EBD/08/83

August 8, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Congo—Second Annual 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 the second annual 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. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Republic of Congo indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. York (ext. 36895), 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 Monday, August 18, 2008; and to the African Development Bank and the European Commission.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Second Annual 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 Hugh Bredenkamp and Anthony Boote (IMF)
And Obiageli Ezekwesili and Carlos Braga (IDA)

July 1, 2008

CURRENCY EQUIVALENTS

Currency Units	=	CFA Franc (CFAF)
US$1	=	440 (as of May 1, 2008)

FISCAL YEAR
January 1–December 31, 2008

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 Capacity Enhancement Project (Projet de Renforcement des Capacités de Transparence et de Gouvernance)
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SMP	Staff-Monitored Program
SNPC	Société Nationale de Pétrole Congolaise
SOTELCO	Société de Télécommunications Congolaise
US$	United States Dollar

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I. OVERVIEW

1. The objective of this second annual report is to assess progress made by the Republic of Congo in implementing the triggers for the floating completion point under the enhanced HIPC Initiative. Such progress reports are not a standard requirement for HIPC debt relief, but were suggested by the IDA Board in view of the complexity and comprehensiveness of the triggers for Congo.

2. Since last year, progress has been made in implementing the triggers, although it has been slow in public investment management, procurement, and the commercialization of Congolese oil. The slow progress in these areas reflects some technical delays as well as the absence of political consensus on the way forward. Also, the authorities have not yet moved back to a Fund-supported program, the satisfactory implementation of which is a HIPC trigger.

3. Implementation of the HIPC triggers has been given impetus by the establishment of a high-level Political Committee on relations with the Bretton Woods Institutions, chaired by the Head of State, and supported by a Technical Committee, chaired by an advisor to the President. Donor assistance, though well aligned with the HIPC process, remains limited. The government continues to use its own resources to fund technical assistance in support of program implementation.

4. In addition, the authorities are continuing their efforts to secure creditor participation in the context of the HIPC Initiative. The debt rescheduling agreement reached with the London Club in November 2007 is an important achievement for the country. This agreement led to cancellation of approximately 80 percent of Congo's estimated commercial external debt of US$2.5 billion and the rescheduling of the balance.[1] As a result of this agreement, which safeguarded the principle of equal treatment of creditors under HIPC, Congo is in a better position to reach the 80 percent financing assurances required by the IMF for reaching the completion point.

[1] Creditors accounting for 92 percent of the London Club debt participated in this agreement and the authorities are working with the remaining (litigating) creditors to reach a settlement.

II. REPORT ON PROGRESS

A. PRSP

Trigger 1. 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.

5. **Staff assessment**: Congo's first full PRSP was adopted by the Government and transmitted to the World Bank and the Fund in April 2008. This document, together with an accompanying joint staff advisory note will be distributed to Executive Directors at the same time as this progress report. Consequently, this trigger could not be observed until April 2009 at the earliest. Some key indicators on poverty are presented in the table below.

Table 1: Republic of Congo: Selected Social and Poverty Indicators in Regional Comparison (in units indicated)

Indicator	Millennium Dev. Goals (2015)	Republic of Congo	Sub-Saharan Africa (2005 avg.)
Poverty headcount (percent)	Reduction by 50	51*	46*
Gross primary school enrolment rate (percent)	100	89	62
Ratio of girls to boys in primary education (percent)	100	90	86
Immunization, DPT3 (percent of children)	100	68	61
Under 5 mortality rate (per 1'000 live births)	37	108	172
Infant mortality rate (per 1000 live births)	…	81	103
Maternal mortality ratio (per 100,000 live births)	223	781	920
Deliveries in health centers (percent of total)	100	…	41
Prevalence of HIV (percent of adults)	<20	5.3	…
Access to safe water (percent of total population)	75	58	58
Forest area (percent of total land area)	>24	…	27

Source: World Bank Development Indicators
*this represents the poverty headcount as of end 2007, not the level of reduction. Due to a lack of reliable baseline indicators for 1990, it is not possible to reflect the relative change in the head count

B. Macroeconomic Stability

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

6. **Staff assessment:** Congo's three-year PRGF arrangement went off track in late-2006, largely on account of weak program implementation (fiscal slippages and delays in structural reform) and monitoring, and it expired in June 2008. The authorities are now implementing a staff-monitored program (SMP) covering January-June 2008. Satisfactory implementation of this SMP is important for moving ahead with a new PRGF arrangement.

7. Overall economic activity remains robust in 2008 and real GDP growth is projected at about 9 percent. Inflation is expected to pickup somewhat, owing to higher fuel and food prices. The fiscal position should improve significantly this year, on account of rising world

oil prices and continued expenditure discipline. The primary surplus is projected to reach about 30 percent of GDP, compared with 21.8 percent targeted. Some key indicators of macro-economic performance are highlighted in the table below.

8. Policy implementation under the SMP through end-March 2008 was broadly satisfactory. The authorities observed all of the quantitative indicators and all but two of the program's structural benchmarks at end-March. The implementation of one of the structural benchmarks (quarterly certification of oil revenue) has been delayed by technical factors beyond the authorities' control. Also, although fuel subsidies have increased ─ surpassing the structural benchmark ceiling ─ the envisaged pace of fiscal consolidation remains consistent with long-term sustainability.

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.

9. **Staff assessment**: Some progress has been made to align public spending priorities with the I-PRSP. Spending on power, water, sanitation, and infrastructure increased from 1.8 percent of GDP in 2005 to 3.9 percent in 2007. The envelope for basic health and education also expanded, but to a lesser extent, rising from 2 percent of GDP to 2½ percent over the same period. However, the share of this spending in total expenditure has declined, while outlays on poorly targeted fuel subsidies increased. Looking ahead, spending on pro-poor growth should include physical infrastructure (for example, access to electricity, extension services to farmers), social infrastructure (for example, improving the quality of health and education services), and social transfers (for example, cash or in-kind).

10. Accelerating public financial management reform (see below) would improve expenditure tracking. The full PRSP provides medium-term public expenditure projections and identifies pro-poor expenditure, even if only at an aggregate level. The streamlining and computerization of the budget execution process, to be completed by 2010, is expected to allow for real time tracking of all public expenditure, including the use of interim HIPC relief.

Table 2: Selected Economic and Financial Indicators

Republic of Congo: Selected Economic and Financial Indicators, 2006–11

	2006	2007	2008		2009	2010	2011
		Prel. Est.	Prog. [4]	Proj.		Proj.	
			(Annual percentage change)				
Production and prices							
GDP at constant prices	6.2	-1.6	9.2	9.1	12.1	10.1	1.1
Oil	6.8	-17.2	15.0	14.6	23.3	15.4	-10.2
Non-oil	5.9	6.6	6.9	6.9	7.3	7.5	7.2
GDP at current prices	25.9	-9.4	17.7	54.9	32.1	13.9	-5.5
GDP deflator	18.5	-7.9	7.8	42.0	17.8	3.4	-6.5
Consumer prices (period average)	4.7	2.6	3.0	4.0	4.0	3.0	3.0
Consumer prices (end of period)	8.1	-1.7	4.0	5.0	3.0	3.0	3.0
External sector							
Exports, f.o.b. (CFA francs)	26.7	-12.0	19.4	58.2	39.1	14.0	-9.2
Imports, f.o.b. (CFA francs)	52.1	20.6	-15.2	-0.5	14.1	12.9	-0.1
Export volume	2.5	-15.6	9.2	15.5	23.0	15.1	-9.9
Import volume	40.0	19.5	-4.6	-11.2	12.2	13.4	-0.6
Terms of trade (deterioration -)	9.4	0.4	...	26.7	4.2	-1.0	-0.9
Nominal effective exchange rate (end of period)	-0.4	5.1	...	...	...	...	...
Real effective exchange rate (end of period)	1.6	3.1	...	...	...	...	...
			(Percent of beginning-of-period broad money)				
Money and credit							
Net domestic assets	-80.3	-5.4	-88.2	-189.2	-324.5	...	...
Domestic credit	-82.6	-3.2	-88.2	-189.2	-324.5	...	...
Central government	-84.4	-3.9	-90.9	-192.0	-326.8	...	...
Credit to the economy	1.9	1.1	2.8	2.8	2.4	...	...
Broad money	47.9	7.4	10.3	11.4	11.9	...	...
Velocity of broad money (Non-oil)	1.9	1.9	1.9	1.9	1.9	...	...
			(Percent of GDP)				
Investment and saving							
Gross national saving	24.5	6.9	24.6	28.7	37.1	40.4	37.8
Gross investment	22.9	26.2	23.6	18.0	15.7	15.1	16.5
Central government finances							
Revenue and grants	44.4	43.1	44.2	46.7	52.2	50.9	51.1
Oil revenue	37.9	35.1	36.4	40.7	45.7	43.3	40.7
Nonoil revenue and grants	6.6	8.0	7.8	5.9	6.4	7.6	10.4
Total expenditure	27.4	32.0	24.6	19.0	15.0	13.8	15.3
Current	18.4	21.4	14.8	11.6	8.6	7.4	8.0
Capital (and net lending)	9.0	10.6	9.8	7.4	6.4	6.3	7.2
Overall balance (deficit -, commitment basis)[1]	17.1	11.1	19.6	27.6	37.2	37.2	35.8
Primary balance (deficit -)[2]	21.5	13.9	21.8	29.3	36.9	35.5	32.5
Nonoil primary balance (percent of Non-oil GDP; - = deficit)	-51.3	-55.7	-41.0	-41.8	-38.2	-34.7	-31.2
Current account balance[3]	1.6	-19.3	0.9	10.7	21.4	25.3	21.3
External public debt (end of period)	81.5	72.9	58.3	45.4	33.2	28.2	29.7
			(Percent of exports of goods and services)				
External public debt service (before debt relief)	13.7	10.9	5.0	4.0	2.8	2.4	1.6
External public debt	99.1	90.8	70.8	56.2	38.7	32.3	35.0
			(Percent of total government revenue excluding grants)				
External public debt service (before debt relief)	25.3	20.6	9.5	6.8	4.5	3.9	2.6
External public debt	183.9	170.8	133.8	98.5	64.2	55.9	58.8
			(Billions of CFA francs, unless otherwise indicated)				
Gross official foreign reserves	920.4	983.1	1,686.6	2,398.4	5,044.7	8,084.7	10,999.0
(Months of imports, f.o.b.)	10.5	9.3	18.9	22.9	42.2	60.0	81.6
(Percent of GDP)	22.8	26.8	39.1	42.2	67.3	94.7	136.3
Nominal GDP	4,042.6	3,664.4	4,313.3	5,677.6	7,500.3	8,541.4	8,070.6
World oil price (U.S. dollars per barrel)	64.3	71.1	86.3	116.5	125.0	123.5	123.5
Oil production (Millions of barrels)	98.7	81.7	93.9	93.6	115.4	133.2	119.6
Nominal effective exchange rate (end of period, percent change)	-0.4	5.1	...	...	...	...	...
Real effective exchange rate (end of period, percent change)	1.6	3.1	...	...	...	...	...

Sources: Congolese authorities; and Fund staff estimates and projections.

[1] Including grants.

[2] Primary revenue (excluding grants) minus non-interest current expenditure minus domestically financed capital expenditure and net lending.

[3] Including public transfers.

[4] Staff-Monitored Program.

11. The adoption of the Government Action Plan for Public Financial Management (PFM) in April 2008 was an important achievement. This Action Plan is based on the recommendations of a Country Integrated Fiduciary Assessment (CIFA) conducted in 2006 in conjunction with a Public Expenditure and Financial Management Assessment (PEFA) exercise. The Action Plan contains a priority program of PFM reform measures, including a timetable and support activities by all major donors (AfDB, EU, IMF, UNDP, and World Bank). These donors were closely involved in the preparation of the Plan.

Table 3: Pro-poor Expenditure, 2003-07

Republic of Congo: Pro-Poor Expenditure, 2003-07

	As a percent of GDP					As a percent of total public expenditure				
	2003	2004	2005	2006	2007 Prel.	2003	2004	2005	2006	2007 Prelim.
Basic health and VIH/AIDS	0.2	0.4	0.6	1.0	0.9	0.7	1.5	2.4	3.5	2.8
Basic education	1.7	1.5	1.4	1.4	1.6	5.6	5.6	6.2	5.3	5.1
Infrastructure	0.3	1.2	1.2	1.2	1.6	1	4.5	5.2	4.4	5.1
Power, water, and sanitation	0.9	0.3	0.6	1.1	2.3	3.1	1.2	2.8	4.1	7.1
Disarmament, demobilization, and reintegration, and food for the military	0.9	0.7	0.7	0.8	1.5	3	2.6	3.2	2.8	4.7
Employment and social protection	0.1	0.1	0.1	0.1	0.1	0.4	0.2	0.4	0.2	0.3
Agriculture	0.0	0.0	0.1	0.1	0.1	0	0.1	0.6	0.3	0.3
Total	4.1	4.2	4.8	5.7	8.1	13.8	15.7	20.7	20.7	25.3
Memorandum item:										
GDP (in billions of CFA)	2,032	2,456	3,211	4,043	3,664	…	…	…	…	…

Source: World Bank and Fund staff estimates and projections.

12. The government has continued to deposit interim HIPC assistance in the special Treasury account opened in 2006 at the *Banque des Etats d'Afrique Centrale* (BEAC). The special Treasury account had an accumulated balance of CFAF 36.4 billion at end-2007 (about US$76 million); the government has not used any of these resources so far, as the key conditions for their use were not met until recently.

D. Public Finance Management

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.

13. **Staff assessment**: The decree establishing the new functional classification was signed on March 31, 2008. The preparation and execution of the 2009 budget law are expected to be based on this classification, which is consistent with the IMF GFS 2001. The new classification would then become fully effective in January 2009 and implemented at all levels of government.

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.

14. **Staff assessment:** Improving public investment management remains a difficult challenge. A concerted effort to address the problems identified in an action plan developed as part of the IDA Economic Recovery Credit (ERC) in 2004 is still missing. These problems refer mainly to the absence of: (i) a strategic basis and institutionalized process for programming of public investments and allocation of the capital budget; (ii) a transparent process and excessive centralization in the management of these projects; (iii) adequate internal and external controls; and (iv); systematic evaluation of outputs and outcomes. Given the relatively large size of the investment budget ─ about 10.6 percent of GDP ─ enhancing public investment management is critical to ensuring effective use of public resources and achieving the goals laid out in the PRSP.

15. The establishment of a multi-sector Steering Committee, to which the Government had committed to, has yet to be completed. The same applies to a technical secretariat to be led by the Ministry of Planning to coordinate reform efforts in this area. These delays are holding up the preparation of a diagnostic study of institutional arrangements, procedures, and technical capacity to manage public investment projects, which in itself is a prerequisite for a medium-term action plan for public investment management reforms.

16. This being said, some interim measures have been implemented that aim at addressing some of the concerns raised regarding public investment management. Most notable in this respect are: (i) the creation at end-2007 of a database including all ongoing public investment projects, based on a census of projects conducted in 2007; (ii) a technical and financial audit of investment projects above CFAF200 million and current transfers executed in 2006, which is currently underway and should produce results by June 2008; (iii) an improved presentation of the 2008 public investment budget, which for the first time included information on status of execution of individual projects, type of investment, and source of financing; and (iv) the introduction of a special classification that attributes all items in the public investment budget 2008 to the corresponding PRSP strategic pillars.

17. The 2008 budget including the public investment program was submitted to IDA staff for review on January 29, 2008. As in previous years, the program lacked detailed information and data on projects financed through the public investment budget. While there is some improvement on public investment monitoring (see above), important information such as on the status of physical and financial execution of projects or on economic appraisal and justification for new projects remains inadequate.

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.

18. **Staff assessment:** A Country Procurement Issues Paper (CPIP), completed in 2006, identified deficiencies in Congo's procurement system and set priorities for reform, notably: (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 to pilot the reforms with the support of an international expert. An international law firm recruited to prepare a draft Code produced its report in November 2007. The Bank's staff has commented on the draft Code and confirmed that it complies with international best practices. However, several stakeholders in the Government have raised concerns over elements of the main code (legal instrument proposed, allocation of functions of regulation, control and execution) and the accompanying appendices (which number about 13). During high level policy discussions, held in May 2008, Bank staff and the authorities agreed upon a process to conduct a review of the latest version of the draft Code, which should lead to the final submission of the main Code for government approval before the end of the year. The new Code should be implemented in 2009.

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

19. **Staff assessment**: Only limited progress has been made on this trigger, which aims at putting together a formal Medium Term Fiscal Framework (MTFF) that takes into account the country's limited oil resources. This limited progress reflects capacity constraints and the difficulties in projecting oil reserves and budget revenue. In this regard, the authorities are now being advised by an international consultant, who is assisting with the development of a revenue forecasting model linked to estimates of oil reserves.

E. Governance and Natural Resource Management

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.

20. **Staff assessment**: Progress has been made. The Anti-Corruption Observatory was established by Law in September 2007 and its members were nominated by government decree in October 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. The permanent secretariat of the Observatory remains to be established, as the institution has not yet been granted its premises. Appropriate resources for its operational expenditures were included in

the 2008 budget, but have not yet been made available to the institution. This, together with the lack of premises, is slowing its operations. The anti-Corruption Commission faces a similar predicament. In addition to the work of the anti-Corruption Observatory, the Republic of Congo also continues to participate in EITI, and all national EITI structures are fully operational.

21. **Staff assessment:** Completion of a diagnostic study on governance and corruption, and the design and implementation of a governance and anti-corruption action plan is the second element of the governance trigger. In March 2008, an international firm was contracted to conduct the diagnostic study. This study will inform the action plan, which is due to be completed by September 2008.

E.1. Oil Sector

Trigger 6. (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.

22. **Staff assessment**: In its efforts to improve transparency, the government has published on its website (http://www.mefb-cg.net/petrole/gouv_transp.htm) various reports, including the 2005 consolidated accounts of SNPC, and the report of the Budgetary Control Institution on conflict of interests of SNPC. Meanwhile, some other information has not been published ─ such as the 2005 audit of SNPC ─ which would be helpful in informing the public. The 2005 audit of SNPC (issued in 2007), concludes that the enterprise's accounts have improved, but still cannot be certified in accordance with international accounting standards. While this represents progress, it is worth noting that the trigger calls for successive audit opinions that would confirm that the SNPC's internal controls and accounting system are in compliance with international standards and best practices. 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. While the list of recommendations has narrowed since the previous audit, it still covers important 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. The Board of the SNPC has published a press release contesting some of the reservations or arguing progress in the fulfillment of some of them.

23. A new independent audit firm of international reputation has been awarded the contract to audit SNPC for 2006. The selection and contract of this international audit firm was conducted under the PRCTG (Transparency and Governance Capacity Building Project). As a result of technical constraints, there were delays in publishing the latest quarterly reports on oil revenue certification. The government has committed to publish the third

quarter for 2007 report and has reiterated its commitment to continue with the quarterly certification of oil revenues produced by an independent firm of international reputation.

Trigger 6. (ii) Preparation, by an independent firm of international reputation, of a diagnostic study of the practices for the commercialization of oil by SNPC, based or 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.

24. **Staff assessment**: The development of an analytical accounting system for SNPC has been launched under Terms of Reference acceptable to Bank and IMF staff. In March 2008, an international accounting firm was contracted to prepare this system for SNPC and to train its internal auditors. The total duration of this contract is 8 months.

25. Concerning the commercialization of Congolese oil, the certification reports of oil revenue 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 show large differences, implying significant losses in government revenue. To address this problem, a diagnostic study of the commercialization of government oil by the SNPC was conducted by an international consulting firm (and published on the website at http://www.mefb-cg.net/petrole/gouv_transp.htm), and submitted to the IMF and IDA for comments in March 2007. This study identified a number of serious deficiencies, but failed to address some key issues related to commercialization practices; at the same time, there was no comprehensive and integrated action plan for bringing the SNPC crude oil commercialization practices up to international standards. SNPC prepared a road map identifying some of the key issues to be addressed, and presented this to the staffs in March 2008. This is a useful start, but a more detailed action plan will be needed and be implemented to satisfy the objectives of the trigger.

Trigger 6. (iii) Adoption and application by the Government, certified by the national anti-corruption committee, during the completion of the audits referenced in 6(i) and 6(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); and*

- *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.*

26. **Staff assessment**: This trigger was observed in January 2006, when 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. Subsequently, 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. In September 2006, the National Auditing Office acknowledged the receipt of these declarations and, in an extension of its core functions, assessed the potential for conflicts of interest of all SNPC board members and senior managers.

E.2. Forestry

Trigger 7. 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 in the sector.

27. **Staff assessment:** Satisfactory progress is being made. Originally intended to cover selected economic issues, such as sector taxation and concession allocation, the forest sector review was significantly broadened to also 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. This expanded review was completed collaboratively by the Government of Congo and IDA which used a highly participatory approach to seek contributions and buy in by civil society, donors and other development partners. The review resulted into a sector reform matrix which calls for the design and enforcement of legal and regulatory measures in a number of areas, including: environmental and social impact assessment; gazetting and de-gazetting of state forest lands; resolution of land-use conflicts; upgrade of current concession allocation practices into a truly transparent and competitive system; and fiscal reforms aimed at supporting long term sustainable forest production and related income streams for the State and local communities. The Ministries most concerned with the above reforms, namely the Ministry in charge of Forestry Economy and the Ministry of Economy, Finance and Budget have expressed formally their support to all proposed measures, except for the one concerning the system of concession allocations which is still under discussion.

F. Structural Reform

Trigger 8. Structural Reforms: Review and adoption of a regulatory framework for the postal and telecommunications sector establishing competition at the level of international gateways and the wireless local loop.

28. **Staff assessment**: In order to observe this trigger, the authorities agreed with IDA and IMF staff on the following actions: (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 the creation of a regulatory authority for Post and Telecommunications, the regulation of the postal sector, and the regulation of the telecommunications sector. In March 2008, the President of the Republic signed a decree which unambiguously repealed Decree 2004-466, thus observing the first part of the trigger. With regard to the legal framework, IDA staff provided comments on the previous draft laws prepared by the Government. The revised drafts, submitted to IDA for review in February 2008, constitute a significant improvement on the previous drafts but some work still remains to be done before they meet international standards. Such work includes the specification of arrangements ensuring the autonomy of the telecommunications regulator, as well as aspects of its internal organization, and the specification of procedures and regulations for awarding licenses, permits and concessions. An international consultant is being fielded to assist the government in finalizing the remaining details.

G. Social Sectors

Trigger 9. 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.

29. **Staff assessment**: Following the completion of the human resources strategy note in 2006, progress has been made in identifying "ghost" workers and suspending their salary payments (of around 5,500 persons of this group) from February 2008. The Ministry of Basic Education and Alphabetization (MEPSA) is currently checking the positions and actual presence of the workers of this group before making a final decision for their elimination from the budget by end-July 2008; this would be the final step required to observe this trigger.

30. The second part of the trigger, the recruitment of additional teaching staff, is close to being met.

Trigger 9. Health: Increase to, at least, 60 percent the share of generic drugs in total expenditures on drugs by the central purchasing agency.

31. **Staff assessment**: Satisfactory progress is being made in this area. 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). 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; however, procurement of pharmaceuticals for some diseases (including malaria) is still being conducted by the Ministry of Health. The IDA-financed Health Sector Development Project under preparation is focusing on comprehensive systemic reforms, including pharmaceuticals, which should help address this outstanding issue.

Trigger 9. 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.

32. **Staff assessment**: The trigger has been observed.

H. External Debt Management

Trigger 10 (i). Publication of the quarterly external debt data and projections on a government website.

33. **Staff assessment:** This trigger has been partially met, since debt service projections have been provided on the Ministry of Finance's website but not with quarterly frequency. The latest external debt information posted is for end-September 2007 (http://www.mefb-cg.net/stat_donnees_economiques/dette_ext.htm).These debt projections are being produced by the Caisse Congolaise d'Amortissement (CCA), the unit in charge of debt data, using the recently installed UNCTAD debt management system; and debt contracted by the SNPC and other state enterprises are now included in debt data produced by CCA. At the same time, the authorities are formulating a new external debt management strategy, which is important given Congo's debt distress. This strategy is being prepared in line with CEMAC regional guidelines, and aims at strengthening management procedures, as well as institutional capacity to contract and monitor debt by public sector entities.

Trigger 10. (ii). Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).

34. **Staff assessment:** This trigger has been met.