

THE INTERNATIONAL MONETARY FUND
AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

DEMOCRATIC REPUBLIC OF THE CONGO

**Interim Poverty Reduction Strategy Paper
Joint Staff Assessment**

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

Approved by A. Bio-Tchané and S. Kashiwagi (IMF),
and Callisto E. Madavo and Gobind T. Nankani (IDA)

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I. INTRODUCTION

1. Decades of mismanagement, ill-guided economic policies, long-standing neglect of the poor, international isolation, and the civil war that is estimated to have cost about 3 million lives have been readily identified by participants in the poverty reduction strategy process as prime causes of the long-standing degradation of well-being and living standards of the people of the Democratic Republic of the Congo (DRC). As a result, a very large proportion of the population experiences unacceptably low living standards, as well as a high degree of vulnerability to risks that put even these low standards in jeopardy. Poverty in income terms is not well documented—there has never been a national survey of household living standards—but average per capita income declined from US\$307 in 1970 to US\$107 in 2001. Other dimensions of human poverty are better documented but are equally unedifying, with evidence of widespread malnutrition, high mortality rates, and low levels of educational attainment and skills formation.

2. The role of the PRSP process, as perceived by those responsible for its preparation, is to focus on these fundamental constraints and to provide guidance to a reconstruction process with the interests of the poor at the center. There are formidable obstacles to overcome, not the least of which is the lack of control of the government over all the national territory. On the economic side, continuing the stabilization efforts is a first priority while simultaneously implementing a set of initiatives to launch a longer-term process of reconstruction and sustainable growth. But even if all policy initiatives are successfully implemented and yield the results expected, it will be several years before their impact is sufficient to reverse the long-standing and continuing depreciation of the nation's human and physical capital. In these circumstances, a stabilization of economic poverty indicators is the best that can be hoped for over the period of the present interim PRSP.

II. EVALUATION OF THE INTERIM PRSP AND IMPLICATIONS FOR THE FULL PRSP

3. **Preparation process.** The process for preparation of the interim poverty reduction strategy paper (interim PRSP) is described in Chapter III of the document and, in the staffs' view, proved satisfactory in allowing an initial, if modest, opportunity for the integration of civil society views, launching a participatory process (para. 4 below), and specifying the elements of a poverty reduction strategy (para. 6 below). In parallel, the government implemented a ten-month stabilization program (June 2001–March 2002) monitored by IMF staff. The interaction between those responsible for the stabilization program and those preparing the interim PRSP permitted a better integration of economic and social policies.

4. **Participation.** The government has relatively little experience in either the design or implementation of development programs. The capacity for effective service delivery rests almost entirely with nongovernmental groups that have evolved in response to perceived community needs and the notable gaps left by the collapse of the State. Drawing up the interim PRSP has essentially been a learning experience for the national committee in charge of it. Through this process, the committee has begun the conceptual shift from a top-down planning approach to a participatory approach building on local initiatives; indeed the committee has made this latter approach one of the central features of the proposed strategy. Earlier work supported by the United Nations Development Program (UNDP) to analyze community dynamics has provided an invaluable input into this process. The learning process, while time-consuming and as yet incomplete, has been essential in providing a sound conceptual basis for the national strategy for poverty reduction. There is still much top-down thinking in all ministries, but the interim PRSP now makes the case for a more decentralized and participatory approach to development.

5. **Poverty profile and diagnosis.** The consultations with civil society at the national and regional levels provided the PRSP committee with a forthright diagnosis of the main dimensions of poverty and factors underlying the process of impoverishment of the last three decades. The quantification of this diagnosis in terms of a poverty profile was handicapped by the paucity of statistical material in the DRC. The most consistent data sets are those assembled for the UNDP human development, human poverty, and gender-related development indices, and for two multiple indicator cluster surveys in 1996 and 2001 undertaken in collaboration with the United Nations Children Fund (UNICEF). The interim PRSP makes use of available sources to document differences in the extent of key poverty indicators over time, across regions, between urban and rural areas, and between men and women. These conclusions are reflected in the subsequent strategy. The profile makes a compelling case for undertaking a national household living standards survey as soon as feasible, with the help of the international community, in particular IDA. Given the time frame for completing the full PRSP, the staffs recommend that the authorities consider participation in the IMF's General Data Dissemination System (GDDS), which would provide a framework for statistical development and capacity building and would cover economic and socio-demographic (population, health, education, and poverty) indicators. The strategies for these data improvements, as discussed in the GDDS, could also be integrated in the full PRSP.

6. ***Evaluation of poverty reduction strategy.*** The interim PRSP sets out the main strategic “pillars” (restoration of peace and good governance, economic stabilization and pro-poor growth, and promotion of Community Dynamics), identifies a number of specific areas for action and presents a matrix of actions to be undertaken over a three-year period. It also presents the strategy in three phases: a stabilization phase (2001–02); a transition and reconstruction phase (2002–05), when the prerequisite reforms and actions for poverty reduction will be put in place; and a growth phase (starting in 2005), when sustained poverty reduction will become possible. The interim PRSP identifies improving governance as a key determinant of poverty outcomes. In addition, the restoration of peace, normalization of political processes, and establishment of the rule of law and respect for human rights are considered as important issues.

7. The staffs consider the interim PRSP framework to be sound. It builds up from ongoing activities and plans such as the Lusaka peace agreement process; the disarmament, demobilization, repatriation, resettlement, and reintegration (DDRRR) program; the interim economic reform program monitored by the IMF staff; and the Emergency Multisector Rehabilitation and Reconstruction Project being prepared with IDA support. Although a detailed action plan in matrix form is annexed to the interim PRSP, the document still has gaps in terms of prioritization, costing and financing, and targets and indicators. In subsequent activities to develop the full PRSP and in the annual status reports, it will be necessary to focus on these aspects. The prioritization of actions should draw on both technical analysis and feedback from future consultations with civil society and other nongovernmental actors, and should take into account their relative strengths in the implementation of development activities.

8. ***Macroeconomic framework.*** After many years of economic mismanagement, the DRC began to implement a program that contained a critical mass of bold and front-loaded adjustment measures, aiming at breaking hyperinflation, stabilizing the economic situation, and laying the foundation for restoration of growth and reconstruction. To achieve these objectives, the main macroeconomic policies include: (i) a restrained budgetary policy, centered around strict adherence to a monthly treasury cash flow plan; (ii) a prudent monetary policy consistent with the objective of breaking hyperinflation; (iii) the implementation of a floating exchange rate system, thereby unifying the existing official and parallel market rates; and (iv) far-reaching structural reforms, including a significant reduction in price distortions, a strengthening of the banking sector, improvement of economic security, and liberalization of the economy. The program has been implemented effectively and overall has brought good results. The interim PRSP presents key macroeconomic indicators from the interim economic reform program. Looking forward, it estimates that sustained economic growth in excess of 8 percent would be needed to meet the Millennium Development Goal of halving extreme poverty by 2015, but concludes that this is infeasible in light of the uncertainties and challenges ahead. These challenges include: (a) whether the ongoing peace efforts will succeed as hoped; (b) how quickly basic infrastructure investments can be implemented to reopen inaccessible regions; (c) how rapidly producers respond to these opportunities given the state of decay of the private economy; and (d)

whether adequate donor support is available to assure positive net flows, especially when the country resumes debt-service payments.

9. The staffs share these conclusions. Under the authorities' three-year economic program, growth realistically is expected to average 5 percent in 2002–05. Given the depleted state of the nation's physical and human capital and the initial lack of clear social policies and of a fully operational poverty reduction strategy, the staffs agree that this growth rate cannot be expected to yield substantial reductions in economic indicators of poverty. The staffs are nonetheless confident that substantial, if still unquantified, longer-term reductions in poverty can be achieved with the implementation of the broad strategies envisaged by the interim PRSP. Key in this respect will be the continuation of fiscal policies geared toward further fiscal consolidation, and monetary policy aiming at the overriding objective of price stability in the context of a floating exchange rate system. The preparation of a longer-term macroeconomic framework will be a priority task for the full PRSP. The staffs see a need for considerable efforts to reinforce capacities in all aspects of macroeconomic planning, and notably those related to poverty impact analysis. The interim PRSP does not sufficiently highlight this need.

10. **Public expenditure management.** The country's present budgetary situation leaves little room for maneuver. Government revenue was only 5.9 percent of GDP in 2001 while unmet demands on public resources are enormous. In addition, the government's aim to restore normal relations with its external creditors, including the Bretton Woods institutions, will add to the pressure on resources as debt servicing is resumed after a lapse of several years. Given the lack of comprehensive and clear information on the detailed composition of expenditures, as well as the need for a substantial effort to define clear sector strategies as a basis for future expenditure plans, the interim PRSP provides only a general statement of priorities for the use of public resources. The development of an appropriate framework for public expenditure will, therefore, be a key priority for the full PRSP. The staffs see a need for continued extensive technical support from the IMF, the World Bank, and other external partners in this area and a related need for close coordination of donor support. The staffs welcome the emphasis in the interim PRSP on the establishment of good patterns of governance, which will be a necessary complement to the expansion of public sector expenditures. Governance issues include the restoration of normal budgetary processes and the establishment of patterns of probity in public resource management. These latter areas have begun to be addressed in the context of the IMF- and IDA-supported programs, and substantial initial progress has been made. Nonetheless, these attainments are fragile, and more remains to be done if future resource flows to the country are to have their intended impact. Economic and financial governance issues, including a comprehensive civil service reform, will remain a key focus of future IMF and IDA support in the interim PRSP period.

11. **Sectoral actions.** The interim PRSP includes proposals for the key development sectors. The proposals are not yet fully defined, although the orientations proposed are generally sound. In the preparation and consultation process for the full PRSP, the government should seek an open exchange of views on the approaches to be adopted in each sector with a considerable emphasis placed on technical evaluation of effective service-delivery

options. For the success of the poverty reduction and sectoral development efforts, it will be important to build on community initiatives wherever possible and avoid assigning excessive responsibility for service-delivery to the public sector, which lacks implementation capacity. At the same time, a number of key sectoral areas merit enhanced attention in the full PRSP because of their impact on the macroeconomic situation and growth prospects (Box 1).

Box 1. Key PRSP Issues

- **Private sector development:** (a) establishing responsive and responsible government institutions to interact with the private sector; (b) strengthening the investment climate through reforms of the legal and regulatory frameworks; (c) fostering public/private partnerships for the provision of infrastructure services; and (d) developing and integrating small businesses and cottage industries into the formal economy.
- **Promotion of saving and investment for pro-poor growth:** the interim PRSP proposes, among other things, the creation of local savings operations to support grassroots producers. This measure needs to be examined further within the framework of the new banking law and the new law on savings and loan cooperatives. Lessons from other countries' experience in creating and managing such specialized financial institutions also need to be taken into account.
- **Infrastructure.** The interim PRSP presents broad orientations for infrastructure rehabilitation and development. The full PRSP should provide a clearer strategic vision for infrastructure, as well as a precise action program for its implementation. In general, the contribution of infrastructure to broader development needs to be prioritized, for example, by clarifying the extent to which specific investments will promote production.
- **Education:** (a) development of a *carte scolaire* and estimates of the benefit incidence of current expenditures; (b) development of consensus on the most pressing *investment* needs to reinforce education service delivery; (c) definition of a clear long-term sector strategy for delivering a minimum level of *quality* at all levels of the system, based on a vision of the state as first and foremost a facilitator; and (d) *innovation* in service delivery and financing, to improve *coverage* and *cost-effectiveness* of educational expenditures, including for regional or social groups served poorly or not at all by the current system.
- **Health:** (a) improvement of sectoral statistics through household, health, and expenditure surveys, and full exploitation of the UNICEF-supported multiple indicator cluster surveys; (b) establishing a realistic set of targets for the Millennium Development Goals in the health sector through the participatory process; and (c) urgent efforts to improve the infant mortality rate (currently 129 per thousand) through stepped-up immunization coverage (currently 29 percent).
- **HIV/AIDS:** The interim PRSP proposes a coherent and broad strategy to combat the spread of HIV. However, the effects of an unchecked HIV/AIDS epidemic are likely to overwhelm gains from reduced mortality from other causes. The focus of both government and external partners should therefore be on translating the strategy into an effective action plan. As health facilities are badly degraded, those parts of the anti HIV/AIDS program that rely on health service delivery will need to be supported by a broader reinforcement of the health care system.

12. ***Gender and poverty.*** The interim PRSP includes a brief section on gender issues in which the economic disadvantages of women, the problem of violence against women, and the high exposure of women to the risk of HIV infection are identified. The section also summarizes the main proposals of the *Plan for the Promotion of Congolese Women*. During the preparation of the full PRSP, the gender analysis could be extended to include further differentiation of the proposed actions to take account of the specific situations of men and women.

13. ***Implementation plans and capacities.*** Implementation plans for the poverty reduction strategy have not been defined, and the interim document does not go beyond broad identification of key actions. The establishment of implementation mechanisms will therefore, be a key task from here onward. The interim PRSP includes a proposal for a Charter to govern the relations between civil society and local and central administrations, as well as a proposal to use part of any Initiative for Heavily Indebted Poor Countries (HIPC Initiative) resources for a poverty reduction fund. The former initiative is a key feature of the first phase of the community initiatives “pillar” and can greatly enhance the effectiveness of future poverty reduction efforts by anchoring the partnership between the State and different service delivery groups. Discussions with stakeholders on the contents of the Charter and the creation of a poverty reduction fund merit high priority in the consultations for the full PRSP. However, the staffs advise caution regarding institutional funds like this poverty reduction fund. If used, the poverty reduction fund should be fully transparent, and integrated into the budget process with regard to programming, expenditure control, and accounting.

14. While the above steps all go in the right direction, the staffs consider that implementation capacities are either weak or poorly used in most development-related areas. The central administration has very little recent experience in the implementation of development programs, while homegrown capacities at the local level remain beyond the ambit of official programs. Attaining greater synergy among local capacities and selective reinforcement of capacities at the center are already, and should remain, part of the development support offered by IDA and other donors.

15. ***Targets and indicators.*** The interim PRSP includes a matrix of actions within which progress indicators are identified. Outcome indicators of poverty are not identified, although these are perhaps implicit in the choice of statistical and other surveys that the interim PRSP proposes should be undertaken. There is no explicit reference in the indicators section to the Millennium Development Goals, although the text on the macroeconomic framework concludes, realistically, that the goal of halving absolute poverty by 2015 cannot be attained from the present starting point. While the indicators in the interim PRSP matrix are helpful, the establishment of a more concise set of key indicators and targets will be essential to keep the document focused and to guide those responsible for its implementation. Development of a set of monitorable outcome indicators and a more concise set of intermediate indicators will thus be a key task for the full PRSP. The choice of indicators should also be addressed through the participatory process for completing the

full PRSP. As there is very little experience among policymakers, beneficiaries, and stakeholders, a considerable amount of effort to build capacity should be anticipated.

16. ***Monitoring and evaluation.*** The interim PRSP proposes to establish a monitoring system based on participatory and statistical inputs. To reach this goal, there is a need to buttress capacity building with the help of the international community. On the statistical side, the interim PRSP proposes several statistical surveys, including a household-level survey of living conditions and user surveys in the social sectors. These surveys are very important for generating an improved baseline for future poverty reduction and other actions, but donor support, both technical and financial, will be needed to implement them. The staffs welcome the inclusion of participatory monitoring. Details of how this is to be undertaken are not clear in the interim PRSP and will need to be spelled out for the full PRSP. This full document will thus need to set out (a) indicators, as described in the preceding paragraph; (b) the frequency/timetable of statistical monitoring; and (c) mechanisms and institutional arrangements through which beneficiaries and stakeholders will provide feedback and be informed of outcomes.

17. ***Assessment of risks.*** The interim PRSP identifies several risks that could affect progress in poverty reduction: (a) political and governance risks, including the unstable situation in various parts of the country and the basic difficulty of restoring peace and maintaining order, as well as risks related to the weakness of the administration and the lack of transparent and well-established procedures; (b) a relatively small tax base and the difficulty of reconciling multiple demands on resources in a weak administrative setting together with the high dependence on donor flows in the immediate future; and (c) capacity and institutional constraints on the design, implementation, monitoring, and evaluation of development activities, especially at the local level, where the bulk of the participatory actions are expected to be carried out.

18. The staffs concur that these are important risks. While the proposals of the interim PRSP are designed to mitigate these risks, many of them are beyond the control of the government, which does not have full control of the national territory and has extremely limited capacity and experience with development programs. Continuing international support for the peace process will be an essential factor in helping mitigate the key conflict-related and political risks. Helping mitigate these and other risks should be a central part of the support provided by the Bretton Woods institutions and other donors, with particular emphasis on paying early attention to establishing good patterns of governance, and avoiding excessive reliance on the public sector for service delivery, while supporting alternative means of such delivery. The staffs note the high dependency on external aid over the next few years. Aid flows can be delayed because of lack of coordination between donors or weak administrative capacity by central and local governments. Since external aid is also typically linked to donor conditionality, failure to meet these conditions can interrupt aid flows, further complicating the implementation of the poverty reduction strategy. Finally, the staffs note that the official commitment to poverty reduction is still recent. Continuing demonstration of this commitment will, therefore, be necessary.

III. TIMETABLE FOR PREPARATION OF THE FULL PRSP

19. The interim PRSP includes a list of activities to be carried out to prepare the full PRSP and a timetable for their implementation. The government has proposed completing the full PRSP by early 2005 at the latest. **This would be compatible with the currently projected HIPC completion point of early 2006, which would permit the establishment of a credible track record with respect to policy implementation as regards macroeconomic management, structural reform, and poverty reduction efforts.** The staffs consider that this relatively long-time period is justified by the considerable amount of work that remains to be done in most areas **to produce a quality poverty reduction strategy.** This includes the preparation of the underlying sector strategies; establishment of a monitoring system; creation of committees at the provincial level to build partnerships, monitor poverty activities, and deepen the participatory process; establishment of institutional mechanisms and related capacity-building activities; preparation of statistical and other surveys; reinforcement of the macroeconomic framework; and completion of technical and sector studies. At the same time, during the three-year interim period, every effort should be made to make major progress in the implementation of the poverty reduction measures proposed in the interim PRSP. The annual progress reports to the Boards and related JSAs should record and evaluate this progress, as well as that pertaining to the preparation of the full PRSP.

20. While the detailed calendar of activities will need to be refined over time, the staffs consider that this road map is realistic. The target date for completion of the full PRSP is achievable and allows reasonable amounts of time for the accumulation of additional experience. The government will need to develop more detailed plans at an early stage for (a) fleshing out the participatory process it intends to use in preparing the full PRSP, including how this process will relate to ongoing peace talks and consultations with key donors; (b) filling the gaps in poverty data and diagnostics; (c) phasing the work on developing indicators and putting in place monitoring and evaluation systems; and (d) prioritizing policy and institutional reforms.

21. **External support needs.** In each of the areas identified in the previous paragraph, there will be a need for the government to identify external resources to support the necessary preparatory and/or technical and analytical work. IDA expects to work with the government early on to develop a comprehensive program of activities with clearly identified external support needs. The ongoing IDA grant and the Emergency Multi-Sector Reconstruction and Rehabilitation Project provide some support, but it will also be necessary to mobilize assistance from other donors.

22. Given the multiplicity of the challenges and the considerable obstacles to be overcome, the staffs have recommended that the authorities seek timely technical and financial support from the donor community for their PRSP-related activities. Any assistance provided in this respect should be sensitive to the risk of undermining country ownership and to the importance of bolstering the somewhat fragile ownership at present. Nonetheless, with this caveat, the staffs would consider such support to be of high priority and they would urge other donors to respond in a timely fashion to well-formulated requests for support.

IV. CONCLUSION

23. The government of the DRC is making strong efforts to reunite the country after a long period of economic mismanagement and, in recent years, armed conflict. The interim PRSP has provided a context for the opening of a national dialogue on the poverty reduction strategy and has yielded a coherent analytic and operational framework for moving forward with the design and implementation of poverty reduction policies and actions. The framework will permit the authorities to prioritize and evaluate actions for the coming three years as they seek to cope with the unstable regional political context, relatively low fiscal revenue, and severely limited capacities in both administration and development.

Acknowledging these constraints and the postconflict character of the country, the staffs consider that the present document meets the requirements of an interim PRSP. It provides a road map toward a comprehensive poverty reduction strategy with national ownership and the participation of stakeholders in its design and implementation.

24. The implementation of the proposals in the interim PRSP and the preparation of a full PRSP will be formidable challenges for the government. It will need to focus particularly on building partnerships with, and reinforcing the capacities of, national stakeholders, while setting out a technically sound and results-oriented strategy. Extensive technical and financial support is needed from the donor community to accompany these efforts.

25. The staffs of the IMF and IDA consider that this interim PRSP provides an adequate basis for the development of a participatory full PRSP and for IMF and IDA concessional assistance. The staffs recommend that the respective Executive Directors of the IMF and IDA reach the same conclusion.

Democratic Republic of Congo: Key World Bank/Fund Events Related to the PRSP

Institution and Event	Expected Date
IMF: Conclusion of second and last review of Staff-Monitored Program	April 13 , 2002
IMF/IDA: Board Consideration of I-PRSP and Joint Staff Assessment of interim PRSP	June 2002
IMF: Board consideration of PRGF	June 2002
IMF/IDA: Board consideration of HIPC preliminary document	June 2002
IDA: Board presentation of Economic Recovery Credit	June 2002
IDA: Board presentation of Emergency Multisectoral Reconstruction and Rehabilitation Project	July 2002
IMF First Review under the PRGF by Executive Board	January 2003
IMF/IDA: Board consideration of HIPC decision point document	January 2003 or later
IDA: Transitional Support Strategy update(s)	July 2002/March 2003
IMF: Second review under the PRGF by Executive Board	July 2003
IDA: Board presentation of Interim CAS	July 2004
IMF/IDA: Board consideration of full PRSP and accompanying Joint Staff Assessment	Early 2005
IDA: Board presentation of CAS	December 2005
IMF/IDA: Board consideration of HIPC completion point document	Early 2006 or later