gauge line in the north of the country (linking the Kilo Moto gold mines to the Congo River). It is currently not operational (see Map 1).

13. DRC's air transportation prevails as the best means to connect some secluded regions to the country's capital and is currently vital to domestic trade. The country has a total of 270 public and private airfields, only four of which are international airports – namely Kinshasa, Lubumbashi, Kisangani and Goma. In 2009, 50 private airlines were registered in DRC while in 2008, 44 and 80 percent of DRC's total and international airline passenger traffic, respectively, was handled at Kinshasa's N'Djili airport. The total annual number of airline passengers at

[2] ONATRA, *Rapport Annuel Exercice 2007*

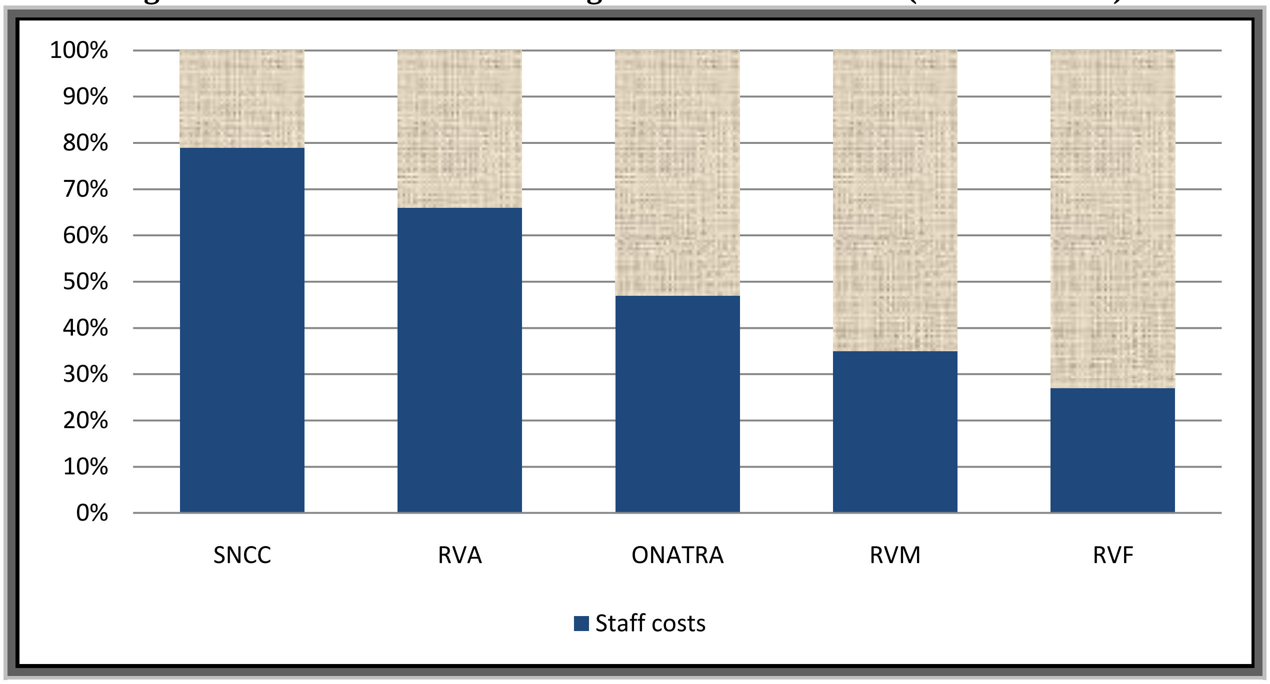
DRC's main airport N'Djili more than doubled during the past ten years from 268,000 in 1999 to 694,000 in 2008. Nationwide, this same number increased to 1.5 million passengers. Meanwhile, Kinshasa's N'Djili airport air cargo volume increased in parallel to its passenger traffic reaching nearly 140,000 tons in 2008 versus 40,000 tons in 1999. However, the safety record of air transport sector is currently among the lowest in the world. This poor safety record reflects a lack of enforcement of existing safety and security regulations. It represents a real threat to the sector's future growth.[3] The government is aware of the problem and has initiated critical steps to try to solve it, including the ongoing adoption of a new civil aviation code, the creation of an autonomous civil aviation agency and the securing of foreign technical assistance through a European Union €5 million grant. Nevertheless, unless the government is also willing to challenge the sector's political economy and impose a painful restructuring of its airlines industry through the imposition of minimal capital resource requirements, grounding of technically non qualified aircraft and aircrews, and the seizure of the assets of delinquent payers of air navigation and airport charges, little can be expected from the sole creation of an autonomous civil aviation agency.

14. The four most important reasons behind the continued decline in quality and value for money of transport services in DRC are: (i) bad management and corruption, (ii) political ownership and interference of transport assets, (iii) overstaffing and, (iv) depletion of transport personnel skills (See Annex1). The combination of these ailments can be seen in the staff cost to revenues ratios of the largest transport SOEs which are all, but one (the *Régie des Voies Fluviales* - National Waterways Management Agency - RVF), above the industry standard of 20 to 30 percent (see Figure 1). Likewise, with productivity ratios up to twenty (20) times lower than the best performing transport companies in sub-Saharan Africa (SSA), excluding South Africa, and tariff up to three times higher than the Continent's average, DRC's transport SOEs have the dismal record of being the most expensive, yet the least productive, transport enterprises in Africa (see Annex 1).

15. Transport SOEs current financial situation is critical with all of them being technically bankrupt. While some companies are able to cover their direct operating cost (ONATRA; *Régie des Voies Aériennes* - National Airways Management Agency - RVA; *Régie des Voies Maritimes* - National Marine Ways Management Agency - RVM), others like SNCC or RVF are not. As a result, the structure of the debt burden (commercial, public and social debt) is vastly different from one SOE to another (See Figure 2) with turnover to debt ratio ranging from 137 percent for RVM up to 378 percent for SNCC. More importantly, the vast majority of the short term debt accumulated by the transport SOEs represents a combination of payment arrears to other public SOEs and the government. In essence, the State is the primary, and mostly the only, creditor of all SOEs in DRC. This explains why these companies have been able to build up overtime such a high level of debt without facing restructuring, bankruptcy and/or liquidation. Additionally, they have been accumulating, in an effort to secure peaceful labor relations, large unfunded and unaccounted for pension obligations. With the average age of SOEs employees near 55 and a retirement age for women and men of, respectively, 60 and 65 years, GDRC is facing a looming social debt crisis. The government is aware of this problem and has, consequently, initiated since

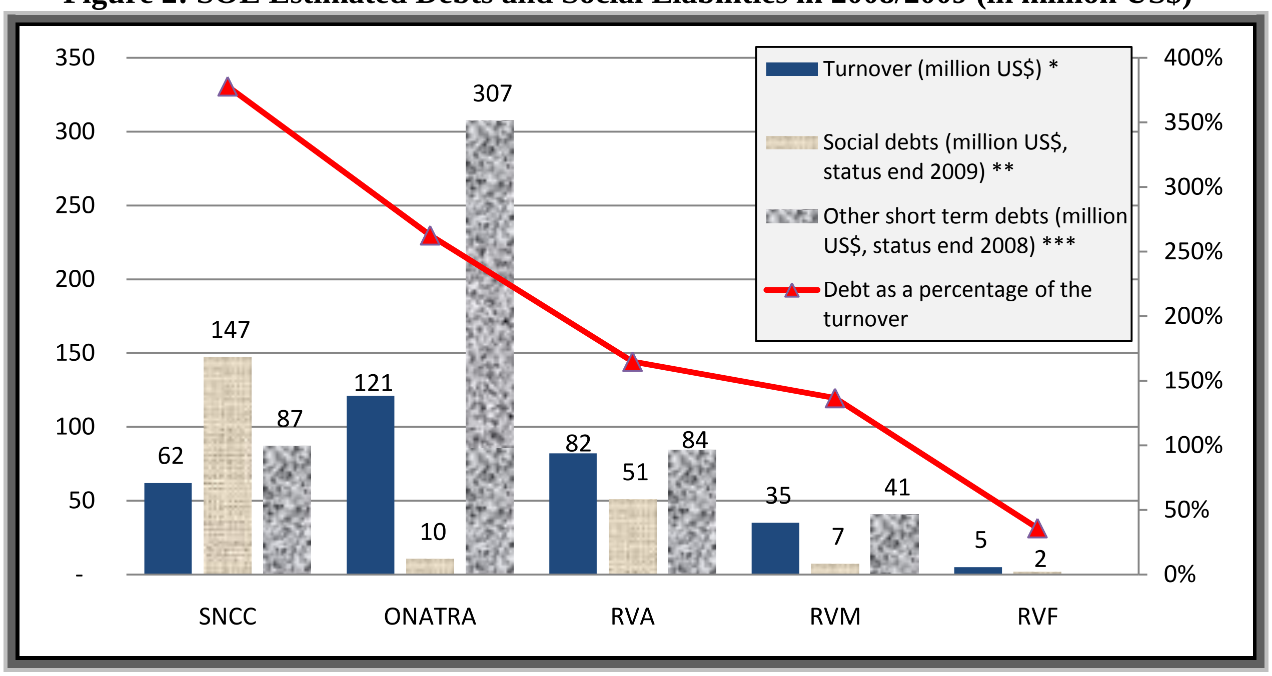
[3] In 2008 the International Civil Aviation Organization (ICAO) rated DRC's civil aviation technical personnel capacity to enforce safety standards as nil (zero percent).

Figure 1: Staff Costs as a Percentage of Annual Revenues (in million US$)*



* All figures for 2008 except SNCC (2009).
Source: Financial reports of ONATRA, SNCC, RVA, RVM and RVF + Core Advice 2008 + Vecturis 2008 + Progosa 2008 + COPIREP 2008 + ADPI 2008

Figure 2: SOE Estimated Debts and Social Liabilities in 2008/2009 (in million US$)



* For ONATRA the basis of the other debt is the financial statement 2007.

** For RVF, the figure represents only the amount for 74 agents, who were eligible for retirement by the end of 2009; For SNCC the social debts contain the salary arrears as of October 31, 2009 and the outstanding retirement rights as of December 31, 2009.

Source: Financial reports of ONATRA, SNCC, RVA, RVM and RVF + Core Advice 2008 + Vecturis 2008 + Progosa 2008 + COPIREP 2008 + ADPI 2008

2009 a bottom up review of all SOEs debt in order to devise solutions to it. The implementation of any real solution will come, however, at a hefty political and social cost which suggests that the likelihood of any global settlement of SOEs public and social debt which stands at well over a billion dollars will be deferred to well after the next general election cycle due in mid 2011.

16. Any financial overhaul of the transport SOEs will need to be accompanied by a similar effort to strengthen GDRC currently weak regulatory performance. Today, the roles of the respective authorities and ministries involved in the transport lack clarity. This is particularly true for the Ministry of Transport (MoT) and the Ministry of Portfolio (MoP) which, for example, share overlapping responsibilities when it comes to the sector's SOEs. Additionally, the sector's complex institutional structure is forcing ministries to spread thinly their meager oversight resources while being engaged in uneven technical dialogues with powerful SOEs whose financial resources contribute to exacerbate a culture of graft and corruption. In reality, the oversight authorities often do not have the necessary capacities and resources to comply with their duty to regulate and control the sector. Consequently, large parts of the transport sector are not regulated or are self-regulated. This clearly has a negative impact on the safety levels of transport service providers as it allows non compliant operators to furnish transport services often at the expense of minimum safety and security standards.

17. The situation in terms of economic regulation is not much different from the one that prevails in the area of technical regulation. The absence of enforcement of both types of regulations has dire consequences on the operations of the transport sector. For instance, it prevents the transport market from rewarding quality operators (especially in the air transport sector). Likewise, it generates a level of accidents that threatens the growth both of national and international trade in DRC but also the growth of domestic and foreign private investment in the transport sector. These consequences often result in the multiplication of unregulated pricing practices and abuse of monopoly situation by SOEs which altogether affect the competitiveness of the Congolese economy as well as foster bad governance and corruption.

18. Finally, although DRC international trade regulation has undergone significant structural changes since 2003, the multiplication of agencies involved in trade control and taxation has had a negative incidence on the overall yield of transport investment. The export regulation for mining goods for instance has been reformed by prohibiting the exportation of crude ore and limiting export rights to official producers that are making industrial investments. In addition, the Office of Customs and Excise (OFIDA), the main customs body, has been modernized through the creation of several *guichets uniques* and by introducing electronic customs declarations. In spite of all these efforts, however, import and export operations are still disrupted by numerous factors and remain very unpredictable. Indeed, the lack of a leading political authority in the area of foreign trade has left local government agents use discretionary powers which disrupt the fluidity of export and import operations and add significant costs to them.

Political economy issues:

19. Severe governance problems and corruption continue to hamper DRC's development prospects. Corruption remains widespread and is taking a heavy toll on public service capacity to deliver key services. DRC is ranked 171 of 180 countries by Transparency International (2008 Corruption Perceptions Index). Corruption in DRC is largely a legacy of the Mobutu era of rapid enrichment and impunity. At the higher level, it has been aggravated by the conflict and political transition, during which the lack of a strong executive prevented the imposition of effective sanctions while many high-level officials tried to rapidly take advantage of their positions in a context fraught with uncertainties. At the lower level, the problem is compounded by the extremely low level and still irregular payment of government employees' salaries. There is a consensus that unless decisive action is taken in this area, DRC might not be able to break the current cycle of poverty.

20. The political economy behind SOEs operations and reform is fairly well known although its context and the interest groups behind each SOEs can be somehow different depending on: (i) the geographical location of where SOE activities are taking place, thus where the money and employment are generated and the province, or provinces, most impacted by a given SOE operations (Katanga province for SNCC, Bas Congo province for RVM and ONATRA), (ii) the power to corrupt or attract interest groups based on the level of revenues generated by each SOE (RVF's US$5 million/year does not generate much interest while ONATRA US$121 million/year does), (iii) the cross linkages with other revenues generating industries (mining for railways, freight forwarding and import/export management and taxation for ports and airports), (iv) the power of patronage associated with the State's control of SOEs where average salaries range from US$4,000 to US$10,000/year/employee (US$30,000 and more for high level positions) versus less than US$1,000 for government employees, (v) the accountability for results of the SOEs oversight ministries and their management, and (vi) the nuisance power of each SOE (a strike at the Port of Matadi managed by ONATRA can paralyze Kinshasa's economic activity).

21. Taking into account these parameters, the Bank developed a political economy matrix of the transport SOE reform agenda in order to better identify the realm of major stakeholders involved in the reform and their respective power to advance, slow or delay the sector reform agenda as adopted by the government in December 2009 (see Section I.B for more details). This matrix is presented in Table 1 below. It is only indicative and does not pretend to: (i) account for all possible political economy aspects influencing transport SOEs reform agenda, and (ii) reflects the perceived situation at the end of 2009 which is bound to change over time. From it, it can be seen that the current political economy context behind some SOEs like SNCC and RVA seem to be more conducive to reform than for other SOEs such as RVM and ONATRA (see Annex 14 for more details).

Table 1: MTP Political Economy Context – Transport SOE Reform Agenda Support Mapping

	ONATRA		RVA		RVM		RVF		SNCC	
	A*	B**	A*	B**	A*	B**	A*	B**	A*	B**
Central government	♦♦	♦♦♦	♦♦	♦♦♦	♦	♦♦♦	♦♦	♦♦♦	♦♦♦	♦♦♦
National legislature	♦	♦♦	♦♦	♦	♦	♦	♦	♦	♦♦	♦♦
Provincial governments	♦	♦♦♦	♦	♦	♦	♦♦	♦	♦	♦♦♦	♦♦
Unions	♦	♦♦	♦♦	♦♦	♦	♦♦	♦	♦	♦♦	♦♦
Non management employees	♦♦	♦	♦	♦	♦	♦	♦	♦	♦♦	♦
Government appointed directors	♦	♦♦♦	♦	♦♦	♦	♦♦♦	♦♦	♦	♦	♦♦♦
Business community	♦♦	♦	♦♦	♦	♦♦♦	♦	♦♦	♦	♦♦♦	♦
End users	♦♦♦	♦♦	♦	♦♦	♦♦♦	♦	♦	♦	♦♦♦	♦♦♦
Civil society	♦	♦	♦♦	♦♦	♦	♦	♦	♦	♦♦	♦♦
Donors community	♦♦♦	♦	♦♦♦	♦♦	♦♦♦	♦	♦♦♦	♦♦♦	♦♦♦	♦♦♦
Overall support for reform	1 ½ ♦		2 ♦		1 ♦		2 ♦		2 ½ ♦	

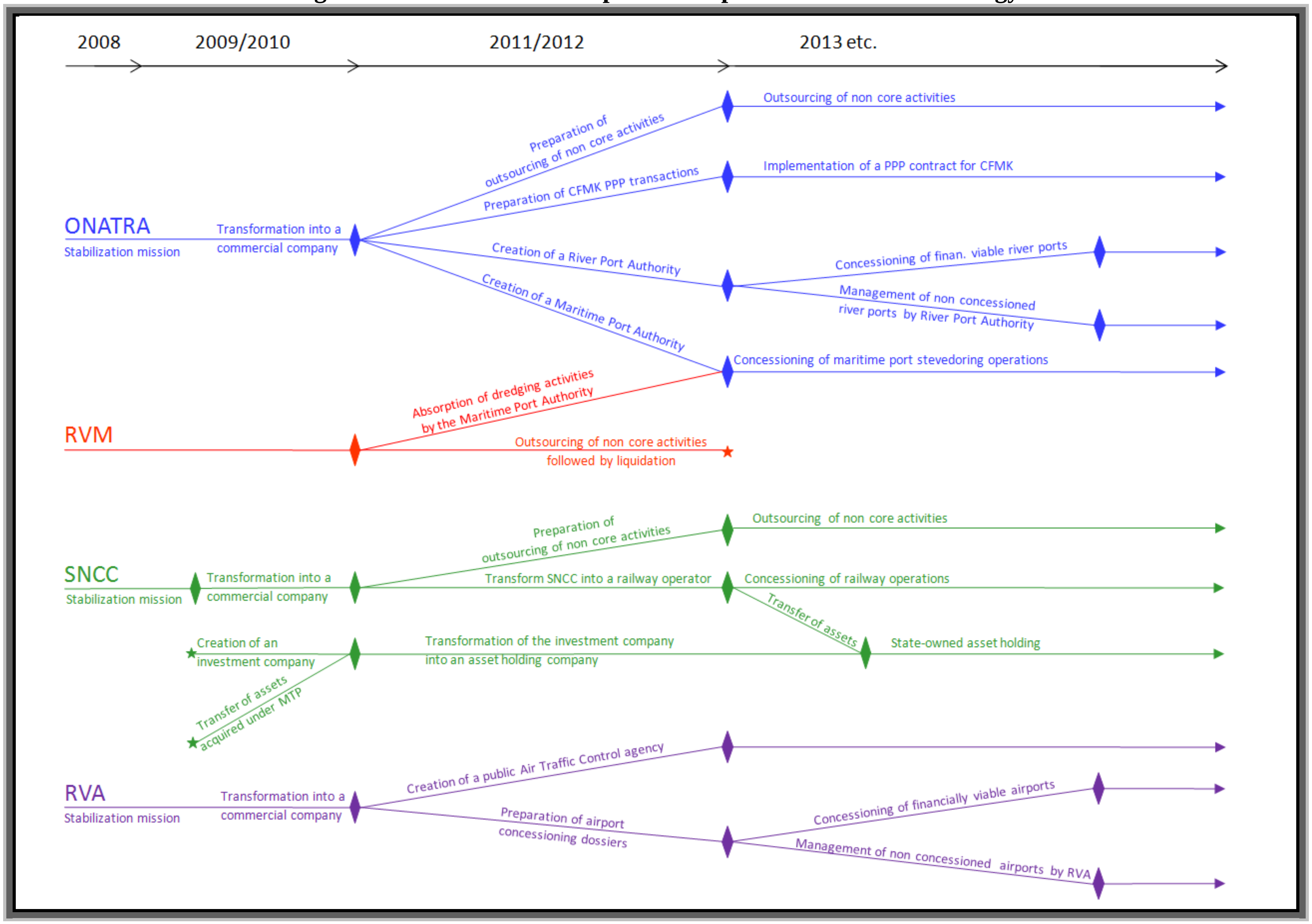
A* refers to the perceived level of support to the SOEs reform agenda adopted by the government in December 2009.
B** refers to the influence level of a stakeholder group when it comes to the adopted SOEs reform agenda.
♦ = Low, ♦♦ = medium, and ♦♦♦ = High.
Source: World Bank, 2010

B. Rationale for Bank involvement

22. The proposed Multimodal Transport Project (MTP) is a central element of a vast and coherent national program for economic and social revival called the *Programme Minimum de Partenariat pour la Transition et la Relance* (Government Minimum Partnership Program for Transition and Recovery - PMPTR) which was launched in November 2004 by the GDRC. The program document, prepared with the assistance of the Bank, specifies the objectives for each economic sector over four years (2004/2008), articulates implementation strategies, recommends the necessary institutional reforms and identifies priority investments. In the transport sector, the primary objective of the government is to consolidate the countries reunification through the revival of DRC's three backbone multimodal trade and transport corridors (see Annex 1 for more details). To reach this objective, the government recognizes the need to deeply restructure the SOEs that operate on these corridors and, when feasible, to bring in private operators and investors through public-private partnerships (PPPs). The four laws enacted by DRC's President on July 7, 2008 as well as the decrees Nr. 09/11 and Nr. 09/12 enacted on April 24, 2009, on the transformation of the largest SOEs into commercial companies are key enablers of the proposed sector reform. In the transport subsectors, this legal framework should result in the transformation of ONATRA, RVM, SNCC, RVA, the *Lignes Aérienes Congolaises* (Congo National Airlines - LAC), the *Compagnie Maritime du Congo* (Congo Shipping Line - CMDC) and the CFU into commercial companies by no later than April 2010 although it is now clear that this deadline will not be met.

23. In the medium term, the government's sector reform strategy is based on a restructuring of the key transport SOEs - namely ONATRA, RVM, RVA and SNCC with a stated aim to bring them to focus only on their core activities (see Figure 3) in conjunction with the establishment of PPPs when feasible. This reform strategy is deemed to be essential to ensure the long term sustainability of expensive transport infrastructure, strengthen the governance of the transport sector and reduce DRC's surface transport costs which are among the highest in the world. It was

Figure 3: Government's Adopted Transport SOEs Reform Strategy



Source: World Bank, 2010

formally adopted by the government's Council of Ministers on December 4, 2009. Additionally, a specific and detailed restructuring plan of SNCC, dubbed "SNCC Recovery Plan" was also adopted by the government's *Commission Economique et de Reconstruction* (Economic and reconstruction commission - ECOREC) on December 22, 2009. This Recovery Plan clearly delineates the various restructuring steps of the SNCC over the next five years as well as the government's commitment to complement the proposed International Development Association (IDA) financing using its own funds and the existing Chinese line of credit monies.

24. The MTP seeks to generate private sector-led growth[4] with the expected outcome of improving transport connectivity nationwide as well as improving DRC's investment climate. Furthermore, the subordination of the majority of the MTP investment to the establishment of PPPs in key SOEs will support the government's transport sector reform agenda which relies for commercially viable operations on securing financing and/or know-how from private operators. The MTP scope, in spite of its cost of US$255 million (2010 to 2015), remains limited relative to that of the PMPTR whose initial 2004 estimated cost of US$919 million over four years (2004/2008) has now grown to several billion dollars. Donors such as the European Union (EU), the *Agence Française de Développement* (French Agency for Development - AFD), the Belgian Technical Cooperation (BTC), the African Development Bank (AfDB) and the UK Department for International Development (DFID) have pledged their financial support to the PMPTR which remains, however, cumulatively insufficient to address all of the sector's priority needs.

25. Overall, the Donors Community (excluding China and India) pledged US$815 million in support of the transport sector between 2002 and 2008 and an additional US$845 million for the 2008/2010 timeframe. Of this total amount of US$1.66 billion, US$1.20 billion, or 73 percent, was earmarked for road works with most of the non road pledges actually linked to the Bank's proposed MTP. In this context, it is clear that donors' support: (i) focuses primarily on the road sub-sector, thus resulting in a massive financing gap in the rail, aviation and port infrastructure which constitutes a large part of the multimodal transportation system in DRC, (ii) does not address the need to set up PPPs in order to foster necessary efficiency improvements in DRC's transport chain and SOEs management, (iii) does not tackle the transversal issues raised by transport SOEs reform (outsourcing of health and social services provided by SOEs, treatment of cross, public and social SOEs debt), and (iv) does not deal with the necessary reform of international trade processes to maximize the impact from the proposed investment in infrastructure. These various reasons greatly influenced the proposed design and scope of the MTP whereby support to non road investment was used as a means to support transport SOE reform with a goal to enhance significantly sector governance and improve overall transport connectivity and performance nationwide. In addition, the MTP design was tailored to promote effective cooperation and complementarities with bilaterals such as China through an innovative parallel financing of SNCC's Recovery Plan (see Section III.A. below).

[4] The proposed project's private sector led-growth will build upon the Bank's extensive experience in promoting viable PPPs throughout sub-Saharan Africa as well as worldwide.

26. The rationale behind the Banks' involvement in the MTP is as follows:

- The Bank has been providing assistance to the government through the Private Sector Development and Competiveness Project (PSDCP) in SOE reform since 2003. As such, it has gained valuable insights on the challenges facing SOE reform in DRC and has committed itself to assisting the government in the implementation of the reform;
- The PSDCP is already financing the cost of the private operator selected through international competitive bidding in 2008 to manage the SNCC under a two year stabilization contract (August 2008 to August 2010). While the overall results of the contract have been mixed due to the inability of the government for political and financial reasons to provide the newly appointed management team with the power to implement radical reforms (retrenchment of excess labor, divestiture of non core activities, etc.) or to initiate necessary investment, the positive impacts of the contract can be seen in: (i) the ability of SNCC to develop a bankable Recovery Plan for Donors and government's support, (ii) reduction in revenue leakages which has allowed the company for the first time in nearly five years to make partial salary payments every 45 days consistently, (iii) signature of a practical agreement between SNCC Unions and management which will allow more than 2,000 eligible retirees to take voluntary retirement, (iv) implementation of the first external financial audit in nearly 15 years, and (v) significant improvement in accountability and transparency of SNCC management.
- The PSDCP is also financing a portion of SNCC personnel retirement costs (US$25 million)[5] in complement of the funding proposed by the MTP. Both activities will take place at the same time under a single set of procedures as presented later in this document;
- The minimum threshold to intervene in a sustainable fashion in the reform of any the three largest transport SOEs (RVA, ONATRA and SNCC) is high (in excess of US$100 million for each of them) and requires to concentrate vast some of money, thus take significant risks, on a single SOE (US$218 million in SNCC in the case of the MTP);
- Significant financing from the Chinese line of credit is expected to flow into DRC rail system. Improving governance and management capacity in the subsector through the MTP will maximize the return of the proposed investment by promoting sound practices in investment selection and execution; and
- Success in reforming even a single transport SOE will provide the sought after momentum for the entire transport SOE reform agenda in DRC, especially as it relates to governance strengthening, as well as participate in the rapid mobilization of additional external financing, including from the private sector (mining companies in the case of SNCC).

[5] Initially, PSDCP had earmarked US$20 million for personnel retrenchment costs. This amount will be raised to US$25 million as part of an ongoing restructuring of the Project while it will be applied solely to eligible and voluntary retirees in a manner consistent with that of the MTP. Likewise, the PSDCP was supposed to cover up to 5,059 SNCC employees with the money earmarked whereas now that eligible retirees payments have been calculated, it seems that this number would be around 1,500 for US$20 million.

C. Higher level objectives to which the project contributes

27. The main goals of GRDC's transport sector reform as well as of IDA's MTP are to promote good governance and consolidate macroeconomic stability and economic growth through the rehabilitation of key transport infrastructure which, in turn, will help improve the provision of social services and reduce vulnerability of the poor. The Country Assistance Strategy (CAS) which covers the Fiscal Years (FY) 2008 through 2010 emphasizes the importance of the MTP in helping reduce obstacles to economic activity through the restructuring of key public transport sector's SOEs.[6]

II. PROJECT DESCRIPTION

A. Lending instrument

28. The MTP is a program that is embracing different transport subsectors using a common reform strategy based on establishing PPP agreements and promoting sector wide good governance. Accordingly, the MTP is funded through a Specific Investment Loan (SIL) grant. The SIL has a budget of US$255 million to be spent over five years between September 2010 and December 2015.

B. Project development objectives

29. The MTP's development objectives are: (i) to improve transport connectivity in DRC so as to support national economic integration, (ii) to restore SNCC financial and operational viability, and (iii) to implement a sector wide governance plan and strengthen transport SOEs operational performances.

C. Project key indicators

30. The key performance indicators that measure the achievement of the project development objectives are presented in Annex 3 while the overall relationship between the Project's activities, development objectives (PDOs) and outputs and outcomes indicators are presented in Figure 4.

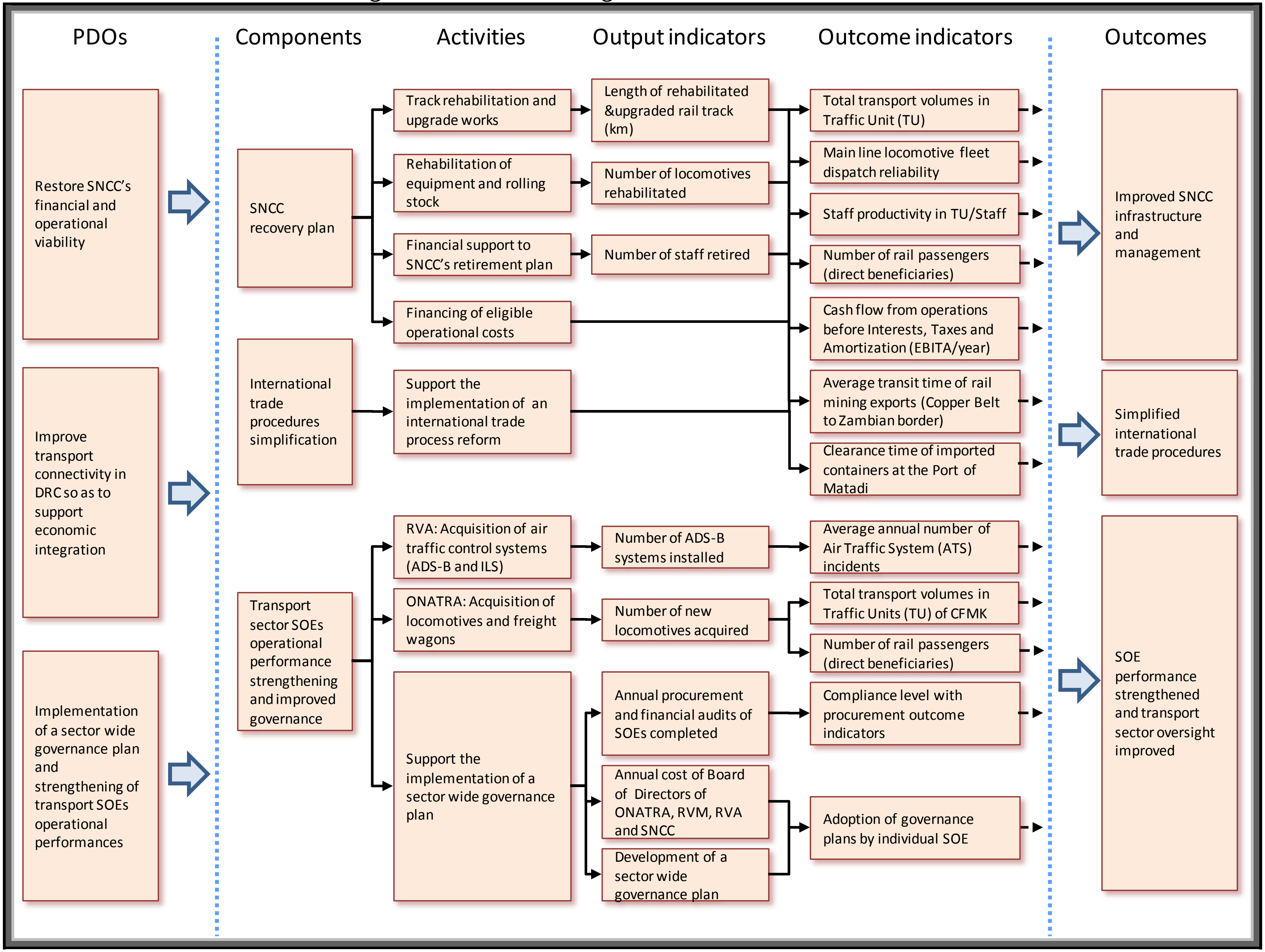
D. Project components

31. The proposed US$255 million equivalent will be allocated among the following components (see Annexes 4 and 5 for more detailed information):

- ***Component 1 (US$218.85 million) – SNCC recovery plan:*** The collapse of SNCC would have incalculable consequences on the Congolese economy, including on the potential future growth of its mining sector as its network connects DRC's copperbelt to its main export routes. Due to this urgent need for financial assistance and considering the minimal size of the intervention required to deliver sustainable results for SNCC (US$617 million), the MTP will dedicate nearly 90 percent of its funding to the SNCC

[6] CAS for DRC FY08-FY11, November 2007, p.43

Figure 4: MTP Monitoring and Evaluation Framework



Source: World Bank, 2010

recovery plan. This money will complement the US$373 million (US$200 million from the Chinese line of credit, and US$173 million from GDRC and/or SNCC) already pledged by the government towards SNCC Recovery Plan as well as the US$25 million earmarked for it under the existing PSDCP. Component 1 will support the reform of SNCC management and operations through: (i) the signature of a five year management contract with an internationally selected private operator which will replace the existing private operator hired under a stabilization contract which will be extended by a year through August 2011 before project's effectiveness to ensure continuity of private management of SNCC, (ii) payments of up to 1,675 voluntary retirees' departing indemnities and social security pension contributions; (iii) financing of track and rolling stock rehabilitation and upgrade, (iv) reimbursement of SNCC eligible operational costs (mainly fuel, electricity and water bills), (v) training of key new and existing personnel, (vi) monitoring of project's impact, (vii) funding of a study to review SNCC relationship with mining operators and development of a transparent tariff policy in support of mobilizing financing from mining companies, and (viii) funding of financial and procurements audits. Overall, US$73.35 million will be used for the rehabilitation and upgrade of almost 700 km of rail network infrastructure, US$51.05 million for the rehabilitation of equipment and rolling stock, US$54 million will be dedicated to reimburse eligible operational costs and US$20 million to support the retirement plan. The remaining US$20.45 million will cover personnel recruitment and training costs, the financing of the SNCC management contract until 2013, technical support during implementation works, audits of annual financial accounts and procurement activities as well as impact monitoring surveys for Component 1. In complement, the Chinese credit line grant of US$200 million will enable SNCC to acquire new rolling stock and railway track construction materials while the government will contribute US$44 million in support of SNCC's operating expenses. The US$104 million contribution from GDRC and/or SNCC will be used to pay the salary arrears due to SNCC employees. In addition, GDRC will contribute the equivalent of US$25 million through tax exemptions on Component 1 activities. The Chinese grant will be managed by the Ministry of Public Works through the *Agence des Grands Travaux et de la Reconstruction* who will be purchasing the equipment for SNCC under the technical leadership of SNCC.

- ***Component 2 (US$25.45 million) – Operational performance strengthening and improved governance of the sector:*** This component will: (i) finance the acquisition of urgently needed equipment for selected transport SOEs (RVM, RVA, ONATRA and RVF) in order to improve their overall performance while allowing them to devote limited internal resources towards restructuring, (ii) pay for the retirement indemnities of 77 RVF agents using an approach similar to that used for SNCC, (iii) pay for an internal diagnostic of the MoT so as to identify possible reorganizational scenarios, (iv) finance MoT's agents training and MoT equipment, (v) finance the annual audits of SOEs procurement and financial activities that will be used to strengthen from the project onset SOE fiduciary governance, and (vi) allow the development of a sector wide governance plan which will then be tailored for adoption by each individual SOE. The funds of Component 2 have been allocated as follows: US$1.80 million to the MoT, US$1.40 million to RVM, US$3.85 million to RVF, US$10 million to RVA and US$8.40 million to ONATRA.
- ***Component 3 (US$2 million) – International trade procedures simplification:*** To prepare for the implementation of international trade agreements and in light of the

ongoing study on the facilitation of international trade, the MTP will support the development of an international trade procedures simplification strategy and the associated action plan, including materials, equipments and basic infrastructure investments designed to facilitate the flow of goods along DRC main international trade transport corridors.

- ***Component 4 (US$8.70 million) – Project management:*** This final component will fund the cost of the Project Management Entity (PME) located within the MoT (*Cellule d'Exécution du Projet de Transport Multimodal*, CEPTM) in charge of the MTP. This PME will have two Project Units. The first one will be located in Lubumbashi within the SNCC and manage MTP's Component 1 (Component 4 A) while the second one will be based in Kinshasa to manage Components 2 and 3 of the MTP (Component 4 B).

E. Lessons learned and reflected in the project design

32. The MTP is designed to support and foster PPPs in the management, operations and investment of commercially viable activities currently handled by SOEs in the transport sector. As such, it draws on the experience gained in PPPs worldwide and in particular in Africa, over the last twenty (20) years. The key lessons learned in terms of PPPs, and transport PPPs in particular, are:

- Private operators and investors cannot be expected to finance all the investment needs. Indeed, in small markets like those of Africa, with few exceptions, infrastructure investment financing will be left to host governments as it usually yields a very low financial rate of return but a sizable economic one which benefit only host countries. Since African countries are usually unable to finance from their own resources their share of that investment, it is critical to identify and secure prior to establishing a PPPs the sources of such financing;
- Necessary conditions need to be met to enable successful PPPs. Besides the obvious legal settings that protect private investors, allow government divestiture of state owned assets and ensure the rule of law, preparatory steps usually need to be taken by host governments to offer attractive conditions to private operators. Most of these steps tend to center on dealing with legacy costs related to social and financial liabilities accumulated during state ownership ahead of PPPs establishment;
- In some transport subsectors (ports and airports), there is a real danger of turning public monopolies into private ones. In order to preclude this from happening, PPPs in these critical subsectors need to be carefully designed so as to enable the sharing with end users of productivity improvements. This is usually done through contractual capping and/or decrease of maximum users' tariffs over the lifetime of the PPPs;
- In transport subsectors where multimodal competition is the norm (railways and roads), careful intermodal competition rules needs to be in place to maximize the economic return for host governments of their parallel investments in both sectors but also secure necessary financial return sought after by private operators. As these rules can sometimes face resistance from the political economy underpinning a given industry (trucking), their sustainability need to be realistically assessed as part of any government PPP strategy;
- Railways, especially in low density transport markets like DRC, do play a critical public service role. However, tariff policies and regulations must be developed to differentiate

between those services that are supposed to be priced and operated as Public Service Obligations (PSO) and those which are commercially viable. In the case of SNCC, particular attention will need to be paid to establishing a tariff structure that does not cross subsidized PSO from commercial activities (mining transport) so as to ensure that: (i) the government understands the real cost of PSO imposed on the rail operator, and (ii) commercially viable activities are not constrained;

- Governance issues that exist in SOEs do not miraculously vanish once private operators take over their management. Accordingly, a robust governance agenda and a transparent system of checks and balances based on a potent regulatory framework must accompany privatization initiatives;
- Careful management of public and private expectations ahead and during PPP's implementation are key to ensuring PPP's success. Too often, lavish expectations are put against PPPs in order to "sell" them to the public and/or to governments. This approach is both dangerous and unsustainable and require a carefully crafted communication policy to avoid such pitfalls; and
- Soft issues that can affect PPP's performance such as international trade regulations, labor laws, etc. need to be duly factored in and mitigated if optimal investment yield is to be achieved.

33. These key lessons have been used in the design of the MTP which seeks to ensure that: (i) the government's share of PPPs investment burden is fully financed, (ii) SOEs legacy costs are duly dealt with, (iii) policies related to intermodal competition and soft issues such as international trade regulations are addressed, (iv) a sector wide governance plan is devised and implemented, (v) transparent rail tariff setting policy is adopted, and (iv) realistic expectations are assigned to each PPP. These same lessons have been incorporated in the government's own PPP strategy for the Transport sector which has been devised with the Assistance of the Bank and which recognizes in terms of its careful sequencing the political economy prevalent within the sector at this time (see Figure 1).

F. Alternatives considered and reasons for rejection

34. Several alternatives were considered, and rejected, when preparing the project. These are:

- **Develop separate transport subsector specific projects**: due to the intermodal nature of DRC's transport infrastructure, such approach could have hindered the development of a comprehensive strategic transport network layout. Furthermore, it would have limited the Bank's ability to assist the government in the overall reform of all its transport SOEs while such reform is based on some cross cutting themes applicable to all (social liability elimination, divestiture of non core activities in health and education, governance strengthening, etc.);
- **Spread the MTP budget more evenly among transport SOEs**: as indicated earlier, the cost of supporting any of the three largest transport SOEs will be significant. Half hearted interventions with limited budget will, therefore, not be sustainable. SNCC, as the sickest of all transport SOEs, needs a minimum of US$617 million to be salvaged. In addition, it is the SOE that enjoys the strongest overall stakeholders' support for reform (see Table 1). Accordingly, the MTP is putting its emphasis on supporting the SNCC Recovery Plan

with complementary support from the government's Chinese line of credit and the government's budget. Additionally, unlike SNCC, RVA, ONATRA and RVM are able to cover their direct costs and could finance a significant amount of their needed infrastructure investments if they were to concession some of their most attractive commercial activities such as the stevedoring activities of the Port of Matadi, N'Djili airport operations or the dredging works of the Congo River estuary.

- **Not to support the financing of SNCC social liability**: since SNCC overall social liability (salary arrears and payments to eligible retirees) is estimated to be US$189 million, it seems unwise for the MTP to finance only a small portion (US$20 million) of this large liability. On the other hand, SNCC's finances are right now crushed by the weight of its salary bill and any action, even limited in scope that can result in lowering SNCC financial breakeven point would represent a significant step towards achieving SNCC financial sustainability. In addition, under the PSDCP, IDA has already earmarked US$25 million in support of SNCC social liability which will complement the MTP money and allow the reduction of SNCC headcount by nearly 3,768 agents (eligible and voluntary retirees only), a potential annual savings in labor costs of US$14 million, or the equivalent of 22 percent of SNCC's current annual turnover.
- **Not to include a trade facilitation component in the MTP:** although this component is small in terms of its amount (US$2 million), it impacts as much the competitiveness of DRC's main international trade corridors as does its dilapidated infrastructure. Rail transport statistics presented in Annex 1 show that more than 90 percent of the transit time for mining exports is today linked to international trade procedures compliance requirements. Accordingly, there is a strong need for the Bank to be engaged as part of the MTP in a proactive dialogue with the government on the issue of trade facilitation and reform so as to maximize the return on investment of the proposed project.
- **Implement a parallel financing approach to support SNCC Recovery Plan**: this approach whereby each partner (IDA and GDRC) would have financed both works and goods was considered as it could have lowered implementation risks by ensuring that each separate intervention was self-standing. It was rejected, however, because: (i) it would have loosened the current dependence between IDA and GDRC's activities and, thus, actually increased the risk of an asymmetric implementation of the SNCC Recovery Plan, (ii) it would have weakened the possibility to foster the development of several locally owned, staffed and operated rail track maintenance companies as the Chinese credit line is tied to using only Chinese firms for works, and (iii) it would have raised the overall environmental and social risks associated by the implementation of the MTP as IDA safeguards implementation would have been limited to IDA only financed works.
- **Focus the scope of SNCC track works on the Kolwezi/Dilolo/Lobito Corridor**: Historically, the main export corridor for SNCC was represented by the rail link to Angola's Lobito port which provides a more direct access to the sea to DRC's mining exports (1,800 km from Kolwezi to Lobito versus more than 3,000 km for the other rail export corridors). However, since 1975 the Lobito rail corridor has seized to function due to the war damages that have affected the track on the Angolan side. For now several years, the Angolan government has undertaken to rehabilitate the rail line. At this time, however, many questions remain as to the potential impact that the re-opening of services would have on the flow of mining exports out of southern Congo. The most prominent questions are: (i) who will be the operator on the Angolan side knowing that the country's

railway know-how has been lost and that a new operator will need years, if not decades, to restore railway operations knowledge in Angola, (ii) with most of DRC's mining exports now heading towards Asia, is the west facing Lobito corridor still as attractive as it used to be as an export route, and (iii) what would be the modus operandi of the rail interchange between DRC and Angola rail systems. Faced with these uncertainties and also aware of the capacity, if need be, of DRC based mining firms to finance the rehabilitation on the Congolese side of the track between Kolwezi and Dilolo (border with Angola) if the Lobito rail corridor were to re-opened, the project's Team elected to concentrate the Bank's investment on other key sections of SNCC's network.

- **Transform the existing SNCC stabilization contract into a management contract before project's effectiveness:** The current stabilization contract signed between the private operator Vecturis and the government in August 2008 is financed by the Bank under the PSDCP. This US$5 million contract is a two year contract slatted to end in August 2010 whose primary purpose was to preclude the company from falling further in the red. At this time, its overall impact on SNCC operations has been positive, especially from the view point of providing for the first time in more than 15 years DRC authorities and the donors community with an accurate view of the company's challenges, potentialities as well as a bankable strategy for its recovery. This contract, nevertheless, suffers from notable limitations as: (i) it covers only the deployment of four key personnel within SNCC, (ii) it is not linked to measurable outputs, and (iii) it does not include some of SNCC key management positions such as Director of Finance or Director of Human Resources. Transforming this stabilization contract into a management contract would, therefore, require a complete redesign of its terms and scope which would expose the Bank to a significant reputational risk as it would mean sole sourcing what will be in essence a five year, US$25 million, contract. Accordingly, the Project's Team decided, following extensive internal consultations, that it would be more prudent and less risky to launch an international tender for the recruitment of a private operator under the proposed five year management contract. In the meantime, however, the current operator hired under the stabilization contract would remain in place following a one year extension of his contract to ensure: (i) continuity of private management of SNCC at all times during project implementation, and (ii) continued progress in SNCC governance. This one year extension would provide the opportunity to strengthen the number of key personnel provided by the private operator so as to ensure efficient initial implementation of the MTP.

III. IMPLEMENTATION

A. Partnership arrangements

35. The project is a partnership between the GDRC, the Bank and other cooperating partners (CPs). Though no joint financing is foreseen among CPs, most of the project's activities will be complemented through parallel ongoing CPs and/or government financing. In this framework of coordinated complementary assistance, GDRC has committed to allocate US$373 million to Component 1 as follows:

- US$200 million investment in new rolling stock and track equipment financed by the government through its bilateral line of credit with China (see Table 2);
- US$44 million from GDRC for 2010/2011 in support of SNCC operating expenses;
- US$104 million from GDRC and/or SNCC to be used to pay the balance of SNCC's social debts not paid for by IDA; and
- US$25 million from GDRC as an in kind tax exemption on Component 1 activities, out of a total of US$28 million of in kind tax exemptions on the entire project.

Table 2: SNCC Recovery Plan Support in million US$ (excl. financing of social debts)

Area of intervention	**MTP contribution**	**GDRC contribution on Chinese credit line**
Track rehabilitation and upgrade works	74	102
Acquisition and rehabilitation of equipment and rolling stock	60	98
Reimbursement of eligible operational costs	54	-
Training, management, administrative and monitoring costs	20	-
TOTAL	**198**	**200**

Source: SNCC, 2010

36. The combined US$617 million has allowed the Bank (MTP and PSDCP) and GDRC to devise a credible five year recovery plan for SNCC which will be complemented rapidly by envisioned financing support from mining firms. These firms have already expressed their willingness to invest in the railways but have been reluctant to do it until now because of their concerns regarding the quality of the company's governance and its social and financial liabilities. It is expected that the rapid implementation of Component 1 of the MTP will address these concerns and permit the mobilization of additional funds in a transparent and sustainable manner for SNCC.

37. Additionally, the Bank is closely coordinating its program with other donors such as, for example, AfDB which is planning to provide financing to rehabilitate some of RVA's airport infrastructure or the EU which is providing technical assistance to the Civil Aviation Agency and the RVF and the Belgium Cooperation which is financing some rolling stock for ONATRA's urban train in Kinshasa.

B. Institutional and implementation arrangements

38. **Implementation period:** The SIL will be implemented over a period of five years from June 2010 to December 2015.

39. **Implementing entity:** The absence of a road sub-component in the project has simplified its oversight as MoT has the sole technical regulatory authority on the rail, port and airport subsectors. Therefore, the project monitoring will be handled by MoT. However, the lack of fiduciary and project management capacity at the Ministry level requires the use of a Project Management Entity (PME), the CEPTM, that will handle the financing for all activities covered

under the MTP. This PME will have two units in order to account for the specific processing and management needs of the MTP's Component 1 versus Components 2 and 3. MTP's Component 1 will be managed in the unit of the CEPTM located in Lubumbashi where it will benefit from the procurement, financial management and technical expertise of the SNCC and its existing private operator. SNCC current private operator was recruited under a stabilization contract financed by the PSDCP which is due to expire in August 2010. As already agreed with the government, this contract will be amended and extended by a year through August 2011 using also the PSDCP financing. By August 2011, it will be replaced by a five year management contract that will be financed in part by IDA as part of the MTP. The recruitment process for SNCC management contract will be under the technical and procurement leadership of the *Comité de Pilotage de la Réforme des Entreprises du Portefeuille de l'Etat* (Piloting Committee for State-owned Enterprises – COPIREP) although the fiduciary process will rest with the CEPTM. Meanwhile, the PME unit located in Lubumbashi will be headed by a qualified external manager appointed by the government under terms and references acceptable to IDA. Its fiduciary functions, including its procurement functions, will be supported by representatives of the private operator, however, in order to benefit for their unique expertise in these critical areas as well as ensure seamless cooperation with SNCC technical and operational personnel. The Unit located in Kinshasa will be located within the CEPTM and manage the activities covered by Components 2 and 3 of the MTP. This Unit will have a lighter staffing structure than the one located in Lubumbashi as its manager and procurement experts will be able to rely on the administrative, financial and monitoring staff of the CEPTM already located in Kinshasa.

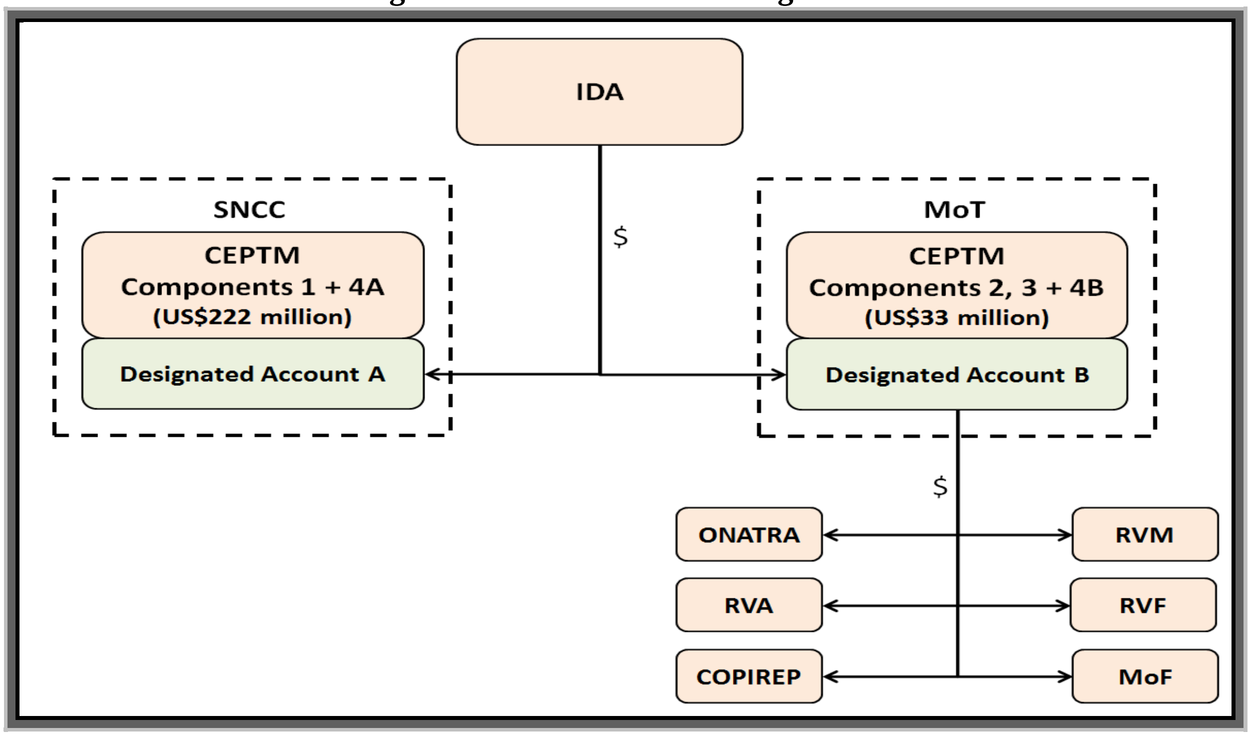
40. **Project coordination and oversight:** Since the reform of transport SOEs raises numerous cross cutting issues (social debt and outsourcing of health and education services), a Project Steering Committee (PSC) under the leadership of MoT comprising representatives from the Ministries of Finance, Plan, Health, Education, Environment and Portfolio as well as representatives from the *Groupe d'Etudes sur les Transports* (Transport Study Group - GET), the *Fédération des Entreprises du Congo* (Congolese Federation of Enterprises - FEC) and the COPIREP was established on June 15, 2009 following the joint signature by the MoT and MoP of a related decree. This PSC will ensure that the cross cutting issues generated by the project implementation are holistically addressed.

41. **Financing arrangements:** The creation of a Public Railway Investment Company (PRIC) to hold the asset titles of the equipment to be acquired under the proposed recovery plan package for SNCC will be examined. This PRIC could be the precursor of SNCC asset holding company which will be at the core of the institutional framework that will result from the concessioning of SNCC commercially viable rail services (see Figure 3). Project's Components money will be managed, however, by the CEPTM whose staff will be recruited competitively and will benefit until Project's effectiveness for its procurement activities from the assistance of the *Bureau Central de Coordination* (Central Coordination Office - BCECO).

42. **Disbursement arrangements:** The grant will be disbursed for 100 percent of eligible expenditures inclusive of taxes and consistent with the CFPs for DRC. Two designated accounts (DA) (one for each of the two CEPTM Project Units - see Figure 5) denominated in US$ will be opened in local commercial banks acceptable to the Bank. A ceiling equivalent to four months forecast expenditures under each DA will be calculated. Seven cost categories for expenses tied to specific recipient SOEs will be used as part of the Financing Agreement (FA). Up to twenty (20)

percent of the grant proceeds will be disbursed under the retroactive financing mechanism as discussed in Annex 7.

Figure 5: Disbursement Arrangements



Source: World Bank, 2010

43. **Procurement arrangements:** Works, consultants' services, and goods to be financed under the IDA credit will be procured according to the Bank's procurement guidelines dated May 2004, revised October 2006 and May 2010, in addition to the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised October 2006 and May 2010. The detailed procurement plan for the MTP was reviewed at appraisal and finalized at negotiations. Since procurement activities have been initiated since January 2010 and the Project will finance eligible operating costs for SNCC, a retroactive financing clause will be inserted in the Financing Agreement (FA) to cover up to one year before Project's effectiveness eligible costs. The retroactive financing ceiling for these costs is set at 20 percent of its value or US$51 million.

C. Monitoring and evaluation (M&E) of outcomes/results

44. Monitoring and evaluation of project results will be the responsibility of the sole CEPTM. Most output and outcome indicators selected for the Project (see Annex 3) are based on standard indicators readily available from the operating reports produced by targeted SOEs. In addition, two local non-governmental organizations (NGOs) will be hired for the monitoring of some of the project impact. One NGO will be hired to monitor the impact on direct beneficiaries of the project (number of women affected) while another NGO will be recruited to analyze the use by SNCC retirees of their retirement indemnities. Finally, one independent consultant will be recruited to

assist the government in its assessment of SNCC management contract performance using a detailed set of indicators as presented in Annex 14.

45. A quarterly reporting of project outcomes and outputs will be published by the CEPTM using a format that will be agreed upon once Project becomes effective. This report will be made available both to MoT and the Bank as well as to the larger set of MTP's stakeholders (See Annex 14).

D. Sustainability

46. A great deal of care has been taken in the design of the MTP to ensure sustainability of outcomes and results. In the case of Component 1 (SNCC), the Bank, in cooperation with the government, has devised a comprehensive investment plan designed to ensure that the impact of the MTP would go beyond simply stabilizing SNCC operations. Indeed, in order to ensure the viability of this investment, the Bank has not only agreed to complement this plan with US$45 million in financial assistance to SNCC towards the payment of its employees retirement obligations (US$20 million from MTP and US$25 million from PSDCP) but it has also accepted to finance some of SNCC operating expenses through 2012 for up to US$54 million. The expected impact on staff level of IDA's support to SNCC retirees will be a reduction through voluntary retirement of SNCC's payroll by 3,768 out of 12,300 agents by 2012.[7] In the case of SNCC operating expenses payments, the proposed sum comes in complement to a similar assistance from the government using AfDB funding (2/3 of the total) for the most part of US$18.30 million between 2009 and 2010 as well as a pledge for an additional US$44 million before June 2011. This combined assistance of more than US$128 million through 2012 reflects the painstaking cost of adjusting SNCC structural cost slowly downward while waiting for the impact of the track and rolling stock investment to raise its traffic and, thus, its revenues beyond its fixed costs after 2012.

47. Beyond the sustainability of the impact of the financing attributed to Components 1 and 2, the Bank has made sure that the overall institutional reform of the transport sector has been agreed with and committed to by the government ahead of the project's implementation. As shown in Figure 1, the government has not only formally adopted the PPP strategy for each transport SOE on December 4, 2009, but it has also formally committed itself to a detailed set of steps regarding SNCC restructuring through the adoption of a policy note on December 22, 2009 by ECOREC. The combination of these decisions along with the government's use of its own line of credit from China in complement to that of the Bank is a clear signal that transport SOE reform enjoys strong State's ownership and support.

E. Critical risks and possible controversial aspects

48. The overall risk of the project is rated high mainly because: (i) the country's fiduciary risk remains high in spite of the recent progress made in the rule of law, (ii) the political economy of the transport sector, particularly when it comes to SOE operations and management, does not favor strongly the sector reform strategy adopted in 2009 by the government (see Table 1).

[7] All the money will be used towards payment of the retirement rights of eligible retirees aged 65 for men and 60 for women or more. There will not be any financing of early retirements or furlough of SNCC's agents.

Accordingly, the project's design has taken into account, to the extent possible, these risks in order to lessen their potential impact on the project's overall implementation success.

Country and/or sub national level risks:

49. The key critical risks at the country level are as summarized in Table 3 below:

Table 3: Country Specific Risks

Risks	***Risk Mitigation Measures***	***Risk Rating with Mitigation***
Political instability and conflict resurgence	The Bank will continue to work closely with the UN and other bilateral partners to monitor the political situation and adjust its program accordingly.	**H**
Macroeconomic instability	The authorities have negotiated a new IMF PRGF program that was approved by the IMF's Board in December 2009. The program aims to enhance macroeconomic stability, fiscal space for priority spending. In close coordination with the IMF, the program will pursue its monitoring of the country's adherence to the PRGF, including the macroeconomic stability and the fulfillment of other HIPC Completion triggers. Adherence to this program is a key trigger to release of about US$10 billion HIPC debt relief and possible additional MDRI.	**S**
Deterioration of economic conditions resulting in reduced fiscal space and a contraction of social spending	See above	**S**
OVERALL RISK		**H**

50. Macroeconomic framework: The worldwide economic crisis has curtailed economic growth in DRC especially in the extractive industries. The mining production fell significantly in 2009 due to declining world copper prices. This not only reduced government fiscal revenues but also curtailed traffic demand for SNCC's transport services as lower economic growth impacted negatively overall consumption of goods countrywide. Even though this risk cannot be mitigated at the project level, it is expected that the recent rapid recovery of copper prices along with the projected strong rebound in DRC's main exports markets in 2010/11 will generate upward pressures on SNCC's transport services demand. Additionally, the positive impact expected on DRC's economic growth of the probable elimination of its foreign public debt in 2010 under the Heavily Indebted Poor Country (HIPC) program should further boost SNCC's traffic prospects.

51. Country Engagement with the Bank: Complex government structure and the weakness of the central administration result in duplication of responsibilities among the Ministries and/or local provincial governments. However, clear and transparent communication channel to the different government entities has been established through the creation of a Project Steering Committee (PSC) under the auspices of the MoT on June 15, 2009. The existence of the PSC should therefore alleviate some of the likely problems linked to intra-governmental cooperation.

Sector governance, policies and institutions

52. Reform agenda: Political, financial and social consequences of the transport sector reform agenda have not yet been assimilated by decision makers. Accordingly, the possibility of SOEs' reforms to slow down or be reversed is real. The ongoing inspection panel on past IDA funded SOE personnel retrenchment plans could also negatively impact necessary SOE staff reduction strategies albeit, in the case of SNCC, no layoffs or early retirements of staff are planned, only eligible retirees who take voluntary retirements will received Bank's financial support. Overall, the political and financial costs of doing nothing, though, still exceed by far the cost of reform. The government is fully aware of the matter and has realized that a global approach on cross cutting issues such as staff retrenchment, SOEs cross debts and divestiture of social and health services provided by SOEs is required to allow the sector's reform to go forward. Nevertheless, as shown in Table 1, the pace of the reform agenda will inevitably differ from SOE to SOE and could even, in some cases, be stalled by vested interest groups. Accordingly, the risk of the partial implementation of the SOE reform agenda will remain high during the course of the project implementation.

53. Governance: SOEs in all sectors of the economy are a vector for corruption and are at the heart of powerful political influence networks. Key laws to regulate the management of SOEs were adopted in 2008. The implementation of stabilization contracts managed by private operators at three of the four largest transport SOEs (RVA, ONATRA and SNCC) since mid 2008 has somewhat weakened the capacity of SOE public managers to influence sector policies while reducing revenue leakages. However, until the SOEs acquire a commercial status, private operators' management freedom will continue to be constrained by undue political interference and one-sided employment conditions that favor impunity among corrupt personnel. Annex 14 details MTP's governance issues and proposed mitigations measures.

54. Financial management risk: The financial management risk which is a combination of inherent and control risk is essentially fiduciary, that is the risk of misuse of Bank's funds. To mitigate this risk which is **Substantial**, a robust financial management arrangement system is proposed in Annex 7. To ensure this system continues to operate well during the project's life, two on-site supervision missions will be carried out in addition to on-desk review of IFRs, audit reports and timely advice to the Task Team on all FM issues.

55. The key critical risks at the project implementation level are as summarized in Table 4 below:

Table 4: Project Risk Analysis

Risk factors	*Description of risk*	*Rating of risk*	*Mitigation measures*	*Rating of residual risk*
Design and sustainability	Proposed MTP investment in SNCC is only half of what is necessary to turn around the company.	**H**	The government's commitment to allocate an additional US$373 million will allow SNCC to realize the remaining (not covered by MTP) rehabilitation works and rolling stock acquisition. In addition, capacity to mobilize additional sources of financing from Donors or private operators will greatly improve as soon as IDA project is underway since proper conditions will then exist through the recruitment of a private operator under a management contract to operate SNCC assets.	**H**
Cost escalation	DRC is not a very competitive market for infrastructure works and costs tend to escalate rapidly in light of limited local construction companies capacity	**H**	Current international crisis has lowered considerably the costs of raw material, thus limiting the upward pressure on overall costs. Likewise, only about 20 percent of all planned investment will relate to construction activities. The rest, or 80 percent, will be linked to acquisition of material and equipment whose costs is well known and unlikely to rise significantly within the next year (all equipment and material will be tendered in 2010).	**S**
Implementation capacity	Transport Ministry oversight capacity is very weak, even with internationally staffed Project Management Entity (PME).	**H**	Railway component which amount for nearly 90 percent of project outlays is already managed by a professional private operator under an IDA funded Stabilization Contract. This contract will be extended by one year to enable the transparent recruitment of a private operator under a management contract who will have, like the current private operator, an in depth knowledge of World Bank financial and procurement procedures.	**S**
Social and environmental safeguards	The environmental and social safeguards may not be complied with.	**S**	All planned works are targeting rehabilitation of existing infrastructure and will not involve expansion of the said infrastructure. Furthermore, Environmental and Social Framework for the Sector already exists and will be used to mitigate all planned works social and environmental impact.	**M**
SOEs' social liabilities	Government cannot finance the social liabilities	**H**	Bank support to social liabilities is risky as shown by experience with Gécamines. The government has committed as part of the project to liquidate all outstanding social liabilities over five years starting in March 2011 (see see legal covenants in section F, paragraph 6.2).	**S**
SNCC's commercial liabilities	SNCC's assets are at risk of being seized because of ongoing lawsuits	**H**	The government will develop and adopt plans for the legal protection of assets and for cross-debt annulment between SOEs. In addition, the government will prevent any action that might affect the financial/operational recovery of the company (see legal covenants in section F, paragraph 6.2).	**H**
OVERALL RISK		**H**		**H**

H- High; S-Substantial; M-Moderate; L-Low

56. IDA's support to SNCC retirement plan bears high risks for the following reasons:

- **It covers nearly 30 percent of SNCC existing workforce:** through 2015 5,168 of SNCC existing 12,300 employees will be eligible for retirement. If all the eligible retirees were to decide to voluntarily take their retirement once they have reached retirement age (60 for women and 65 for men), SNCC's personnel skills set might be critically affected unless SNCC is able to launch ahead, and in parallel, of this wave of retirements a recruitment and training program that it currently cannot afford. While the MTP has earmarked up to US$5 million to try to mitigate the negative impact of this retirement peak, it is clear that unless SNCC recovery plan delivers the expected financial surplus by 2013, the company will not be able to finance on its own the continuation of this initial, and crucial, recruitment/training plan.
- **It is costly and can only be financed partially by IDA:** as shown in Table 5 below, SNCC social liability is today estimated at US$189 million. This figure is only an estimate as the certification of employees' debt is currently under way (expected completion by the end of 2010) and it will be reduced by the value of the housing assets transferred to SNCC employees in 2006/2007 whose value is estimated at US$40 million. Nevertheless, it gives a good idea of the daunting size of SNCC known social liability. Since IDA can only finance a portion of this existing liability, it must ultimately rely on the government to find solutions to finance its unfunded portion as the PSDCP and MTP will only allow SNCC to pay the departing indemnities and social security pension contributions of the 3,768 employees which are and will be eligible for retirement through mid-2012. The departing indemnities of employees eligible for retirement after mid-2012 will be covered by SNCC and/or GDRC.

57. In order to mitigate the significant risks attached to its support to SNCC's social liability issues and clearly delineate the boundary of its intervention, IDA has elected to do the following:

- It will only finance departing indemnities, including missing contribution to DRC's social security system, owed to employees eligible for retirement who have elected to take voluntary retirement in accordance with the agreement signed between SNCC management and its Unions on May 26, 2009 and amended on February 13, 2010;
- It will only finance the departing indemnities of eligible retirees whose retirement account and salary arrears sums have been certified by an independent auditor;
- It will not finance the salary arrears of any SNCC employees, eligible for retirement or not. The responsibility to finance these arrears and any other debt will be the responsibility of SNCC and GDRC; and
- It has tied its financing of departing indemnities to: (i) the issuance of a legal opinion from the Ministry of Justice in addition to one received from the Ministry of Labor received by the Bank on March 17, 2010, certifying that the agreement signed between SNCC management and its Unions is conforming with DRC's labor laws, and (ii) the payment of SNCC's outstanding social debts not covered by the Bank, by GDRC and/or SNCC before the end of 2015 (the first payment for 20 percent of SNCC total social debt, net of IDA payments, is due by no later than March 31, 2011).

Table 5: SNCC's Estimated Social Liability at the end of March 2010 (million US$)

	Number of employees	Total			Bank funding (PSDCP+MTP)			SNCC and/or government funding		
		Departing indemnities	Salary arrears*	Total liabilities	Departing indemnities	Salary arrears *	Total	Departing indemnities	Salary arrears	Total liabilities
Eligible for retirement at the end of 2009	2,498	27	23	50	27	0	27	0	23	23
Eligible for retirement between 2010 and mid-2012	1,270	18	13	31	18	0	18	0	13	13
Cumulative subtotal due by mid-2012	**3,768**	**45**	**36**	**81**	**45**	**0**	**45**	**0**	**36**	**36**
Eligible for retirement between mid-2012 and the end of 2015	1,400	23	14	37	0	0	0	23	14	37
Cumulative subtotal due by the end of 2015	**5,168**	**68**	**50**	**118**	**45**	**0**	**45**	**23**	**50**	**73**
Eligible for retirement after 2015	7,132	n.a.	71	71	0	0	0	n.a.	71	71
Sub Total	**12,300**	**68**	**121**	**189**	**45**	**0**	**45**	**23**	**121**	**144**
Estimated value of salary arrears already paid for through transfer of housing assets	6,000	n.a.	40	40	n.a.	n.a.	n.a.	n.a.	40	40
Grand Total	**12,300**	**68**	**81**	**149**	**45**	**0**	**45**	**23**	**81**	**104**

* Status March 2010. The total figure of salary arrears reported by SNCC is US$121 million. The sub-categories were extrapolated based on this figure. The value of the housing titles transferred to 6,000 employees in return of no payment of salary arrears was estimated to be US$40 million.

58. Based on the above analyses, the overall project risk is rated as **High**.

F. Grant conditions and covenants

6.1 The conditions for effectiveness of the IDA Grant (above standard effectiveness conditions as specified in the General Conditions)

59. Effectiveness conditions above and beyond standards conditions are:

- The SNCC Subsidiary Agreement has been executed on behalf of the government and SNCC;
- The government has modified the order establishing the CEPTM under terms of reference satisfactory to IDA, and has appointed the following staff to the Project Unit for Component 1 of the Project (SNCC recovery plan) within the CEPTM to assist in managing Component 1 of the Project all under terms of reference and with qualifications and experience satisfactory to IDA: a Project Unit manager and experts in administration and finance, accounting, procurement, and monitoring and evaluation;
- The government has caused the CEPTM to adopt an Administrative, Financial, Accounting and Procurement Manual (AFAPM) in a form and substance satisfactory to IDA; and
- The SNCC Stabilization Contract has been modified under terms satisfactory to IDA.

6.2 Legal covenants

60. The following legal dated covenants will be applicable:

- The government shall by not later than December 31, 2011 adopt a governance plan under terms satisfactory to IDA and immediately thereafter take all measures and provide sufficient resources to implement said plan in a manner satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said plan without the prior written agreement of IDA;
- The government shall cause RVA, RVF, RVM, ONATRA and SNCC to respectively adopt by not later than June 30, 2012 the tailored governance plans under terms satisfactory to IDA and immediately thereafter take all measures and provide sufficient resources to implement said plans in a manner satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said plans without the prior written agreement of IDA;
- The government shall by not later than December 31, 2010 hire Individual External Financial and procurement auditors for RVA, RVM, ONATRA and SNCC and an external financial auditor for the CEPTM under terms and conditions and with qualifications and experience satisfactory to IDA;
- The government shall cause RVA, RVF, RVM, ONATRA and SNCC by not later than January 1, 2013 to maintain for the remainder of the implementation of the Project the expenses related to their respective Board of Directors at or below the rate of 0.5 percent of the annual turnover of their respective companies;
- The government shall throughout the implementation of the Project avoid, and shall cause entities under its authority to avoid, taking any action or omitting to take any

action which might jeopardize the financial and operational viability of RVA, RVF, RVM, ONATRA and SNCC;

- The government shall ensure that RVA, RVF, RVM, ONATRA and SNCC do not, throughout the implementation of the Project, enter into arrangements or contracts (including employees promotions and salary increases) that could materially and/or adversely affect the ability of RVA, RVF, RVM, ONATRA and SNCC to perform any of their respective obligations under the Project Agreements and/or affect their financial viability, unless otherwise agreed in writing with IDA;
- The government shall adopt by not later than December 31, 2011 a national plan for the cross-debt annulment of the State-Owned Enterprises, including RVA, RVF, RVM, ONATRA and SNCC, under terms and conditions satisfactory to IDA and shall cause said agencies to implement the plan thereafter;
- The government shall cause SNCC by no later than December 31, 2011 to enter into a management contract with a private operator under terms and conditions satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said contract without the prior written agreement of IDA;
- The government shall maintain and carry out the SNCC Stabilization Contract until such date as the private operator and SNCC shall have signed the management contract under terms satisfactory and conditions satisfactory to IDA and shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said contract without the prior written agreement of IDA;
- The government shall provide, promptly as needed, the funds, facilities, goods, services and other resources required for the Project and shall allocate by not later than October 31, 2010 the necessary resources in its annual budget for the purpose of the Project. Without limitation to this, the government shall:
  a) Open and maintain an account by not later than September 15, 2010 (the Counterpart Account) in a commercial bank on terms and conditions satisfactory to the Bank;
  b) Promptly thereafter, and by no later than September 30, 2010 make an initial deposit into the Counterpart Account, in an amount equivalent to US$22 million and by not later than June 30, 2011 in an amount equivalent to US$22 million to finance the Recipient's financial contribution to the Project; and
  c) Ensure that amounts deposited into the Counterpart Account shall be used exclusively to finance expenditures made or to be made by SNCC in respect of reasonable cost of works, goods and services for the Project.
- No disbursement in support of SNCC can occur until the government has provided evidence satisfactory to IDA that SNCC has adopted a legal asset protection plan for its rolling stock, satisfactory to IDA and consistent with the DRC law;
- The government shall cause SNCC to carry out SNCC Retirement Plan Agreement under terms satisfactory to IDA and shall ensure that SNCC shall not suspend, amend, abrogate, waive or otherwise modify, whether in whole or in part, any of provision of said agreement without the prior written agreement of IDA;
- No disbursement in support of SNCC can occur until (i) a first installment for the payment of departure indemnities and social security pension contributions of all SNCC eligible voluntarily departed retirees' as of the Effectiveness Date, unless the government has provided evidence satisfactory to IDA that the salary arrears, departure indemnities and social security pension contributions and any outstanding SNCC social debt of these retirees have been fully accounted and certified, under

terms and conditions satisfactory to IDA, by an independent auditor under terms and conditions satisfactory to IDA; and (ii) subsequent quarterly installments for the payment of departure indemnities and social security pension contributions of additional SNCC eligible voluntarily departed retirees unless the government has provided the same type of evidence as under paragraph (i) above;

- The government shall cause SNCC to carry out by not later than March 31, 2011, a plan for the liquidation of the SNCC salary arrears and social debt, not financed with the financial assistance of IDA, for all its employees and voluntarily departed eligible retirees as of December 31, 2010, under terms satisfactory to IDA. To this effect, the government shall:
  a) By not later than January 31, 2011 or any other later date agreed with the Association, adopt the report, prepared under terms satisfactory to IDA, by an independent auditor, hired under terms and qualifications and experience satisfactory to IDA, certifying the amount of salary arrears and outstanding social debt owed by SNCC to its employees and voluntarily departed retirees of SNCC as of December 31, 2010, under terms satisfactory to IDA;
  b) Unless otherwise agreed with IDA, by not later than March 31, 2011, March 31, 2012, March 31, 2013, March 31, 2014 and March 31, 2015 deposit or cause SNCC to deposit the sum equivalent to twenty (20) percent of the certified amount referred to paragraph (a) above in a commercial bank account, under terms satisfactory to IDA, and thereafter promptly pay or cause SNCC to promptly pay the pro rata amounts to each employee of SNCC and each of the voluntarily departed retirees of SNCC on account of salary arrears and outstanding social debt not financed by IDA in accordance with DRC's law;
  c) If SNCC anticipates by not later than February 28 of any year throughout the implementation of the Project that it will be unable to make the payments referred to in paragraph b) above, it shall take all measures to alert the government and IDA in due time so as to enable the government to make sufficient provisions to ensure the payment in due course.
- The government shall cause RVA, RVF, RVM, ONATRA and SNCC to prepare and implement by not later than December 31, 2011 and throughout the implementation of the Project an HIV/AIDS prevention and treatment program under terms and conditions satisfactory to IDA;
- Within three months of effectiveness, the CEPTM will have appointed under terms of references and qualifications acceptable to IDA one internal auditor and one accountant located in the Project Unit based in Kinshasa and one Internal Auditor for the Project Unit located in Lubumbashi;
- Within three months of effectiveness, the CEPTM will have acquired and installed under terms of references acceptable to IDA an accounting software;
- The overall FM system will be maintained operational during the entire project duration;
- The CEPTM will maintain staff satisfactory to IDA at all times during Project's implementation;
- Retroactive Financing of up twenty (20) percent or US$51 million will be provided for payments made within one year prior to the date of the Project's Financing Agreement but on or after June 30, 2009 for eligible Project expenditures;No disbursements in favor of ONATRA can occur until such time that: (i) ONATRA has adopted the reform strategy note, and (ii) has signed a legally binding Subsidiary

Agreement with the government under terms and conditions for both documents that are satisfactory to IDA;

- No individual disbursement in favor of RVM and/or RVF and/or RVA can occur until such time that each company has signed a legally binding individual subsidiary agreement with the government under terms and conditions satisfactory to IDA;
- No disbursement in support of RVF retirement plan can occur until the salary arrears for the employees of RVF have been fully accounted, certified and paid by RVF, or alternatively by the government, to RVF employees and voluntarily departing eligible employees pursuant to the RVF Recovery/Retirement Plan in accordance with DRC's laws and has been duly authorized or ratified and is legally binding upon the government and RVF in accordance with its terms;
- The government shall cause SNCC to establish by not later than March 31, 2011 and thereafter maintain an Environmental Unit throughout implementation of the Project, with terms of reference, composition and resources satisfactory to IDA, responsible for the coordination and follow-up activities related to managing the environmental and social impacts of SNCC activities and safety of the SNCC railway transport network; and
- The government shall carry out and cause RVA, RVF, RVM, ONATRA and SNCC to carry out the Project in accordance with the provisions of the Environmental Management Plan (EMP), the Environmental and Social Impact Assessment (ESIA), the Resettlement Action Plan (RAP), the Indigenous People Plan (IPP), as the case may be, under terms and conditions satisfactory to IDA and, except as IDA shall otherwise agree, the government shall not amend, abrogate, or waive, or permit to be amended, abrogated, or waived, the aforementioned, or any provision of either one thereof, without the prior written agreement of IDA.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

61. Regarding Component 1 of the MTP (SNCC recovery plan) the tangible financial and economic benefits of the proposed activities were evaluated. From a financial standpoint, SNCC recovery plan is expected to allow the company to record positive Earnings Before Interest, Taxes and Amortization (EBITA) starting in 2013 while reducing its average tariff by about 10 percent by 2015 compared to 2010. Additionally, strong personnel productivity gains, estimated to be threefold, between 2010 and 2015 will strengthen its long term financial performance and reduce the risk of a reversal in its financial performance. More importantly, the economic gains expected from a rehabilitated SNCC railway network were estimated to be over US$1.2 billion over a 20 years period or a 19.5 percent Economic Internal Rate of Return (EIRR). This figure was found to be quite robust, always reaching more than 12 percent, under alternative scenarios using lower copper prices, higher investment costs or lower transport tariff differences between road and rail.

62. Components 2 and 3 involve activities within several SOEs in different transport sub-sectors which constitute only a small part of a larger transport system. It was, therefore, not possible to calculate one overall or an individual EIRR for these Components as one of the proposed investments participated wholly to a sub-sector overall productivity gains. Nevertheless, the economic benefits generated through the activities supported by Components 2

and 3 were empirically determined to be significant with a clear potential to generate positive impacts on both DRC's average transport costs and transport connectivity.

B. Technical

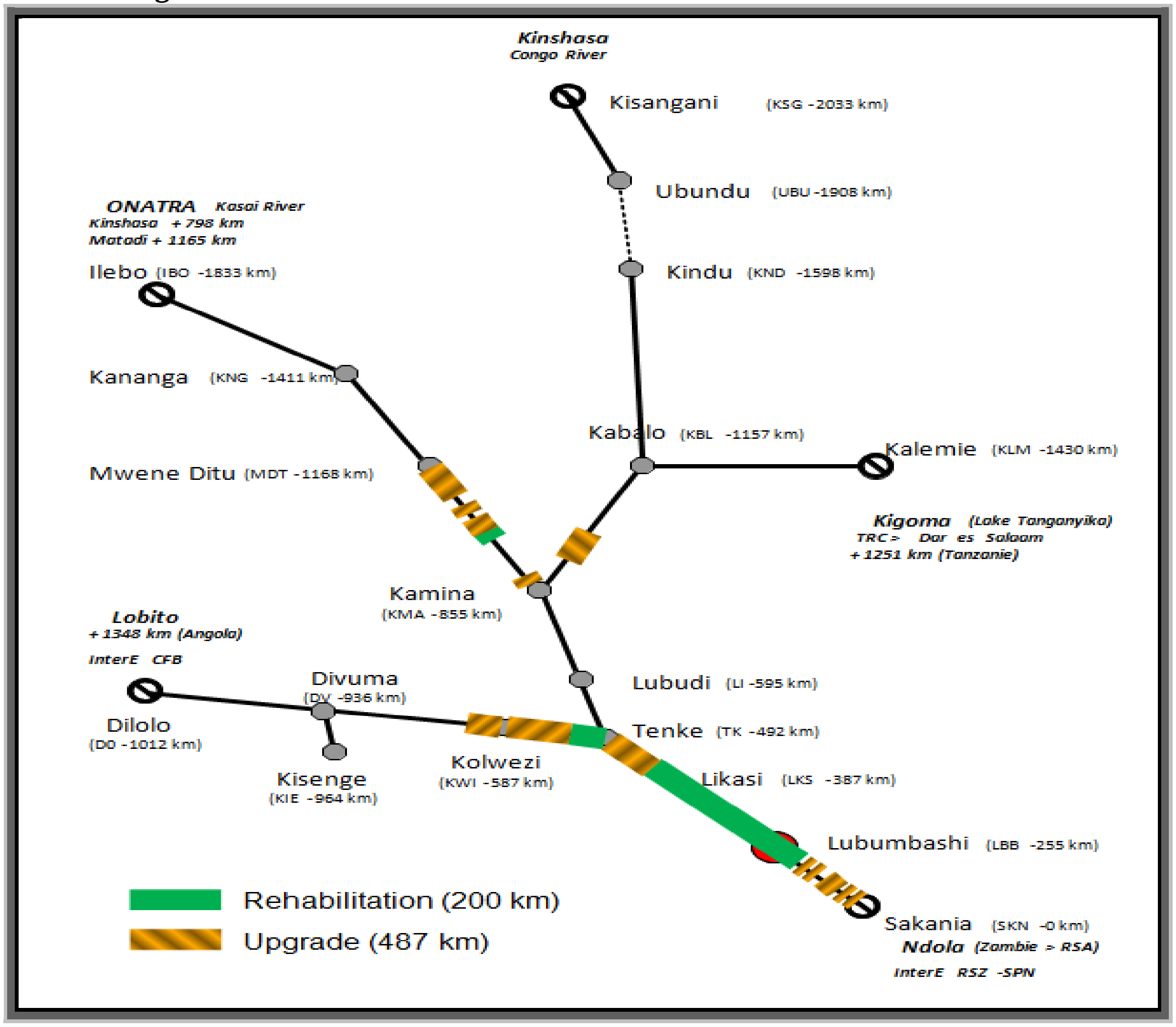
2.1 MTP Component 1 – *SNCC recovery plan (US$218.85 million)*

63. Under Component 1, 200 km and 487 km of SNCC rail track will be rehabilitated and upgraded, respectively. Rehabilitation of engineering structures and earthworks will be implemented on the whole network where necessary. The main works will be implemented on the sections between the copper producing zone (in the area of Kolwezi and Tenke) and Sakania at the Congolese border with Zambia (see Figure 6) as well as between Kamina and Kabalo and Kamina and Mwene Ditu so as to preserve and strengthen SNCC North/Central and East network sections connectivity. No investment on the Kolwezi to Dilolo section of the network have been planned for now, as uncertainties remain in terms of the timing and conditions of re-opening of the Benguela rail line in Angola (Kolwezi to Lobito corridor).

64. The works will be supervised by SNCC. Well established construction and maintenance standards will be employed under the project. The engineering designs will build on Bank best practices from Cameroon (Camrail) and Madagascar (Madarail) rail projects. Additionally, SNCC's current private operator will assist the Ministry of Public Works who will be purchasing the equipment for SNCC through the *Agence des Grands Travaux et de la Reconstruction* in the definition and acquisition process of the rolling stock and track equipment which will be financed under the government's Chinese line of credit in order to ensure technical consistency of both IDA and GRDC investment programs.

65. Staff retirement financing (US$20 million) will be carried out in complement to that already to be financed under the PSDCP (US$25 million). The Bank will not finance, however, salary arrears. Only eligible retirement indemnities will be financed under the project assuming proper guarantees from GDRC have been provided to SNCC employees on salary arrears payments. Total estimated staff which will benefit from MTP retirement payment rights, through 2012, is around 1,675.

Figure 6: Location of SNCC Track Renewal and Rehabilitation Works



Source: World Bank, 2010

66. A set of studies and analyses will also be financed under this Component. The study to review SNCC relationship with mining operators, including the pricing of its services and the development of a strategy based on a transparent and equitable framework to mobilize their investment in both rolling stock and infrastructure will be of utmost importance. Likewise, the financing of consultancies to assist SNCC improve its financial and procurement practices will be financed.

2.2 MTP Component 2 – *Operational performance strengthening and improved governance of the sector (US$25.45 million)*

67. Component 2 will cover primarily the acquisition of key equipment for RVA, RVM, ONATRA and RVF to strengthen their operational performances and make them, ultimately, more attractive under foreseen PPPs. In the case of RVA, both investment and training will be geared towards strengthening RVA capacity to manage and increase the reliability and safety of its air traffic system through the provision of air traffic control equipment (Automated Dependent Surveillance–Broadcast - ADS–B; and Instrument Landing System - ILS) and training of its air traffic controllers. ONATRA, on the other hand, will benefit from much needed

new rolling stock (five locomotives and 20 flat wagons) in order to renew its capacity to compete effectively on the Matadi/Kinshasa freight corridor and increase transport connectivity along the multimodal West/East corridors of Matadi/Kinshasa/Ilebo/Lubumbashi and Matadi/Kinshasa/ Kisangani. This investment, however, is tied to the production and adoption of a recovery plan by GDRC for ONATRA which is satisfactory to IDA. Finally, RVM and RVA investment will assist both SOEs in making river navigation on the Congo River and its tributaries safer for boat operators along the preceding corridors as well as the North/South corridor from Kisangani to Lubumbashi. This investment will target primarily river markings and navigational aids in areas not already targeted by other Donors such as the European Union and complement the SNCC investments as they will be focused on riverways connected to SNCC network.

68. Additionally, Component 2 will assist the government in developing a robust governance plan for the transport SOEs (see Annex 14) as well as take the necessary steps to implement it. Since the actual implementation of the governance plan is not expected until 2012 as the change in SOE status into commercial enterprises will need to occur before such plan can be devised so as to take into account the new organizational structure and management procedures that will be borne from it, a set of preventive measures geared towards improving quickly governance at existing SOEs will be financed by the MTP. These will include, but will not be limited to, external auditing of procurement activities, adherence to stringent procurement monitoring indicators and capping of the costs of SOEs' Board of Directors.

2.3 MTP Component 3 – *International trade procedures simplification (US$2 million)*

69. Component 3 will support the MoF in defining a strategy and develop an action plan, including materials, equipments and limited infrastructure investments to facilitate the flow of goods at the border crossing served by DRC main transport corridors. This investment, albeit small in value, will help increase the impact and rate of return of the MTP infrastructure investment as well as promote improvement in the overall business environment in DRC.

2.4 MTP Component 4 – *Project management US$8.70 million*

70. Component 4 will finance the operating and auditing expenses of the CEPTM.

C. Fiduciary

71. <u>Procurement issues:</u> Procurement will be carried out in accordance of with the World Bank's " Guidelines Procurement under IBRD Loans and IDA Credits" dated May 2004, revised October 2006 and May 2010; and " Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised October 2006 and May 2010. "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants". World Bank's Standard Bidding Documents (SBDs) will be used for procurement of goods and civil works under International Competitive Bidding (ICB). For National Competitive Bidding (NCB), the procedures and the bidding documents for goods and civil works will be reviewed and agreed by the Bank.

72. All procurement activities will be carried out by the CEPTM Project Units located, respectively, in Kinshasa and Lubumbashi. The CEPTM is the implementing agency of the MoT. The Project Units will be staffed with Procurement experts who will lead its Procurement Activities. Due to the size of the procurement works to be carried out under the MTP, these

procurement experts will be complemented by assistants in both Kinshasa and Lubumbashi. These assistants will provide substantive inputs to the procurement team on project activities in their respective locations. Each procurement expert will lead the procurement processing, provide on the job training to other procurement staff (including any other officers assigned by the MoT and SNCC), and set up similar and acceptable to the Bank procurement system in their respective Project Unit of the CEPTM. They will also (i) reinforce the integrity and internal review of the procurement process and (ii) develop and strengthen capacity within each Project Unit, the MoT and the SNCC. Until such time when the CEPTM Project Units become staffed with the required procurement officers, the BCECO will continue to manage the MTP procurement process under the existing agreement. Overall, the procurement risk is rated as high.

73. With respect to Component 1 of the MTP, the procurement plans for the Bank funded part of the SNCC recovery plan and the government financed part (based on a Chinese credit line) have been established in parallel and are based on the same principles. The procurement plan of the government part of the recovery plan has been submitted to the Bank for review and to guarantee consistency and the best use of the government funds. It is based on estimates of well known unit prices for equipment and goods, which have been compared to similar acquisitions in other countries under Bank funded projects.

74. Financial management issues: The financial management (FM) arrangements for the MTP have been designed in consideration to OP/BP 10.02 which describes the overall FM Bank policies and procedures. Accordingly, the FM system of the MTP must be capable of: (i) correctly and completely recording all transactions related to the project; (ii) facilitating the preparation of regular, timely and reliable financial statements; (iii) safeguarding the project's assets; and (iv) can be subject to auditing diligences as required by the Bank. The arrangements also aim at facilitating disbursements and ensure effective use of MTP's resources while using the country's own systems to the extent possible.

75. An assessment of SNCC was carried out in October 2009 to check whether this SOE could manage Component 1 of the MTP. The assessment revealed significant weaknesses, mainly the following: (i) SNCC has a negative net worth, (ii) it has accumulated 39 months of salaries arrears, (iii) it has 1,380 litigations pending in various courts of Justice of the DRC whose estimated cost could reach US$208 million, and (iv) it is virtually insolvent. Due to this situation and the weak FM system in place, it was concluded that the SNCC was currently not in a position to manage Bank's funds.

76. The FM risk after mitigation measures is deemed substantial mainly because of the above weaknesses.

77. Going forward and in order to mitigate the fiduciary risk to the extent possible, a PME was established by a Ministerial Order on 2/16/2010 forming the CEPTM. The CEPTM will manage the investment operations of the MTP. The Order establishing the CEPTM will need to be amended in order to reflect the extended scope of responsibility bestowed upon the CEPTM as well as the establishment of two separate Project Units within the CEPTM.

78. On that basis, the FM system of the project will run as follows:

- The CEPTM financial management team will be headed by a qualified and experienced Expert in Administration and Finance supported by one for each of the two Project Units. These individuals will be selected or have been selected using terms de reference acceptable to the Bank and will be hired prior to Project effectiveness for the Project Unit Located in Lubumbashi and within three months of Project Effectiveness for the accountant for the Project Unit located in Kinshasa. The Expert in Administration and Finance based in Kinshasa has already been hired;

- A financial management procedures manual will be prepared (first draft available) and will be adopted prior to project effectiveness;
- A computerized accounting system will be acquired and will be implemented in the two Project Units (Kinshasa and Lubumbashi) not later than three (3) months following the Project's effectiveness;
- Within three months of Project effectiveness, an internal audit unit will be established within the CEPTM. This internal audit unit will be headed by an Internal Auditor recruited competitively to ensure that the project's fiduciary and operational procedures and regulations are adhered to. The Internal Auditor will be supported by an additional Internal Auditor based in Lubumbashi. The Internal Auditors' reports will be submitted to the coordinators and the Project Steering Committee including the MoT;
- Quarterly un-audited Interim Financial Reports (IFR) will be prepared and submitted by each Project Unit to the International Development Association (IDA) within 45 days after the end of each quarter; and
- The annual financial statements of each Project Unit will be audited by one experienced audit firm which will be selected on terms and conditions acceptable to IDA. The audit reports for the CEPTM will be submitted to IDA no later than six (6) months after the end of each calendar year.

79. ***Disbursements***. Disbursements will be made for 100 percent of eligible expenditures inclusive of taxes in line with the approved the Country Financing Parameters for DRC. It should be noted that in the case of some expenditure categories, as defined in the Financing Agreement, the MTP will benefit from exemptions on taxes on turnover, import rights and all applicable import taxes and fees as per the Ministerial Decree 003/CAB/MIN/FIN2004 adopted by the government on March 29, 2004. If approved by the Board, up to 20 percent or US$51 million of the financing will be disbursed under the retroactive financing mechanism and will be provided for payments made within one year prior to the date of the Project's Financing Agreement but on or after June 30, 2009 for eligible Project expenditures. To facilitate project implementation, two DAs (one for each CEPTM Project Unit) denominated in US dollars will be opened in local commercial banks on terms and conditions acceptable to IDA. An initial advance up to the ceiling of the DA will be made into each designated account and subsequent disbursements will be made against submission of Statements of Expenditures or records. Disbursements from the IDA grant will be transaction-based disbursements. The Statement of Expenditures disbursement will be used at the project effectiveness and thereafter, the option to disburse against submission of quarterly un-audited Interim Financial Reports (also known as the Report-based Disbursements) could be considered subject to the quality and timeliness of the IFR submitted and the overall financial management arrangements as assessed in due course.

80. The option of disbursing the funds through the direct payment, reimbursement or special commitment methods on contracts above a pre-determined threshold will also be available.

81. The project will be supervised on a risk-based approach. FM supervision will focus on the status of the FM system to assess whether the system continues to operate well and provide support where needed. Detailed FM and disbursement arrangements are discussed in Annex 7.

D. Social

82. Social benefits: The expected social benefits of the proposed project include reduced tariffs, improvements in the safety and quality of transport services, savings in travel time for people and goods, particularly for mining and agricultural products and financial assistance to voluntary retirees of SNCC and RVF. In addition to traditional mobility benefits, the project may increase labor market options for workers (both men and women) in central, south and eastern DRC, create income generating opportunities and diversify land use patterns. Ultimately, the project will contribute to reducing social conflicts and induce peace.

83. Participation/Consultation/Communication: The design of the project was deeply anchored in a participatory process with the major stakeholders. Project preparation involved several consultations: meetings with national government officials, meetings with provincial government (municipality) officials, meetings with SNCC management and meetings with SNCC unions. As a result of the participatory process, all key stakeholders endorsed the project.

84. Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS): The targeted SOEs will be able to rely for their HIV/AIDS program on the national HIV/AIDS coordination program already in place. This will be especially important as each SOE will be expected to develop and/or strengthen its own HIV/AIDS prevention and treatment program under the MTP. The national program will work with the Focal person in the line Ministry in conjunction with the persons assigned to this task in the PME in order to strike the right balance. The project monitoring and evaluation framework will include HIV/AIDS specific M&E indicators to anticipate any challenge with non compliance with the objectives.

E. Environment

85. The MTP does not involve the construction of new infrastructure but rather the rehabilitation of existing rail alignments. An operational railway network will contribute to reduce the environmental impact of long haul road transportation in DRC and will save as much as 157 million liter of diesel fuel and prevent the production of 419,800 tons of CO_2 emissions over a 20 years period. In addition, the project will include support for specific environmental management activities aimed at strengthening the capacity of SNCC to manage environmental and social impacts, and to ensure the safety of the rail transport network, including: (i) establishment of an Environment Unit in SNCC, (ii) physical measures to improve the safety of the track, and (iii) updated regulations, procedures, technical assistance, training and equipment to help SNCC meet international standards for the transport of hazardous materials and worker safety.

F. Safeguard policies

86. The project is categorized at level B as the Environmental Assessment (OP/BP 4.01), Indigenous Peoples (OP 4.10), Physical Cultural Resources (OP/BP 4.11) and the Involuntary Resettlement (OP/BP 4.12) policies are triggered.

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	[X]	[ ]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[X]	[ ]
Pest Management (OP 4.09)	[ ]	[X]	[ ]
Physical Cultural Resources (OP/BP 4.11)	[X]	[ ]	[ ]
Involuntary Resettlement (OP/BP 4.12)	[X]	[ ]	[ ]
Indigenous Peoples (OP/BP 4.10)	[X]	[ ]	[ ]
Forests (OP/BP 4.36)	[ ]	[X]	[ ]
Safety of Dams (OP/BP 4.37)	[ ]	[X]	[ ]
Projects in Disputed Areas (OP/BP 7.60)[*]	[ ]	[X]	[ ]
Projects on International Waterways (OP/BP 7.50)	[ ]	[X]	[ ]

87. As construction activity will be limited to the rehabilitation of existing rail alignments, no significant environmental and social impacts are anticipated. Nevertheless, because of the geographic and sectoral scope of the project, a transport sector Environmental Management Framework (EMF) and Resettlement Policy Framework (RPF) have been prepared and finalized (disclosed in-country on 12/31/2009, and at the InfoShop on 1/21/2010). These will guide the preparation of appropriate safeguard instruments for specific subprojects, including Environmental Assessments (EAs), Environmental Management Plans (EMPs), Indigenous People Plans (IPP) and Resettlement Action Plans (RAPs) if and when required.

88. Railway line inspections were carried out during project preparation by a safeguard specialist on the sections of the track where rehabilitation works are slated to take place (between Kolwezi, Tenke, Lubumbashi and Sakania), although final exact portions of track to be rehabilitated and/or upgraded will be confirmed in late 2011 once works bids have been received and evaluated as changes in track equipment and works will affect the final selection of track sections to be rehabilitated and/or upgraded. Inspections between of the remaining track sections targeted for future upgrade works between Kamina and Mwene Ditu and Kamina and Kabalo will be carried out once the railway operator has confirmed which portion of these sections are likely to be upgraded. Ongoing discussions also took place with local and central government. This has laid out the foundation for implementing any of the above mentioned safeguard instruments. Implementation of these instruments, however, will be tied to final selection of the rail section that will be upgraded and rehabilitated, all in accordance with the Bank's safeguards policies, including OP4.12 on Involuntary Resettlement.

89. While the railway sections that may be rehabilitated by the project generally do not traverse areas where there are large concentrations of Pygmy populations, certain sections traverse through areas that may include Pygmy communities. The Borrower has prepared an Indigenous People Development Framework (IPDF). Once the sites of the rail rehabilitation to

[*] *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

be financed by the project have been determined, an Indigenous Peoples Plan may be prepared as necessary, per the requirements of OP 4.10.

G. Policy exceptions and readiness

90. The Project readiness has been assessed to be satisfactory as the preparations to meet the Project's effectiveness conditions are well advanced:

- **SNCC Subsidiary Agreement:** The government has received from IDA sample Subsidiary Agreements in order to facilitate the signing of the agreements with all concerned SOEs, including SNCC;
- **CEPTM staffing:** Discussions regarding the appointment of the non already appointed CEPTM staff will be completed before the end of June 2010 while their recruitment is expected to occur before the end of August 2010.
- **AFAPM:** The Bank has already been provided with a draft version of the manual and the final version will be completed and accepted by IDA by no later than late July 2010; and
- **SNCC Stabilization Contract:** The current SNCC Stabilization Contract will expire at the end of August 2010. Discussions regarding its amendment between the government and the private operator have already started and it is expected that an agreement will be found by no later than the end of June 2010.

91. The project complies with all applicable Bank policies and there is no policy exception sought for this project.

Annex 1: Country and Sector Background
Democratic Republic of the Congo: Multimodal Transport Project

1. Country Background

1. Despite its rich endowments in natural resources and the dynamism and entrepreneurship of its population, the Democratic Republic of Congo (DRC) has been affected by a series of economic and political crises since its independence. These crises have culminated in the late 1990s and early 2000s in several years of devastating conflict. Today, DRC is one of the poorest countries in the world, with a per capita gross domestic product (GDP) of about US$180 (2008). Although significant progresses have been made over the last five years, DRC's political, economic and social challenges remain daunting.

2. The physical and social devastation caused by decades of mismanagement and conflict is extreme. Likewise, the living conditions of most of the 64.2 million Congolese are dire, and the sharp deterioration of DRC's social indicators over the last twenty (20) years jeopardizes the prospects for Africa as a whole to make decisive progress towards the Millennium Development Goals (MDGs). Today, the contrasts are stark between the southern and western sections of the country where the rule of law has been reestablished and the eastern part of the country where extreme violence and urgent humanitarian needs persist.

3. DRC's political environment remains complex and the regional stakes are high, with seven out of DRC's nine neighbors having experienced a major conflict over the last decade. The security situation in the eastern provinces has improved but remains fragile. The democratically-elected government has been in place since early 2007 but decision-making has sometimes been slow, leading to delays in carrying out needed reforms. The next presidential elections are planned for 2011. In March 2009, the government and the key rebel group, "the National Congress for the Defense of the People (*Congrès National pour la Défense du Peuple*, CNDP)" signed an agreement to integrate rebel combatants into the national army. The national authorities have since regained control of most of the territory and its borders, although the *Forces démocratiques de libération du Rwanda* (FDLR) and the Lord's Resistance Army (LRA) remain a source of insecurity for civilians in the Kivus region and the Orientale Province. The disarmament and reintegration program remains a challenge with significant budget costs. In October 2009, an inter-ethnic dispute in the northwestern part of the country (Equateur province) triggered an armed conflict that displaced large numbers of people; the regular army, supported by United Nations Mission in DRC (MONUC),[8] gained control of the main cities; but the situation remains volatile, as another incident occurred in early April 2010 in the provincial capital of Mbandaka. Security-related challenges, thus, continue to weigh on the central government and DRC's economy.

4. Severe governance problems and corruption continue to hamper DRC's development prospects. Corruption remains widespread and is taking a heavy toll on public service capacity to deliver key services. DRC is ranked 171 of 180 countries by Transparency International (2008 Corruption Perceptions Index). Corruption in DRC is largely a legacy of the Mobutu era of rapid enrichment and impunity. At the higher level, it has been aggravated by the conflict and political transition, during which the lack of a strong executive prevented the imposition of effective

[8] In French, *Mission de l'Organisation des Nations Unies en République Démocratique du Congo.* MONUC's peacekeeping mandate is expiring at the end of May 2010, and the Government is demanding MONUC's withdrawal within a period of 18 months, ahead of the next presidential elections planned for mid 2011. A UN Security Council resolution reviewing MONUC's mandate is expected in mid-May.

sanctions while many high-level officials tried to rapidly take advantage of their positions in a context fraught with uncertainties. At the lower level, the problem is compounded by the extremely low level and still irregular payment of government employees' salaries. There is a consensus that unless decisive action is taken in this area, DRC might not be able to break the current cycle of poverty and conflict.

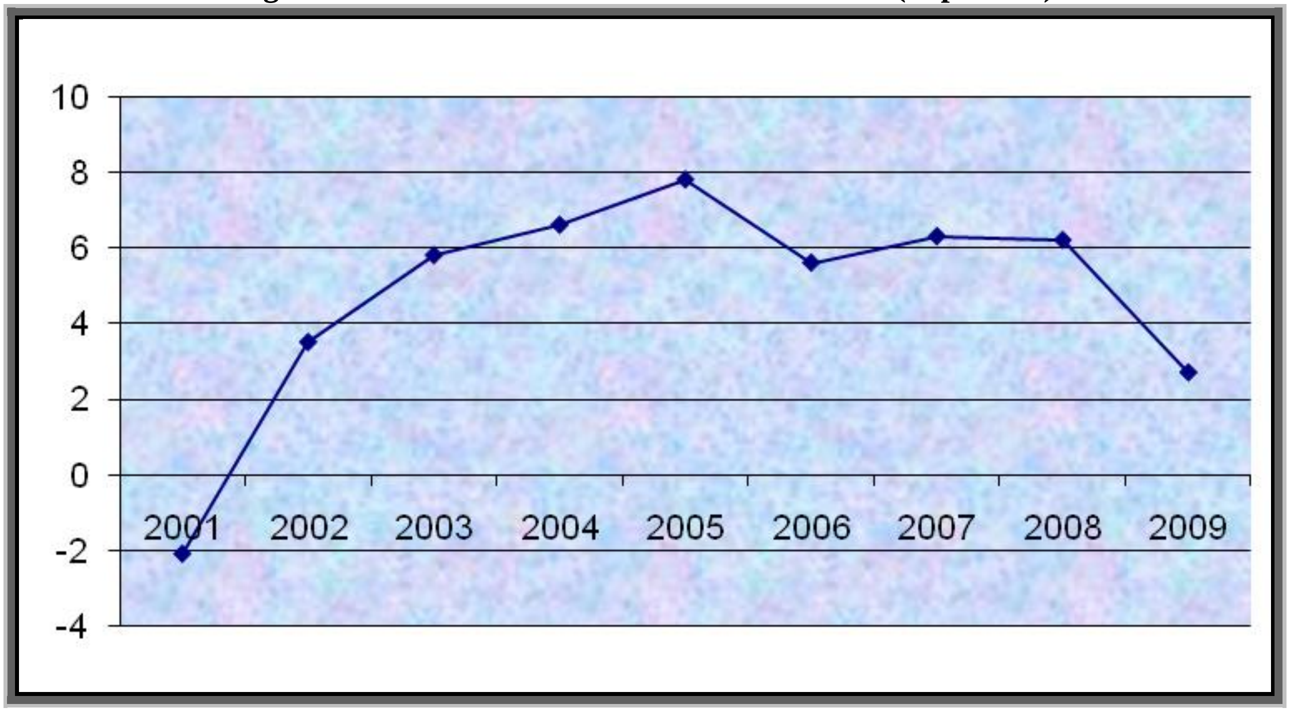
5. On an economic level, the consequences of the 2008 international economic crisis have had a negative impact on the Congolese economy following six years of consecutive strong annual GDP growth rates averaging six percent (Figure 1). The negative impacts of this crisis started to be felt by the Congolese economy in the third quarter of 2008 and only abated by mid-year 2009. Current forecasts predict that the economic growth rate in 2009 will be at 2.8 percent (see Annex 1 for more details).

6. The downturn of 2008/2009 was mainly caused by a sharp reduction in mining export volumes and values as a consequence of the international economic crisis. Lately, however, an encouraging recovery of mining exports has been observed, mainly due to a sharp recovery of copper prices on the world's markets (US$7,500/ton in January 2010 versus a low of US$3,750 in April 2009). Due to the expected continued recovery of the world economy and the consecutive demand in mining products, DRC's GDP growth rate is predicted to accelerate to 5.4 percent in 2010 and reach about 7.0 percent both in 2011 and 2012.

7. DRC's macroeconomic policies were tightened in 2009. A new three-year arrangement under the Extended Credit Facility (ECF) was approved by the Executive Board of the International Monetary Fund (IMF) on December 11, 2009. The program performance through the end of 2009 appears to have been satisfactory, with all quantitative benchmarks have been met. Although there had been delays on the structural reform front, all structural benchmarks under the program were implemented by the end of April. There had also been progress in implementing the HIPC Completion Point triggers. If all goes as planned, IMF Board consideration of the first review of the ECF arrangement and HIPC Completion Point under HIPC should take place in July 2010.

8. The main sectors of economic activity in 2008 were wholesale and retail trade (30 percent), the extractive industries (24 percent) as well as agriculture and forestry (19 percent). The contribution of the manufacturing industry has been very low (1.8 percent) and the one of the water and energy sector was even negative (-1 percent). The downturn from 2008 to 2009, however, has mainly been caused by lower quantities of mining exports as a consequence of the international financial crisis and the subsequent collapse of key mining products prices (see Table 1). Lately, however, a certain recovery of this sector has been observed, mainly due to increasing copper prices on the world markets reaching again US$5,500 per ton in July 2009 (after having dropped to US$2,700 in October 2008).

Figure 1: DRC - Real GDP Growth 2001to 2009 (in percent)



Source: World Bank, 2010

Table 1: Real GDP Sector Growth in 2007 – 2009 (in percent)

Sector activity	2007	2008*	2009*
Agriculture, forestry, livestock, hunting and fishing	3.3	3.0	3.0
Extractive industries	2.5	11.4	-12.5
Manufacturing industries	5.1	2.7	0.8
Electricity and water	1.8	-4.9	0.0
Construction and Public works	5.4	3.8	4.3
Trade and commerce	13.1	12.3	9.0
Transportation and telecomm.	10.9	8.4	9.0
Market services	6.9	4.8	4.4
Non market services	6.2	4.2	3.2
GDP growth	**6.3**	**6.2**	**2.7**

Source: DRC authorities
(*) Preliminary

9. After a deceleration of the inflation during the second quarter of 2009, the latter has resurfaced in July reaching 2.68 percent in August against minus 0.69 percent in June. This effect results from the monetary expansion due to treasury deficits of the banking system. The annual inflation rate is expected to reach 50 percent in 2009 against 28 percent in 2008.

10. Overall, the country's economic situation will remain fragile for the foreseeable future. Even if one assumes a six percent average economic growth rate going forward, it would take until 2029 for DRC to regain its 1990 GDP per capita. The government should strive to contain inflation and avoid exchange rate depreciation, and generally maintain macroeconomic stability through prudent monetary and fiscal policy. It could help revive economic activities by improving the security situation, and by providing a stable and transparent regulatory and legal environment to encourage private investors to come in. In the short to medium term, the mining sector is expected to be the main engine of economic growth although providing a nurturing environment for the agricultural sector development is likely to be critical to ensure that the future benefits of the country's economic growth reach its poorest members.

2. Transport Sector Background

Role of the sector in the economy

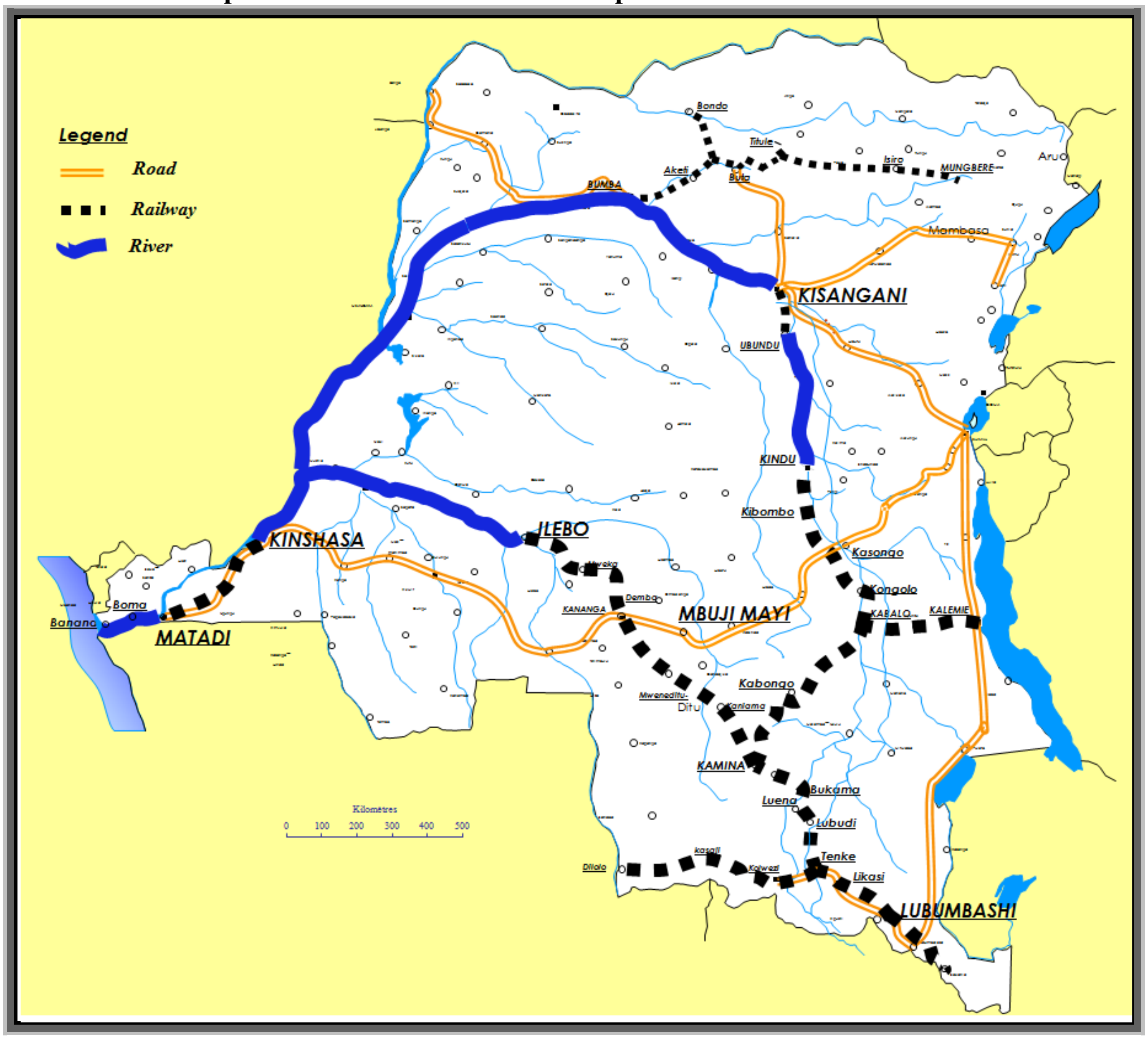
11. The development of the transport sector in DRC is a major element of the government's policy towards economic growth and poverty reduction. This sector is a key enabler in increasing agriculture sector output, improving internal and external trade competitiveness, supporting mining sector growth and combating the economic malaise that affects isolated communities. Unfortunately, the transport sector is currently experiencing a deep crisis due to the recent civil unrest but also because of chronic mismanagement and corruption by the government officials appointed to manage its state-owned enterprises (SOEs). Consequently, the sector's performance is currently limiting GDRC's ability to achieve its short and medium term economic growth goals.

12. Today, the bulk of DRC's territory is inaccessible. Out of ten provincial capitals, only one is connected by road (Matadi) with the capital city Kinshasa while three are only accessible by river (Mbandaka, Kisangani and Bandundu) and six only by air (Kananga, Mbuji-Mayi, Lubumbashi, Kindu, Goma, Kisangani and Bukavu). Communication between these capitals and other provincial centers as well as access to rural areas is often not possible. Since national unity and economic stability are the GDRC's two top priorities, improving the transport sector's performance constitutes de facto a vital goal for GDRC.

Key companies active in the transport sector

13. The transport sector in DRC reflects the variety and the immensity of the Congolese countryside as it relies on an intermodal network of transport infrastructures. Indeed, the sector is based on four main sub-networks of roads, railways, airports, and interfaced maritime and river ports (see Map 1). These sub-networks are operated and maintained by public and private actors, who provide either formal or informal transport commercial activities.

Map 1: DRC's Main Surface Transport Infrastructure Network



Source: World Bank, 2010

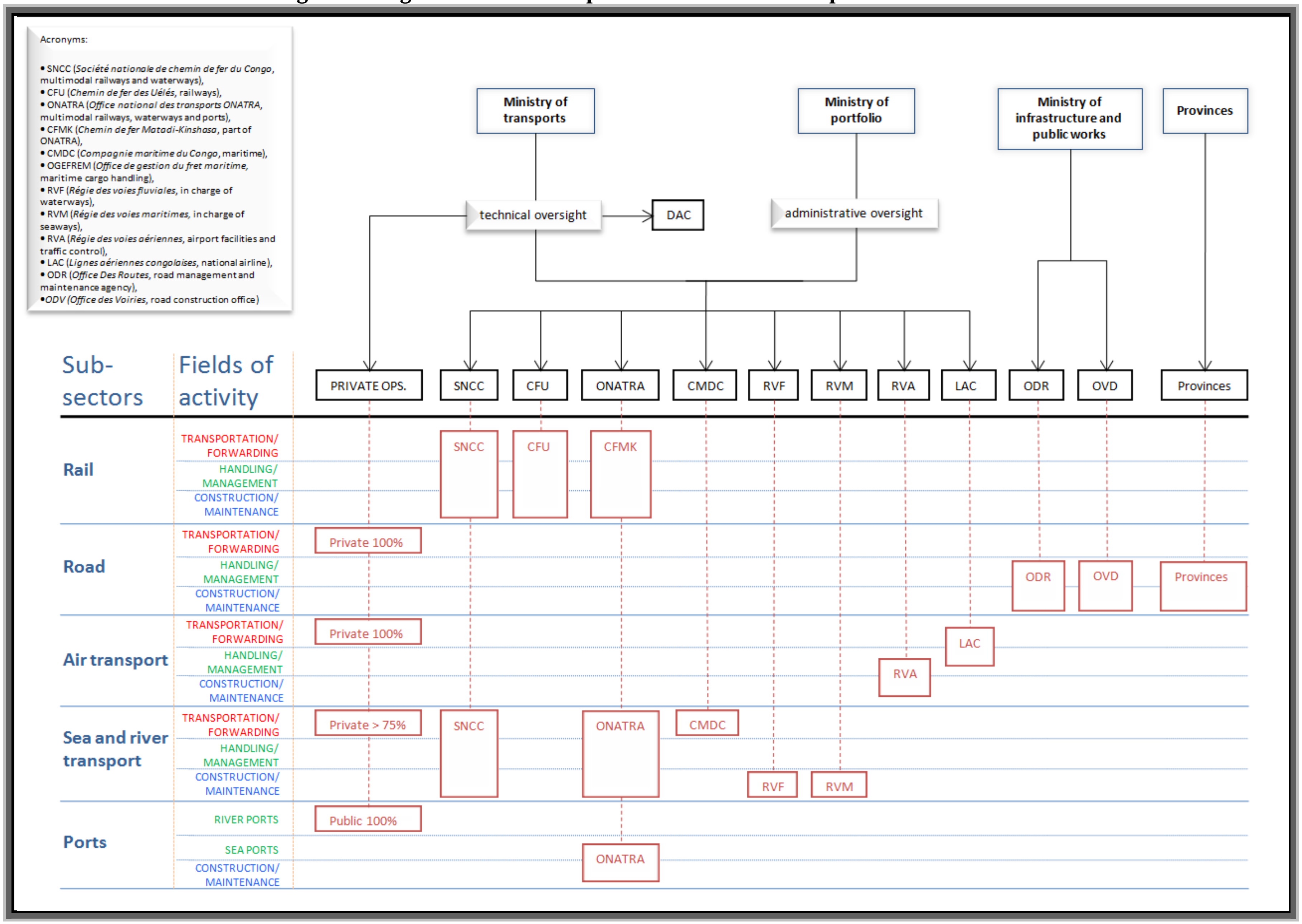
14. In all the largest transport companies of DRC either by employment, assets value or simply turnover, however, are SOEs. Their domination of the transport sector is both at the heart of the problems as well as the solutions facing the sector. The transport activities managed by SOEs generated an estimated annual turnover of about US$300 million in 2008, or about 2.6 percent of the country's GDP. This figure represents, though, only a fraction of the economic weight of the sector as it does not account for the share of the informal sector and the privately organized part of the formal sector for which reliable information is not available. The real economic weight of the transport sector is thus estimated to be more than likely in the 5 to 10 percent range of DRC's GDP.

15. The most prominent companies in the transport sector are as follows (alphabetical order):

- ***Chemin de Fer des Uélés*** **(Uélés Railway – CFU)** is a rail network (currently not operational) in the north-eastern part of DRC, from Bumba to Mungbere, serving Aketi, Isiro and Bondo;
- ***Direction des Voies de Désserte Agricole*** **(Directorate for Agricultural Feeder Roads – DVDA)** is the parastatal agency which manages and maintains secondary and rural roads with the support of the RVF and the participation of local communities;
- ***Office des Routes (*****Road Management and Maintenance Agency – OdR)** manages and maintains the national and regional roads of the country. This agency is structured around work brigades present throughout the country, which ensure the maintenance of the network and the control of road works;
- ***Office National des Transports*** **(National Transport Office – ONATRA)** is the National Agency for Transportation. It plays a key role in maritime transport (maintenance, management and operation of port facilities, including cargo handling), river transport (management of port facilities on all rivers and on Lake Mai-Ndombe, river transport services) and rail transport (investment, management of infrastructure and operation of the *Chemin de Fer Matadi Kinshasa* (Matadi to Kinshasa Railway - CFMK) and of the Urban Railway of Kinshasa;
- ***Régie des Voies Aériennes*** **(National Airways Management Agency – RVA)** is the parastatal enterprise in charge of airport facilities and air traffic control. It manages and maintains the main airport facilities and manages DRC's air traffic. These tasks are supplemented by the ones of the *Direction de l'Aviation Civile* (Directorate of Civil Aviation – DAC), which manages about 50 second class aerodromes and is responsible for enforcing security and safety standards within the aviation and airport industry in line with international standards set by the International Civil Aviation Organization (ICAO);
- ***Régie des Voies Fluviales*** **(National Waterways Management Agency – RVF)** is the parastatal enterprise in charge of riverways. It is responsible for dredging and mapping watercourses for the upper section of the Congo River and its tributaries, from Kinshasa to Kisangani as well as to Ilebo;
- ***Régie des Voies Maritimes*** **(National Marine Ways Management Agency – RVM)** is the parastatal enterprise in charge of seaways. It is responsible for developing and maintaining the navigational route of the lower section of the Congo River from Matadi to the ocean; and
- ***Société Nationale des Chemins de Fer du Congo*** **(National Railway Company of DRC – SNCC)** is the national railways company of DRC. It plays a key role for rail, fluvial and lake transportation in the south-eastern parts of DRC.

16. All the largest transport companies of DRC either by employment, assets value or simply turnover are SOEs. Private operators of transport infrastructure or transport services play, nevertheless, an important role in the sector as exemplified by the no less than fifty private airlines that are registered in the country. However, most of these operators are small, undercapitalized, and escape any type of technical or economic regulations because of the informal nature of their business operations. Figure 2 below provides a mapping of the sector's stakeholders and operators which illustrates its complexity.

Figure 2: Organization and Responsibilities in the Transport Sector in DRC



Source: World Bank, 2010

Description of the transport networks and the main activities of the sector

River transportation:

17. The port/maritime sub-sector is organized around three ports with sea access – Matadi, Boma and Banana – which are located in the mouth of the Congo River (see Map 1 above). The port of Matadi is the largest of the three and accounts for 95 percent of total traffic (about 2 million tons in 2007)[9], most of which is linked to the economic activity of the Bas Congo and Kinshasa regions. DRC's river network is extensive with about 16,238 kilometers of navigable waters and lakes. Consequently, the Congo River and its tributaries provide a vital, lowest cost, transport access to most of DRC's hinterland. Both rail and road networks are built for the most part in connection and complement of the river network The largest part of DRC's river transportation services is provided by small, informal, private operators for which activity statistics do not exist.[10] However, it is obvious that these operators play a critical role in connecting the various economic centers of the country. For instance, in 2007, ONATRA's river ports alone recorded traffic of 240,000 tons of cargo and 221,452 passengers, mostly in Kinshasa and Kisangani. Such figures suggest that total traffic on DRC's river system is more than likely well in excess of a million ton a year which is both significant and highlights the key role played in the national economy by this mode of transport.

Road transportation:

18. In the setting of DRC's multimodal transport network, roads play an essential connectivity role. Even though road transport services are mainly provided over short distances due to the low quality and density of the road network, they contribute largely to national and international trade and provide essential rural access connections. Road transportation, like river transportation, is mainly provided by hundreds, if not thousands, of informal private operators. Since no data is available for these operators, it is impossible to estimate the volumes they transport or their turnover, yet it is plainly obvious that their operations are critical to the good functioning of the national economy. In the copperbelt region, about 900,000 tons or 65 percent of the overall mining imports and exports were transported by road in 2009.[11]

19. The core road network covers the entire country (152,400 km) and can be divided into three categories:

- Out of 58,385 km of national roads, only 2,801km are paved. The paved sections of the network can be mainly found along the Matadi-Kinshasa-Lubumbashi corridor (RN1). In 2006, two million tons are estimated to have been transported on the sole Matadi-Kinshasa road corridor, the busiest road section in the country.
- 86,615 km are (rural access roads or roads of local interest); and
- 7,400 km are urban roads.

[9] ONATRA, *Rapport Annuel Exercice 2007*
[10] CICOS reports to be currently setting up a statistical river port database.
[11] Source: SNCC, 2010

20. Only 5 to 10 percent of these roads are in fair to good condition, the rest is impassable, stripped from all signaling and in need of rehabilitation. Moreover, most of the high-priority roads currently look like poor tertiary roads and motorized traffic, except for two wheelers, is often impossible.

Railways:

21. DRC has three separated railway networks with a total length of 5,000 km. The estimated total freight volume transported by rail in 2008 was estimated to be one million tons translating into about 420 million ton-kilometers:

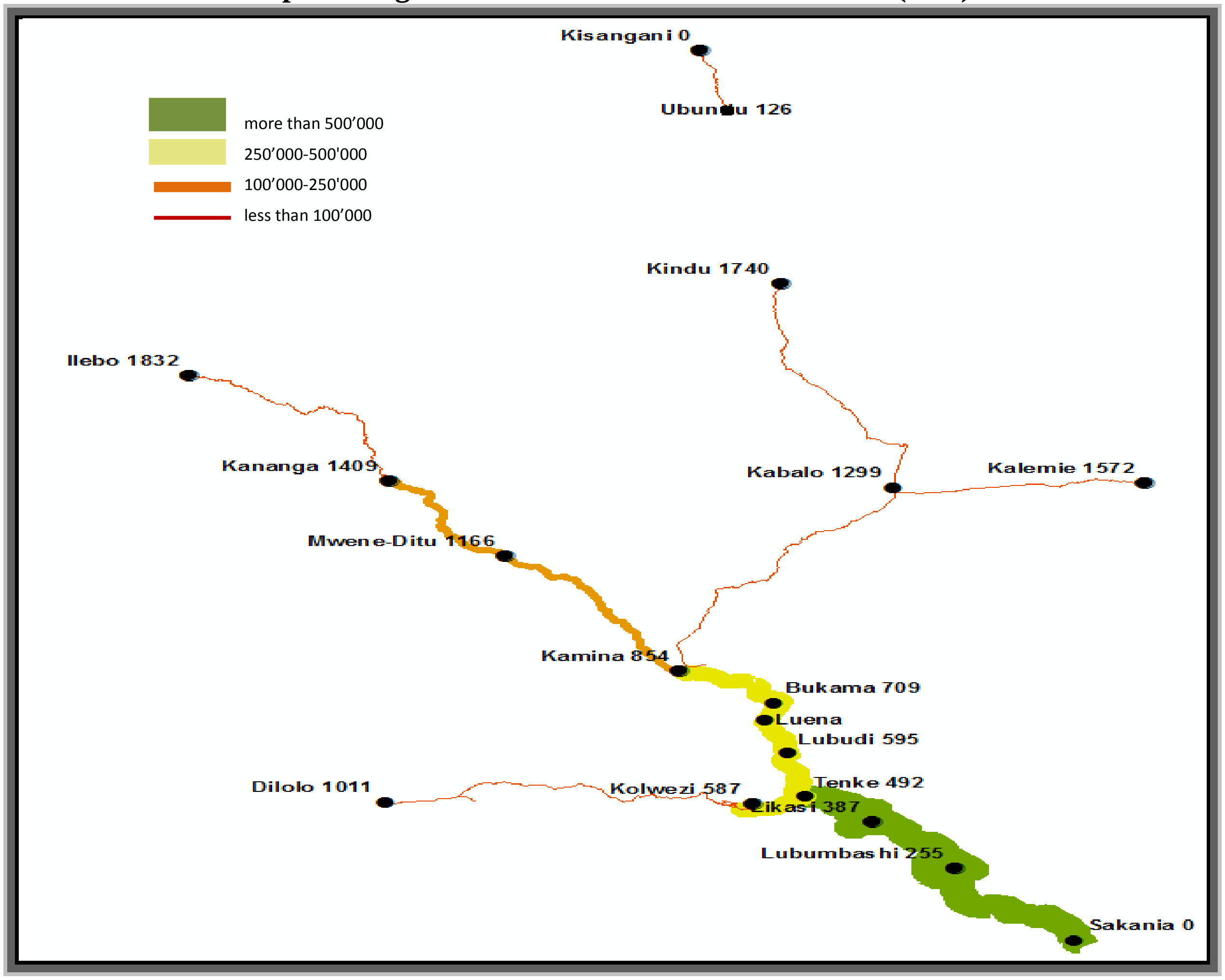
- CFMK is an entity of ONATRA and operates a 366 km long track from Matadi to Kinshasa linking the country's main port to the capital and the navigable section of the Congo River. In 2007, CFMK carried around 150,000 tons of freight and 1.5 million passengers (including the Kinshasa urban commuter train *Chemin de Fer Urbain*) translating into about 60 million ton-kilometers;
- The SNCC railway network in the south-east of the country is the largest in DRC (3,641 km) and part of the only integrated railway network in sub-Saharan Africa (SSA). On this interconnected system, goods can be transferred by rail from DRC via Zambia to the ports of Durban in South Africa and Dar-es-Salaam in Tanzania. In 2008, SNCC carried 900,000 tons of freight and 170,000 passengers resulting in the equivalent of 360 million ton-kilometers. In 2009, though, SNCC expects its transport volume to reach only 218 million ton-kilometers – 90 percent below the peak volumes attained in 1975. Ninety percent of the overall freight traffic is carried on the section between Kolwezi, Tenke, Lubumbashi and Sakania (see Map 2) and is mainly linked to mining traffic in relation with DRC's Copperbelt activities. SNCC plays a crucial role in the expansion plans of the mining industry because the roads cannot absorb the total amounts of the projected production increase.
- CFU is a 1,026 km long 0.6 m gauge line in the north of DRC (linking the Kilo Moto gold mines to the Congo River). It is currently not operational.

Air transportation:

22. DRC's air transportation prevails as the best means to connect some secluded regions to the country's capital and is currently vital to domestic trade. The country has a total of 270 public and private airfields, only five of which are international airports – namely Kinshasa, Lubumbashi, Kisangani, Goma and Gbadolite. In 2009, 50 private airlines were registered in DRC.

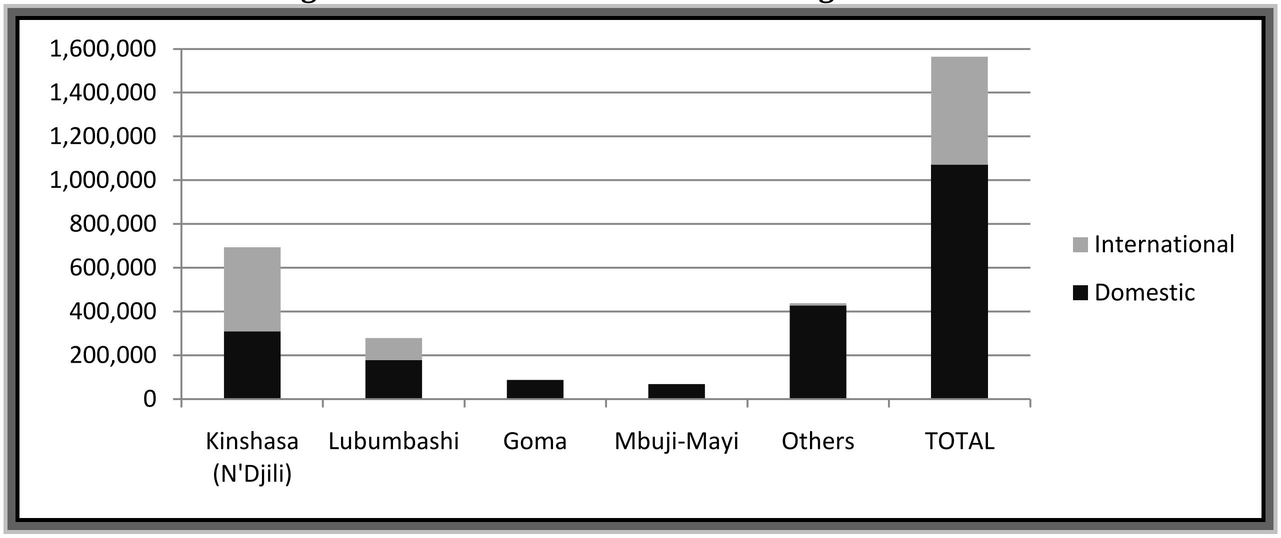
23. In 2008, almost half of DRC's total airline passenger traffic took place at Kinshasa's N'Djili airport (44 percent) and about 80 percent of DRC's international air passengers landed or took off from there (see Figure 3). A significant part of international passengers at the airports of Lubumbashi and N'Djili in Kinshasa are actually travelling between the two cities but avoiding Congolese airlines due to their poor safety records. These passengers either connect in Nairobi or in Johannesburg. The total annual number of airline passengers at DRC's main airport N'Djili more than doubled during the past ten years from 268,000 in 1999 to 694,000, while country-wide this number reached 1.5 million passengers in 2008 (one million domestic passengers).

Map 2: Freight Traffic Volumes of SNCC in 2008 (tons)



Source: World Bank, 2010

Figure 3: Annual Number of Air Passengers in 2008

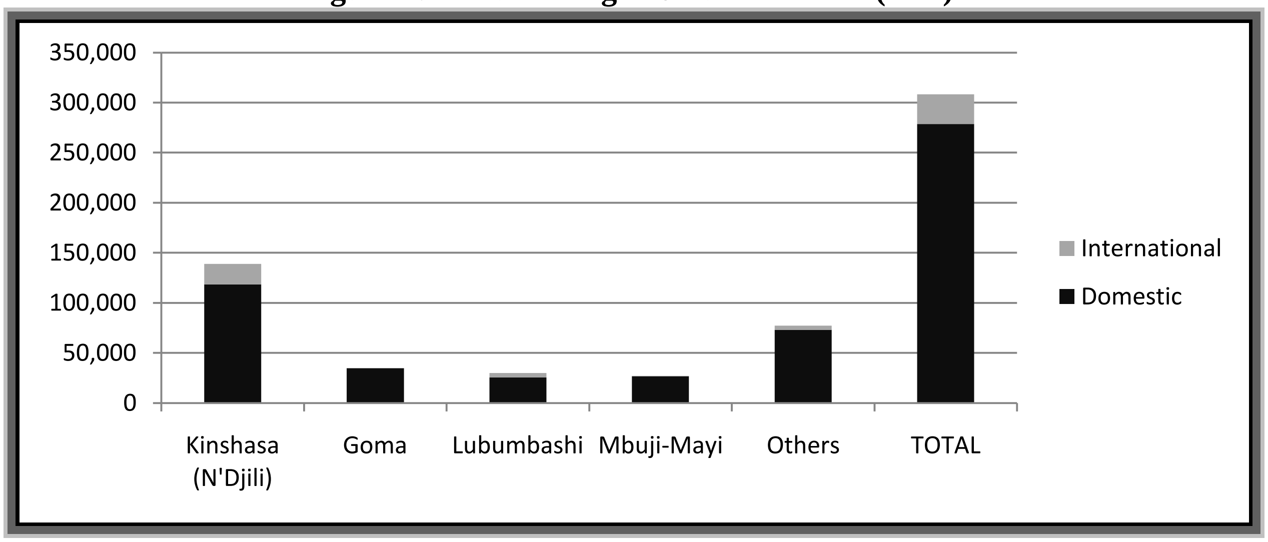


Source: RVA, 2009

24. Kinshasa's N'Djili airport air cargo volume increased in the same range as the passenger volume from 40,000 tons in 1999 to almost 140,000 tons in 2008. Country-wide 308,000 tons (see Figure 4) were handled by RVA in 2008 (280,000 tons for domestic traffic).

25. Figures 3 and 4 show clearly that the bulk of DRC's air traffic is domestic. Due to the size of the country and the bad condition of its ground transportation network, DRC is (next to South Africa, Nigeria and Ethiopia) one of the only countries in SSA with a sizeable domestic air transportation market.

Figure 4: Annual Freight Volume in 2008 (tons)



Source: RVA, 2009

26. The safety record of the air transport sector is currently among the lowest in the world. This poor safety record which reflects a lack of enforcement of existing safety and security regulations represents a real threat to the sector's future growth (in 2008 the International Civil Aviation Organization (ICAO) rated DRC's civil aviation technical personnel capacity to enforce safety standards at 0 percent). The government is aware of the problem and has initiated critical steps to try to solve it, including the ongoing adoption of a new civil aviation code, the creation of an autonomous civil aviation agency and the securing of foreign technical assistance through the European Union's €5 million grant. Nevertheless, unless the government is also willing to challenge the sector's political economy and impose a painful restructuring of its airlines industry through the imposition of minimal capital resource requirements, grounding of technically non qualified aircraft and aircrews, and the seizure of the assets of delinquent payers of air navigation and airport charges, little can be expected from the sole creation of an autonomous civil aviation agency.

Current asset and resource utilization by transport SOEs

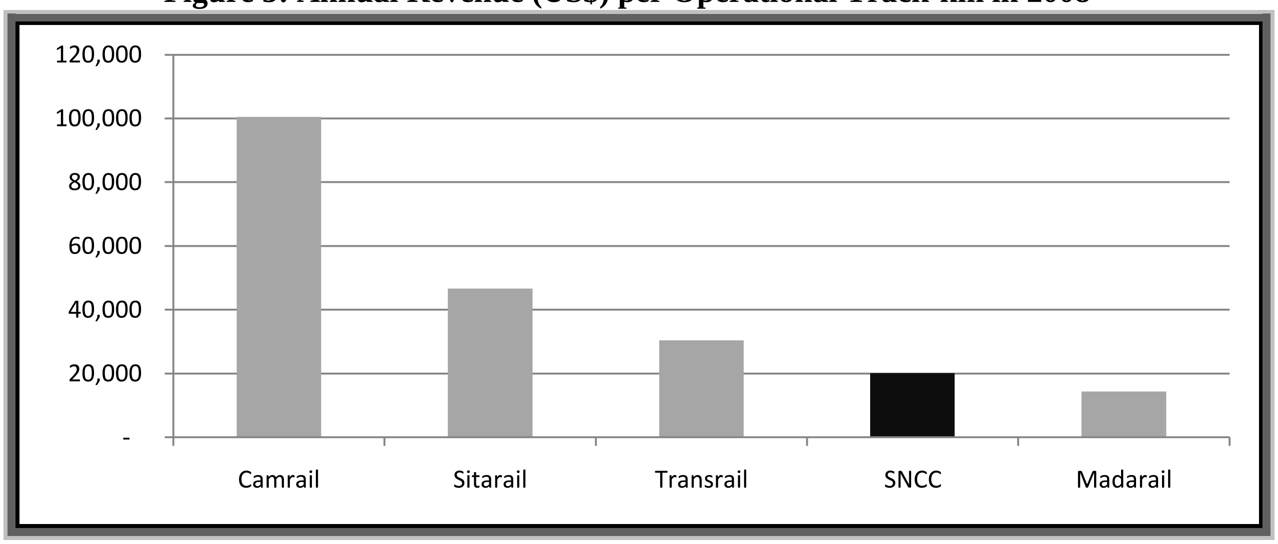
Asset utilization:

27. Suboptimal asset utilization has a direct negative impact on transport costs. In the case of over-utilization and bad management, transport costs tend to increase in relation with time and capacity constraints while in the case of under-utilization, they tend to rise to cover

disproportional asset costs per transported unit. In DRC, however, the single most important cause of suboptimal asset utilization is bad management of assets and low productivity of the work force, with declining infrastructure playing a role as well. This is particularly true for DRC's port services where congestion exists more because of the burden of the administrative procedures put in place by the port operators and the government than due to a lack of handling capacity. The same observation can be made for airport and railway infrastructure. [12]

28. In the railway sector the main problem regarding asset utilization is the under-utilization of the railway infrastructure. The SNCC uses 20 percent of its railway network to transport 80 percent of traffic volumes (see Map 2). Hence, the largest part of the railway infrastructure handles only 20 percent of the traffic volume and cannot, as a consequence, generate enough income to cover the asset costs of the entire network. Therefore, traffic volumes in the more extensively used sections in the southern part of the network (Copperbelt mining region) have to "cross-subsidize" the asset costs of the large underused parts of the network. The total revenue of SNCC, though, are still far too low to cover all these costs resulting in an overall and permanent structural deficit that translate into the company's lacking ability to maintain existing assets (see Figure 5) and always increasing tariffs that wipe out demand.

Figure 5: Annual Revenue (US$) per Operational Track-km in 2008



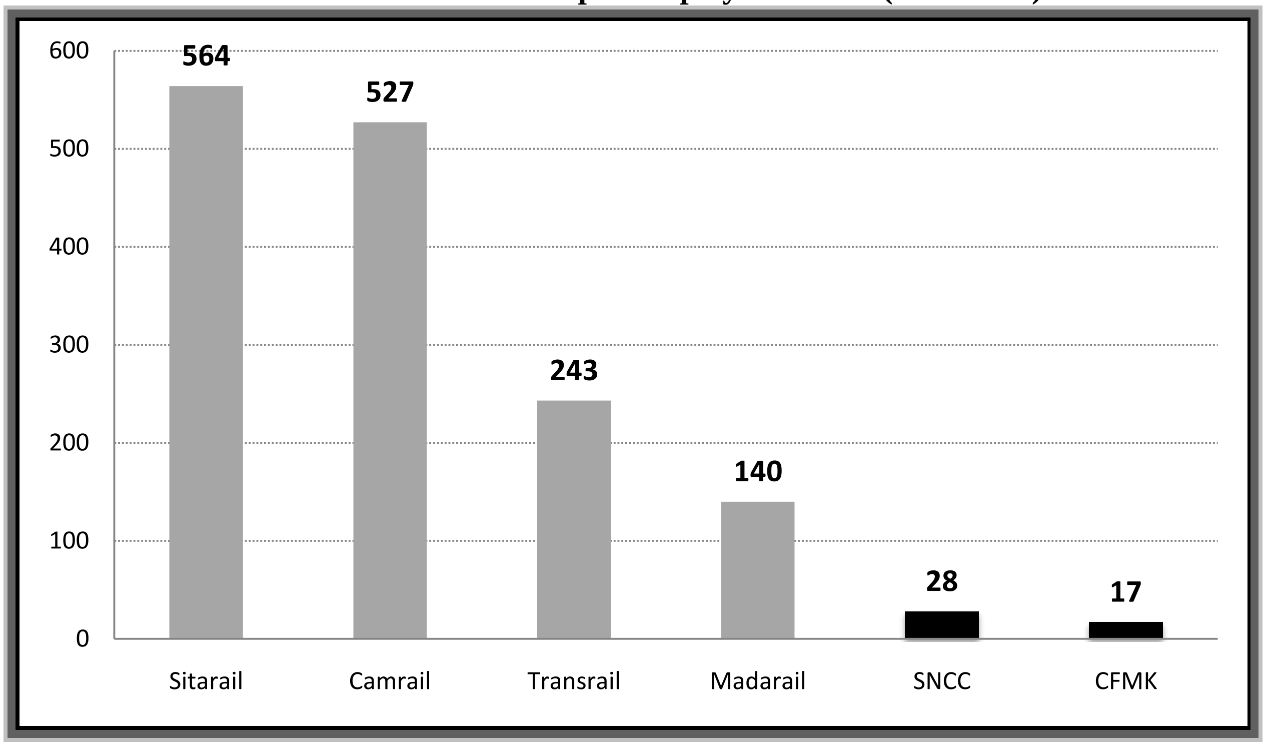
Source: World Bank, 2009

<u>Resource utilization</u>:

29. In addition to the under-utilization of assets and bad management, overstaffing deeply affects transport costs (see Figures 6 and 7). In the past, the management of human resources has been guided not only by real needs but also by politics and the expansion of the transport SOEs into other sectors like health care and education. In addition, the staff pool has never been adapted to the decreasing production and transport volumes over the past thirty years. As a consequence the SOEs are badly overstaffed relative to their production and turnover (see also Table 2).

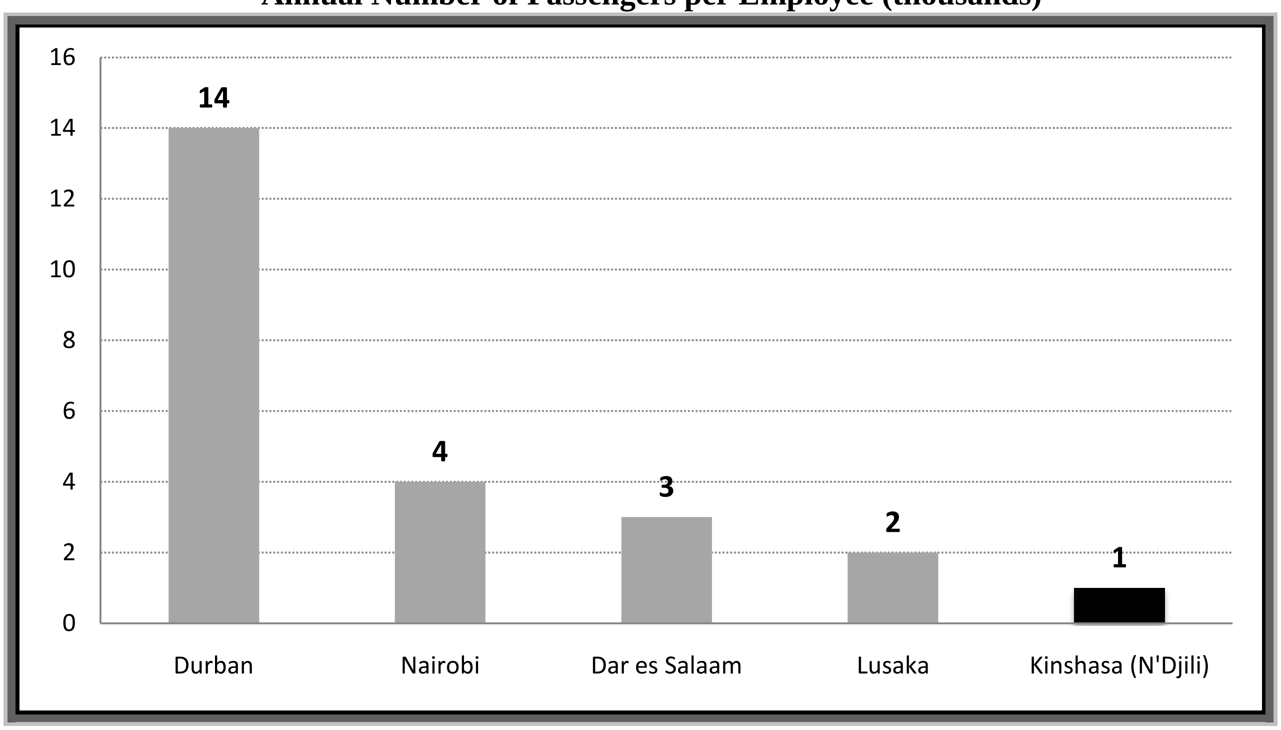
[12] Mining exports using rail on the SNCC network are subjected to three different administrative inspections processes in three difference locations which account for more than 75 percent of the transit time between the production site and the border with Zambia).

Figure 6: Productivity of the Railway Sector
Annual ton-kilometers per Employee in 2008 (thousands)



Source: World Bank, 2009

Figure 7: Productivity in the Airport Management Subsector
Annual Number of Passengers per Employee (thousands)



Source: World Bank, 2009

Table 2: SOE Staff Costs as a Percentage of the Annual Turnover in 2008 (in million US$)

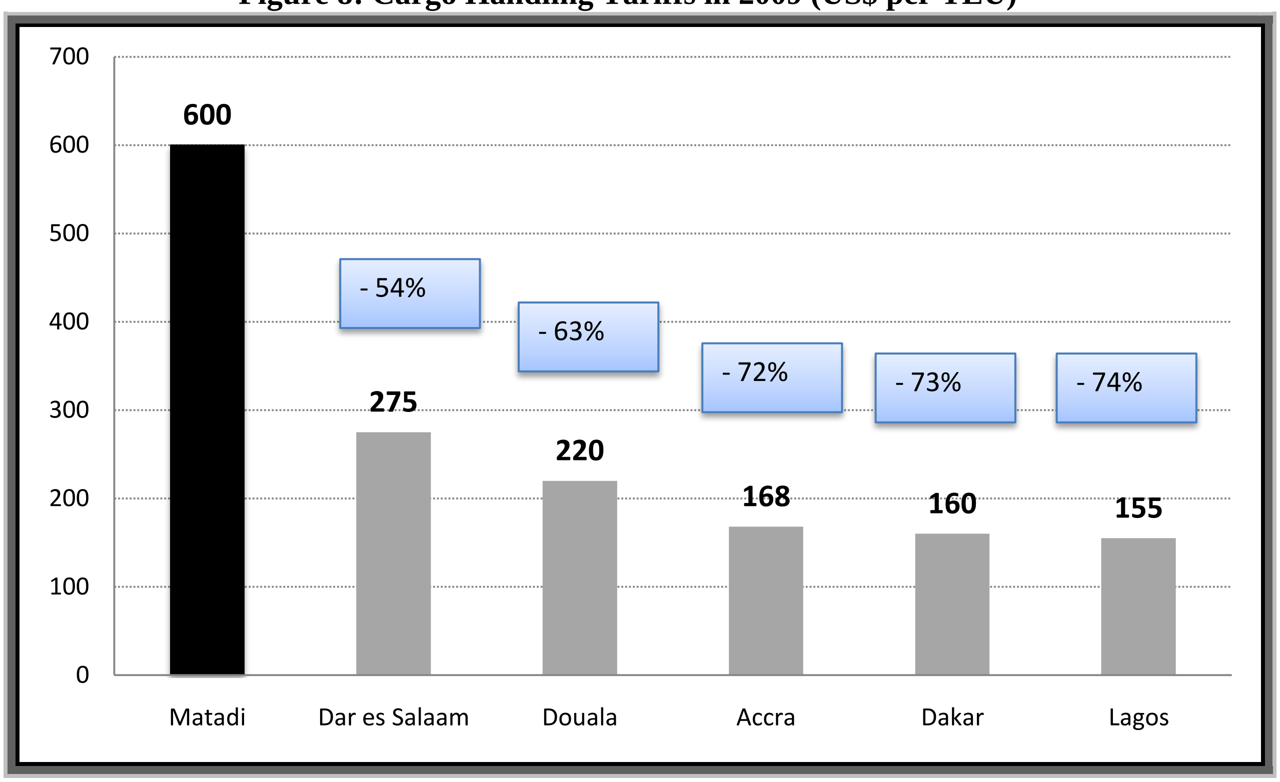
Company	Number of employees	Turnover in million US$	Staff costs as % of turnover
ONATRA	12,733	121	47%
SNCC	12,642	62	79% (2009)
RVA	5,116	82	66%
RVM	1,587	35	35%
RVF	291	5	27%
Total / average	**32,369**	**305**	**54%**

Source: Financial reports of ONATRA, SNCC, RVA, RVM and RVF + Core Advice 2008 + Vecturis 2008 + Progosa 2008 + COPIREP 2008 + ADPI 2008

30. The analysis of SOE revenues emphasizes the need to deeply rationalize their operational model. Despite high tariffs and no capital investment, these companies are in virtual bankruptcy and are unable to finance the maintenance of their infrastructure. In extreme cases, they are even unable to cover their operational costs and pay salaries, in the case of SNCC. Companies suffer mainly from the following production side burdens (see Figures 8 and 9):

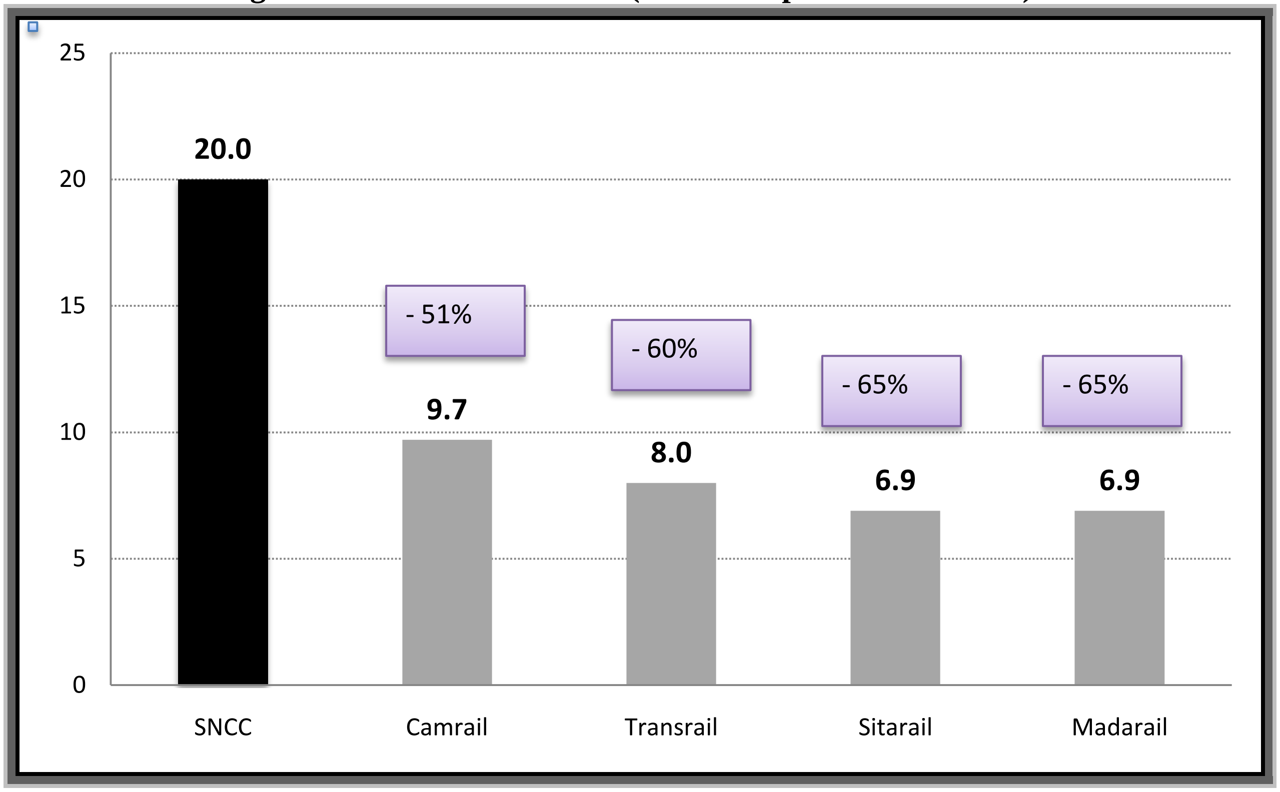
- Lack of management capacities and widespread corruption;
- Low productivity and under-utilization of assets; and
- Overstaffing resulting in staff costs representing about 60 percent of their turnover.

Figure 8: Cargo Handling Tariffs in 2009 (US$ per TEU)



Source: World Bank, 2009

Figure 9: Rail Tariffs in 2009 (US$ cents per ton-kilometer)

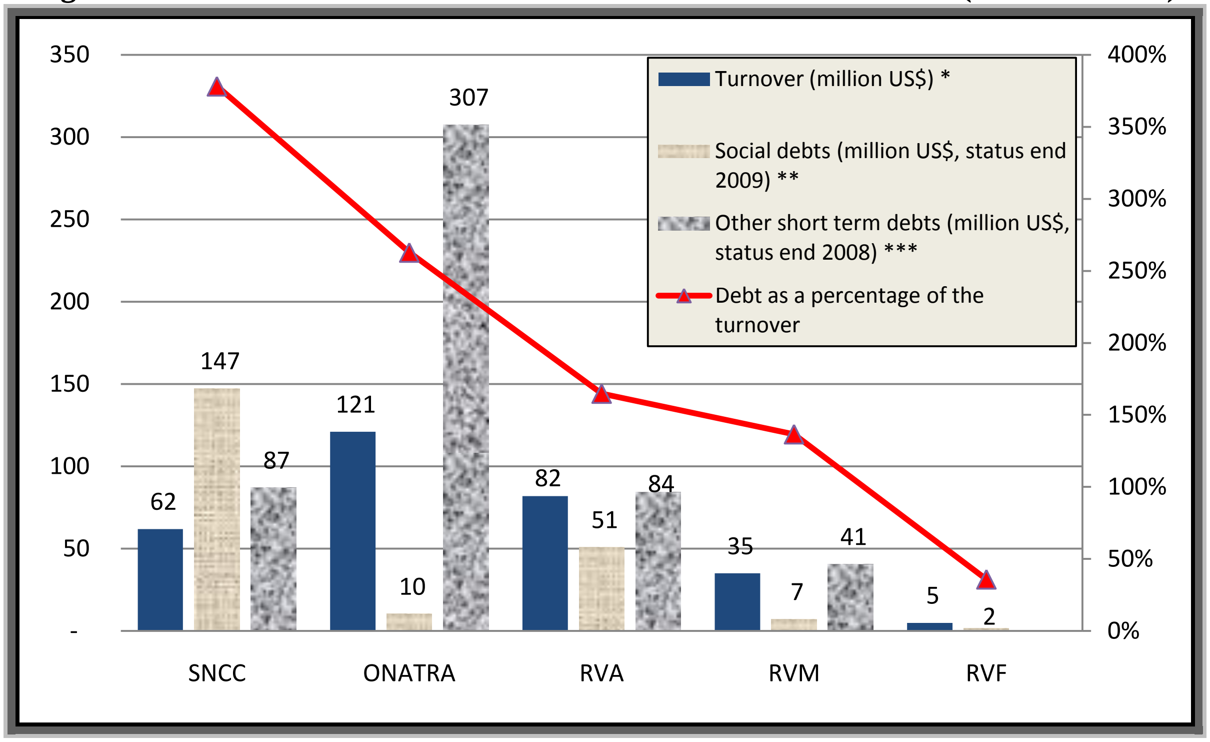


Source: World Bank, 2009

31. In 2008, debts and other liabilities of SOEs in the transport sector alone were estimated to reach several hundred million dollars. As shown in Figure 10 below, the short term debts (excluding social debts) of the four main SOEs in the transport sector (ONATRA, SNCC, RVA and RVM) were evaluated to be about US$519 million. Their social liabilities amounted to an additional US$216 million bringing the total debt figure to about US$735 million, or more than two times their combined annual turnover. Although their level of combined total receivables was estimated at US$679 million, it must be noted that more than 80 percent of these are classified as non-recoverable. SOEs current financial situations are therefore dire with a net debt in excess of half a billion dollars with very little prospect, if any, of survivability in the medium term.

32. It is expected that with respect to 2009 the economic situation of all of the above mentioned SOEs even worsened. This is especially true for SNCC with its total debt representing 378 percent of its annual turnover. In addition, SNCC has been hit most by the economic downturn, the subsequent decline of the mining production in Katanga and a three months long workers strike. In 2009, SNCC's staff costs represented as much as 79 percent of its turnover (see Table 3) and it was, therefore, not only unable to pay its employees' salaries but, more importantly, it was unable to finance their departure to retirement as well. Compared to ONATRA, RVA, RVM and RVF, SNCC has no financial margin at all. Without an immediate

Figure 10: SOE Estimated Debts and Social Liabilities in 2008/2009 (in million US$)



Source: Financial reports of ONATRA, SNCC, RVA, RVM and RVF + Core Advice 2008 + Vecturis 2008 + Progosa 2008 + COPIREP 2008 + ADPI 2008

* For ONATRA the basis of the other debt is the financial statement 2007.
** For RVF, the figure represents only the amount for 74 agents, who were eligible for retirement by the end of 2009; For SNCC the social debts contain the salary arrears as of October 31, 2009 and the outstanding retirement rights as of December 31, 2009.

massive recovery intervention which includes a comprehensive retirement program the company is expected to collapse completely by the end of 2010.

Main legal and regulatory issues

33. An important reason behind the weak regulatory performance of GDRC lies with the complex structure and organization of responsibilities within the transport sector (see also Figure 2 above). The roles of the respective authorities and ministries are not always clear and unambiguous. This is particularly true for the Ministry of Transport (MoT) and the Ministry of Portfolio (MoP) which, for example, share common responsibilities when it comes to the sector's SOEs. Additional, this complex institutional structure is forcing ministries to spread thinly their meager oversight resources while being engaged in uneven technical dialogues with powerful SOEs whose financial resources contribute to exacerbate a culture of graft and corruption.

34. The new constitution, which became effective in February 2006, organizes the competencies of the central government and the provinces in transport matters. According to the constitution, maritime and waterways navigation, air traffic management, railway activities, roads and other communication means, which connect two or more provinces or a foreign territory, are under the exclusive authority of the central government. Road traffic, road

construction and maintenance as well as the collection and allocation of toll charges are the joint responsibility of the central government and the provincial authorities.

35. At the central level, DRC's transport sector is regulated by three different key ministries:

- the MoT;
- the MoP; and
- the MIPW.

36. Table 3 below shows the respective formal responsibilities of ministries and provincial authorities for SOEs and transport subsectors:

Table 3: Formal Responsibilities for Technical and Economic Regulation in the Transport Sector

Subsector	Technical Regulation	Economic Regulation
Road infrastructure	MoT/MIPW + Provinces	MoT/MoP + Provinces
Road/trucking services	MoT + Provinces	MoT + Provinces
Railway infrastructure	MoT	MoT/MoP
Railway services	MoT	MoT/MoP
Airport services	DAC	MoT/MoP
Airline services	DAC	MoT
Waterways	MoT/MIPW	MoT/MoP
River transport services	MoT	MoT
Port infrastructure	MoT	MoT/MoP
Port services	MoT	MoT

Source: World Bank, 2010

37. In reality, the oversight authorities often do not have the necessary capacities and resources to comply with their duty to regulate and control the transport's activity subsector. Decades of mismanagement and poor governance have left the sector authorities with serious capacity constraints. As a consequence, large parts of the transport sector are not regulated or are self-regulated. While the railway companies for instance are formally self-regulated, there is no competent technical regulation authority in the airline, river transport and trucking subsectors. Today, no independent technical regulation authority exists in the transport sector in DRC. This clearly has a negative impact on the safety levels of the Congolese transport sector as it allows non compliant operators to provide transport services often at the expense of minimum safety and security standards. This phenomenon is exemplified by the fact that 50 airlines in DRC compete for a one million domestic passengers market because of low entry costs (no significant asset value requirement for airlines operators) and lack of enforcement of existing safety and security regulations (in 2008 ICAO[13] rated DAC's capacity to enforce safety standards at zero percent).

[13] International Civil Aviation Organization (ICAO)

38. The situation in terms of economic regulation is not much different from the one that prevails in the area of technical regulation. Some limited regulation is applied in the road and port subsectors as well as in the field of air transportation. But ultimately pricing of goods and services either follows the logic of collusion among operators or the abuse of SOE monopolies (SNCC average tariff has been increased to compensate for its loss of transport volumes from US$13 cents to US$20 cents over the last couple of years). The absence of enforcement of both types of regulations has dire consequences on the operations of the transport sector. For instance, it prevents the transport market from rewarding quality operators (especially in the air transport sector). Likewise, it generates the level of accidents that not only threatens the growth both of national and international trade in DRC, but also the growth of domestic and foreign private investment in the transport sector. These consequences often result in the multiplication of unregulated pricing practices which affect the competitiveness of the Congolese economy, and foster bad governance and corruption.

3. International trade regulation

39. With respect to international trade regulation, DRC has undergone significant structural changes since 2003. The export regulation for mining goods for instance has been reformed by prohibiting the exportation of crude ore and limiting export rights to official producers that are making industrial investments. In addition, the Office of Customs and Excise (OFIDA), the main customs body, has been modernized through the creation of several *guichets uniques* and by introducing electronic customs declarations. In spite of all these efforts, however, import and export operations are still disrupted by numerous factors and remain very unpredictable. Indeed, the lack of a leading political authority in the area of foreign trade has left local government agents use discretionary powers which disrupt the fluidity of export and import operations and add significant costs to them.

40. The main agencies which are formally or informally involved in export and import procedures in the province of Katanga for example are the following:

- Customs and shipping agencies and institutions:
  - Office of Customs and Excise (*Office des Douanes et Acci*ses - OFIDA), collection of transfer duties;
  - Congolese Office of Control (*Office Congolais de Contrôle* - OCC), inspection and metrology, as well as collection of transfer duties;
  - Office of Foreign Trade (*Commerce Extérieur*), shipping statement and issuance of passing token;
  - National Bank for Granting Clearance and Licensing (*Banque Nationale pour l'Octroi et l'Apurement des Licences*) issuance of import and export licenses; and
  - Bureau of Inspection, Valuation, Assessment and Control *(Bureau d'Inspection, d'Evaluation, d'Estimation et de Contrôle* (BIVAC), also known under the name Veritas, Pre-Shipment Inspection.

- Mining or tax related agencies and institutions:
  - Ministry of Mining, administration of the mining sector at a national level;
  - Division of Mining, administration of the mining sector at a provincial level;

- Bureau of Mining, administration of the mining sector inside the province;
- Department of Mining, seconding the Mines Ministry at the national level;
- Evaluation, Expertise and Certification of Minerals, Precious and Semi-Precious Substances Center (*Centre d'Evaluation, d'Expertise et de Certification des substances minérales, précieuses et semi-précieuses* - CEEC);
- General Directorate of Administrative and State Charges *(Direction Générale de Redevances Administratives et Domaniales* (DGRAD); and
- Governorate

- Security and safety related agencies and services:
  - National Intelligence Agency *(Agence Nationale de Renseignements - ANR);*
  - National Armed Forces of Congo *(Forces Nationales du Congo* - FNC);
  - Mining Police of Katanga, local branch of the Provincial Police;
  - Border Police; and
  - Republican Guard.

- Other agencies and institutions involved in the process at times:
  - Ministry of Health;
  - General Directorate of Migration *(Direction Générale des Migrations* - DGM); and
  - Fraud Office (*Bureau Anti-Fraude*).

41. In spite of all the efforts made to modernize the international trade process, import and export operations are still disrupted by numerous factors; there are too many customs steps in export and import operations, as well as too many and redundant documents required by the government agencies at each customs point. Table 4 below shows a list of the procedures and steps required for import and export operations from Lubumbashi to the Zambian border. At the same time, and because of the lack of a leading political authority in the area of foreign trade, different agencies and local agents of the government started acting on their own and using their influence to take advantage of adding numerous micro-formalities threatening the fluidity of export operations.

42. For instance, after the enforcement of the Pre-Shipment Inspection (PSI) agreement with BIVAC, OCC became a redundant actor in the trade export process. OCC, therefore, has a conflictual relationship with OFIDA, the *Fédération des Entreprises du Congo* (Congolese Federation of Enterprises - FEC) and BIVAC. Both BIVAC and OCC "certificates of valuation" are mandatory for PSI. OCC, however, is reported to often recalculate the inspection of the latter BIVAC's valuation at higher rates and levy additional fees for the difference. At the same time, OCC is reported to be open for negotiating a lower value of the cargo if it has not gone through BIVAC first. This encourages companies to go directly through OCC to avoid extra administrative costs. In June 2007, 18 percent of exports passed through BIVAC and 82 percent passed directly through OCC.[14]

[14] The World Bank, "Trade Facilitation in the DRC", 2007

Table 4: List of export procedures for mining goods in the province of Katanga

Place	Agency	Activity/Role	Formal/ informal procedure	Average execution time (days)*
Mining site	OCC	Export batch verification	Formal	3
	Licensed bank	Licensing	Formal	1
	OCC	Sampling	Informal	1
	Department of Mining	Shipment statement	Formal	1
	OCC	Shipment statement	Informal	1
	ANR	Shipment statement	Informal	1
	Foreign Trade	Shipment statement	Informal	1
			Subtotal	**6**
Lubumbashi	CEEC	Material analysis	Formal	0
	OCC	Material analysis	Informal	5
	Licensed laboratory	Material analysis	Formal	1
	Department of Mining (national)	Receipt of applications for transport certificate	Informal	1
	Division of Mining (province)	Issuing of transport certificates	Informal	0
	OFIDA	Customs clearance	Formal	0
	Governorate	Export documents checking	Informal	1
			Subtotal	**8**
Border	OFIDA**	Issuing of passing token - clearance of Congolese transit procedure and mapping with Zambian transit procedure	Informal	1
	OCC	Issuing of passing token - checking of OCC forms	Formal	1
	Various: ANR, Mining Police, DGM, Hygiene, Foreign Trade, Fraud, DEMIAP	Issuing of passing token	Informal	1
	Mining Police - Customs**	Convoy composing	Informal	1
			Subtotal	**2**
			Total	**16**

Source: World Bank, 2010

* Some of these activities are executed in parallel at the same time; therefore, the subtotal isn't equal to the sum of the number of average days per action.

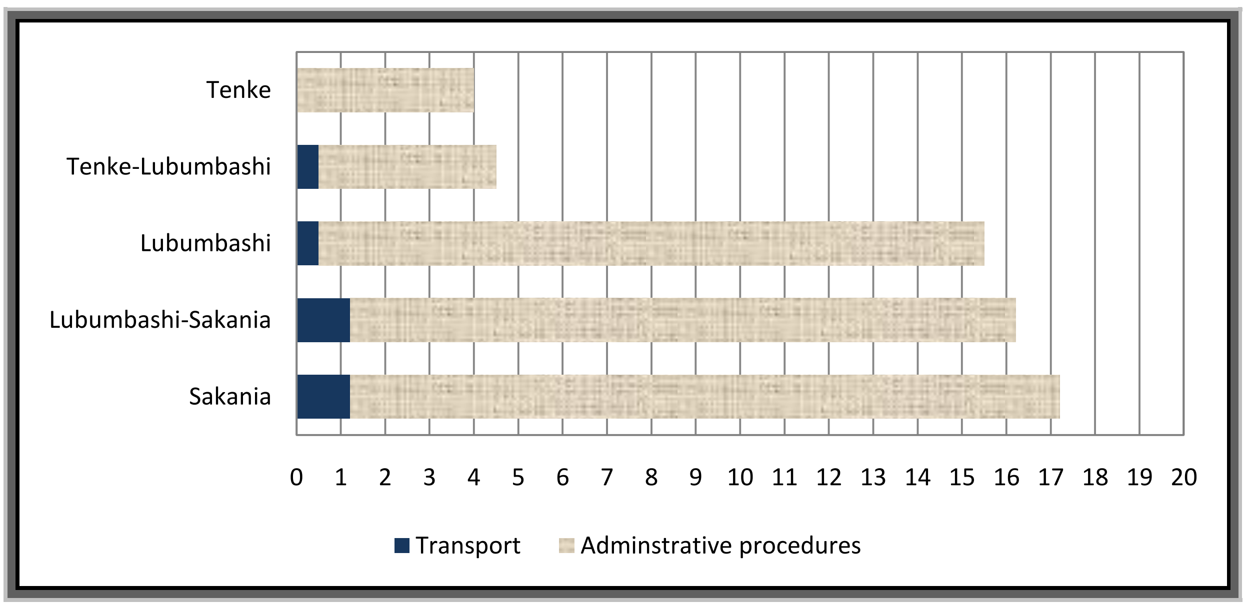
** Procedures performed in Lubumbashi for road and in Sakania for rail

43. Due to the numerous steps required for import and export operations, the transfer process is very long, expensive and complicated. There is no global coherence between agencies involved in the process. In addition to the formal procedure, some unpredictable "requirements" can arise at every transfer and companies are obliged to pay "speed money" to reduce delays for import and export. At the Matadi port, the *guichet unique*, which was created with support from the International Monetary Fund in 2005, is perturbed by agents of different involved services

because it is seen as a threat to their widespread informal rent-collection. At the road border post in Kasumbalesa, 300 trucks are waiting in the no-man's land between DRC and Zambia because of the slowness of the customs clearance process.[15] It can take up to one week for a truck to enter DRC. If all required importation documents are provided, the transfer time from the boarder to the clearance warehouse can be very short. But in most cases it takes an average of four to five business days to receive the clearance. In order to avoid these administrative burdens and costs many companies import their goods to DRC illegally by fractionating their load to small trucks which are benefitting from a flat fee customs clearance. Naturally, this wide-spread practice results in important tax losses for the government.

44. Because of all the above mentioned elements, export and import operations in DRC remain very unpredictable. Regarding the indicator "trade across borders" the Doing Business database ranks DRC as number 165 out of 183 in its publication for 2010.[16] Figure 11 below shows the average transit time between the mining area (Tenke, Kolwezi) and the Zambian border in 2009. It provides a clear image of the delays in transfer operations related to administrative procedures and shows the consequences of the unclear mandates and responsibilities of the different involved agencies as well as the lack of a leading authority that can prioritize the role of the agencies and simplify the procedures.

Figure 11: Cumulative average transit time for mining goods between Tenke and Sakania in 2009 (in days)



Source: World Bank, 2010

[15] The World Bank, "Trade Facilitation in the DRC", 2007
[16] The World Bank, "Doing Business Database", 2009

Annex 2: Major related projects financed by the Bank and/or other agencies
Democratic Republic of the Congo: Multimodal Transport Project

Projects financed by the World Bank					
Project ID	**Project Name**	**Status**	**PDO Rating**	**IP rating**	**Sector issue addressed**
P071144	Private Sector Development and Competitiveness Project	On-going	S	S	SOE reforms
P081850	DRC Emergency Economic and Social Reunification Support Project	On-going	S	S	
P088619	Emergency Living Conditions Improvement Support Project	On-going	MS	MS	
P090872	Additional Financing for Private Sector Development and Competitiveness Project	On-going	S	S	SNCC staff retrench-ment plan
P101745	Congo DRC – Pro-Routes Project	On-going	S	MS	
P104497	DRC Emergency Urban and Social Rehabilitation Project	On-going	S	S	
P115642	DRC Emergency Project to Mitigate Impact of Financial Crisis	On-going	S	S	
Projects financed by other agencies					
Agency	**Project**			**Status**	
EU	Rehabilitation Support Project			N/A	
AfDB	Nsele-Lufi and Kwango-Kenge Road Rehabilitation Project			On-going	

HS-Highly Satisfactory; S-Satisfactory; MS-Moderately Satisfactory; MU-Moderately Unsatisfactory; U-Unsatisfactory

Annex 3: Results Framework and Monitoring
Democratic Republic of the Congo: Multimodal Transport Project

Table 1: Results Framework

MTP PDOs	Project Outcome Indicators	Use of Project Outcome Information
1) Improve transport connectivity in DRC so as to support national economic integration;	• Average transit time of mining exports by rail between the Copperbelt region and the Zambian border; and • Direct project beneficiaries (number), of which female (percentage).[17]	Measure sustainability of investment and reform
2) Restore SNCC's financial and operational viability; and	• SNCC's total transport volumes in Traffic Units (TU); • Mainline locomotives dispatch reliability (breakdowns per 100,000 km); • Staff productivity (TU/staff/year); and • SNCC's Cash flow from operations before Interest, Taxes and Amortization (EBITA per year).	
3) Implement a sector wide governance plan and strengthen transport SOEs' operational performances.	• Transport SOEs achieve improved operational performance targets; • SOEs compliance with procurement processes indicators; and • Adoption by individual transport SOEs of a governance plan.[18]	
Intermediate Outcomes by Component	**Intermediate Results Indicators**	**Use of Intermediate Outcome Monitoring**
Component 1: SNCC recovery plan		
Improving SNCC's infrastructure and management	• Length of rehabilitated and upgraded rail track (km); and • Number of staff retired.	Measure physical and structural implementation of investments and reforms
Component 2: Operational performance strengthening and improved governance of the sector		
Transport Sector oversight and SOEs strengthening	• RVA: Number of ADS-B systems installed; • RVA: Average annual number of Air Traffic System (ATS) incidents; • ONATRA: CFMK total transport volumes in Traffic Units (TU) of CFMK; • ONATRA: Number of new locomotives acquired; and • Annual procurement and financial audits of SOEs completed.	Measure physical and structural implementation of investments and reforms
Component 3: International trade procedures simplification		
International trade procedures simplification	• Average clearance time for imported containers at the port of Matadi.	Measure physical and structural implementation of investments and reforms

[17] Number of rail passengers transported by SNCC and ONATRA.
[18] Based on the criteria of the sector wide governance strategy.

Table 2: Arrangements for Results Monitoring

	Baseline 2009	YR1 2010	YR2 2011	YR3 2012	YR4 2013	YR5 2014	YR6 2015	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
PDO outcome indicators										
Direct project beneficiaries (number - thousands)[19]	1,500	>1,500	>1,500	>1,600	>1,650	>1,700	>1,750	Quarterly Operation Reports	Operational Reports	SNCC/ ONATRA
Percentage of female in direct project beneficiaries[20]	n.a.	TBD	TBD	TBD	TBD	TBD	TBD		Spot Surveys	NGO
SNCC: Average transit time of mining exports by rail between the Copperbelt region and the Zambian border (days)	16	<16	<16	<12	<10	<5	<5		Operational Reports	SNCC
SNCC: Mainline locomotives dispatch reliability (breakdowns per 100,000 km)	>75	<70	<60	<50	<25	<15	<10			
SNCC: Total transport volumes in Traffic Units (TU millions)	185	>250	> 300	>400	>500	>600	>700			
SNCC: Staff productivity (TU/staff/year)	17,700	>20,000	>25,000	>35,000	>50,000	>60,000	>70,000			
SNCC: Cash flow from operations before Interests, Taxes and Amortization (million US$)	>-35	>-35	>-25	>-20	>0	>10	>15			
Transport SOEs achieve improvement of operational performance targets	0	0	0	>1	>2	>3	>3	Annual	Operation Reports	CEPTM
Adoption by individual transport SOEs of a governance plan	0	0	>1	>3	>3	>3	>3	Annual	Reporting governance situation	CEPTM
SOEs: Compliance rate with procurement processes indicators	0%	0%	>25%	>75%	>95%	>95%	>95%	Annual report	Procurement audit	CEPTM
Project results indicators										
Component 1: SNCC recovery plan										
SNCC: Cumulative length of rehabilitated and upgraded rail track (km)	0	0	>15	>100	>300	>450	>600	Annual Reports	Annual Reports	SNCC
SNCC: Cumulative number of staff taking retirement[21]	0	0	>500	>1,500	>3,000	>3,500	>3,500			
Component 2: Operational performance strengthening and improved governance of the sector										
RVA: Cumulative number of ADS-B systems installed	0	0	3	5	5	5	5	Annual report of RVA	Status report of RVA	RVA

[19] Number of rail passengers transported by SNCC and ONATRA (CFU).
[20] Percentage of female rail passengers transported by SNCC and ONATRA (CFU).
[21] Includes the staff retiring under the PSDCP.

	Baseline 2009	YR1 2010	YR2 2011	YR3 2012	YR4 2013	YR5 2014	YR6 2015	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
RVA: Average annual number of Air Traffic System (ATS) incidents	12 airprox 78 comms	<12 airprox <78 comms	<10 airprox <70 comms	<8 airprox <50 comms	<5 airprox <40 comms	<5 airprox <30 comms	<5 airprox <20 comms	Annual report	Incident reports from companies and airports	RVA
ONATRA: CFMK total transport volumes in Traffic Units (TU)	93,800	>95,000	>100,000	>120,000	>130,000	>150,000	>150,000	Quarterly and annual reports	Quarterly and annual reports	ONATRA
ONATRA: Cumulative number of new locomotives acquired	0	0	3	5	5	5	5	Provisional reception report	Provisional reception report	ONATRA
SOEs: Completion of annual procurement and financial audits of SOEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Annual	Procurement and financial audits	CEPTM
Component 3: International trade procedures simplification										
ONATRA: Average clearance time for imported containers at the port of Matadi (in days)	20	<20	<20	<15	<10	<10	<5	Quarterly and annual reports	Quarterly and annual reports	ONATRA

1. Additional project monitoring indicators

1. In addition to the above mentioned project main indicators which will be used to monitor the results of the MTP, the Project's Team will also monitor the following indicators:

In terms of outputs:

***Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC – SNCC):**

(i) Number of locomotives rehabilitated; and
(ii) Number of wagons rehabilitated.

***Régie des Voies Aériennes* (National Airways Management Agency – RVA):**

(i) Installation of a new Instrument Landing System (ILS) at N'Djili airport; and
(ii) Number of RVA's agents trained.

***Régie des Voies Maritimes* (National Marine Ways Management Agency – RVM):**

(i) Number of hydrographic boats delivered.

***Office National des Transports* (National Transport Office – ONATRA):**

(i) Number of new wagons acquired.

***Régie des Voies Fluviales* (National Waterways Management Agency – RVF:**

(i) Number of people attending reach out program on river way marking protection; and
(ii) Number of staff retired.

State-Owned Enterprises (SOEs):

(i) Number of employees infected with the Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS); and
(ii) Number of employees receiving HIV/AIDS treatment.

In terms of outcomes:

SNCC:

(i) Personnel cost as a percentage of total annual turnover;
(ii) Average freight tariffs (US cents per Ton kilometer); and
(iii) Number of main line derailments.

RVA:

(i) Freight volumes at N'Djili airport.

RVM:

(i) Length of surveyed waterways.

ONATRA:

(i) Average freight tariffs (US cents per ton kilometer) for the Matadi/Kinshasa rail line;
(ii) Main line locomotives dispatch rate (number of breakdowns per 100,000 km); and
(iii) Number of derailments on the main line Matadi/Kinshasa.

RVF:

(i) Cumulative number of fixed and floating riverways markings installed/rehabilitated; and
(ii) Length of marked riverways on the section targeted by the project.

SOEs:

(iii) Annual cost of operations of ONATRA, RVA, RVM and SNCC.

Annex 4: Detailed Project Description
Democratic Republic of the Congo: Multimodal Transport Project

1. Proposed objectives

1. In line with the government's sector strategy,[22] the mission of the Multimodal Transport Project's (MTP) is to stimulate economic growth and contribute to poverty reduction through appropriate investment in rail infrastructure as well as in adequate policy and institutional reforms. The MTP's development objectives are: (i) to improve transport connectivity in the Democratic Republic of Congo (DRC) so as to support economic integration, (ii) to restore the *Société Nationale des Chemins de Fer du Congo*'s (National Railway Company of DRC – SNCC) financial and operational viability, and (iii) to support transport sector's State-Owned Enterprises (SOEs) reform agenda through the adoption and implementation of a sector wide governance plan and strengthening of operational performances.

2. Preliminary description

2. The Specific Investment Loan (SIL) includes the following components:

Component 1 (US$218.85 million) – SNCC recovery plan: The collapse of SNCC would have incalculable consequences on the Congolese economy, including on the potential future growth of its mining sector as its network connects DRC's Copperbelt to its main export routes. Due to this urgent need for financial assistance and considering the minimal size of the intervention required to deliver sustainable results for SNCC (US$617 million), the MTP will dedicate nearly 90 percent of its funding to the SNCC recovery plan. This money will complement the US$373 million (US$200 million from the Chinese line of credit, and US$173 million by the Government of the Democratic Republic of Congo (GDRC) and/or SNCC) already pledged by the government towards SNCC Recovery Plan as well as the US$25 million earmarked for it under the existing Private Sector Development and Competiveness Project (PSDCP). Component 1 will support the reform of SNCC management and operations through: (i) the signature of a five year management contract with an internationally selected private operator which will replace the existing private operator hired under a stabilization contract, (ii) payments of up to 1,675 voluntary retirees' departing indemnities and social security pension contributions; (iii) financing of track and rolling stock rehabilitation and upgrade, (iv) reimbursement of SNCC eligible operational costs (mainly fuel, electricity and water bills), (v) training of key new and existing personnel, (vi) monitoring of project's impact, and (vii) funding of a studfy to review SNCC relationship with mining operators and development of a transparent tariff policy in support of mobilizing financing from mining companies, and (viii) funding of financial and procurement audits. Overall, US$73.35 million will be used for the rehabilitation and upgrade of almost 700 km of rail network infrastructure, US$51.05 million for the rehabilitation of equipment and rolling stock, US$54 million will be dedicated to reimburse eligible operational costs, with about US$20 million as retroactive financing (See Annex 7), and US$20 million to support the

[22] «Note de stratégie sectorielle des transports en République Démocratique du Congo» adopted by the Council of Ministers on December 4, 2009

retirement plan. The remaining US$20.45 million will cover personnel recruitment and training costs, the financing of the SNCC management contract until 2013, technical support during implementation works, audits of annual financial accounts and procurement activities as well as impact monitoring surveys for Component 1. In complement the Chinese credit line grant of US$200 million will enable SNCC to acquire new rolling stock and railway track construction materials while government will contribute US$44 million in support of SNCC's operating expenses. The US$104 million contribution from GDRC and/or SNCC will be used to pay the salary arrears due to SNCC employees. In addition, GDRC will contribute the equivalent of US$25 million through tax exemptions for Component 1 activities as allowed by the Ministerial Decree 003/CAB/MIN/FIN/2004. The Chinese grant will be managed by the Ministry of Infrastructure and Public Works (MIPW) through the *Agence des Grands Travaux et de la Reconstruction* who will be purchasing the equipment for SNCC under the technical leadership of SNCC.

- ***Component 2 (US$25.45 million) – Operational performance strengthening and improved governance of the sector:*** This component will: (i) finance the acquisition of urgently needed equipment for selected transport SOEs [*Régie des Voies Maritimes* - National Marine Ways Management Agency (RVM), *Régie des Voies Aériennes* - National Airways Management Agency (RVA), *Office National des Transports* - National Transport Office (ONATRA) and *Régie des Voies Fluviales* - National Waterways Management Agency (RVF)] in order to improve their overall performance while allowing them to devote limited internal resources towards restructuring, (ii) pay for the retirement indemnities of 77 RVF agents an approach similar to that adopted for SNCC, (iii) pay for an internal diagnostic of the Ministry of Transport (MoT) so as to lay out possible reorganizational scenarios, (iv) finance MoT's agents training and MoT equipment, (v) finance the annual audits of SOEs procurement and financial activities that will be used to strengthen from the project onset SOE fiduciary governance, and (vi) allow the development of a sector wide governance plan which will then be tailored for adoption by each individual SOE. The funds of Component 2 have been allocated as follows: US$1.80 million to the MoT, US$1.40 million to RVM, US$3.85 million to RVF, US$10 million to RVA and US$8.40 million to ONATRA.
- ***Component 3 (US$2 million) – International trade procedures simplification:*** To prepare for the implementation of international trade agreements and in light of the ongoing study on the facilitation of international trade, the MTP will support the development of an international trade procedures simplification strategy and the associated action plan, including materials, equipments and basic infrastructure investments designed to facilitate the flow of goods along DRC main international trade transport corridors.
- ***Component 4 (US$8.70 million) – Project management:*** This final component will fund the cost of the Project Management Entity (PME) located within the MoT (*Cellule d'Exécution du Projet de Transport Multimodal*, CEPTM) in charge of the MTP. This PME will have two Project Units. The first one will be located in Lubumbashi within the SNCC and manage MTP's Component 1 (Component 4 A) while the second one will be based in Kinshasa to manage Components 2 and 3 of the MTP (Component 4 B).

3. Detailed description for project components

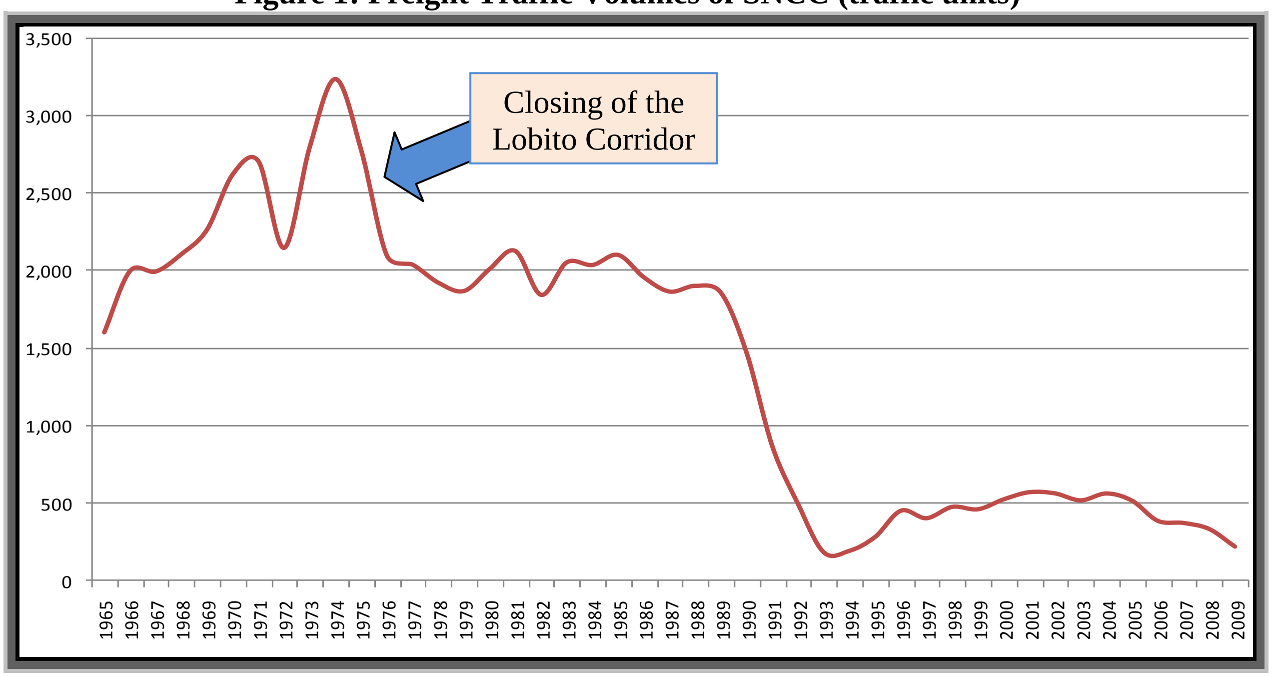
3. The detailed description of each project component is as follows:

Component 1 – SNCC recovery plan (US$218.85 million):

i. Background

4. The core of today's SNCC railway network was built at the beginning of the 20th century between 1902 and the 1930s. It links 7 of the 11 Congolese provinces and measures 3,641 km. From the beginning the railway's main businesses were natural rubber and copper exports from the copperbelt region in Katanga around Kolwezi and Likasi. In the 1960s, the southern part of the network between Kolwezi and the border town of Sakania was electrified. SNCC reached its peak in transport volumes in the early 1970's when it produced more than three billion traffic units (TU) per annum. However, this figure fell sharply by more than one billion TU after the closing of the Lobito corridor in 1975 due to the Angolan civil war. In the late 1980s and early 1990s the production fell again abruptly by 1.5 billion TU to below 150 million TU in 1993. Since then, SNCC was able to recover, to some extent, on a low overall production level and reached around 500 million TU per year in the early 2000s. In 2005, its production started to collapse again and reached only 218,000 TU in 2009.

Figure 1: Freight Traffic Volumes of SNCC (traffic units)



Source: SNCC, 2009

5. The main reasons for the steady decline in the production to the unsustainable levels of today are clearly the systematic lack of maintenance and rehabilitation works as well as the political instability over the past decades. Bad governance and mismanagement ruined both the infrastructure and rolling stock assets and destroyed SNCC's transport potential.

ii. Financing of the SNCC recovery plan (US$218.85 million)

6. Over the next 20 years SNCC's total investment needs will be around US$1.4 billion. In accordance with the government stabilization strategy,[23] GDRC and the World Bank (MTP and Private Sector Development and Competitiveness Program – PSDCP) will, together, invest US$617 million in SNCC's recovery plan. While the World Bank's MTP funding (US$218.85 million) will be dedicated mainly to the rehabilitation, reparation and upgrade works of rail network infrastructure, the rehabilitation of equipment and rolling stock, the reimbursement of eligible operational costs and the support of the retirement plan, the government's grant based on a Chinese credit line (US$200 million) will focus its assistance on the acquisition of rolling stock, the acquisition of materials for track works and the acquisition of two electrical substations (see Table 1). In addition, GDRC will provide US$44 million in support of SNCC operating expenses, US$104 million to pay the balance of SNCC's social debts and US$25 million as in kind tax exemptions for Component 1 activities.

Table 1: Government's Grant to SNCC Using Available Chinese Credit Line

Area of intervention	**Estimated costs (US$ millions)**
Acquisition of new rolling stock engines (20 diesel and 10 electric locomotives and five shunting locomotives)	68.3
Acquisition of 60 new passenger cars	19.1
Acquisition of equipment and material for track works (rails, switches and crossings, steel sleepers, equipment)	97.5
Acquisition of two electrical substations	9.6
Rehabilitation of engineering structures and earthworks	3.8
Other (waterways and ports)	1.7
TOTAL	**200.0**

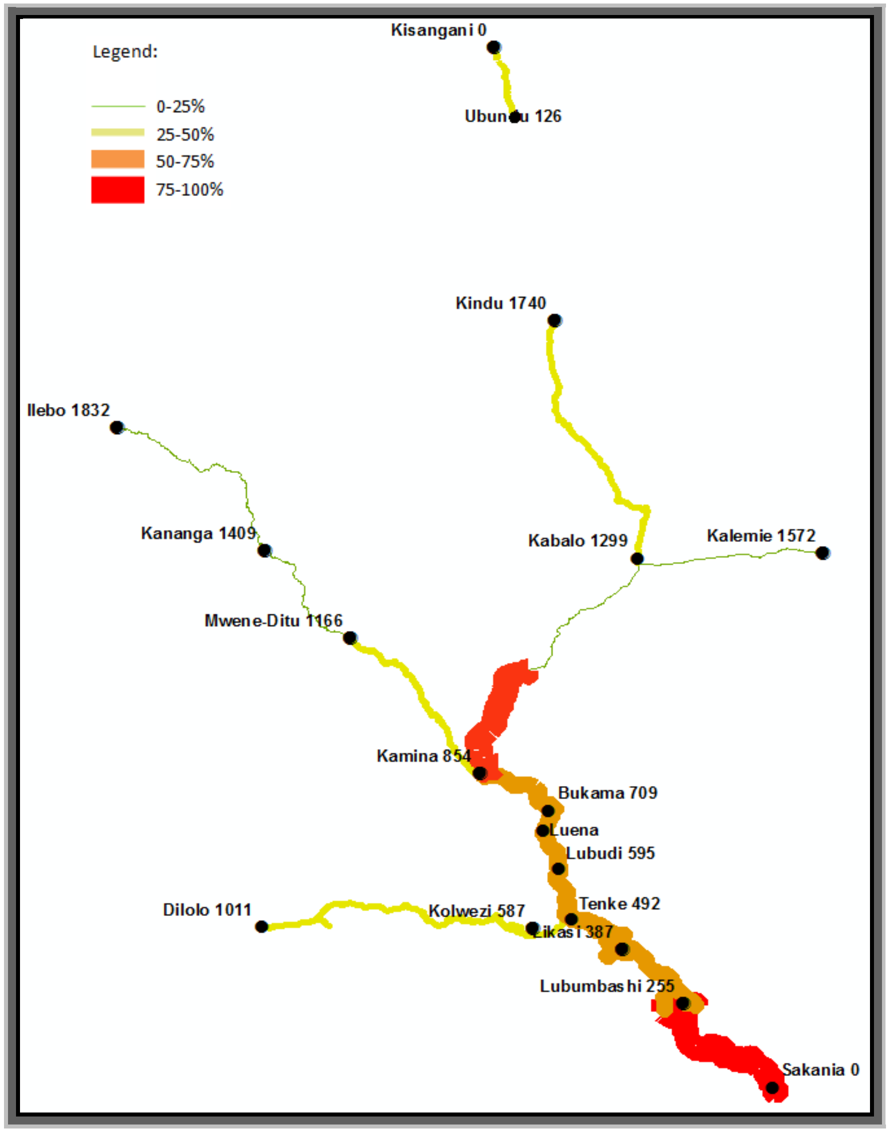
Source: SNCC, 2010

iii. 200 km of track rehabilitation and 487 km track upgrade works (US$73.35 million)

7. Ninety percent of SNCC's overall traffic in terms of volume (tons) passes on the section between Sakania, Tenke and Kolwezi. Fifty-seven percent of the rail tracks on this section are more than 38 years old and 33 percent even more than 50 years old. Due to this situation and the lack of maintenance over decades, the condition of the rail tracks is currently very bad, resulting in permanent slowdowns on the entire section, as well as in around 200 derailments per year on this section only (see Map 1). On the other hand this part of the network is crucial for DRC's mining industry and represents a very important trigger for the economic development of the country.

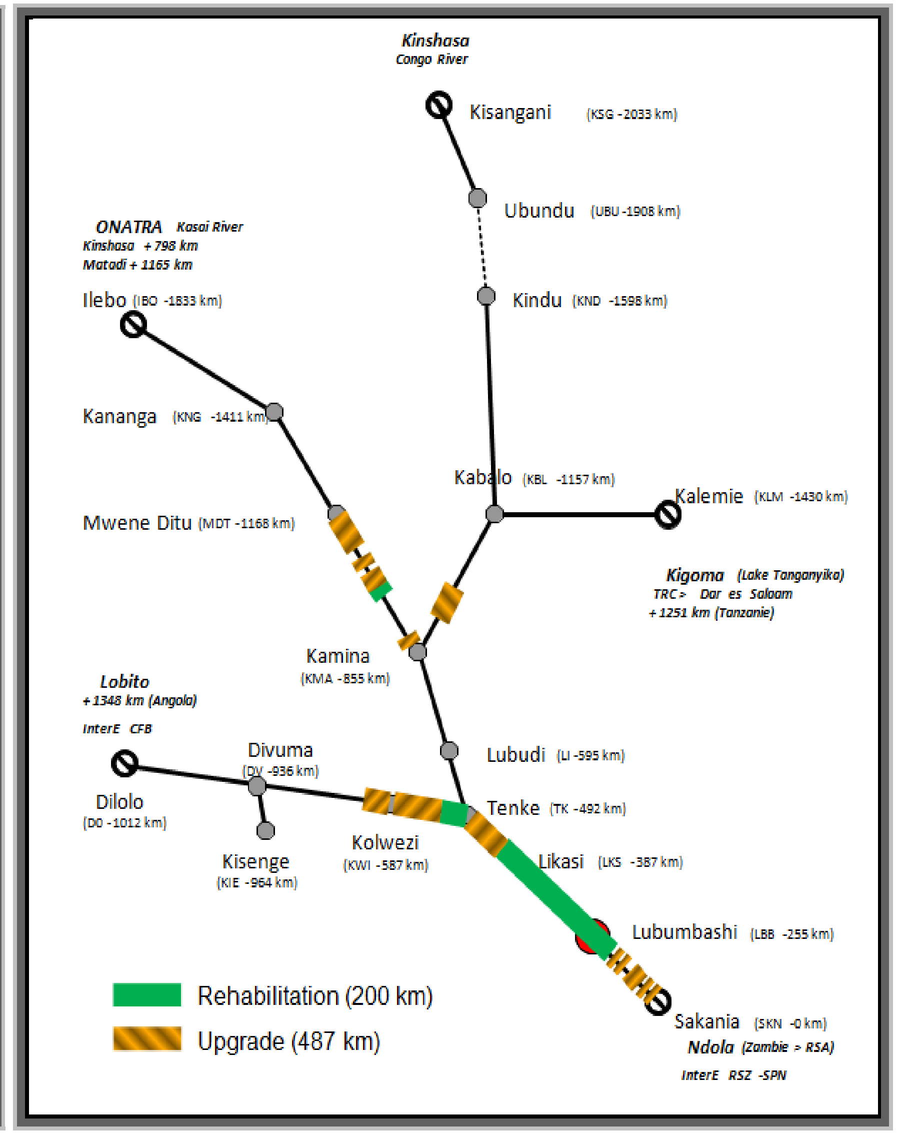
[23] «Note Technique sur la SNCC – Mission de stabilisation des activités ferroviaires : Diagnostic et Options stratégiques» adopted by the *Commission Economique et de Reconstruction* (Economic and Reconstruction Commission – ECOREC) on December 22, 2009

Map 1: Percentage of Permanent Slowdowns per Track Section



Source: SNCC and World Bank, 2010

Map 2: Zones of Track Rehabilitation and Upgrade



Source: SNCC and World Bank, 2010

8. The sections between Kamina and Mwene Ditu and Kamina and Kabongo are very important for the connectivity with the north-eastern part of the country and the remote and hardly accessible agricultural areas around Mwene Ditu. The conservation and upgrade of the rail track sections in this area, therefore, are key for DRC from a political, social and economic perspective. For most farmers in this area the railway connection represents the only possibility to transport their agricultural production and to supply Lubumbashi and other regions with their goods. The main agricultural product of this region (provinces of Katanga and both Kasais) is maize accounting for about 70-80 percent of the overall agricultural production. Maize can also be seen as an export crop, as surpluses are sold in Southern Africa (Zambia for instance). Other important products are beans (Katanga only), peanuts, rice (Katanga only), manioc, soybeans and niebe. In addition, there is also a real potential for export cultures like tobacco (Katanga), palm oil (Kasai) and cotton. Even though the production of these export cultures continuously declined over the past years, a connectivity improvement could be a good stimulus for an increase of the production.

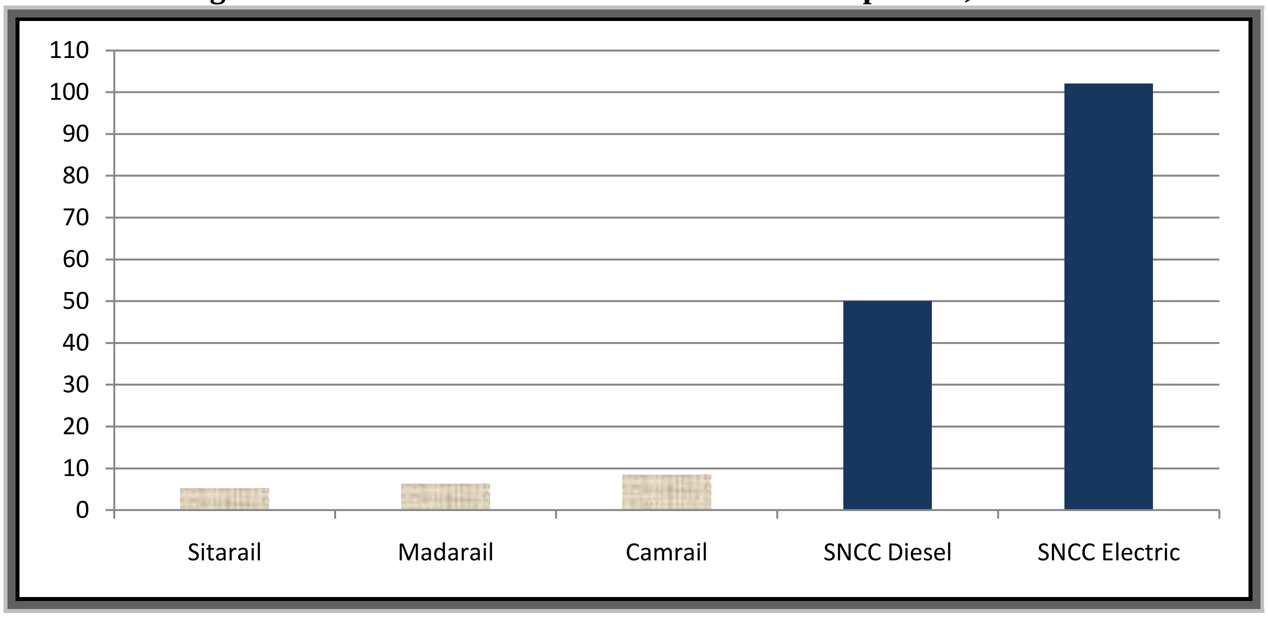
9. In order to restore SNCC's transport capacity and reliability, the SNCC recovery plan's total track rehabilitation works will, therefore (see Map 2), be undertaken between Munama and Luambo (161 km on the section Sakania-Tenke), Tenke and Kisanfu (29 km on the section Tenke-Dilolo) as well as between Kimanda and Musaka (10 km, on the section Tenke-Kamina). 187 km will be upgraded between Mushoshi and Tenke (section Sakania-Tenke), Kamina and Kasao (section Kamina-Ilebo) and Kisanfu and Luilu (section Tenke-Dilolo). In addition, 300 km of selective upgrade works will be undertaken on sections between Sakania and Tenke (80km), Tenke and Kamina (50 km), Kamina and Kabongo (100 km) and Kamina and Ilebo (70 km).

10. The US$73.35 million of the Bank grant will be used for the acquisition of supply material and equipment for the rehabilitation and upgrade of the rail tracks as well as for the implementation works. In addition, the Bank grant will finance the local production of 324,000 reinforced concrete sleepers. Other track rehabilitation and upgrade materials such as rails, metallic sleepers, ballast, etc. will be financed by the government's grant, through an existing Chinese infrastructure credit line, with US$102.50 million.

iv. Rehabilitation of equipment and rolling stock (US$51.05 million)

11. For its network of 3,641 km SNCC has currently 20 operational locomotives with an average age above 36 years. The reliability of its seven diesel locomotives is 65 percent and 75 percent for its 13 electric locomotives. As a result, the number of SNCC's breakdowns per 100,000 km is much above the figures of comparable railway concessions in sub-Saharan Africa (see Figure 2) and the company suffers from a chronic shortage of traction equipment. Under this condition SNCC can only offer a very limited and unreliable service to its customers and its transport capacity continues to fall due to lack of maintenance and rehabilitation caused by missing spare parts, equipment and tools.

Figure 2: Locomotives fleet breakdowns statistics per 100,000 km



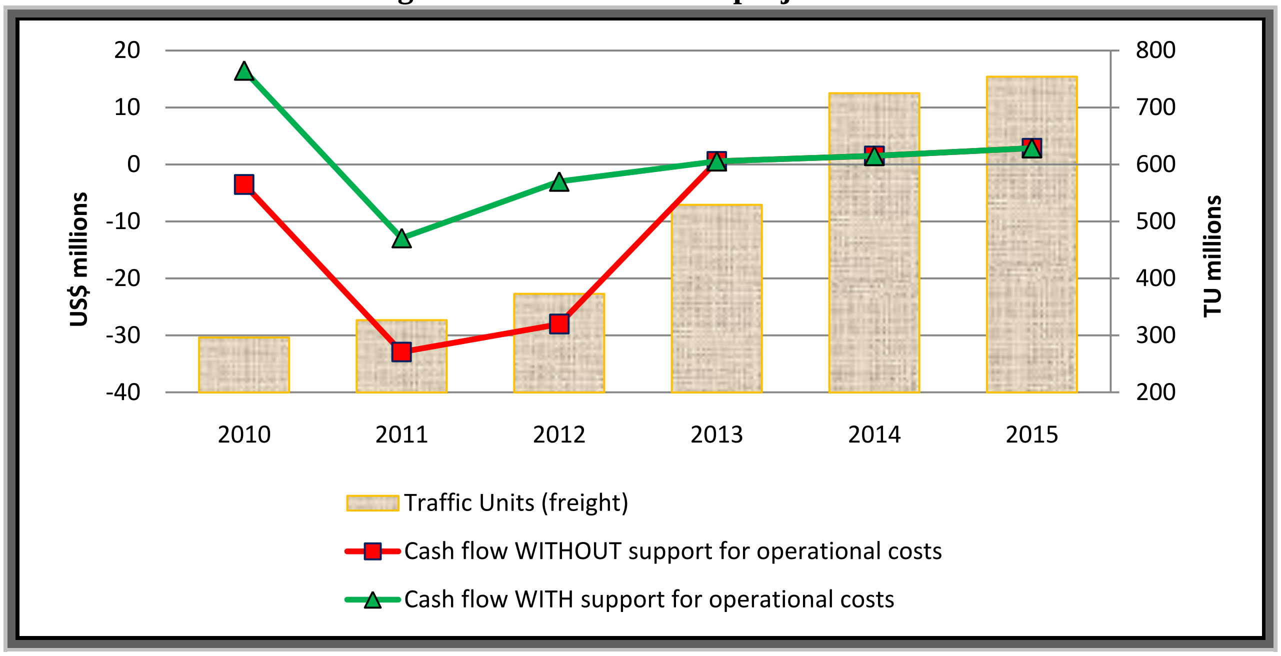
Source: World Bank, 2010

12. The Bank's grant will, therefore, support the acquisition of spare parts for the rehabilitation of existing rolling stock as well as acquisition and rehabilitation of workshop equipment, intervention logistics, telecommunications, energy supply and weighing machines for a total of US$51.05 million. Meanwhile, GDRC's grant based on a Chinese credit line will reinforce SNCC's rolling stock additionally by financing the acquisition of 35 new locomotives (15 diesel and 20 electric) and 60 new passenger wagons for a total of US$97.50 million.

v. Reimbursement of eligible operational costs (US$54 million)

13. SNCC has endured negative cash flow for more than a decade. Today it is incapable to finance its fixed costs and has no other option than to defer salary payments if it is to continue to fund the cost of its operations. As a result, SNCC had accumulated a staggering 39 months of salary arrears by the end of 2009 with dire consequences on employees' moral and productivity. In addition, endless postponement of necessary track and rolling stock maintenance has eroded its production capacity to a level where the company is on the verge of total collapse. Consequently, the Recovery Plan supported by the MTP will not only need to address the many issues created by decades of slow operational decay but also, in complement of GDRC, support the finances of the company until the impact of the proposed investment on its production capacity is such that it can start generating positive cash flow on its own. Figure 3 below illustrates the current traffic and financial projections for SNCC assuming rapid implementation of its recovery plan. As shown, it is very unlikely that SNCC will be able until 2013 to cover its direct operating cost, thus it will require financial assistance during the interim period of 2010 through 2013 to cover its full costs, otherwise additional salary arrears will incur and further deterioration of its production capacity will take place. This financing assistance is therefore not only an integral part of the MTP but also of the GDRC's package in support of the SNCC Recovery plan.

Figure 3: SNCC cash flow projections



Source: SNCC, 2010

vi. Support to the SNCC retirement plan (US$20 million)

14. In 2009, the average age of SNCC agents was 54 years old. Over the duration of the MTP (2010 – 2015), 42 percent of its 12,300 person workforce will reach the non-mandatory retirement age (65 years old for men and 60 years old for women). According to the current collective labor agreement, the employer is obligated to pay off an employee's total pension rights as well as the total of all accumulated salary arrears in order to be able to retire him/her. If the employer fails to pay the entire amount due, the employee remains on the company's monthly pay-roll even though he/she more than likely does not actually work. With staff costs currently representing as much as 79 percent of its turnover versus an industry benchmark of 20 to 30 percent, SNCC is not only unable to pay its employees' salaries but, more importantly, it is unable to finance their departure to retirement as well. Without a solution to this vicious circle, the sustainability of MTP investments will be at risk. Accordingly, as part of the dialogue between GDRC and the Bank, GDRC instructed the management of SNCC to find a solution to this social and financial dilemma. In May 2009, following negotiations between SNCC Unions and its management, a tentative agreement was reached (and later on endorsed by GDRC in December 2009) to resolve both its retiree and salary arrears issues. This agreement was subsequently followed by a second agreement in February 2010 which stipulates the following:

- SNCC and its Unions agree to a temporary lifting of the implementation of the collective labor agreement clause that forces full payment of pension indemnities and salary arrears for an employee having reached retirement age before it can go into retirement;
- In turn, SNCC management committed to pay all retirement departure indemnities owed to a retiree at the time of its retirement as well as, within one year of retirement, to devise a solution to pay retirees who have not received the title of their housing in compensation of their salary debt in 2007 a first tranche of salary arrear payments equivalent to twelve (12) months of salary.

Table 2: SNCC's Estimated Social Liability (US$ million)

	Number of employees	Total			Bank funding (PSDCP+MTP)			SNCC and/or government funding		
		Departing indemnities	Salary arrears*	Total liabilities	Departing indemnities	Salary arrears *	Total	Departing indemnities	Salary arrears	Total liabilities
Eligible for retirement at the end of 2009	2,498	27	23	50	27	0	27	0	23	23
Eligible for retirement between 2010 and mid-2012	1,270	18	13	31	18	0	18	0	13	13
Cumulative subtotal due by mid-2012	**3,768**	**45**	**36**	**81**	**45**	**0**	**45**	**0**	**36**	**36**
Eligible for retirement between mid-2012 and the end of 2015	1,400	23	14	37	0	0	0	23	14	37
Cumulative subtotal due by the end of 2015	**5,168**	**68**	**50**	**118**	**45**	**0**	**45**	**23**	**50**	**73**
Eligible for retirement after 2015	7,132	n.a.	71	71	0	0	0	n.a.	71	71
Sub Total	**12,300**	**68**	**121**	**189**	**45**	**0**	**45**	**23**	**121**	**144**
Estimated value of salary arrears already paid for through transfer of housing assets	6,000	n.a.	40	40	n.a.	n.a.	n.a.	n.a.	40	40
Net Social Liability	**12,300**	**68**	**81**	**149**	**45**	**0**	**45**	**23**	**81**	**104**

* Status March 2010. The total figure of salary arrears reported by SNCC is US$121 million. The sub-categories were extrapolated based on this figure. The value of the housing titles transferred to 6,000 employees in return of no payment of salary arrears was estimated to be US$40 million.

- For those employees who received in 2006 and 2007 the ownership of their housing from SNCC, no payment of salary arrears would be forthcoming until such time that the value of the housing title they have received could be estimated so as to be subtracted from the debt owed to them by SNCC; and
- Finally, SNCC and its Unions agree that following the signature of this agreement, all salary arrears owed to retirees would be paid.

15. The two agreements and the implementation of the SNCC retirement plan were ultimately approved by ministerial decree on March 17, 2010.[24] The Bank will finance the retirement indemnities of each eligible retiree for up to US$45 million under the MTP and the PSDCP. This commitment is paralleled by a similar commitment from GDRC and/or SNCC to pay down SNCC's remaining social debt accumulated by both SNCC eligible retirees and non retirees by no later than the end of 2015. The gross value of this estimated debt was US$189 million at the end of March 2010 (Table 2). The net value is estimated to be US$149 million which nets out the cost of the houses transferred to staff in 2006/2007. The net amount of SNCC's social debt to be paid for by GDRC and/or SNCC is therefore estimated at US$104 million. The final figure for this debt will be known before the end of 2010 once all employees' debts have been certified (works under way by an independent auditor).

16. Since IDA can only finance a portion of this existing liability, it must ultimately rely on the government to find solutions to finance its unfunded portion. Accordingly, the US$20 million earmarked for employees' retirement assistance in the MTP will complement US$25 million already available for the same purpose under the Bank's PSDCP. As of March 2010, the estimated number of SNCC agents who could potentially benefit from this combined US$45 million through mid-2012 is around 3,768, of which 1,675 would be financed under the MTP. It is expected that this initiative will reduce SNCC's total pay-roll by more than a quarter by 2012.

17. In order to mitigate the significant risks attached to its support to SNCC's social liability issues and clearly delineate the boundary of its intervention, IDA has elected to do the following:

- It will only finance the departing indemnities, including missing contribution to DRC's social security system, owed to employees eligible for retirement who have elected to take voluntary retirement in accordance with the agreement signed between SNCC management and its unions on May 26, 2009 and amended on February 13, 2010;
- It will only finance the departing indemnities, including social security contribution, of eligible retirees whose retirement account and salary arrears sums have been certified by an independent auditor;
- It will not finance the salary arrears of any SNCC employees, eligible for retirement or not; and
- It has tied its financing of departing indemnities to: (i) the issuance of a legal opinion from the Ministry of Justice and another opinion from the Ministry of Labor received by the Bank on March 17, 2010, certifying that the agreement signed between SNCC

[24] Government of the Democratic Republic of Congo, Arrêté Ministériel No002/CAB/PVPM/ETPS/2010 *du 17 mars 2010 portant approbation et autorisation de mise en œuvre du plan de départ en retraite des agents et de la stratégie de règlement des arriérés de salaire des agents à retraiter de la Société Nationale des Chemins de Fer du Congo, SNCC en sigle*, March 17, 2010.

management and its Unions is conforming with DRC's labor laws, and (ii) the payment of SNCC's outstanding social debts not covered by the Bank by GDRC and/or SNCC before the end of 2015 (first payment for 20 percent of the total amount, net of IDA payments, is due by no later than March 31, 2011).

18. IDA support will be disbursed using a commercial agent (commercial bank) which will be recruited transparently to pay out the retirement indemnities of each voluntary retiree covered under the MTP in key locations. The disbursement of these funds will be made in compliance with processes defined in an operation manual which will be subjected, like the selection of the commercial agent, to a Bank's no objection. If SNCC elects to pre finance retirees and wishes for the funds used to be retroactive financed by the Bank, it will have to ensure that the retirement process is non objected by the Bank before its implementation and that its actual execution can be certified post ante by the Bank. As such, SNCC will have to assume all risks, financial and others, associated with a possible rejection by the Bank of its retroactive financing request.

vii. Training, management, administrative and monitoring costs (US$20.45 million)

19. This will cover personnel recruitment and training costs, the monitoring, tendering and financing of the SNCC management contract until 2013, technical support and quality assurance during the implementation of works, audits of annual financial accounts, the development of a strategy on the cooperation with mining companies and impact monitoring surveys for Component 1.

1. Recruitment and personnel training (US$5 million)

20. Due to an aging workforce SNCC will lose almost 60 percent of its staff over the next 10 years through retirements (until 2020). It is therefore obliged to set up an aggressive recruitment plan in order to guarantee the knowledge transfer to new and younger staff. Since SNCC is unable to hire qualified new staff and pay for their training, the Bank agreed to cover these costs while the new staff is under training and before he/she becomes a full fledged staff member (but no longer than one year). The personnel recruitment and transfer of key personnel skill is crucial for the institutional memory and the long-term competitiveness and survival of SNCC.

2. Performance monitoring, tendering and initial financing of the management contract (US$12.75 million)

21. SNCC management still lacks the essential competencies to manage the company. It is, therefore, necessary to extend the current stabilization/management contract with a private firm at least until 2015. Before then GDRC will have defined a long term strategy for SNCC as a commercial company including a new management plan under a private operator. As it stands, it is expected that the existing stabilization contract which is due to expire in August 2010 will be extended by one year. During that time, a competitive international tender will be launched to recruit a private operator under a five year management contract that will be financed for up to US$12.75 million by the MTP. In order to ensure the strengthening of the stabilization contract in the interim period, however, two additional key personnel positions covering SNCC finance

and human resources department will be attributed to the current firm holding the stabilization contract. The additional year of the stabilization contract will be financed by the PSDCP.

22. In addition, the monitoring of the management contract performance will be financed (US$0.25 million).

3. *Technical support during implementation works (US$0.75 million)*

23. Under this component, different consultants will be recruited to provide technical support and quality assurance of track works.

4. *Audits, procedure manuals and reviews (US$1.05 million)*

24. This component will finance: (i) annual procurement audits, and (ii) independent procurement reviewers. In the first case, the audits will encompass a sampling of contracts awarded during the prior year spanning all types of contracts (goods, works, consultant, services), all values (from as low as US$10,000 to as high as >US$10,000) and all source of financing (IDA and non IDA). The goal of these audits will be to evaluate each company procurement performance using parameters such as: (i) compliance with procurement procedures, (ii) quality of bidding evaluation and (iii) quality of record keeping. Table 3 below illustrates the detailed evaluation parameters which will be used as part of these audits. In the second case, independent procurement reviewers financed by the MTP under single year non renewable contract will be joining the evaluation commissions of each SOE to witness and report back to SOE managements and the Bank on the quality, transparency and fairness of the proceedings of these commissions. These individual reviewers will be provided by SOE procurement department the monthly list of all procurement dossiers under review. Based on this information, they will decide randomly to attend at least five monthly meetings while making sure that they cover diverse type of procurement methods and values.

Table 3: Sample table of procurement assessment audits for transport SOEs

Criteria	Goods contracts	Works contracts	Consultant/service contracts
Adequacy of the bidding Documents	Yes/No	Yes/No	Yes/No
Advertisements	Yes/No	Yes/No	Yes/No
Ready Availability	Yes/No	Yes/No	Yes/No
Pre-Bid Meeting	Yes/No	Yes/No	Yes/No
Addenda	Yes/No	Yes/No	Yes/No
Timely Recorded Public Opening of Bids	Yes/No	Yes/No	Yes/No
Content and Evaluation of Bids	Yes/No	Yes/No	Yes/No
Approval of Award	Yes/No	Yes/No	Yes/No
Contract Negotiations	Yes/No	Yes/No	Yes/No
Contract Compilation	Yes/No	Yes/No	Yes/No
Institutional Process	Yes/No	Yes/No	Yes/No
Implementation of Institutional Process	Yes/No	Yes/No	Yes/No
Total Yes/No			

Source: World Bank, 2010

25. In addition, this component will also finance the production of procurement, administrative and financial procedure manuals and audits of annual financial accounts of SNCC.

5. *Definition of a strategy for increased cooperation with mining companies and develop standard contracts for agreements (US$0.20 million)*

26. This component will finance the development of a strategy for increased cooperation with mining companies and develop a standard contract agreement designed to mobilize mining firm investment financing in SNCC rolling stock and/or infrastructure. Additionally, the study will make recommendations on SNCC's tariff structure with a special emphasis on mining tariffs in order to preclude cross-subsidies between SNCC various freight transport activities.

6. *Monitoring the impact on direct project beneficiaries (US$0.20 million)*

27. This component will finance, starting in 2011, a bi-annual customer satisfaction survey for ONATRA and SNCC rail passengers. This survey will be conducted at ONATRA and SNCC primary train stations by locally recruited NGOs. It will also identify the percentage of women among all train passengers.

7. *Analysis on use of pensions by retirees (US$0.25 million)*

28. Ongoing inspection panels on several social plans financed by the Bank in DRC have shown that a need exist to monitor the use and impact of any payment made by the Bank as part of social plans. In the case of the SNCC, while the support to retiree will not entail the implementation of reintegration plans, it will still be necessary to monitor how eligible retirees have ultimately used the money they have received. Accordingly, several local NGOs will be recruited to monitor and analyze in several key locations along SNCC network the spending and saving patterns of SNCC retirees.

Component 2: Operational performance strengthening and improved governance of the sector (US$25.45 million)

i. Support to the MoT (US$1.80 million)

1. *Institutional audit of the MoT (US$0.25 million)*

29. The DRC transport sector was traditionally dominated by SOEs. As these companies are being restructured under public private partnership schemes, the role of the MoT will shift from a hand-on management to a technical and economic regulation of the sector until independent regulatory bodies are instituted and become fully operational as contemplated under the new transport law being discussed at Parliament. Adoption of such reform could take years.

30. To help the MoT address the sector's requirement for a better oversight, the project will finance an institutional audit of the MoT, including the evaluation of its current organization,

procedures, staffing, human resources and materials and equipments, and the clarification of its the new role and responsibilities, the required structure, organization, materials and equipments, staffing, and to develop a related training program.

2. Training for agents of the MoT (US$0.50 million)

31. Most of the key staff within the MoT has been transferred to the SOEs as they were spun off in the 1970s. With the further deterioration of the economic conditions of public servants the Ministry was not able to recruit new talents or to develop new skills from internal resources. Today, one of the priority need of the Ministry is the building of the capacity of its remaining staff with regard to the new role the government will have to play in the regulation of the sector. The training of agents of the ministry will be provided under the project whether through participation to scheduled program or the development of tailor-made training programs for the specific needs of the ministry. Details of the training program will be recommended by the aforementioned institutional audit of the ministry.

3. Acquisition of equipment for the MoT (US$0.25 million)

32. The MoT lacks basic equipment to carry out its policy development and technical regulatory role. The nature and extent of the equipment required will be defined as a result of the institutional audit to be executed. Specific attention will be given to the sustainability of the proposed acquisitions in order to make that proper internal funding will exist within the Ministry to maintain the equipment that will be acquired as part of the project.

4. Transport SOEs governance plan (US$0.30 million)

33. As part of the overall reform of the SOEs, the MTP will assist the MoT, the MoP and the MoF in the design of a framework and mechanisms to improve the governance of transport SOEs. The plan will minimally include adoption by these firms of an ethics code, a whistle blower mechanism, an anti corruption hotline, as well as will be augmented by initiatives to harmonize procurement and FM rules among the targeted SOEs and ensure their transparency. Another pillar of this Governance Plan will relate to the role, mission, mandate, size and costs of SOE's board of directors and relation with their unions. The adoption and implementation of this Plan will be done through a consultative process (see Annex 14).

5. Support to governance plan implementation (US$0.50 million)

34. The MTP has further allocated resources to support the implementation of the governance plan which will be adopted by GDRC through technical assistance to both the SOEs and the relevant ministries and the financing of related investments.

ii. Support to RVM (US$1.40 million)

1. Audits of annual financial accounts (US$0.15 million)

35. The project will finance the 2010 audit of RVM financial accounts in order to promote the implementation of a proper accounting and reporting system, to improve the understanding of the economic and financial situation of the company and to define a baseline for its reform.

2. Acquisition of two boats including equipment for hydrographic studies (US$1.25 million)

36. RVM is the parastatal in charge of bathymetric surveys and studies of the 150 km long maritime branch of the Congo River between the Ocean and Matadi. It is also responsible for developing and maintaining the access routes to Matadi. Between Boma and Malela, the river access route crosses a floodplain which is 60 km in length and 20 km in width (around 1,000 square km). This floodplain is composed of meanders whose water depths vary from 3 to 5 meters. At this location, access routes for boats going to Matadi need to be charted and monitored at all times. The supervision of the river way requires extensive hydrographic monitoring using sophisticated hydrographic instruments. For this reason, The MTP will finance the acquisition of two boats capable of conducting bathymetric, hydrometric and sedimentation studies to reinforce the capacity of RVM to identify optimal navigation routes to Matadi as well as planning for the dredging, signaling and piloting of freighters between the Ocean and Matadi.

iii. Support to RVF (US$3.85 million)

1. Study on the creation of a navigable waters maintenance fund (US$0.27 million)

37. RVF is the parastatal enterprise in charge of managing DRC's extensive network of rivers and lakes. It is responsible for dredging and mapping watercourses for the upper section of the Congo River and its tributaries, as well as of all other rivers throughout the country. As it does not provide commercial services, RVF is to be transformed into a government agency in the coming years.

38. Traditionally, RVF has been financed by a navigation tax which has remained as its sole direct source of revenues. This tax covers around 60 percent of its budget while GDRC is supposed to contribute for the remaining 40 percent. GDRC has never been able to meet its financial obligation towards RVF, however, fortunately, between 1986 until 1992, RVF was able to receive money instead, from the road maintenance fund. Since then, RVF has had to endure shortage of finds which has caused havoc on its capacity to fulfill its missions. GDRC is committed, nevertheless, to launch a study to review the feasibility of establishing a new river maintenance fund or to design any other mechanism to finance RVF's operations.

2. Retirement plan support (US$0.75 million)

39. Similar to most of DRC's SOEs, RVF is not able to finance the retirement of a number of its eligible personnel. On one hand, this causes major stress to the concerned employees that are not able to cash their departing indemnities while on the other hand the situation causes prejudice

to the company as it continues to pay salaries of inactive staff and is unable to recruit new ones as its finances are strained. Accordingly, the MTP will provide assistance to expedite the retirement of an estimated 77 eligible retirees by the end of 2010, through the payment of their departing indemnities and pensions as certified by an independent auditor. The MTP will apply the same approach for RVF as in the case of the SNCC retirement plan. The project's support will be tied to the issuance of a legal opinion from the Ministry of Justice and the Ministry of Labor certifying that the agreement signed between RVF management and its Unions is conforming with DRC's labor laws, (ii) the payment of any possible outstanding social debt not covered by the Bank by GDRC and/or RVF, and (iii) the actual removal of the eligible agents from the enterprise's payroll. Accordingly, the payment of any salary arrears which would need to be paid for these staff to be retired by RVF will have to be certified and confirmed before the Bank can start disbursing departing indemnities and pensions. As needed, the project will finance the certification of the retirement indemnities as well as any related technical assistance to facilitate the implementation of the retirement plan.

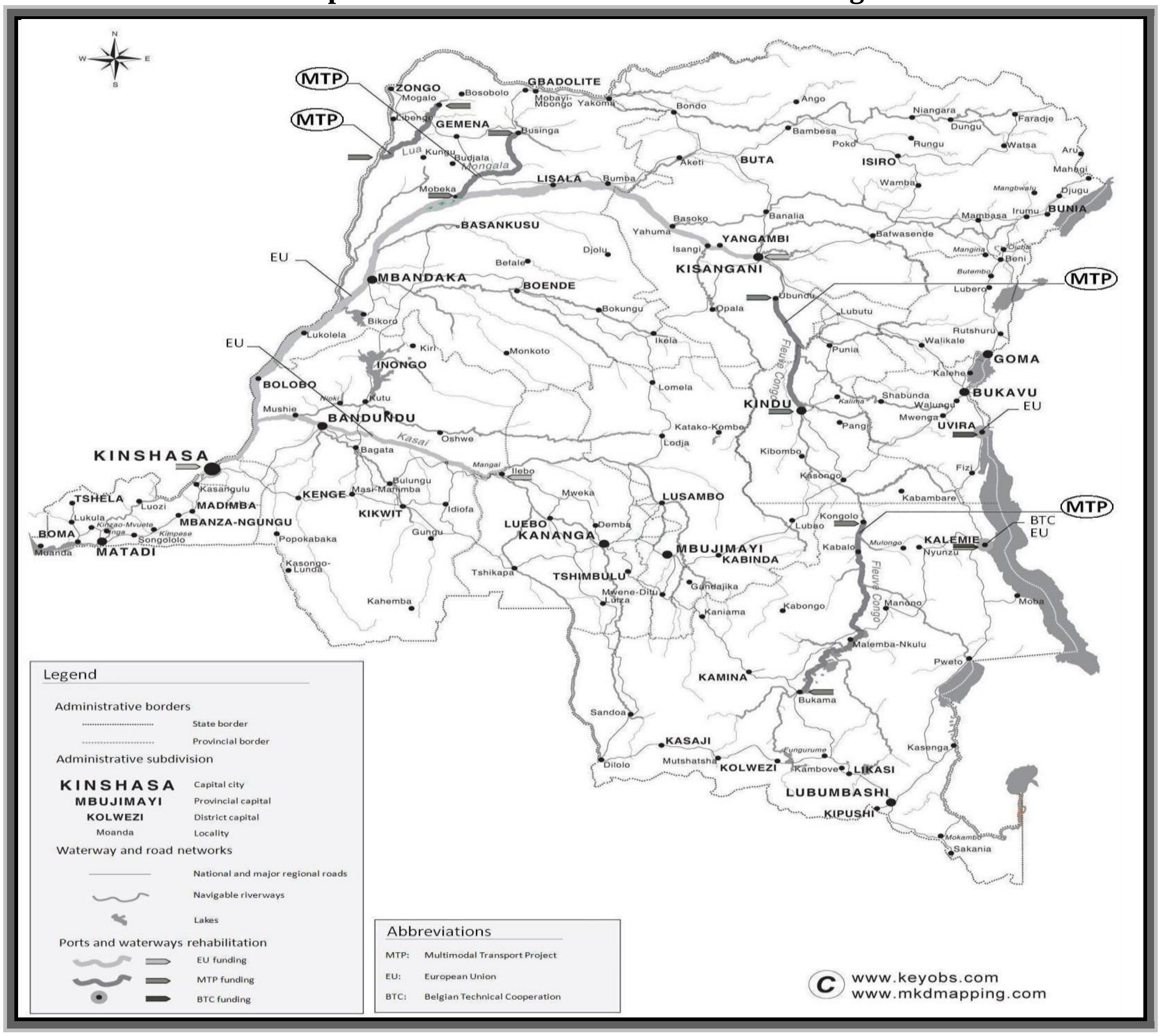
3. Technical studies on the rehabilitation of the river markings (US$0.08 million)

40. Almost no maintenance operation has been conducted on river markings in DRC over the last 20 years. No reliable information is available as to exact state of the situation but it is believed that signage is mostly destroyed or absent. To help plan the project's rehabilitation activities, the project will finance the inspection of the navigable sections of the Lualaba River, mainly the sections of Ubundu-Kindu (308 km) and Kongolo-Bukama (645 km) that complement the SNCC railroad network along the Lubumbashi-Kisangani Corridor. Also included in the program are the Mogalo-Oubangui section of the Lua river (141 km) and the Businga-Mobeka section of the Mongala river (342 km) in the agricultural rich North-Western part of the country (Equator province). The purpose of the study is to assess the current situation, define the need and location for new or rehabilitation of markings and develop a detailed and budgeted plan to improve the navigation and security on the river. The study will be conducted internally by RVF staff under the supervision of a senior consultant.

4. *Rehabilitation of river markings for navigable waters (US$2.60 million)*

41. From the results of the technical studies, the project will finance the acquisition of materials, the construction of markings, their implementation, maintenance and replacement along the selected sections of the Lualaba, Lua and Mongala rivers to improve both day and night time navigation, reduce risks of entrenchment and delays, augment the annual turnover of boats and improve the profitability of operations. Over the five years lifespan of the project, around 10,000 new or replacement markings are expected to be installed. As part of the activity, the hydrometric network will also be rehabilitated through the installation of scales and depth gauging sections. These interventions complement the waterway rehabilitation activities supported by the European Union (EU) through the 10th European Development Fund (EDF) and the Belgian Technical Cooperation (BTC) and improve the integration of the intermodal network with SNCC regarding the West-South Corridor and the South-North Corridor (see Map 3 below).

Map 3: RVF Rehabilitation of River Markings



Source: RVF, 2010

5. *Awareness raising campaign to discourage vandalism of river markings (US$0.15 million)*

42. Local population have traditionally vandalized river markings, stealing wooden pieces to construct doors or coffins, converting metallic buoys to pots and barbecue stands, or just to facilitate fishing activities. Markings have also been destroyed by locals to substitute their services of ship piloting in an attempt to develop new sources of revenue.

43. The project will contract with local NGOs to identify key opinion leaders and relays, and to conduct information, education and communication campaign on the need to preserve river markings, study and develop contingency plans, open and operate local complaints/suggestion books and develop a monitoring system to provide feedback on the preservation of the markings. This activity will be carried out on both sides of the sections of rivers that interest the project, i.e. over a total of 3,000 km.

iv. Support to RVA (US$10 million)

44. As part of its restructuring, RVA is embarked in a US$300 million program, with Aéroport de Paris Ingénierie (ADPI) providing technical and managerial support, to rehabilitate existing airport and air traffic facilities, rationalize operations and build internal capacity. This program, to be implemented over a period of 10 years, is designed to help the company drastically improve safety, expand capacity and grow both its passengers and freight traffic.

1. Audits of financial accounts and procurement procedures (US$0.40 million)

45. The project will contribute to the financing of this program with a number of selected activities with the objective to fast track the reform agenda and address immediate/urgent needs until further financing are secured for the overall plan. It will finance the 2010 audit of RVA financial accounts so as to promote the implementation of a proper accounting and reporting system, to improve the understanding of the economic and financial situation of the company and to define a baseline for its reform.

46. This component will also finance annual audits of procurement activities and the recruitment of an external procurement reviewer in a way similar to the one described for SNCC.

2. Study for a new freight terminal at the international airport of Kinshasa/ N'Djili (US$0.60 million)

47. The airport of Kinshasa/N'Djili remains the most active airport freight terminal of the country, with 100,000 tons of traffic, representing 36 percent of the total handled by RVA in 2008.[25] Despite its importance, the existing facility is not in line with international standards and regulations and its location does not provide for room to grow nor to facilitate the proper handling of materials. The terminal is too small, old and the vast majority of the traffic is processed outside the existing warehouses, outside the airport premises.

48. The project will finance the design of a new freight terminal that could be used for both domestic and international traffic and operated in compliance with the International Air Transport Association (IATA) procedures at N'Djili airport. This new terminal will be located as planned in the new airport complex master plan to rationalize the overall flow and operations with regard to current and planned runways, parking and passenger traffic.

3. Study of a national development plan for the secondary airports (US$0.75 million)

49. While RVA manages 51 airports, close to 80 percent of the traffic is concentrated on the first 5 ones. Most of the smaller airports do not possess the adequate infrastructures nor offer the services demanded by the airline industry. Many of them are without terminal buildings, do not have separate freight/passenger facilities or processes, nor inspection or filtering stands. A study has to be conducted to clarify their roles and missions within the overall DRC airports system and to help RVA structure an offer of airport infrastructure and services in line with demand.

[25] RVA, "2008 annual report", 2009.

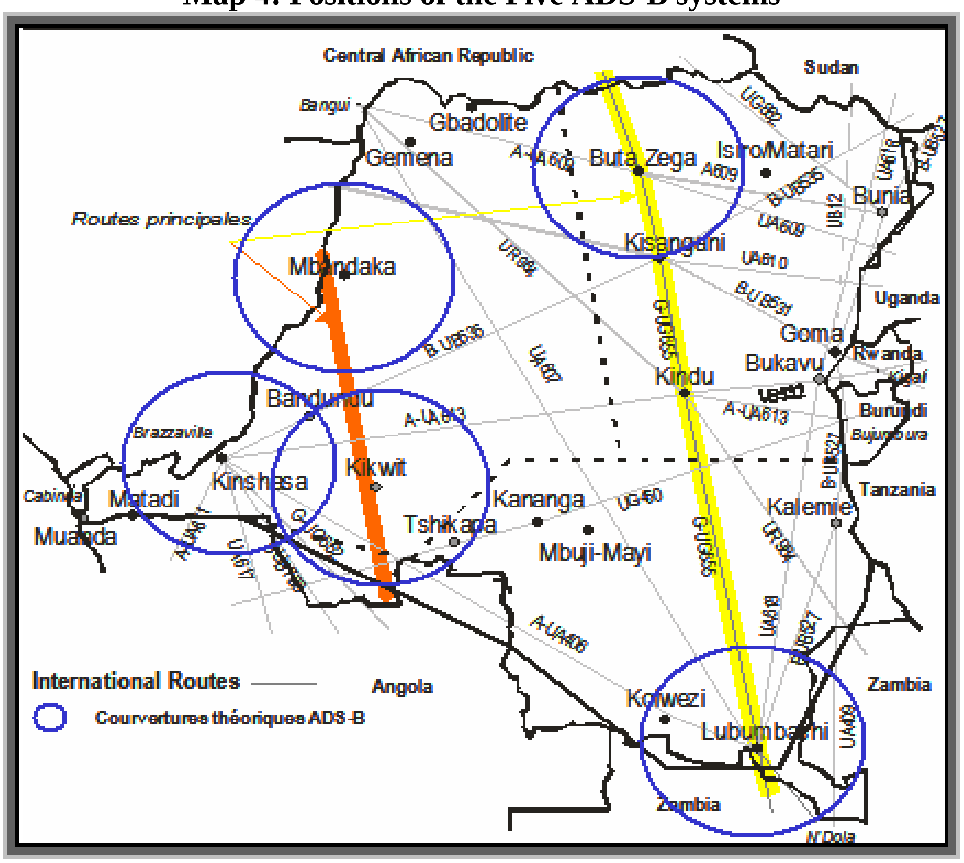
This study will include the projection of traffic in a reorganized airport system structure and the elaboration of a strategic, technical, financial and operational master plan for the development of the secondary airports.

4. Acquisition of air navigation and control equipments (US$5.25 million)

50. RVA provides air navigation assistance over the entire country from the N'Dolo/Kinshasa regional control center. The service is based on High Frequency (HF) and Very High Frequency (VHF) radio communications and represents a mediocre, unreliable system due to the obsolete technology, the poor state of the equipments, and the lack of a visual representation of traffic to assist the controller. As a result, flights separation is significant so as to preserve safety, while air traffic controllers are unable to provide optimal route or trajectory for DRC air space users, resulting in added operating cost for airlines serving the country.

51. The project will finance the acquisition and installation of an automated air navigation and control system at Kinshasa, five Automated Dependent Surveillance-Broadcast (ADS-B) stations at Kinshasa, Lubumbashi, Buta, Mbandaka and Kikwit, and one Very Small Aperture Terminal (VSAT) station at Kikwit as described in Map 4 below. This will enable RVA to be compliant with the recommendations of the International Civil Aviation Organization (ICAO). In addition, RVA staff will be trained in the operation of this new set of systems. Expected outcomes from this investment include, the improvement of air traffic control and security, and the increase of traffic and revenue.

Map 4: Positions of the Five ADS-B systems



Source: RVA, 2010

5. Acquisition of one ILS/VOR/DME system (US$1.50 million)

52. The current ILS/VHF Omnidirectional Range/Distance Measuring Equipment (ILS/VOR/DME) system at Kinshasa/N'Djili airport is rather new but is facing mounting maintenance issues as RVA cannot find spare parts for its maintenance due to the uniqueness of its design. Since the rehabilitation works of N'Djili runway is underway to improve air operations safety, the continuous use of the current ILS/VOR/DME system will not participate in the strengthening of airport safety. Accordingly, the project is proposing to finance the acquisition of a category II ILS/VOR/DME system to improve accessibility of the runway in time of severe weather. This acquisition will include the training of the personnel required for its operation.

6. Training for RVA agents (US$1.50 million)

53. Aside from the training included in the acquisition of the new equipments, the project will finance the training for RVA agents in air traffic control, airport rescue and fire fighting and of air traffic service electronic personnel. The training will be organized at international training centers and will benefit around 176 additional staff.

v. Support to ONATRA (Office National des Transports) (US$8.40 million)

1. Audit of financial accounts and procurement procedures (US$0.40 million)

54. The project will finance the 2010 audit of ONATRA financial accounts so as to promote the implementation of a proper accounting and reporting system, to improve the understanding of the economic and financial situation of the company and to define a baseline for its reform.

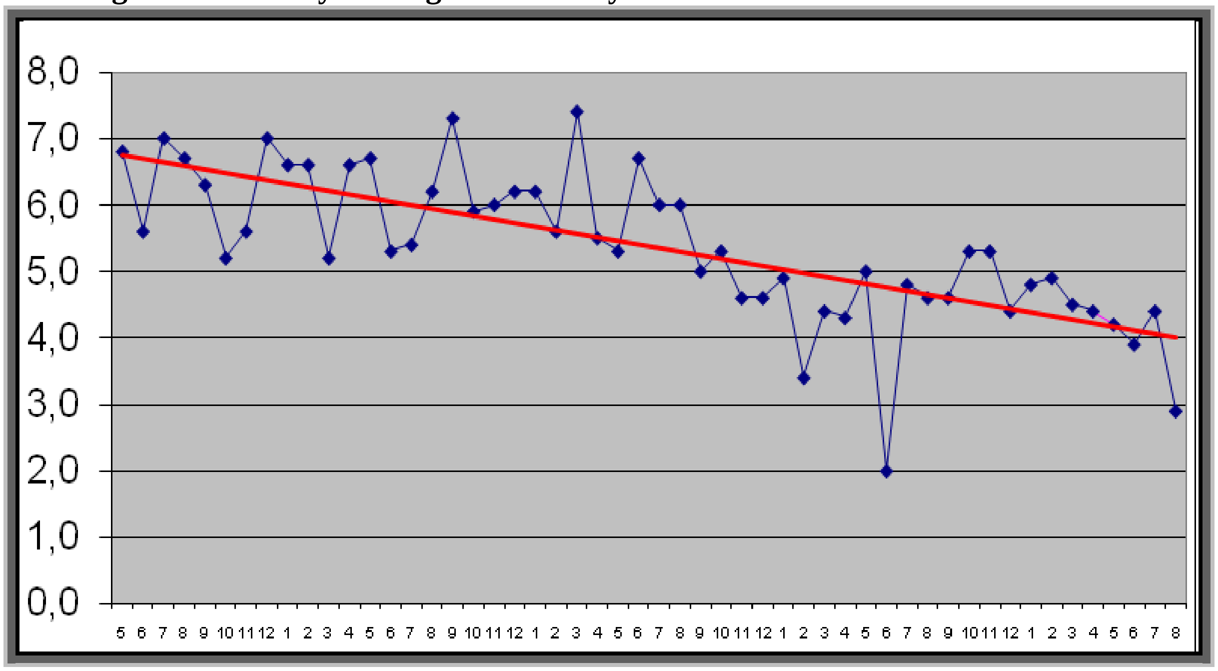
55. This component will also finance annual audits of procurement activities and recruitment of an external procurement reviewer in a way similar to the one described for SNCC.

2. Acquisition of five locomotives (US$6 million)

56. The main locomotives fleet of ONATRA's railway branch, the *Chemin de Fer Matadi Kinshasa* (Matadi to Kinshasa Railway) (CFMK), is in disrepair. Out of 27 locomotives, only 4 were operational as of January 2010 (see Figure 4). Furthermore, ONATRA lacks the capability to properly maintain its rolling stock as shown by the fact that out of 5 re-motorized locomotives between 2004 and 2006, only 2 today remain operational.

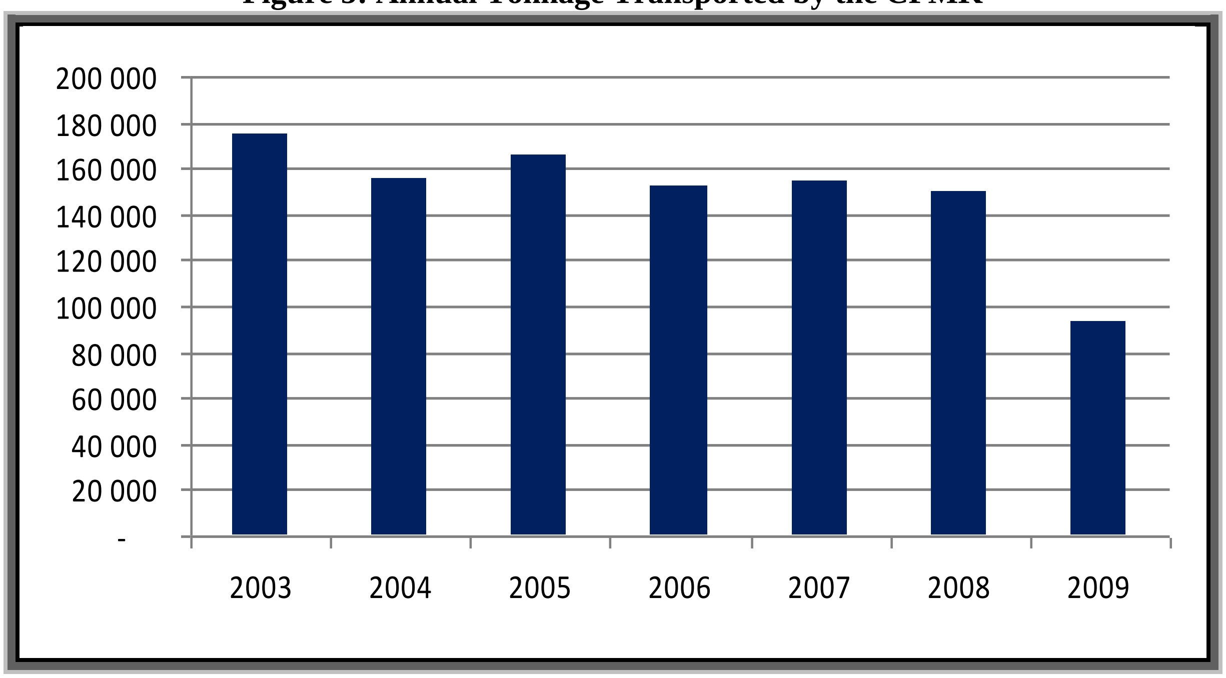
57. Two of the remaining locomotives are dedicated to CFMK (Matadi-Kinshasa railway), while the other two are assigned to urban transportation and are available for freight services only during the weekends. In 2009, CFMK transported 93,700 tons of freight down from 165,000 tons in 2005 (see Figure 5). This low number pales in comparison to the estimated annual traffic of 2 million tons of freight transported between Matadi and Kinshasa annually. It also highlights the dramatic loss of competitiveness of the CFMK on this vital transport corridor where it used to enjoy a 90 percent market share in the early nineties.

Figure 4: Monthly Average Availability of CFMK Locomotives 2005 to 2009



Source: ONATRA, 2010

Figure 5: Annual Tonnage Transported by the CFMK



Source: ONATRA, 2010

58. In order to attempt to restore CFMK's transport capacity and gradually capture back market share along the Matadi-Kinshasa corridor, the MTP will finance the acquisition of five new diesel 1,800 horsepower (hp) BB[26] locomotives. These locomotives will provide a 50

[26] Refers to locomotives with dual front and back axles.

percent increase towing capacity over ONATRA's existing fleet of 1,200 hp BB locomotives for similar fuel consumption. This will allow ONATRA to lower significantly its operating cost per ton transported and, thus, improve its overall competitiveness vis-à-vis road haulers between Kinshasa and Matadi. As part of this investment, ONATRA's locomotives conductors as well as maintenance engineers will receive training to ensure proper use and dispatch reliability of the new locomotives. This investment, however, is tied to the production and adoption of a recovery plan by GDRC for ONATRA which is satisfactory to IDA.

3. *Acquisition of 25 freight wagons (US$2 million)*

59. In 1960, ONATRA fleet of wagons consisted of 3,010 cars with further 48 wagons for services (gravel pits, etc.). Since 1960 no acquisition of towed equipment has been made, the last major operation was the installation of 2,800 box rolls in 1992. At the end of 2008 only 887 wagons were still in the CFMK's fleet, out of which only 234 were available for transportation services, including, 46 for container loads and 103 for both containers and wood logs. With the proposed increase in traction capacity that the acquisition of five (5) new locomotives will deliver, the acquisition of an additional 25 new dual use (wood logs and containers) freight wagons is seen as essential for ONATRA to be able to offer block freight trains from Matadi to Kinshasa as well as increase its transport capacity to about 200,000 tons of traffic within a period of 5 years. This investment, however, is tied to the production and adoption of a recovery plan by GDRC for ONATRA which is satisfactory to IDA.

Component 3: International trade procedures simplification (US$2 million)

60. The leadership of the initiative will rest with the Ministry of Finance (MoF) who will coordinate with other involved ministries including the MoT and the Ministry of Commerce (MoC).

1. *Implementation strategy for international trade reform (US$0.80 million)*

61. DRC is a member of the World Trade Organization and of a number of regional organizations such as the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of Central African States (ECCAS) that pursue the development of a free trade area and a common market among neighboring countries. To prepare for the implementation of these agreements and in light of the ongoing study on the facilitation of international trade, the MTP will finance a study to help the MoT define a strategy and develop an action plan, including materials, equipments and infrastructures investments, to facilitate the flow of goods at borders along DRC main transport corridors.

2. *Support to international trade process reform (US$1.20 million)*

62. The MTP has allocated resources to support the implementation of the strategy for trade facilitation which will be adopted by the GDRC. This support could include goods and works investments as well as technical assistance.

Component 4: Project management (US$8.70 million)

1. *Execution of Component 1 by CEPTM (US$3.50 million)*

63. The execution of Component 1 will be under the oversight of the Project Unit of the CEPTM which will be created within SNCC. The MTP will finance the operating costs of the Unit, including the services of consultants, training, audit services, banking services cost, as well as the acquisition and operation of logistical and relevant software equipment. However, since the Unit is linked directly to the activities of the SNCC, it is expected that by 2013 the SNCC will be able to bear the costs of its operations. Thus, the amount allocated to its financing has been limited to US$3.5 million.

2. *Execution of Components 2 and 3 by CEPTM (US$4.70 million)*

64. Execution of Components 2 and 3 will be coordinated by the CEPTM located within the MoT. The MTP will also finance the operating costs of this PME, including the services of consultants, training, audit services, banking services linked to the importation of goods and maintenance of the accounts, as well as the acquisition and operation of logistical equipments. Since the CEPTM will be lodged within the MoT and will coordinate activities benefiting multiple SOEs, its overall operating costs for up to five years will be financed by the Project. Ultimately, it is expected that the CEPTM will constitute the nucleus of a new sets of management capacity within the MoT as this PME represents a transitional while the MoT builds capacity.

3. *CEPTM auditing (US$0.50 million)*

65. This project element will finance the auditing of the accounts and expenditures of CEPTM annually.

Annex 5: Project Costs
Democratic Republic of the Congo: Multimodal Transport Project

Table 1: Project Costs

Responsible Party	Description	Estimated Cost (US$ equivalent)		
		Baseline (including physical contingencies)	Estimated taxes and duties (1)	Total
Component 1: SNCC recovery plan				
CEPTM/ SNCC	Acquisition of spare parts for the rehabilitation of existing rolling stock + two years maintenance program	29,399,000	882,000	30,281,000
CEPTM/ SNCC	Acquisition and rehabilitation of workshop and logistics equipment	7,345,000	220,000	7,565,000
CEPTM/ SNCC	Rehabilitation of telecommunications, energy supply and weighing machines	4,801,000	144,000	4,945,000
CEPTM/ SNCC	Acquisition of supply material for the rehabilitation works of 200km	36,063,000	1,082,000	37,145,000
CEPTM/ SNCC	Implementation of the rehabilitation works of 200km	22,330,000	670,000	23,000,000
CEPTM/ SNCC	Acquisition of supply material for the rail track upgrade works of 487km	3,107,000	93,000	3,200,000
CEPTM/ SNCC	Implementation of 487km rail track upgrade works	9,709,000	291,000	10,000,000
CEPTM/ SNCC	Related activities (buildings, safety, environment, connection to riverways)	6,981,000	209,000	7,190,000
CEPTM/ SNCC	Reimbursement of eligible operational costs	52,427,000	1,573,000	54,000,000
CEPTM/ SNCC	Personnel recruitment and training	5,000,000	0	5,000,000
CEPTM/ SNCC	Administrative logistics	1,043,000	31,000	1,074,000
COPIREP	Financing of the management contract	12,379,000	371,000	12,750,000
COPIREP	Management contract performance monitoring	250,000	0	250,000
COPIREP	Annual audits of procurement activities	300,000	0	300,000
COPIREP	Recruitment of external Procurement Reviewer	150,000	0	150,000
CEPTM/ SNCC	Production of procurement, administrative and financial procedure manuals	150,000	0	150,000
CEPTM/ SNCC	Technical support during implementation works	750,000	0	750,000
CEPTM/ SNCC	Definition of a strategy for increased cooperation with mining companies and develop standard investment financing agreements	200,000	0	200,000
CEPTM/ SNCC	Audits of SNCC annual financial accounts for five years	450,000	0	450,000
CEPTM/ Commercial Agent	Retirement Plan Support	19,417,000	583,000	20,000,000
CEPTM	Analysis on pension spending and saving	250,000	0	250,000

	patterns			
CEPTM	Monitoring the impact on direct project beneficiaries	200,000	0	200,000
Subtotal Component 1		**212,701,000**	**6,149,000**	**218,850,000**
Component 2: Operational performance strengthening and improved governance of the sector				
	Ministry of Transport			
CEPTM	Institutional audit of Ministry of Transport	250,000	0	250,000
CEPTM	Training for agents of the Ministry of Transport	500,000	0	500,000
CEPTM	Acquisition of equipment for the Ministry of Transport	243,000	7,000	250,000
CEPTM/COPIREP	Transport SOEs Governance plan	300,000	0	300,000
CEPTM/COPIREP	Support to Governance plan implementation	500,000	0	500,000
Subtotal		1,793,000	7,000	1,800,000
	Régie des Voies Maritimes			
CEPTM/ COPIREP	Audits of annual financial accounts	150,000	0	150,000
CEPTM/ RVM	Acquisition of two boats including equipment for hydrographic studies	1,214,000	36,000	1,250,000
Subtotal		**1,364,000**	**36,000**	**1,400,000**
	Régie des Voies Fluviales			
CEPTM/ RVF	Study on the creation of navigable waters maintenance fund	270,000	0	270,000
CEPTM/ RVF	Retirement plan support	728,000	22,000	750,000
CEPTM/ RVF	Different internal studies (technical et geotechnical) on the rehabilitation of the river markings	80,000	0	80,000
CEPTM/ RVF	Awareness raising campaign to discourage vandalism of river markings	150,000	0	150,000
CEPTM/ RVF	Acquisition of river markings for navigable waters	2,524,000	76,000	2,600,000
Subtotal		**3,752,000**	**98,000**	**3,850,000**
	Régie des Voies Aériennes			
CEPTM/COPIREP	Audit of 2010 financial accounts	100,000	0	100,000
CEPTM/COPIREP	Annual audits of procurement activities	200,000	0	200,000
CEPTM/ RVA	Recruitment of external Procurement Reviewer	100,000	0	100,000
CEPTM/ RVA	Study for a new freight terminal at the international airport of Kinshasa/N'Djili	600,000	0	600,000
CEPTM/ RVA	Study to review feasibility of rehabilitation of several smaller secondary airports (N'Dolo, Tshikapa, Kananga, Bukavu et Beni)	750,000	0	750,000
CEPTM/ RVA	Acquisition of air navigation and control equipment	5,097,000	153,000	5,250,000
CEPTM/ RVA	ILS system	1,456,000	44,000	1,500,000
CEPTM/ RVA	Training for RVA agents	1,500,000	0	1,500,000
Subtotal		**9,803,000**	**197,000**	**10,000,000**

	ONATRA			
CEPTM/ COPIREP	Audit of 2010 financial accounts	100,000	0	100,000
CEPTM/ COPIREP	Annual audits of procurement activities	200,000	0	200,000
CEPTM/ COPIREP	Recruitment of external Procurement Reviewer	100,000	0	100,000
CEPTM/ ONATRA	Acquisition of five locomotives	5,825,000	175,000	6,000,000
CEPTM/ ONATRA	Acquisition of 25 freight wagons	1,942,000	58,000	2,000,000
Subtotal		**8,167,000**	**233,000**	**8,400,000**
Subtotal Component 2		**24,879,000**	**571,000**	**25,450,000**
Component 3: International trade procedures simplification				
CEPTM/ MoF	Implementation strategy for international trade process reform	800,000	0	800,000
CEPTM/ MoF	Support to international trade process reform	1,200,000	0	1,200,000
Subtotal Component 3		**2,000,000**	**0**	**2,000,000**
Component 4: Project management				
SNCC	CEPTM unit operational costs	3,500,000	0	3,500,000
MoT	CEPTM unit operational costs	4,700,000	0	4,700,000
MoT	CEPTM auditing	500,000	0	500,000
Subtotal Component 4		**8,700,000**	**0**	**8,700,000**
Grand total IDA		**248,280,000**	**6,720,000**	**255,000,000**
Government counterpart funding				
Estimated government in kind tax exemption		0	28,000,000	28,000,000
SNCC infrastructure and equipment financing		200,000,000	0	200,000,000
SNCC operating costs financing		44,000,000	0	44,000,000
SNCC social debt elimination		104,000,000	0	104,000,000
Grand total Government		**348,000,000**	**28,000,000**	**376,000,000**
Multimodal Transport Project Total Financing				
Grand total MTP		**596,280,000**	**34,720,000**	**631,000,000**

1) Identifiable taxes and duties are US$34,720,000, and the total project cost, net of taxes, is US$596,280,000. Therefore, the share of project cost net of taxes is 95 percent.

Table 2: Allocation of Project Funds (in US$)

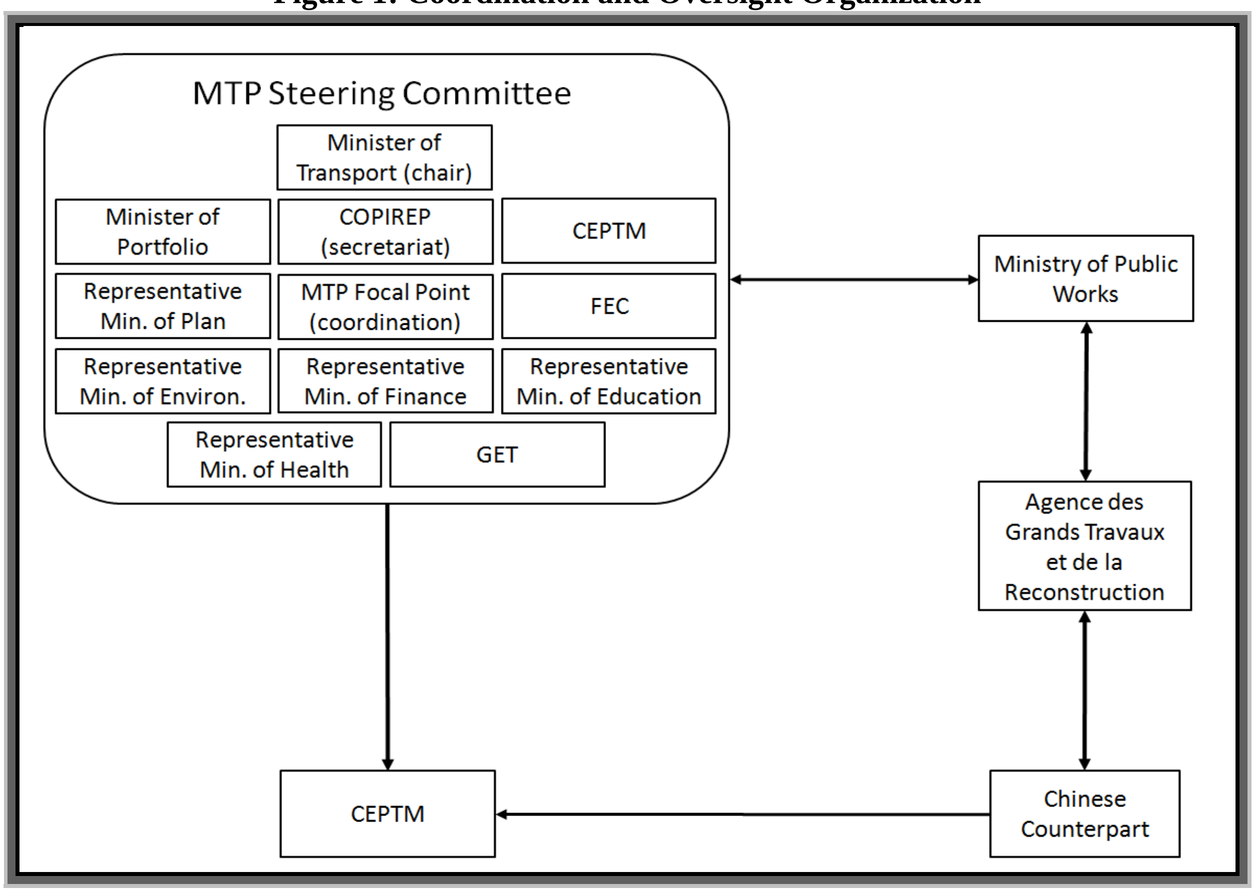
	Foreign	Local	Total
Component 1: SNCC recovery plan	119,530,000	99,320,000	218,850,000
Component 2: Operational performance strengthening and improved governance of the sector	21,805,000	3,645,000	25,450,000
Component 3: International trade procedures simplification	1,000,000	1,000,000	2,000,000
Component 4: Project management	1,320,000	7,380,000	8,700,000
Total	**143,655,000**	**111,345,000**	**255,000,000**

Annex 6: Implementation Arrangements
Democratic Republic of the Congo: Multimodal Transport Project

1. Project coordination and oversight

1. Since the reform of transport State-Owned Enterprises (SOEs) raises numerous cross cutting issues (social debt and outsourcing of health and education services), a Project Steering Committee (PSC) under the leadership of the MoT comprising representatives from the Ministries of Finance, Plan, Health, Education, Environment and Portfolio as well as representatives from the *Groupe d'Etudes sur les Transports* (Transport Study Group – GET), the *Fédération des Entreprises du Congo* (Congolese Federation of Enterprises – FEC), *Cellule d'Execution du Project de Transport Multimodal* (Multimodal Transport Project Management Entity – CEPTM) and the *Comité de Pilotage de la Réforme des Entreprises du Portefeuille de l'Etat* (Piloting Committee for State-owned Enterprises – COPIREP) was created on June 15, 2009. This PSC will ensure that the cross cutting issues generated by the project implementation are holistically addressed. Additionally, it will establish a regular dialogue and exchange with the Ministry of Infrastructure and Public Works (MIPW) which is in charge through the *Agence des Grands Travaux et de la Reconstruction* of carrying the works financed from the Chinese line of credit (see Figure 1).

Figure 1: Coordination and Oversight Organization



Source: World Bank, 2010

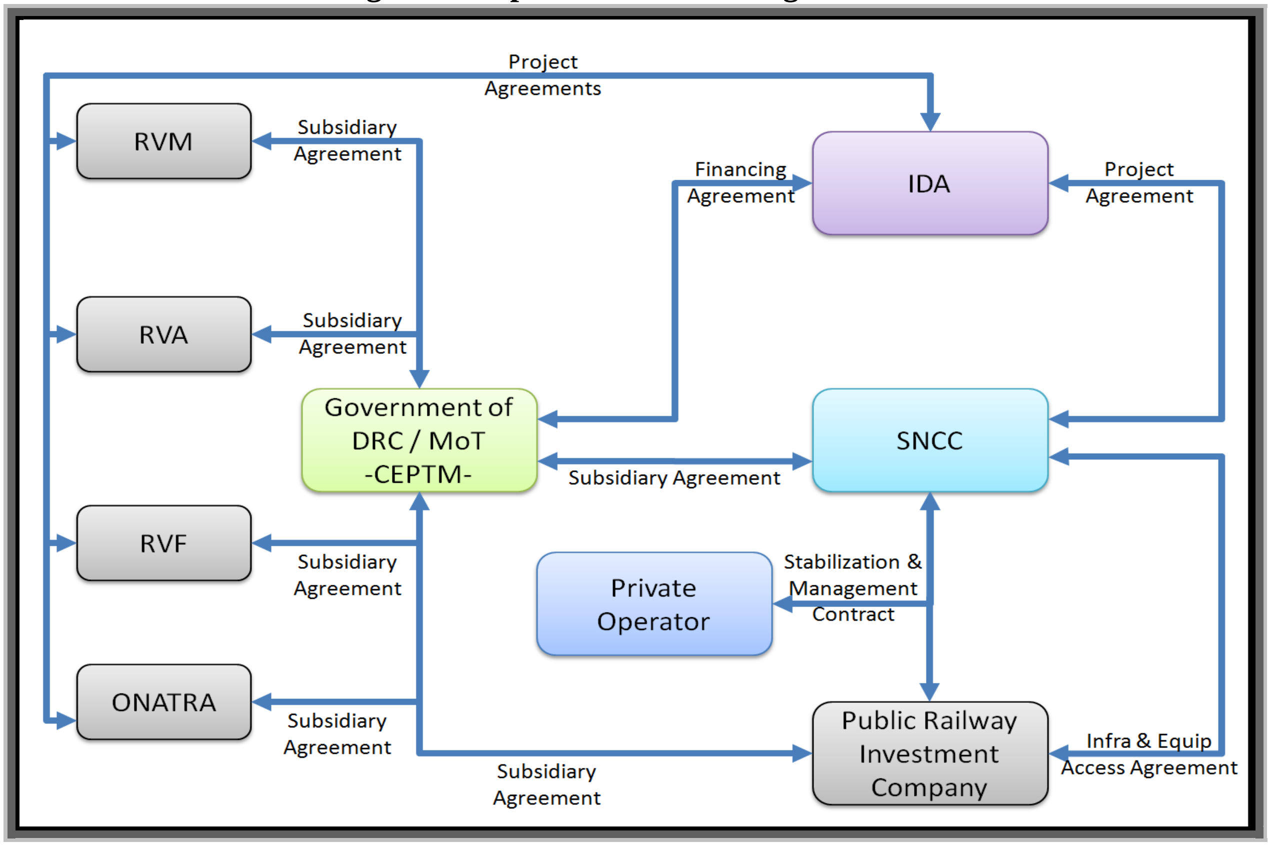
2. Implementation arrangements

2. The MTP funds earmarked for SNCC will be disbursed into a Designated Account (DA) which will be managed by an autonomous Project Management Entity (CEPTM) whose Project Unit Finance Division will be located within SNCC in Lubumbashi. The ownership of the remainder of the Component 1 investments which will be directed towards financing equipment, goods and works will eventually be lodged, if deemed legally possible, in a newly created Public Railway Investment Company (PRIC). The management of this PRIC would be delegated by the State to the same private operator who currently operates the SNCC under a stabilization contract as well as to the future private operator who will manage the SNCC as part of a five (5) year management contract. Additionally, it is envisioned that a similar approach will be used for the complementary US$200 million investment in equipment that will be financed by GDRC using the existing Chinese line of credit. Accordingly, a Subsidiary Agreement would have to be executed between the PRIC and the government to define the terms and conditions of its ownership of assets purchased for SNCC use as well as its management by the private operator designated by the State to manage SNCC. Finally, it must be noted that since the equipment and goods to be acquired under SNCC Recovery Plan will not become available at best until early 2011, the creation of the PRIC, if deemed to be legal and feasible, will not be an obstacle to initiating the implementation of the MTP in 2010

3. Figure 2 illustrates the overall institutional set up that will prevail under the MTP. It shows that:

- Component 1 of the project will be managed by CEPTM through a dedicated Project Unit based in Lubumbashi which will be located within SNCC. SNCC, as the primary beneficiary of MTP and in recognition of its administrative and financial autonomy from GDRC, will sign a Project Agreement (PA) with the International Development Association (IDA) and a Subsidiary Agreement (SA) with GDRC;
- The private operator recruited under the current stabilization contract as well as under the future management contract will manage both the SNCC and, if created, the PRIC;
- GDRC will sign the Financing Agreement (FA) with IDA; and
- SOEs benefiting from financing under Component 2 of the MTP will sign a Subsidiary Agreement with GDRC in order to provide the necessary guarantees related to the use of the equipment and/or goods and training which will be financed by IDA under the control of the CEPTM. They will also sign individual PA with IDA.

Figure 2: Implementation Arrangements[27]



Source: World Bank, 2010

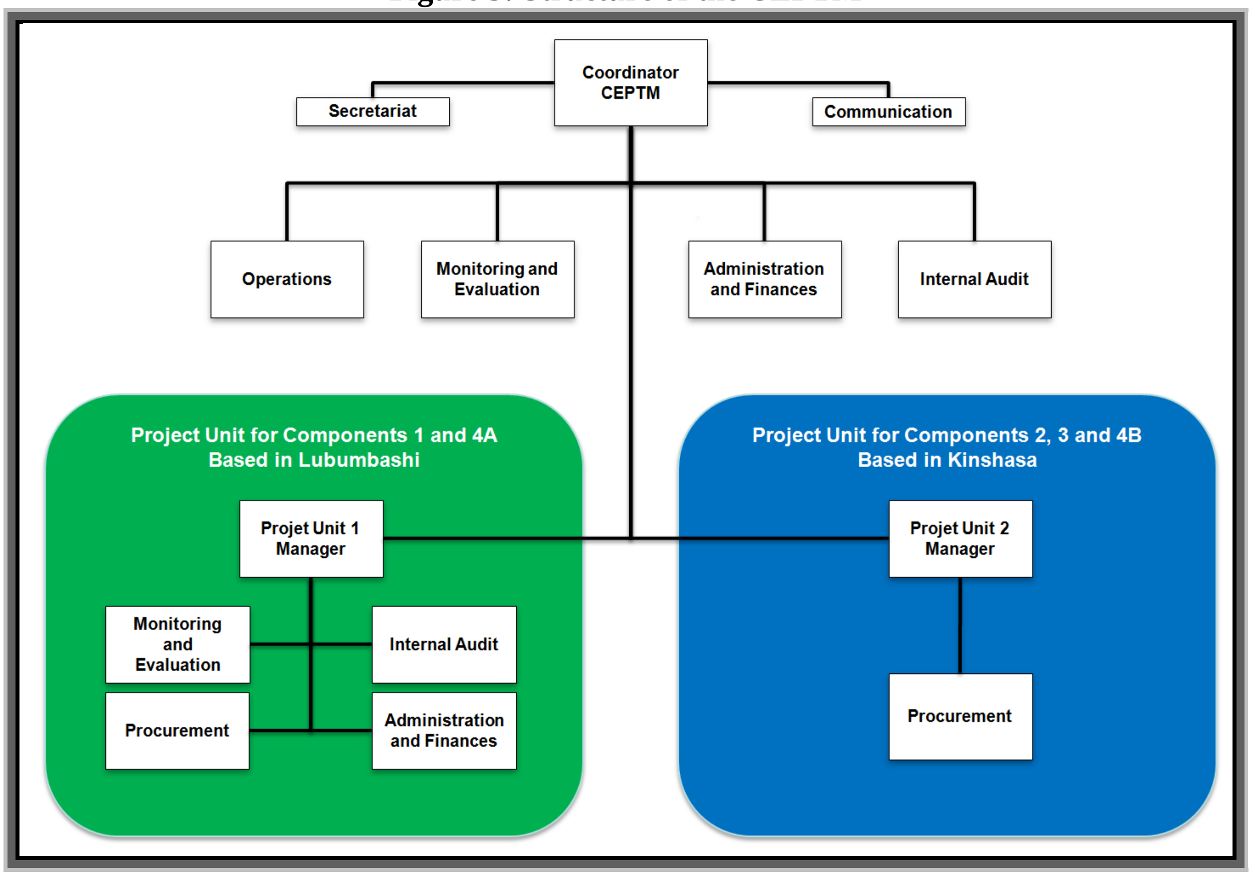
3. Project Management Entity and Project Units

4. The lack of fiduciary and project management capacity at the Ministries level will require for the MTP the use of a Project Management Entity (CEPTM) under the direct supervision of the MoT (see Figure 2). The CEPTM was created by Ministerial Order on 2/16/2010. This Order will need, however, to be amended before project effectiveness in order to reflect the decision to establish within the CEPTM two Project Units which will be responsible, respectively, for Component 1 and Components 2 and 3 of the MTP. One Unit will be located at SNCC headquarters in Lubumbashi. It will be headed by a manager appointed by the government whose skills and qualifications will be acceptable to the Bank. To ensure that this Unit of the CEPTM achieves quickly maximum operational efficiency, it may include representatives of the private operator. In addition, the Unit location in Lubumbashi will enable the required osmosis between this Unit's procurement staff and SNCC technical personnel. The Unit located in Kinshasa will be located within the CEPTM and manage the activities covered by Components 2 and 3 of the MTP. This Unit will have a lighter staffing structure than the one located in Lubumbashi as its manager and procurement experts will be able to rely on the administrative, financial and monitoring staff of the CEPTM already located in Kinshasa. The CEPTM structure and staffing are presented in Figure 3 below. It will need to be established and maintained in a manner satisfactory to the Bank at all times during project implementation.

[27] The presentation of the Public Railway Investment Company (PRIC) is illustrative and tied to legal due diligence.

5. The CEPTM operating costs will be covered by the MTP. In the case of the Project Unit located within the SNCC and in charge of Component 1, these costs will be paid for up to two years (Component 4A) or until such time that the SNCC management contract becomes effective and at which point the private management will take over the functions of the Project Unit based in Lubumbashi. For Components 2 and 3, the operating costs of the CEPTM unit located within the Ministry of Transport will be financed for the entire duration of the Project (Component 4B). With respect to its procurement activities, the CEPTM will be assisted until project effectiveness by the *Bureau Central de Coordination* (Central Coordination Office - BCECO). Once its fiduciary staff is in place, it will take over all procurement and FM related activities for the implementation of the MTP.

Figure 3: Structure of the CEPTM



Source: World Bank, 2010

4. Monitoring and evaluation arrangements

6. Each benefitting agency will be responsible for the monitoring and evaluation (M&E) of its project activities. Continuous monitoring, periodic reviews, and mid-term evaluation will be based on pre-determined indicators which will measure inputs, processes, outputs and outcomes. Performance and monitoring indicators will be as defined in Annexes 3 and 14. Mid-term reviews shall also form part of the monitoring process. The CEPTM will gather project information through its Project Units and assess the status of implementation and impact of each

project sub-component on an annual basis in a project monitoring report. The Project Units will be responsible for reporting directly to the CEPTM management on the progress and achievements of the MTP activities. The CEPTM will then report to IDA this information.

7. Because of the recognized complexity of the project's structure and activities, the supervision program for the project will be unusually demanding for the first two to three years of the MTP. Accordingly, Bank's supervision Team will require expanded financial resources to secure the assistance of specialized consultants (rail rolling stock and track expert, aviation navigational aid experts, project communication experts, governance experts, etc.). As shown in Annex 11, initial supervision costs have been estimated at US$250,000 annually versus Bank's standard of about US$100,000 for a normal transport project. As a result, the Team will be composed of two Team Leaders (one located permanently of Kinshasa as Deputy Team Leader and one in Washington DC). Additionally, procurement, financial, operational and communications experts located in Washington will assist their counterpart based in Kinshasa. Large supervision missions comprising both Washington DC and Kinshasa based staff will occur at least twice a year while local supervision missions will be undertaken at least very quarter with video conferences held with the CEPTM at least every two months during the initial two years of the Project in order to ensure close monitoring of project's achievements and implementation challenges. Finally, the communication expert located in Kinshasa will ensure that the Bank's information disclosure policy is duly implemented both by Bank's staff and project entities, including the participating SOEs and the CEPTM.

Annex 7: Financial Management and Disbursement Arrangements
Democratic Republic of the Congo: Multimodal Transport Project

1. Executive summary

1. The financial management (FM) arrangements for the Multimodal Transport Project (MTP) have been designed in consideration to OP/BP 10.02 which describes the overall FM Bank policies and procedures. Accordingly, the FM system of the MTP must be capable of: (i) correctly and completely recording all transactions related to the project; (ii) facilitating the preparation of regular, timely and reliable financial statements; (iii) safeguarding the project's assets; and (iv) can be subject to auditing diligences as required by the Bank. The arrangements also aim at facilitating disbursements and ensure effective use of the MTP's resources while using the country's own systems to the extent possible.

2. An assessment of the *Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC – SNCC) was carried out in October 2009 to check whether this State-Owned Enterprise (SOE) could manage Component 1 of the MTP. The assessment revealed significant weaknesses, mainly the following: (i) SNCC has a negative net worth, (ii) it has accumulated 39 months of salaries arrears, (iii) it has 1,380 litigations pending in various courts of Justice of the Democratic Republic of Congo (DRC) whose estimated cost could reach US$208 million, and (iv) it is virtually insolvent. Due to this situation and the weak FM system in place, it was concluded that the SNCC was not currently in a position of managing Bank's funds.

3. The FM risk after mitigation measures is deemed substantial mainly because of the above weaknesses.

4. Going forward and in order to mitigate the fiduciary risk to the extent possible, a Project Management Entity (PME) was established by a Ministerial Order on 2/16/2010: the *Cellule d'Exécution du Projet de Transport Multimodal* (Multimodal Transport Project Management Entity - CEPTM). The CEPTM will manage the investment operations of the MTP. The Order establishing the CEPTM will need to be amended in order to reflect the extended scope of responsibility bestowed upon the CEPTM as well as the establishment of two separate Project Units within CEPTM.

5. On that basis, the FM system of the project will run as follows:

- The CEPTM financial management team will be headed by a qualified and experienced Expert in Administration and Finance supported by one accountant in each of the CEPTM Project Units. These individuals will be selected using terms de reference acceptable to the Bank and will be hired prior to Project effectiveness for the Project Unit Located in Lubumbashi and within three months of Project Effectiveness for the accountant for the Project Unit located in Kinshasa. The Expert in Administration and Finance based in Kinshasa has already been hired;

- A financial management procedures manual is being prepared (first draft available) and will be adopted prior to project effectiveness;
- A computerized accounting system is being acquired and will be implemented in the two Project Units (Kinshasa and Lubumbashi) not later than three (3) months following the Project's effectiveness;
- Within three months of Project effectiveness, an internal audit unit will be established within the CEPTM. This internal audit unit will be headed by an Internal Auditor recruited competitively to ensure that the project's fiduciary and operational procedures and regulations are adhered to. The Internal Auditor will be supported by an additional Internal Auditor based in Lubumbashi. The Internal Auditors' reports will be submitted to the coordinators and the Project Steering Committee including the MoT;
- Quarterly un-audited Interim Financial Reports (IFR) will be prepared and submitted by each Project Unit to the International Development Association (IDA) within 45 days after the end of each quarter; and
- The annual financial statements of each Project Unit will be audited by one experienced audit firm which will be selected on terms and conditions acceptable to IDA. The audit reports for the CEPTM will be submitted to IDA no later than six (6) months after the end of each calendar year.

6. Two Designated Accounts (DAs), one for each of CEPTM Project Unit, denominated in US$ will be opened in local commercial banks on terms and conditions acceptable to IDA. An initial advance up to the ceiling of the DA will be made into the designated accounts and subsequent disbursements will be made against submission of Statements of Expenditures or records. Disbursements from the IDA grant will be transaction-based disbursements. The Statement of Expenditures disbursement will be used at the project effectiveness and thereafter, the option to disburse against submission of quarterly un-audited IFRs (also known as the Report-based Disbursements) could be considered subject to the quality and timeliness of the IFR submitted and the overall financial management arrangements as assessed in due course.

7. The option of disbursing the funds through direct payments on contracts above a pre-determined threshold will also be available.

8. The project will be supervised on a risk-based approach. FM supervision will focus on the status of the FM system to assess whether the system continues to operate well and provide support where needed.

2. Summary project description

9. The MTP development objectives are: (i) to improve transport connectivity in DRC so as to support national economic integration, (ii) to restore SNCC financial and operational viability, and (iii) to implement a sector wider governance plan and strengthen transport SOEs operational performance.

10. The MTP main components are:

- Component 1 – SNCC recovery plan: US$ 218.85 million
- Component 2 – Operational performance strengthening and improved governance of the sector: US$ 25.45 million
- Component 3 – International trade procedures simplification: US$ 2.0 million
- Component 4 – Project management: US$ 8.70 million

The description of the components is detailed in Annex 4.

3. Country Issues

11. The World Bank and other donors' assessments notably the Country Financial Accountability Assessment (CFAA), the Public Expenditure Review (PER), and the Public Expenditure and Financial Accountability (PEFA) completed between 2002 and 2007 portray an unsatisfactory economic and financial control environment including weak budgeting preparation and control, financial reporting, external audit and human resources. In-depth structural reforms have been launched in the areas of economic governance, public expenditure management, financial sector and public enterprises to strengthen the capacity of the public administration. With the support of the international community, the Government of the Democratic Republic of Congo (GDRC) is undertaking a series of public financial management (PFM) reforms in budget preparation and execution, adhesion to treasury forecasts, preparation of regular budget execution reports, and simplification of the national budget classification system. A new Organic Law is currently being finalized while a new procurement code is prepared and is being adopted in line with the Heavily Indebted Poor Countries Initiative (HIPC). Although there is reason for cautious optimism, it will take time for these reforms to yield substantial improvements in the management of public funds. The overall public fiduciary risk is therefore still considered high.

4. Risk assessment and mitigation

12. The Bank's principal concern is to ensure that project funds are used economically and efficiently for the intended purpose. Assessment of the risks that the project funds will not be so used is an important part of the financial management assessment work. The risk features are determined over two elements: (i) the risk associated to the project as a whole (inherent risk), and (ii) the risk linked to a weak control environment of the project implementation (control risk). The content of these risks is described below (Table 1):

Table 1: Financial Management Risks

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness	Residual Risk
Inherent Risk	**H**			**S**
Country level DRC is a conflict-affected country with a weak Public Financial Management (PFM) and accountability system.	H	No specific measure for this risk. Overall PFM reforms are underway but are not part of this MTP.	No	H
Entity level SNCC is a state-owned enterprise with a weak accountability system, a severe shortage of cash and an insolvency situation. About 12,300 personnel most of whom are no more indispensable.	H	As regard the numerous governance and accountability issues currently identified at SNCC, it was decided to create a Project Management Entity (CEPTM) which will have two Project Units – one located in Lubumbashi to manage the investment related to the SNCC and which will benefit from the skills of the staff of the private operator managing the SNCC and one located in Kinshasa which will manage the investment in the other SOEs. The CEPTM will ensure that Bank's fiduciary procedures are implemented as part of the MTP.	Yes Creation of the PME (CEPTM)	S
Project level (i) Design complexity and numerous stakeholders could impact negatively project implementation; (ii) the resources of the project may not be used for the intended purposes. Delays in the reporting system and auditing due to the weak capacity of the fiduciary team and geographically location.	S	The design will be simple: (i) Components will be clearly identified and segregated within the CEPTM between the two Project Units; (ii) the PME (CEPTM) will strengthen ex-ante and ex-post control of funds allocated to each Project Unit. The scope of audit will include review of expenditures incurred at decentralized level. FM staff will be recruited on ToRs acceptable to IDA.	Yes (creation of the PME) and Director for Finance already on board and FM manual by effectiveness	M
Control Risk	**S**			**S**
Budgeting Budgeting not based on accurate data due to the absence of up to date information downloaded from the computerized accounting system; delays in submission of consolidated IFR.	M	Annual work plan and budget required each year and proclaimed. The project Financial Procedures Manual will define the arrangements for budgeting, budgetary control and the requirements for budgeting revisions. IFR will provide information on budgetary control and analysis of variances between actual and budget; IFR prepared and submitted separately by each Project Unit	No	M

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness	Residual Risk
Accounting Poor policies and procedures, lack of qualified accountant staff; delays to produce on time the financial statements; poor information system and outdated computer hardware. Poor security access of various users. Impossibility to issue accounting output for a desired period.	S	Use of IDA FM procedures; purchase of a new accounting software for the CEPTM and training of accounting staff on the use of the new system, recruitment of qualified accounting staff for the CEPTM and the Project Unit located within SNCC.	Yes (Director for finance already recruited, all FM team based in Lubumbashi to be recruited and on board by effectiveness, and draft FM manual available- to be completed by effectiveness)	M
Internal control For all transport SOEs: (i) Absence of efficiency and effectiveness of operations; (ii) Unreliability of financial reporting; (iii) Poor compliance with applicable laws and regulations; (iv) No application of the internal auditor's recommendations; (v) Limitation of the internal audit scope. In addition, for the SNCC: • No reconciliation of 64 commercial banks accounts; • Redundancy of duties between internal audit department and its finance department; and • More than 1,380 legal actions pending in various courts.	H	PME internal control will comprise: (i) an accounting financial and procedures manual describing all duties and the processes of these duties, the description of hierarchical and functional chart, segregation of duties, process of safeguarding the assets, (ii) an internal audit unit directly reporting to the Ministry of Transport for the CEPTM.	Yes (Production of an accounting, administrative and financial procedures manual and recruitment of individual internal auditor for the CEPTM)	S
Funds flow Shortage of cash and SNCC insolvency situation will create non formal procedures to siphon the firm's funds. Weak internal control procedures on banks and cash accounts. Similar issues among beneficiary SOEs under MTP Components 2 and 3 activities will have to be addressed; Risk of misuse of funds and delays in disbursements of funds to IA;	S	DAs for MTP Components 1 and 2 and 3 will be managed and overseen by newly created CEPTM. Furthermore, in the case of SNCC, existing stabilization contract scope will be expanded so as to give Control of SNCC finance department to the current private operator. Payment requests will be approved by the Expert in Administration and Finance prior to disbursement of funds to contractors or consultants; the ToRs of the Internal Auditors as well as the External Auditors	No	S

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness	Residual Risk
		include regular field visits (physical inspection of goods, services acquired).		
Financial reporting Poor accounting system and weak FM staff capacity will delay and impede the timely and reliable financial statements.	S	Financial reporting will be the responsibility of the CEPTM which will operate a computerized management system capable of producing in a timely manner all required financial reports (interim financial reports and annual financial statements); IFR and financial statements formats and content will be agreed at negotiations.	No	S
Auditing No external auditor acceptable to the Bank. Lack of independence of the committee of appointed auditors; delay in submission of audit report	S	The project's institutional arrangements allow for the appointment of adequate external auditors and the ToRs will include field visits and specific report on finding of physical controls of goods; services and works acquired	No	S
Fraud and Corruption Various mismanagement and fraud acts are currently identified in SNCC and likely for other transport SOEs benefiting from financing under MTP Component; possibility of circumventing the internal control system with colluding practices as bribes, abuse of administrative positions, misprocurement etc, is a critical issue.	H	(i) Creation of the CEPTM to manage the Bank's funds, and (ii) Creation of an internal audit unit reporting directly to the Coordinators and MT for the CEPTM; one sample of the reports will be submitted to the Bank and steering committee; (iii) FM procedures manuals for the CEPTM approved before project effectiveness; (iv) Robust FM arrangements (qualified FM staff recruited under ToRs acceptable to IDA, quarterly IFR including budget execution and monitoring; (vi) Measures to improve transparency such as providing information on the project status to the public, and to encourage participation of other stakeholder are built into the project design (see Annex 15- Anti corruption plan).	N/A	H
OVERALL FM RISK	**H**			**S**

5. Strengths

13. SNCC is currently managed by a private operator recruited competitively internationally under a two year stabilization contract. This private operator has partially the means to control

SNCC financial, procurement and transport activities. It has launched the acquisition of a new FM software to better be able to track SNCC financial flows.

6. Weaknesses and action plan

14. Important weaknesses have been identified when it comes to SNCC overall management and fiduciary compliance with accepted international standards. The first financial audit (for the year 2007) carried out by an international auditor (June 2009) since 1996 has revealed that the absence of proper FM tools as well as unreliable transaction ledgers and asset inventory make the certification of SNCC accounts all but impossible. In addition, in the absence of a final liquidation of the *Société Nationale des Chemins de Fer Zaïrois* (SNCZ), SNCC's predecessor, SNCC's own accounts and inventory cannot be closed and/or finalized.

15. Following is the action that will allow the project to be managed and avoid the adverse effects of the above weaknesses.

Table 2: Financial Management Action Plan

Issue	Remedial action recommended	Responsible body/person	Completion date	FM Effectiveness Conditions
Administrative Accounting, and Financial Manual	Finalization and adoption of the draft FM Procedures Manual	CEPTM /BCECO	By Effectiveness	Yes
Staffing at Project Unit (Lubumbashi)	Appointment / Assignment of the (i) Expert in Administration and Finance; and (ii) One Accountant	CEPTM		Yes
Staffing at Project Unit (Kinshasa)	Recruitment of One Accountant	CEPTM	3 Months after effectiveness	No (1)
Information system accounting software	Acquisition and installation of accounting software for the project and training of the users	CEPTM/ BCECO		No (1)
Internal auditing	Appointment of the Internal Auditors (Kinshasa & Lubumbashi Project Units)	CEPTM		No (1)
External auditing	Appointment of the external auditor completed and contract signed	CEPTM	December 31, 2010	No (1)

(1) As reflected in the Financing Agreement.

7. Implementing entities

16. SNCC is a state-owned enterprise created in 1995 with its Headquarter located in Lubumbashi (Katanga province). Its development objectives are: (i) survey, construction and exploitation of railways conceded by the State of Congo, (ii) exploitation of transport services by roads and water routes conceded by the State of Congo, (iii) exploitation of ports conceded by the Government of Congo and, (iv) operations of all other related services. Its management is comprised of a Board of Directors, an external auditors committee and a General Manager. The

company had 12,300 employees at the end of 2009 with about 2,200 of them eligible for retirement but unable to retire because of SNCC's inability to pay their salary arrears and departing indemnities.

17. Due to SNCC's financial insolvency and weak FM it was decided that MTP funds earmarked for SNCC will transit into a DA which will be managed by an autonomous PME (CEPTM) whose Project Unit Finance Division (Project Unit – Lubumbashi) located within SNCC will be assisted by SNCC current private operator hired by GDRC as part of a two year stabilization contract. After the end of the current stabilization contract, a new contract will be put in place following a competitive selection process. Likewise, it was also discussed that a special purpose Public Railway Investment Company (PRIC) could be created, if deemed legally possible, to hold all the titles of the assets that will be purchased under SNCC Recovery plan using IDA and GDRC financing. SNCC's fiduciary responsibility towards IDA will be enshrined in a Project Agreement that will be signed with IDA and Subsidiary Agreement which will be signed with the government. The latter will sign a Financing Agreement with IDA.

18. Using a similar approach, the CEPTM (Project Unit – Kinshasa) will have the overall charge of coordinating the MTP activities which will be financed under the Project's Components 2 and 3. This PME will ensure that proper use of IDA money for the SOEs other than the SNCC benefiting from the Bank's grant.

8. Budgeting

19. SNCC's budgeting system is operational. Its 2009 budget was prepared and submitted to its Board of Directors on December 12, 2008. The hypothesis used by its finance department and the process of communication are acceptable. However, the efficiency of SNCC budgeting system is impeded by the poor quality of the information system used. This system is unable to issue timely data to help monitor budget execution. On that basis, SNCC budget management is limited to cash management. There is no overall expenditures follow-up in terms of variances analysis and actions to be taken thereof. However, a new accounting software is under procurement and it is expected that this software will be calibrated to address the shortcomings noted above.

20. The budgeting system which will be used by the CEPTM will build on lessons learned. Budgetary discussions will begin at least six months before the fiscal year of implementation and will consider the procurement plan as the starting point. For the purposes of this project, it is expected that the budget of the CEPTM will include the estimated IDA and government resources. The FM team of the CEPTM (Kinshasa and Lubumbashi) will prepare an annual work plan and budget for implementing project activities taking into account the project's components. The work plan and budgets will identify the activities to be undertaken and the role of respective parties in implementation. Each Annual work plan and budget will be submitted to the Project Steering Committee "Comité de Suivi" for approval, and thereafter to IDA for approval by no later than December 31 of the year preceding the year the work plan will be implemented. Once the budget is approved, it will be integrated into the computerized accounting system of the PME to give way to a monthly budget execution follow-up based on a variance analysis.

9. Accounting

21. The SNCC accounting division is under the responsibility of its Finance Department which comprises four divisions. The accounting division comprises 15 subdivisions. It is staffed with one (1) Director, six (6) Heads of Services and thirty-nine (39) Bureau Chiefs for a total staffing of 46. The accounting policies used by the SNCC are based on the Congolese accounting law. The accounting system runs under the X-Compta Software created by SNCC staff. This software will be replaced before the end of 2010 by the new accounting software currently under procurement. Finance department staff will be trained on this new application.

22. Under the MTP, a new computerized accounting system will be purchased for both Project Units of the CEPTM (Kinshasa and Lubumbashi). This new system will comprise the following: (i) a management accounting system, (ii) a budgetary accounting system, and (iii) a cost accounting system. Each system will be able to process and issue financial statements, interim financial reports, bank accounts reconciliation, and statements of expenditures for the want of withdrawal applications from the DAs. The management of the overall system will be based on networking installations with appropriate soft and hard securities. Accounting software with similar operational capacity will be implemented in the CEPTM's Project Unit located within the SNCC.

23. The accounting staff of the CEPTM will be composed for both the Project Units based, respectively, in Kinshasa and in Lubumbashi of (1) One Expert in Administration and Finance and one (1) Accountant. The Expert in Administration and Finance of the Project Unit based in Kinshasa has already been recruited on terms and conditions acceptable to IDA. All the FM staff based in Lubumbashi will be recruited by effectiveness.

10. Internal control and internal audit function

24. The internal control system aims to ensure: (i) the effectiveness and efficiency of operations, (ii) the reliability of financial reporting and, (iii) the compliance with applicable laws and regulations. SNCC Financial accounting and administrative procedures are documented in a detailed FM procedures manual with seven books: (i) the financial and accounting procedures manual (1999), (ii) the financial and accounting procedures manual of activities with a full management autonomy volume I (2000), (iii) the financial and accounting procedures manual of activities with a full management autonomy volume II (2000), (iv) the financial and accounting procedures manual of activities with a full management autonomy volume III (2000), (v) confidential procedures of offices in charge of cash collection (2002) and, (vi) and (vii) two other financial and accounting procedures manuals for the terminals of Bukama-Kongola and Mbuji-Mayi (2003 and 2004). SNCC internal audit and control department is comprised of two divisions: (i) the general control division with seven (7) subdivisions, and (ii) the internal audit division with six (6) subdivisions.

25. From a practical point of view, the application of SNCC written procedures is unlikely. The following facts have been identified: (i) the 64 bank accounts managed at various commercial banks are not reconciled, (ii) cashiers are not subject to randomized frequent controls of the cash they manage, (iii) the reports issued by the internal audit department are not

implemented in terms of follow-up and action plans, (iv) the 2007 audit carried out will have a disclaimer of opinion according to the auditor because of limitation of audit scope and deficiencies in internal control system.

26. Under the MTP an Internal Audit Unit (IAU) will be established for the CEPTM. The internal audit function will be carried out by a team composed of a mix of technical and fiduciary staff recruited on a competitive basis (individual consultant – CEPTM). The FM procedures manual will contain a description of the roles and responsibilities of the internal audit function and the arrangements that guarantee the necessary level of independence. The role of the internal audit function is to ensure that the project's fiduciary and operational procedures and regulations are adhered to by the CEPTM Project Units and any entity managing the project funds. In the early stages of the project implementation, it is likely that the CEPTM will not have built sufficient capacity in order to enable it to adequately fulfill its mission. The project will thus provide support for the strengthening of this function through the recruitment of two experienced and qualified Internal Auditors under terms and conditions acceptable to the Bank. They will prepare relevant manuals and guidelines. All deficiencies identified will be communicated in a timely manner to the overall senior management of the project, mainly the Coordinator of the CEPTM at the MoT for immediate corrective action as appropriate. One copy of the internal auditors' report will be submitted to the Bank and the Project Steering Committee.

27. Building on SNCC 1999 financial and accounting procedures manual, a new manual under the MTP will be developed for the CEPTM. This updated manual will describe the simplified procedures to manage the project resources, DAs, double signatures system for all bank accounts, accounting and reporting mechanisms, transfer of funds and replenishment, filing of supporting documentations, etc. A draft FM procedures manual of the CEPTM has been developed by the *Bureau Central de Coordination* (Central Coordination Office – BCECO) and will be finalized by project effectiveness. In order to enable senior management to determine whether the components of internal control will continue to function over time, the internal audit team will undertake periodic assessments on the strengths and weaknesses of the internal control system based on international standards. All deficiencies identified will be communicated to the MoT and SNCC Board of Directors and coordinators in a timely manner for remedial actions.

11. Flows of funds and disbursement arrangement

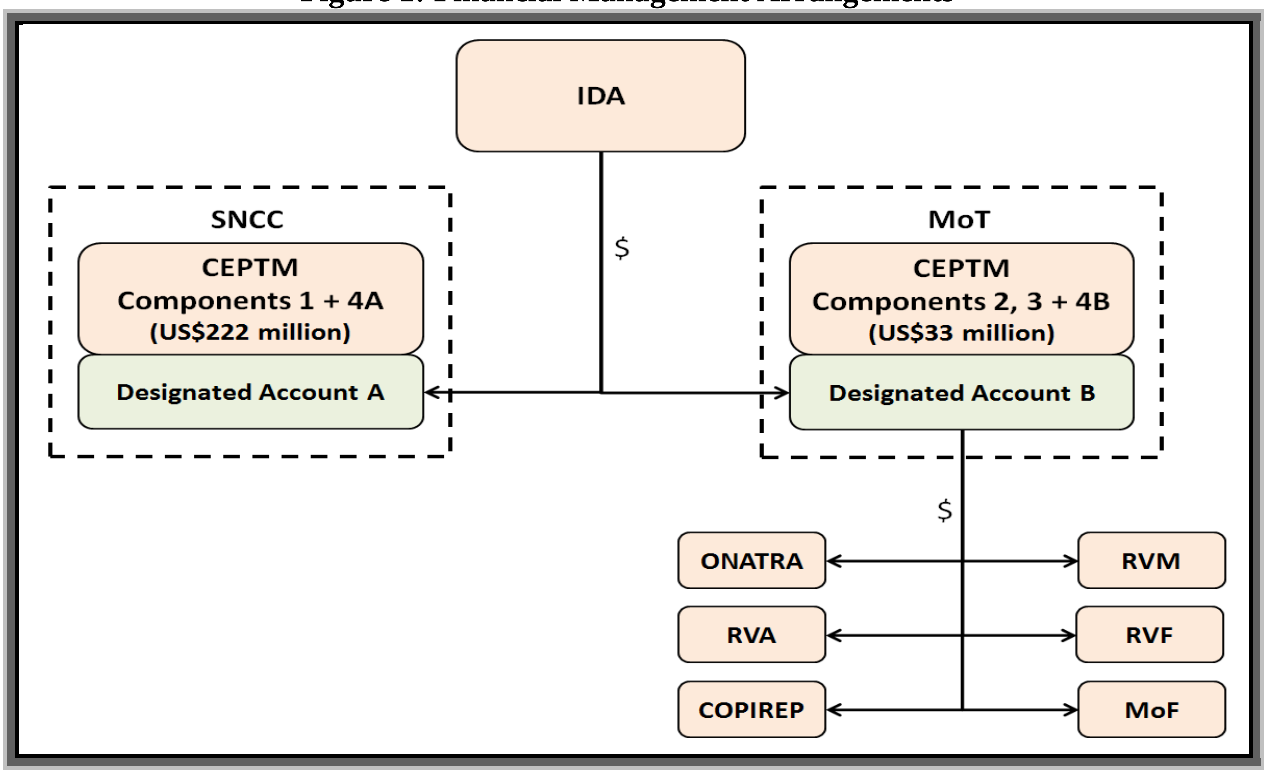
28. SNCC is funded through its sales and also from commercial bank loans. Money from sales is deposited in 64 commercial banks accounts that are not reconciled. In addition, money from short term bank loans is directly credited to the SNCC accounts located in the banks and are financing mainly the working capital and specifically the payment of salaries. All of the company's accounts receivables have been mortgaged throughout these facilities. Likewise all bank accounts are under the threat of creditors' legal actions.

29. Based on the above risks which are similar in all transport SOEs in DRC, DAs for MTP Components 1 and 2 and 3 activities will be opened and managed separately by the CEPTM Project Units located within the SNCC and the MoT, respectively, while Component 4A and 4B will also be split between both Units (see Figure 1).

Designated accounts

30. As shown in Figure 1, two DAs, A and B (one for each of CEPTM Project Unit) denominated in US dollars will be opened in local commercial banks acceptable to IDA. The designated accounts will finance all eligible project expenditures under the components (DA-A for Components 1 and 4A and DA-B for Components 2, 3 and 4B). DA-A, with a ceiling of US$6.6 million, will be maintained by the Project Unit located in Lubumbashi and DA-B, with a ceiling of US$2.1 million, will be managed by the Project Unit based in Kinshasa under the responsibility of the CEPTM. An initial advance up to the ceiling of each DA, equivalent to four (4) months expenditures forecast, will be disbursed by IDA at the request of the project upon effectiveness. The DAs will be used for all payments less than 20 percent of the advanced amounts and replenishment applications will be submitted, on a monthly basis. Additional advances into the DAs will be made against withdrawal applications supported by Statements of Expenditures and other documents as specified in the Disbursement Letter.

Figure 1: Financial Management Arrangements



Source: World Bank, 2010

Disbursement methods

31. Upon grant effectiveness, transaction-based disbursements will be used during the first 12 to 18 months of project implementation. During this time, an initial advance up to the ceiling of the DA will be made into the designated accounts and subsequent disbursements will be made against submission of Statements of Expenditures or records. Thereafter, the option to disburse against submission of quarterly un-audited Interim Financial Report (also known as the Report-based disbursements) could be considered subject to the quality of financial management

arrangements as assessed in due course. The option of disbursing the funds through direct payments to third party on contracts above a pre-determined threshold for eligible expenditures will also be available. Another acceptable method of withdrawing proceeds from the IDA grant is the special commitment method whereby IDA may pay amounts to a third party for eligible expenditures to be paid by the government under an irrevocable Letter of Credit (LC).

32. Funds will flow from the IDA grant account to DAs for advances. For direct payments and special commitments, funds will flow from the IDA grant account to the suppliers' bank accounts and to the negotiating bank's account, respectively. For reimbursements to the Recipient for payments already made for eligible project expenditures, either under retroactive or normal financing, funds will flow from IDA to an account specified by the Recipient.

Taxes

33. Funds will be disbursed in accordance with Project categories of expenditures, as shown in the Financing Agreement. The financing of each category of expenditure will be authorized at 100 percent inclusive of taxes as per the current Country Financing Parameters approved for DRC. In the case of some expenditure categories, as defined in the Financing Agreement, the MTP will benefit from exemptions on taxes on turnover, import rights and all applicable import taxes and fees as per the Ministerial Decree 003/CAB/MIN/FIN2004 adopted by the government on March 29, 2004. In order to benefit from this tax exemption, the CEPTM will have to ensure that applications for withdrawal of grant proceeds presented to IDA are net of these taxes, otherwise the financing of these taxes will occur.

Retroactive financing

34. The grant will provide for retroactive financing of up to twenty (20) percent of the total grant amount, or US$51 million to finance eligible expenditures, which were paid on or after June 30, 2009 but before the date of the Financing Agreement and in all cases within one year prior to this date for Components 1, 2, 3 and 4 of the MTP (see Table 3). The assessment of what constitutes eligible expenditures under retroactive financing will be based on the requirements of O.P. 6.0 *Bank Financing*, paragraph 2(e) including footnote 3. Table 3 below provides an overview of the potential application of retroactive financing under the MTP.

Table 3: Disbursement Table and Indicative Activities for Retroactive Financing (in US$)

Cost Categories	Category Description	Amount of the Grant Allocated	Retroactive amount	Percentage of Expenditures to be Financed (inclusive of Taxes)
1 (a)	Goods, works, non-consultant services, and consultants' services and Operating Costs for SNCC Recovry plan subcomponent other than departure indemnities and social security pension contributions and rolling stock under Component 1	172,850,000	5,000,000	100%*
1 (b)	SNCC departure indemnities and social security pension contributions under Component 1	20,000,000	20,000,000	100%
1 (c)	SNCC rolling stock under Component 1	26,000,000	15,000,000	100%*
2	Goods, works, non-consultant services and consultants' services for ONATRA under Component 2	8,400,000	2,000,000	100%*
3	Goods, works, non-consultant services and consultants' services for RVA under Component 2	10,000,000	8,000,000	100%*
4 (a)	Goods, works, non-consultant services and consultants' services for RVF other than RVF departure indemnities and social security pension contributions under Component 2	3,100,000	250,000	100%*
4 (b)	RVF departure indemnities and social security pension contributions under Component 2	750,000	0	100%
5	Goods, works, non-consultant services and consultants' services for RVM under Component 2	1,400,000	250,000	100%*
6 (a)	Goods, works, non-consultant services and consultants' services for the Project Operating Costs of the CEPTM Project Unit based in Lubumbashi under Component 4A	3,500,000	250,000	100%*
6 (b)	Goods, works, non-consultant services and consultants' services for Components 3 and 4B (MoT and Operating Costs of the CEPTM and its Project Unit based in Kinshasa) as well as selected parts under Component 2 [28]	7,000,000	250,000	100%*
7	Refund of Preparation Advance	2,000,000	0	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT		**255,000,000**	**51,000,000**	

* **Exclusive of taxes on turnover, import rights and all applicable import taxes and fees**

[28] Internal diagnostic of the MoT to recommend possible reorganizational scenarios and provision of training for selected MoT's staff and procurement of administrative/office equipment; Annual procurement and financial audits of ONATRA, RVA, and RVM; and Transport sector wide governance plan.

Counterpart funding

35. The government has committed under the project to finance an estimated US$376 million as counterpart financing. This estimated sum is divided and must be paid as follows:

- US$200 million equivalent from the acquisition of rolling stock and infrastructure equipment which will be provided by Chinese counterpart to the government and transferred to SNCC as a grant. In order to ensure complementarities with the part of the SNCC Recovery Plan financed by IDA, all contracts relating to this counterpart financing will need to be signed on or before June 30, 2010 and fully executed before December 31, 2011;
- US$44 million in cash from the government directly to SNCC to finance operating costs. SNCC 2010 cash projection shows that this money is needed immediately. However, considering government's fiscal constraints, it is envisioned that half of this sum will be paid before December 31, 2010 while the other half will be paid before June 30, 2011;
- US$104 million to liquidate SNCC's social debt. This estimated amount which might be revised downward or upward once the certification of salary arrears and the value of housing transferred to SNCC agents in 2006 and 2007 have been confirmed (before the end of 2010), will be paid in five equal annual installments starting on or before march 31, 2011; and
- US$28 million from GDRC as in kind tax exemptions on some of the project activities.

Disbursement schedule

Table 4: Estimated disbursements (Bank FY/US$m)

FY	FY11	FY12	FY13	FY14	FY15	FY16
Annual	60.00	80.00	60.00	30.00	15.00	10.00
Cumulative	60.00	140.00	200.00	230.00	245.00	255.00
Project implementation period: Start: June 22, 2010 End: December 31, 2015 Expected effectiveness date: October 22, 2010 Expected closing date: December 31, 2015						

12. Financial reporting

36. There is no acceptable financial reporting at SNCC since accounting is delayed for a period of two years. There are thus no updated figures permitting the issuance of a timely reporting. Instead, there is a compilation of figures collected on a cash basis from various selling points all over the country. But these figures are not accurate. The current reporting system at SNCC cannot be considered acceptable at the present stage and the same hold true for other transport SOEs receiving financing under Components 2 and 3 of the MTP.

37. As a result, the following arrangements will be made for the purpose of financial reporting by the CEPTM:

- Quarterly un-audited IFRs will be prepared and submitted separately by each Project Unit to IDA within 45 days after the end of each quarter. Financial reports will be designed to provide quality and timely information on project performance to project management, IDA and other relevant stakeholders. Formats of the financial reports will be developed and agreed during project negotiation. The quarterly IFR includes the following financial statements: (i) statement of sources of funds and project revenues and uses of funds including opening and closing balance of advances received from IDA and government; (ii) statement of expenditures classified by project components and/or disbursement category (with additional information on expenditure types and implementing agencies as appropriate), showing comparisons with budgets for the reporting quarter and cumulatively for the project life; (iii) cash forecast for the next 6 months once the report-based disbursement is adopted; (iv) explanatory notes; and (v) DA activity statements.
- At the end of each fiscal year each Project Unit will issue the Project's Annual Financial Statements comprising: (i) a Balance Sheet that shows Assets and Liabilities; (ii) a Statement of Sources and Uses of Funds showing all the sources of Project funds, expenditures analyzed by project component and or category; (iii) a Designated Account Activity Statement; (iv) a Summary of Withdrawals using Statements of Expenditures, listing individual withdrawal applications by reference number, date and amount; and (v) Notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements.

38. These financial statements will be audited by one external auditor as described below.

13. Auditing

39. There are four (4) appointed external auditors at SNCC (called Commissaires aux Comptes). They are appointed by the government: one is from the Supreme Council of Public firms Portfolio, one from the Permanent Council of Accounting of Congo and two controllers are from the Ministry of Finance. None of them can be considered as acceptable from the Bank's perspective. No audit report from these *Commissaires aux Comptes* (Auditor - CAC) has been presented. The last audit report acceptable to the Bank was issued in 1996 by an international auditor with a disclaimer of opinion. From that time on, no external audit was made. Another international auditor has finalized the 2007 audit report and also announced that it will not be able to certify SNCC's financial accounts.

40. Audit arrangements for the CEPTM will build on the lessons learned and reinforce the capacity of the appointed CAC. The annual financial statements of the two Project Units of the CETPM will be audited by a single experienced audit firm to be appointed no later than 3 months after project effectiveness. The audit report comprising the audited financial statements with a single audit opinion and a management letter will be submitted to IDA not later than six months after the end of each calendar year by each Project Unit. The audit reports will refer to any incidence of non-compliance and ineligible expenditures identified during the audit missions. The first audit reports of the project will include the review of the use of the PPA.

These audits will be carried out in accordance with International Standards on Auditing (ISAs). The Expert in Administration and Finance of the Project Units based in Kinshasa and Lubumbashi as well as the internal audit team will ensure that the external audit findings and recommendations are addressed properly.

41. Following are the due dates for the CEPTM audit reports.

Table 5: Audit report due dates

Audit Report	Due Date First audit report
The Project audit reports (Audit report and Management letter) of the CEPTM	No later than June 30 of the year following the end of the calendar year covered by the audit reports

14. Conditionalities

42. Conditionalities do derive from the FM action plan and are as follows:

<u>Effectiveness conditions:</u>

- The government shall cause the CEPTM to adopt an Administrative, Financial, Accounting and Procurement Manual (AFAPM) in a form and substance satisfactory to IDA; and
- Appointment of the following staff for the Project Unit based in Lubumbashi: (1) one Expert in Administration and Finance and (1) one Accountant.

<u>Legal covenants:</u>

- The government shall by not later than December 31, 2010 hire Individual External Financial and procurement auditors for RVA, RVM, ONATRA and SNCC and one external financial auditor for the CEPTM under terms and conditions and with qualifications and experience satisfactory to IDA;
- Within three months of effectiveness, the CEPTM will have appointed under terms of references and qualifications acceptable to IDA one Internal Auditor and one Accountant located in the Project Unit based in Kinshasa and one Internal Auditor for the Project Unit located in Lubumbashi;
- Within three months of effectiveness, the CEPTM will have acquired and installed under terms of references acceptable to IDA an accounting software;
- The overall FM system will be maintained operational during the entire project duration; and
- The CEPTM maintain staff satisfactory to IDA at all times during Project's implementation.

15. Supervision plan

43. The Project will be supervised on a risk-based approach. Supervision will focus on the status of the FM system to verify whether it continues to operate well and provide support where needed. Supervision will comprise inter alia, the review of audit reports and IFRs, advice to the

task team on all FM issues and assessment of compliance with FM covenants. If needed, a review of the internal control environment may be done at Mid-term review. Based on the current risk assessment which is **Substantial**, on-site visits supervision will be **twice a fiscal year, and adjusted according to the updated FM risk rating. A review of transactions will be performed where appropriate.** To the extent possible, mixed on-site supervision missions will be undertaken with procurement, monitoring and evaluation and disbursement colleagues.

Table 6: Supervision plan

FM Activity	Frequency
Desk reviews	
Interim financial reports review	Quarterly
Audit report review of the program	Annually
Review of other relevant information such as interim internal control systems reports.	Continuous as they become available
On site visits	
Review of overall operation of the FM system	Twice (Implementation Support Mission)
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit and other reports	As needed
Transaction reviews (if needed)	As needed
Capacity building support	
FM training sessions	Before project start and thereafter as needed

Annex 8: Procurement Arrangements
Democratic Republic of the Congo: Multimodal Transport Project

A. General

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, revised in October 2006, and May 2010; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised in October 2006, and May 2010 and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

2. With respect to Component 1 of the Multimodal Transport Project (MTP), the procurement plans for the Bank funded part of the *Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC – SNCC) recovery plan and the government financed part (based on a line of credit from China) have been established in parallel and are based on the same principles. The procurement plan of the government's part of SNCC Recovery plan has been submitted to the Bank for review in order to guarantee consistency and the best use of government funds. Its costs are based on estimates of well known unit prices for railways equipment and goods (rail, sleepers, main line locomotives and wagons), which have been compared to similar acquisitions in other countries and Bank funded projects.

3. The procurement activities for the MTP will be managed by the *Cellule d'Exécution du Projet de Transport Multimodal* (Multimodal Transport Project Management Entity – CEPTM). As part of the CEPTM, a Project Unit located within the SNCC will manage Components 1 and 4A of the Project while a Project Unit located within the Ministry of Transport (MoT) will manage Components 2, 3 and 4B of the project.

4. **Advance contracting and retroactive financing**: In order to accelerate program implementation, the borrower has expressed its intention to proceed with the initial steps of procurement before signing the related Financial Agreement. The procurement procedures, including advertising, will be done in accordance with the Bank's Guidelines in order for the eventual contracts to be eligible for Bank financing, and the normal review process by the Bank will be followed in accordance with the Procurement and Consultant Guidelines.

5. **Procurement of Works**: Works procured under this project would include the rehabilitation of bridges, maintenance works, restoration of rail line embankment, etc. The procurement will be done using Bank Standard Bidding Documents (SBD) for all International Competitive Biddings (ICB) and National Competitive Biddings (NCB) which are consistent with IDA guidelines when the National Procurement Code will be effective. Other methods of procurement, which may be used for works, are Limited International Bidding (LIB), Force account (FAC) and Direct contracting (DC).

6. **Procurement of Goods:** Goods procured under this project would include the acquisition of metallic sleepers, ballast, rails, etc. The procurement will be done using the Bank's SBD for all ICB and NCB which are consistent with the International Development Association (IDA) guidelines when the National Procurement Code will be adopted and promulgated. Goods of similar nature, to the extent possible, should be grouped in much larger packages to enable wider competition. All Procurement for goods and services will follow IDA Procurement Guidelines. Force Account (FAC), Direct Contracting (DC) and Shopping may be used for the purchase of spare parts and specific equipments under the rail component.

7. Since the national competitive bidding procedures currently in force in DRC depart significantly from the World Bank Procurement Guidelines as set forth in paragraphs 3.3 and 3.4, NCB procedures for procurement of Works, Goods and services (other than consultants services) shall be reviewed and modified as necessary to assure economy, efficiency, transparency, and broad consistency with the provisions included in Section I of the Bank Procurement Guidelines. While the new procurement law isn't yet effective, NCB procedures will be conducted on the basis on the World Bank ICB Guidelines and SBD and modified to take into account the country's specifics, such as language, currency, and advertising and conflict resolution mechanisms. The first five contracts for works and the first five contracts for Goods and services other than consultants' services will be subject to prior review by the World Bank.

8. **Procurement of non-consulting services:** Procurement of non-consulting services will be procured using appropriate SBD consistent with IDA guidelines, and will include various services including the training of the personnel.

9. **Selection of Consultants:** Consultancy services required for the project would cover consultancies for technical assistance, and studies and supervision of works. All consulting services contracts costing more than US$100,000 equivalent for firms will be awarded through Quality and Cost Based Selection (QCBS) method. Contracts for specialized assignments to cost less than US$100,000 equivalent may be contracted through Consultant's Qualifications (CQ) and Quality Based Selection (QBS) method. Contracts for standard accounting audits and for missions of routine nature may be awarded under Least Cost Selection (LCS). Single Source Selection (SSS) may be employed with prior approval of the bank and will be in accordance with paragraphs 3.9 to 3.12 of consultant Guidelines. All services of Individual Consultants (IC) will be procured under individual contracts in accordance with the provisions of paragraphs 5.1 to 5.4 of Consultant Guidelines. Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. All TORs will be prior reviewed by the Bank.

10. **Operating Costs:** The operating costs for this project will include expenses related to management of the project by the CEPTM. These expenses shall consist of some staff (consultant) salary costs, office supplies, travel expenses and subsistence expenditures, operation and maintenance costs for vehicles and equipment and would be procured using implementing agency's administrative procedures. For SNCC, under MTP Component 1, eligible operating

costs will cover all costs incurred by the SNCC, other than salary costs, which will be found acceptable for financing by the Bank including, but not limited to, fuel and utilities costs.

11. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the procurement manual.

Table 1: **Thresholds for Procurement Methods and Prior Review**

Expenditure Category	Contract Value Threshold (US$)	Procurement Method	Contracts Subject to Prior Review (US$)
1. Works	≥3,000,000	ICB	All
	<3,000,000	NCB, LIB	Two first contracts
	<100,000	Shopping	None
	All amount	FAC, Direct contracting	All
2. Goods	≥500,000	ICB	All
	50,000 - <500,000	NCB	Two first contracts
	<50,000	Shopping	None
	All amount	FAC, Direct contracting	All
3. Services Firms	≥100,000	QCBS	All
	<100,000	QCBS , CQ, QBS and LCS	Two First contract
Individual Consultants	≥50,000	IC	All
	<50,000	IC	None
	All amount	SSS	All

B. Assessment of the PME capacity to implement procurement activities

12. Procurement activities for Components 1 (SNCC recovery plan) and 4A will be carried out by the CEPTM Project Unit located in Lubumbashi within the SNCC as a result of the procurement capacity assessment conducted for SNCC in June 2009 by a Bank’s Procurement Specialist based in the Democratic Republic of Congo (DRC). The performance for procurement implementation of SNCC was then found to be very weak, thus it was recommended that procurement activities be handled by a dedicated structure within SNCC (CEPTM) which will be staffed and managed using Banks’ approved procedures. This Unit will provide assistance to SNCC procurement staff as well as training.

13. The capacity of the implementing agency of the MoT (CEPTM) was assessed by a Bank’s Procurement Specialist based in the DRC. The assessment found that MoT currently has no capacity to handle the project procurement activities. Therefore the Procurement activities for Components 2, 3 and 4B will be managed by a Procurement Unit to be created inside the CEPTM Project Unit located within the MoT. This procurement team will be comprised of two procurement experts, one international procurement expert (Head of Procurement activities) assisted by one local procurement expert based in Kinshasa. Meanwhile, the Procurement Unit which will be created within the CEPTM Project Unit located in Lubumbashi and who will manage Component 1 and 4A of the MTP will be comprised of one international procurement expert (Head of Procurement Activities) and two local procurement experts. The procurement

manual of the CEPTM already approved by the Bank in February 2010 will be used by both Project Units.

C. Assessment of the risks and measures to mitigate

14. The risk factors for procurement performance include those posed by the country context and those due to the low procurement capacity of the MoT. This Ministry will be in charge of project implementation. In terms of the country context, the Country Procurement Assessment Review (CPAR) published in 2004 and the experience of other World Bank assisted projects indicate that procurement on the project is likely to involve the following risks:

- A weak governance environment, weaknesses in accountability arrangements, and an overall lack of transparency in conducting procurement processes creates significant risks of corruption, collusion and fraud;
- The administrative system as it operates in practice creates opportunities for informal interference in the procurement process by senior officials – creating opportunities for waste, mismanagement, nepotism, corruption, collusion and fraud;
- Government officials likely to be involved in project procurement through tender committees may not be familiar with procurement procedures;
- There is neither a national control system ensuring that the rules are respected nor a regulatory body to handle complaints from bidders; and
- Few companies are interested in supplying goods and constructing works for development projects in the current country environment. Goods may not be available or exorbitantly expensive, especially up-country. As a result, there may be insufficient competition resulting in higher prices of goods and services.

15. The main recommendations of the 2004 CPAR were to (i) prepare and approve a public procurement code, (ii) do a survey of the existing capacity on procurement, (iii) make a needs assessment of the institutional and human capacity requirements for public procurement in the country, and (iv) prepare an action plan for the procurement reform. All these recommendations have been implemented, except for the enactment of the National Procurement Code.

16. The procurement reform in DRC began soon after the 2004 CPAR with assistance from the Bank, including the drafting of an Act on the Public Procurement Code. Progress with the formulation and approval of the Act has been slow, mainly due to instability and the elections of 2007. Recent events however can be taken as an indication that the government and Parliament are committed to moving the reform forward. The Act has been submitted to the parliament with a request of urgent treatment, and this Act will be probably promulgated before mid 2010.

17. The overall project risk for procurement is high.

D. Measures to mitigate the risks

18. The following strategy has been devised in the project to mitigate the procurement risks:

- To mitigate the risks of collusion, fraud, corruption, waste and mismanagement, implementation arrangements will be geared to achieve a high level of transparency in project implementation (see Annex 14);

- To mitigate risks related to the low level of capacity both at the CEPTM and the MoT, all proposed procurement decisions at a given threshold (as determined by the CEPTM procurement manual) will be subject to a mandatory review by an independent procurement consultant and the annual procurement audit (see Annex 14);
- The publicly accessible project data rooms (one in Lubumbashi and one in Kinshasa in the CEPTM bureaus) will include all relevant information to facilitate transparency and integrity of implementation, including the following: Project Appraisal Document and Grant Agreement; advertisements; funding proposals; terms of reference for all activities; contract awards; progress reports from the implementing entities; a procedure for handling complaints satisfactory to the Word Bank; and complaints received and action taken;
- The government project team will apply a 'one-strike' policy to all contractors and consultants - any case of complicity in corruption, collusion, nepotism and/or fraud will lead to dismissal, disqualification from all further project activities and prosecution;
- A project launch workshop will be carried out for all project's stakeholders including the Permanent Secretary/Ministry of Transport staff, relevant staff of all other entities involved in project implementation, private sector, and civil society;
- For all procurement, the procurement manual, to be adopted by effectiveness, will include procurement methods to be used in the project along with their step by step explanation as well as the standard and sample documents to be used for each method; and
- The presence of a private operator familiar with Bank's procurement procedures in charge of managing the SNCC and to staff the CEPTM Project Unit located in Lubumbashi will enhance procurement activities management and efficiency.

C. Procurement Plan

19. The Borrower with the assistance of a consultant developed a procurement plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team in April 2010, and is available in the Project files. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

20. In addition to the prior review supervision to be carried out from Bank offices, field visits as part of quarterly supervision missions are recommended during the initial two years of the project when most of the procurement activities will take place.

E. Details of the Procurement Arrangements Involving International Competition

Procurement Packages with Methods and Time Schedule

Goods, Works, and Non Consulting Services

a) List of contract packages to be procured

(i) **Works**

1	2	3	4	5	6	7	8	9
Ref. No	**Contract (Description)**	**Estimated Cost US$**	**Procurement Method**	**Pre-qualification (yes/no)**	**Domestic Preference (yes/no)**	**Review by Bank (Prior/Post)**	**Expected Bid-Opening Date**	**Comments**
SNCC								
1	Complete rehabilitation of 200 km of rail track on Munama-Luambo (161 km), Tenke-Kisanfu (29 km), and Kaminda-Musaka (10 km) portions	21,000,000	ICB	Yes	Yes	Prior	February 2011	3 lots
	Upgrade of 187 km of rail track on Mushoshi-Tenke, Kamina-Kasao and Kisanfu-Luilu portions	2,000,000	ICB	Yes	Yes	Prior	February 2011	
	Upgrade of 300 km of rail track on Sakania-Tenke (80 km), Tenke-Kamina (50 km), Kamina-Kabongo (100 km), and Musaka-Ilebo (70 km)	10,000,000	ICB	Yes	Yes	Prior	February 2011	
2	Rehabilitation and repair of freight wagons, ballast wagons and passengers coaches	1,539,300	NCB	No	Yes	Prior	March 2011	2 lots
3	Rehabilitation of Kindu's slip way and careening of barges	500,000	NCB	No	Yes	Prior	March 2011	2 lots
4	Rehabilitations of port cranes	900,000	NCB	No	Yes	Prior	March 2011	
5	Work of securing sites and levels crossings	920,000	NCB	No	Yes	Prior	July 2011	2 lots
6	Civil works and equipment for technical and operating building	4,100,000	ICB	No	Yes	Prior	August 2011	
7	Water supply and draining off	500,000	NCB	No	Yes	Prior	August 2011	
	Subtotal Works	**41,459,300**						

(ii) **Goods**

1	2	3	4	5	6	7	8	9
Ref. No	**Contract (Description)**	**Estimated Cost (US$)**	**Procurement Method**	**Pre-qualification (yes/no)**	**Domestic Preference (yes/no)**	**Review by Bank (Prior/Post)**	**Expected Bid-Opening Date**	**Comments**
SNCC								
1	Acquisition of a complete equipment to produce reinforced concrete sleepers	2,150,500	ICB	No	Yes	Prior	September 2010	
2	Acquisition of 324,325 in-house produced reinforced concrete sleepers	12,973,000	FAC	No	No	Prior	December 2010	

1	2	3	4	5	6	7	8	9
Ref. No	**Contract (Description)**	**Estimated Cost (US$)**	**Procure ment Method**	**Pre-qualification (yes/no)**	**Domestic Preference (yes/no)**	**Review by Bank (Prior/Post)**	**Expected Bid-Opening Date**	**Comments**
3	Acquisition of track fixing parts and material (elastic straps, braces, flat splints, bolts, welding kits…)	16,888,090	ICB	No	No	Prior	September 2010	14 lots
4	Rehabilitate existing PLASSER & THEURER branded track machines	2,401,200	DC	No	No	Prior	September 2010	
5	Rehabilitate existing GEISMAR branded track machines	358,800	DC	No	No	Prior	September 2010	
6	Acquisition of mechanized track management equipment	2,860,630	ICB	No	No	Prior	September 2010	2 lots
7	Acquisition of material to rehabilitate the telecommunication cables and measuring equipment	511,050	ICB	No	No	Prior	September 2010	2 lots
8	Replacement and rehabilitation of communication equipment	2,660,000	ICB	No	No	Prior	April 2011	5 lots
9	Acquisition of 3 weighing machines	300,000	ICB	No	No	Prior	October 2010	
10	Rehabilitation of existing weighing machines	467,050	ICB	No	No	Prior	October 2010	
11	Rehabilitation of the energy supply system of the workshops	435,000	NCB	No	No	Post	September 2010	
12	Acquisition of generators	1,158,930	NCB	No	No	Post	September 2010	
13	Acquisition of spare parts to rehabilitate existing locomotives	10,815,740	ICB	No	No	Prior	October 2010	6 lots
14	Acquisition of spare parts to rehabilitate and repair freight wagons	10,119,170	ICB	No	No	Prior	October 2010	3 lots
15	Acquisition of spare parts to rehabilitate and repair existing passenger coaches	3,478,750	ICB	No	No	Prior	October 2010	2 lots
16	Acquisition of 14 DEUTZ diesel engines to rehabilitate existing towing locomotives	391,000	DC	No	No	Prior	October 2010	
17	Acquisition spare parts to rehabilitate existing towing locomotives	1,112,400	ICB	No	No	Prior	October 2010	2 lots
18	Acquisition of lifting equipment and spare part to rehabilitate the existing one	1,144,250	ICB	No	No	Prior	September 2010	4 lots
19	Acquisition of spare parts to rehabilitate existing machine tool	1,667,500	ICB	No	No	Prior	September 2010	2 lots
20	Acquisition of various maintenance equipment (compressors, oxygen producing related material, measuring equipment, pumps, step-up transformers, etc.)	2,069,750	ICB	No	No	Prior	October 2010	6 lots
21	Rehabilitation of the metallic sleepers regeneration plant and welding equipment	920,000	ICB	No	No	Prior	October 2010	2 lots
22	Acquisition of trucks, pick-ups and road vehicles	1,875,000	NCB	No	No	Prior	November 2010	

1	2	3	4	5	6	7	8	9
Ref. No	**Contract (Description)**	**Estimated Cost (US$)**	**Procure ment Method**	**Pre-qualification (yes/no)**	**Domestic Preference (yes/no)**	**Review by Bank (Prior/Post)**	**Expected Bid-Opening Date**	**Comments**
23	Acquisition software (software for payroll, inventory, procurement and commercial management	924,000	DC	No	No	Prior	November 2010	
24	Acquisition hardware (desktop, laptop, printers, copiers, servers ...)	300,000	NCB	No	No	Prior	December 2010	
25	Acquisition of fuel and lubricants for 2011 and 2012	29,500,000	NCB	No	No	Prior	September 2010	
26	Purchase of strategic items for the locomotives and commercial wagons for 2011 and 2012	2,731,250	ICB	No	No	Prior	August 2010	
27	Purchase of strategic items for the track for 2011 and 2012	920,000	ICB	No	No	Prior	August 2010	
RVM								
28	Acquisition of two hydrographic boats	1,250,000	ICB	No	No	Prior	September 2010	
RVF								
29	Acquisition of supplies for river markings	500,000	NCB	No	No	Post	March 2011	
RVA								
30	Acquisition of Automated Dependent Surveillance System-Broadcast (ADS-B) stations	5,250,000	LIB	No	No	Prior	April 2010	
31	Acquisition of an ILS/VOR DME	1,500,000	ICB	No	No	Prior	June 2010	
ONATRA								
32	Acquisition of 5 diesel locomotives	6,000,000	ICB	No	No	Prior	June 2010	
33	Acquisition of 25 mixed freight wagons	2,000,000	ICB	No	No	Prior	June 2010	
	Subtotal Goods	**127,633,060**						

(iii) Non Consulting Services

1	2	3	4	5	6	7	8	9
Ref. No	**Contract (Description)**	**Estimated Cost US$**	**Procure ment Method**	**Pre-qualification (yes/no)**	**Domestic Preference (yes/no)**	**Review by Bank (Prior/Post)**	**Expected Bid-Opening Date**	**Comments**
Ministry of Transport								
1	Training in economic regulation of transport	30,000	Shopping	No	No	Post	February 2011	
2	Training in PPP and infrastructure financing	30,000	Shopping	No	No	Post	February 2011	
RVA								
3	Air Traffic Control training	400,000	Shopping	No	No	Prior	October 2010	
4	Air Traffic Safety Electronics Personnel training	200,000	Shopping	No	No	Prior	October 2010	
5	Aircraft Rescue and Fire Fighting Services training	120,000	Shopping	No	No	Prior	October 2010	
CEPTM								
6	Procurement training	20,000	Shopping	No	No	Post	November 2010	

7	Financial management and accounting training	10,000	Shopping	No	No	Post	November 2010	
8	Training in PPP, infrastructure financing, and infrastructure regulation	20,000	Shopping	No	No	Post	November 2010	
9	Security guard	36,000	Shopping	No	No	Post	December 2010	
10	Office cleaning services	36,000	Shopping	No	No	Post	December 2010	
SNCC								
11	Agency fees for customs clearance operations	4,971,750	QCBS	Yes	No	Prior	December 2010	
	various taxes incompressible (OCC-OFIDA) for customs clearance	1,636,170	QCBS	Yes	No	Prior	December 2010	
12	Estimated costs of letters of credit	1,500,000	DC	No	No	Post	September 2010	
	Subtotal Non Consultancy Services	**9,009,920**						

b) ICB contracts estimated to cost equal or above US$3,000,000 for works and equal or above US$500,000 for goods per contract and Direct contracting (DC) will be subject to prior review by the Bank.

2. Consulting Services

(a) List of Consulting Services

1	2	3	4	5	6	7
Ref. No	**Description of Assignment**	**Estimated Cost US$**	**Selection Method**	**Review by Bank (Prior/Post)**	**Expected Proposals Submission Date**	**Comments**
SNCC						
1	External financial audits for 3 years for SNCC or its successor company	250,000	LCS	Prior	October 2010	
2	Studies and technical support during works execution	1,000,000	QCBS	Prior	July 2010	Multiple lots
3	Management contract	12,750,000	QCBS	Prior	April 2011	COPIREP executed
4	Audit of 2010 procurement activities	100,000	LCS	Prior	November 2010	CEPTM executed
5	External Procurement Reviewer	50,000	IC	Prior	November 2010	
6	Production of financial procedure manuals	50,000	IC	Prior	November 2010	
7	Production of procurement procedure manuals	50,000	IC	Prior	November 2010	
8	Production of administrative procedure manuals	50,000	IC	Prior	November 2010	
9	Monitoring the impact on direct project beneficiaries, including women	95,000	LCS	Prior	November 2010	
10	Study on mining tariffs and infrastructure financing agreement	200,000	QCBS	Prior	November 2010	
11	Analysis on pension spending and saving patterns	100,000	LCS	Prior	November 2010	
Ministry of Transport						
12	Institutional audit of Ministry of Transport	250,000	QCBS	Prior	September 2010	
13	Implementation strategy for international trade process reform	800,000	QCBS	Prior	January 2011	MoF
RVM						
14	External audits of annual financial accounts of RVM	100,000	LCS	Prior	October 2010	
RVF						
15	Study on the creation of navigable waters maintenance fund	250,000	QCBS	Prior	September 2010	
16	Different internal studies (technical and	30,000	IC	Post	October 2010	

1	2	3	4	5	6	7
Ref. No	**Description of Assignment**	**Estimated Cost US$**	**Selection Method**	**Review by Bank (Prior/Post)**	**Expected Proposals Submission Date**	**Comments**
	geotechnical) on the rehabilitation of the river markings					
17	Awareness raising campaign to discourage vandalism of river markings between Ubundu and Kindu	30,000	QCBS	Post	October 2011	
18	Awareness raising campaign to discourage vandalism of river markings between Kongolo and Bukama	60,000	QCBS	Post	October 2011	
19	Awareness raising campaign to discourage vandalism of river markings in Lu a and Mongala rivers	40,000	QCBS	Post	October 2011	
RVA						
20	External Audit of 2010 financial accounts of RVA	100,000	LCS	Prior	October 2010	
21	Annual audits of procurement activities	200,000	LCS	Prior	October 2010	
22	External Procurement Reviewer	50,000	IC	Prior		
23	Study of a new freight terminal at the international airport of Kinshasa/N'Djili	600,000	QCBS	Prior	October 2010	
24	Study to review feasibility of rehabilitation of several smaller secondary airports (N'Dolo, Tshikapa, Kananga, Bukavu and Beni)	750,000	QCBS	Prior	October 2010	
ONATRA						
25	Audits of 2010 financial accounts of ONATRA	100,000	LCS	Prior	October 2010	
26	Annual audits of procurement activities	200,000	LCS	Prior	October 2010	
27	External Procurement Reviewer	50,000	IC	Prior	December 2010	
CEPTM						
28	Audits of annual financial accounts of CEPTM - Year 1	100,000	LCS	Prior	October 2010	
29	Renewal of CEPTM staff current contract	500,000	SSS	Prior		
30	Recruitment of a senior auditor	50,000	IC	Prior	October 2010	
31	Recruitment of internal auditor 1	40,000	IC	Prior	October 2010	
32	Recruitment of internal auditor 2	40,000	IC	Prior	October 2010	
33	Technical support for project management	20,000	SSS	Prior		
	Subtotal Consulting Services	**19,055,000**				

(b) ***Prior review:*** (a) each contract estimated to cost more than US$100,000 per contract for Firms and US$50,000 per contract for individual consultants; (b) all single source selection; (c) all selections under a fixed-budget; (d) all training; (e) all TOR, and (f) all amendments of contracts raising the initial contract value by more than 15 percent of original amount or above the prior review thresholds will be subject to IDA mandatory prior review in accordance with the provisions of paragraphs 2 and 3 of Annex 1 of the Bank's Consultant selection Guidelines.

(c) ***Short lists composed entirely of national consultants:*** Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

(d) Post review: For each contracts for services not submitted to the prior review, the procurement documents will be submitted to IDA post review in accordance with the provisions of paragraph 4 of Annex 1 of the Bank's Consultant selection Guidelines. The post review will be based on a ratio of at least 1 to 5 contracts.

Annex 9: Economic and Financial Analysis
Democratic Republic of the Congo: Multimodal Transport Project

1. Component 1 - SNCC recovery plan

Financial analysis of SNCC

1. Assuming a rapid implementation of its recovery plan, the *Société Nationale des Chemins de Fer du Congo*'s (National Railway Company of DRC – SNCC) management is projecting (see Table 1) that it would start generating a regular positive Earnings Before Interest, Taxes and Amortization (EBITA) from 2013 on. Negative EBITA projections for 2011 and 2012 reflect a transition period during which, in spite of stable personnel costs, lack of significant growth in revenues linked to ongoing procurement of new rolling stock and implementation of the track rehabilitation works will preclude SNCC's revenues to reach a breakeven point of about US$110 million yearly.

Table 1: Key Projected Financial Figures for SNCC (US$ million)

Year	2010	2011	2012	2013	2014	2015
Freight traffic revenues	55.5	61.2	70.5	93.8	116.4	117.9
Other revenues	13.5	19.9	20.7	20.5	21.6	20.7
Total revenues	**69.0**	**81.0**	**91.2**	**114.4**	**137.9**	**138.6**
Personnel and social expenses	54.0	54.2	54.1	52.8	50.3	48.0
Other operating expenses	42.9	52.6	53.9	55.9	68.7	70.3
Total operating expenses	**96.9**	**106.8**	**107.9**	**108.8**	**119.0**	**118.3**
EBITA	**- 27.9**	**- 25.7**	**- 16.8**	**5.6**	**18.9**	**20.3**
Taxes, duties, amortizations and provisions	13.9	19.1	25.5	30.8	32.9	33.0
Operating income	- 41.8	- 44.8	- 42.3	-25.2	-14.0	-12.7
Other expenses	1.8	1.0	1.0	1.0	1.0	1.0
Net income before subsidies	**- 43.6**	**- 45.8**	**- 43.3**	**-26.2**	**-15.0**	**-13.7**

Source: SNCC 2010

2. SNCC's financial performance improvement will not only be founded on higher revenues but will also rely on a threefold increase in personnel productivity (see Table 2) while being accompanied by a decrease of its average tariffs of about 10 percent. From US$17.0 cents to US$15.5 cents per ton kilometer. This latter performance will increase SNCC's overall competitiveness on the sections of its network subjected to direct intermodal competition with truck traffic while also delivering notable economic efficient gains to areas of the country depending exclusively on its heavy carrying capacity.

Table 2: Projections of Key Performance Indicators of SNCC

Year	2010	2011	2012	2013	2014	2015
Traffic Units (in million TU)	356.5	405.9	442.1	612.4	834.7	863.7
Average tariff (US$ cents/tkm)	17.0	18.4	18.7	17.6	15.9	15.5
Number of employees (end of each year)	9,611	9,184	8,763	8,341	7,862	7,401
Traffic revenue/employee (US$)	5,779	6,662	8,044	11,251	14,801	15,931
Productivity (TU/employee)	37,095	44,191	50,447	73,417	106,168	116,696

Source: SNCC 2010

Analysis and approach of the economic analysis

3. The main focus of the Multimodal Transport Project (MTP) is on the SNCC recovery plan (over 80 percent of the budget), the biggest economic impact is expected to be generated by the project's Component 1. However, as it is anticipated that without the MTP funding SNCC would collapse at latest by the end of 2010, the impact analysis should not only focus on the impact generated compared to the status quo but to the situation where the railway network collapsed and would not be operational anymore. In addition, the project impact must not only be analyzed from a financial or economic perspective but also from a social and political point of view. Many remote areas neither have access to roads nor riverways and are therefore depending on the operational railway network. Moreover, one also has to take into account the railway network's role in the stabilization process of the eastern parts of the country by connecting the southern provinces to the politically unstable central, north-eastern and eastern provinces.

4. The SNCC recovery plan is co-financed by grants from the Bank and the Government of the Democratic Republic of Congo (GDRC) based on a Chinese credit line. In order to maximize the total impact of all interventions the investments to be made have been split into complementary packages, one for the Bank and one for GDRC. The content and activities of the two packages are designed in a way as to avoid the risk of duplication. The Bank package is focusing on financing rail track works and rail track rehabilitation equipment as well as rolling stock spare parts, and GDRC's on rail track rehabilitation materials and the acquisition of new rolling stock. None of the two packages separately makes sense and can stand alone - they are totally aligned. Therefore, it is not meaningful to produce an economic analysis of the impact of the Bank funding alone without taking GDRC's interventions into account at the same time.

5. In order to calculate the economic savings generated by an operating railway network compared to road transportation, **the analysis focuses on the sections of the railway which are subject to a vital intermodal competition between rail and road, namely between the Zambian border town of Kasumbalesa (the border post for the rail is in Sakania) and Kolwezi.** This section is 375 km long and accounts for 90 percent of SNCC's transport volume.

Economic assumptions

6. <u>Evaluation period and economic life</u>: To capture all the significant costs and benefits, the economic life of the total railway investments (the major component of the project) has been defined conservatively and was assumed to be 20 years. This period has also been taken as the valuation period. This, however, does not assume that the useful life of the rail track infrastructure and rolling stock investments does not extend beyond the evaluation period of 20 years.

7. <u>Discount Rate</u>: Benefits are discounted over the 20 year period, so that the further away in the future they occur, the less they are worth now. The discount rate is the rate, which would make it just worthwhile for people to spend their money in a year's time than now. It is also the rate, by which future income would need to be discounted (reduced to the present so that people

would be indifferent to having the lesser discounted amount now rather than the higher value in a future year). The interest rate applied to calculate the discounted economic return is 12 percent.

Identification and description of project costs and benefits

8. This section provides an identification and detailed description of costs and benefits associated with the SNCC recovery plan. The model indicates the nature and significance of the costs and benefits that are associated with and without the project.

Project costs

9. As outlined above the economic analysis will take into account both major parts of the SNCC recovery plan, the Bank grant and GDRC's grant to SNCC. According to the investment plan the total amount of US$418.85 million is scheduled to be invested by 2015. However, for the calculation of the economic return**, investments in rolling stock were not taken into account on the cost side** because they represent unavoidable costs, which otherwise would have to be absorbed by the trucking industry. In the same sense the **costs of the support to the SNCC retirement plan were neglected** in the calculation because they have to be covered either way, with the MTP and without. **Therefore, the analysis will mainly cover the rehabilitation and upgrade of railway infrastructure.** Table 3 below summarizes the total combined (MTP and GDRC) SNCC recovery plan infrastructure investments:

Table 3: SNCC Recovery Plan Infrastructure Investment Schedule (million US$)

Year	2010	2011	2012	2013	2014	2015	Total
MTP Bank grant	23.5	49.3	51.1	19.4	13.7	5.8	162.8
GDRC grant	22.0	53.8	29.5	5.7	0.0	0.0	110.9
Total	**45.5**	**103.1**	**80.6**	**25.1**	**13.7**	**5.8**	**273.7**

Benefits

10. The expected direct economic benefits are an increase in mining activities and a subsequent increase in tax income to the account of the government and province, a reduction of the country's fuel dependency and economic savings on fuel expenditures, a reduction of road maintenance costs, the reduction of CO_2 emissions as well as a reduction of the average transport costs. In addition, the SNCC recovery plan is likely to improve the reliability of the access to markets for the mining industry as well as for farmers, to increase the mining production potential and reduce fatal accidents related to hazardous material transported by road. Table 4 summarizes the major costs and benefits that are anticipated of this project.

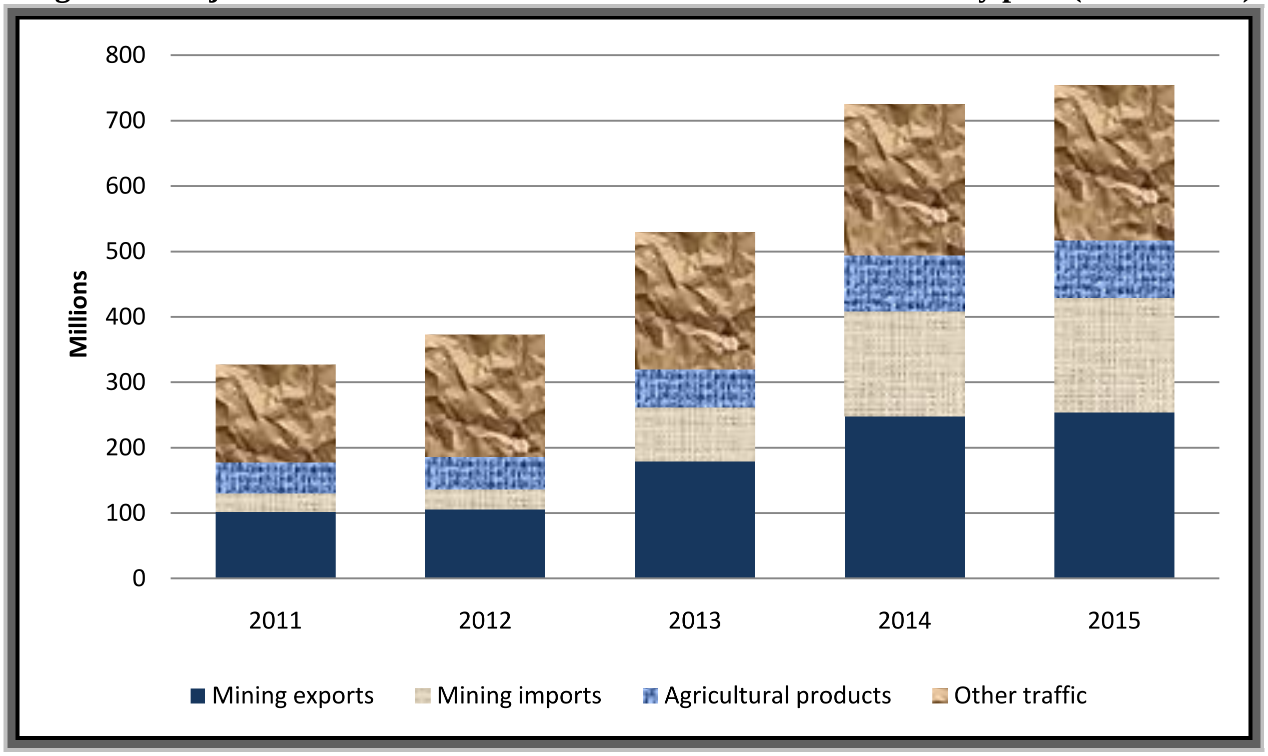
Table 4: Summary of Project Costs and Benefits of the SNCC Recovery Plan

	Costs	Benefits
Quantifiable	• Rehabilitation and upgrade of railway infrastructure • Rehabilitation of existing and acquisition of new rolling stock	• Increase in mining activities and increased taxes to the account of the government and province • Reduction of fuel dependency and economic savings on fuel expenditure • Reduction of road maintenance costs • Reduction of CO_2 emissions costs • Reduction of average transport costs due to lower tariffs and intermodal competition
Intangible		• More reliable access to markets • Economic impact of mining production potential increase • Reduction of fatal accidents (particularly related to hazardous material transported by road)

11. For reasons of quantification, the model for the calculation of the direct economic impact, though, will only take into account savings on fuel expenditures, road maintenance costs, CO_2 emission costs and reduced transport costs as well as additional benefits to the Democratic Republic of Congo (DRC) by the increased export potential of mining goods.

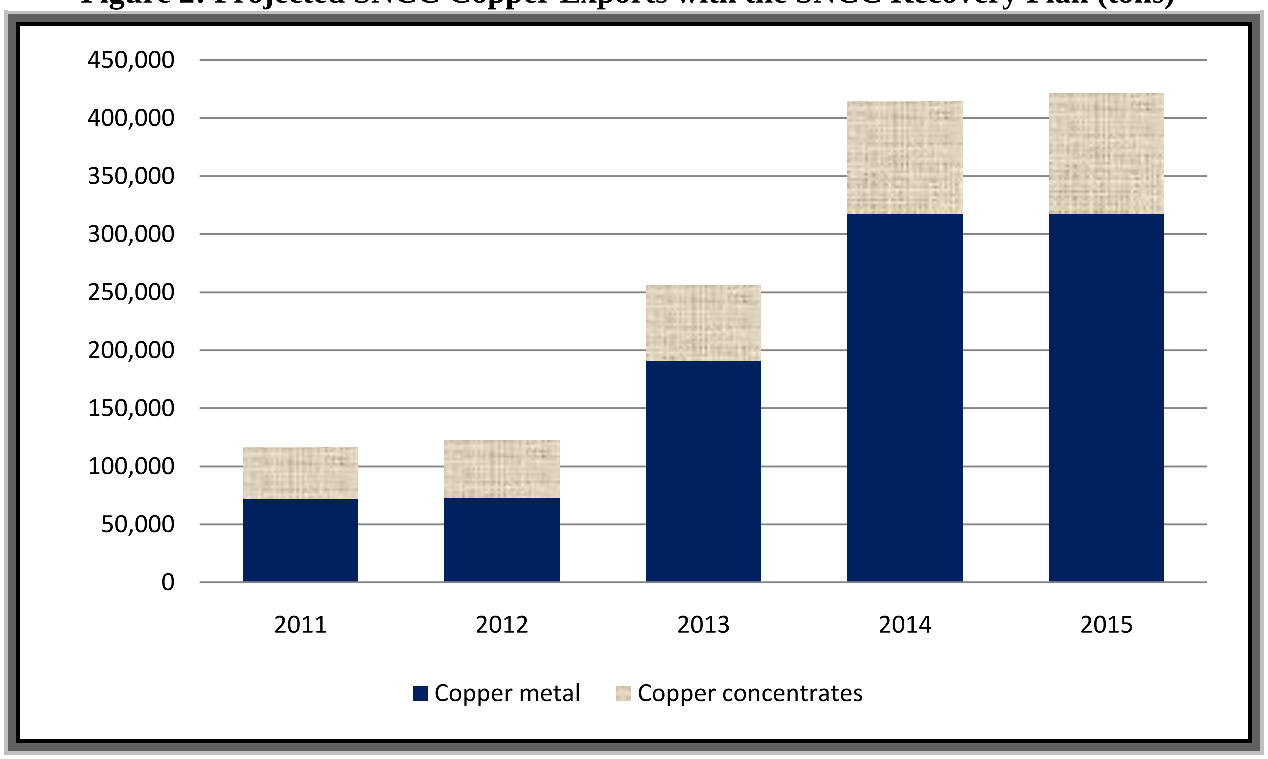
12. The calculation of economic benefits is based on the assumption that without the Bank and GDRC funded recovery plan, SNCC would collapse at latest by the end of 2010. The basic hypothesis therefore is that the projected volume transported by rail would have to switch to road from 2011 on. According to reports by the mining industry, however, the growth potential of the mining sector in Katanga depends on the possibility to increase exports by rail because the existing roads are already close to their capacity limits. SNCC's traffic projections predict, that with the SNCC recovery plan the volumes of mining exports and imports on its network will increase from 130 million Traffic Units (TU) in 2011 to 430 million TU in 2015 (see Figure 1 below). In terms of tons its mining exports are estimated to increase from 116,000 tons in 2011 to over 421,000 tons in 2015 (Figure 2 below). However, it is expected that, in the case of a collapse of SNCC, only half of this additional traffic volume could be taken over by road transportation, while the other half could not be exported and result in a loss at the mining production levels.

Figure 1: Projected Traffic Volumes of SNCC with the SNCC recovery plan (TU millions)



Source: SNCC, 2010

Figure 2: Projected SNCC Copper Exports with the SNCC Recovery Plan (tons)



Source: SNCC, 2010

13. **As the economic life of the total railway investments is assumed to be minimally 20 years, all savings have been calculated over this period of time.** Table 5 below summarized the basic assumption regarding the model's key variables:

Table 5: Basic Assumptions for the Calculation of the Economic Return

Variable	Assumption
Distance of the section subject to intermodal competition	375 km
Diesel price in Lubumbashi before all taxes and duties (Delivered Duty Unpaid)	US$0.95/liter
Diesel consumption per ton-kilometer	Rail: 0.01810 liter/tkm Road: 0.03034 liter/tkm
CO_2 emissions per ton-kilometer	Rail: 48.4 grams/tkm Road: 81.0 grams/tkm
CO_2 emission costs per ton	US$28/ton
Average rail tariff	US$ cents 16.32/tkm
Average tariff savings rail compared to road	23%
Fuel cost share of the total costs of the tariff	Rail: 20% Road: 25%
Annual regular road maintenance costs per kilometer	Current: US$5,000/km Without railway: US$8,000/km
Current periodic road maintenance costs per kilometer	US$200,000/km
Full road rehabilitation costs per kilometer	US$400,000/km
Copper price	US$5,000/ton for processed copper metal US$950/ton for copper concentrates
Copper production costs per ton	US$800/ton
Copper production cost share remaining in country	10%
Estimated percentage of SNCC's additional copper traffic which could be taken over by the existing road infrastructure	50% (2.1 million copper metal and 1.9 million copper concentrates over 20 years)
Estimate of taxes and duties on total copper export value (including parafiscal taxes)	3%

Fuel savings

14. The basic assumption for the calculation of fuel savings is based on the fact that, with the MTP, the railway share of the overall traffic volume will ***not*** have to switch to the road. The main variables are as follows:

- Projected railway traffic volume on the section of intermodal competition (90 percent of SNCC projected overall tonnage, TKM)
- The price for diesel fuel in Lubumbashi before all taxes and duties (US$ cents 95 per liter diesel, $/L)
- Diesel consumption of trucks and railway (L/TKM)

Fuel savings = $/L * TKM * (L/TKM$_{road}$ - L/TKM$_{rail}$)

= US$0.95/l * 12.8 billion tkm (0.03034 liter/tkm - 0.01810 liter/tkm)

= US$149 million

CO_2 emission cost savings

15. The basic variables for the calculation of the CO_2 emission cost savings are the amount of CO_2 produced per ton-kilometer by rail compared to the amount of CO_2 produced by road traffic as well as the current price per emitted ton of CO_2:

- Projected railway traffic volume on the section of intermodal competition (90 percent of SNCC projected overall tonnage, TKM)
- Tons of CO_2 produced per ton-kilometer (T/TKM)
- Price per emitted ton of CO_2 ($/T)

CO_2 emission cost savings = $/T * TKM * ($TKM_{road}$ - T/TKM_{rail})

= US$28/t * 12.8 billion tkm * (81.0 grams/tkm - 48.4 grams/tkm) /1,000,000

= US$12 million[29]

Transport cost savings

16. For the estimation of the generated tariff savings only the reported rail and road tariffs were taken into account. Even though it is expected, that over the evaluation period SNCC's railway tariff will decrease by at least 20 percent compared to today's levels, this economic saving is not taken into account in the model due to uncertainties in price projections and the general volatility of transport tariffs in Africa. In addition, the positive effects of the existence of intermodal competition between rail and road on the tariff levels are not considered in the calculation either. The following variables are taken into account for the estimation of the transport cost savings:

- Projected railway traffic volume on the section of intermodal competition (90 percent of SNCC projected overall tonnage, TKM)
- Average tariffs for road and railway ($/TKM)[30]
- Share of fuel costs on the total price to be covered by the tariff in percent (F)

Transport costs savings = TKM * ($\$/TKM_{road}$ * $(1\text{-}F)_{road}$ - $\$/TKM_{rail}$ * $(1\text{-}F)_{rail}$)

= 12.8 billion tkm * (US$0.200/tkm * 80% - US$0.163/tkm * 75%)

= US$471 million

[29] From an environmental perspective, the existence of an operating and rehabilitated railway network will save as much as 157 million liter of diesel fuel and prevent the production of 419,800 tons of CO2 emissions.

[30] Road tariffs on imports are between US$ cents 20 and 28 per tkm and railway tariffs between US$ cents 13 and 22 per tkm (US$ cents 17 per tkm on average). On exports the SNCC tariff is US$ cents 15 per tkm and road tariffs vary between US$ cents 20 and 23 per tkm (Source: SNCC). Based on this data, the average tariff savings by rail compared to road used in the present model was estimated to be 23 percent.

Savings on road maintenance costs

17. The estimated savings on road maintenance costs are based on the following variables:

- Distance of the section subject to intermodal competition (KM)
- Estimated road maintenance costs with and without railway ($/KM)[31]

Road maintenance cost savings $= KM * (\$_{norail}/KM - \$_{rail}/KM)$

$= 375$ km * (US$744,000/km – US$490,000/km)

= US$95 million

Additional benefits to DRC by the increased export potential for mining goods

18. The growth potential of the mining industry in Katanga depends on the possibility to increase exports by rail because existing roads are close to their capacity limits. Therefore, the basic variable for the calculation of the additional incomes for the country (government and provinces) as a consequence of the increased export potential of mining goods, is the value of the potential mining exports, which cannot be transferred to road in the case of SNCC's collapse (because the road transport capacity reaches its limits).

19. Even though the added value of the increased copper production remaining in the country (additional jobs, energy consumption, etc.) is a direct benefit as well, it has not been considered in the calculation.

20. The calculation of the estimated additional income is based on the following variables:

- Copper price per ton ($/T)
- Copper production costs per ton (C/T)
- Share of production costs remaining in country in percent (P)
- Share of projected SNCC mining exports, which could not be taken over by road transportation (T)[32]
- Taxes and duties as a percentage of the value of the exported mining goods (TX)

Additional mining income $= TX * (T_{metal} * \$/T_{metal} + T_{concentrate} * \$/T_{concentrate}) + C/T * T_{metal} * P$

[31] The estimated road maintenance cost for the current road and transport volumes is US$251 million over a 20 years period (US$5,000/km for annual regular maintenance and two periodic maintenances for US$200,000/km). If the total projected volume transported by rail would have to switch to the road this figure is expected to increase to US$360 million (US$8,000/km for annual regular maintenance, one periodic maintenance for US$200,000/km and one full rehabilitation for US$400,000/km).

[32] It is assumed, that 50 percent of SNCC's additional copper traffic could be taken over by the existing road infrastructure and 50 percent could not be taken over (starting from 2014, 50,000 tons of copper metal per year).

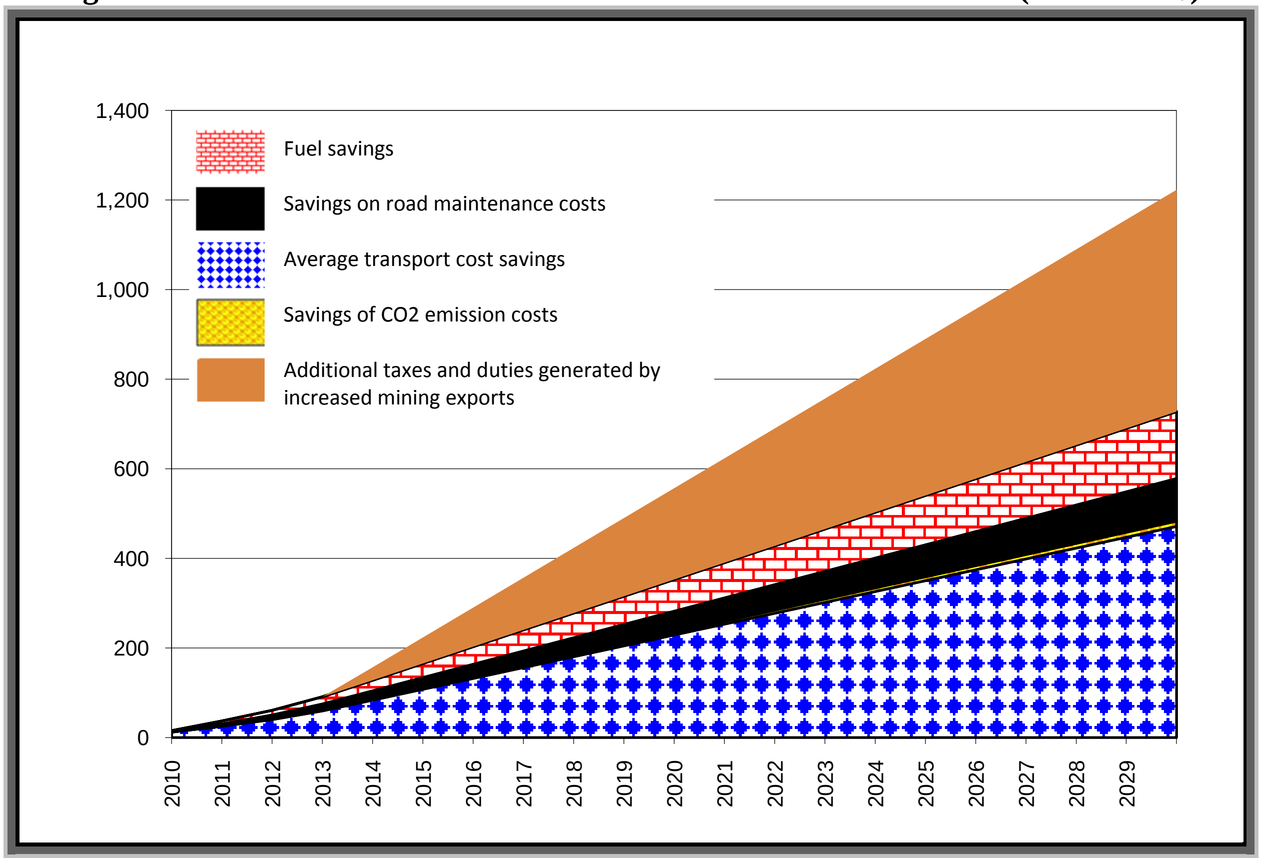
= 3% * (2.1 million tons * US$5,000/t * 10% + 0.5 million tons * US$950/ton) + US$800/t * 2.1 million tons * 10%

= US$495 million

Discussion of the economic impact generated by Component 1

21. Solely based on the five factors mentioned above, the estimated total benefits to be generated by an operating and rehabilitated SNCC railway network are equal to US$1.22 billion over a 20 years period (see Figure 3 and Table 6 below).

Figure 3: Cumulative benefits due to rail traffic instead of road traffic (million US$)



Source: World Bank, 2010

22. By taking into account the investment schedule for both, the Bank grant and the GDRC grant, the economic internal rate of return (EIRR) of the SNCC recovery plan is expected to reach 19.52 percent (see Table 7). Even in a worst case scenario where some key variables would perform worse than expected the EIRR would be above 10 percent. In all cases, the EIRR would be considerably higher for the Bank grant alone. However, due to the complementarities and inter-dependence of the interventions financed by the Bank grant and those financed by the GDRC grant, the activities related to the SNCC recovery plan should be assessed as one set of interventions and not be evaluated separately.

Table 6: Economic Return of SNCC Recovery Plan Infrastructure Investment (million US$)

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	**TOTAL**
Annual average transport cost savings compared to road	12.1	13.2	14.8	19.4	24.0	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	**471.4**
Annual savings in CO_2 emission costs	0.2	0.3	0.3	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	**11.8**
Annual reduction of road maintenance costs	0.0	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	**95.3**
Annual fuel savings rail compared to road if rail wouldn't exist	3.1	3.4	3.9	5.5	7.6	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	**149.4**
Additional mining income for DRC	0.0	0.0	0.0	0.0	28.9	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	**495.1**
Total benefits	15.5	21.6	23.8	30.1	65.8	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	**1,222.9**
Discounted total benefits (12% interest rate)	**15.5**	**19.3**	**19.0**	**21.4**	**41.8**	**37.8**	**33.8**	**30.1**	**26.9**	**24.0**	**21.5**	**19.2**	**17.1**	**15.3**	**13.6**	**12.2**	**10.9**	**9.7**	**8.7**	**7.7**	**6.9**	**396.9**
Total Bank investment	48.1	68.4	72.2	28.4	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**218.9**
Total Bank investment in infrastructure	23.5	49.3	51.1	19.4	13.7	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**162.8**
Total GDRC investments (Chinese credit line)	60.0	79.6	50.0	10.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**200.1**
Total GDRC infrastructure investments (Chinese credit line)	22.0	53.8	29.5	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**110.9**
Total infrastructure investment (Bank+GDRC)	**45.5**	**103.1**	**80.6**	**25.1**	**13.7**	**5.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**273.7**
Economic return	**-30.0**	**-83.8**	**-61.7**	**-3.7**	**28.2**	**32.1**	**33.8**	**30.1**	**26.9**	**24.0**	**21.5**	**19.2**	**17.1**	**15.3**	**13.6**	**12.2**	**10.9**	**9.7**	**8.7**	**7.7**	**6.9**	**138.6**

Source: World Bank, 2010

Table 7: Economic Rate of Return with Different Scenarios

Assumption	**EIRR over 20 years**
Basic assumptions[33]	19.52%
Lower CO_2 emission cost price (US$10/ton instead of US$28/ton)	19.37%
Lower copper price (US$3,000/ton instead of US$5,000/ton)	17.58%
20% higher investment costs	15.84%
Tariff savings rail compared to road are 1/3 below the current levels	14.54%
Lower copper price (US$3,000/ton) and 20% higher investment costs combined	14.10%

Source: World Bank, 2010

[33] The values of the key variables are as follows: Price for copper metal = US$5,000/ton; Average transport savings rail compared to road = 23 percent; CO2 emission costs = US28/ton.

2. Components 2 and 3 – Operational performance strengthening and improved governance of the sector and International trade procedures simplification

23. Components 2 and 3 involve activities with several institutions in different sub-sectors. It is, therefore, not possible to calculate one overall impact and economic return for Components 2 and 3 as a whole. Neither is it possible to calculate separate individual financial or economic rates of return of the different smaller targeted MTP interventions due to the lack of baseline data. None of the beneficiaries have certified financial accounts and their pricing practices are complex and non transparent. It is, therefore, difficult to project their precise economic impact based on a cost-benefits analysis. Nevertheless, the economic benefits generated through the activities supported by Components 2 and 3 are likely to be significant (see Table 8 below) as all interventions are expected to have a positive direct or indirect impact on DRC's transport quality level and connectivity. The economic return of interventions such as the acquisition of rolling stock for the *Chemin de Fer Matadi Kinshasa* (Matadi to Kinshasa Railway - CFKM) is, for instance, deemed to be substantial as a recent World Bank study on infrastructure investment[34] underscored that improving the Matadi-Kinshasa railroad was a very attractive investment with associated high returns. In addition, the MTP activities to be financed under Components 2 and 3 are expected to contribute significantly to increase the overall level of safety of air and river transport services in DRC and, subsequently, generate important indirect economic savings.

Table 8: Summary of Project Costs and Benefits of the Activities of Components 2 and 3

	Costs	Benefits
ONATRA	• Acquisition of new rolling stock (locomotives and wagons)	• Reduction of number of fatal accidents on road • Reduction of fuel dependency and economic savings on fuel expenditure • Reduction of road maintenance costs • Reduction of CO_2 emissions • Reduction of average transport costs due to increasing road/rail intermodal competition
RVA	• Acquisition of ILS and 5 Automated Dependent Surveillance-Broadcast (ADS-B) systems • Studies on new freight terminal and on rehabilitation of smaller airports	• Increased attractiveness of DRC's airports and more international flight connections due to increased safety, security and freight handling capacity • Reduction of transport times
RVM	• Acquisition of two hydrographic boats	• Reduction of boat accidents due to increased safety on waterways • Reduction of transport times
RVF	• Acquisition of river markings • Studies, awareness raising campaigns, retirement plan	• Improved intermodal connectivity on main riverways west-south and north-south axis and therefore more reliable access to markets • Increased safety on riverways • Reduction of transport times
MoT	• Governance plan • Trade process reform	• Decrease of collusion and corruption • Increased export efficiency • Reduction of average transport costs

[34] "Prioritizing Infrastructure Investments: A Spatial Approach", World Bank, 2010

Annex 10: Safeguard Policy Issues
Democratic Republic of the Congo: Multi-modal Transport Project

1. **Environmental category and justification**: Strengthening capacity in the transport sector, rather than building roads, railways, waterways and airport is the focus of the multi-modal transport project I in the Democratic Republic of Congo (DRC). Component 1, of the project, however, includes the rehabilitation of almost 700 km of the railway network in eastern DRC, the project therefore, has been assigned environmental category B. No significant adverse environmental impacts are expected. The impacts identified in the safeguards instruments are minor. They will be site specific to civil works, e.g., run off, soil erosion, noise and dust and air quality. The project triggers the following safeguard policies: OP/BP 4.01 (Environmental Assessment), OP/BP 4.10 (Indigenous Peoples), OP/BP 4.11 (Physical Cultural Resources), and (OP/BP 4.12, Involuntary Resettlement).

2. **Environmental assessment and technical studies carried out**: Considering the geographical and sectoral scope of the project, five safeguard documents have been prepared and disclosed in-country on December 31, 2009 with InfoShop disclosure on January 21, 2010. The safeguards instruments prepared were:

- Plans Cadres de Gestion Environnementale (PCGE) des Sous Secteurs de Transport (Environmental Management Frameworks – EMF - for Transport Sub-Sectors);
- Plan Cadre pour les Populations Autochtones (PCPA - Indigenous Peoples Development Framework);
- Plan sur le Patrimoine Culturel du Secteur Transport (Transport Sector Physical Cultural Heritage Plan);
- Directives de Sensibilisation et Lutte contre les IST/VIH (Acquired Immunodeficiency Syndrome/Human Immunodeficiency Virus Awareness Raising and Prevention Guidelines); and
- Cadre de Politique de Réinstallation (CPR) du Secteur Transport (Transport Sector Resettlement Policy Framework - RPF).

3. The Environmental Management Framework (EMF) includes a screening mechanism that will make identification of specific safeguards issues possible and will guide the preparation of appropriate safeguards instruments for specific subprojects, including Environmental Assessments (EAs) and Environmental Management Plans (EMPs).

4. While the railway sections that may be rehabilitated by the project generally do not traverse areas where there are large concentrations of Pygmy populations, certain sections traverse through areas that may include Pygmy communities. The Borrower has prepared an Indigenous Peoples Development Framework (IPDF) that describes the Pygmy communities, their geographic locations, potential impacts and a process for engaging the Pygmies in the project, including through consultations, participation, and benefit-sharing for local communities. Once the sites of the rail rehabilitation to be financed by the project have been determined, an Indigenous Peoples Plan may be prepared as necessary, per the requirements of OP 4.10.

5. A resettlement policy framework has been prepared to address potential social safeguards issues. Where required, the Resettlement Policy Framework (RPF) will guide the preparation of Resettlement Action Plans (RAPs). The railway rehabilitation work in Lubumbashi is likely to have a partial impact on an informal market known “The Railway Market”, as part of the market activities are carried on the rails and in the right of way of the railway. To that effect, a social impact assessment will be carried out and a RAP will be prepared prior to the commencement of the rail track rehabilitation works, in accordance with the Bank’s safeguard policies (including OP4.12), once the exact sections of the railways track to be covered by the RAP have been identified and agreed with the government.

6. It is estimated, that the existence of an operating and rehabilitated railway network in Katanga will save as much 157 million liter of diesel fuel and prevent the production of 419,800 tons of CO_2 emissions over a 20 years period.

7. **Alternatives considered so as minimizing adverse safeguard–related impacts**: Rehabilitation of the rail network is essential to economic growth in DRC, so no alternative to this basic objective were considered. The railway network to be rehabilitated follows existing alignments, so alternative alignments were not considered.

8. **Consultations with various stakeholders and affected groups**: The design of the DRC multi-modal transport project has been participatory at several levels. The stakeholders consulted for the preparation of this project included: national administration, the provincial administration, the management of the *Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC – SNCC), and the workers unions of SNCC. Public consultations were also held throughout the preparation of the safeguards instruments, including a consultation workshop on the safeguard documentation conducted in Kinshasa, on July 10-11, 2008. All consultations focused on the viability of the project, identifying potential areas of conflict and common ground, between stakeholders. The result of the consultations, confirm a solid support for the implementation of the project.

9. **Capacity and commitment for safeguard issues management by client**: The Borrower does not have existing institutional capacity to implement the safeguard policies triggered by the Project. To address this weakness, the Project will fund and support a newly created Environmental Unit within SNCC. The unit will be responsible for environmental and social management, as well as occupational safety, enabling this unit to: (i) take responsibility for implementation of the safeguard measures and (ii) modernize oversight of the safety and environmental management of SNCC operations.

10. **Mechanisms to monitor the implementation of agreed mitigation plans**: The CEPTM Project Unit based in Lubumbashi will monitor the implementation of the agreed safeguard measures by SNCC’s Environmental Unit, and will include progress in this regard in reports to be provided to the World Bank. Project reports shall include environmental and social development outcomes, including the results of Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS) interventions.

11. **Supervision arrangements including staffing and resources**: Supervision and monitoring will be a continuous process. The day to day field supervision will be conducted by the Supervision Engineer and captured in the monthly and quarterly progress reports, which are subject to review by the SNCC environmental and social specialists. Also, the supervision team will include a social scientist and an environment specialist. Project progress reports shall include environmental and social development outcomes. The SNCC Environmental Unit will produce quarterly progress reports on environmental and social performance. The reports will be part of the overall project monitoring system.

Annex 11: Project Preparation and Supervision
Democratic Republic of the Congo: Multimodal Transport Project

	Planned	Actual
PCN review	September 2009[35]	September 16, 2009
Initial PID to PIC	November 2009	November 5, 2009
Initial ISDS to PIC	October 2009	October 8, 2009
Appraisal	March 2010	March 15, 2010
Negotiations	April 2010	May 10, 2010
Board/RVP approval	June 2010	June 22, 2010
Planned date of effectiveness	October 2010	October 22, 2010
Planned date of mid-term review		
Planned closing date	December 31, 2015	

Key institutions responsible for preparation of the project:

Ministry of Transport
Ministry of Finance

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Pierre Pozzo di Borgo	Program Coordinator / TTL	AFTTR
Aissatou Diallo	Finance Officer	CTRFC
Alexandre Dossou	Senior Transport Specialist	AFTTR
Anne Njuguna	Program Assistant	AFTRR
Antoine Lema	Senior Social Development Specialist	AFTCS
Bourama Diaite	Senior Procurement Specialist	AFTPC
Daria Goldstein	Senior Counsel	LEGAF
Jean Charles Kra	Senior Financial Management Specialist	AFTFM
Jeannine Kashoshi Nkakala	Team Assistant	AFCC2
Kariata Doukoure Diane	Program Assistant	AFTTR
Lucien Aegerter	Transport Specialist	AFTTR
Roukaya El Houda	Consultant	AFTTR
Olivier Marcel Murru	Consultant	AFTTR
Paul Jonathan Martin	Senior Environmental Specialist	AFTEN
Philippe Mahele	Senior Procurement Specialist	AFTPC
Thierry Rakotoarison	Consultant	AFTTR
Véronique Okito	Team Assistant	AFCC2

Bank funds expended to date on project preparation:
1. Bank resources: US$ 1,039,186.58
2. Trust funds: US$ 17,473.44
3. Total: US$ 1,056,660.02

[35] PCN review took place in August 2005. A new PCN review was conducted in order to reflect time elapsed since first review and changes to the project's scope.

Estimated Approval and Supervision costs:

1. Remaining costs to approval: $5,000.00
2. Estimated annual supervision cost: $250,000.00

Annex 12: Documents in the Project File
Democratic Republic of the Congo: Multimodal Transport Project

1. IDA processing internal documents

Integrated Safeguards Data Sheet. Concept Stage (2005).

Integrated Safeguards Data Sheet. Concept Stage (2009).

Project Concept Note. Concept Stage (2007).

Project Concept Note. Concept Stage (2009).

Project Information Document. Concept Stage (2005).

Project Information Document. Concept Stage (2009).

2. Technical documents

BCEOM, *Étude du Fonds d'Entretien Routier en RDC – Rapport Provisoire* (2005).

Buursink, *Cadre de Politique de Réinstallation du Secteur Transport* (2008).

Buursink, *Directives de Sensibilisation et Lutte contre les IST/VIH* (2008).

Buursink, *Plan Cadre pour les Populations Autochtones* (2008).

Buursink, *Plan sur le Patrimoine Culturel du Secteur Transport* (2008).

Buursink, *Plans Cadres de Gestion Environnementale des Sous Secteurs de Transport* (2008).

Buursink, *Évaluation Environnementale Sectorielle et Plans Cadres de Gestion Environnementale et Sociale du Secteur Transport* (2008).

Catry, Jacques, *GECAMINES – Programme de Restructuration – Volet Social – Rapport Final* (2003).

COPIREP, Transmission résolution de l'Atelier sur la dimension sociale de la réforme des entreprises publiques, January 16, 2010.

Core Advice, *Appui à l'Élaboration et à la Mise en Œuvre d'un Pilotage Transversal des Dimensions Sociales de la Réforme des Entreprises Publiques de la RDC – Rapport Final* (2008).

Government of the Democratic Republic of Congo, *Programme Minimum de Partenariat pour la* Transition et la Relance (PMPTR) en République Démocratique du Congo (2004).

Government of the Democratic Republic of Congo, *Note des stratégies sectorielles des transports en République Démocratique du Congo*, December 4, 2009.

Government of the Democratic Republic of Congo, *Note Technique - SNCC – Mission de stabilisation des activités ferroviaires : Diagnostic et Options stratégiques*, December 22, 2009.

Groupement ADPI/KPMG, *Rapport de Diagnostic et Plan de Stabilisation (RVA)* (2009).

HPC Hamburg Port Consulting GmbH, *Programme Multisectoriel d'Urgence pour la Réhabilitation et la Reconstruction (PMURR) – Rapport Avant Projet Final – Version Révisée* (2006).

Moore Stephens LLP, *Rapport Final Provisoire – Audit du Personnel de la Régie des Voies Maritimes (RVM) dans le Cadre du Projet Compétitive et Développement du Secteur Privé* (2007).

Price Waterhouse Coopers, *Étude de Mise en Place d'une Structure Autonome de Gestion de l'Aviation Civile en République Démocratique du Congo* (2005).

PROGOSA, *Rapport Diagnostic – Volet Ferroviaire* (2008).

Vecturis, *Rapport de Diagnostic (SNCC)* (2008).

Vecturis, *Rapport Complémentaire portant sur un Mode de Gestion Externalisée de la Fonction Ferroviaire dans le Cadre du Plan de Stabilisation de la SNCC* (2009).

3. Legal documents

Government of the Democratic Republic of Congo, *Loi n°08/007 du 7 juillet 2008 portant dispositions générales relatives à la transformation des entreprises publiques*, July 7, 2008.

Government of the Democratic Republic of Congo, *Loi n°08/008 du 7 juillet 2008 portant dispositions générales relatives au désengagement de l'État*, July 7, 2008.

Government of the Democratic Republic of Congo, *Loi n°08/009 du 7 juillet 2008 portant dispositions générales applicables aux établissements publics*, July 7, 2008.

Government of the Democratic Republic of Congo, *Loi n°08/010 du 7 juillet 2008 fixant les règles relatives à l'organisation et gestion du Portefeuille de l'Etat*, July 7, 2008.

Government of the Democratic Republic of Congo, *Arrêté interministériel du 15 juin 2009 sur la création du comité de coordination du projet de transport multimodal (CCPTM)*, June 15, 2009.

Government of the Democratic Republic of Congo, *Décret portant mesures transitoires relatives à la transformation des entreprises publiques*, April 24, 2009.

Government of the Democratic Republic of Congo, *Décret établissant la liste des entreprises publiques transformées en sociétés commerciales, établissements publics et services publics*, April 24, 2009.

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Government of the Democratic Republic of Congo, *Décret portant création, organisation et fonctionnement du Comité de pilotage de la reforme des entreprises du portefeuille de l'Etat (COPIREP)*, April 24, 2009.

Government of the Democratic Republic of Congo, *Décret portant création, organisation et fonctionnement du Fonds spécial du Portefeuille (FSP)*, April 24, 2009.

Government of the Democratic Republic of Congo, *Arrêté interministériel portant sur la dissolution du comité de la liquidation de la SNCZ*, June 15, 2009.

Government of the Democratic Republic of Congo, *Arrêté Ministériel No409/CAB/MIN/TVC/016/2010 du 16 Février 2010 portant création, organisation et fonctionnement d'une cellule d'exécution du projet de transport multimodal, en abrégé «CEPTM »*, February 16, 2010.

Government of the Democratic Republic of Congo, *Arrêté Ministériel No002/CAB/PVPM/ETPS/2010 du 17 mars 2010 portant approbation et autorisation de mise en œuvre du plan de départ en retraite des agents et de la stratégie de règlement des arriérés de salaire des agents à retraiter de la Société Nationale des Chemins de Fer du Congo, SNCC en sigle*, March 17, 2010.

Ministry of Finance, No0772/CAB/MIN/COOP/FINANCES/MW/2010, *Demande d'avis de la Banque mondiale sur le financement rétroactif de quelques sous-projets du Projet de Transport Multimodal (PTM)*, March 17, 2010.

Ministry of Justice, *Protection du patrimoine de la SNCC contre les voies d'exécution forcée*, December 24, 2009

Annex 13: Statement of Loans and Credits
Democratic Republic of the Congo: Multimodal Transport Project

Active Projects									Difference Between Expected and Actual Disbursements [a/]	
			Original Amount in US$ Millions							
Project	**Project Name**	**FY**	**IBRD**	**IDA**	**GRANT**	**Cancel.**	**Undisb.**	**Orig.**	**Frm Rev'd**
Proj ID (SPN)		Approval FY	IBRD	IDA	Grants	Cancel.	Undisb	Orig.	Frm Rev'd
P100620	DRC- Forest and Nature Conservation SIL	2009		64.0			62.9		
P092724	DRC Ag Rehab & Recovery SIL (FY10)	2010		120.0			117.5		
P104497	DRC Em. Urban & Social Rehab ERL (FY07)	2007		180.0			76.0	61.0	
P086874	DRC Emerg Soc Action (FY05)	2005		95.0			37.8	0.3	
P071144	DRC Priv Sec Dev Competitiveness (FY04)	2004		180.0			73.0	6.7	41.4
P091092	DRC Urban Water Supply Project (FY09)	2009		190.0			193.4	33.5	
P101745	DRC- Pro-Routes (FY08)	2008		50.0			40.9	11.1	
P086294	DRC-Education Sector Project (FY07)	2007		150.0			125.9	114.0	
P078658	DRC-Emerg Demob Reintegr ERL (FY04)	2004		150.0		3.3	25.0	-18.4	30.4
P081850	DRC-Emerg Econ & Soc Reunif ERL (FY04)	2004		214.0			9.7	-5.6	9.9
P088619	DRC-Emergen Living Condition Impr (FY05)	2005		82.0			29.3	29.2	
P104041	DRC-Enhancing Governance Capacity (FY08)	2008		50.0			36.8	7.7	
P083813	DRC-GEF National Parks (FY09)	2009			7.0		6.5	-0.3	
P115642	DRC:Emerg Proj to Mitig Impact Fin Cris	2009		100.0			7.6	6.5	
P111621	DRC:Rehab&Particip Mgt of KeyProt. area	2009			6.0		6.0		
P088751	ZR-Health Sec Rehab Supt (FY06)	2006		150.0			68.0	65.9	4.6
P082516	ZR-Multisectoral HIV/AIDS (FY04)	2004		102.0			23.2	11.3	
Overall Result				**1877.0**	**13**	**3.26**	**939.3**	**317.7**	**86.3**

a Intended disbursements to date minus actual disbursements to date as projected at appraisal.

STATEMENT OF IFC

Congo, Democratic Republic of
Committed and Disbursed Outstanding Investment Portfolio
As of 4/30/2010
(In USD Millions)

		Committed						Disbursed Outstanding				
FY Approval	**Company**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**		**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**
2008/10	Advans congo	0	2.15	0	0	0		0	2.15	0	0	0
2007	Celtel drc ii	61.2	0	0	0	52.2		61.2	0	0	0	52.2
2005	Kmt	0	0.34	0.67	0	0		0	0	0.67	0	0
2005/10	Pcb congo	0	0.72	0	0	0		0	0.72	0	0	0
0	Rawbank	7	0	0	0.46	0		7	0	0	0.46	0
0	Stanbic drc	0	0	3	0	0		0	0	3	0	0
2010	Tigo	50	0	0	0	30		0	0	0	0	0
Total Portfolio:		**118.2**	**3.21**	**3.67**	**0.46**	**82.2**		**68.2**	**2.87**	**3.67**	**0.46**	**52.2**

Annex 14: Governance Plan
Democratic Republic of the Congo: Multimodal Transport Project

1. Background

1. The purpose of this Annex is to review and asses the governance strategy underpinning the Multimodal Transport Project (MTP). The focus of the proposed Governance Plan (GP) is on institutional reform of the transport sector's State-Owned Enterprises (SOEs) so as to promote transparency and accountability as well as on the injection of managerial competence and leadership into targeted SOEs in order to strengthen their internal supervision. The Plan does not pretend, however, to capture all governance issues as it relies on a pragmatic approach designed to first focus the government and the Bank's attention on key actions with potentially large positive impacts from which a more systemic approach to good governance can be built on. Finally, the GP relies on a communication strategy designed to ensure ownership of the SOEs reform objectives and accomplishment by the largest possible stakeholders group.

2. Key governance actions strategy

Country context

2. *Governance in Post Crisis Situations.* Poor management and corruption exist in all economies, but they flourish especially in countries still recovering from the insecurity arising from recent social and/or political conflict. These countries are characterized by weak public institutions, lack of trained and experience staff, poorly defined and understood administrative rules and regulations, and weak supervision. These institutions operate in an environment in which democratic governance, the press, and civil society are still struggling to establish themselves. In this context the deployment of much needed external aid to support pressing rehabilitation and reconstruction needs and to build basic capacity for public finance management and program implementation entail considerable risks arising from corruption, poor performance, delays, misappropriation, etc. How to deal with these risks is a central tenet of country assistance strategies which have to combine the investment needed for the economic revival and improvement in living conditions - the peace dividend - with programs to reform public institutions, build managerial capacity and develop the framework for public accountability and transparency.

3. *Governance and Capacity Building are a priority of the Democratic Republic of Congo (DRC) Development Strategy.* The conditions of pervasive institutional weakness and lack of capacity and the related risks outlined above are particularly acute in DRC due to the long period of mismanagement and endemic corruption followed by two bouts of civil war (1998-2002) and a protracted political transition (2002-2006). DRC lags behind all other SSA countries on all aspects of governance. Indeed, the government recognizes that improving the quality of Governance is crucial to ensuring conditions for sustainable economic growth and poverty reduction. The successful completion of the elections in 2006 and the subsequent establishment of a coalition government offer the opportunity, albeit fragile, for the development of a stable governance system. The key governance challenges in DRC are summarized in the "*Contrat sur la Gouvernance*" or Governance Compact which is part of the Government program and provides the overall strategic framework for sector specific undertakings at the level of specific sectors.

4. The Governance Compact is articulated on three sector reform priorities: (i) State-owned Enterprises (SOEs), (ii) Mining, and (iii) Security; and four cross cutting priorities: (i) Enhancing Transparency, (ii) Decentralization, (iii) Public Financial Management, and (iv) Public Service Reform. These priorities as well as other strategic priorities in the government's Program are addressed by the Common Assistance Framework (CAF) agreed between the government and the donor community. They are also central to the World Bank Group Country Assistance Strategy (CAS; December 2007). The CAS outlines a coherent approach to pursue and strengthen the support to specific aspects of public sector management and capacity (procurement and public enterprise reform) as well as to address critical cross-cutting priorities in particular administrative decentralization under the recently approved Governance Capacity Enhancement Project (May 2008). The CAS also outlines the gradual shift from multi-sector rehabilitation programs executed by stand-alone ad-hoc implementation units toward policy-based sectoral projects combining the three elements of reform, investment and capacity building. As detailed before, the MTP exemplifies this transition for transport services.

5. *Institutional & Legal Framework for Public Procurement*. The World Bank's assessment of the current public procurement and contract management situation in the DRC's transportation sector is based upon: (i) a review of the infrastructure unit capacities; (ii) the United Kingdom Department for International Development (DFID) financed diagnostic study of the unit; and (iii) the World Bank's 2004 Procurement Assessment Review of the DRC. The pervasive problems identified by these assessments have also been pinpointed by the ICEA-Mazars study and the "*Enquête sur la Gouvernance*". They include:

- Inappropriateness of the procedures and national regulations (outdated and unclear);
- Absence of high-quality model documents and documentation;
- Fragility of institutional arrangements for contract management;
- Absence of a procurement regulation agency;
- Lack of public procurement skills;
- Lack of established and transparent framework for each of the procurement and contracting process steps (from planning and advertisement to contract completion);
- Absence of recourse and oversight mechanisms; and
- Absence of an environment conducive to the development of a competitive private sector.

6. Although a new Procurement Code was adopted by the government in December 2008, it still has yet to be adopted by parliament which means that it will take some time before it becomes an official document and even more time before it gets internalized by SOEs and government institutions alike.

> **MTP strategy** is to strengthen and develop standardized financial and procurement rules, procedures and capacity within all targeted SOEs using the *Société Nationale des Chemins de Fer du Congo* (National Railway Company of DRC – SNCC) as the pilot company. The CEPTM Project Unit based in Lubumbashi located within SNCC (see Annex 6) will be working with a set of International Development Association (IDA) approved administrative, financial and procurement procedure manuals which will be used as the basis for developing before the end of 2010 similar manuals for SNCC. It will be assisted in this endeavor by individual consultants who will be financed by the MTP

(see Annex 5 – Component 1). Once these manuals are produced, personnel training in the new procedures will be carried out within SNCC to implement them. At the end of the first year of implementation, SNCC will provide the Bank's fiduciary Team with its feedback on the outcome of the new procedures and their impact on its ability to procure and manage in a transparent and efficient manner its funds. The lessons learned from SNCC will then be used to develop similar procedure manuals for the *Régie des Voies Aériennes* (National Airways Management Agency – RVA), the *Régie des Voies Maritimes* (National Marine Ways Management Agency – RVM) and the *Office National des Transports* (National Transport Office – ONATRA) in early 2011 using external consultants financed by the MTP in order to reach a full scale implementation status for all four SOEs before the end of 2011.

Additionally, the MTP will finance for SNCC, ONATRA and RVA: (i) annual procurement audits, and (ii) independent procurement reviewers. In the first case, the audits will encompass a sampling of contracts awarded during the prior year spanning all types of contracts (goods, works, consultant, services), all values (from as low as US$10,000 to US$10,000 and higher) and all source of financing (IDA and non IDA). The goal of these audits will be to evaluate each company procurement performance using parameters such as: (i) compliance with procurement procedures, (ii) quality of bidding evaluation and (iii) quality of record keeping. Table 1 below illustrates the details of evaluation parameters which will be used as part of these audits while Table 2 presents a set of procurement compliance indicators that will be measured as part of the annual audits of procurement activities. In the second case, independent procurement reviewers financed by the MTP under single year non renewable contract will be joining the evaluation commissions of each SOEs to witness and report back to SOE managements and the Bank on the quality, transparency and fairness of the proceedings of these commissions. These individual reviewers will be provided by SOEs' procurement department monthly lists of all procurement dossiers under review. Based on this information, they will decide randomly to attend at least five monthly meetings while making sure that they cover diverse type of procurement methods and values.

Table 1: Sample Table of Procurement Assessment Audits for Transport SOEs

Criteria	Goods contracts	Works contracts	Consultant/service contracts
Adequacy of the bidding Documents	Yes/No	Yes/No	Yes/No
Advertisements	Yes/No	Yes/No	Yes/No
Ready Availability	Yes/No	Yes/No	Yes/No
Pre-Bid Meeting	Yes/No	Yes/No	Yes/No
Addenda	Yes/No	Yes/No	Yes/No
Timely Recorded Public Opening of Bids	Yes/No	Yes/No	Yes/No
Content and Evaluation of Bids	Yes/No	Yes/No	Yes/No
Approval of Award	Yes/No	Yes/No	Yes/No
Contract Negotiations	Yes/No	Yes/No	Yes/No
Contract Compilation	Yes/No	Yes/No	Yes/No
Institutional Process	Yes/No	Yes/No	Yes/No
Implementation of Institutional Process	Yes/No	Yes/No	Yes/No
Total Yes/No			

Source: World Bank, 2010

Table 2: Procurement Compliance Indicators

N°	Aspects to be evaluated	Selected performance criteria	Performance threshold (optimal state)	Status observed		
				ONATRA	RVA	SNCC
1	Compliance with applicable rules and procedures	- Percentage of amount and number of purchase orders/vouchers for purchases valued at less than the procurement threshold (US$20,000), relative to the total volume of expenditures for the purchase of works, goods and services.	Amount < 5%			
		- Percentage of amount and number of contracts awarded under open bidding	Amount > 90%			
		- Percentage of number of procurements for which the bidding invitation is advertised	> 90%			
		- Percentage of the number of procurements for which the contract award result is published	= 100%			
		- Percentage of the number of purchase orders/vouchers subjected to price comparison prior to signature of the order	> 90%			
2	Quality of operations (SBDs, bid evaluation, contract monitoring, and so forth)	- Percentage of the number of contracts for which the amount of contract amendments exceeds 15% of the initial contract amount [36]	< 10%			
3	Transparency, equity and integrity	- Percentage of contracts awarded that fail to comply with specified procedures in terms of the amount and nature of the contract, or that did not receive the required no objection from the donor	< 1%			
		- Percentage of the number of procurements and purchase orders for which fewer than three (3) bidders respond to the bidding invitation	<10%			

[36] It is understood that contract amendments are used only for possible contract modifications associated with the completion of services defined in the initial contract, and that any new order for a different purpose, directed at the same service provider, must give rise to a new contract, in accordance with prevailing regulations. Such new contract may be arrived at, on an exceptional basis, by means of a new procurement process or, depending on the case, through direct negotiation in accordance with regulatory provisions.

N°	Aspects to be evaluated	Selected performance criteria	Performance threshold (optimal state)	Status observed		
				ONATRA	RVA	SNCC
		- Percentage of contracts valued at over US$ 250,000 that have undergone annual external audits submitted to national authorities and donors [37]	= 25%			
		- Audit results are accessible on request	= 100%			
		- Percentage of number of administrative sanctions relative to the number of infractions proving to be fraudulent actions (at the level of the Administration (CI) and private sector)	= 100%			
4	Recourse	- Percentage of recourse procedures resulting in cancellation of the contract award	< 20%			
		- Percentage of recourse procedures processed in less than 21 days	> 90 %			
5	Time required for procurement process	- Percentage of procurements for which more than 30 days are allotted, between the announcement and bid submission, for preparation of offers by bidders	> 90 %			
		- Percentage of procurements for which less than 90 days elapse between bid opening and the contract award decision	> 90%			
		- Percentage of procurements declared null or unavailing prior to contract signature	< 5%			
6	Promptness of payments	- Percentage of payments occurring beyond a 60-day timeframe	< 10%			
		Percentage of the total amount of moratory interest relative to initial contract amounts, calculated for all contracts	< 1 %			
7	Litigation	- Percentage of contracts that, after failure to arrive at an amicable resolution, go to arbitration	< 10%			
		- Percentage of arbitration decisions that go against the Contracting Authority	< 5%			
8	Compliance with criteria used in opting for force account works	- Percentage of procurement plan represented by planned force account works - Percentage of amount of works performed under force account	< 40% < 40%			

Source: World Bank, 2010

[37] This indicator will apply only from the 15th month onward, following the effectiveness date of the Grant Agreement.

7. *Public Account Auditing.* The DRC public account auditing function is nominally entrusted to the *"Cour des Comptes*" (equivalent to the Office of the Auditor General). However, this critical State organ is not able at this time to fulfill its function as the supreme audit authority for public sector accounts. Until reformed and strengthened, it cannot be fully relied upon to play any role in auditing (either related to investment or to the operations) of public administrations or SOEs. Moreover as under the "*Lois de Désengagement de l'Etat",* SNCC, RVA, ONATRA and RVM will acquire the statutes of "S*ociété Commerciale*" (fully owned by the State); it is not clear at this time whether these SOEs will fall under the purview of the *"Cour des Comptes*". The auditing requirements will be specified in the *"convention particulière"* which, in accordance with the above laws, will define the public service responsibilities of these SOEs and the mutual obligations linking it to the State represented by the Ministry of Portfolio (MoP). Additionally, as the change to a commercial status is conditioned on the ability of these companies to produce certifiable financial accounts, which means they have to have a certified inventory of assets which can feed into a certified balance sheet, strong doubts linger that this change of legal status will happen before 2011 as the physical identification of assets is usually a painstaking, costly and time consuming endeavor.

MTP strategy involves the following arrangements designed to meet Bank requirements:

- Adequate requirements for annual external auditing of SNCC, RVA, RVM and ONATRA accounts are imbedded in the above *"convention particulière".* These requirements are also detailed in Annex 7 and follow Bank Guidelines concerning terms of reference (TORs), selection of financial auditors, timelines etc;
- The performance of SNCC private operator (the Operator) under the proposed management contract to be signed in 2011 will be subject to an independent technical and financial audits on a semi-annual basis: timeline, TORs and selection will follow Bank guidelines; and
- The MTP Project Management Entity (CEPTM) and project accounts will be subject to external auditing (as detailed in Annex 8), related costs will be funded under the project.

8. *Stakeholders Communications and Voice.* The government is committed to transforming transport SOEs into well governed and service oriented entities managed by private operators. In view of the complexity and far reaching nature of these reforms, it is essential to broaden their support base to ensure sustainability. As governance is at the heart of reforming DRC's multimodal transport sector, mechanisms of social accountability and public oversight of standards of service delivery assume great importance. Systematic engagement and communication with various stakeholders, beneficiary groups, media and civil society are essential building blocks for creating consensus around the need for reforms and embedding a feedback loop for expectations management. As some of the reform measures can cause social unrest and resistance from vested interests, it is important that clear and accurate information on project objectives is available in the public domain so that the wider interests of 64 million citizens override other considerations. Access to Information legislation and provision of wherewithal for its implementation can be greatly beneficial for the whole reform agenda. The government and the transport SOEs are the natural choice for spearheading communication and outreach efforts in support of the MTP. The World Bank and other development partners can play a supporting role in providing technical support. Accordingly, a comprehensive

communication program will be developed through a diagnostic exercise of information and communication environment, based on the understanding of the socio-cultural, economic, and behavioral dynamics of different stakeholders including the ultimate beneficiaries – the public.

9. The communication program will include a clear Strategy and Action Plan that is expected to help achieve the overarching development goals. The communication interventions would range from simple awareness raising campaigns or public education to civic engagement and social accountability mechanisms. In DRC, public agencies have no tradition or requirements for disclosure and communication toward stakeholders. Transport SOEs annual reports are essentially destined to an internal audience and to their oversight bodies, namely the Ministries of Portfolio and Transport. The preparation of the MTP which has followed an in-depth participatory process has shown the importance of communication in the interest of key stakeholders. This is and will be important to building and maintaining support for critical aspects of the reform. Accordingly, the GP includes simple practical steps to engage key stakeholders in periodic reviews of the status and progress of the aviation, port, riverways and airport sub-sector. This component of the GP will be inter-twined with the Communication component of the Project.

MTP strategy in terms of communication puts emphasis on transparency, integrity and accountability of the institutions in charge and will involve the following specific measures:

- To mandate the organization of two annual customers satisfaction surveys for SNCC and ONATRA rail passenger users starting in 2011. The surveys are to be carried out by independent Non Profit Organizations (NGOs) and will cover the train stations of Kinshasa, Matadi, Lubumbashi, Ilebo, Kananga, Kamina, Kabalo, Kolwezi, Mwene Ditu and Likasi;
- To organize annual Stakeholder Information Forums in Kinshasa and Lubumbashi directed at three national audiences: (i) Members of Parliament through the "Commission Permanente Aménagement du Territoire et infrastructures" and (ii) the "Fédération des Enterprises du Congo" (FEC) through its Secretariat, and (iii) representatives of the provincial transport ministries affected by SNCC investment and mining companies in Lubumbashi. These meetings will deal with the performance of each transport sub-sector (excluding roads) in terms of investments, institutional reform and operational performance, and will consider all ongoing projects and programs targeting the airport, port, riverways, and railway subsectors;
- To organize similar events in other large urban centers including those benefiting directly from investments under the MTP at the relevant Provincial level when it comes to activities financed for SNCC;
- To publish periodic articles in the local press on key developments related to SNCC services;

- To provide a data room in Kinshasa and Lubumbashi managed by the respective CEPTM Project Units where all information related to the MTP procurement plan, bids and awards, as well as performance evaluation by the Bank in the form of Aide Memoirs will be available for public consultation; and
- To keep the development partners informed of the progress of the reform through the "Sous Groupe Thématique des Transports".

10. The CEPTM will be responsible for ensuring that this communication strategy is adhered to.

Transport subsector context

11. *Political economy context:* the existing political economy behind SOEs operations and reform is fairly well known although its context and the interest groups attached to each SOE can be somehow different depending on: (i) the geographical location of where an SOE activities are taking place, thus where the money and employment are generated and the province, or provinces, most impacted by a given SOE operations (Katanga and Kasai provinces for SNCC, Bas Congo province for RVM and ONATRA), (ii) the power to corrupt or attract interest groups based on the level of revenues generated by each SOE (RVF's US$5 million/year does not generate much interest while ONATRA US$121 million/year does), (iii) the cross linkages with other revenues generating industries (mining for railways, freight forwarding and import/export management and taxation for ports and airports), (iv) the power of patronage associated with the State's control of SOEs where average salaries range from US$4,000 to US$10,000/year/employee (US$30,000 and more for high level positions) versus less than US$1,000 for government's employees, (v) the accountability for results of the SOEs oversight ministries and their management, and (vi) the nuisance power of each SOE (a strike at the Port of Matadi managed by ONATRA can paralyze Kinshasa's economic activity).

12. Taking into account these parameters, the Bank has developed a political economy matrix of the transport SOE reform agenda in order to better identify the realm of major stakeholders involved in the reform and their respective power to advance, slow or delay the sector reform agenda as adopted by the government in December 2009. This Matrix is presented in Table 3 below. It is only indicative and does not pretend to: (i) account for all possible political economy aspects influencing transport SOEs reform agenda, and (ii) reflects the perceived situation at the end of 2009 which is bound to change over time. Likewise, it was used to identify what key governance activities would be required to support as much as possible the government transport SOE reform agenda.

Table 3: MTP Political Economy Context – Transport SOE Reform Agenda Support Mapping

	ONATRA		RVA		RVM		RVF		SNCC	
	A*	B**	A*	B**	A*	B**	A*	B**	A*	B**
Central government	♦♦	♦♦♦	♦♦	♦♦♦	♦	♦♦♦	♦♦	♦♦♦	♦♦♦	♦♦♦
National legislature	♦	♦♦	♦♦	♦	♦	♦	♦	♦	♦♦	♦♦
Provincial governments	♦	♦♦♦	♦	♦	♦	♦♦	♦	♦	♦♦♦	♦♦
Unions	♦	♦♦	♦♦	♦♦	♦	♦♦	♦	♦	♦♦	♦♦
Non management employees	♦♦	♦	♦	♦	♦	♦	♦	♦	♦♦	♦
Government appointed directors	♦	♦♦♦	♦	♦♦	♦	♦♦♦	♦♦	♦	♦	♦♦♦
Business community	♦♦	♦	♦♦	♦	♦♦♦	♦	♦♦	♦	♦♦♦	♦
End users	♦♦♦	♦♦	♦	♦♦	♦♦♦	♦	♦	♦	♦♦♦	♦♦♦
Civil society	♦	♦	♦♦	♦♦	♦	♦	♦	♦	♦♦	♦♦
Donors community	♦♦♦	♦	♦♦♦	♦♦	♦♦♦	♦	♦♦♦	♦♦♦	♦♦♦	♦♦♦
Overall support for reform	**1 ½ ♦**		**2 ♦**		**1 ♦**		**2 ♦**		**2 ½ ♦**	

A* refers to the perceived level of support to the SOEs reform agenda adopted by the government in December 2009.
B** refers to the influence level of a stakeholder group when it comes to the adopted SOEs reform agenda.
♦ = Low, ♦♦ = medium, and ♦♦♦ = High.
Source: World Bank, 2010

13. *The Institutional and Legal Framework.* The lack of management autonomy has been identified as a key contributor to the poor performance of SNCC, RVA, RVM and ONATRA and a prime source of mismanagement and lack of accountability. The oversight function is fragmented as it involves several ministries (Ministry of Transport – MoT; Ministry of Finance – MoF; and MoP). The actual roles of the Ministries goes well beyond the scope of normal regulatory functions as it extend to interferences in daily matters (cancellation of customers arrears, priority for services, hiring, promotion and review of disciplinary sanctions, contract with mining firms, etc). The high level of interference undermines the managerial integrity and weakens the ability of managers to direct and sanction staff. However, this type of interference also exists from other stakeholders, ranging from SOEs Unions to provincial governments. As the government is attempting to implement its broad reform agenda for transport SOEs, it is worth recognizing that support to that agenda, and its implication on the ability of SOEs management, actual and future, to deliver systemic improvements in SOEs governance can be at risk. Curtailing State's interferences requires structural measures and is a key cornerstone of the proposed immediate measures to be implemented under the first Phase of the MTP governance agenda.

14. Albeit some progresses have occurred since the establishment of two year stabilization contracts in mid 2008 for SNCC, ONATRA and RVA In all three cases, the experience so far shows that interference by companies' Board of Directors, the lack of control of the finance and human resources departments availed to these private operators, the presence in each firm of hundreds of ex-government appointed managers (ONATRA has more than 500 directors, SNCC in excess of 300) and the near impossibility to take disciplinary actions against rogue staff have forestalled significantly the capacity of these operators to deliver significant improvements in these companies' governance agenda. Additionally, decisions such as the doubling of salaries of government's high level SOEs' appointees (President of the Board of Director, Director of Finance, Assistant Managing Director) in March 2010 to up to US$14,000/month by the MoP to narrow the gap between their salaries and that of the international experts recruited under the

stabilization contracts, although in complete disregard of the competence gap that justifies such pay differences, is a stark reminder of the governance issues raised by direct appointment of SOEs high level employees by oversight ministries. Also, the high costs of Board of Directors shouldered by transport SOEs (see Table 4 below) in dire financial situation underscores further the type of governance issues faced daily by well intentioned public or private SOEs managers. Lastly, the planned transformation of RVA, RVM, ONATRA and SNCC into commercial enterprises will open the way for the MoP to nominate directly the Board of Directors of these companies, thus requiring ahead of time a sharp improvement in governance to preclude the abuses that may come out of this new found responsibility.

Table 4: Cost of Boards of Directors and Unions in 2009 for Selected Transport SOEs - excluding travel costs (in US$ thousands)

	SNCC	ONATRA	RVA	RVM	Total
Costs of boards of directors	626	955	306	568	2,455
Total revenues	31,735	113,231	52,590	27,500	225,056
Combined costs as a percentage of revenues	1.97	0.84	0.58	2.06	1.09

Source: RVA, ONATRA, RVM and SNCC

MTP strategy to restore managerial autonomy and curtail wasteful spending that nurture bad governance practices, the MTP will seek in the case of SNCC, to: (i) obtain an amendment of the existing stabilization contract to secure for the private operator the position of heads of finance and human resources, and (ii) as part of the planned management contract to expand and anchor managerial autonomy devolved to the private operator that will be selected. In addition, as part of the Financing Agreement, the Bank will require that starting in 2013: (i) the cost of RVM, RVA, ONATRA and SNCC Board of Directors be capped at 0.5 percent of annual turnover, and (ii) that neither the management or the Board of Directors of any of these firms enter in contracts or agree to promotions and salary increases that will harm their financial viability.

Oversight of SNCC management contract

15. SNCC management contract will be signed by State as well as SNCC. The contract will be linked to an investment program and will mandate results obligations related to service quality and operational and financial indicators. It will be designed by a specialized consultant recruited internationally under the MTP to ensure that it adheres to the highest technical standards. The contract monitoring sample indicators are presented in Table 5 below. These indicators will be made available by the management contractor on a monthly basis to oversight authorities and will be used by an independent monitoring agent financed by the MTP to advise the government on the progresses and issues related to the contract implementation. Financing of the management contract will be provided by the MTP for up to three years, depending on the actual sum bided by the selected contractor. Meanwhile, the Bank will continue its dialogue with the government for ONATRA, RVM and RVA reform with a view to expanding the scope of the existing stabilization contracts in a manner that will foster the implementation of the transport sector reform agenda adopted by the Council of Ministers in December 2009.

Table 5: Sample Management Contract Monitoring Indicators

Indicators	Monthly Performance	End of year target
Track condition		
Total length of network under permanent speed restrictions for more than 90 days (km)		
Km of network with new permanent speed restrictions added		
Km of network with permanent speed restrictions lifted		
Traffic operation incidents		
Number of freight trains derailments – main line		
Number of passenger trains derailments – main line		
Number of derailments on secondary lines		
Number of collisions		
Duration of traffic interruptions due to freight train derailments (hours)		
Rolling stock operational statistics		
Number of main line locomotives in the fleet		
Number of main line locomotives in service		
Dispatch reliability of main line locomotives in services (percent)		
Number of breakdowns per main line locomotives (per 100,000 km)		
Number of km/month/available main line locomotive		
Average usage speed (km/h)		
Number of freight wagons in the fleet		
Number of freight wagons in service		
Dispatch reliability of freight wagons (percent)		
Number of freight wagons loaded		
Rotation time of wagons (days)		
Number of passenger wagons in the fleet		
Number of passenger wagons in service		
Dispatch reliability of passenger wagons (percent)		
Traffic volume and revenues statistics		
Number of tons transported (total and divided per commodity)		
Number of ton-kilometers transported (total and divided per commodity)		
Average tariff of tons transported (total and per commodity in US$ cents/tkm)		
Total freight revenues (in US$ 000’s)		
Number of passengers transported		
Number of passengers km transported		
Average tariff per passenger km (in US$ cents/tkm)		
Total passenger revenues (in US$ 000’s)		
Total freight and passenger revenues (in US$ 000’s)		
Financial data		
Total revenues (broken down by categories – in US$ 000’s)		
Total costs (broken down by categories – in US$ 000’s)		
Net income (in US$ 000’s)		
Human resources statistics		
Total number of employees		
Total number of Directors		
Total number of middle managers		
Total number of workers		
Number of employees hired		
Number of employees fired		
Number of employees who have retired		
Number of employees deceased		

Source: World Bank, 2010

16. A central element of the GP is to establish and maintain a clear and stable framework for SNCC management contract including a unified formal interface between the private operator who will be selected and its employer represented by the MoP. The single focal point for the supervision of the management contract will be the steering committee chaired by the MoP. This committee will interface with the Project Steering Committee to ensure seamless flow of information within the government.

3. Transport SOEs governance plan implementation phasing

17. All the key actions to be undertaken as outlined above will be incorporated into a larger GP which will be developed by the end of 2011 on the basis of a governance strategy whose development and implementation will be funded by the MTP. The primary reason behind the delay in developing this overall governance strategy are as follows:

- The change into a commercial status of RVM, ONATRA, SNCC and RVA in the coming one or two years will affect significantly the respective roles of the State, SOEs Board of Directors and SOE top management. Likewise, they will allow for a complete renewal of the labor relations within each company and, assuming private operators are in charge, allow for a restoration of management decision making, including sanctioning, power; and
- Lessons learned from the impact of the proposed key actions will allow to draft a GP grounded in experience and reality which will reflect expected shift in the overall political economy of the Sector. In addition, it will allow for a better understanding on how provincial governments and their constituencies can be integrated in the betterment of SOEs governance.

18. Accordingly, between project effectiveness and the end of 2011, the first phase of the GP will focus on the following key actions:

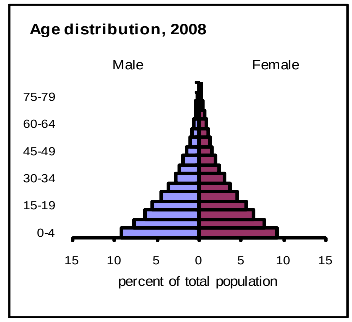
- Capping of transport SOE boards of directors costs to 0.5 percent of their annual turnover (excluding RVF);
- Yearly procurement activities monitoring of RVA, SNCC and ONATRA, based on annual procurement audits and procurement specialist review of procurement processes so as to provide annualized input to Tables 1 and 2;
- Financial auditing of RVA, SNCC, ONATRA for 2010 and 2010/2015 for SNCC;
- Independent review and auditing of SNCC management contract starting in September 2010; and
- Implementation of the comprehensive communication strategy.

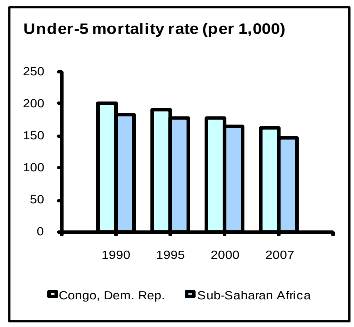
Annex 15: Country at a Glance
Democratic Republic of the Congo: Multimodal Transport Project

Congo, Dem. Rep. at a glance

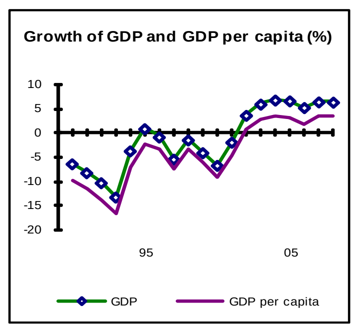
2/25/10

Key Development Indicators	Congo, Dem. Rep.	Sub-Saharan Africa	Low income
(2008)			
Population, mid-year (millions)	64.2	818	973
Surface area (thousand sq. km)	2,345	24,242	19,310
Population growth (%)	2.9	2.5	2.1
Urban population (% of total population)	34	36	29
GNI (Atlas method, US$ billions)	9.8	885	510
GNI per capita (Atlas method, US$)	150	1,082	524
GNI per capita (PPP, international $)	290	1,991	1,407
GDP growth (%)	6.2	5.0	6.4
GDP per capita growth (%)	3.2	2.5	4.2
(most recent estimate, 2003–2008)			
Poverty headcount ratio at $1.25 a day (PPP, %)	59	51	..
Poverty headcount ratio at $2.00 a day (PPP, %)	80	73	..
Life expectancy at birth (years)	46	52	59
Infant mortality (per 1,000 live births)	108	89	78
Child malnutrition (% of children under 5)	..	27	28
Adult literacy, male (% of ages 15 and older)	..	71	72
Adult literacy, female (% of ages 15 and older)	..	54	55
Gross primary enrollment, male (% of age group)	94	103	102
Gross primary enrollment, female (% of age group)	76	93	95
Access to an improved water source (% of population)	46	58	67
Access to improved sanitation facilities (% of population)	31	31	38





Net Aid Flows	1980	1990	2000	2008 [a]
(US$ millions)				
Net ODA and official aid	426	896	177	1,217
Top 3 donors (in 2007):				
Belgium	170	95	27	210
European Commission	23	52	33	158
United States	11	32	13	132
Aid (% of GNI)	3.0	10.4	4.5	12.6
Aid per capita (US$)	15	24	3	19



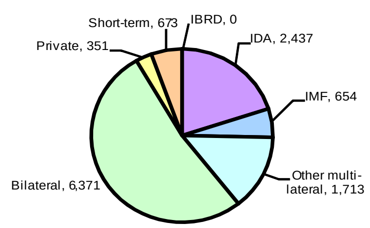
Long-Term Economic Trends	1980	1990	2000	2008	1980–90	1990–2000	2000–08
Consumer prices (annual % change)	*36.7*	*4129.2*	511.0	*5.0*			
GDP implicit deflator (annual % change)	51.4	109.0	515.8	19.4			
Exchange rate (annual average, local per US$)	0.0	0.0	69.0	559.3			
Terms of trade index (2000 = 100)	..	..	100	*131*			
					(average annual growth %)		
Population, mid-year (millions)	28.1	37.9	50.7	64.2	3.0	2.9	3.0
GDP (US$ millions)	14,395	9,350	4,306	11,668	1.6	-4.9	5.2
		(% of GDP)					
Agriculture	26.8	31.0	50.0	40.2	2.5	1.4	1.5
Industry	35.0	29.0	20.3	28.0	0.9	-8.0	9.5
Manufacturing	15.2	11.3	4.8	5.5	1.6	-8.7	*6.3*
Services	38.2	40.0	29.7	31.8	2.0	-13.0	11.5
Household final consumption expenditure	81.5	79.1	88.0	80.4	3.4	*-4.5*	..
General gov't final consumption expenditure	8.4	11.5	7.5	11.0	0.0	*-17.4*	..
Gross capital formation	10.0	9.1	3.5	23.9	-5.1	*-0.7*	..
Exports of goods and services	16.5	29.5	22.4	23.3	9.6	-0.5	7.0
Imports of goods and services	16.4	29.2	21.4	38.6	10.7	-2.4	18.9
Gross savings	9.3	0.8	-1.3	1.9			

Balance of Payments and Trade	**2000**	**2008**
(US$ millions)		
Total merchandise exports (fob)	892	2,335
Total merchandise imports (cif)	669	3,053
Net trade in goods and services	48	-1,749
Current account balance	-199	-1,781
as a % of GDP	-4.6	-15.3
Workers' remittances and compensation of employees (receipts)	..	..
Reserves, including gold	51	619

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	5.1	21.2
Tax revenue	4.0	*8.8*
Current expenditure	10.6	17.8
Overall surplus/deficit	-6.0	-1.5
Highest marginal tax rate (%)		
Individual	60	*50*
Corporate	40	*40*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	11,692	12,199
Total debt service	25	641
Debt relief (HIPC, MDRI)	7,636	..
Total debt (% of GDP)	271.6	104.5
Total debt service (% of exports)	2.5	20.4
Foreign direct investment (net inflows)	166	1,000
Portfolio equity (net inflows)	0	0

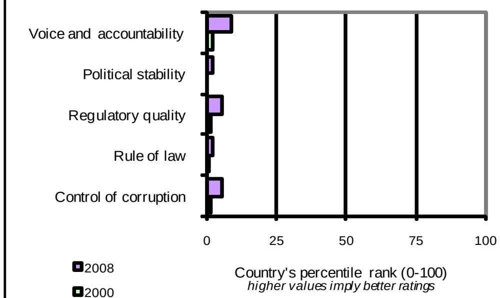
Composition of total external debt, 2008



US$ millions

Private Sector Development	**2000**	**2008**
Time required to start a business (days)	–	155
Cost to start a business (% of GNI per capita)	–	435.4
Time required to register property (days)	–	57
Ranked as a major constraint to business	**2000**	**2008**
(% of managers surveyed who agreed)		
Electricity	..	*45.5*
Access to/cost of financing	..	*14.5*
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2008



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	**2000**	**2008**
Paved roads (% of total)	..	*18*
Fixed line and mobile phone subscribers (per 100 people)	0	14
High technology exports (% of manufactured exports)	..	..

Environment		
Agricultural land (% of land area)	10	*10*
Forest area (% of land area)	59.6	*58.9*
Nationally protected areas (% of land area)	..	*8.6*
Freshwater resources per capita (cu. meters)	*16,811*	*14,423*
Freshwater withdrawal (billion cubic meters)	0.4	..
CO2 emissions per capita (mt)	0.03	*0.04*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	0.9	*1.0*
Energy use per capita (kg of oil equivalent)	291	*289*

World Bank Group portfolio	**2000**	**2008**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	81	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	1,188	2,437
Disbursements	0	92
Total debt service	0	60
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	0	150
of which IFC own account	0	86
Disbursements for IFC own account	0	80
Portfolio sales, prepayments and repayments for IFC own account	0	5
MIGA		
Gross exposure	–	29
New guarantees	0	*26*

Annex 16: Maps