

## International Monetary Fund

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**Democratic Republic of the Congo:** Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 29, 2006

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**TRANSLATED FROM FRENCH**

Kinshasa, June 29, 2006

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington, D.C., 20431

Dear Mr. de Rato:

1. The Democratic Republic of the Congo has implemented an economic program that has been supported since 2002 by the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF). This program has enabled us to begin to rebuild our economy, restore growth, start reducing poverty, and curb inflation.
2. The government acknowledges the difficulties that have prevented the completion of the last program review before the PRGF arrangement expired on March 31, 2006. These difficulties explain the nonobservance of the performance criterion for net credit to the public sector at the end of September and three key quantitative indicators at the end of December 2005. Slow implementation of structural reforms also led to the nonobservance of four September structural performance criteria.
3. Nevertheless, the government remains determined to step up its efforts to preserve macroeconomic stability and to continue rebuilding the country, particularly during the final phase of the political transition. For the first time in its history, the Congolese people are preparing to select their future leaders in free, democratic and transparent elections organized with the help of the international community.
4. For these reasons, as dialogue continues between the government and the International Monetary Fund, we are requesting your assistance in implementing a staff-monitored program for the period April 1–December 31, 2006.
5. The success of the staff-monitored program should lay the foundation for a new arrangement with the International Monetary Fund under the PRGF that will enable the Democratic Republic of the Congo to continue benefiting from debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative.

6. The government is committed to implementing the policies and measures set out in the attached Memorandum so as to achieve the objectives of the economic and financial program for 2006. It will submit all information requested by the International Monetary Fund on program implementation. In addition, the government is prepared to take any additional measures that may prove necessary to that end, after consulting with Fund staff. As in the past, the government authorizes the publication of this letter and the attached Memorandum of Economic and Financial Policies.

Sincerely yours,

/s/

Joseph Kabila  
President of the Democratic Republic of the Congo

**TRANSLATED FROM FRENCH****DEMOCRATIC REPUBLIC OF THE CONGO  
MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR APRIL-DECEMBER 2006**

Kinshasa, June 29, 2006

**INTRODUCTION**

1. This memorandum describes the government's economic program (Programme Relais de Consolidation (PRC)) for the period April-December 2006 that the authorities will monitor with the assistance of Fund staff. The program aims at establishing a strong record of macroeconomic and structural policy implementation following the easing of policies at the end of last year and the expiration of the Poverty Reduction and Growth Facility (PRGF) arrangement in March 2006. Its successful implementation will set the stage for discussions on a program to be supported by a successor PRGF arrangement after the forthcoming elections and the formation of a new government. The DRC government is very keen on implementing a PRGF-supported program with a view to be granted debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) in the second half of 2007.
2. **The government is firmly committed to a stable macroeconomic environment during the first free, democratic, and transparent elections to be held in the DRC, which will mark the end of the political transition.** The parliamentary and the first round of the presidential elections are to be held on July 30, 2006. If necessary, a second round of the presidential election together with local elections will take place thereafter and be followed by the formation of a new government. The government is confident that security will be maintained in the coming months with the assistance of troops from the United Nations (MONUC) and the European Union (EUFOR).

**RECENT ECONOMIC DEVELOPMENTS**

3. **Macroeconomic developments were mixed in 2005.** Real GDP growth held steady at 6.5 percent in 2005, mainly on account of strong performance in mining, construction, telecommunications, and wholesale trade. After peaking at 27 percent in August, 12-month inflation receded gradually to 21.3 percent at the end of 2005. The decline was facilitated by an appreciation of the Congo franc vis-à-vis the US dollar since last August, which resulted from an increased use of foreign exchange reserves to contain money expansion in the face of increasing government spending. Hence, international reserves dropped to 2.6 weeks of imports by end-2005, well below the target of 7 weeks under the program.

4. **Difficulties in controlling government spending led to a deteriorating fiscal situation in spite of a strong revenue performance.** The underlying fiscal balance registered a deficit equivalent to 0.2 percent of GDP, whereas a surplus of 1.6 percent of GDP had been targeted.<sup>1</sup> The overrun in current spending amounted to 2.5 percent of GDP and was mainly due to increases in wage benefits granted in October and November to ease rising social tensions and to difficulties in containing sovereignty outlays (political institutions and the military). The overall fiscal deficit, however, was only slightly larger than anticipated because of low foreign-financed capital expenditure and outlays related to the elections, which were postponed to 2006.

5. **Monetary aggregates grew broadly as anticipated in 2005.** Monetary expansion was contained by using foreign exchange reserves to offset a large increase in net bank credit to the government. In particular, the share of government spending directly paid in foreign currency rose significantly during the last five months of the year. The sharp increase in the interest rates of the BCC also contributed to a rise in the outstanding amount of treasury bills issued by the BCC to CGF4.9 billion in 2005 (0.1 percent of GDP).

6. **The macroeconomic situation remained fragile in the first four months of 2006.** Improved government revenue collection, especially receipts from oil production, led to a strengthening of the fiscal position and an increase in international reserves in March 2006. This was accompanied by a further decline in inflation and a stable exchange rate. However, in April, rising outlays for political institutions and the military financed through bank credit (CF15 billion or 0.4 percent of GDP) resulted in a rapid increase in broad money, which the BCC had difficulties containing. This in turn led to a depreciation of the Congo franc and an increase in inflation, which averaged 13 percent annualized in the first five months of the year.

#### MACROECONOMIC FRAMEWORK AND POLICIES FOR 2006

7. **The government is determined to preserve the progress made over the past three years in improving the macroeconomic situation and reforming the economy.** It is keenly aware of the need to maintain tight policies during the electoral period to avoid a flare up in inflation and a depreciating currency. The authorities also intend to continue implementing structural reforms essential to meeting macroeconomic objectives. These include (i) improving public resource management and enhancing the quality and composition of spending; (ii) strengthening the management of the payroll and the civil service; (iii) enhancing the transparency of government operations, and (iv) continuing to implement measures to restructure and strengthen central bank operations. In addition, the government intends to adopt the PRSP before the end of June 2006.

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<sup>1</sup> The underlying fiscal balance excludes grants, all foreign financed expenditures, external interest payments, all outlays related to the political transition, and settlements of domestic arrears.

8. **The macroeconomic objectives for 2006 are broadly in line with the medium-term framework underpinning the last PRGF arrangement.** Real GDP is to grow by 6.5 percent as economic activity recovers steadily, and 12-month inflation is targeted to less than 10 percent. The target for international reserves has been set at close to 4 weeks of projected imports of nonaid-related goods and services by yearend. However, recognizing that the reserve level is low, the BCC will make every effort to increase reserves further while keeping base money expansion in line with projected nominal GDP growth. Meanwhile, the government will tighten fiscal policy while maintaining social spending so as not to have recourse to domestic bank financing.

9. **Fiscal policy aims at improving the underlying fiscal balance by almost 2 percentage points of GDP in 2006.** This is to be achieved by containing expenditure and strengthening tax and nontax administration to raise government revenue. Government revenue is projected to increase to above 12 percent of GDP on current trends. Conversely, government underlying expenditure—excluding foreign interest payments, foreign financed capital expenditure, and outlays related to the political transition—is projected to decline to 12.8 percent of GDP in 2006 from 14.1 percent in 2005. As a result, the budget deficit will narrow to 1.5 percent of GDP in 2006 from 2.7 percent in 2005.

10. **The government does not intend to have recourse to domestic bank financing to cover the fiscal deficit in 2006.** The budget is fully financed until September 2006, but there remains a financing gap equivalent to 0.8 percent of GDP (or US\$68 million) in the last quarter. So the government is pursuing discussions with development partners on budget support and on ways to avoid difficulties in serving its external debt. At the time of the first review under the program, the government will review the situation with Fund staff and if necessary will discuss additional measures to ensure that the budget is financed without recourse to domestic bank credit. Were the government to secure external budget support higher than is required to cover the financing gap, up to 50 percent of the excess would be used to increase poverty-reducing outlays.

11. **To raise government revenue, the authorities will continue to improve transparency and combat fraud in tax administration.** For the customs office, OFIDA, measures to be taken include (i) implementing the presidential decree and the manual of procedures making OFIDA the sole agency collecting taxes and duties in the port of Matadi before the end of June 2006; and (ii) strengthening pre-shipment inspection and preparing a monthly report reconciling data from OFIDA with those of the firm in charge of pre-shipment inspection. The government will also seek financing to render operational the customs office and the one-stop window at Kasumbalesa in the Katanga province.

12. For the agency in charge of internal taxation (DGI), the measures include (i) adoption and implementation by June 2006 of the ministerial decree requiring the use of a single taxpayer identification number for all commercial and financial operations and for all tax payments; and (ii) opening new tax centers for small- and medium-scale enterprises in Lumumbashi by August 2006 and in Goma by December 2006. For the department in charge of nontax revenue (DGRAD), the main measures are (i) application of all tax provisions of

the forestry and mining codes; (ii) adoption and implementation of the five remaining interministerial decrees setting the duties and fees to be collected by the DGRAD on behalf of ministries of interior, foreign affairs, transport and communications, energy/petroleum products, and environment; (iii) reduction of the shares of revenue earmarked for autonomous agencies and their replacement by budgeted transfer payments; and (iv) implementation of the laws concerning payments of dividends by public enterprises.

13. The authorities will also take the following measures:

- Raise revenue collected from the excise tax on petroleum products to its 2005 level by progressively increasing the taxable base to the import price from April to December 2006 and adjusting retail prices accordingly;
- Impose a moratorium on new joint ventures involving public enterprises, and transfer payments of signing bonuses expected in 2006 to the treasury;
- Grant no new tax exemptions until the end of 2006 and recognize only exemptions already granted under the investment, mining, and forestry codes;
- Request the DGI and the DGRAD to audit the 2005 accounts of the petroleum companies and submit a preliminary report by the end of September 2006. The government has also requested World Bank assistance for a legal audit of its contractual agreements with the petroleum companies and for a study that would improve the monitoring and control of petroleum production in DRC.

14. **The government will cap the wage bill at 4.7 percent of GDP (CGF180 billion) in 2006.** No increases in salary or benefits will be granted this year beyond what was done last fall. In addition, to improve civil service management, the government will complete a review and an updating of civil service administrative files by the end of September and revise the payroll accordingly. A new simplified payroll system (PTS) is also to become operational in September 2006. Control over the military payroll will be strengthened with the assistance of development partners.

15. **With respect to nonwage expenditure, the government will strictly adhere to budget allocations and comply with the quarterly spending plan for each ministry.** The plan is integrated into the computerized expenditure procedures to prevent overspending; monthly revisions will ensure the plan's consistency with expected government resources and monetary programming objectives. The authorities will reduce the use of budget advances and will grant new advances only once the use of previous ones has been documented.

16. **To improve the transparency of budget execution, the government will** (i) post on the Internet a summary of the monthly cash flow and spending plans for the following three months and the actual monthly outcomes for each ministry starting in May 2006; (ii) starting in June 2006, submit to the Council of Ministers at the end of each month a report on outlays for travel and gasoline incurred by each ministry, as well as on budget advances; (iii) produce the treasury accounts for December 2005 on the new simplified double-entry accounting system implemented at the Ministry of Finance in June 2006; and (iv) complete in September 2006 a financial audit of expenditure financed through HIPC savings deposited in an account at the BCC during 2003-05.

17. **The objective of monetary policy will remain to contain inflation while building up international reserves.** Taking into account the volatility of the demand for money, the weakness of monetary policy instruments, and the dollarization of the economy, the authorities have assumed for monetary programming purposes a prudent increase in base money of 16.6 percent and in broad money of 20.8 percent in 2006. These assumptions will be reassessed at the time of the first review. The BCC has already increased its base rate by 3 percentage points to mop up increased commercial banks' free reserves at the BCC and reduce pressures on the exchange rate in May. To strengthen the conduct of monetary policy, and more generally of its operations, the BCC will continue implementing the recommendations of Fund technical assistance summarized in Table 3. Before September 2006, an international audit firm will be selected through a bidding process to conduct a study of central bank organization before end-December 2006. The conclusion of the audit will be used to prepare a plan to restructure and recapitalize the BCC.

18. **The BCC will seek to limit its operating deficit to CGF10 billion in 2006.** To that end, the BCC prepared in May 2006 a monthly budget for each department and will submit a monthly report on its execution to its Board of Directors within 30 days of each month-end.

19. **The BCC will ensure that the takeover of l'Union des Banques Congolaises (UBC) by the Banque Congolaise (BC) maintains the integrity of the banking system and the government will assess the cost to the budget.** To this end, an international audit firm was hired to (i) assess UBC's losses as of June 15, 2006, currently estimated at US\$13 million; and (ii) confirm the amount of the severance package paid to UBC personnel—estimated at US\$2.7 million. In addition, the accounts of the BC will be audited taking into consideration the takeover of the UBC. In case the UBC's losses exceed US\$13 million, the government will discuss with the BC how the additional amount will be financed so as to avoid further budgetary implications. On the basis of these audits, the

government will prepare a note explaining the direct and indirect costs of the operation and its implications for fiscal and monetary policies, which will be discussed with Fund and Bank staffs. The government will also set September 30, 2006 as a deadline to report claims against UBC and discuss with Bank and Fund staffs how to deal with them. In addition, the Central Bank will maintain its three representatives currently with UBC management to closely monitor the implementation of the BC's business plan until the situation of the BC is stabilized.

## VII. PROGRAM MONITORING

20. The Interministerial Committee Responsible for Monitoring Programs Concluded with International Financial Institutions (CISPI), chaired by the Minister of Finance, and the Interministerial Commission Responsible for Formulation of the Poverty Reduction Strategy, chaired by the Minister of Planning, will continue to implement the measures of the Government Economic Program and the poverty reduction strategy. The work of the two commissions will be supported by the Economic and Financial Sub-Committee comprising the Minister of Finance, the Minister of Budget and the Governor of the BCC, assisted by a technical committee (the technical troika). To monitor program implementation, quarterly quantitative and structural indicators have been set and are reflected in the attached tables. The government will review program implementation with the Fund staff on a quarterly basis. The government's Letter of Intent and the Memorandum on Economic and Financial Policies will be broadly disseminated.

21. **The monitoring of progress with implementing the program outlined above will be based on the quantitative and structural benchmarks provided in Tables 2 and 5.** End-June and end-September 2006 are test dates for the quantitative targets.

Table 1. Democratic Republic of the Congo: Performance Criteria and Structural Benchmarks, 2005

Measures	Timetable	Status
<b>Structural performance criteria</b>		
Presidential decree specifying that OFIDA (Customs and Excise Office) is the sole agency operating the one-stop windows and valuing goods at customs facilities.	End-September 2005	Implemented December 30, 2005
With respect to government accounting, implementation of a simplified double-entry accounting system by the treasury and government accounting departments of the Ministry of Finance, including their redeployment, review of procedures, and staff training.	End-September 2005	Implemented June 2006
Adoption by the government of a strategy to restructure the BCC balance sheet.	End-September 2005	Partially implemented; requires an organizational audit of the BCC to be completed at end 2006
Application by the Ministry of Defense and the Ministry of Budget of the findings of the survey of military personnel in Kinshasa to the August 2005 payroll.	End-September 2005	Superseded by assistance provided by the European Union to strengthen controls over military budget.
<b>Structural benchmarks</b>		
Inventory and quantification of taxes and duties collected in favor of parastatals (such as ONATRA, OCC, OGEFREM, and CEEC).	End-September 2005	Done
Implementation of the simplified temporary payroll procedure, restoration of budgetary and administrative supervision, ensuring that paymasters ( <i>comptables payeurs</i> ) report to the Treasury.	End-September 2005	To be implemented by September 2006

Table 2. Democratic Republic of the Congo: Prior Actions and Structural Benchmarks, 2006

Measures	Timetable
<b>A. Prior actions</b>	
1. Finalize monthly cash flow and spending plans for June-September 2006 and post them on the websites of the Ministry of Finance and the Ministry of Budget.	
2. Post on websites the execution of cash flow and spending plans for March and April 2006.	
3. Adopt manual of customs procedures by interministerial decree (ministries of finances, external trade, and transportation).	
4. Sign ministerial decree endorsing contract between preshipment inspection firm and OFIDA.	
5. Sign interministerial decree rendering compulsory the use of the new single taxpayer identification number for commercial, financial, and fiscal operations.	
6. Sign the five interministerial decrees fixing the rate of fees to be collected by the nontax administration (DGRAD) for the ministries in charge of interior/police, foreign affairs, transport and communications, petroleum production, and environment.	
7. Cap the share of earmarked funds to be transferred to autonomous agencies to agreed amounts.	
<b>B. Structural benchmarks</b>	
8. Audits by a internationally known auditing firm of the accounts of Union des Banques Congolaises (UBC) as of June 15, 2006 and of the accounts of Banque Congolaise that would result from the takeover of UBC. The audits will determine the total fiscal cost of the merger and will be the basis for a note to be jointly prepared by the BCC and the Ministry of Finance to explain how the government will finance this operation.	End-August 2006
9. Implement new simplified payroll system taking into account results from census.	End-September 2006
10. Complete audit of use of HIPC funds.	End-September 2006
11. Select international audit firm to conduct an organizational audit of the BCC.	End-September 2006

Table 3. Democratic Republic of the Congo: Summary of Action Plan for the Central Bank of the Congo (BCC), 2006

Measures	Status
1. Complete the reorganization of the Treasury Department of the BCC based on the recommendations of the National Bank of Belgium and the IMF.	September 2006
2. Prepare a monthly table (Table 6) to track bank liquidity that is consistent with the BCC balance sheet data, including data from the provincial agencies (current and projections).	June 2006
3. Keep foreign exchange accounts of the BCC in four domestic banks with total balances limited to US\$5.0 millions.	June 2006
4. Implement software for the foreign exchange trading room, adopt and implement trading room procedures manual, and establish the related Operations Committee and Risk Committee.	June 2006
5. Prepare BCC's accounts using new accounting software.	December 2006
6. Produce a monthly cash-flow plan for the BCC, including a spending plan for each department, consistent with the objective of limiting the operating deficit to CF 10 billion, and submit a monthly report on its execution to the board of directors of the BCC.	June 2006
7. Create a centralized database of monetary and financial indicators needed to conduct monetary policy.	June 2006
8. Prepare a plan for restructuring or liquidating the savings bank CADECO and the deposit money bank UBC, with a view to reducing risk to the banking system.	June 2006
9. Create and disseminate a Code of Ethics and Conduct for inspectors in the Financial Intermediaries Supervision Directorate (DSIF).	June 2006

Table 4. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Benchmarks, 2005 1/  
(Millions of Congo francs; unless otherwise indicated)

	September 2005 Performance Criteria				Dec. 2005 Indicative Targets				Stock 2005 December
	Prog.	Act.	Difference	Observation	Prog.	Act.	Difference	Observation	
Floor on the net foreign assets of the BCC (Millions of U.S. dollars) 3/ 4/	-27	-25	-2	Observed	30	-113	143	Not Observed	-895
Ceiling on net domestic assets of the BCC 3/ 4/	19,233	16,296	-2,937	Observed	1,823	65,756	63,933	Not Observed	536,016
Ceiling on net bank credit to government 4/ 5/	16,100	45,850	29,750	Not Observed	98	63,447	63,350	Not Observed	95,383
Ceiling on the contraction or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including by the EADs or the BCC 6/	0	0	0	Observed	0	0	0	Observed	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, loans contracted by the EADs or the BCC 7/	0	0	0	Observed	0	0	0	Observed	0
Ceiling on wage arrears for the civil service	0	0	0	Observed	0	0	0	Observed	0
Ceiling on new external debt arrears 8/ 9/ (in millions of U.S. dollars)	0	0	0	Observed	0	0	0	Observed	0
Payment of government expenditure by the BCC that has not been authorized in advance by the Minister of Finance 9/	0	0	0	Observed	0	0	0	Observed	0
The BCC will make no purchase of Congo franc notes or foreign currency in the market at a premium against payment in deposit money 9/	0	0	0	Observed	0	0	0	Observed	0
Floor on poverty-reduction expenditures financed with own resources (including HIPC resources)	40,000	60,903	20,903	Observed	80,000	105,330	25,330	Observed	
Memorandum item: Narrow base money									129,222

Source: Congolese authorities.

Note: Until the three-year arrangement under the PRGF expired in March 2006, observance of the first five performance criteria was audited by an international firm.

1/ Quantitative performance criteria and benchmarks, as well as the procedures for monitoring them were defined in the Technical Memorandum of Understanding in IMF Country Report No. 05/374.

2/ Cumulative changes are calculated from end-December 2005 for June, September; and December 2006.

3/ The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (1 SDR = CGF 687.4; US\$1 = CGF 444.1; and 1 euro = CGF 605.3).

4/ 100% of any surplus (shortfall) over (under) the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including external debt service rescheduling and relief under the HIPC initiative, that has not been used to finance poverty reduction expenditure, public enterprise restructuring, and domestic debt repayment (limited to cross-arrears certified by World Bank staff) will be used to reduce (increase) net banking system credit to the government, and the corresponding performance criterion will adjusted downward (upward) accordingly. The criteria on BCC net foreign assets and net domestic assets will be adjusted upward (downward) and downward (upward), respectively, by the same amount. Expenditures and bank deposits relating to the National Disarmament,

5/ Items under net banking system credit to the government are valued at current exchange rates. It is defined as the sum of net claims of the central bank and of deposits money banks on the government  
6/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD

7/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits other than for petroleum imports. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific

8/ Arrears are any late payments on debt service beyond the grace period (30 days after due date, unless otherwise stated).

9/ This is a continuous performance criterion.

Table 5. Democratic Republic of the Congo: Quarterly Quantitative Benchmarks, 2005–06 1/  
(Millions of Congo francs; unless otherwise indicated)

	2005	2006 Cumulative Changes			2006
	Stock December	June Ind. Target	September Ind. Target	December Ind. Target	Stock December
a. Floor on net foreign assets of the BCC (millions of U.S. dollars)	-895	13	29	116	-780
b. Ceiling on net domestic assets of the BCC	536,016	4,139	-3,485	-29,499	507
c. Ceiling on net bank credit to government	95,383	-7,334	-4,432	-19,920	75,463
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including the EADs or the BCC	0	0	0	0	0
e. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, loans contracted by the EADs or the BCC	0	0	0	0	0
f. Ceiling on wage arrears for the civil service	0	0	0	0	0
g. Ceiling on new external debt arrears (millions of U.S. dollars)	0	0	0	0	0
Memorandum item:					
Narrow base money	129,222	11,340	9,632	20,754	149,976
Project deposits	10,815	-4,426	-4,426	-4,426	6,389

Source: Congolese authorities.

1/ For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.

**TRANSLATED FROM FRENCH****DEMOCRATIC REPUBLIC OF THE CONGO  
TECHNICAL MEMORANDUM OF UNDERSTANDING**

Kinshasa, June 29, 2006

1. This memorandum covers the agreements on monitoring implementation of the staff monitored program (SMP), for the period April-December 2006, by the staff of International Monetary Fund (IMF). It establishes the information to be reported and the deadlines for its submission to the IMF staff for program monitoring. It defines the quantitative benchmarks, as well as the structural benchmarks presented in the Memorandum on Economic and Financial Policies (MEFP) of the government of the Democratic Republic of the Congo (DRC), which is attached to the letter of June 29, 2006 to the Managing Director of the International Monetary Fund.

**A. Monitoring Program Implementation**

2. Implementation of the program covering the period April, 1 to December, 31, 2006 will be monitored on the basis of the benchmarks described in Tables 2 and 5 of the MEFP of June 29, 2006.

**B. Definition of Quantitative Benchmarks**

3. The quantitative benchmarks described in Table 5 of the MEFP are as follows:
- a. floor on net foreign assets of the central bank (BCC);
  - b. ceiling on net domestic assets of the BCC;
  - c. ceiling on net bank credit to the government;
  - d. ceiling on new nonconcessional external loans contracted or guaranteed by the central government, including those contracted by the decentralized autonomous entities (EADs) or the BCC, with maturities of more than one year, except borrowing for debt rescheduling purposes, and IMF credit;
  - e. ceiling on new nonconcessional external loans contracted or guaranteed by the central government, and loans contracted by the EADs and the BCC, with maturities of one year or less, except borrowing for debt rescheduling purposes, IMF credit, and normal import credits (suppliers' credits), excluding imports of petroleum products;
  - f. ceiling on wage arrears (see paragraph 9 for definition);

The following benchmarks will be monitored on a continuous basis:

- g. the government shall not accumulate external payments arrears on debt service, including loans for which a debt rescheduling agreement has been concluded with the government's creditors, or on any new borrowing. Arrears are any late payments on the debt service beyond the grace period (30 days after due date, unless otherwise stated).

### Definitions

4. **Net foreign assets of the BCC** are defined as the difference between the BCC's gross foreign assets and all its foreign liabilities, as shown in the "BCC Balance Sheet" prepared by the BCC. For purposes of the relevant benchmarks, the net foreign assets will be valued in U.S. dollars at the program exchange rates: US\$1 = CGF 444.1; SDR 1 = CGF 687.4; and EUR 1 = CGF 605.3.

5. **The net domestic assets of the BCC** are equal to the sum of the following line items, as they appear in the BCC balance sheet, except for 'other items, net' which are valued in CGF at the current exchange rate. For the relevant benchmark, domestic assets will be adjusted for the effect of the CGF/U.S. dollar exchange rate variation from the programmed rate on net foreign assets and foreign exchange deposits and provisions for imports, and on 'other items, net' (revaluation). (See point 4. above):

- net claims on the government;
- claims on nonfinancial public enterprises;
- claims on the nonfinancial private sector;
- claims on banks;
- claims on other banking and nonbank institutions; and
- "other items, net," defined as other assets minus other liabilities (including capital and revaluation accounts, and liquidity management instruments (*Billets de Trésorerie*) purchased by deposit money banks and the public).

6. **Net banking system credit to the government** is defined as the sum of net claims of the central bank and of deposit money banks on the government, as defined in the "Integrated Monetary Survey" prepared by the BCC (excluding deposits linked to project-related assistance; see paragraph 7 above), plus the BCC's net cash deficit. Items under net bank credit to the government are valued at the current exchange rates.

7. The end-June and end-September 2006 benchmarks on net bank credit to the government and the BCC's net domestic (foreign) assets will be adjusted downward (upward) for one hundred percent of any shortfall from the programmed amount of net external debt service payments made, and for fifty percent of any surplus over the

programmed amount of external budgetary assistance (excluding project assistance), including external debt rescheduling or relief.

The end-December 2006 targets on net bank credit to the government and the BCC's net domestic (foreign) assets will be adjusted upward (downward), up to a maximum of CF15 billion, for one hundred percent of any shortfall from the programmed amount in external budgetary assistance net of debt service payments including external debt service rescheduling and relief.

Conversely, the end-December 2006 targets on net bank credit to the government, and on the BCC's net domestic (foreign) assets will be adjusted downward (upward) for fifty percent of any surplus over the programmed amount in external budgetary assistance net of debt service payments including external debt service rescheduling and relief.

For the computation of the above adjustors, expenditures and bank deposits relating to the National Disarmament, Demobilization, and Reintegration Program (DDR), elections, and domestic debt are considered projects. Their financing through external assistance are therefore excluded from external budgetary assistance. The adjustors do not apply to HIPC resources, which will be deposited in a special account in the BCC. The adjustors will be in US dollars for the floor on the BCC's net foreign assets, and in Congo Francs (using the current exchange rate) for the ceilings on net bank credit to the government and on the BCC's net domestic assets.

8. Debt relief under the HIPC initiative is defined: (a) for bilateral and commercial creditors, as the difference between the debt service due after possible stock treatment under the Naples terms at end-2002 and post-HIPC service due (excluding relief beyond the HIPC Initiative), including only arrangements that have been signed or are to be signed within the year, and; (b) for multilateral creditors, as the difference between the service due after consolidation of arrears and post-HIPC service. Any debt relief for the DRC under the HIPC initiative will be credited to the HIPC account (account of the Treasury General Account in the BCC) in the same month that said relief is realized (i.e., on the date the service on the original debt owed is due, but cancelled under the HIPC initiative). The procedure for using the HIPC account is set out in the IMF staff report on the HIPC decision point (IMF Country Report No. 03/267).

9. Wages comprise all remuneration, payable to government employees during the month in question (active and retired civil servants, military personnel, national police and security personnel, diplomats, members of political and traditional institutions), including regular compensation and bonuses, but excluding nonrecurring compensation. Under the program, **wage arrears** for a given month are defined as wages unpaid at the end of the following month. For remuneration paid in the provinces, the arrears are measured on the basis of the balances of the accounts of the provincial delegated payment authorization officers (ODs) in the Treasury General Account at the BCC.

10. The definition of the external debt can be found in the Fund's Decision 6230-(79/140), paragraph 9, revised on August 24, 2000 (Annex I).

11. The grant element of borrowing will be calculated on the basis of currency-specific rates based on the OECD commercial interest reference rates (CIRR) on the date the contract is signed, as specified in the Annex. A loan is defined as concessional if, on the date the contract is signed, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to its nominal value is less than 65 percent (i.e., including a grant element of at least 35 percent).

12. **Base money** is defined as the sum of the following:

- currency in circulation (in and outside banks);
- deposits of banks with the BCC;
- deposits of public enterprises with the BCC;
- deposits of private enterprises and individuals with the BCC; and
- deposits of other financial institutions, other than deposit money banks, with the BCC, and;
- foreign exchange deposits and provisions for imports at the BCC.

Note: "Base money" excludes all central bank bills issued by the BCC, which are counted as other BCC liabilities, and which are included in BCC net domestic assets. Narrow base money is defined as base money less foreign exchange deposits and provisions for imports with the BCC. Narrow base money is valued at the actual exchange rate (see paragraph 4 above).

13. The following concepts are used in the letter of intent and the Memorandum on Economic and Financial Policies:

- a. Budget: annual law authorizing the government's financial operations. Transfers to the provinces are included, but the provinces' own revenues are not covered. The social security system is not consolidated in the budget;
- b. Supplementary budgets (*budgets annexes*): Budgets of agencies and entities similar to administrative public enterprises that are funded primarily by government transfers (*rétrocessions*) and subsidies;
- c. Extrabudgetary *accounts*: accounts receiving government revenue not tracked by the Treasury Management and Payment Authorization Directorate, or not included in the supplementary budgets. These accounts are consolidated with those regularly monitored by the Treasury Management and Payment Authorization Directorate;

- d. Poverty-reduction *expenditure*: “pro-poor” spending as defined in the new nomenclature on the basis of the priorities set forth in the I-PRSP and detailed in Annex II.

### C. Structural Benchmarks

14. The structural benchmarks are described in Table 2 of the Memorandum on Economic and Financial Policies.

### D. Reporting

15. The authorities will forward to the IMF's African Department, preferably by e-mail or fax, the data and information needed to monitor program implementation. These data and information must be duly reconciled so as to ensure their internal consistency. Following are the data or documents to be submitted:

#### 1. Exchange system

**The following information is to be submitted with a time lag of one day.**

- a. Volume of purchases and sales of foreign exchange on the interbank market, by the BCC (interventions), by commercial banks, and by exchange bureaus;
- b. Average CGF/U.S. dollar reference exchange rate of the BCC (indicative rate);
- c. Average CGF/U.S. dollar exchange rate on the interbank market;
- d. Average CGF/U.S. dollar exchange rate offered by commercial banks to their customers; and,
- e. Average CGF/U.S. dollar exchange rate used by exchange bureaus.

#### 2. Banking system

**The following monthly information is to be submitted no later than four weeks after the end of each month, unless otherwise stated.**

- a. Integrated monetary survey, with a breakdown into domestic currency and foreign currency;
- b. BCC balance sheet, with a breakdown into domestic currency and foreign currency;
- c. BCC operating account, and implementation of the BCC's cash flow plan;
- d. Consolidated balance sheet of deposit money banks, with a breakdown into domestic currency and foreign currency;
- e. Volume of purchases and sales of BCC bills (*interventions*) by commercial banks and by the public (every week);
- f. Net banking system credit to the government;
- g. Structure of nominal and real interest rates of deposit money banks;
- h. Reserves (voluntary and required) of deposit money banks;
- i. Structure of BCC interest rates; and
- j. Structure of rates for central bank bills.

### 3. Public sector

**Unless otherwise indicated, the following information is to be submitted not later than four weeks after the end of each month.**

- a. Implementation of Treasury cash flow plan (TOFE);
- b. Budget tracking statements (*états de suivi budgétaire*, ESB reconciled with the TOFE, detailing expenditures according to economic, administrative, and functional classifications, and by province – see Annex III);
- c. Table: ‘Monitoring of Wage Arrears’ with following details: wage bill, wages paid from the Treasury General Account broken down by employees categories, region (Kinshasa/provinces), and status (active/retired);
- d. Civil service pay scale (if changed);
- e. Government revenue broken down by collecting agencies, individual taxes, and sources of nontax revenue; tax and non tax payments by oil producing companies;
- f. Public sector domestic debt, by category of creditor (commercial banks, private entities, etc.): collect and report data on domestic public debt as soon as they are available;
- h. Payments and invoiced amounts on centralized expenditures.
- i. Posting on the websites of the ministry of finance and the ministry of budget of summaries of the monthly cash flow plan and spending plan for the coming three months and the monthly outturn for each “*service*”.

### 4. Real sector

Report within four weeks of the end of each month (unless otherwise indicated) the following indicators of recent economic developments: the consumer price index (on a weekly basis), monthly merchandise exports (value and volume) of crude oil, copper, cobalt, zinc, industrial and hand cut diamonds; imports (value and volume) by main categories (raw materials, intermediate goods, consumer goods, capital goods, and petroleum products); and output indicators for the manufacturing, mining, and services sectors, published in the BCC's monthly reports on economic activity.

## 5. External debt

**The following monthly information is to be provided four weeks after the end of each month.**

- a. Disbursements of external loans and grants, including those associated with new loans contracted (on a monthly basis, with a lag of three weeks);
- b. Monthly debt service payments (interest and principal) classified by creditor, made in foreign currency (source: the Public Debt Management Office—OGEDEP, and the BCC) and in CGF (source: DTO);
- c. Monthly external debt service obligations before and after debt relief; arrears on external debt obligations (stock and new arrears) broken down by principal and interest, and classified by creditors (to be provided monthly by OGEDEP), and;
- d. Copies of (i) the new loans contracted, including those contracted by the EADs; and (ii) debt rescheduling agreements with the Paris Club, non-Paris Club bilateral creditors, commercial creditors, and multilateral creditors, within four weeks of the signing of such agreements.

## 6. Miscellaneous

A progress report on implementation of the structural reforms will be submitted to Fund staff each month. In addition, information on the legal and regulatory environment as it affects business (new decrees, circulars, and laws) and price policy, as well as the official gazette, will also be reported to Fund staff.

**Jean-Claude Masangu Mulongo**  
Governor  
Central Bank of the Congo

**M.F. Muamba Tshishimbi**  
Minister of Budget

**Marco Banguli**  
Minister of Finance

**Kinshasa, June 29, 2006**

**TRANSLATED FROM FRENCH****Definition of External Debt**

1. The definitions of “debt” and “concessional borrowing” for the purposes of this memorandum of understanding are as follows:
  - a. As set out in Point 9 of the Guidelines on Benchmark with Respect to Foreign Borrowing adopted by the IMF's Executive Board on August 24, 2000, debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
  - b. **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

TRANSLATED FROM FRENCH

**Definitions of Poverty Reducing Spending**

**1. The concept**

Poverty reducing spending comprises all outlays by the government aimed at improving the living standards and well-being of the people, based on the priorities established in the Interim Poverty Reduction Strategy Paper (PRSP) and the final PRSP.

**2. Benchmarks**

Poverty reducing spending defined in the budget on the basis of the **classification for the general functions of government**.

Spending on the following functions and sub-functions are considered to be poverty reducing:

**02 Defense**

02. 600 Reintegration of demobilized soldiers

**03 Security**

03. 300 The judiciary and court system

03. 320 Courts

**04 Economic Affairs**

04. 200 Agriculture, forestry, hunting, fisheries, and rural development

04. 210 Agriculture, livestock

04. 220 Forestry

04. 230 Hunting and fishing

04. 240 Rural development

04. 300 Fuel and electricity

04. 350 Electricity (in the provinces)

04. 500 Transport

04. 510 Roads

04. 511 National roads

04. 512 Provincial roads

04. 513 Farm roads

04. 514 Urban roads

04. 520 Sea, river and lake transport

04. 530 Railroads

**05 Protection of the Environment and of Flora and Fauna**

05. 100 Household waste management

05. 200 Sewage and sanitation

- 05. 300 Pollution control
- 05. 400 Protection of fauna and flora

**06 Public Housing and Facilities**

- 06. 100 Housing development
- 06. 200 Equipment of community facilities, regional and urban development
- 06. 300 Water supply
- 06. 400 Street lighting

**07 Health**

- 07. 100 Medicines, prostheses, and medical equipment and supplies
- 07. 110 Medicines and pharmaceuticals
- 07. 120 Light medical equipment
- 07. 130 Prostheses and medical supplies
  
- 07. 200 Local medical services (outpatient care)
- 07. 210 General medical services
- 07. 220 Specialized medical services
- 07. 230 Dental services
- 07. 240 Paramedical services (including traditional medicine, physiotherapy, and labs)
  
- 07. 300 Hospital services
- 07. 310 General hospitals
- 07. 320 Specialized hospitals
- 07. 330 Maternity clinics and dispensaries
  
- 07. 400 Public health services
- 07. 410 Preventive care
- 07. 420 Treatment
- 07. 430 Vaccination
- 07. 440 Polio vaccination campaign
- 07. 432 Other vaccination campaigns
- 07. 440 Epidemic control programs
- 07. 441 AIDS program
- 07. 442 Malaria program
- 07. 443 Tuberculosis program
- 07. 444 Programs for other epidemics
  
- 07. 500 Research and development in the field of health
  - 60 Other health issues (includes mainly wages of health professionals)

**09 Education**

- 09. 100 Pre-school and elementary education
- 09. 110 Pre-school education
- 09. 120 Elementary education

- 09. 200 Secondary education
- 09. 210 General secondary education
- 09. 220 Technical and professional secondary education
- 09. 400 Higher education
- 09. 410 General higher education
- 09. 420 Technical, professional, and administrative higher education (only equipment and repair of infrastructure, Articles 71.20, 72.10, 73.10, 74.10, 75.20, 81.10, and 82.10).
- 500 Other education
- 09. 510 General and professional continuing training for adults
  
- 09. 800 Other educational affairs (Wages of educational employees)
  
- 10 Social Security and Welfare**
- 10. 100 Diseases and disabilities
- 10. 110 Diseases
- 10. 120 Disabilities
  
- 10. 200 Aging
- 10. 210 Social security for the elderly
  
- 10. 400 Family and children
  
- 10. 500 Unemployment programs
  
- 10. 600 Housing and housing conditions
  
- 10. 700 Social exclusion programs

**TRANSLATED FROM FRENCH****Budget Tracking Statements****Report 1: Main budget tracking report with economic classification of expenditure (ESB principal). Monthly.**

This report provides data on expenditures at the level of the four steps in the expenditure procedure (commitment, verification, payment order, payment), on the one hand, and by economic classes, on the other, and cumulatively from the start of the fiscal year (2004 Revised Classification).

The last column of the main budget tracking statement is the “Balances Outstanding” (*Restes à Payer comptables*, RAP) column, which is the difference between payment orders and actual payments by the BCC.

**Report 2: Budget tracking report with administrative classification. Monthly.**

Based on the main statement, this document will present expenditures according to administrative classification.

**Report 3: Budget tracking report, by “Major Government Functions.” Monthly.**

This document will present expenditure by major government function.

**Report 4: Budget tracking report, by source of financing. Monthly.**

This report provides data on total expenditure according to sources of financing, economic classification and cumulatively from the start of the fiscal year.

**Report 5: Budget tracking report with administrative and economic classifications. Monthly.**

Based on the main statement and the one with the administrative classification, this document will present expenditure according to administrative and economic classification.

**Report 6: Budget tracking statement, Poverty-Reducing Expenditure by economic classification. Monthly.**

Based on Report 1, poverty reducing expenditure broken down according to economic classification.

**Report 7: Budget tracking statement, Poverty-Reducing Expenditure by administrative classification. Monthly.**

Based on Report 1, poverty reducing expenditure broken down according to administrative classification.

**Report 8: Budget tracking statement, Poverty-Reducing Expenditure by government functions. Monthly.**

Based on Report 3, poverty reducing expenditure broken down according to main functions of government.

**Report 9: Budget tracking report, Poverty-Reducing Expenditure by source of financing. Monthly.**

This report provides data on total expenditure according to sources of financing, economic classification and cumulatively from the start of the fiscal year. It should identify poverty reducing expenditure financed through domestic sources and HIPC savings.

**Report 10: Budget tracking report, Poverty-Reducing Expenditure by geographical distribution. Monthly source of financing. Monthly.**

This report provides data on poverty reducing expenditure broken down by provinces, economic classification, and cumulatively from the start of the fiscal year. It should identify poverty reducing expenditure executed in Kinshasa and in individual provinces.