

EBD/07/42

April 10, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Congo—Report on Progress Toward Meeting the Completion Point Triggers Under the Enhanced Heavily Indebted Poor Countries Initiative**

Attached for the **information** of Executive Directors is a report, prepared jointly by the staffs of the Fund and the International Development Association, on progress toward meeting the completion point triggers under the enhanced Initiative for Heavily Indebted Poor Countries for the Republic of Congo. The staff report for the 2007 Article IV consultation with the Republic of Congo is tentatively scheduled for discussion on Wednesday, April 25, 2007 (SM/07/123, 4/10/07). At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Republic of Congo indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Mongardini (ext. 38569), Mr. Bessaha (ext. 38763), and Ms. Karpowicz (ext. 37007) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, April 18, 2007; and to the African Development Bank and the European Commission.

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REPUBLIC OF CONGO

**Report On Progress Toward Meeting the Completion Point Triggers
Under the Enhanced Heavily Indebted Poor Countries Initiative**

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

Approved by Anthony Boote and Thomas Krueger (IMF)
And Hartwig Schäfer and Vikram Nehru (IDA)

April 9, 2007

CURRENCY EQUIVALENTS

Currency Units	=	CFA Franc (CFAF)
US\$1	=	501 (as of March 7, 2007)

FISCAL YEAR

January 1 – December 31, 2006

ABBREVIATIONS AND ACRONYMS

BEAC	Banque des Etats d’Afrique Centrale
CCA	Caisse Congolaise d’Amortissement
CIFA	Country Integrated Fiduciary Assessment
CFAF	CFA Franc
COMEG	Central Purchasing Authority for Pharmaceuticals
EITI	Extractive Industry Transparency Initiative
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
JSAN	Joint Staff Advisory Note
MEPSA	Ministry of Basic Education and Alphabetization
METP	Ministry of Technical and Professional Education
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NGO	Non Governmental Organization
PEFA	Public Expenditure and Financial Management Assessment
PEM	Public Expenditure Management
PFM	Public Financial Management
PRCTG	Transparency and Governance Project (Projet de Renforcement des Capacités de Transparence et de Gouvernance)
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SNPC	Société Nationale de Pétrole Congolaise
SOTELCO	Société de Télécommunications Congolaise
US\$	United States Dollar

Table of Contents

I.	Introduction and Overview	4
	A. Introduction	4
	B. Overall Review of Progress	4
	C. Context	6
II.	Summary of Progress on the HIPC Triggers	7
	A. The PRSP	7
	B. Macro-Economic Stability	8
	C. Public Expenditure Prioritization	8
	D. Public Financial Management	10
	D.1 Functional Budget Classification	11
	D.2 Public Investment Management	11
	D.3 Procurement Reform	12
	D.4 Medium Term Budget Planning	13
	E. Governance and Natural Resource Management	13
	E.1 Enhancing the Quality of Governance and Reducing Corruption	13
	E.2 Oil Sector Governance	14
	E.3 Forestry	16
	F. Structural Reforms: the Regulatory Framework for Telecommunications and Postal Services	17
	G. Social Sectors	17
	G.1 Education Sector	17
	G.2 Health Sector	18
	G.3 HIV/AIDS	18
	H. Debt Management	18
III.	Critical issues in Action Plan implementation	19
Annexes		
	Annex 1: Republic of Congo: Action Plan for Implementation of Triggers for HIPC Completion Point	20
	Annex 2: IDA and Government Supplemental Financing for Governance Reform	34
Tables		
1.	Pro-Poor Expenditure, 2003-06	9
2.	Pro-Poor Expenditure, 2003-06	10

I. INTRODUCTION AND OVERVIEW

A. Introduction

1. The objective of this document is to report on progress made by the Republic of Congo in implementing the triggers for the HIPC Initiative completion point. In view of the complexity and comprehensiveness of the triggers, the IDA Board requested annual reports on progress at the HIPC decision point,¹ and this constitutes the first of such annual progress reports.

2. Following the decisions of the IMF and World Bank Boards on the HIPC Initiative decision point in March 2006, an action plan to implement the triggers for the HIPC completion point was drafted jointly by the Government, IDA and IMF staff. The action plan, which was signed on August 1, 2006, provides guidance as to how the HIPC triggers could be achieved through key intermediate steps within a realistic timeframe. The action plan is presented in Annex 1 for information.

B. Overall Review of Progress

3. Since August, progress in implementing the HIPC Action Plan has been limited. The current status can be summarized as follows.

- i. *Progress in the forestry and social sectors has been broadly in line with the HIPC Action Plan.* On the triggers for the **forestry sector**, the multi-stakeholder review of policies and legislation has been completed. On the **social sector** triggers, reforms are being implemented, with progress on the creation of the central purchasing authority for pharmaceuticals constituting an important step.
- ii. *Progress on the preparation of the full PRSP, the reform of the public financial management system, the creation of anti-corruption structures, transparency of oil sector governance, and procurement reform, has been slower than originally envisaged.*
 - Delays in the **adoption of the PRSP** are largely attributable to capacity constraints. At the same time, it is worth noting that a country-wide participatory consultation process was completed in 2006, and that a first full draft of the PRSP was submitted for comments and suggestions to IDA and IMF staff, and donors on February 14, 2007.

¹ As defined in the World Bank President's Memorandum and Recommendation and HIPC Decision Point Document for the Republic of Congo, Chairman's Summing Up, and, President's Memorandum and Recommendation and Decision Point Document Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, February 24, 2006. See also IMF Country Report No. 06/146.

- On **public financial management**, despite some delays (such as in the introduction of the functional budget classification system), the authorities' draft of a Public Financial Management Reform Action Plan (PAGGEF) provides a good starting point for reforms. However, the draft fails to address a number of areas where progress is needed to reach the triggers for the HIPC completion point. The authorities are expected to revise the action plan based on comments from IDA and IMF staff and the donor community before its adoption.
 - Progress has been made towards the establishment of an independent **anti-corruption institution**. However, in view of concerns of key representatives of civil society regarding government commitment to the use of independent oversight mechanisms, the possible effectiveness of such an institution remains to be tested.
 - In the **oil sector**, annual audits of the *Société Nationale de Pétrole Congolaise* (SNPC) have continued, and the 2004 SNPC accounts were declared auditable, though not yet certifiable. Whereas this represents a step forward, the staff notes that for the trigger to be met, accounts should be certifiable in successive years. The declarations on conflicts of interest related to the oil sector, mandated by presidential decree in January 2006, were certified by the *Cour des Comptes* and published on the web site of the Ministry of Economy, Finance and the Budget.
 - On **procurement**, a decision in principle on the establishment of a system compatible with international standards has been taken, though the technical work on the legal framework has not yet been initiated.
 - As regards structural reforms, the Government has also submitted to the Bank for review a set of laws on **telecommunications and postal services**, although amendments will be needed to ensure consistency with international standards.
- iii. *The implementation of measures to enhance the quality of **debt management** remains unclear*, where the authorities have taken actions to satisfy one of the triggers on debt centralization, but have not yet provided full evidence that would allow the staff to corroborate this.
- iv. *On the trigger with regard to **public investment management** there has been no progress*. Specifically, the design of a new public investment management system has not yet been launched.
- v. *On the trigger with regard to macroeconomic stability, there has been a reversal of earlier progress*. Specifically, the **PRGF-supported program went off track** in 2006, reflecting fiscal slippages estimated at about 5 percent of GDP and the nonobservance of most program conditionality. The quality and composition of public investment also deteriorated significantly in 2006. At the same time, inflation picked up during 2006, reaching double digits in Brazzaville, as a result of an expansionary fiscal policy and transportation bottlenecks.

4. The slow progress on the implementation of the HIPC triggers is due to a combination of factors. Capacity constraints remain an issue, leading to frequent delays in the design and adoption of policies and legislation, in particular when it comes to complex documents such as the PRSP. Donor assistance, though increasingly aligned with the HIPC process, remains limited. The government has requested additional financing for the existing Transparency and Governance Capacity Building Project to fund technical work related to the implementation of the HIPC triggers and has also committed its own resources to scale up the project. In addition, the government has also started contracting other HIPC related studies from its own budget resources. However, this is a recent development, and procedures for quality control have only recently been agreed with IDA staff. A key constraint for the effective implementation of reform remains limited political consensus on key aspects of the HIPC agenda, notably on the reform of public investment management but also on the reform of public procurement, oil sector governance and anti-corruption triggers. The need to build consensus within the government on the direction of reforms seems to be the main cause for slow progress.

5. In conclusion, while some progress has been made to implement the objectives set out in the triggers, overall this has been slow. No triggers have been fully met so far.

C. Context

Political Context

6. Legislative, senatorial, and presidential elections, scheduled for 2007,² 2008, and 2009, respectively, are likely to impose significant political constraints on the government's ability to introduce reform measures. Most of the HIPC triggers require legislation, which in the Congolese systems needs review in both chambers of parliament. The Chamber of Deputies will de facto only have one legislative session in 2007, the March session, as the November one will be the inaugural session for the newly elected chamber.

Economic and Poverty Context

7. Congo, an important hydrocarbon exporter, has benefited from rising oil prices and production. Against this background, macroeconomic performance in 2006 was mixed, as evidenced by an acceleration of inflation despite continued growth and strengthened external position. The implementation of the PRGF-supported program in 2006 was weak.

8. Real GDP growth is estimated to have remained robust in 2006 at 6.5 percent, from 7.7 percent in 2005, sustained by a rise in oil output and continued strong non-oil activity. Consumer prices rose to 8.2 percent (year-on-year) in December 2006, mainly on account of the expansionary fiscal policy and transportation disruptions. In the fiscal area, available data through end-December 2006 indicate that domestic revenue exceeded program targets, mainly on account of higher-than-programmed oil revenue. In response to the higher revenue, the authorities pursued an expansionary fiscal policy, which resulted in significantly higher-

² The parliamentary elections are scheduled for June 24, 2007

than-programmed current and capital expenditure. As a result, the non-oil primary deficit increased to 44 percent of non-oil GDP (programmed level: 32 percent), from 27 percent in 2005.

9. The resumption of growth over the past two years has led to a rise in income per capita, and to some extent, poverty reduction, as evidenced by the improvement of most social indicators since the return to peace. Per capita income (GNI, Atlas method), which had dropped from about US\$1,100 in 1990 to US\$570 in 2001 at the end of the conflicts (or back to its level at independence), rose significantly over the last two years to US\$950 in 2005 and US\$1,100 in 2006. According to the 2005 poverty survey, the incidence of monetary poverty, which was estimated to have risen from 40 percent in 1990 to 70 percent in the late 1990s, has now fallen back to 50 percent. Congo's Human Development Index has returned to its pre-conflict levels, which is slightly above the averages for Sub-Saharan Africa (SSA) and low-income countries (LICs).

Governance Context

10. Some progress has been made by the Government on actions to address the problems of corruption and weak governance, including on the terms of reference for the establishment of anti-corruption structures.³ However, during the process of the establishment of the local Executive Committee and Consultative Committee under the Extractive Industry Transparency Initiative (EITI), dialogue between the Government and representatives of civil society has not been as smooth as might have been desired. In particular, the government has so far refused to allow the participation in the EITI committees of two oil transparency activists nominated by civil society, on the basis of a suspended conviction against them for financial misappropriation. There is still significant room to improve the quality of dialogue and to foster confidence and mutual trust among representatives of the government and those of civil society to enable them all to work cooperatively to achieve the purposes of the EITI.

II. SUMMARY OF PROGRESS ON THE HIPC TRIGGERS

11. This section reviews progress towards meeting the HIPC triggers to reach the HIPC Completion Point. It will assess the pace of progress in terms of the intermediate steps presented in the HIPC Action Plan.

A. The PRSP

Trigger 1. PRSP: Preparation of a full PRSP through a participatory process and satisfactory implementation of its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the government to the staffs of IDA and IMF.

12. The preparation of the full PRSP was launched in early 2005 and it is expected to be completed in the second half of 2007. The poverty diagnosis has improved, based on

³ An independent monitoring structure, the Anti-Corruption Observatory, as well as an internal government coordination structure, the Anti-Corruption Commission.

household surveys conducted in 2005. Participatory and inclusive community consultations were completed in 2006. Sector and thematic consultations were also finalized, in particular those aimed at identifying performance indicators related to the Millennium Development Goals (MDGs), and the costing of sectoral strategies. A first draft of the full PRSP was finalized in February 2007 and was submitted for suggestions and comments to IDA and IMF staff. A further round of consultations with civil society, NGOs, community organizations, and the donor community is envisaged for March/April 2007. The full PRSP is expected to be adopted by the government and submitted to Parliament after the legislative elections in June/July 2007.

B. Macro-Economic Stability

Trigger 2. Macroeconomic stability: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program as well as any IMF successor program.

13. The PRGF-supported program went off track in 2006, owing to large expenditure overruns and delays in implementing structural reforms, including those aimed at meeting the triggers for the HIPC Completion Point on transparency and governance. The authorities missed the end-June 2006 performance criterion on the adjusted primary fiscal balance by 2.7 percent of GDP. The slippage reached an estimated 5 percent of GDP by end-2006,⁴ as a result of the additional spending authorized by the 2006 supplementary budget passed by parliament in mid-October.⁵ While the structural performance criterion on the certification by the national auditing office that public officials are not benefiting from oil sales by the SNPC or its subsidiaries was met, the performance criterion on the diagnostic study of the commercialization of government oil and most other structural benchmarks were missed. In particular, the structural benchmarks related to the adoption of a strategy for eliminating petroleum product subsidies by end-September 2007 and the diagnostic study of the economic viability of the national oil refinery (CORAF) were not met. The audit covering the awarding of the Marine XI oil concessions was published, albeit with delay.⁶ It revealed serious weaknesses in the decision-making process and the legal framework on oil concessions, which could lead to significant conflicts of interest. Discussions on a staff-monitored program to get the PRGF-supported program back on track are ongoing.⁷

C. Public Expenditure Prioritization

Trigger 3. Alignment of public spending priorities in accordance with the priorities identified in the I-PRSP, and, when completed, the PRSP, reflecting an emphasis on pro-poor growth.

⁴ Figures, however, are preliminary due to incomplete information on the financing and debt side.

⁵ The 2006 supplementary budget was prepared without prior consultation with IMF staff.

⁶ See <http://www.mefb-cg.org/>

⁷ More information on this process will be provided in the forthcoming IMF 2007 Article IV staff report.

Aligning Public Expenditure Priorities with the I-PRSP

14. Public expenditure over 2005-2006 was broadly in line with poverty reduction priorities identified in the I-PRSP. Pro-poor expenditure increased from 4.0 percent of GDP in 2003 to 6.4 percent in 2006, with primary health care increasing from 0.2 percent of GDP to 1.1 percent. The share of basic education stagnated at 1.6 percent (Table 1). The proportion of pro-poor expenditure as a proportion of total public expenditure has also increased from 13.8 percent in 2003 to 24.0 percent in 2006 (Table 2).

15. One key problem hindering a full assessment of the true volume of pro-poor spending is the absence of a functional budget classification and the incomplete computerization and integration of public expenditure management systems. This makes it impossible to track the actual composition of public expenditure systematically to inform budget allocations. Finally, weaknesses in the public investment management system (discussed in section D.2 below) raise questions on the quality of public investment.

Table 1 Republic of Congo - Pro-Poor Expenditure, 2003-06
(In percent of GDP)

	2003	2004 Executed	2005	2006 Prelim.
Basic health and VIH/AIDS	0.2	0.4	0.6	1.1
Basic education	1.6	1.6	1.5	1.6
Infrastructure relieving isolation	0.3	1.3	1.2	1.3
Power, water and sanitation	0.9	0.3	0.7	1.2
DDR and food for soldiers	0.9	0.8	0.8	0.8
Employment and social protection	0.1	0.1	0.1	0.1
Agriculture	0.0	0.0	0.1	0.3
Total	4.0	4.5	4.9	6.4
<i>Memorandum Item</i>				
GDP (in billions of CFA Francs)	2,072	2,294	3,150	3,862

1/ DDR: Disarmament, Demobilization, Reintegration

Table 2 Republic of Congo - Pro-Poor Expenditure, 2003-06
(In percent of total public expenditure)

	2003	2004 Executed	2005	2006 Prelim.
Basic health and VIH/AIDS	0.7	1.5	2.4	4.1
Basic education	5.6	5.6	6.2	6.1
Infrastructure relieving isolation	1.0	4.5	5.2	4.8
Power, water and sanitation	3.1	1.0	2.8	4.5
DDR and food for soldiers	3.0	2.6	3.2	3.0
Employment and social protection	0.4	0.2	0.4	0.4
Agriculture	0.0	0.1	0.6	1.2
Total	13.8	15.6	20.7	24.0
<i>Memorandum Item</i>				
Total Public Expenditure (in billions of CFA Francs)	605	656	745	1,031

1/ DDR: Disarmament, Demobilization, Reintegration

16. The full PRSP provides medium-term public expenditure projections and identifies pro-poor expenditure. The consolidation of public expenditure management systems, to be effective by 2009, is expected to allow for real time tracking of all public expenditure, including the use of interim HIPC relief. This will again depend on the implementation of a functional budget classification.

Use and Monitoring of Enhanced HIPC Initiative Debt Relief

17. As agreed at the decision point, a special Treasury account was opened in 2006 at the *Banque des Etats d'Afrique Centrale* (BEAC) to deposit interim HIPC assistance. So far, the government has not spent these resources and the balance was reportedly CFAF [13] billion at end-2006. No audit of the account was commissioned for 2006. It is therefore not possible at this stage to indicate whether all debt relief granted in 2006 was saved in the account.⁸

D. Public Financial Management

18. The public financial management reform trigger is broken down into four sub-triggers, which are discussed below. On the overall direction of public financial management reforms, a Country Integrated Fiduciary Assessment (CIFA) was conducted in 2006 in conjunction with a public financial management performance assessment based on PEFA

⁸ No interim debt relief has been provided by the IMF due to the lack of satisfactory financing assurances from external creditors since the decision point

methodology, supported jointly by IDA, the EU and the French government. The PEFA assessment, completed in July 2006, notes that progress has been made in reforming public financial management: (i) financing of public expenditure by oil companies has been eliminated; (ii) tax and customs administration have improved; and (iii) the establishment of a General Inspection Directorate (*Inspection Générale des Finances*) and a Supreme Audit Court (*Cour des Comptes*) have improved external control. A medium-term reform action plan, including some actions to meet the HIPC completion point triggers in the area of public finance management, was drafted and submitted to development partners for comments in February 2007. IMF and IDA comments were provided on March 19, 2007.

D.1 Functional Budget Classification

Trigger 4.(i). Establishment of a functional classification system for government expenditures, including poverty related expenditures consistent with the IMF Government Finance Statistics (GFS) manual, and preparation of government budgets using this new classification

19. Although all technical preparatory work has been completed (with technical assistance from the IMF), the functional budget classification is not yet fully operational. A functional budget classification, consistent with the IMF GFS 2001, was to be applied on a trial basis in the 2007 budget. Progress on this point cannot yet be verified due to the delay in the adoption of the 2007 budget. The preparation of the 2008 draft budget law is to be based on this classification. The new functional classification would become fully effective in January 2008.

D.2 Public Investment Management

Trigger 4.(ii). Implementation of a new public investment management system to provide rigorous selection, and efficient execution and monitoring of the projects; submission of draft public investment programs to IDA for review.

Reform of the Public Investment Management System

20. Although improving public investment management was one of the objectives of the IDA Economic Recovery Credit (ERC) approved in December 2004, little has been done so far. The action plan drafted during the ERC preparation was never finalized and most of the problems and weaknesses identified in 2004 have not been tackled.⁹ At the same time, domestically financed public investment has doubled since 2004, to an estimated 8.8 percent of GDP in 2006.

⁹ This lack of progress is one of the main reasons for the closure of the ERC.

21. In order to supervise this critical reform, a multi-sector Steering Committee chaired by the Prime Minister's Office and a technical secretariat led by the Ministry of Planning is to be set up. The first task of this Committee will be to commission a diagnostic study of the institutional arrangements, procedures, and technical capacity to manage public investment projects. The new investment management system will be aligned with related reforms of Public Financial Management (PFM) systems, public procurement reform, and the introduction of a medium-term expenditure framework.

22. In addition to the medium-term reforms described above, discussions are also ongoing on the implementation of a set of interim measures that could help address some of the concerns raised regarding the quality of public investment. Proposed steps, currently under review by the government, include: (i) the creation of a database including all ongoing public investment projects, based on a census of projects; (ii) commissioning a technical and financial audit of large investment projects (above CFAF 200 million) and current transfers executed in 2006; and (iii) commissioning in early 2008 an audit of a representative sample of projects financed under the 2007 budget. Regarding the first point, the authorities have committed to conclude the census by June 2007 and to create the database by end-2007.

Submission of Public Investment Programs to IDA for Review

23. The draft 2007 budget including the public investment program was submitted to IDA staff for review in December 2006. The draft budget did not yet include the authorities' subsequent request for CFAF 150 billion in additional priority investments for 2007. IDA staff raised issues reflecting the weaknesses already identified: (i) information gaps; (ii) lack of economic appraisal and justification for projects; (iii) allocations for project clusters rather than for individual projects; (iv) lack of reference to sector objectives and strategy; and (v) inconsistencies with I-PRSP priorities. At this stage, information and data shortcomings preclude any thorough assessment of the proposed investment program. IMF and IDA staff thus have reservations about the quality and composition of the investment program, and the capacity to implement such an ambitious program.

D.3 Procurement Reform

Trigger 4.(iii). Adoption and satisfactory implementation by the Government of a new procurement code (that promotes transparency and competition) in line with international best practice.

24. A Country Procurement Issues Paper (CPIP), completed in 2006, identified significant deficiencies in Congo's procurement system and set priorities for reform: (i) a modern legal procurement framework meeting international standards; (ii) modern procurement procedures and tools; and (iii) strengthened capacity. The CPIP reform action plan, however, has not yet been adopted by the Government. A steering committee

(*Commission de Réforme des Marchés Publics*) was created in July 2006, which will be assisted by an international expert who is being recruited. An international law firm is being recruited to draft the new procurement law to meet the HIPC trigger. The earliest the new procurement law will be promulgated is in the last quarter of 2007.

D.4 Medium Term Budget Planning

Trigger 4. (iv). Medium-term framework for sustainable management of government expenditures and revenues with technical assistance from IDA and IMF.

25. Sound macroeconomic policy in Congo needs to be anchored to a sustainable medium-term fiscal strategy, defined in a formal Medium Term Fiscal Framework that takes into account the country's limited oil resources. Such a framework would reflect recognition of the nonrenewable nature of oil revenues and intergenerational equity considerations. In this context, the intermediate steps included in the HIPC Action Plan focus both on the development of a revenue forecasting model, linked to estimates of oil reserves, and the development of a medium-term expenditure framework.

26. A first draft medium-term budget framework for 2007-09 was developed in the context of the preparation of the full PRSP. This medium-term fiscal framework includes medium-term projections of government revenue and public expenditure as well as sector expenditure programs along two scenarios; one consistent with the PRGF supported macroeconomic framework and the other one with the PRSP objectives that are aligned with the longer term objective of reaching the MDGs. Discussions are underway with staffs on how to improve this first draft, and in particular, to ensure that this medium-term budget framework is consistent with a sustainable medium-term fiscal strategy.

E. Governance and Natural Resource Management

27. The governance triggers consist of a set of overall actions to reduce levels of corruption and enhance the quality of governance, as well as two specific sets of triggers to address concerns related to the oil and forestry sectors.

E.1 Enhancing the Quality of Governance and Reducing Corruption

Trigger 5. Governance: Completion of a diagnostic governance and corruption study by an independent group of internationally reputed experts, assisted by a national anti-corruption committee, based on terms of reference prepared in consultation with IDA and IMF staffs. The terms of reference and composition of the national anti-corruption committee will be satisfactory to IDA and IMF staffs. Adoption by the government of an action plan, prepared in consultation with IDA and IMF staffs, to improve governance and reduce corruption, and sustained implementation of such action plan during the completion of the audits referenced in subsections E.2 and E.3. Assessment of the implementation of the action plan by IDA and IMF staffs on the basis of an independent review.

Anti-Corruption Committee

28. The anti-corruption committee has been named National Anti-Corruption Observatory. The name of the institution was defined in a way as to ensure a clear distinction with the existing Anti-Corruption Commission, which is an internal government coordination structure tasked with the implementation of government anti-corruption policies. Whereas initially it had been planned that the National Anti-Corruption Observatory would be established by decree (as reflected in the HIPC action plan in Annex 1), using a decree would not have created a sufficiently independent institution, as a result of constitutional provisions. Thus, it was agreed to use a law to establish the anti-corruption structure. The law on the creation of the Observatory, designed in consultation with IDA and IMF staff,¹⁰ was submitted to Parliament in February 2007. The law provides the Observatory with a broad mandate to review governmental initiatives related to governance and corruption, including all audits of state-owned enterprises and procedures for issuing natural resource concessions. As agreed with IMF and IDA staff, the Observatory will consist of nine members, namely (i) a delegate of the trade unions; (ii) one member from the private sector; (iii) a member of the Ecumenical Council of Churches; (iv) a member of civil society; (v) one representative of the EITI executive committee, selected from among the civil society members of the committee; (vi) one member of the Senate; (vii) one member of the lower house of parliament; (viii) one member of the judiciary; and (ix) one member of the executive branch. The Observatory will also have a permanent secretariat, with budget funding, and expert support under the IDA Transparency and Governance Project (PRCTG).

29. At the same time, the previously established anti-corruption Commission was transformed by decree into an internal government coordination body with its main function to manage and track the implementation of anti-corruption and governance enhancement measures adopted by the government.

Completing a Diagnostic Study on Governance and Corruption and the design and implementation of an Governance and Anti-Corruption Action Plan.

30. The development of an action plan to enhance the quality of governance and reduce corruption is the second main element of the governance trigger. The diagnostic study is to be conducted under the auspices of the Observatory, which will also play a major role in the design of the related governance and anti-corruption action plan and a (later) law on anti-corruption. The delay in the creation of the Observatory has resulted in an associated delay in the launch of the diagnostic study.

E.2 Oil Sector Governance

¹⁰ Final comments on the law from IMF and IDA staff to comply with the HIPC trigger were submitted to the Government in early March, 2007. The authorities are expected to address these comments either during the parliamentary approval process or through implementation decrees.

Trigger 5. Oil sector. (i) Assessment by IDA and IMF staffs: based on successive annual audit opinions by an independent firm of international reputation, and certified by the national anti-corruption committee, that SNPC's internal controls and accounting system are in line with international standards and best practices; (ii) Preparation, by an independent firm of international reputation, of a diagnostic study of the practices for the commercialization of oil by SNPC, based on terms of reference prepared in consultation with IDA and IMF staffs. Assessment by IDA and IMF staffs, based on successive audit opinions by an independent firm of international reputation, that the commercialization of oil by SNPC has been brought into line with international best practice on the basis of the recommendations of the diagnostic study, and results in competitive and fair market values to Congo for the oil sold; and (iii) Adoption and application by the Government, certified by the national anti-corruption committee, during the completion of the audits referenced in 5(i) and 5(ii), of a legal text stipulating: compulsory declaration, to the National Auditing Office (Cour des Comptes), by the members of the Executive Board of SNPC and those having a management mandate within SNPC and its subsidiaries, at the moment of their nomination and annually thereafter, of their participation or other interests in companies having business relations with SNPC or its subsidiaries as well as the verification and annual publication of the aforementioned declarations by the National Auditing Office (Cour des Comptes). Divestiture by the members of the Executive Board of SNPC and by those having management responsibilities within SNPC or any of its subsidiaries of such participations and/or other interests, within a time period of 6 months after their nomination and prohibition of the taking of any interest in companies having business relations with SNPC during the period of their mandate.

31. The Government has proposed to implement the remaining recommendations from the *Société Nationale de Pétrole Congolaise* (SNPC) audits along two tracks. First, measures that do not require legislation, notably those included in the HIPC triggers, will be undertaken immediately. Second, a new petroleum sector strategy, to be prepared with IDA assistance, will focus on developing a coherent medium-term vision for the sector which would help in facilitating the implementation of the remaining triggers.

Improving the internal controls and the accounting system of SNPC to attain international standards and best practices.

32. The first element of the trigger is to conduct continuous annual audits of the SNPC. The latest audit of the SNPC, covering 2004, and issued in March 2006, concludes that SNPC accounts are “auditable” for the first time, but can still not be certified in accordance with international accounting standards. Whereas this constitutes progress on meeting the trigger, it is important to note that the trigger calls for successive audit opinions that would confirm that the SNPC's internal controls and accounting system are in line with international standards and best practices.

33. The audit firm has provided a specific annex with an action plan, including measures to be taken to improve internal controls and the accounting system. The list of recommendations provided is long, and includes issues ranging from the quality of financial statements, accounting procedures, internal controls, the management of bank accounts, to

the relations with private sector operators and the central government. However, it does provide the SNPC for the first time with a clear set of concrete and practical measures that would help in moving towards obtaining certified accounts.

34. The audit firm has an ongoing contract to audit SNPC for 2005 and 2006, and provisions have been made under the PRCTG (Transparency and Governance Capacity Building Project) to finance the audits for 2007 and 2008. The government is also committed to continuing with the quarterly certification of oil revenues produced by an independent firm of international reputation.

35. The second activity in the action plan related to this trigger is the development of an analytical accounting system for SNPC. This activity has been launched under Terms of Reference acceptable to IDA and should be completed by the end of 2007.

Bringing the commercialization of Congolese oil in line with international best practice

36. The certification reports of oil revenues and the comparison of prices and marketing costs of oil sales by private operators with those obtained for the same crude exported by the SNPC at the same time showed large differences, implying significant losses in government revenues. To address this problem, a diagnostic study of the commercialization of government oil by the SNPC is being finalized.

Adoption by the Government of a legal text regulating the prevention of conflicts of interests of managers and board members of the SNPC.

37. On January 26, 2006, the Government issued Decree No. 2006-32 on the prevention and resolution of conflicts of interest involving members of the Board and senior managers of SNPC. Following this Decree, ten board members and six managers have presented voluntary declarations to the National Audit Office (*Cour des Comptes*) confirming that they do not have any share or interest in any company that has relations with SNPC. On September 28, 2006, the National Auditing Office acknowledged the receipt of these declarations and confirmed that it has verified in the files of owners of these companies and their subsidiaries the absence of conflicts of interest for any SNPC board members and senior managers. After verification with business registers, the National Auditing Office has certified these declarations.

E.3 Forestry

Trigger 5. Forestry sector. Review of forestry sector management and legislation and adoption by the government of measures recommended by the review to promote competition, transparency and sustainable development

38. The completion point trigger requires the government to: (i) conduct a review of forestry sector management and legislation in collaboration with IDA staff; and (ii) adopt the measures recommended by the review to promote competition, transparency, and sustainable development within the sector.

39. The forestry sector review is being undertaken in conjunction with a study financed by IDA and other donors. The scope of the review was extended beyond economic reform, specifically taxation and concession auctioning, to cover biodiversity conservation, sustainable management of production forests, the participation of local and indigenous peoples, legal frameworks and safeguards applicable to forests and the green environment, and institutional capacity. The study, including a mid-term review of preliminary conclusions, has been conducted in a highly participatory manner.

F. Structural Reforms: the Regulatory Framework for Telecommunications and Postal Services

Trigger 6. Structural Reforms: Review and adoption of a regulatory framework for the telecommunications sector establishing competition at the level of international gateways and the wireless local loop.

40. In order to fulfill this trigger, the authorities agreed with IDA and IMF staff on the following actions included in the Annex: (i) the full and unambiguous repeal of Decree no 2004-466, which reserved international gateway services and the wireless local loop to be the exclusive preserve of SOTELCO, the public operator; and (ii) the adoption of three draft laws covering: a) the creation of a regulatory authority for Post and Telecommunications; b) the regulation of the postal sector; and c) the regulation of the telecommunications sector. The draft laws are being prepared in consultation with IDA staff.

41. On decree 2004-466, two other relevant decrees have been passed since 2004, but neither satisfies the conditions of the triggers. On the draft regulatory laws, three laws covering the areas specified have been prepared and reviewed by IDA staff. The laws conform to the basic structure of legislation found in other civil law countries, although they will need to be improved to be consistent with international practice in order to meet the completion point trigger.

G. Social Sectors

G.1 Education sector

Trigger 7. Education: Implementation during 2006 of a strategy to eliminate fictitious workers from the education budget and increase teaching staff by, at least, 1,000 each year in basic education until 2007.

42. Progress has been made on identifying ghost workers, although no final decision on the process for their elimination has been taken. Since the HIPC decision point, the Ministry of Basic Education and Alphabetization (MEPSA) as well as the Ministry of Technical and Professional Education (METP) have carried out detailed personnel censuses, showing

25 percent of the roster of MEPSA and METP staff (over 6,200 staff) not working for the ministries, mostly in order to receive bonuses related to teaching qualifications. Of the 6,200 staff identified as not working in the sector, 1,174 staff are working for other ministries, but over 5,000 staff have not yet been identified. An inter-ministerial commission produced a strategy note in October 2006 concluding that positions of staff not working in MEPSA and METP should be eliminated, in order to create budgetary space for the recruitment of additional teaching staff. This is all the more important considering that the Republic of Congo also has an exceptionally high ratio of administrative to teaching staff, 55 percent, compared to an international average of 20 percent.

43. The recruitment of 1,000 teachers at the primary education level in 2006 has been partially met. The budget for 2006 of the MEPSA included 1,150 new positions and the Ministry of Civil Service has recruited 650 additional teachers (i.e., not regularized volunteers already in the system) as civil servants for primary level.

G.2 Health Sector

Trigger 7. Health: Increase to, at least, 60 percent the share of generic drugs in total expenditures on drugs by the central purchasing agency.

44. An independent purchasing authority (COMEG) has been created to manage the purchase and distribution of basic pharmaceuticals for the public sector, with a focus on generics, including drugs funded by donors, such as retroviral and anti-malaria drugs. COMEG has initiated various activities such as the procurement of anti-retroviral drugs from the IDA-supported HIV/AIDS project. In 2007, the budget allocation for basic medicines for the public sector was transferred to COMEG. The implementation of this provision would enhance transparency and traceability of public expenditure on pharmaceuticals and make rapid progress towards meeting the completion point trigger more likely.

G.3 HIV/AIDS

Trigger 7. HIV/AIDS: Increase in the number of voluntary AIDS counseling and testing centers with associated measures (staff, equipment, and awareness campaign) from 4 at present to, at least, 10 in 2006 and 15 in 2007.

45. To date, 17 centers are in the process of being established, of which 10 are fully operational. With the planned decentralization of services to the regions, this trigger should easily be met.

H. Debt Management

Trigger 8.(i). Publication of the quarterly external debt data and projections on a government website.

46. This trigger has not yet been met. Although quarterly debt data are reportedly available at the government's debt agency, they are not yet posted on the Government website.

Trigger 8.(ii). Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).

47. This trigger has not yet been met. The government's debt management capacity has improved over the last two years. However, the government has not yet provided the necessary evidence that would allow staffs to verify that the HIPC trigger is met.

III. CRITICAL ISSUES IN ACTION PLAN IMPLEMENTATION

48. Overall, performance in implementing measures to reach the HIPC Completion Point is limited. In particular, four critical elements of the reform process have been identified by the Bank and IMF teams as critical for making progress on the HIPC Action Plan:

- a. In terms of the finalization of the PRSP, it should be possible for the Government to adopt a credible PRSP in the second semester of 2007, in time for reflecting its priorities in the 2008 budget and the 2008-2010 medium-term fiscal framework.
- b. It is essential that the PRGF-supported program be brought back on track as soon as possible. This will critically depend on sound macroeconomic policies, a medium-term fiscal strategy, the introduction of budget management reforms, and the establishment of a public investment management system that can ensure the quality of spending.
- c. The establishment of institutional structures to monitor reforms. This is a key test of the resolve of the government to meet the HIPC triggers. The establishment and operationalization of the planned 'Observatory', which should become a platform for dialogue and confidence building between the government, the oil industry, and civil society, depend on the ability of government and civil society to engage in a constructive dialogue to resolve the current stalemate on civil society representation in these institutions.
- d. The initiation of a fundamental reform of public investment planning and execution. If the Republic of Congo is to effectively use the resources generated by the oil windfall to reduce poverty and ensure sustainable and equitable growth, improved prioritization of public investment resources and improved project management practices are required. Concrete actions are needed to introduce a credible public investment project preparation, implementation, and monitoring system for the 2008-2010 budget period. At the same time, there is strong institutional and political resistance to the reform of the current system, which will continue to impede progress.

**ANNEX 1: REPUBLIC OF CONGO: ACTION PLAN FOR IMPLEMENTATION OF TRIGGERS
FOR HIPC COMPLETION POINT**

(Progress Report as of March 2007)

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE- MENT	TECHNICAL ASSIS- TANCE
1. PRSP						
1. PRSP: Preparation of a full PRSP through a participatory process and satisfactory implementation of its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the government to the staffs of IDA and IMF.	a) Completion of Poverty profile (based on the Household Survey and the Core Welfare Indicators Questionnaire among others).	End-March 2006	Adoption of Poverty profile by government	Completed	Government IDA UNDP	UNDP IDA
	b) Completion of sector diagnostics and identification of priority areas and programs.		Sector diagnostics available	Not yet completed	Government IDA UNDP	UNDP IDA
	c) Costing of priority actions and priority programs		Costing of priority programs available	Not yet completed	Government IDA UNDP	UNDP IDA
	d) Completion of macroeconomic and macro-fiscal frameworks for 2007-2009 that is consistent with the PRSP.	September/ October 2006	2007-2009 Macroeconomic and macro-financial framework available	Not yet completed as PRSP remains to be adopted	Government IMF IDA UNDP	UNDP IDA
	e) Elaboration of a Note on PRSP Implementation mechanisms (MTEF, Public Investments system, Procurement, etc.)M&E. and Monitoring & Evaluation system.)		Adoption of PRSP implementation and Monitoring & Evaluation system	Not yet initiated	Government IDA UNDP	
	f) Preparation of the draft PRSP	September 2006	Draft PRSP available. JSAN draft.	First Draft of the Full PRSP submitted on 14 February 2007	Government IDA UNDP	UNDP IDA
	g) Discussion of draft PRSP with IMF and World Bank mission	September/October 2006	Draft PRSP available	Ongoing	Government IMF IDA UNDP	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	h) Participative consultations (Ministries, Municipalities, NGO, civil society, etc.) and creation of a donor coordination body		Revised draft PRSP available	Ongoing	Government	
	i) Completion of final draft PRSP	December 2006	Final PRSP available	Estimated for the second semester of 2007	Government IDA UNDP	IDA UNDP
	j) PRSP presentation to the cabinet meeting		Adoption of Final PRSP by government	Estimated for the second semester of 2007	Government	
	k) Presentation of final PRSP to IDA and IMF staffs	December 2006	Final PRSP validated by IMF and Bank Boards	Not yet initiated	Government	
	l) Completion of the first annual progress and submission to IDA and IMF staffs	April 2008	JSAN available	Not yet initiated	Government IDA UNDP	
2. Macroeconomic Stability						
2. Macroeconomic stability: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program as well as any IMF successor program.	a) PRGF implementation	continuous	Satisfactory PRGF reviews	Most targets missed; PRGF arrangement has gone off track.	Government IMF	
3. Public Expenditure Priorities						
3. Public expenditure priorities: Alignment of public spending priorities in accordance with the priorities identified in the I-PRSP, and, when completed, the PRSP, reflecting emphasis on pro-poor growth.	a) Align allocations in 2007, 2008 and 2009 budget in line with priorities identified in I-PRSP and PRSP when available	Continuous	Budgets for 2007, 2008, and 2009	Delay in adoption of the 2007 budget makes analysis difficult	Government	
	b) Creation of a special treasury account that channels interim debt relief to be used for agreed poverty-reducing categories.	Continuous		Completed	Government	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	c) Annual independent audit by the national audit office (Cour des Comptes) and an independent firm of international reputation. Both audits will be published on the government's website.	Continuous		Not yet initiated	Government	
	d) Constitution of an oversight committee (with representatives of parliament, international donors, and Congolese civil society) that monitors ex-post pro-poor spending.	Continuous		Not yet initiated	Government	
	e) Streamlining of the spending chain in order to strengthen the framework for tracking expenditures from commitment to payment stage	Continuous		Terms of Reference for an analysis of the spending chain agreed with IDA	Government	IDA
	f) Complete the computerization of budget execution	Continuous		Funding for computerization integrated in the IDA funded Governance and transparency project	Government	IDA EU
4. Public Financial Management						
(i) Establishment of a functional classification system for government expenditures, including poverty related expenditure, consistent with the IMF's Government Finance Statistics manual; preparation of government budgets using is this new classification;	a) Design of the functional classification for expenditure that includes a sub-classification for poverty related outlays. IMF TA mission. Short-term expert financed by IDA to follow up on the recommendations of IMF TA mission.	October 2006	Report available including draft action plan for the implementation of the new classification	Pending	IMF IDA	IMF
	b) Preparation of the decree on new budget classification (and Charts of Accounts)	December 2006	Decree signed and published	Pending	Government IMF IDA	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	c) Monitoring of the 2007 budget (on an experimental basis) using the new functional classification.	December 2007	2007 Budget monitoring, using the new classification format	Pending	IMF	
	d) Preparation of 2008 budget with the new budget classification	October 2007	2008 Budget adopted with the new classification format	Not yet initiated	Government IMF	
	e) Monitoring of 2008 Budget with the new budget classification	December 2008	2008 Budget monitoring, using the new classification format	Not yet initiated	IMF	
(ii) Implementation of a new public investment management system to provide rigorous selection, and efficient execution and monitoring of the projects; submission of draft public investment programs to IDA for review	a) Completion of the on-going study on the new public investment management system	March 2007	Report available including a draft action plan for the implementation of the new system	Terms of Reference for the study under discussion	Government IDA IMF FR	IDA FR
	b) Consultation with the IDA and IMF staffs on draft action plan	April 2007	WB and IMF comments included in a revised action plan	Not yet initiated	Government IDA IMF	
	c) Preparation of the legal framework for the introduction of new Public Investment Management system, in consultation with IMF and IDA staffs	August 2007	Draft legal framework available	Not yet initiated	Government IDA IMF FR	
	d) Adoption of the new legal framework	October 2007	Law and decrees signed and published	Not yet initiated	Government	
	e) Preparation of 2008 budget under the format proposed by the new Public Investment Management system	December 2007	2008 budget in line with the new Public Investment Management system	Not yet initiated	Government	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	f) Submission of 2007, 2008 and 2009 Public Investment Program (PIP) to IDA.	Continuous	2007, 2008 and 2009 IDA comments included in the revised PIP	PIP 2007 submitted to the Bank. Initial comments provided in December 2006	Government	
(iii) Adoption and satisfactory implementation by the government of a new procurement code (that promotes transparency and competition), in line with international best practice;	a) Preparation and adoption of an action plan to reform Procurement in consultation with IDA staff	August 31, 2006	Action plan adopted by government cabinet	Not yet initiated	Government IDA	IDA
	b) Monitoring of the action plan's implementation by the Anti-corruption Committee.	September 2006	Legal text tasking the Anti-corruption Committee with the mandate to oversee procurement reform signed and published.	Anti-corruption structure not yet in place	Government	
	c) Recruitment of experts to support the drafting of the new procurement Code and its application decrees.	October 31, 2006	Legal experts are recruited to prepare a draft Procurement Code and application texts.	Terms of Reference agreed, selection ongoing	Government	IDA
	d) Promulgation of the new Procurement Code.	September 2007	Law and decrees signed and published	Not yet initiated	Government	
	e) Creation of the new institutions commanded by the new Procurement legal framework. Nomination of their management team. Appropriating budget signed and published.	March 2008	Procurement code, companion decrees and appointment documents pertaining to the functioning of the institutions (nomination of managers and budget) are signed and published.	Not yet initiated	Government IDA	
	f) Evaluation of the satisfactory implementation of the new Procurement legal framework in line with international best practices.	March 2009	Review satisfactory to Anti-corruption Committee and IDA and IMF staffs.	Not yet initiated	Government IDA IMF	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
(iv) Adoption by the government of a medium-term framework for sustainable management of government expenditures and revenues, with technical assistance from IDA and IMF.	a) Completion of the study to model reserves and oil revenues	March 2007	Report available	Not yet completed	Government IDA	
	b) Elaboration of the revised three year macroeconomic framework	May 2007	2008-2010 framework available	Not yet initiated	Government IMF IDA	
	c) Completion of the MTEF document including inter-sectoral allocation in line with PRSP priorities and macroeconomic constraints	August 2007	Draft 2008-2010 MTEF available and in line with PRSP priorities	Not yet completed	Government IMF IDA	
	d) Adoption of the 2008-2010 MTEF and inclusion in 2008 budget preparation	October 2007	Final 2008-2010 MTEF available and mirrored in 2008 budget.	Not yet adopted		
5. Governance and Natural Resource Management						
5.1 Governance:						
Completion of a diagnostic governance and corruption study by an independent group of internationally reputed experts, assisted by a national anti-corruption committee, based on terms of reference prepared in consultation with IDA and IMF staffs. The terms of reference and composition of the national anti-corruption committee will be satisfactory to IDA and IMF staffs.	a) Adoption of the terms of reference of the Anticorruption Committee, which terms of reference and composition, will be satisfactory to IDA and IMF staffs.	May 2006	Final Terms of reference available	Expected to be completed in March 2007	Government IMF IDA	
	b) Draft of the presidential decree creating the Anticorruption Committee, in consultation with IMF and IDA staffs	June 2006	Draft Presidential decree available	Creation by decree did not provide sufficient guarantees of independence. Drafting and adoption of a Law significantly delayed the process	Government IDA IMF	IDA

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	c) Creation and staffing of the Anti-corruption Committee by presidential decree (including members from public sector, business community, civil society, NGOs, etc.)	August 2006	Signature and publication of the decree, appointing the rest of members, and appropriating its budget signed and published.	Expected to be completed in April 2007	Government IMF IDA	
	d) Preparation of terms of reference for a diagnostic governance and corruption study in consultation with the IDA and IMF staffs, on the basis of the recommendations from the oil, procurement, forestry and other studies.	December 2006	Draft terms of reference available	Terms of Reference submitted for Non Objection to the Bank and agreed in January 2007	Government IMF IDA	IDA
	e) Completion of the diagnostic study by independent group of international reputed experts, assisted by the Anti-corruption Committee.	June 2007	Report including a draft action plan to reduce corruption and improve governance available	Not yet completed	Government IMF IDA	
	f) Consultation with the Anti-corruption Committee and the IMF and IDA staffs on the draft action plan.	September 2007	Revised action plan including comments from the national Anticorruption Committee, the IMF and IDA staffs.	Not yet initiated	Government IMF IDA	
	g) Adoption by the government of the final action plan	October 2007	Official letter notifying adoption of the final action Plan by the government cabinet and clarifying the next steps (i.e. agenda for new legal framework)	Not yet initiated	Government	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	h) Adoption of the new legal framework and instruments	December 2007	Law and decrees signed and published	Not yet initiated	Government	
	i) Completion of an assessment of the action plan implementation by independent group of international reputed experts, assisted by the Anti-corruption Committee.	December 2008	Review satisfactory to the Anticorruption Committee and the IMF and Bank staff	Not yet initiated	Government IMF IDA	
5.2 Oil Sector						
(i) Assessment by IDA and IMF staffs, based on successive annual audit opinions by an independent firm of international reputation, and certified by the national anti-corruption committee, that SNPC's internal controls and accounting system are in line with international standards and best practices;	a) Completion of annual audit by an independent firm of international reputation, conducted on SNPC's accounts	Continuous	Successive annual audit positive opinions (without qualification), by an independent firm of international reputation that SNPC's internal controls and accounting system are in line with international standards and best practices	Commitment to ongoing audits received and funding for 2006, 2007 and 2008 exercises agreed	Government IMF IDA	IDA
	b) Certification by the Anti-corruption Committee, using SNPC's annual audit reports, that SNPC's internal controls and accounting systems are in line with best international practices. Submission to IMF and IDA staffs for an assessment.	Continuous	Official letter from the Anti-corruption Committee, certifying that SNPC's internal controls and accounting system are in (or have been brought into) line with international standards and best practices.	Terms of Reference for improvement of internal controls and accounting system agreed	Government IMF IDA	IDA

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
(ii) Preparation, by an independent firm of international reputation, of a diagnostic study of the practices for the commercialization of oil by SNPC, based on terms of reference prepared in consultation with IDA and IMF staffs. Assessment by IDA and IMF staffs, based on successive audit opinions by an independent firm of international reputation, that the commercialization of oil by SNPC has been brought into line with international best practice on the basis of the recommendations of the diagnostic study, and results in competitive and fair market values to Congo for the oil sold	a) Preparation of terms of reference for a diagnostic study of the SNPC's marketing strategy of government oil, in consultation with the IDA and IMF staffs	May 2006	Draft terms of reference available	Completed	Government IMF IDA	IDA
	b) Signature of contracts for the diagnostic study of the SNPC's marketing strategy.	September 2006	Contracts signed	Completed	Government IMF IDA	IDA
	c) Completion of the diagnostic study of the SNPC's marketing strategy of government oil, including draft action plan to bring oil commercialization into line with international best practices	December 2006	Report available with draft action plan	Draft report to be submitted by end March 2007	Government IMF IDA	IDA
	d) Consultation with the Anti-corruption Committee and the IMF and Bank staffs on the final action plan	January 2007	Revised action plan including comments from the Anti-corruption Committee, the IMF and IDA staffs	Not yet initiated	Government IMF IDA	
	e) Adoption by the government of the final action plan	February 2007	Official letter notifying adoption of the final action Plan by the government cabinet and clarifying the strategy and policy to be implemented	Not yet initiated	Government	
	f) Adoption and implementation of the new legal framework and instruments	June 2007	Law and decrees signed and published; SNPC Board decisions published.	Not yet initiated	Government	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	g) Completion of an assessment of the action plan implementation by independent firm of international reputed experts, in consultation with the Anti-corruption Committee and the IMF and IDA staffs.	Continuous	Successive annual positive opinions that the commercialization of oil by SNPC has been brought into line with international best practice on the basis of the recommendations of the diagnostic study.	Not yet initiated	Government IDA IMF	
(iii) Adoption and application by the government, certified by the national anti-corruption committee, during the completion of the audits referenced in 5(i) and 5(ii), of a legal text stipulating:						
<ul style="list-style-type: none"> compulsory declaration, to the National Auditing Office (Cour des Comptes), by the members of the Executive Board of SNPC and those having a management mandate within SNPC and its subsidiaries, at the moment of their nomination and annually thereafter, of their participation or other interests in companies having business relations with SNPC or its subsidiaries as well as the verification and annual publication of the aforementioned declarations by the National Auditing Office (Cour des Comptes). 	a) Effective implementation of the decree # 2006-32 dated 01/26/2006 on conflict of interests.		National Auditing Office Report showing effective declaration of assets and interests by the SNPC managers and Board members	Completed	Government	
	b) Actual verification by National Auditing Office of these declarations	Continuous	National Auditing Office Report on this issue.	Completed	Government IMF IDA	
	c) Transmission of the National Audit Office report to the Anticorruption Committee	Continuous	National Audit Office official letter transmitting the report to the Anticorruption Committee.	Not yet initiated	Government	
	d) Publication of the declarations by the National Audit Office	Continuous		Not yet initiated	Government IMF IDA	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
<ul style="list-style-type: none"> divestiture by the members of the Executive Board of SNPC and by those having management responsibilities within SNPC or any of its subsidiaries of such participations and/or other interests, within a time period of 6 months after their nomination and prohibition of the taking of any interest in companies having business relations with SNPC during the period of their mandate. 	a) Completion of semi-annual verification by National Audit Office to assess divestiture by the members of SNPC Board members and those having management responsibilities, of participations and/or interests.	continuous, every six month period	National Auditing Office Report on this issue transmitted to Anticorruption Committee.	Not yet initiated	Government IMF IDA	
	b) Anticorruption Committee Certification of the divestiture by the members of SNPC Board members and those having management responsibilities managers, of participations and/or interests.	continuous, every six month period	Official letter from the Anticorruption Committee, certifying that SNPC Board members and those having management responsibilities do not have any interest in companies having business relations with SNPC or its subsidiaries	Not yet initiated	Government IMF IDA	
5.3 Forestry Sector						
Review of forestry sector management and legislation with IDA assistance; adoption by the government of measures recommended by the review to promote competition, transparency, and sustainable development in this sector	a) Preparation of terms of reference of the study, in consultation with IDA		The terms of reference are adopted.	Completed	Government IDA	
	b) Recruitment of international and local experts to support the review process	May 2006	Signature of contracts	Completed	IDA-Managed Trust Fund	IDA-Managed Trust Fund
	c) Set-up by the government of the Steering Committee and appointment of public sector representative. Launching of Review in consultation with partners from public and private sectors, local population, civil society, etc.	June 2006	Legal text creating the Steering Committee List of appointed members	Completed	IDA-Managed Trust Fund	IDA-Managed Trust Fund

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	d) Completion of draft final report	January 2007	Draft report available	Expected in April 2007	IDA-Managed Trust Fund	IDA-Managed Trust Fund
	e) Organization of consultation process on the draft report (Local and national Workshops to discuss the draft report)	March 2007	Revised draft report available	Not yet initiated	IDA-Managed Trust Fund	IDA-Managed Trust Fund
	f) Submission of the draft report and workshops acts to IDA staff, for consultation	April 2007	Revised report including IDA comments, available	Not yet initiated	Government	
	g) Submission of the draft report to Anticorruption Committee, for consultation	May 2007	Revised report including Anticorruption Committee comments, available	Not yet initiated	Government	
	h) Adoption by the government of the final report and recommendation.	July 2007	Official letter notifying adoption of the final action Plan by the government cabinet and clarifying the strategy and policy and recommendation to be implemented	Not yet initiated	Government	
	i) Preparation of the forestry legal framework, policy and strategy, in line with final recommendation and in consultation with IMF and IDA staffs	August 2007	Draft legal framework available	Not yet initiated	Government IDA IMF	
	j) Adoption and implementation of the new legal framework and instruments	November 2007	Law and decrees signed and published.	Not yet initiated	Government	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
6. Structural Reforms						
Review and adoption of a regulatory framework for the telecommunications sector establishing competition at the level of international gateways and the wireless local loop.	a) Clear abrogation of Decree 466	August 2006	Decree abrogated	Two decrees have been passed, but do not have the intended effect	Government IDA	
	b) Preparation of the telecom legal framework, policy and strategy, in line with final report recommendation and in consultation with IDA staff and Adoption and implementation of the new legal framework and instruments	December 2007	Signature of contracts	Not yet completed	Government IDA	
7. Social Sectors						
7.1. Education:						
(i) Increase teacher staff by, at least, 1,000 each year in basic education until 2007.	a) Recruitment of at least 1,000 primary school teachers in 2006	October 2006	Official letter confirming recruitment of new teachers	650 teachers recruited, 260 more files pending	Government IDA	IDA
	b) Recruitment of at least 1,000 primary school teachers in 2007	October 2007	Official letter confirming recruitment of new teachers		Government IDA	
(ii) Implementation during 2006 of a strategy to eliminate fictitious workers from the education budget.	a) Preparation of a Strategy Note for elimination of fictitious workers from education budget	September 2006	Draft Strategy Note available	completed	Government IDA	IDA
	b) Submission of the Strategy Note to the IMF and IDA staffs.	September 2006	Final Strategy Note available	completed	Government	
	c) Adoption by the Government of the Strategy Note	December 2006	Official letter notifying adoption of the Strategy Note by the cabinet and implementation agenda	Not yet adopted	Government	

TRIGGERS	ACTIVITIES UNDER THE ACTION PLAN	AGREED END DATE	INDICATORS	STATUS	INVOLVE-MENT	TECHNICAL ASSIS-TANCE
	d) Completion of a joint review to assess implementation of the strategy note, in consultation with the IMF and IDA staffs.	December 2007	Review satisfactory to IDA and IMF staffs	Not yet initiated	Government IDA	
7.2. Health:						
Increase to, at least, 60 percent the share of generic drugs in total expenditures on drugs by the central purchasing agency.	a) Annual review of the percentage of total drug purchases in total expenditures on drugs by the central purchasing agency.	August 2006	Draft Strategy Note available	Delays in the establishment of the COMEG led to delays in the completion of the transfer of purchasing authority	Government IDA	IDA EU
7.3 HIV/AIDS:						
Increase in the number of voluntary AIDS counseling and testing centers with associated measures (staff, equipment, and awareness campaign) from 4 at present to, at least, 10 in 2006 and 15 in 2007.	a) Increase the number of voluntary AIDS counseling and testing centers from 4 at present to, at least, 10 in 2006	December 2006		Completed	Government IDA	
	b) Increase the number of voluntary AIDS counseling and testing centers from 4 at present to, at least, 15 in 2007.	December 2007		Completed	Government IDA	
8. Debt Management						
(i) Publication of the quarterly external debt data and projections on a government website;	a) Publication of the quarterly external debt data and projections on a government website	Continuous	Debt data available on the internet	Not yet completed	Government IMF	
(ii) Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).	b) Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).	Continuous	All loan agreements and information available at CCA	Not yet completed	Government IMF	

ANNEX 2: IDA AND GOVERNMENT SUPPLEMENTAL FINANCING FOR GOVERNANCE REFORM

Transparency and Governance Capacity Building Project (PRCTG) supplemental financing (IDA funding: US\$15 Million, Government funding US\$ 5.6 Million)

Rationale

The Government of the Republic of Congo has committed itself to the implementation of a comprehensive Reform Plan, linked to the process of debt relief under HIPC. The actions foreseen under HIPC have been scheduled over a period of two and a half to three years, starting in July 2006. The main underlying theme of the Reform Plan is improving the quality of governance, including an emphasis on public sector financial management, anti-corruption measures, enhancing transparency in natural resource management and public service reform.

The restructured and expanded ‘Transparency and Governance Capacity Building Project’ (PRCTG) will provide support to key elements of the Action Plan and will ensure the sustainability of new policies and procedures. The alignment of the PRCTG with the Action Plan will enhance the impact of project activities. While in the previous phase of the project a number of important activities were delivered, in particular those related to oil sector governance and the auditing of the National Oil Company, the overall impact of the project remained limited as an overall strategic framework for reform of the governance system was lacking. The adoption of the HIPC Action Plan, following the accession of the Republic of Congo to the HIPC Decision Point, has provided the Government with a medium-term strategic framework. Through the alignment of the project with the core governance issues highlighted in the HIPC Action Plan, it will become an instrument to support the Government in achieving one of its main priorities until the next Presidential elections, scheduled for 2009. The project description below includes the proposed allocation of the additional credit resources, as well as the Government contribution concerned.

Objectives

The project aims to enhance governance, transparency and effectiveness in public sector financial management, including the oil sector.

Expected outcomes include (i) greater predictability of oil sector revenues and enhanced and transparency in the management of the national Oil Company (SNPC), (ii) enhanced levels of accountability in public management through the establishment of effective anti-corruption structures, (iii) improved effectiveness in budget management, through streamlined budget procedures, strengthened public investment planning and implementation systems, a reformed public procurement system, and rationalized public sector wage bill management.

Project Structure

In view of the Bank's over-arching objective to support the Government in meeting the conditions under the HIPC Action Plan, the following structure for the project has been agreed with the Government:

- a. **Enhancing Transparency in Oil Sector Governance**, which would ensure continuity in the oil revenue audit and certification process, but also support important new initiatives, such as the adherence of the Government to the EITI initiative.
- b. **Strengthening Public Sector Governance Component** with the following four sub-components:
 - *Supporting the Government in its efforts to reduce corruption*, mainly by providing assistance to the Government Commission on anti-Corruption and the independent anti-corruption 'observatory'. This includes funding part of the operational cost of the observatory, as well as relevant studies and monitoring activities, and support to the government in the implementation of the anti-corruption action plan;
 - *Implementing Public financial management reform*, including the reform of budget management processes, organizational reform and restructuring of the Ministries of Finance and Public Administration and the development of training capacity at the new training center of the Ministry of Finance;
 - *Computerization of the public financial management process*, including modules related to the budget design and execution process, rationalization of personnel and wage databases and a procurement tracking system. This element of the project is based on detailed design work that has already been undertaken under the first phase of the PRCTG.
 - *Public Investment Planning and procurement reform*, which includes both capacity building and support to reform design and implementation
- c. **Support to Project Management and Monitoring of Governance Reform**, which includes enhancing capacity in the existing implementation unit.