National Assembly of the Democratic Republic of the Congo

Academic Session on the IMF

National Assembly Economic and Financial Commission
Senate Reconstruction and Development Commission
Members of Parliament

Palais du Peuple, February 19, 2004[1]

[1] Given by Arend Kouwenaar, IMF Senior Resident Representative in Kinshasa.

Your Excellencies the Chairmen of the National Assembly Economic and Financial Commission and the Senate Reconstruction and Development Commission, Honorable Members of Parliament:

It is a great honor and a genuine pleasure for me to be here with you today to speak to you, hear your criticisms, and listen to you—and with no conditionality. No-one can say that the IMF does not lend easily ...

Many people confuse the IMF—our English acronym for the macrofinancial institution that I represent, with your IMF which, in the Congo, I have learned, are Microfinance Institutions. In fact, the link between **macro**, monetary and fiscal policies, and **micro**, living conditions and population output, is at the core of our work. In the case of low-income countries, the IMF wishes to strengthen the link between macroeconomic and structural reforms and improved social indicators.

We are living in a time of global consensus regarding which economic and social policies work, and which do not. And there is also consensus on the need for transparency and good governance in the management of public affairs and the importance of having institutions, such as yours, that safeguard governance.

The Chairman of this session was right in saying that **visions have changed**—the international community's view of the role of aid, the IMF's view of the type of economic programs that work, and country governments' view of their role and responsibility vis-à-vis the population. **We have learned from the past**. The recent past has been particularly painful for the Congolese people, who have suffered greatly and who continue to suffer. But remembering how far the country has come—now, peace, a reunited country, political and economic stability—one cannot be but optimistic.

So, my remarks are intended to be optimistic, but—you know the IMF—the optimism is measured. Above all, they are forward-looking. However, I simply must comment on the Congo/Zaíre's experience with economic programs in the 1980s when the IMF was providing financial support. There were, in fact, only a few programs with the IMF and they were practically not implemented. The fault of these programs was that they did not sufficiently emphasize good governance or budget execution. Nor did they ask where the money was going. And no-one was interested enough in knowing whether the political groupings and the institutions were such as to give any program a chance of being implemented. **And the result:** stop-go policies, episodes of hyperinflation, fiscal anarchy, cuts in social spending instead of in nonproductive spending, accumulation of government debt, and the emergence of a "predatory State" instead of a "regulatory State."

Toward the end of the 1980s, and also coinciding with the end of the Cold War, **the IMF adapted its approach to low-income countries** by asking them to protect social spending and to cut elsewhere, if cuts were needed, and to improve their public finance management systems, and by paying attention to probable program implementation, country ownership, and the existence of institutions and control mechanisms in the country. This lesson—drawn around 1990—has been implemented gradually worldwide but, unfortunately, not in the Congo/Zaíre, on account of the political developments that caused so much time to be lost. I will end this recollection with a few words on the IMF's recent role in the DRC for more than three years now—three years that have brought peace and economic and political stability in a process of mutual enhancement. During this period, the IMF has accompanied the DRC government in its determination to stabilize the macroeconomic situation, deregulate the economy and normalize the country's relations with the international community, including the IMF and the World Bank. Since mid-2002, the IMF has supported the program under its Poverty Reduction and Growth Facility (PRGF).

We know the major themes of the program, as well as its achievements over three years. **First, control of inflation—a prerequisite for growth** and, in turn, a prerequisite for poverty reduction. It has been necessary to eliminate the monetary financing of the government's fiscal deficits and thus improve public finance and restore normal budgetary procedures. It has also been necessary to ensure **the Central Bank's independence** and, in its charter, entrust it with the task of maintaining price stability. The results have been impressive. Inflation has declined from more than 500 percent annually up to the year 2000 (almost 1 percent per day) to less than 6 percent annually in 2003 (less than 0.5 percent per month) and the exchange rate for the Congolese franc (CF) has become relatively stable. Negative growth for more than a decade turned positive in 2002, and today exceeds 5 percent. *But this is not enough to reduce poverty*.

Second, the improved economic environment for the private sector, particularly with the elimination of major distortions on the foreign exchange and goods (such as gasoline) markets, the discount for the CF as bank money, and foreign exchange restrictions. The program has also launched an overhaul of the legal and regulatory framework (with the various Codes), an in-depth reform of taxation, and preparations for reforming the public enterprises and restructuring the banking system. *But of course, much remains to be done to encourage the private sector.*

Third, progress in program implementation to break the vicious circle of inflation-declining growth has made it possible to normalize financial relations with the donors and to restart the financial assistance needed for reconstruction. Net inward flows, which were almost zero for 10 years (apart from humanitarian aid) have now become positive and are increasing strongly. *But this is still too little in relation to the size of the problems, and we must strive together to increase these flows*.

Fourth, the progress achieved in the economic reforms over the past three years has also allowed the DRC to obtain relief of its external debt under the Heavily Indebted Poor Countries' Debt Initiative (HIPC Initiative) in the context of IMF- and World Bank-supported programs. The debt, which amounted to almost US$13 billion at end-2001, declined to US$8 billion as a result of the rescheduling obtained from Paris Club creditors in September 2002. In July 2003, the DRC reached its "decision point." This means that additional relief will be granted to reduce the debt to around US$1.5 billion, that is, total cancellation of 90 percent. Since July 2003, the DRC has already benefited from reduced debt service—as though 90 percent of the debt has already been canceled. This debt will be finally eliminated at the "completion point" expected in 2006.

To get there, the DRC will have to continue on the path it has taken, particularly by:
(i) drafting, by the second half of 2005 and in a participatory process, a Poverty Reduction Strategy Paper (PRSP) with clearly measurable objectives and by implementing this strategy for one year; (ii) continuing to show satisfactory results from the program with the IMF; (iii) ensuring that the resources made available by debt relief are well used on spending for the poor; and (iv) putting in place a transparent system of budget execution and monitoring that will make it possible to track public spending to its intended recipients.

Debt relief by the international community is the recognition that the debt has become unsustainable because the funds lent were misused in the past, and that the responsibility for this state of affairs is shared between debtors and creditors. The good governance of public finance conditions that are part of the HIPC Initiative are intended to ensure that financial assistance—including HIPC funds—benefit the population, and to prevent a fall into the trap of new, unsustainable indebtedness.

The economic programs of the past three years have yielded remarkable results and are the hinge that opens the door to an economic recovery. **And what about the future that begins every day?** I was saying, just now, that the future inspires optimism: a reunited country with a national coalition government, headed toward elections, in a new partnership with the international community, founded on good governance. For its part, the IMF is ready to continue its financial support, its advice, and its technical assistance. **What do we see as the principal challenges for the country and for you, honorable Members of Parliament.**

--First, to consolidate macroeconomic stability while avoiding monetary financing of the fiscal deficit and new, unsustainable indebtedness. This is a necessary condition for growth—of which you are the guardian angels, I believe.

--Second, to ensure that public finances are managed in a transparent fashion, beginning with the passage and execution of the 2004 budget which will be the first reunification, pro-poor budget. We hope that the pro-poor portion of expenditure will be significantly increased. Pro-poor expenditure—precisely defined in the new budgetary nomenclature and adapted to a country in reconstruction—includes health, education, basic infrastructure, social protection and the reintegration of demobilized soldiers. In this context, the famous "expenditure chain" has to completely in place: an automated channel for tracking budgetary execution on a month-to-month basis—line by line voted by you—to ensure that spending goes where it was intended while ensuring total budget transparency. Such a system is important—not only for the government as a management tool—but also to provide Parliament with the reports and accounts for which it asks.

--Third, to establish—and above all, to implement—a regulatory framework for the private sector that is transparent, stable, and the same for each operator. In particular, this means further simplifying taxation (the number of taxes and administrative fees for no service provided), reducing the number of government agencies that intervene in private activity for no reason, attacking corruption, red tape and fraud and lastly, reviewing widespread tax exemptions that only pass the burden from one to another.

Fourth, provide good governance, which is a crucial dimension of all economic policies and reforms, both in public finance and in relations between the government and the private sector. In this context, I would refer to the draft anti-corruption and anti money-laundering laws that will soon be submitted to Parliament and will be clear signs of the Congo's determination to combat these scourges. Good governance is a shared responsibility between the government and civil society—Parliament, in particular—in partnership with the international community. I sincerely believe that—aside from the moral argument on poverty—good governance is your best argument—and ours, too, as your advocates—in persuading the international community to give more resources to the DRC in the form of budgetary aid and aid projects. The IMF pleads unceasingly for budgetary support, while asking for greater transparency in the use of resources, not only external resources, but all government resources.

In all these and in other challenges, honorable Members of Parliament, the IMF wishes to be your partner—your friend, if you like—and we greatly value an ongoing dialogue with you, both as an institution and individually, to combat poverty more effectively and to strive to rebuild the Congo.

Thank you.