

## **Democratic Republic of the Congo: Joint Staff Advisory Note**

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INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

DEMOCRATIC REPUBLIC OF THE CONGO

**Joint Staff Advisory Note on the  
Poverty Reduction and Growth Strategy Paper 2011–2015**

Prepared by the Staffs of the International Monetary Fund  
and the International Development Association

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**I. OVERVIEW**

- 1. This Joint Staff Advisory Note (JSAN) reviews the Democratic Republic of the Congo's (DRC's) second Poverty Reduction and Growth Strategy Paper (PRSP-2) which covers the years 2011 to 2015.** The PRSP-2 follows Congo's first full PRSP (PRSP-1), which covered the years 2006–10.
- 2. The PRSP-1 represented the DRC's first comprehensive national development plan since the end of civil war in 2003 and consequently focused on the urgent need to improve living conditions and rebuild the country after a decade of conflict and fragility.**<sup>1</sup> The JSAN of the PRSP-1 Progress Report commended the DRC government for progress made on strategic issues such as the establishment of peace with Rwanda and the renegotiation of the Sino-Congolese Cooperation Agreement (SCCA), but also noted the poor alignment of the budget with the PRSP-1 priorities. The PRSP-2 candidly documents the progress made toward peace, political and institutional consolidation and the delayed progress made toward the Millennium Development Goals (MDGs), including gender goals more broadly.

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<sup>1</sup> A report on the implementation of the PRSP-1 was published in April 2010 and its JSAN was discussed by the IMF Board on June 30, 2010, and the World Bank Board on July 2, 2010. IMF Country Report No. 10/328.

3. **The PRSP-2 refocuses its efforts away from urgent post-conflict needs towards a more sustainable development of the country.** The PRSP-2 builds on the PRSP-1 but places a particular emphasis on growth, employment creation and the impact of climate change. The document also focuses on the strengthening of good governance, the achievement of the MDGs by 2020 and the elimination of gender-based inequalities. The strategy rests on four pillars: (i) the strengthening of governance and the consolidation of peace; (ii) the diversification of the economy to accelerate growth and create employment; (iii) the improvement of access to basic social services as well as the improvement of human capital; and (iv) the protection of the environment and actions to reduce the impact of climate change. These pillars are in line with the Bank's Africa Strategy, which focuses on competitiveness and employment, vulnerability and resilience, and governance and public sector capacity.

4. **The preparation of the PRSP-2 involved consultations with civil society, the public administration, national and international non-governmental organizations and technical and financial partners.** The current government has confirmed its commitment to the PRSP that was prepared by the previous government and plans to continue dissemination of the Strategy. The Government Action Plan (GAP) for 2012–16 focuses on aspects of modernizing the state and improving the quality of life. The government considers the GAP an ambitious effort to implement the PRSP-2.

5. **The credibility of the November 28, 2011, presidential and legislative elections was challenged by national and international partners.** Nonetheless, President Kabila was declared the winner and took office on December 20, 2011. Parliament was seated on February 16, 2012, and the government took office on April 28, 2012. The tense security situation which reigned during the elections returned to normalcy once the new government was in place, but tensions remain in North Kivu after a national arrest warrant was issued for General Bosco Ntaganda. Economic confidence indicators have gradually improved since January 2012.

## II. POVERTY AND GENDER DIAGNOSTICS

6. **Developments in poverty and gender have to be viewed in the context of a rapidly growing population.** The fertility rate in the DRC is six children per woman of child-bearing age, leading to a population growth rate of 2.7 percent per year. At this rate, the Congolese population is set to double within 25 years.

7. **There are no new data to measure money-metric poverty in the DRC.** As a result, it is not possible to measure the impact of macroeconomic growth on poverty reduction or inequality directly. The simulations undertaken as part of the PRSP-2 show no significant change in the level of poverty since 2005, when 70 percent of the population was estimated to be poor by national classification (88 percent under PPP US\$1.25/day). Some proxy measures have evolved favorably, such as gross primary school enrollment, which has risen from 60 percent (2000) to 94 percent (2010), and infant mortality, which has declined from 126 to 97 per 1,000 live births over the 2001–10 period. A new household survey was launched on June 2, 2012, and

money-metric poverty data are expected to be updated in early 2013, to be reported in the PRSP-2's first progress report.

8. **The DRC is not likely to meet any of the Millennium Development Goals (MDGs)**<sup>2</sup>. Progress towards universal primary education and other MDGs will require additional government commitment as the national budget covers only 10 percent of health expenditures, households cover almost 50 percent of health expenditures and the international community covers some 40 percent. Households also contribute some 40 percent to the financial cost of education. Staffs encourage the government to provide greater transparency on the allocation of its own resources and the resources provided by households contributing to education expenditures.

9. **Gender disparity remains a pressing problem in the DRC as women face economic, political and security vulnerabilities as a result of socio-cultural barriers and under-education.**<sup>3</sup> Staffs commend the PRSP-2's all-encompassing plan to strengthen gender equality but note that the GAP does not prioritize the implementation of this plan. In addition, staffs note the absence of well-defined baselines and specific targets to assess improvement over time. Staffs encourage the government to (i) accelerate gender equality and better address gender issues through law enforcement, (ii) strengthen operational capacities of the Ministry of Gender, Family and Child, and (iii) place a particular emphasis on increasing the employability of women in more skilled jobs.

### III. IMPLEMENTATION PROGRESS AND REFORM PERSPECTIVES

#### A. Macroeconomic Performance

10. **Macroeconomic management improved under the period covered by the PRSP-1 and this was reflected in better macroeconomic performance.** Real GDP growth averaged 5.6 percent per year during 2006–10 although the medium-term objective was about 7–8 percent, a level deemed necessary to help reach the MDGs. Regrettably, growth was not sufficiently inclusive to reduce poverty. A number of factors adversely affected growth during this period, the most important of which being the global financial crisis, which resulted in a sharp deterioration in the DRC's terms of trade and external outlook. The volatility in food and fuel prices has also had deleterious effects on poverty.

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<sup>2</sup> Progress towards achieving the MDGs is reported on page 39 of the PRSP.

<sup>3</sup> Gross school enrollment rates stand at only 30.3 percent for girls, compared to 53.6 percent for boys, producing a parity index of 0.6. The literacy parity index has remained constant at 0.69 from 2001 to 2007. Nonetheless, while men continue to dominate the holding of skilled jobs, the percentage of women employed in the non-agricultural sector has increased from 21 percent to 34 percent between 2001 and 2007. In the political realm, the percentage of women in the national parliament and senate stood at 8 percent and 5 percent respectively, according to the 2010 progress report on the MDGs, far from the 50 percent benchmark established by the country's Constitution. In the security realm, 64 percent of women have reported experiencing some sort of violence since the age of 15 and 49 percent have reported experiencing some violence within the last 12 months.

11. **Appropriate economic policies, supported by an IMF Extended Credit Facility (ECF) arrangement since late 2009, have contributed to the consolidation of macroeconomic stability.** Fiscal consolidation and satisfactory control over public spending anchors the ECF arrangement and ensures the government's spending programs are broadly implemented. A shortfall in external financial support throughout the period added to the fiscal pressures, although central government revenue increased to 19 percent of GDP in 2010 up from 13 percent of GDP in 2006. Furthermore, improved fiscal discipline contributed to the lowering of inflation, which along with the maintenance of relatively high real interest rates and improved liquidity forecasting, helped the Central Bank of Congo (BCC) lower inflation expectations.

12. **Staffs consider the medium-term macroeconomic framework outlined in the PRSP-2 to be appropriately ambitious.** Economic growth projections reported in the GAP are substantially higher, creating significant discrepancies in the macroeconomic projections reported in the two documents. High real GDP growth may be feasible through a scaling up of public and private investment in infrastructure, and the natural resources and the agriculture sectors. To achieve this, staffs advise the authorities to develop specific policy measures to encourage private investment. For instance, the government could deliver a public statement offering realistic projections about its own involvement and those of state-owned enterprises (SOEs) in all key sectors. Transparent planning, realization and reporting of annual divestiture and investment programs approved by shareholders would improve predictability and transparency of SOE management decisions thus improving the business climate.

13. **Staffs note the necessity of an acceleration of fiscal and other structural reforms.** In particular, staffs advise giving high priority to the enhancement of governance and transparency in extractive industries. Staffs compliment the authorities on the accession to the OHADA treaty in July 2012. Moreover, staffs recommend developing stronger investment protection through joining the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, simplifying the tax regime, and reducing administrative red tape.

14. **While the government must take action to raise more domestic revenue, staffs caution that the revenue projection in the GAP is difficult to achieve in the short-term.** While staffs support the view that significantly more revenue can be collected through the full implementation of the VAT, the elimination of various tax exemptions, the reduction in the number of taxes and the improvement of natural resource management, the tripling of domestic revenue over the next five years is overly ambitious. First, the implementation of tax reform has been slow, most notably with regard to the elimination of numerous taxes that favor evasion and reduce tax collection. Moreover, the recent sales of state-owned mining assets in a non-transparent manner have apparently reduced potential tax revenues. Thus, staffs underscore the importance of making the government spending plans and infrastructure projects conditional on actual revenue collection to prevent arrears accumulation.

15. **Debt management should be strengthened with more accurate recording, reporting, and monitoring of debt data and external debt service.** Surprisingly, the unit in charge of debt management still does not collect information on the disbursements in the context of the SCCA, seriously undermining the quality of data reporting, and creating a risk of further arrears. Staffs note, however, that the debt unit has been systematically involved in the assessment of the concessionality of new external financing, and in negotiations on the terms of this borrowing.

### **B. Economic Growth and Employment-creating Sectors**

16. **Opportunities for economic development have to be viewed in the context of rapid urbanization, regional integration and improved telecommunications.** The agriculture and mining sectors are projected to continue their expansion, while simultaneously raising labor productivity and freeing up labor. The urban population is expected to reach 40 million by 2025, up from an estimated 24 million in 2012. Some of these urban centers will function as service centers for rural areas but they will be increasingly integrated with international markets through formal and informal trade, partly as a result of better telecommunications. Moreover, the GAP recognizes that recent economic growth in the country has not resulted in significant employment creation.<sup>4</sup> Staffs commend the PRSP-2 for outlining specific strategies to promote employment in response to this, but caution that the PRSP-2 does not set objectives or targets that would provide concrete goals for the relevant parties to work towards.

17. **Agriculture:** Staffs agree with the authorities' action plan for this sector. Staffs advise, however, engaging the already existing agricultural and rural management councils (CARG) in all territories to ensure that public services respond to private needs. In terms of strategy, staffs recommend the government emphasize (i) targeting growth through increased productivity for food crops and the promotion of agribusiness; (ii) giving priority to investments over current expenditures, so as to rebuild the critical infrastructure needed to underpin productivity growth; and (iii) promoting public-private partnerships to help develop potential value chains.

18. **Forestry:** The new government has adopted ambitious targets for the forestry sector.<sup>5</sup> Staffs note that if the forestry sector's growth rate is to increase as planned, then a number of measures, as inscribed under the Bank-financed Forest and Nature Conservation Project, need to be fast-tracked: (i) a transition from the Bank-financed to a self-financed timber tracking system enforced by timber importing countries, allowing for better control of illegal logging and improved revenue collection; and (ii) the adoption of community forestry legal texts, empowering local communities to manage forests for their own benefit while making sure that this will not result in overexploiting forestry resources for commercial purposes. Moreover,

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<sup>4</sup> The unemployment rate in urban areas is 17.8 percent and there are no comparable data for rural areas, where a majority of the population lives on sustenance farming. Furthermore, those between the ages of 15 and 35 who represent over 25 percent of the population, have an urban unemployment rate of 28 percent.

<sup>5</sup> These include the planting of 3 million hectares of forests by 2025, increasing of the annual forestry sector growth from 3 percent (2007–10) to 5 percent (2012–16), and increasing production of logs and semi-processed wood by 10 percent per year during 2012–16.

staffs caution that the potential to increase timber exports significantly in the short-term is limited as a result of high transport and handling costs. However, staffs note that there exists growth potential in the domestic markets. Railway sleepers, for example, can be made from heavy hardwoods that are abundant in the DRC's forests, but are not in international demand. In addition, staffs agree that substituting part of charcoal and fuel-wood with alternative energy sources is necessary in view of concerns about deforestation and adverse health implications on women and children as a result of inefficient cook stoves. However, rapid substitution conversion will be very challenging and may not be desirable, as the wood fuel industry is an important source of income and employment in both rural and urban areas. To limit deforestation and negative health effects in the short-term, staffs recommend the strategy focus on a more sustainable production of charcoal and the provision of improved cook stoves.

19. **Tourism:** Staffs agree that the rehabilitation of visitor infrastructure in six national parks would be timely, but suggest that unless the Congolese Nature Conservation Institute (ICCN) can be thoroughly reformed, it will neither be able to fulfill its role in managing the Parks, nor be able to attract the private sector partners it needs to develop the ecotourism sector.

20. **Mining:** The government's objective, as outlined in the PRSP-2, to boost mining output and the sector's contribution to fiscal revenues requires an increase in foreign investment, an improvement in the business climate and a strengthening of governance. Staffs note that these conditions and the projected increase in fiscal mining revenues from 9 percent of fiscal revenues in 2010 to 25 percent in 2016 may be possible if mining taxation improves alongside the business environment, including through greater investment protection by adopting a series of measures, in particular accession to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, implementation of the OHADA legal framework, and compliance with the Extractive Industries Transparency Initiative (EITI). Moreover, staffs recommend improving transparency in the management of mining SOEs, particularly with respect to transactions related to mining properties and contracts. It also appears that some of the contracts that have been published thus far did not maximize fiscal revenues. Staffs look forward to the DRC's accession to the EITI and improved SOEs management, including transparency on asset sales.

21. **Oil and gas:** The significant oil and gas resources in the DRC remain largely unexplored, but potentially represent an important opportunity for economic development. Today, oil is only modestly exploited (about 25,000 barrels/day) on the western coastal basin. To date, with the exception of methane reserves dissolved in Lake Kivu, the hydrocarbon potential of all other sedimentary basins remains to be determined. The Ugandan side of Lake Albert, which shares geological characteristics with Lake Kivu, Lake Edward and Lake George, has recently been the site of major oil discoveries estimated at several billion barrels. Staffs note that for the petroleum sector to fully contribute to the country's economic growth and diversification, a number of institutional and policy reforms would need to be implemented. Staffs recommend that these reforms aim to increase the level of investment through the improvement of the investment climate, and to maximize government revenue while protecting biodiversity and the

environment. Such reforms would include reform of the fiscal regime for petroleum activities, implementing regulations for the new hydrocarbon law, developing the regulatory framework for the allocation of petroleum exploration and production rights, and defining a local content policy.

22. **Manufacturing:** Staffs note that the PRSP-2 rightly observes that the recovery of the manufacturing sector depends on the refurbishment of infrastructure. Staffs caution, however, that the PRSP-2 and the GAP focus too much on large-scale initiatives to address these issues, while giving less attention to smaller-scale but geographically wide-spread efforts to deal with these constraints. Thanks to reforms in the DRC provinces there is substantial growth in activities such as processing of agricultural products before sale, purification of mining products before export and preparation of construction materials. Many of these activities take place in the informal or semi-formal sectors, but nevertheless create employment and income opportunities for a large number of skilled and semi-skilled people.

23. **Services:** The PRSP-2 notes that there exist opportunities for growth in services—including construction, distribution and trade—but could be more specific about the enabling environment. Service sectors, particularly those that demand limited investment in physical and human capital, are expanding rapidly in areas where peace has been restored. Staffs caution that the main constraints to the services sector growth are (i) a predictable regulatory environment (discussed under the governance section below), (ii) financing that is closely related the enforcement of creditor rights and (iii) skill shortages.

### C. Governance and State Effectiveness

24. **The PRSP-2 recognizes the need for a more effective and efficient state to create an enabling environment for private sector job creation.** Staffs are encouraged by the government's emphasis on the strengthening of political and security institutions through: (i) the reinforcement of Parliamentary capacity; and (ii) the promotion of political participation by all citizens through strengthened media and civil society capacity and independence.

25. **Public Sector Priorities:** Over the past five years, the DRC has made significant progress in the field of economic governance. A new framework law on public financial management was approved in July 2011, while the strategic plan for public finances reform, based on the 2008 Public Expenditure Review (PER), was adopted in June 2010. With respect to revenue management, the government introduced the Tax Payer Identification Number and implemented a value-added-tax (VAT) in January 2012. However, staffs note the continued importance of ensuring the transparent and effective management of public resources.

- *The budget process:* The budget formulation and execution process remains weak and sector budgets are often not linked to the national development strategy. Staffs are encouraged by the government's adoption of a strategic plan for public finance reform, as outlined in the PRSP-2 that should lead to a more transparent and efficient public



financial management system. In addition, staffs recommend the government consider promoting citizen participation in the budget process at the national level, in an effort to encourage constructive interaction and networking between citizens' organizations and the state around key reforms. Such citizen participation at the national level could draw on the lessons from a successful participatory budget pilot exercise undertaken in the provinces of South Kivu, Katanga and Kinshasa in 2011.

- *Procurement code:* Staffs note that the PRSP-2 fails to address the new procurement code, which was adopted in April 2010, but remains far from being properly implemented. To this end, staffs recommend the government aim to strengthen the implementation of this code, as well as ensuring that the complaints resolution committee is operational.
- *Public administration reform:* The public administration is overstaffed with unqualified and aged personnel; approximately 60 percent of civil servants have either reached or exceeded the retirement age. As such, staffs commend the PRSP-2 and the GAP for laying out plans to modernize the public administration through the creation of a proper legal framework, improved human resources management and the creation of a retirement system.
- *Decentralization:* Staffs recommend that the decentralization agenda, which was included in the GAP but left out of the PRSP-2, remain a top priority for the government. Specifically, staffs encourage the government to finish drafting the laws establishing the country's provincial institutions and their relationship with the central government. In addition, staffs advise the government to take a stronger stance towards implementing the revenue sharing mechanism between the national government and the provinces. Finally, staffs recommend the government prepare a local government tax code to limit the proliferation of local taxes that are detrimental to the business environment, growth and job creation.
- *Regulatory environment:* Staffs appreciate the broad objectives set out in the PRSP-2 and the GAP to improve the regulatory environment. Staffs advise the government, however, to prioritize: (i) the improvement of the business start-up process through the reduction of administrative transaction costs; (ii) the streamlining of procedures to obtain key building construction licenses and permits; and (iii) the accelerating of the legal property transfer process.
- *Financial sector supervision:* Staffs note the ambitious financial sector reform and development program that is reported in the PRSP. Staffs welcome the authorities' commitment to the development of a competitive financial sector, but note that implementation of the reform agenda requires significant political commitment.

- *Trade policy and practices*: Staffs appreciate the significant improvement of trade facilitation procedures since the Diagnostic Trade Integration Study was completed in 2010. In principle, staffs welcome the introduction of a single transaction window in Matadi and Kasumbales. Staffs note, however, that there has been more rapid progress in the South Kivu and Katanga border crossings as a result of a practical approach - focusing on collaboration among border agencies - that was implemented with strong support from provincial governors and in close collaboration with neighboring countries. Staffs' estimates suggest that a similar practical approach at the Kinshasa-Brazzaville river crossing could yield a 40 percent increase in the volume of trade between the two capitals. Over time, a more efficient river crossing may also improve Kinshasa's access to the Pointe Noire harbor, alleviating the congested Matadi entry point.

26. **State-owned enterprises**—Improvement of performance of public enterprises that provide essential services and infrastructure to the business environment is essential to private sector development. Staffs commend the government for using the PRSP-2 to express its dedication to (i) finalizing the ongoing process to circumscribe the activities of SOEs; (ii) upgrading selected SOEs through minimum investment plans; (iii) liberalizing remaining monopolies of SOEs; and (iv) reforming the Ministry of Portfolio to adapt to the post-reform environment. More specifically, staffs are encouraged by the PRSP-2's recognition of the need to complete the transformation of SOEs into commercial companies. However, staffs note that much due diligence still needs to be undertaken to confirm the companies' ownership of strategic infrastructure assets, and to agree on the restructuring of their debts. Moreover, staffs are concerned that the PRSP-2 fails to highlight the issue of the social liabilities of the SOEs (wage arrears, end of service payments and other outstanding SOE liabilities) and recommend the PRSP-2 outline a strategy to resolve this issue. Overall, staffs suggest that the reform of SOEs will continue to require strong government leadership and focus to implement already formulated strategies and address any outstanding challenges.

#### D. Infrastructure

27. **The growth and diversification of the Congolese economy remains dependent upon the strengthening of the DRC's basic infrastructure, most notably transport, power and communications infrastructure**<sup>6</sup>. Staffs commend the PRSP-2 for, like the GAP, recognizing the positive link between renewed investment in the transport, energy and ICT sectors and economic diversification and private sector development. Moreover, staffs are encouraged by the

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<sup>6</sup> Infrastructure in the country remains lacking, and the development of the transport and power sectors remains hindered as a result of the governance challenges of the SOEs that manage them. With respect to transport infrastructure, for instance, many regions of the DRC (notably the southeast and northeast) are better connected with neighboring countries' infrastructure corridors than they are with domestic ones. Moreover, only 1 GW of hydropower is in functioning order. The dilapidated state of the country's infrastructure leads to exceptionally high input costs. The surface transportation cost is around US\$0.16 per ton-kilometer versus US\$0.05 per ton kilometer in Southern Africa. Given the un-reliability of service, power costs around US\$0.24 per kilowatt-hour compared with the country's long-run potential to produce hydro-power at around US\$0.04 per kilowatt-hour. Nonetheless, the DRC has reached a relatively high level of GSM signal coverage at process comparable to that elsewhere in SSA.

acknowledgement within the PRSP-2 that governance reforms of transport and energy SOEs as well as investment in the transport and hydropower sectors are needed in order to decrease transport and energy input costs to the economy.

28. **Overall, staffs recommend that the government mobilizes the synergies of combined investment in the transport, energy and telecommunications sectors.** Combined investments in the three infrastructure sectors will boost private sector investment and consequently the development of these sectors. Successful examples of combined investments include the energy and ICT corridor between Kinshasa and Lubumbashi and the multi-modal river road corridor between Kinshasa and Kisangani. More specifically, staffs recommend that the government develop the Congo Ocean corridor project focusing on the Kinshasa Kisangani fluvial segment and implement an action plan for the DRC civil aviation which addresses the recertification of the DRC passenger airlines' crews and aircraft and the signature of a multi-year twinning agreement with a qualified foreign Civil Aviation Agency.

### E. Strengthening Human Capital

#### Education

29. **Staffs commend the PRSP-2 for laying out a comprehensive strategic framework for the development of the education sector, in line with the GAP.** Moreover, staffs note that the PRSP-2's basic education (EPSP) strategy appears to be more advanced than the strategy document adopted by the Government in March 2010, in its articulation of policy measures and actions to (i) increase access and retention in a more equitable manner; (ii) improve education quality and pertinence; and (iii) strengthen sector governance. In particular, staffs commend the government for using the PRSP-2 to underscore its commitment to the implementation of the fee-free schooling policy in primary education, which will gradually improve equal access to education. With respect to higher education, staffs commend the PRSP-2's emphasis on improving the sector governance and its external efficiency, but note that the policy options laid out remains too broad and should also address specific issues such as school dropout rates.

30. **Overall, staffs note that the PRSP-2 does little to prioritize the proposed strategies in light of the existing constraints.** Nonetheless, staffs commend the government's commitment to taking necessary steps to enhance the coordination of the ministries in charge of education and the GAP's commitment to increasing the sector's budget to 25 percent of GDP in 2016 up from 7 percent in 2011. Staffs commend these targets but caution that a clear path for achieving them has not been established. A lack of a clear strategy to achieve these objectives could hinder their realization, as happened with the PRSP-1. Staffs recommend that the government (i) continue developing a solid and integrated sector strategy to ensure a harmonized and sustainable expansion of the sector; (ii) implement policy measures to improve efficiency and foster accountability in the system's management; and (iii) focus on the improvement of education outputs such as learning acquisition and skills adequacy. With respect to higher education, staffs recommend focusing on advancing the quality assurance agenda, possibly by certification by

foreign institutions akin to the participation of the Catholic University of Bukavu in a network of international universities. Higher education programs should also gradually shift the focus toward outcomes that respond to the country's economic development needs.

## Health

31. **Staffs commend the strategic focus on primary health care in the PRSP-2 and the new attention paid to demographic issues.** Nonetheless, staffs note that as a result of the recent decline in health sector spending from US\$2 in 2008 to US\$1.17 per capita in 2010, the 80 percent vaccination target is the only PRSP-2 target that is likely to be achieved. Moreover, staffs recommend that the government give direct attention to: (i) the quality of health workers' education which has deteriorated due to the mushrooming of non-regulated medical and nursing schools; (ii) the weakness of the drug supply chain management and the lack of quality control in the pharmaceutical sector; and (iii) the inefficient allocation of health care workers and other resources across geographical regions (provinces and health zones). Moreover, staffs recommend that the government improve their sector strategy by consulting well-organized faith based health organizations that have delivered public services across the country, including conflict-affected regions. Staffs further recommend the government to place a greater emphasis on the decentralization of the HIV/AIDS strategy.

## Social protection

32. **Staffs commend the government for expressing its commitment in the PRSP-2 to protecting the country's most vulnerable citizens<sup>7</sup>.** Staffs concur that the establishment of social protection policies and improved cooperation with Non-Governmental Organizations (NGOs) helps to address the needs of these groups. In addition, staffs are encouraged by the government's commitment to reducing vulnerabilities through increased gender equality and access to equal opportunities for all Congolese citizens. Nonetheless, staffs caution that the proposed social protection interventions of the GAP focus on the need for contributory social insurance schemes, programs that are unlikely to benefit the most vulnerable sections of the population since they do not have access to these programs.

## F. Protection of the Environment and Climate Change Issues

33. **Staffs welcome the emphasis in the PRSP-2 on measures to manage natural resources and protect the environment.** In addition, staffs are encouraged by the PRSP-2's recognition of the importance of: (i) adopting and implementing legislation for the new environment framework law established in 2011; (ii) engaging in measures to reduce climate change; and (iii) building national resilience to adapt to climate change, particularly as this may affect agricultural production, water resources and vector-borne diseases.

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<sup>7</sup> Vulnerable groups include children and women in conflict affected regions, people living with disabilities or HIV/AIDS, and displaced persons.

34. **Staffs note that the immediate challenge for the government is to deliver on existing policy commitments, and welcome the PRSP-2's emphasis on completing and enforcing the legal frameworks for forest governance and environmental management.** By highlighting the DRC's participation in the UN Program on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD), as well as the national intention to rehabilitate and expand the protected areas network, the PRSP-2 provides a strategy for the DRC to benefit from international commitments to invest in these global public goods.

35. **Staffs caution, however, that notably absent from the details of these priorities are** (i) an explicit mention of measures to establish a national environmental impact assessment system, as required under the new environment framework law; (ii) an identification of measures to combat illegal logging; (iii) a reference to the adoption and implementation of legislation on community forestry, which will be essential for the DRC's participation in REDD; and (iv) a mention of the DRC's intention to establish a Conservation Trust Fund and implement agreed-upon reforms of the ICCN. Staffs recommend that the government renew its commitment to these critical matters, for which resources have already been identified under existing Bank-supported programs, as a priority for strengthening implementation of the PRSP-2 over the years ahead.

#### IV. MONITORING AND EVALUATION

36. **The PRSP-2's monitoring and evaluation (M&E) represents a step forward relative to the PRSP-1.** When implemented, the increased institutional focus on line units and more clearly-defined reporting arrangements should make for more structured monitoring. The new government's results-based approach is welcome but the implementation strategy deserves further clarification. Linking the budget to results is an important step that may serve as a transition towards programmatic management of the statistics budget in general and the National Statistics Institute (INS) budget in particular.

37. **More can, and should, be done.** The 2009 Kinshasa Agenda called for the completion of sector strategies in specific areas but did not establish M&E frameworks to measure implementation progress. The PRSP-2 has some 200 indicators, and yet does not establish clear links to existing sector strategies thus limiting the ability to scale up successful priority actions. This may lead to redundant data collection and undermine the existing M&E.

38. **Risk management.** The PRSP-2 rightly notes the challenges of strengthening data collection and analysis. Staffs note that units such as the National Health Information System and the National Agricultural Statistics Unit may be able to generate these data. However, other units that are assigned key tasks may require additional financial, human, and institutional capacities to generate the specified data specified.

## V. CONCLUSIONS AND ISSUES FOR DISCUSSION

39. **Due to its abundant natural resources and underemployed low-cost workforce, the DRC may have access to significant growth opportunities.** Key sectors with high potential to drive growth in the DRC include: agro-industry, processed wood from sustainably managed forests, construction materials, mining, and energy. The constraints and risks preventing investors from taking advantage of the high prices of imported goods, natural resources and the relatively large local market fall into four broad categories: deficient infrastructure, poor governance and complex business regulations, high financing costs and a lack of trained workers.

40. **The government has made progress, and successful government initiatives should be scaled up and better integrated to make a significant dent in underemployment and poverty.** In particular the government should draw lessons from the implementation of the first PRSP. The implementation of the PRSP-1 failed largely because the budget execution was poorly aligned with the PRSP objectives. Allocation of the DRC's own resources consistent with the PRSP-2 priorities is a precondition for its effective implementation. It will also send a powerful signal to development partners to support the implementation of the PRSP-2. Staffs welcome the continued efforts to improve the investment climate and to limit the role of the state to focus on providing public goods, including by pursuing more firmly and credibly the unfinished agenda to establish good governance, operational viability and service delivery of SOEs/public enterprises. Furthermore, staffs stress the importance of explicitly prioritizing the inclusiveness of youth and women in job creation and economic development.

41. In considering the PRSP-2 and the associated JSAN, staffs would like to consult Executive Directors' views with respect to:

- The areas identified by the staffs as priorities for strengthening the PRSP and its implementation.
- The areas identified as key implementation risks.