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Democratic Republic of the Congo: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 30, 2009

The following item is a Letter of Intent of the government of Democratic Republic of the Congo, which describes the policies that Democratic Republic of the Congo intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Democratic Republic of the Congo, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

TRANSLATED FROM FRENCH

**DEMOCRATIC REPUBLIC OF THE CONGO
LETTER OF INTENT**

Kinshasa, November 30, 2009

Mr. Dominique Strauss-Kahn
Managing Director
The International Monetary Fund
Washington, D.C. 20431
United States of America

Mr. Strauss-Kahn:

As you know, since 2001 the Democratic Republic of the Congo has made progress on both the political and economic fronts. Indeed, during the period, the government has taken important steps toward establishing democracy, restoring peace, and fostering national reconciliation. On the economic front, prudent policies and reforms helped rekindle economic growth and tame hyperinflation.

The main obstacles that continue to affect economic recovery, despite progress in the pacification of the eastern provinces, are the continued periodic episodes of instability created by certain pockets of resistance. This situation has slowed down the implementation of our development agenda and put a severe burden on our limited budgetary resources. Economic recovery is also constrained by the lack of adequate infrastructure: dilapidated roads and railways, insufficient social infrastructure especially hospitals and schools, with negative consequences for human capital.

Most recently, despite the difficult circumstances brought on by the global financial crisis, we have persevered in implementing sound policies in the context of our economic program for the period January–June 2009 which was monitored by IMF staff. Notwithstanding the significant revenue shortfalls caused by weak mining activity and the high levels of security-related spending on account of the conflict in the eastern provinces, the government was able to abstain from recourse to central bank financing while building up its gross foreign reserves, broadly in line with the objectives of the staff monitored program. This was greatly facilitated by the assistance provided by the IMF through the Rapid-Access Component of its Exogenous Shocks Facility and the catalytic effect it had on generating emergency financial assistance from other development partners, including the World Bank, the African Development Bank, the European Commission, and bilateral donors including Belgium.

Together, these helped reduce macroeconomic pressures going into the second half of the year.

The government's economic program for 2009–12 aims to address the challenges facing the country in line with our current Poverty Reduction and Growth Strategy, which we have extended through the end of 2010. Further, our second-generation strategy for 2011–15 is currently under preparation. Our program focuses on enhancing macroeconomic stability, increasing investment in physical and human capital formation, and the implementation of structural reforms to improve domestic resource mobilization, strengthen public financial management, enhance central bank independence, and boost our economy's productive capacity. These policies and reforms are set out in the attached Memorandum of Economic and Financial Policies (MEFP) for 2009–12 and accompanying Matrix of Structural Reforms. We also attach the Memorandum of Technical Understandings (TMU) that provides the modalities for monitoring program implementation.

I am pleased to inform you that we made significant progress in addressing earlier concerns over the debt sustainability implications of Sino-Congolese Cooperation Agreement involving large mining and infrastructure projects critical to our country's development. We agreed with our Chinese partners to remove the government guarantee on the financing of the mining component (US\$3.2 billion) and cancelled the second phase of infrastructure financing (US\$3 billion). This allowed us to limit the government guaranteed borrowing under the Agreement to strictly the US\$3 billion infrastructure component, which is highly concessional (i.e., grant element of 42–46 percent depending on whether the signing bonus is taken into account).

In this context, the Democratic Republic of the Congo is requesting IMF financial support under the Poverty Reduction and Growth Facility (PRGF) during the period July 2009–June 2012 in an amount of SDR 346.45 (or 65 percent) of quota. In addition, we request the resumption of interim relief under the enhanced HIPC initiative in the amount of SDR 45.66 million (20 percent of the total HIPC commitment) to help us cover part of the principal payments to the IMF falling due during the twelve month period from December 2009. IMF support will complement additional budget and balance of payments support being provided by other development partners, including the World Bank.

The government believes that the policies and reforms set forth in the attached MEFP are adequate to achieve our program's objectives. Nevertheless, we are committed to take any further measures that may prove necessary for achieving the program objectives. During the period covered by the three-year arrangement, the government will consult with the staff of the IMF on the adoption of any additional measures deemed to be appropriate.

The Government will provide the IMF with any information it may request for monitoring the implementation of the program's economic and financial policies. Furthermore, the government will conduct with the IMF a mid-term review of the first year of the program (July 2009–June 2010) no later than end-June 2010 and a

subsequent review of the annual program (January 2010–June 2010) no later than end-December 2010. The government intends to make the contents of this letter, the attached MEFP, the TMU, and the related IMF staff report available to the public. Therefore, it authorizes the Fund to publish these documents on its website once the Executive Board approves the PRGF arrangement and in the context of the subsequent reviews.

Sincerely yours,

_____/s/_____

Adolphe Muzito
Prime Minister

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

**ATTACHMENT I
TRANSLATED FROM FRENCH**

**DEMOCRATIC REPUBLIC OF THE CONGO
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2009–12**

Kinshasa, November 30, 2009

I. INTRODUCTION

1. **This Memorandum describes the economic and financial policies as well as the structural reforms that the government intends to implement in its program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF) for the period July 2009 to June 2012.** Through this program, the government is pursuing efforts to reestablish the conditions for lasting political, economic, and social stability. In particular, the proposed policies and reforms are aimed to address the legacy of decades of poor economic management, armed conflicts, corruption, and disregard for the rule of law.

2. **The government's three-year program supported by the PRGF arrangement is based on the Poverty Reduction and Growth Strategy (PRGS) paper drafted in 2006 in the context of a largely participatory approach supported by the democratically elected government.** The strategy is based on five pillars: (i) promote peace and good governance; (ii) consolidate macroeconomic stability and promote economic growth; (iii) improve access to social services; (iv) combat HIV/AIDS; and (v) promote proactive community involvement. Given that these objectives have yet to be realized, the government decided to extend its PRGS through December 2010, supported by a Priority Action Plan (PAP) which seeks to correct the weaknesses identified in the July 2008 PRGS progress report. The weaknesses included delays in implementing public financial management reforms, unexpected security-related spending, poor revenue mobilization, and weak institutional and human capacities. During this period, the government will prepare its second generation PRGS covering the period 2011–15 in a participatory manner.

II. OVERVIEW

3. **The government has made considerable progress on the social and political fronts.** Since 2003, the political transition has paved the way for democratization, restoration of peace, and reunification of the national territory with assistance from the international community, in particular through the deployment of a United Nations peacekeeping and institutional-building mission (MONUC).

4. **On the economic side, the government successfully implemented its interim economic program for the period June 2001 to March 2002** that was monitored by IMF staff (SMP), which ended a long period of hyperinflation and led to the Government's Economic Program (PEG) being supported by a PRGF arrangement in April 2002.

5. **At the same time, the government prepared its Interim Poverty Reduction and Growth Strategy paper (I-PRGS).** The priorities of the I-PRGS paper were restoration and reinforcement of peace, macroeconomic stabilization, and involvement of communities and civil society. The I-PRGS paper also identified ways in which new resources to finance the strategy could be generated. The satisfactory execution of the PEG underpinned by I-PRGS paper enabled the Democratic Republic of the Congo (DRC) to reach Decision point under the Heavily Indebted Poor Countries (HIPC) Initiative in July 2003 and obtain interim debt relief. The implementation of the PRGF-supported program and interim debt relief allowed the Congolese economy, for the first time in a decade, to experience positive rates of growth and to reduce inflation to below 10 percent in 2003–04.

6. **The momentum of the reforms proved difficult to sustain on account of the continued conflict in the eastern provinces and the preparations for the first national election in 40 years.** As a result, the macroeconomic program went off track and certain performance criteria were not observed, resulting in the sixth and final PRGF review not being concluded prior to the expiration of the arrangement and the suspension of the program.

7. **Since 2006, the government has been implementing an IMF staff-monitored program that has been extended several times after yielding mixed results.** The escalation of the conflict in the eastern provinces made public financial management difficult and led to significant security-related expenditure overruns that were difficult to offset with other fiscal measures. In this context, the implementation of the PRGS was less satisfactory than foreseen.

8. **The DRC is facing major post-conflict challenges of reconstruction and rehabilitation of its dilapidated infrastructure, while maintaining macroeconomic stability and ensuring debt sustainability.** The continued presence and military activities of rebel forces have set back the implementation of the government's development agenda and put a strain on its limited budgetary resources. Economic recovery was hampered by nonexistent or dilapidated basic infrastructure (roads, railways, hospitals, and schools). These factors constrain productivity and increase the cost of doing business, thereby reducing competitiveness. The government therefore aims at achieving its dual objective of rebuilding the country's infrastructure and obtaining significant debt relief through the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

III. RECENT ECONOMIC DEVELOPMENTS (2008–09)

9. **The DRC was affected by the escalation of the conflict in the eastern provinces and the negative impact of exogenous shocks on the country's terms of trade following the onset of the global financial crisis.** On the domestic front, the search for a lasting solution to the security problems in the eastern region of the country resulted in the holding of a Conference on Peace, Security, and Development of the Great Lakes Region in January 2008. However, the conference failed to reduce tensions and conflict reemerged in October 2008, thus jeopardizing the progress made since the end of the political transition

and the establishment of the new democratic order. Through diplomatic efforts, the joint DRC-Rwanda and DRC-Uganda armed forces set out to dismantle the pockets of resistance created by Rwandan Hutu rebels (FDLR) and Ugandan rebels (LRA) in early 2009. These events resulted in significant unforeseen budgetary expenditures. Given the urgent and binding nature of these expenditures, the government at times had to execute them outside the expenditure chain. At the same time, the reduction in world demand and the sharp decline in export prices markedly reduced mining revenues. The combination of these endogenous and exogenous shocks widened the underlying fiscal deficit, increased net credit to government (NCG) from the banking sector, and reduced gross foreign reserves to less than one week of nonaid imports.

10. The global financial crisis weakened macroeconomic performance. In 2008, real GDP growth slowed to 6.2 percent (as opposed to a projected 10 percent) owing to the slump in mining sector activity. Inflation, which was at 27.6 percent at end-2008, peaked at over 55 percent in the first quarter of 2009, subsided in May and June, but started to rise in July and reached 54 percent in September in response to periodic strong increases in base money. At the same time, the Congolese franc depreciated from about CF 555 per U.S. dollar in September 2008 to about CF 880 per U.S. dollar at end October 2009.

11. The government implemented a stabilization program during the first half of 2009. It reduced borrowing from the central bank notwithstanding weak revenue performance. This, combined with a tight monetary policy, helped reduce inflation and stabilize the exchange rate. Despite these efforts, the impact of the global financial crisis, the continuation of conflict in the eastern provinces, and the need for the central bank to address liquidity problems regarding certain commercial banks resulted in deviations from the targets under our SMP.

12. Government implemented its economic program satisfactorily through the third quarter of 2009, but expenditure pressures have increased in the fourth quarter. All prior actions and quantitative benchmarks through September were observed. However, there was a large build-up of expenditure commitments in September and October reflecting unavoidable security-related spending and cost overruns on the Southern African Development Community (SADC) and Economic Community of Central African States (CEEAC) regional conference hosted by the DRC. The government has already initiated measures to ensure that program's fiscal objectives are met.

13. The government made progress in resolving the earlier cases of misreporting to the IMF. Up to end April 2008, a large number of government accounts held at the BCC and the commercial banks limited the transparency of government operations. Furthermore, the government did not always observe proper procedures regarding the payment by the central bank of urgent government spending, which led the misreporting of data to IMF staff. From May 2008, to remedy this problem, the government ordered an audit of all its accounts, including those related to urgent spending. Moreover, in May 2008 it implemented new procedures to improve the management and transparency of urgent spending. However, delays were experienced in implementing these procedures. To further strengthen urgent

spending management, the government adopted an inter-ministerial decree on December 29, 2008, that defined the scope for using urgent spending procedures. To date, the government successfully and transparently applied the new procedures and all payments on urgent government spending were in accordance with the December 2008 decree.

14. Following the international financial crisis, the government requested the IMF and other development partners to provide urgent balance of payments and budget support.

In response, the IMF granted approximately US\$200 million through the Rapid Access Component of its Exogenous Shocks Facility. The World Bank granted US\$100 million, disbursed in multiple tranches starting in March 2009, while the African Development Bank (AfDB) disbursed about US\$97 million. Thanks to this support, international reserves rose to US\$250 million at end-July 2009. Other foreign partners, including the European Commission and Belgium, are providing emergency assistance to the DRC.

15. In order to rebuild the country's economic and social infrastructure, the government signed a cooperation agreement with a consortium of Chinese enterprises, which was amended in October 2009 to be consistent with debt sustainability. The agreement includes a government guarantee on US\$3 billion of financing for infrastructure development. The repayment of debt service associated with the financing will be covered by the profits of a joint venture between GECAMINES (a Congolese state-owned company) and the Chinese enterprises, and the government guarantee could only be invoked in the event that the joint venture fails to repay the entire debt service 25 years after its legal incorporation (i.e., 2034). In this context, the government believes that the deal is consistent with debt sustainability and the level of concessionality expected under a PRGF-supported program.

IV. MEDIUM-TERM ECONOMIC AND FINANCIAL POLICIES

16. The government is implementing its medium-term economic and financial policies for the period July 2009 to June 2012 against the backdrop of an improved security outlook in the eastern provinces. Relations with neighboring countries are being normalized. Nonetheless, the presence of foreign-armed groups, which continue to terrorize local populations, and the integration of former rebel elements into the army, continue to impose large security-related budget and humanitarian costs.

A. Macroeconomic framework

17. The macroeconomic objectives are as follows: (i) achieving an average growth rate of 6.5 percent in 2009–12, sustained by a recovery of mining sector activity and infrastructure projects; (ii) reducing end-period inflation to 9 percent by 2012 supported by the implementation of prudent monetary and fiscal policies; and (iii) maintain gross foreign reserves to the equivalent of about 10 weeks of nonaid imports by the end of the program period. The external current account deficit (excluding grants) is projected to increase over the medium term to an average of 34 percent of GDP, owing mainly to a sharp increase in investment related imports. Exports will gradually recover from the adverse effects of the global financial crisis as world demand improves. The external current deficit will be financed by foreign direct investment and development assistance, including debt relief.

B. Fiscal policy

18. **Medium-term fiscal policy is geared to avoiding government recourse to central bank financing.** The domestic fiscal deficit (cash basis) is targeted to decline from 3.3 percent of GDP in 2009 to 0.4 percent of GDP in 2012.¹ Domestic revenue (excluding the signing bonus under the Sino-Congolese Cooperation Agreement) is projected to increase from about 15.7 percent of GDP in 2009 and to 20 percent of GDP in 2012, while domestically financed expenditure (including exceptional spending) will increase from 17.5 percent of GDP in 2009 to about 20 percent of GDP in 2012.

19. **The government is committed to implement a prudent expenditure policy.** Regarding current spending, the policy of standardizing public sector wages of central government and provinces in 2010 will be maintained, with a wage bill capped at 6.7 percent of GDP over the medium term. This objective will be achieved by improving the reliability of the computerized payroll procedure and the rationalization of civil service staffing. The program will provide realistic allocations for spending on goods and services taking into account the significant increase in public investment. Over the medium term, domestically financed investment will increase from about 2.9 percent of GDP to about 5 percent of GDP. Foreign-financed investment will rise from about 6 percent of GDP in 2009 to about 12 percent in 2012, reflecting large investments in infrastructure, including those under the Sino-Congolese Cooperation Agreement.

20. **Moreover, the government is committed to creating the fiscal space needed to meet its development and poverty reduction objectives.** In particular, a large share of domestic revenue (40 percent) will be transferred to provinces, which will be responsible for the implementation of the education, health, and rural sector development. These large transfers will help strengthen human capital formation especially for vulnerable groups and the poor in line with our growth and poverty reduction strategy. Further, the country expects to reach the completion point under the HIPC Initiative in 2010 in order to benefit from debt relief associated with that initiative and debt cancellation under the MDRI. The government commits to conducting a prudent external debt management policy, including by relying on grants and highly concessional loans with a grant element significantly exceeding 35 percent for development financing. More importantly, the government will refrain from contracting or guaranteeing new debt that would jeopardize debt sustainability. It also intends to request from Paris Club creditors the extension over the medium term of the Cologne terms rescheduling agreement reached in 2002, the rescheduling of arrears accumulated since July 2006, and an exceptional rescheduling of debt service falling due in September-December 2009. It is also planned to normalize relations with non-Paris Club bilateral and commercial creditors. In turn, it will avoid accumulating any new arrears on nonreschedulable external debt during the program period. The government will also seek to reach rescheduling agreements on similar terms with non-Paris Club creditors.

¹ Domestic fiscal balance is defined as total revenue (excluding grants and proceeds from signing bonus from the SCCA) minus total expenditure (excluding foreign financed projects and foreign interest payments due) plus the BCC's net operating deficit and net accumulation of domestic arrears).

C. Monetary and exchange policies

21. **The objective of monetary policy is price stability under a floating exchange rate regime.** The BCC will strengthen the monetary policy framework by making its indirect monetary policy instruments more flexible, and enhancing its liquidity management and forecasting capacity. In the interest of transparency, it will adopt a communication strategy to signal its policies to markets. In addition, the BCC will apply an exchange rate policy aimed at smoothing exchange rate fluctuations. With a view to improving financial intermediation, boost confidence in credit institutions, and encourage de-dollarization, the BCC will also improve the quality of currency in circulation, strengthen banking supervision, and develop a payments and settlements system.

D. Structural policies

22. Structural reforms are focused on increasing domestic revenue, strengthening public financial management, restructuring and recapitalizing the BCC, strengthening monetary policy and banking supervision, and putting the economy on strong and lasting growth path. The detailed measures and timetable are provided in the attached Matrix of Economic and Financial Policy Measures.

Revenue and expenditure policy

23. **Tax policy (*Matrix, I.A.*):** The government has adopted an action plan aimed at enhancing the efficiency of revenue collection while expanding the tax base. The main step will be the introduction of a single rate value-added tax (VAT), to be implemented by end-2011. Other measures will be taken to rationalize tax exemptions and streamline the plethora of duties and taxes and their collection procedures. This effort will be complemented by the adoption of a new Customs Code in line with international best practices.

24. **Customs administration (*Matrix, I.B.*):** The government's is committed to put in place an efficient and modern customs administration. To this end, it will streamline customs procedures to reduce costs to the private sector while improving internal administration and controls to increase revenue collection. To simplify collection procedures, the government will expand one-stop customs windows to all important border posts, including in the eastern provinces. Moreover, it will transfer the customs activities currently performed by the Congolese Control Office (OCC) to the Custom and Excise Collection Agency (OFIDA), thereby making it the sole agency in charge of customs valuation and the collection of all taxes and fees. OCC's role will henceforth be limited to quality and standards control. OFIDA will enhance its information technology systems, based on SYDONIA++, in all customs offices. To improve oversight and ensure the satisfactory implementation of reforms, OFIDA will be converted into a general directorate of the Ministry of Finance.

25. **Tax administration (*Matrix, I.C.*):** The government will also establish an efficient and a modern tax administration. It will expand the network of corporate tax centers (CDIs) to manage the taxation of corporations at the national level, and establish tax centers (CIS)

focused on middle and small enterprises. The development of a comprehensive taxpayer databank, combined with the adoption of a single identification numbers for all business entities, will improve post- and pre-collection controls and expand the tax base. The government will also strengthen post-collection controls by consolidating the audit and research functions of the tax department into a single office while improving its information system.

26. Collection of mining sector taxes (*Matrix, I.D.*): The government's objective is to increase the contribution of the mining sector to domestic revenue, which has been weak thus far. Accordingly, the government will strengthen the capacity of the tax department's (DGI) Large Taxpayers Office responsible for revenue collection from the sector, including by cooperating closely with specialized audit companies. Further, the collection of royalties and mining taxes (outside customs) will be transferred from the Directorate of Administrative and State Revenue (DGRAD) to the DGI, with the relevant legislation planned to be submitted to Parliament by April 2010. OFIDA will also establish specialized centers to assess adequately the quality and values of key mineral exports.

27. Public financial management (*Matrix, I.E.*): The government recognizes the need to improve public financial management to ensure the efficiency of budget preparation and implementation. It will implement over the program period an action plan built on the following five strategic pillars: (i) modernization of the legal framework, including the adoption of organic law on public finance and of a procurement code; (ii) improvement of the annual process of budget preparation, based on a medium-term fiscal framework that will be initially applied to key sector such as health and education; (iii) streamlining budget execution and cash management to improve the expenditure tracking process in order to avoid the accumulation of arrears; (iv) strengthening the reporting of expenditure execution through progressive computerization; and (v) reinforcing ex-ante and ex-post budget controls, including by the adoption of organic law on the audit office.

28. The Government intends to normalize its relationship with all its creditors. The government intends to start negotiate with all its creditors, in particular Paris Club creditors to obtain debt rescheduling in the most favorable terms given the weak repayment capacity of the country. Regarding the London Club, the government intends to finalize discussions for the cancellation of the commercial debt in the context of a buy-back program supported by the World Bank. It will seek to obtain from non-Paris Club creditors debt relief in terms that are at least comparable to those obtained from the Paris Club.

29. The authorities are putting in place a comprehensive program to address the stock of arrears and other claims on the government. An action plan for the gradual repayment of the stock of arrears at end-2007 has been put in place. In particular, fifty percent of the stock of arrears at end-2007 will be cleared in 2010 and the balance in 2011. A repayment plan for the stock of 2008 arrears based the internal audit of the *Inspection General des Finances* will be designed no later than February 2010. In addition, the government will establish a plan to compile an inventory of all remaining claims on the government with proper auditing procedures.

Financial sector

30. **Central bank restructuring and recapitalization (*Matrix, II.A.*):** The objective is to enhance the BCC's operational capacity while putting it on a sound financial footing. Accordingly, the first step will be to restructure the BCC in line with the action plan developed with IMF technical assistance. Following the recent nominations of Director Generals and Directors, the BCC will put in motion the reorganization of departments and units within the central bank. It has adopted a three-year strategic plan that aims to improve governance and reinforce the bank's capacity to execute effectively its responsibilities. In parallel, the government will put in motion the process for recapitalizing the central bank, which is expected to take place in 2011.

31. **Banking supervision (*Matrix, II.C.*):** The government's objective is to strengthen banking supervision with a view of safeguarding financial system stability and soundness. Reforms in this area include improving the legal and regulatory framework, enhancing the operating skills of bank inspectors, introducing macro-prudential functions, and strengthening on-site and off-site inspection. Particular emphasis will be placed on increasing the minimum capital requirements for banks, adopting more stringent licensing procedures, and improving the quality and professionalism of inspectors.

Other structural reforms

32. **Civil service reform (*Matrix, III.A.*):** The improvement of administrative governance through capacity building is critical to national reconstruction. In August 2009, the government intends to approve a medium-term retirement strategy for public sector employees and to submit a draft civil service law to parliament in December 2009, including a regime governing provincial-level civil servants. The civil service census will be completed in December 2009 and that for the army and police will be completed by December 2010.

33. **Business climate (*Matrix, III.B.*):** An improved business climate is at the core of the government's strategy to revitalize the private sector. The government is determined to strengthen the protection of investments by joining the Organization for the Harmonization of Business Law in Africa (OHADA). It will also convert the National Investment Promotion Agency (ANAPI) into a one-stop shop for investment in the DRC. Planned changes in laws and regulations will help reduce red tape in establishing companies and settling commercial disputes. The government will continue to set up commercial and labor courts in the remaining provinces and adopt a commercial code aimed at eliminating tariff and non-tariff barriers, in compliance with the international agreements ratified by the DRC.

34. **Decentralization (*Matrix, III.C.*):** The government is placing particular emphasis on fiscal decentralization consistent with the 2006 Constitution. The Constitution establishes the principle of revenue sharing between the central government and the provinces. The goal is to improve the quality of public services at the local level. However, the decentralization process also poses certain risks, and the government has taken transitional measures to improve PFM at the provincial level in anticipation of the approval of the organic law on

public finance. It will improve the mechanism for allocating national revenue to the provinces and decentralized territorial entities (ETDs) and to draft laws on the exclusive functions and powers of the provinces in order to guarantee effective public spending.

35. **Debt management (*Matrix, III.D.*)**: The government will strengthen external and domestic debt management in order to limit risks of debt sustainability. To this end, the government acknowledges the exclusive authority of the Minister of Finance to make commitments on the government's behalf regarding borrowing by the central, provincial, and local authorities. External and domestic debt management will be centralized in the Public Debt Management Office (OGEDep), which will produce a biannual statistical bulletin and quarterly forecasts of public debt service.

36. **Economic governance (*Matrix, III.E. & F.*)**: Transparency and improvement of economic governance are important elements of our strategy to encourage private investment. The government undertakes to publish, within 60 days, the partnership contracts between public and private enterprises, including the relevant financial and tax details. It will set up an independent anti-corruption agency. The government also intends to improve the national statistics in order to enhance the reliability of macroeconomic, social, and demographic data. Finally, the government will implement the action plan for the Extractives Industries Transparency Initiative (EITI) to bolster the transparency of the mining industries and their impact on tax revenue.

37. **Public enterprises (*Matrix, III.G.*)**: **The government intends to accelerate public enterprise reform to improve the delivery of services critical for promoting economic growth.** It plans to divest from all enterprises involved in commercial activities. The process is ongoing and is implemented in two steps. In the first step, the government has initiated the privatization of the management of public enterprises, which is aimed at stabilizing and improving their financial situation. In the second step, the government will develop restructuring and privatization plan. To facilitate the public enterprise restructuring and privatization process, the government will develop social programs to help redundant public enterprise employees eligible to retirement or departing on a voluntary basis and a plan to address cross-debts between public enterprises and between public enterprises and the government. Enterprises that are involved in nonprofit activities or that are extensions of government agencies will be transformed, as appropriate, into public establishments while those whose activities have ceased or are no longer warranted will be dissolved.

V. POLICY FOR THE REST OF 2009 AND FOR 2010

38. **The macroeconomic objectives for 2009 are:** (i) a real GDP growth rate of 2.7 percent sustained by the partial revitalization of the mining and construction sectors and by the expansion of the agriculture, telecommunications, and transport sectors; (ii) limiting year-on-year inflation at 48.7 percent; and (iii) maintain the coverage of gross foreign reserves at about 10 weeks of nonaid imports. To attain these objectives, prudent macroeconomic policies will need to be put in place, as well as structural and sectoral reforms to promote a business climate conducive to the development of a viable private sector that would underpin strong and lasting economic growth.

39. **The objective of fiscal policy for the rest of 2009 is to limit the government's recourse to domestic financing.** In this regard, the domestic fiscal deficit (cash basis) will be limited to 3.3 percent of GDP, consistent with a reduction of net credit to the government of 1.2 percent of GDP. Tax revenue for the year as a whole is estimated at 15.6 percent of GDP and domestically financed expenditure will be capped at 17.5 percent of GDP. Foreign-financed investment is projected to reach 6.2 percent of GDP, including infrastructure projects implemented under the Sino-Congolese Cooperation Agreement.

40. **The excessive level of expenditure commitments in the pipeline at end-October (CF 258 billion) requires corrective measures to ensure consistency with the treasury plan 2009.** Given the level of commitments at end-October, certain sectoral ministries and other institutions have very little room to maneuver. To address the situation, the government has (i) cancelled all commitments for which goods and services have not been committed (CF 68 billion); (ii) postponed the repayment of part of the arrears accumulated in 2007–08 (CF 31 billion), pending their audit; and (iii) stopped all new commitments at end-October. These measures should allow achieve fiscal policy objectives.

41. **The objective of monetary policy in 2009 is to contain inflation in the context of a floating exchange rate regime.** The expansion of the monetary base will be limited to 19.6 percent in 2009. Broad money is projected to grow at 33.8 percent. To achieve the monetary targets, the BCC will continue to sell BTRs (central bank bills) to mop up excess liquidity in the economy. Its plan for selling BTRs will be drawn up in close collaboration with the Treasury. Exchange rate intervention will aim at smoothing undue volatility while achieving the reserve target. Subject to the reserve target, the central bank also could sell foreign exchange to help mop up excess liquidity, especially that generated by government use of external budget support.

42. **Key structural reforms for the period July 2009 to June 2010** include the promulgation of a new organic public finance law, adoption of a world class procurement code, streamlining of duties and taxes, evaluation and elimination of ad hoc tax exemptions, the transfer of OFIDA into a department of the Ministry of Finance, the restructuring of the BCC and the modernization of its monetary policy instruments, and the submission to Parliament of a new statistics law.

43. **The objective of fiscal policy for 2010 will be to limit recourse to domestic financing.** In this context, the domestic fiscal deficit (cash basis) will be limited to 1.4 percent of GDP, consistent with zero net credit to the government from the banking system. Tax revenue and domestically financed expenditure are both projected to be 17.9 percent of GDP and 18.8 respectively. Foreign-financed capital expenditure is projected at 14 percent of GDP.

44. **The main objective of monetary policy in 2010 will be to further reduce inflation.** In that context, the growth of base money is targeted at 22 percent in 2010. With money multiplier expected to remain stable, broad money growth is also projected to grow in line with base money. The BCC will review its policy rate taking into account progress toward the inflation objectives.

VI. TECHNICAL ASSISTANCE NEEDS AND PRIORITIES FOR TRAINING

45. **The government will request technical assistance from the international community in macroeconomic and structural reforms.** It is grateful for the technical assistance provided by the IMF through its Central African Regional Technical Assistance Centers (Central AFRITAC), the World Bank, the AfDB, the UNDP, and other development partners. This technical assistance will be a determining factor in the success of the decentralization process and in the formulation and implementation of sectoral policies as defined in our PRGS. The government will prepare a list of technical assistance needs and priorities for strengthening institutional capacity at the provincial level.

VII. PROGRAM MONITORING

46. **The monitoring of program will be carried out on the basis of quantitative performance criteria and benchmarks as well as structural benchmarks in the context of semi-annual reviews** (Tables 1–2). The first review will be completed by end-June 2010 and will cover macroeconomic developments and policies for 2010 and progress in structural reforms in tax and customs administration, PFM, and financial sector reform. An update safeguards assessment is currently in progress in the context of the proposed PRGF arrangement, as required by the IMF safeguards policy.

47. **In the context of the proposed PRGF, an update safeguards assessment of the Banque Centrale du Congo (BCC) is currently in progress.** The previous update assessment, concluded in January 2008, found a strengthened external audit mechanism, but significant safeguards risks remained in the control framework of the central bank, including serious concerns regarding the bank's independence. As a result, the assessment recommended specific measures for implementation in advance of a Board discussion of a new PRGF arrangement. The BCC agreed with the findings of the assessment and committed to implementing the safeguards recommendations, some of which were prior actions and others are structural benchmarks in the proposed PRGF program. Staff is monitoring BCC's implementation of the measures. The update assessment will be completed no later than the first review.

48. **The government is strengthening its program monitoring and evaluation capacity.** A National Steering Committee on the Poverty Reduction Strategy (CNP–SRP) will be established directly under the authority of the Prime Minister. This Committee will be assisted by the Interministerial Technical Committee in the Prime Minister's Office and will supervise the activities of the two interministerial committees: one in charge of drafting the National Poverty Reduction Strategy (CI-SNLCP) and the other in charge of steering and monitoring the implementation of the PRS (CISPI). The CI-SNLCP will be chaired by the Minister of Planning, assisted by the other members, namely the ministers in charge of priority sectors. Its mission will be to steer the process of preparing the national poverty reduction strategy. As part of its mission, it will work closely with the Steering Committee for the Poverty Reduction Strategy Preparation Process (UPPE-SRP). The CISPI will be chaired by the Minister of Finance and its members will include the ministers of Budget,

Economy, Planning, Trade, and those ministers concerned with the implementation of the reforms. It will be assisted by the technical committee for monitoring reforms (CTR). The government has also established an Interministerial Technical Committee (CTSP) that monitors the implementation of the government's macroeconomic program supported by the PRGF arrangement.

Table I.1. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2009–10¹
(CGF Millions, unless otherwise indicated)

	2008		2009 Cumulative change ²					2009		2010 Cumulative change ³				2010
	Stock Dec.		Sept.	Indic. Targets	Act.	Difference	Observation	Dec.	Stock Dec.	March	June	Sept.	Dec.	Stock Dec.
	Prel		Indic. Targets	Adj.		Prel.	Perf. Criteria	Proj.	Bench.	Perf. Criteria ⁴	Bench.	Bench.	Proj.	
I. Performance criteria														
a. Floor on net foreign assets of the BCC ⁵ (U.S.\$ millions)	-610		23	-103	-97	6	Observed	35	-576	0	451	516	497	-79
b. Ceiling on net domestic assets of the BCC ⁵	773,772		6,246	107,277	83,691	-23,587	Observed	51,343	825,115	4,307	-260,923	-286,205	-217,169	607,946
c. Ceiling on net bank credit to government	260,560		-138,817	-37,786	-49,948	-12,162	Observed	-105,837	154,723	-34,776	-23,242	15,920	0	154,723
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including local governments or the BCC ⁶	...		0	...	...	...	...	0	0	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, including local governments or the BCC ⁶	...		0	...	...	...	...	0	0	0	0	0	0	0
f. BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget ⁶	...		0	...	...	...	...	0	0	0	0	0	0	0
g. Accumulation of External payments arrears ⁶	...		0	...	...	...	...	0	0	0	0	0	0	0
II. Indicative targets														
a. Narrow base money	378,098		21,076	21,076	21,880	804	Not Observed	75,016	453,114	4,448	27,717	44,130	101,005	554,119
b. Domestic balance (cumulative from the beginning of the year)			-187,501	...	-181,558	5,943	Observed	-285,251	...	55,623	79,117	-57,794	-153,960	...
c. Accumulation of wage arrears			0		0			0		0	0	0	0	
<i>Memorandum items:</i>														
Project deposits	11,661		0	0	0	0		0	11,661	0	0	0	0	11,661

Source: Congolese authorities; and IMF staff estimates and projections.

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

² Cumulative changes are calculated from end-December 2008.

³ Cumulative changes are calculated from end-December 2009.

⁴ These performance criteria may be revised in the context of the first review of the PRGF arrangement.

⁵ The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (US\$1 = CGF 639.32; and 1 Euro = 905.07).

⁶ These performance criteria will be monitored on a continuous basis.

Table I.2. The Democratic Republic of the Congo: Structural Conditionality and Macroeconomic Relevance, 2009–10

Measure	Status	Macroeconomic Rationale
Prior Actions		
Establishment of a committee to assess tax incentives and exemptions granted under the mining code, investment code, and special conventions in accordance with terms of reference devised in consultation with IMF staff.	Observed	Enhance revenue mobilization to achieve the fiscal objectives of the program
Collection of all revenue from the mining sector by a new unit specialized in mining taxation along with the Large Taxpayers Unit.	Observed	Enhance revenue mobilization to achieve the fiscal objectives of the program.
Finalization of the audit of domestic arrears accumulated as of end-December 2007 and adoption by government of a plan of eliminating them.	Observed	To ensure meeting the obligations of the government to the private sector and avoid stunting private sector development and economic growth.
Operational implementation of the National Financial Intelligence Unit (CENAREF) in the context of anti-money laundering efforts.	Observed	Promote orderly financial sector development
Amend the Sino-Congolese cooperation agreement to ensure that its terms are consistent with debt sustainability.	Observed	Strengthen debt management to achieve debt sustainability.
Selection of an audit firm of international repute to audit the PRGF criteria for the duration of the program (2009–11)	Observed	Reinforce program monitoring and control.
Appointment of directors at the BCC, to be in charge of the new Directorate created in the context of the central bank restructuring	Observed	Promote the modernization of the BCC , in particular in improve its monetary policy design and banking supervision
Structural benchmarks		
Restructuring one large commercial bank.	End-Dec. 2009	Systemic risk.
Adoption by the Council of Ministers of an action plan prepared by the committee responsible for assessing tax incentives and exemptions granted under the mining code, investment code, and special convention.	End- Dec. 2009	Enhance revenue mobilization to achieve the fiscal objectives of the program.
Implementation of ASYCUDA++ in the customs offices in Kinshasa	End- Dec. 2009	Enhance revenue mobilization to achieve the fiscal objectives of the program.
Repayment plan for 2008 arrears based the internal audit of the Inspection General des Finances and establish a plan to identify and audit of any remaining government arrears.	End- Feb. 2010	To ensure meeting the obligations of the government to the private sector and avoid stunting private sector development and economic growth.
Submission to Parliament of a draft organic law on public finance that <i>inter alia</i> prohibits provinces from borrowing from commercial banks and the Central Bank.	End-March. 2010	Establish fiscal discipline based on transparent rules and regulations
Generation and publishing of a monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous	Strengthen the monitoring of the program
Inclusion of externally financed expenditure in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous	Strengthen the monitoring of the program
Publication of mining sector partnership contracts between public and private enterprises with 60 days of signature (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Enhance economic governance and ensure accountability for public resources
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Enhance economic governance and ensure accountability for public resources

Source: Congolese authorities; and IMF staff assessments

Table I.3. Democratic Republic of the Congo: Matrix of Economic and Financial Policy Measures for 2009–12

Area	Measures	Timing
I. Tax and fiscal policies and reforms		
A. Tax policy	Objective: Modernize the Tax System	
	<ol style="list-style-type: none"> 1. Reduce the number of low-yielding taxes: <ul style="list-style-type: none"> • Adoption by the Council of Ministers the report on identifying low-yielding taxes. End-December 2009 • Submit to Parliament draft laws on the elimination of these taxes. End-June 2010 2. Limit tax and customs incentives and exemptions: <ul style="list-style-type: none"> • Adoption by the Council of Ministers of the action plan prepared by the Commission in charge of evaluation of incentives and fiscal exemptions granted in the framework of the Mining Code, Investment Code, and special conventions. (Structural benchmark) End-December 2009 • Refrain from granting or renewing discretionary tax incentives and exemptions outside the investment, mining, and forestry codes. Ongoing 3. Reduce the number of nuisance taxes and border fees: <ul style="list-style-type: none"> • Produce a report identifying parafiscal taxes and border fees, without a quid pro quo, and adopt an action plan to eliminate them End-December 2009 • Implement this action plan. End-December 2010 4. Establish the VAT: <ul style="list-style-type: none"> • Adopt and enact the draft law establishing the modern single-rate VAT. End-December 2010 • Collect the first VAT tax returns from businesses by the DGI. End-January 2012 5. Implement the new customs code: <ul style="list-style-type: none"> • Adoption by the Council of Ministers. End-December 2009 • Submission to the Parliament. End-December 2009 • Promulgation by the President. End-June 2010 	
B. Customs administration	Objective: Modernize Customs Administration	
	<ol style="list-style-type: none"> 1. Transfer customs activities from the Congolese Office of Control (OCC) to OFIDA: <ul style="list-style-type: none"> • Adoption by the Council of Ministers of the new statutes for OCC and OFIDA. December 2009 • Approval by the Council of Ministers the action plan for the effective transfer of customs activities from the OCC to OFIDA. April 2010 2. Issuance by the Prime Minister of a decree to convert OFIDA into a Directorate-General of Customs reporting to the Ministry of Finance. End-December 2009 3. Strengthen the rules requiring pre-inspection of imports by BIVAC; for goods not yet subject to pre-inspection, OFIDA will determine their value by using the BIVAC database. End-December 2009 	

Table I.3. Democratic Republic of the Congo: Matrix of Economic and Financial Policy Measures for 2009–12 (Continued)

Area	Measures	Timing
B. Customs administration (continued)	Objective: Modernize Customs Administration	
	4. Implement ASYCUDA++ in all customs offices where the volume and type of trade justify it: <ul style="list-style-type: none"> • At Kinshasa. (Structural benchmark) • At other customs office that account for either a minimum of 5 percent of imports (CIF value) or a minimum of 10 percent of transit (CIF value). 	End-December 2009 End-December 2011
	5. Introduce the one-stop window at all customs offices.	End-December 2011
	Objective: Strengthen Tax Administration	
	1. Merge the DGRAD with the DGI: <ul style="list-style-type: none"> • Set up an independent commission to study the advisability and feasibility of merging the DGRAD with the DGI. • Adoption by the Council of Ministers the report on the advisability and feasibility of merging the DGRAD with the DGI. 	End-September 2009 End-March 2010
C. Tax administration	2. Extend the use of the new single tax identification number (NIF) to all provinces.	End-June 2010
	3. Transfer all enterprises that meet the eligibility criteria to the DGE portfolio.	End-December 2009
	4. Establish tax centers (CDIs) in all provinces to manage medium-sized enterprises: <ul style="list-style-type: none"> • Establish three CDIs: Bas Congo, Nord Kivu and Sud Kivu. • Establish CDIs in all other provinces. 	End-March 2010 End-December 2011
	Objective: Increase Revenues from the Mining Sector	
	1. Sign a memorandum of understanding with other public institutions on the exchange of information on mining sector exports.	End-December 2009
	2. Strengthen tax administration in the mining sector: <ul style="list-style-type: none"> • Strengthen the capacity of the specialized unit, including by means of agreements with specialized audit companies and international consulting firms. • Submit to Parliament draft legislation to transfer all responsibility for tax administration in the mining sector from the DGRAD to the new specialized unit in the DGE, which becomes responsible for internal assessment, in line with international best practice, for the audit and collection of all taxes, fees, and royalties from the major mining companies. 	End-December 2009 End-October 2010
	3. Starting in July 2009, conduct annual audits by the Inspectorate General of Finance, six months after the year in question, to verify that all tax revenue paid by the mining companies have been transferred to the general account of the Treasury.	Ongoing
	4. In the context of strengthening the capacity of OFIDA, establish centers of expertise for the principal mining exports at Kasumbalesa and Sakania in Katanga.	End-June 2010
D. Tax collection in the mining sector		

Table I.3. Democratic Republic of the Congo: Matrix of Economic and Financial Policy Measures for 2009–12 (Continued)

Area	Measures	Timing
E. Public finance management	Objective: Strengthen Public Finance Management	
	Adoption by the Government of a Public Financial Management Action Plan	End-March 2010
(i) Legal and institutional aspects	1. Submit to Parliament a draft organic law on public finance that specifically prohibits provinces from borrowing from commercial banks and the Central Bank. (Structural Benchmark)	End-March 2010
	2. Submit to Parliament the 2008 draft budget review law by the Audit Office.	End-December 2009
	3. Adopt the new Public Procurement Code and its implementing regulations.	End-December 2009
	4. Reform the financing of the tax collection agencies: <ul style="list-style-type: none"> Eliminate the transfers to the three government tax collection agencies. Replace performance premiums with operating and capital budget appropriations and by incentives for agents in the tax collection agencies. 	End-July 2010 End-January 2011
	5. Approve general regulations on government accounting.	End-December 2010
	6. Submit to Parliament a draft organic law on the Audit Office.	End-December 2010
	7. Review the regulatory framework of the Inspectorate General of Finance.	End-December 2010
(ii) Preparation of the budget	1. Develop a medium-term budget framework: <ul style="list-style-type: none"> For the ministries of health and education. In all ministries, in close cooperation with the sector ministries. 	End-March 2010 End-December 2012
(iii) Budget execution	1. Publish a decree by the Minister of Finance to oblige the government to pay resident suppliers in the DRC in local currency.	End-December 2009
	2. Conduct an audit of all accounts of government entities at the BCC and at commercial banks.	End-December 2009
	3. Strengthen the computerized expenditure process by improving the software and updating the hardware.	End-December 2010
	4. Regularization of arrears on domestic payments: <ul style="list-style-type: none"> Prepare repayment plan for the stock of domestic payment arrears at end-2008 based on audit of the Inspection General des Finance. (Structural Benchmark) Implement action plan for gradual repayment of stock of arrears at end-2008. 	February 2010 2010–11
	5. Reduce the use of the exceptional expenditure procedure by: <ul style="list-style-type: none"> Strictly adhere to the December 2008 Decree and stopping the use of “mise à dispositions”. Prepare an exit strategy to integrate the urgent spending procedure into the computerized expenditure cycle 	Ongoing End-December 2009
	6. Prepare a commitment plan that is consistent with the cash-flow plan.	Ongoing
(iv) Accounting system and budget reports	1. Finalize the implementation of double entry bookkeeping at the Directorate of the Treasury in the Ministry of Finance and expand it to all revenue collection agencies.	End-December 2009
	2. Production and publication of monthly tables: (Structural benchmark) <ul style="list-style-type: none"> Generate and publish monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month. Include externally financed expenditures in the monthly budget execution tables ((reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month. 	Ongoing

Table I.3. Democratic Republic of the Congo: Matrix of Economic and Financial Policy Measures for 2009–12 (Continued)

Area	Measures	Timing
E. Public finance management (concluded)	Objective: Strengthen Public Finance Management	
(v) Payroll management	<ol style="list-style-type: none"> Check consistency between human resource database and payroll management for Extend the Simplified Transitional System (PTS) for the payroll to: <ul style="list-style-type: none"> All public officials and government employees. All provinces. Unify the various government employee management systems, particularly by revising the structure of schedules applicable to those systems. 	<p>End-March 2010</p> <p>End-December 2010</p> <p>End-December 2010</p>
II. Monetary and Financial Policy		
A. BCC Reform	Objective: Make the Central Bank Independent and Efficient	
(i) <i>Restructuring of the BCC</i>	<ol style="list-style-type: none"> Implement the new organization and restructuring of the BCC. <ul style="list-style-type: none"> Establish organic units under every directorate in accordance with the organizational chart developed with the technical assistance of the IMF MCM department. Approve the delegation of responsibilities to General Directors and Directors for all ordinary transactions of the central bank and all other administrative decisions developed with the technical assistance of the IMF MCM department. 	<p>End-September 2009</p> <p>End-September 2009</p>
(ii) <i>Recapitalization of the BCC</i>	<ol style="list-style-type: none"> Adoption by the Council of Ministers of the action plan to recapitalize the BCC based on the recommendations of the IMF technical assistance mission. Submit to the Parliament the draft law on the BCC recapitalization. Adoption by the Council of Ministers of the budget required to recapitalize the central bank by issuing government securities , at interest rates and maturities to be determined in line with market conditions. Recapitalize the BCC. 	<p>End-February 2010</p> <p>End-October 2010</p> <p>End-November 2009</p> <p>End-June 2011</p>
B. Monetary policy	Objective: Improve the BCC's Capacity to make Monetary and Exchange Policy	
(i) <i>Liquidity forecasting/money market interventions</i>	<ol style="list-style-type: none"> Publicize the instruction authorizing the trading of BTRs on a secondary market. 	End-September 2009
(ii) <i>Currency issuance and quality of currency in circulation</i>	<ol style="list-style-type: none"> Increase the banknote processing capacity to 100 percent by allocating the necessary resources to the Treasury Directorate: <ul style="list-style-type: none"> 40 percent by June 2010. 70 percent by end-December 2010. 100 percent by June 2011. Adopt a 3-year strategy to reform the currency issuance function in the provinces, to improve the quality of currency in circulation, in coordination with assistance from the IMF expert. Issuance of coins in 2010 in accordance with the strategy developed with the assistance of the IMF expert. 	<p>2009–11</p> <p>End-October 2009</p> <p>End-September 2010</p>
(iii) <i>Exchange transactions</i>	<ol style="list-style-type: none"> Hold regular foreign exchange auctions and publish an advance notice on the Internet, to ensure a regular presence and transparency on the foreign exchange market. 	Continuous

Table I.3. Democratic Republic of the Congo: Matrix of Economic and Financial Policy Measures for 2009–12 (Continued)

Area	Measures	Timing
C. Supervision/ Banking system	Objective: Enhance Banking Supervision Capacity and the Health of the Banking System	
<i>(i) Supervision</i>	1. Strengthen the central bank's supervision capacity by implementing new commercial bank prudential ratios.	End-October 2009
	2. Implement a new matrix of sanctions for noncompliance with the banking supervision regulations.	End-December 2009
<i>(ii) Banking system</i>	1. Complete the audits to assess the quality of the loan portfolio: <ul style="list-style-type: none"> • Of three banks, and establish a plan to restructure and/or recapitalize them, in coordination with their boards of directors. • Of all remaining banks, and establish a plan to restructure and/or recapitalize them. 	End-December 2009 End-March 2010
	2. Adopt a strategy to strengthen the health of commercial banks based on the results of the March 2009 evaluation study undertaken with technical assistance from IMF and World Bank experts.	End-November 2009
	3. Restructuring one large commercial bank	End-December 2009
D. Accounting and transparency	Objective: Improve Accounting and Transparency	
<i>(i) Accounting and audit operations</i>	1. No payments on government expenditures (including urgent expenditure) by the BCC that have not been authorized in advance by the Minister of Finance, in accordance with existing legislation. (Structural benchmark)	Ongoing
	2. Approval by the BCC's board of directors an action plan to apply the international accounting standards (IFRS).	End-December 2009
<i>(ii) Transparency and communication</i>	1. Publish the financial statements and audit reports of the BCC, no later than 6 months after the end of the year, including the auditor's opinion.	Continuous
III. Other Structural Reforms		
A. Civil Service	1. Complete the survey of the Civil Service.	End-April 2010
	2. Complete the survey of the Army and Police.	End-December 2010
B. Business climate	1. Submit to Parliament the OHADA membership treaty.	End-September 2009
	2. Eliminate all tariff and nontariff barriers that are not consistent with the international agreements ratified by the DRC.	End-March 2010
	3. Submit to Parliament the draft law on liberalization of the insurance sector.	End-March 2010
	4. Set up commercial courts in: <ul style="list-style-type: none"> • Kisangani and Matadi. • The remaining provinces. 	End-December 2010 End-December 2011
C. Decentralization		
<i>Policy</i>	1. Implement the 40-percent revenue transfers formula: <ul style="list-style-type: none"> • Transitional period. • Implementation. 	2009 January 2010
<i>Tax and fee classifications for provinces and ETDs</i>	1. Submit to the Parliament a draft law on the classification of taxes and fees of the provinces and ETDs.	End-October 2010

Table I.3. Democratic Republic of the Congo: Matrix of Economic and Financial Policy Measures for 2009–12 (Concluded)

Area	Measures	Timing
C. Decentralization (concluded)		
<i>Strengthen PFM at the provincial level</i>	1. Simplify budget classification at the provincial level: <ul style="list-style-type: none"> • Revise the revenue and expenditure classifications. • Introduce a simplified classification within the framework of the 2012 Budget Law for the provinces. 	End-September 2010 End-December 2011
	2. Develop and approve an action plan to strengthen public financial management (PFM) capacity at the provincial level.	End-September 2010
	3. Introduce a computerized expenditure process in all provinces and link it to the central government's expenditure process.	End-December 2010
D. Debt management		
	1. Execute the action plan for effective implementation of the decree that centralizes external debt management in the OGEDEP including all information concerning public debt as well as all application measures.	End-December 2009
	2. Effectively collect and centralize data on internal and external public debt in the OGEDEP.	End-December 2009
E. Transparency		
	1. Publication within 60 days: <ul style="list-style-type: none"> • Of partnership agreements between public and private enterprises (including information on bonus signing shares, taxation system, private shareholders, and members of the board of directors. (Structural benchmark)) • Of the negotiation results between mining companies and the government regarding the review of mining contracts. 	Ongoing End-June 2010
	2. Implement the Extractive Industries Transparency Initiative.	End-March 2010
	3. Establish an independent anti-corruption agency.	End-June 2010
F. Statistics		
	1. Submit to Parliament by the government the draft statistics law.	End-December 2009
	2. Revision of national accounts statistics: <ul style="list-style-type: none"> • Finalize national accounts estimates (SNA93) for 2006–07. • Adoption by the government of national accounts in accordance with SNA93. 	End-March 2010 End-June 2010
	3. Finalization and adoption by the government the national statistical development strategy (SNDS).	End-September 2010
G. Public enterprise reform		
	1. Develop and submit to the Council of Ministers the social programs for the target enterprises (ONATRA, RVA, SNCC, REGIDESO, and SNEL)	End-July 2010
	2. Evaluate cross-debts between the government and the public enterprises, and between public enterprises: <ul style="list-style-type: none"> • Recruit the Cabinet. • Adopt the action plan by the government. 	End-March 2010 End-September 2010

ATTACHMENT II
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
TECHNICAL MEMORANDUM OF UNDERSTANDING
ON PROGRAM IMPLEMENTATION

Kinshasa, November 30, 2009

1. This memorandum defines the quantitative targets that will be used to assess the performance by the Democratic Republic of the Congo under the program supported by the Poverty Reduction and Growth Facility (PRGF). It also specifies the content and frequency of the data needed for program monitoring. Unless otherwise indicated, all the quantitative targets are measured in terms of cumulative changes since January 1, 2009. Variables denominated in U.S. dollars will be converted to Congo francs by using the program exchange rate of CF 639.32 per US\$. Variables denominated in currencies other than the U.S. dollar (excluding SDRs and euros) will first be converted to U.S. dollars at the end-period US\$/currency exchange rate. Variables denominated in SDR will be valued at the program exchange rate of CF 994.02 per SDR. Variables denominated in euros will be valued at the program exchange rate of CF 905.07 per Euro.

2. **Institutional coverage: The central government** comprises all units of government that exercise authority over the entire economic territory. However, unless otherwise indicated for the purposes of this memorandum, the central government does not include nonprofit organizations controlled and financed by the central government. The **banking system** is understood to mean the Central Bank of the Congo (BCC) as well as existing or newly licensed commercial banks.

I. QUANTITATIVE PERFORMANCE CRITERIA

3. Quantitative performance criteria were established for end-December 2009 and end-June 2010, and indicative targets were set for end-September 2009 and end-March 2010 with regard to the following variables:

- Changes in the net foreign assets of the BCC;
- Changes in the net domestic assets of the BCC;
- Changes in net banking system credit to the government (central government);
- Payments of government expenditures (including emergency expenditures) by the BCC without the prior authorization according to proper budgetary procedures by the Ministries of Budget and Finance;

- Nonconcessional medium- and long-term foreign loans contracted or guaranteed by the central government, local governments, or the BCC;
- Nonconcessional short-term foreign loans contracted or guaranteed by the State, local governments, or the BCC; and
- The accumulation of external payment arrears.

A. Floors on the net foreign assets (NFA) of the BCC

4. **Definition:** NFA are defined as the difference between the BCC gross international reserves and its total liabilities. **Gross foreign assets** are defined as the sum of the following items: (i) monetary gold holdings of the BCC; (ii) SDR holdings; (iii) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross reserves: claims on residents in foreign exchange, nonconvertible currency holdings, and reserves that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities. **Foreign liabilities** are all BCC foreign exchange liabilities to nonresidents (including SDR allocations), including the IMF.

5. The following **adjustments** will be made to the NFA floors.

- **Balance of payments support (BPS):** NFA will be adjusted (i) upward by an amount equivalent to total BPS in excess of the programmed levels, (ii) in July-December 2009 downward by an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and US\$45 million; (iii) downward by an amount equivalent to any shortfall in debt relief under the MDRI from the IMF; and (iv) in January-December 2010 downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.
- **Signing bonus from the Sino-Congolese Cooperation Agreement (SCCA):** NFA will be adjusted (i) upward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) downward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.
- **Privatization proceeds in convertible currencies (PPCC):** NFA will be adjusted (i) upward by an amount equivalent to total PPCC in excess of the programmed levels; and (ii) in July-December 2009 downward by an amount equivalent to the **lesser** of total shortfalls in PPCC relative to programmed levels and US\$45 million.

6. **Definition:** BPS includes (all grants and loans) minus (grants and loans for externally financed projects) plus (debt relief granted by the IMF under the Multilateral Debt Relief Initiative) minus (external debt service payments (see ¶ 7 below)). External financing for the National Disarmament, Demobilization, and Reintegration Program (DDR) falls under the heading of externally financed projects and is therefore not included in the definition of BPS.

7. **Definition:** scheduled external debt service payments (excluding those to the IMF) are defined as debt service due (principal and interest) minus debt relief (excluding debt relief offered by the IMF).

B. Ceilings on the net domestic assets (NDA) of the BCC

8. **Definition:** The NDA of the BCC are defined as base money (see paragraph 18 below) minus NFA. Based on this definition, the NDA of the BCC include: (i) net credit to the government (central government) (see paragraph 10 below); (ii) credit to the private sector; (iii) credit to parastatal enterprises; (iv) credit to commercial banks; and (v) other net assets.

9. The following **adjustments** will be made to the NDA ceilings.

- **BPS:** NDA will be adjusted (i) downward by an amount equivalent to total BPS in excess of the programmed level; (ii) in July-December 2009 upward by an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CF 35,276 million; (iii) upward by an amount equivalent to any shortfall in debt relief under the MDRI from the IMF; and (iv) in January-December 2010 upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.
- **Signing bonus from the SCCA:** NDA will be adjusted (i) downward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) upward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.
- **Privatization proceeds:** NDA will be adjusted (i) downward by the total amount of privatization proceeds (including PPCC) in excess of the programmed level; and (ii) in July-December 2009 upward by an amount equivalent to the lesser of total shortfalls in PPCC relative to programmed levels and CF 35,276 million.

C. Ceiling on net banking system credit to the government (NCG)

Definition: NCG is defined as the sum of net BCC and commercial bank claims on the central government, plus the BCC's net cash deficit. For purposes of program monitoring, government deposits related to externally financed projects are excluded from NCG. External

budget support (BPS excluding balance of payment support from the IMF) will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

10. The following **adjustments** will be made to the NCG ceiling.

- **BPS:** NCG will be adjusted (i) downward by an amount equivalent to total BPS (excluding that from the IMF) in excess of the programmed level, and (ii) upward by an amount equivalent to the **lesser** of total shortfalls in BPS (excluding that from IMF) relative to programmed levels and CF 35,276 million; and (iii) in January-December 2010 upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.
- **Signing bonus from the SCCA:** NCG will be adjusted (i) downward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) upward by an amount equivalent to total shortfalls relative to programmed levels in the disbursement of signing bonus from SCCA.
- **Privatization proceeds:** the NCG ceiling will be adjusted (i) downward by an amount equivalent to total privatization proceeds in excess of the programmed levels, and (ii) in July-December 2009 upward by an amount equivalent to the **lesser** of total shortfalls in privatization proceeds relative to programmed levels and CF 35,276 million.

D. Ceilings on new nonconcessional loans contracted or guaranteed by the central government, local governments, or the BCC

11. **Definition:** With regard to contracted or guaranteed debt, the central government is defined as all units of government that exercise authority over the entire economic territory, including nonprofit organizations controlled and financed by the central government.

12. **Definition:** Debt is defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt in IMF arrangements (Decision No. 12274-00/85 of August 24, 2000; see Annex).

Ceilings on new medium- and long-term nonconcessional loans contracted or guaranteed by the central government, local governments, or the BCC

13. **Definition:** nonconcessional debt is defined as all loans with a grant element of less than 35 percent, calculated as the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of the debt at the time it is contracted is calculated by discounting future flows of payable debt service. The discount rates used for that purpose are the commercial interest reference rates (CIRR) specific to each currency, published by the OECD. The average ten-year CIRRs will

be used to calculate the PV of debt having a maturity of at least 15 years, and six-month average CIRRs for loans with shorter maturity. For the purposes of the program, the most recent CIRRs published by the OECD will be used to assess concessionality of loans.

14. **Definition:** the limit on nonconcessional medium- and long-term loans applies to contracted or guaranteed debt and liabilities for which the equivalent value has not been received. It excludes the use of IMF resources and debt contracted within the framework of a rescheduling or restructuring.

Ceilings on new nonconcessional short-term loans contracted or guaranteed by the central government, local governments, or the BCC

15. **Definition:** short-term debt is defined as debt having an initial maturity of one year or less, with the exception of regular import credits having a maturity of up to one year.

E. Ceiling on the accumulation of external payment arrears

16. **Definition:** external payment arrears include external debt service obligations (principal and interest) that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the PRGF arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations.

II. QUANTITATIVE INDICATIVE TARGETS

17. The indicative targets pertain to: (i) base money; (ii) the non-accumulation of wage arrears; and (iii) the domestic fiscal balance.

A. Ceilings on base money

18. **Definition:** base money is defined as the sum of (i) currency outside banks; (ii) cash holdings of commercial banks; (iii) deposits of commercial banks with the BCC; (iv) private sector deposits with the BCC; (v) deposits of parastatal enterprises with the BCC; and (vi) foreign exchange deposits and provisions for imports with the BCC.

B. Ceilings on the accumulation of wage arrears

19. **Definitions:** Wage arrears are defined as approved personnel expenses which have not been paid for 30 days. Wages include the total compensation paid employees (civil service; including permanent benefits). These arrears will be valued on a cumulative basis from January 1, 2009.

C. Ceiling on the domestic fiscal balance

20. **Definitions:** the **domestic fiscal balance** is defined as (domestic revenue) minus (domestically financed expenditure). **Domestic revenue** is defined as (total revenue and grants) minus (grants) minus (signing bonus from the SCCA). **Domestically financed expenditure** is defined as (total expenditure and net loans) minus (externally financed investments) minus (foreign interest payments) plus (the BCC's operating deficit) plus (the net accumulation of domestic arrears).

21. The following **adjustments** will apply to the ceiling on the domestic fiscal balance:

- **BPS:** In July-December 2009, the floors on the domestic fiscal balance will be adjusted upward by an amount equivalent to the excess of total shortfall of BPS (excluding that from the IMF) relative to programmed levels over CF 35,276 million.
- **Privatization proceeds:** In July-December 2009, the floors on domestic fiscal balance will be adjusted upward by an amount equivalent to the excess of total shortfall of privatization proceeds relative to programmed levels over CF 35,276 million.

III. CONSULTATION CLAUSE

22. In the event that revenue exceeds the programmed amounts during the program period, the authorities will consult the IMF before allocating any surplus revenue to additional expenditure. Further, the authorities will consult with the IMF before implementing any revisions to the policies contained in the MEFP.

IV. DATA TO BE REPORTED FOR PROGRAM MONITORING PURPOSES

23. The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table.

Summary of Data to be Reported

Information	Responsible entity	Frequency	Reporting deadline
Volume of foreign exchange purchases and sales on the interbank market	BCC	Daily	One day
Volume of BCC purchases and sales on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate	BCC	Daily	One day
Average CGF/USD reference exchange rate offered by commercial banks to their customers	BCC	Daily	One day
Average CGF/USD reference exchange rate used by exchange bureaus	BCC	Daily	One day
Integrated monetary survey	BCC	Monthly	2 weeks
BCC balance sheet	BCC	Monthly	One week
Monetary survey of retail banks	BCC	Monthly	2 weeks
Structure of retail banks' interest rates	BCC	Monthly	2 weeks
Reserves (voluntary and required) of retail banks	BCC	Daily	One day
Volume of CGF transactions on the interbank market	BCC	Daily	One day
Outstanding central bank claims on retail banks	BCC	Daily	One day
Foreign exchange sales (including through auctions) by the BCC	BCC	Weekly	One week
Outstanding and new issues of central bank bills (BTR)	BCC	Weekly	One day
Change in the free reserves of banks	BCC	Weekly	One day
Structure of BCC interest rates	BCC	Monthly	One week
Consumer price index	BCC	Weekly	One week
Retail banks' financial soundness indicators	BCC	Monthly	2 weeks
Commodity exports (value and volume), imports (value and volume) and domestic production indicators	BCC	Monthly	3 weeks
Implementation of the BCC foreign exchange cash flow plan	BCC	Weekly	1 week

Summary of Data to be Reported (concluded)

Information	Responsible entity	Frequency	Reporting deadline
Implementation of the BCC domestic currency cash flow plan	BCC	Monthly	1 week
Amounts and holders of promissory notes (bills) guaranteed by the BCC	BCC	Monthly	3 weeks
Evolution of Commitment Plan and Treasury Plan Implementation	MF/MB	Weekly	One day
Implementation of the government cash flow plan	MF	Monthly	2 weeks
Amount, terms, holders, and stock of promissory notes (bills)	MF/BCC	Monthly	3 weeks
Breakdown of customs and excise revenues	MF	Monthly	4 weeks
Breakdown of direct and indirect taxes	MF	Monthly	4 weeks
Breakdown of nontax revenues	MF	Monthly	4 weeks
Projected expenditure commitment schedule	MB	Quarterly	2 weeks
Budgetary monitoring statement (ESB)	MB	Monthly	2 weeks
Approved wage bill by type of beneficiary	MF	Monthly	3 weeks
Wage bill paid by type of beneficiary	MF	Monthly	3 weeks
Compensated employees by category	MF	Monthly	3 weeks
Civil service wage scale	MF	In the event of change	3 weeks
Amounts of emergency spending, amounts approved by the emergency spending committee, amounts adjusted and paid by the BCC	MF/BCC	Monthly	3 weeks
Privatization receipts	MF/BCC	Monthly	3 weeks
Public sector domestic debt by category and by creditor	MF	Monthly	3 weeks
Loan contracts for any new external debt contracted or guaranteed by the central government, the BCC and local governments	MF/BCC	Monthly	3 weeks
Budget execution monitoring table showing Annual Treasury and Commitment Plans and all stages of expenditure execution through payments.	MF/MB	Weekly	3 days
Price Waterhouse Coopers audit reports, indicating any adjustments made to data reported at test dates	BCC		1 week

Annex

Definition of debt

Debt is defined as direct, and therefore unconditional obligation created under a contractual agreement providing for the provision of value in the form of assets (including monetary) or services, which requires the debtor to make one or more payments in the form of assets (including monetary) or to provide services on one or more future dates; these payments discharge the principal and interest liabilities incurred by the debtor under the contract. Debt can take a number of forms, including: (i) loans, that is, advances of funds to the debtor by the creditor on the basis of an undertaking that the debtor 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 debtor is required to repay the loaned funds and usually pay interest, by repurchasing in the future the assets given as collateral to the seller (for example, repurchase agreements or official swap arrangements); (ii) suppliers' credits, that is, contracts whereby the supplier permits the customer to defer payment until sometime after the date on which the goods are delivered or the services are provided; and (iii) leases, that is, arrangements giving the lessee the right to use a property for periods of time that are usually shorter than the useful life of the property in question, but without transferring ownership, title to which is retained by the lessor. For the purposes of this directive, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the term of the arrangement, excluding payments covering the operation, repair, and maintenance of the properties in question.

Under the definition of debt set out above, arrears, penalties, and court-awarded damages arising from a failure to make payment under a contractual obligation having the character of debt also constitute 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.