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January 26, 2017

<p>Closing Date: Tuesday, February 14, 2017 at 6 p.m.</p>
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FROM: Vice President and Corporate Secretary

Democratic Republic of Congo

Public Financial Management and Accountability Project

Additional Financing and Restructuring

Project Paper

Attached is the Project Paper regarding a proposed additional grant and restructuring to the Democratic Republic of Congo for Public Financial Management and Accountability Project (IDA/R2017-0008), which is being processed on an absence-of-objection basis.

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Report No: PAD1928

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT AND RESTRUCTURING

IN THE AMOUNT OF SDR 37.0 MILLION
(US\$50.0 MILLION EQUIVALENT)

TO THE

DEMOCRATIC REPUBLIC OF CONGO

FOR A

PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY PROJECT

January 24, 2017

Governance Global Practice
Africa Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective November 30, 2016)
Currency Unit = United States Dollar (US\$)
SDR 0.73868337 = US\$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AfDB	African Development Bank
ARMP	<i>Autorité de Regulation des Marchés Publics</i> (Public Procurement Regulation Authority)
ASYCUDA	Automated System for Customs Data
CAS	Country Assistance Strategy
CBA	<i>Contrôleur Budgetaire Affecté</i> (Budget Controller Assigned to Line Ministries)
CDC	<i>Cour des Comptes</i> (Supreme Audit Institution)
COREF	<i>Comité d'orientation de la Réforme des Finances Publiques</i> (Coordination Committee for Public Finance Reform)
CPCC	<i>Conseil Permanent de la Comptabilité au Congo</i> (Congolese Accounting Standards Body)
CPS	<i>Comité de Pilotage et de Suivi</i> (Steering and Monitoring Committee for Local Public Finance Reform)
CSO	Civil Society Organization
DA	Designated Account
DAF	<i>Direction Administrative et Financière</i> (Administrative and Financial Directorate)
DCB	<i>Département du Contrôle Budgétaire</i> (Department of Budget Control)
DFID	Department for International Development (United Kingdom)
DGCMF	<i>Direction Generale de Controle des Marché Publics</i> (Directorate General for Managing Public Contracts)
DGDA	<i>Direction Générale des Douanes et Accises</i> (Directorate in Charge of Customs Administration)
DGI	<i>Direction General de Impots</i> (Directorate in Charge of Core Taxes)
DGRAD	<i>Direction Generale des Recettes Administratives et Domaniales</i> (Directorate in Charge of Non-tax Revenue Administration)
DGTCP	<i>Direction Générale du Trésor et de la comptabilité Publique</i> (Directorate General of Treasury and Public Accounts)
DRC	Democratic Republic of Congo
DRM	Domestic Revenue Mobilization
EU	European Union
FM	Financial Management
GDP	Gross Domestic Product
GRS	Grievance Redress Service

IFAC	International Federation of Accountants
IFR	Interim Financial Report
IGF	Inspectorate General of Finance
IMF	International Monetary Fund
LOFIP	<i>Loi n° 11/011 du 13 juillet 2011 relative aux Finances Publiques</i> (Public Financial Management Act)
MDAs	Ministries, Departments, and Agencies
MDTF	Multidonor Trust Fund
MTEF	Medium-term Expenditure Framework
OHADA	Organization for the Harmonization of the Business Law in Africa
ONEC	<i>Ordre National des Experts Comptables du Congo</i> (Accounting Profession Organization)
OPCS	Operations Policy and Country Services
PBB	Performance-based Budgeting
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFMAP	Public Financial Management and Accountability Project
PIP	Public Investment Program
PRSP	Poverty Reduction Strategy Paper
PSRRP	Public Sector Reform and Rejuvenation Project
RGCP	<i>Règlement Général sur la Comptabilité Publique</i> (General Regulation on Public Accounting)
TDE	Territorial Decentralized Entities
VAT	Value Added Tax

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DEMOCRATIC REPUBLIC OF CONGO
Public Financial Management and Accountability Project Additional Financing (P159160)

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ADDITIONAL FINANCING DATA SHEET

Congo, Democratic Republic of

Public Financial Management and Accountability Project Additional Financing (P159160)

AFRICA

GGO25

Basic Information – Parent									
Parent Project ID:		P145747			Original EA Category:		C - Not Required		
Current Closing Date:		31-Dec-2018							
Basic Information – Additional Financing (AF)									
Project ID:		P159160			Additional Financing Type (from AUS):		Scale Up		
Regional Vice President:		Makhtar Diop			Proposed EA Category:				
Country Director:		Ahmadou Moustapha Ndiaye			Expected Effectiveness Date:		30-Jun-2017		
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Organization Name		Contact		Title		Telephone		Email	
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Project Financing Data - Parent (DRC: Strengthening PFM and Accountability-P145747) (US\$, Millions)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P145747	IDA-H9070	Effective	30-Jan-2014	20-Feb-2014	23-May-2014	31-Dec-2018	31-Dec-2018		
P145747	TF-17290	Effective	28-May-2014	28-May-2014	28-May-2014	31-Dec-2016	31-Dec-2018		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisb	%

								ursed	Disburse d
P145747	IDA-H9070	Effective	US\$	5.00	5.00	0.00	3.58	1.06	71.58
P145747	TF-17290	Effective	US\$	14.50	14.50	0.00	14.07	0.43	97.00
Project Financing Data - Additional Financing AF - DRC Public Financial Management and Accountability Project (P159160) (US\$, Millions)									
<input type="checkbox"/> Loan <input type="checkbox"/> Grant <input checked="" type="checkbox"/> IDA Grant <input type="checkbox"/> Credit <input type="checkbox"/> Guarantee <input type="checkbox"/> Other									
Total Project Cost:		50.00		Total Bank Financing:		50.00			
Financing Gap:		0.00							
Financing Source – Additional Financing (AF)								Amount	
IDA Grant								50.00	
Total								50.00	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
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Bank Staff									
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Sidy Diop	Team Member	Senior Procurement Specialist	Senior Procurement Specialist	GGO07
Oumou Gado Oumarou H D	Team Member	Program Assistant	Program Assistant	GGO25

Extended Team

Name	Title	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Congo, Democratic Republic of		Nord Kivu Province	X		
		Sud Kivu Province	X		
		Haut-Katanga, Tanganyika, Haut-Lomami, Lualaba Provinces	X		Former Katanga Province
		Equateur, Nord-Ubangi, Sud-Ubangi, Mongala, Tshuapa Provinces	X		Former Equateur Province
		Kasai Oriental, Sankuru, Lomami Provinces	X		Former Kasai Oriental Province
		Kasai, Kasai Central	X		Former Kasai

		Provinces			Occidental Province
	Kinshasa	Kinshasa City	X		
		Mai-Ndombe, Kwilu, Kwango Provinces	X		Former Bandundu Province
Institutional Data					
Parent (DRC: Strengthening PFM and Accountability-P145747)					
Practice Area (Lead)					
Governance					
Contributing Practice Areas					
Additional Financing AF - DRC Public Financial Management and Accountability Project (P159160)					
Practice Area (Lead)					
Governance					
Contributing Practice Areas					
Consultants (Will be disclosed in the Monthly Operational Summary)					
Consultants Required? Consultants will be required					

I. Introduction

1. **This project paper seeks the approval of the Executive Directors to provide an additional financing (AF) in an amount of US\$50.0 million equivalent to the Democratic Republic of Congo (DRC) for the Public Financial Management and Accountability Project (PFMAP, P145747).** The proposed AF is an International Development Association (IDA) grant to support the following main areas: (a) enhancing domestic revenue mobilization (DRM) capacity; (b) strengthening the budget planning and forecasting processes; (c) improving public accounting and reporting; and (d) scaling up IDA's support in provinces with the new 'decoupage'.¹

2. **The proposed AF will strengthen the development impact of the project, adjust the World Bank's assistance to changing government priorities and circumstances, and enhance the achievement of the project development objective (PDO).** The Board of Directors approved the original IDA financing of US\$5.0 million on January 30, 2014, which received cofinancing in the amount of US\$17.1 million from the United Kingdom Department for International Development (DFID). As part of the proposed AF, the overall project will be restructured to (a) revise several components to reflect new activities; (b) revise the Results Framework to reflect the AF and current progress on the ground; and (c) extend the closing date by three years, from December 31, 2018 to December 31, 2021.

II. Background and Rationale for Additional Financing

Country Context and Development Challenges

3. **DRC is among the largest and most resource rich countries in Africa but remains vulnerable because of decades of conflicts.** DRC has a population of about 71 million people distributed over 2.3 million km². It has vast mineral wealth and huge water resources, but decades of conflict and corruption have left it chronically unstable, lacking infrastructure and social services, and falling far short of its economic potential. As a result, DRC remains one of the poorest countries in the world with a poverty rate of 64 percent and a per capita gross domestic product (GDP) below US\$291. It was ranked 176 out of 187 countries in the 2015 Human Development Index.

4. **The strong economic growth observed in 2010–2014 started slowing down to 7.7 percent in 2015 from 9 percent in 2014, due to the global downturn in commodities markets.** Prudence in fiscal and monetary policies helped DRC authorities to maintain a stable macroeconomic framework. As a result, inflation has been maintained around 1 percent over the period 2013–2015, down from 2.7 percent in 2012. Spending control on cash basis helped avoid monetary financing of the budget by the Central Bank. However, revenue collection remained weak, less than 13 percent of GDP in 2014 and 2015, mainly due to the underperformance of revenues from the natural resource sectors and weaknesses in the implementation of the value added tax (VAT) introduced in 2012. In this context, the main risks to the economic outlook are

¹ Decentralization process that concluded in July 2016, which split the existing 11 provinces into 26.

(a) a prolonged decline in commodity prices; (b) a deterioration of the political situation;² and (c) delays in implementing key revenue-raising measures. Moreover, a worsening of the energy situation will constrain the projected sustained growth in mining production, thus, compromising the ability of the Government to fulfill its mandate to close the public investment gap and respond effectively to the pressing social sector needs.

5. **Addressing governance challenges and creating strong and capable institutions are prerequisites for transforming DRC's exceptional resource endowment into sustainable growth in the long term.** With respect to the ongoing reforms, the Government has, since 2010, been committed to establish a mechanism for the systematic improvement of economic governance, working closely with the World Bank. A joint mechanism for monitoring the progress on reform implementation has also been established. The objective of these reforms is to strengthen governance and transparency in the extractive industries (forestry, mining, and oil sectors) and to improve the business climate. Over the past two years, significant progress in the implementation of these measures has been observed. Almost all the contracts signed by the Government in the oil, mining, and forestry sectors have been disclosed to the public. DRC is meeting the transparency requirements through the periodic publication of reports under the Extractive Industries Transparency Initiative. However, additional efforts must be made to achieve the widespread use of competition for the awarding of mining, oil, and forestry contracts.

6. **Notwithstanding the ongoing reform efforts, a significant factor leading to the economic problems in DRC is the weakness of its current Public Financial Management (PFM) system.** In view of the consequences from such a weakened system, the DRC Government, with the support of the World Bank and DFID, has developed a more comprehensive, sector-wide approach to support PFM reform. At the request of the Government, the World Bank is introducing an AF to the PFMAP to support the Government's PFM reform program. The current PFMAP, under implementation, has been designed using a basket-funding mechanism by establishing a multidonor trust fund (MDTF) for PFM reform administered by the World Bank and executed by the DRC Government. The original project under implementation is supported by US\$22.1 million, including an IDA allocation of US\$5 million and a cofinancing of US\$17.1 million from DFID, allocated over a period of five years, from January 2014.

Sector Context

7. **Cognizant of the deficiencies in public administration, the Government of DRC, has since 2010 embarked on a series of reforms to improve public service management and capacity.** On the PFM side, there has been significant progress in the legal and institutional framework with the adoption of a Public Financial Management Act (*Loi n° 11/011 du 13 juillet 2011 relative aux Finances Publiques*, LOFIP) and Public Procurement Law (*Loi n° 10/010 du 27 Avril 2010 relative aux marches publics*). The 2013 Strategy for Public Sector Reform was adopted to resolve the issues of efficiency and productivity. Most recently, the DRC parliament voted the Organic Law of Public Administration at central, provincial, and local levels (*Loi Organique sur les Fonctions Publiques Centrale, Provinciale et Locale*) to tackle issues related to civil service.

² The new electoral cycle, with municipal, local, and provincial elections, that was planned for October 2015 was postponed. The entire electoral process is delayed, and presidential and legislative elections planned for November 2016 have not yet commenced.

In addition, a study on the implementation of *Caisse de Retraite des fonctionnaires de l'État* has been completed. However, there are still implementation gaps between the de jure and de facto in the governance reform environment.

8. **Dialogue is maintained with the Government to yield the political will and close the de jure and de facto gap in governance reforms.** The World Bank and other donors have set up the Economic Governance matrix (*Matrice de Gouvernance Economique*) to follow up with the counterpart on broader economic and governance issues. In addition, a PFM consultation framework (*Cadre Permanent de Concertation sur les Réformes des Finances Publiques*) has been established by the Minister of Finance to discuss with donors and address issues related to PFM.

9. **DRC's PFM reform strategy adopted in 2010 offers a harmonized framework to channel the Government's development actions and donor interventions and comprises six pillars:** (a) budget reform; (b) reform of the tax system; (c) reform of the management of public expenditure; (d) reform of public accounting and cash management; (e) reform of the public financial control system; and (f) fiscal decentralization. The implementation of the strategic plan is carried out through triennial priority action plans, the latest one covering the period 2015–2017. To allow for proper implementation of the PFM reforms, in 2012, the Government signed an agreement with the development partners, establishing a permanent framework for dialogue and monitoring of PFM reforms. A steering committee (the Coordination Committee for Public Finance Reform [*Comité d'orientation de la réforme des finances publiques*, COREF]) has also been created, to supervise and coordinate the implementation of the PFM Strategy, in view of addressing the remaining weaknesses in the country PFM system.

10. **The budget planning and preparation process remains weak lacking a comprehensive and credible budget linked to public policies.** DRC's budgetary allocations did not adequately align with its policy priorities defined in the country's Poverty Reduction Strategy Paper (PRSP). The budget preparation process is seen as being strongly influenced by political considerations, often leading to the circumvention of instructions for the budget preparation. As a result, some priority sectors are receiving insufficient allocation of resources. In addition, there is no coherent forward-looking perspective in the budget. The medium-term expenditure framework (MTEF) developed in 2010 in key sectors (that is, health; primary, secondary, and vocational education; agriculture; rural development; and infrastructure) plays an indicative role at the budget formulation stage, with no links between multiyear estimates and subsequent setting of annual budget ceilings. The disconnection between the annual budget cycle and the multiyear nature of some capital budget commitments sometimes leads to unfunded commitments.

11. **DRM remains below potential and affects the ability of the Government to spend on infrastructure and on social and pro-poor programs.** DRC's domestic resource mobilization is below international and regional benchmarks and contrasts with its large natural resources potential. Domestic revenues, including tax and non-tax revenues, did not exceed 13 percent of GDP in the past three years (2013 to 2015), and is below the average of the least developed countries (15 percent of GDP) and of Sub-Saharan African countries (23 percent of GDP). Moreover, countries with a potential of natural resources rent close to that of DRC (36 percent of GDP) have fiscal revenue ratios around 25 percent of GDP and above. The VAT system, introduced in 2012, is faced with collection challenges due to heavy procedural and control bottlenecks. The VAT ratio decreased from 4.5 percent of GDP in 2013 to 3.3 percent of GDP in

2014. Also, despite their good performance, revenues from the extractive industries sector are below potential. Total revenues collected from oil and mining was only 17.8 percent of the value of exports of oil and mineral products, which is low by international standards. The problem is essentially in the mining sector, where the ratio is only 13.8 percent, while in the oil sector, it reaches 54 percent. This low revenue mobilization reflects inadequate tax policies and legal frameworks. It also relates to ineffective institutional and administrative arrangements and processes. Some of the administrative weaknesses are related to the inability of DRC's public administration to carry on its mission due to the lack of human and financial resources. These weaknesses prevent efficient revenue mobilization, leading to a vicious circle where insufficient resources prevent DRC's administration from operating properly, including in mobilizing additional revenues. Recently, the weak trend in mobilization of domestic revenue during the first quarter of 2016 has caused the parliament to adjust the initial budget with a cut of expenditures by 30 percent.

12. The revenue mobilization system is still characterized by a multiplicity of agencies collecting taxes, which has a negative impact on the business climate in DRC. The lack of clarity over revenue assignments between the central government and provincial governments,³ and the lack of implementation of a transparent revenue transfer system (regardless of its inclusion in the LOFIP) have fueled 'competition' in revenue collection and duplication of assessments leading to additional unnecessary burden on households and companies. Weaknesses in revenue mobilization negatively affect budget reliability, creating significant gaps between planned and actual revenue. Furthermore, the tax collection process is not fully computerized and the existing information systems are not interconnected. Thus, the tax revenue administration does not have a reliable taxpayer database to collect taxes. Finally, tax evasion, fraud on tax exemption, and the VAT reimbursement are widespread and continue to undermine revenue collection in DRC.

13. Bottlenecks in public expenditures management and procurements lead to a low budget execution rate and inefficient public spending in priority sectors. Budget execution is affected mainly by (a) redundant and lengthy steps in budget execution processes, including various political interventions in the approval of commitments and payments; (b) abuse in the use of the exceptional/emergency procedures; (c) excessive centralization of the budget execution authority in the Ministry of Finance and Ministry of Budget; and (d) inefficient use of public procurement procedures and entities especially procurement units, which still are not fully operational. Budget credibility is a major concern due to abuse in exceptional procedures bypassing the expenditures chain. The overall budget execution rate decreased from 56 percent in 2013 to 51 percent in 2014 and from 36 percent to 31 percent in the social and infrastructure sectors, respectively.⁴ Although the latest report by DRC's Supreme Audit Institution shows a budget execution rate of 68 percent for fiscal year 2015, a significant improvement compared to previous fiscal years, there is space for further improvements.

³ Provincial tax proliferation brought about a push-back from the central government, which sought to circumscribe provincial innovations with a 2013 Law on Tax Nomenclature, which lists all legal provincial and local taxes. The nomenclature recognizes four provincial income taxes (*impôts*), 135 taxes many of which previously existed at the national level, and 61 province-specific taxes. Englebert, Pierre, and Emmanuel Kasongo Mungongo. 2016. "The Failure of Decentralization Reforms in the DR Congo" -

⁴ DRC Economic Update report. 2015.

14. **DRC has made significant efforts in public procurement reforms, but the system needs to be further strengthened.** The adoption of the Procurement Act in 2010 and the establishment of control and a regulatory bodies has brought some improvements. Yet, the provisions of the new act are sometimes misinterpreted or not respected. Despite the presence of the legal framework requiring all public contracts to be submitted to the control body, a significant proportion of public contracts are awarded on derogatory procedures and, thereby, are not controlled by the General Directorate of Public Procurement. Furthermore, both the control body and the regulatory body lack qualified and sufficient personnel to carry out their missions. The situation is expected to worsen with the creation of new provinces that will need the control and regulatory bodies' support to create their own procurement bodies and related capacity.

15. **The lack of an effective accounting system is characterized by a weak cash management process and unreliable public financial information and reporting.** DRC does not have an appropriate accounting and cash management system. First, the lack of a proper cash planning system causes the Government to default in meeting its commitments and obligations and consequently causes accumulation of arrears. Additionally, the country does not have comprehensive annual budget reports. Many agencies do not produce their public accounting reports; this has caused the government to submit the last report to the parliament without the notice of compliance of the Supreme Audit Institution (*Cour des Comptes*, CDC). Finally, the new LOFIP introduces innovations, such as an accrual accounting system that will require both a strong public accountants' network and a capable Accounting Profession Organization (*Ordre National des Experts Comptables du Congo*, ONEC), as well as the creation of the Directorate General of Treasury and Public Accounts (*Direction Générale du Trésor et de la Comptabilité Publique*, DGTCP) in charge of overseeing accounting, cash management, and financial reporting, to implement these critical public accounting reforms to enhance transparency and credibility of financial information and reporting.

16. **The adoption of a new law on 'decoupage' raises serious subnational governance challenges with regard to administrative and institutional capacity building, fiscal and financial transfers, and social accountability for service delivery.** Although decentralization was enshrined in the 2006 Constitution, which redefined the state structure of DRC as a decentralized unitary state, with 26 provinces (previously 11) and over 1,000 self-governing local authorities, the decentralization process made little progress since the initial adoption of the law. In addition, the constitutional transfer of 40 percent of financial resources expected from the central government to provinces is not yet fully effective nor is the establishment of the National Equalization Fund (*Caisse Nationale de Péréquation*) supposed to fund provinces' investments gap.

17. **At the same time, the decentralization process that started in 2006 has been an entry point for governance reform that bears the hope to scale up successful reforms from the provincial to the central level over time.** While the decoupage raises many challenges and the viability of newly created provinces remains uncertain, the decentralization as such and the building of new institutions continues to provide a window of opportunity to promote far-reaching governance reforms in the process of supporting the creation of new institutions and provincial governments, while recognizing the risks of fragility that the poorly funded new provinces face.

18. **Newly created provinces lack basic institutional and financial management (FM) capacity to overcome their development challenges.** New provinces do not have sufficient financial resources to ensure their own development. Tax administration is still embryonic with a low capacity in local tax collection. Discussions with some ministers of finances of provinces revealed that the collected taxes in their provinces represent approximatively only 2 percent of their tax potentials. In addition, the economic weakness of some provinces does not allow an optimal tax collection. Despite the apparent support of central government authorities to the decentralization agenda, fiscal transfers to provinces remain inadequate. Another key challenge is the delay in the adoption of laws and regulations by the provinces. There are also few checks and balances at the provincial level. Ex post controls (Inspectorate General of Finance [IGF] and CDC) are very limited, and civil society oversight is still at its early stages. Provincial assemblies are not exercising their oversight roles and tend to approve all documents submitted by the local authorities. Finally, the provinces lack qualified human resources to carry out the PFM reforms.

19. **Political economy.** The political economy studies conducted during 2008–2016 highlight the difficulties of implementing reforms in DRC, for both institutional and sector reforms. The underlying dynamics in the political system⁵—the inability of citizens to effectively articulate their interests and the inability of the elite to make credible commitments to each other, including on issues that are clearly in the broader public interest—combined with new political fault lines (coalition politics and the interplay of central and provincial governments) make implementing holistic reforms particularly difficult.

20. **The greatest challenge for the PFM system reforms is resistance to change by some civil servants and managers who see these reforms as a threat.** In the project, this resistance could surface primarily through a feeling of loss of power that provincial governors and tax officers could experience in the context of addressing ‘tax proliferation issues’.⁶ However, these same persons also stand to gain from these reforms. On the one hand, the reforms will allow them to focus their attention on the effectiveness of expenditures to address common social services as opposed to just the volume of expenditures. On the other hand, these reforms set milestones for new results-based public management. In view of the important transparency support (through outreach and communication plans) and citizen participation component in this program, the requirements could thus be met to pressure the central and provincial governments to give them further incentives to focus on the results achieved by public policies.

21. **Above and beyond these studies, the project’s approach will be to assist the authorities in solving the specific problems that they experience, as opposed to imposing the implementation of international best practices as a single model of management.** The risk of

⁵ The preponderance of informal ruling mechanisms and networks may be higher in DRC than in many other African countries, but the formal-informal duality is nonetheless common across the continent (Englebert and Dunn 2013). The informal Congolese political system remains highly centralized around networks that spread down from presidential circles (U.N. 2011). Through these networks, the regime sends its agents across the territory, appointing them to perform tasks related to security and resource extraction. Englebert, Pierre, and Emmanuel Kasongo Mungongo. 2016. “*The Failure of Decentralization Reforms in the DR Congo*”

⁶ Provinces can create ‘province-specific’ taxes on ‘local matters not already taxed by the central government’ and collect ‘administrative revenues attached to the acts that fall under their jurisdiction.’ Provinces have seized upon their new taxation rights with voracious appetite. (Englebert and Kasongo April 2016).

insisting on implementing these best practices, other than the fact that there is no single model of PFM, will be that the implementation of the reforms by the authorities is too superficial to meet the real or perceived expectations of the international development partners. The goal of this project is to overcome this tendency of ‘isomorphism.’⁷ In addition, the design and implementation of the project will take into account the political economic consideration; for instance, the selection and nature of activities in provinces will be based on the level of commitment of provincial authorities and lessons learned from previous World Bank supports.

Description of the Project and Its Performance

22. **After almost three years of effective implementation of the project’s activities, the overall disbursement rate of the project stands at about 71 percent for the IDA grant and 86 percent for the DFID trust-funded grant.** During this time, positive progress has been made providing a solid foundation for future project activities at both central and provincial levels (Equateur, Kasai Oriental, and Nord-Kivu), as follows:

- **Creating an enabling environment for budget execution improvement.** The project has managed to work in a politically tense situation, achieving remarkable progress in an increasingly volatile and difficult political environment. The issuance of the decree to create Administrative and Financial Directorates (*Direction Administrative et Financière*, DAF) in 12 line ministries has been achieved owing to proactive engagement with the Prime Minister’s office, line ministries, unions, the public, and the Ministry of Civil service, with support from the PFMAP. Recruitment is now ongoing through a competitive and transparent process funded by the project. This is the first competitive civil service recruitment organized in over 20 years, with over 5,000 applicants for a total of 1,560 posts. In addition, the last CDC annual report shows a budget execution rate of 68 percent for fiscal year 2015, which is a significant improvement from the 51 percent for fiscal year 2014.
- **Budget control and citizen participation.** The audit report of the CDC was sent to the parliament in September 2015, which is a significant progress in the reduction of lead time to audit government financial statements, from 7.5 months in 2012 (Public Expenditure and Financial Accountability, PEFA) to one month in 2015. The PFMAP is supporting the (a) CDC with technical assistance provided by the Regional Supreme Audit Organization (CREFIAP) and (b) Economics and Finance Committees of the national assembly and the senate with technical assistants to support their analysis of the budget and budget execution, as well as audit reports. In addition, the project has allowed civil society participation in the budget process and discussions in the parliament at national and provincial levels. However, support to citizen control and participatory budgeting has taken a slower start than expected. Lessons have been learnt from the experience of the first year of implementation: dedicated staff will be recruited in the COREF at national and provincial levels; a joint work plan will be approved between the World Bank, DFID, and COREF; and continued effort will be made to involve as wide a range of civil society actors as possible. Efforts to work directly with the private sector federations have been constructive and will be continued.

⁷ Andrews, Matt. 2013. The Limits of Institutional Reform in Development.

- **Progress at the provincial level.** Progress has been made in increasing the transparency and reliability of data on provincial budgets—all provinces (except for Equateur) produced a budget settlement law (*loi de reglement*) in 2014. This is a significant progress, as data for the 2012 milestones had to be established through a specific study funded by DFID. However, very limited progress has been made toward more realistic and credible budgets spent in line with forecasts. This is due not only to the continued unreliability of ‘retrocession’ (transfers from central government), but also to weak forecasting of provinces’ own revenue and weak budgeting and budget execution processes.
- **Progress at the local level.** At the local level, activities in support of participatory budgeting at territorial decentralized entities (TDEs) level were voluntarily delayed to wait for the scoping study of citizen participation to local finance in DRC and for the organization of the national forum on participatory budgeting. The study report was shared in October 2015. It provides a comprehensive overview of the seven (diverse) methodologies developed by various actors to promote participatory budgeting at the TDE level across DRC, identifying best practices and criteria for success. These lessons learned will serve as a basis to develop the PFMAP methodology. The forum is also expected to constitute a major step toward a more coherent approach, building on evidence of what really works at the local level (in terms of PFM reforms) and allowing for further sensitization on PFM-related issues, at both provincial and national government levels.
- **Project and donors coordination.** The COREF has completed the selection process of its fiduciary and provincial staff, and regular meetings are organized in close collaboration with the World Bank to monitor the implementation of the project’s activities and address the bottlenecks. Progress has also been excellent with regard to coordination and dialogue with the Government. The PFM consultation framework is fast becoming one of the most efficient frameworks for donor-government dialogue at PFM sector level in DRC. As for cooperation with other donors, Belgium has joined the MDTF with a contribution of EUR 4 million, which extended the project’s coverage to the province of Kinshasa. The World Bank is also working with Canada on a proposal of US\$8 million, and the European Union (EU) has expressed interest and is exploring possibilities to support the project implementation.

Consistency with the Country Assistance Strategy

23. **The proposed AF is fully consistent with the Government’s PRSP II and is an integral part of the Country Assistance Strategy⁸ (CAS) FY13–FY16 (report number 66158-ZR).** The first strategic objective of the Country Assistance Strategy aims to increase state effectiveness and improve good governance, with focus on (a) supporting the implementation of the DRC’s PFM action plan at central and provincial levels; (b) strengthening the capacity of civil society organizations (CSOs) on demand side for good governance; and (c) reinforcing the capacity of state oversight institutions, including the parliament.

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<http://documents.worldbank.org/curated/en/664211468246896400/pdf/661580CAS0Box30C0disclosed050160130.pdf>

Rationale for the Additional Financing

24. **Following the satisfactory implementation of the PFMAP, approved by the Board on January 30, 2014 for a US\$5.0 million IDA Grant and US\$17.1 million DFID contribution, the Government of DRC has requested an AF in the amount of US\$50.0 million to scale up the project implementation and better achieve the PDOs of the original financing.** The requested IDA AF will be used to support the improvement of DRM, public expenditures management, and accountability, both at the central and provincial levels. The official request of the Government was received in December 2015.

25. **The rationale for providing the AF is to scale up the initiatives of the original project and introduce new activities to (a) enhance DRM capacity; (b) strengthen the budget planning and forecasting processes; (c) improve public accounting and reporting; and (d) scale up the World Bank support in provinces with the new ‘decoupage.’** The following context provides further justification for the AF: (a) the turndown in the commodities markets that affects the fiscal deficit and surfaces the weak performance of tax administrations; (b) poor value for money in public spending resulting from poor programming of the public investments, increased number of single-source contracting, and delays in the devolution of the budget to the line ministries; and (c) weak performance of the public sector administration. Hence, there is an urgent need for the country to collect more, spend better, and improve performance of public administration. While the original PFMAP addressed the expenditure chain processes, it lacks activities to support the revenue mobilization and management. To provide a response to these additional challenges, the World Bank is preparing two complementary AFs to build on the progress made on the ongoing two projects (PFMAP and the Public Sector Reform and Rejuvenation Project, PSRRP). The former eight provinces supported by the World Bank with the two projects (PFMAP and the Governance Capacity Enhancement Project) have now been split into 20 provinces;⁹ however, the geographical area of intervention remains the same. Given the resource constraints to cover the entire 20 provinces, a gradual approach will be adopted. While the focus of the World Bank support will still remain on the original eight provinces to build on the existing achievement and not lose the momentum of the World Bank’s support, endeavors to support the newly created provinces will (a) be done with due consideration of the level of commitment of provincial authorities and (b) target activities that are focused and realistic, both with regard to their scope and level of ambition, and could include capacity-building activities to disseminate good practices and laws/decrees across all provinces. Activities supported in provinces will derive from the minimum package of PFM reform activities, agreed between donors and provinces¹⁰.

26. **The larger vision for the World Bank’s governance sector support in DRC post the restructurings of PFMAP and PSRRP¹¹ is to have two operations that focus on PFM reform**

⁹ Provinces’ names are included in the Project Paper’s Data Sheet, pages vi and vii.

¹⁰ Minimum platform of collaboration between Donors and Provinces agreed on October 2010 in Kinshasa (DRC). (See Annex 6 of PAD (P145747).

¹¹ PSRRP supports the Government with a US\$77 million IDA grant to pilot key aspects of public service reform in five strategic ministries. The two main focus areas are (a) reforming the organization of targeted ministries and agencies to strengthen their efficiency and their capacity to monitor and coordinate reform and (b) rejuvenating the public administration through management of the retirement process (including payment of indemnities to the

on the one hand and administrative capacity on the other. With regard to PFM reforms, the PFMAP AF will continue to support PFM reform at both the central level and selected provinces, while the PSRRP AF will cover public administrative reforms in the same provinces in response to the government demand that is emerging from the decoupage process. The advantage of the restructuring with an AF is that it can mobilize the strong team that has already successfully conducted these activities at the central-level and has extended the support to the provincial-level. However, the support to provinces will be provided gradually according to the existing capacity in each province. In this regard, the impact of the PDO is expected to be much greater with the AF, since funds allocated for these critical activities under the original project are not sufficient to achieve the said objectives.

27. The proposed AF is fully consistent with Operational Policy OP/BP 10.00 and the Operations Policy and Country Services (OPCS) instructions on AF. In particular, the implementation of the original project has progressed satisfactorily, with regard to both progress toward achievement of the PDO and implementation progress. The proposed AF is the best option to sustain the gains made in the PFM arena by the PFMAP and other World Bank interventions. In particular, the advantage of the AF as compared to a new operation is that it can build directly on the existing activities and implementation structure that have generated satisfactory results through the implementation of the PFMAP, thereby maintaining the positive momentum of the results achieved to date and responding rapidly to the current urgent priorities of the Government. The AF will be complementary to the interventions by other development partners, particularly DFID, and the Government's activities.

III. Proposed Changes

Summary of Proposed Changes	
The AF will support existing and new activities under the scaled-up Components 1, 2, and 3. New indicators, at both PDO and intermediate levels, will be added for measuring progress on the revised components and subcomponents. In addition, the AF will extend the project closing date for three additional years, from December 31, 2018 to December 31, 2021, to allow for the successful implementation of the scaled-up and newly introduced activities.	
Change in Implementing Agency	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Project's Development Objectives	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Results Framework	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Safeguard Policies Triggered	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change of EA category	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Other Changes to Safeguards	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Legal Covenants	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]

retiring civil servants) combined with legal and technical support for the creation of a sustainable public service pension system and support to the recruitment of young professionals and their integration into public administration.

Change in Loan Closing Date(s)	Yes [X] No []
Cancellations Proposed	Yes [] No [X]
Change in Disbursement Arrangements	Yes [] No [X]
Reallocation between Disbursement Categories	Yes [] No [X]
Change in Disbursement Estimates	Yes [X] No []
Change to Components and Cost	Yes [X] No []
Change in Institutional Arrangements	Yes [] No [X]
Change in Financial Management	Yes [] No [X]
Change in Procurement	Yes [] No [X]
Change in Implementation Schedule	Yes [X] No []
Other Change(s)	Yes [] No [X]
Development Objective/Results	
Project's Development Objectives	
<p>Original PDO</p> <p>The proposed project development objective is to enhance the credibility, transparency, and accountability in the management and use of central government and selected subnational governments' finances. Considering the complementarity with other donor- and World Bank-funded programs, the proposed MDTF operation will focus on downstream PFM reforms of the central government and public financial management in selected provinces (Equateur, Kasai Oriental, and North Kivu).</p>	
Change in Project's Development Objectives	
<p>Explanation:</p> <p>The project development objective (PDO) is modified to make it more focused and attributable to the proposed AF activities at the central level and in selected provinces, capturing three key dimensions that are considered imperative for the project's success: improvements in the domestic revenue mobilization, public expenditure management, and accountability.</p>	
Proposed New PDO - Additional Financing (AF)	
<p>The project development objective (PDO) is to improve domestic revenue mobilization, public expenditure management, and accountability, at central level and in selected provinces.</p>	
Change in Results Framework	
<p>Explanation:</p> <p>New indicators, at both PDO and intermediate level, will be added for measuring progress on the revised components and subcomponents and newly introduced activities, while a number of indicators (all PEFA based) included under the original project design are dropped, for purposes of simplifying the Results Framework and Monitoring. In addition, indicators on citizen engagement and gender have been introduced, to account for the World Bank's corporate requirement on monitoring impact on gender-related issues and allowing for citizen's feedback and contribution in the course of the project implementation, through the participatory budgeting initiative. The 2012 baseline data is not available, given the weak M&E capacity at the time and the fact that the parent project was under preparation only towards the end of 2013.</p>	

Compliance						
Covenants - Additional Financing (AF - DRC Public Financial Management and Accountability Project - P159160)						
Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
IDAT	Schedule 2, Section II.B.b	Prepare, under terms of reference satisfactory to the Association, and furnish to the Association a report integrating the results of the monitoring and evaluation activities and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following each such date.	31-Jan-2018	<input type="checkbox"/>		New
IDAT	Schedule 2, Section II.B.b	Prepare, under terms of reference satisfactory to the Association, and furnish to the Association a report integrating the results of the monitoring and evaluation activities and setting out the measures	31-Jan-2020	<input type="checkbox"/>		New

		recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following each such date.				
IDAT	Schedule 2, Section II.B.c	Review with the Association each of the reports referred to in the preceding paragraph (b), and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.	31-Mar-2018	<input type="checkbox"/>		New
IDAT	Schedule 2, Section II.B.c	Review with the Association each of the reports referred to in the preceding paragraph (b), and, thereafter, take all measures required to ensure the	31-Mar-2020	<input type="checkbox"/>		New

		efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.				
IDAT	Schedule 2, Section I.D.a	The Recipient shall, not later than one (1) month after the Effectiveness Date, update the Project Operations Manual in form and substance satisfactory to the Association	31-Jul-2017	<input type="checkbox"/>		New
Conditions						
Source Of Fund		Name		Type		
Description of Condition						
Risk						
Risk Category				Rating		
1. Political and Governance				High		
2. Macroeconomic				Substantial		
3. Sector Strategies and Policies				Substantial		
4. Technical Design of Project or Program				High		
5. Institutional Capacity for Implementation and Sustainability				Substantial		

6. Fiduciary				Substantial		
7. Environment and Social				Moderate		
8. Stakeholders				Substantial		
9. Other						
OVERALL				Substantial		
Finance						
Loan Closing Date - Additional Financing (AF - DRC Public Financial Management and Accountability Project - P159160)						
Source of Funds			Proposed Additional Financing Loan Closing Date			
IDA Grant			31-Dec-2021			
Loan Closing Date(s) - Parent (DRC: Strengthening PFM and Accountability - P145747)						
Explanation:						
The AF is proposing an extension of project closing date for three years (from December 31, 2018 to December 31, 2021), to allow for successful implementation of the scaled-up and newly introduced activities.						
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)	
IDA-H9070	Effective	31-Dec-2018	31-Dec-2018	31-Dec-2021		
TF-17290	Effective	31-Dec-2016	31-Dec-2018		31-Dec-2016, 31-Dec-2018	
Change in Disbursement Estimates (including all sources of Financing)						
Explanation:						
The AF will add US\$50.0 million and will extend the project closing date for three years (from December 31, 2018 to December 31, 2021), to allow for successful implementation of the scaled-up and newly introduced activities under the modified Components 1, 2 and 3.						
Expected Disbursements (in US\$, Millions)(including all Sources of Financing)						
Fiscal Year	2017	2018	2019	2020	2021	2022
Annual	1.06	11.00	11.00	11.00	11.00	6.00
Cumulative	1.06	12.06	23.06	34.06	45.06	51.06
Allocations - Additional Financing (AF - DRC Public Financial Management and Accountability Project - P159160)						
Source of Fund	Currency	Category of Expenditure	Allocation		Disbursement % (Type Total)	
			Proposed		Proposed	
IDAT	US\$	Goods, works, non-consulting services,	50.00		100.00	

		consultants' services, operating costs, and Workshops and Training for the project		
		Total:	50.00	
Components				
Change to Components and Cost				
<p>Explanation:</p> <p>To respond to the Government's priorities and achieve the above PDO, the proposed AF will be designed to address the prerequisites for sustained reform across the PFM system and to broaden the reform process beyond the areas addressed by the PFMAP under implementation. The description of the proposed AF, as outlined below, provides the basis for supporting the set of PFM reform actions required at both central and provincial levels. The AF will be implemented through four components over a three-year period, at an estimated total cost of US\$50 million. Since each of the proposed components will contribute to more than one of the project outcomes and there will be interdependencies between components, these linkages have been taken into account in project management and in the Results Framework and Monitoring.</p> <p>Component 1: Supporting Domestic Revenue Mobilization and Expenditures Management (AF: US\$18.5 million equivalent). This component aims to support the Government's efforts in improving its revenue mobilization capacity and expenditures management to empower the line ministries in the budget execution processes. It is divided into five subcomponents: (a) supporting DRM; (b) strengthening the budgetary capacity of line ministries; (c) supporting the implementation of the public procurement law; (d) strengthening cash management and public accounting system; and (e) strengthening the internal control systems.</p> <p>Subcomponent 1.1: Supporting Domestic Revenue Mobilization (DRM) (AF: US\$6.0 million equivalent). This subcomponent aims to support the existing three tax administrations: Directorate in Charge of Core Taxes (<i>Direction General de Impots</i>, DGI), Directorate in Charge of Non-tax Revenue Administration (<i>Direction Generale des Recettes Administratives et Domaniales</i>, DGRAD), and Directorate in Charge of Customs Administration (<i>Direction Générale des Douanes et Accises</i>, DGDA), to capture and exploit the country's fiscal potential. To meet this purpose, the main actions will consist of (a) supporting the implementation of a strategy for the expansion of the taxpayer's database resulting from fiscal potential studies; (b) improving and consolidating the VAT reform; (c) supporting the improvement of tax policies and legislation on tax exemptions; (d) strengthening inspection services to fight against fraud on tax; and (e) supporting voluntary compliance initiatives. In addition, this subcomponent aims to strengthen the tax administrations' capacities through (a) strengthening the organizational, physical, and technical capacity of tax administrations (including upgrading of their offices) to improve the quality of services delivered to taxpayers; (b) supporting the implementation of an integrated tax management information system; and (c) improving the quality of human resources and their working conditions.</p> <p>Subcomponent 1.2: Strengthening the Budgetary Capacity of Line Ministries (AF: US\$2.9 million equivalent). This subcomponent will aim to strengthen budget credibility and establish the performance in the core of public management, and to support the ongoing efforts of the Government to devote commitment authority to line ministries so that the decision makers in the said line ministries are actually accountable for their daily work. This will be achieved through (a) strengthening the capacity of the Minister of Budget to improve budget forecasting and support efforts to introduce the performance-based budgeting (PBB) reform in selected line ministries and (b) improving budget execution through the devolution of commitment</p>				

authority to line ministries by strengthening the capacity of their DAF. Key activities to be included under this subcomponent are (a) supporting the improvement of the budget preparation process; (b) supporting the establishment of a PBB task force in pilot ministries; (c) developing and implementing a capacity-building program for PBB; (d) supporting the process of establishment of the DAF in line ministries (including upgrading and equipping of the required offices); (e) supporting the extension of the expenditure chain information system in ministries, departments, and agencies (MDAs); and (f) strengthening the role and the capacity of budget control officers.

Subcomponent 1.3: Supporting the Implementation of the Public Procurement Law (AF: US\$3.0 million equivalent). This subcomponent aims to support the establishment of structures for the management and control of procurement systems at the central level, with a view to improve the transparency, ensure the effectiveness of public oversight, promote efficiency and competition, and strengthen the control, a priori and a posteriori, of public procurement, including improved public access to information. To achieve this, the AF will fund the following main activities: (a) strengthening the capacity of the main actors on the legal and regulatory framework governing public procurement; (b) supporting the gradual development of the provincial branches of the Public Procurement Regulation Authority (*Autorité de Regulation des Marchés Publics*, ARMP), including upgrading and equipping their offices; (c) acquiring an integrated public procurement information system; (d) supporting the organization of periodic public procurement audits; (e) supporting the implementation of the ARMP; and (f) establishing a public procurement magazine.

Subcomponent 1.4: Strengthening Cash Management and Public Accounting System (AF: US\$5.9 million equivalent). The objective of this subcomponent is to (a) ensure the reliability and completeness of the financial information generated by the public accounting system, as well as the efficiency of cash management and (b) support and strengthen the capacity of the newly created ONEC. In addition, it intends to develop a strategy for partnership with a view to strengthen the links between the accounting profession and the actors in the public sector, including the Congolese accounting standards body (*Conseil Permanent de la Comptabilité au Congo*, CPCC). This will be done through the: (a) drafting of guidelines and instructions to underpin the implementation and enforcement of the accounting regulation; (b) upgrading and equipping of the offices of the Directorate General of Treasury and Public Accounts; (iii) establishment of the national network of public accountants, including the strengthening of the staff and the upgrading and equipping of the accounting units in Kinshasa and selected Provinces; and (iv) enhancement of the quality production of public accounts and financial statements.

Subcomponent 1.5: Strengthening the Internal Control Systems (AF: US\$0.7 million equivalent). This subcomponent aims to (a) strengthen the controls function within the line ministries to mitigate budgetary risks and (b) enable the IGF to efficiently conduct its missions of compliance audit, financial audit, and performance audit. This will be achieved through the following activities: (a) supporting the improvement of the institutional and legal framework of the IGF; (b) strengthening the capacity of the IGF and inspections units to implement risk-based audit approach; (c) training and accompanying inspections unit to conduct financial audit, compliance audit, and performance audit of public administrations; and (d) acquiring office and computer equipment for the IGF and inspection units.

Component 2: Strengthening Budget Oversight and Improving Transparency (AF: US\$2.3 million equivalent). The purpose of this component is to strengthen the external oversight in PFM. It includes three subcomponents:

Subcomponent 2.1: Strengthening External Audit Processes (AF: US\$0.5 million equivalent). The purpose of this subcomponent is to improve the technical capacity and effectiveness of the CDC. The activities scheduled under this subcomponent will focus on providing support for (a) the implementation and dissemination of the CDC Organic Law; (b) capacity building of the CDC's staff; (c) strengthening of the coordination between the CDC and the IGF; (d) the improvement of the CDC's information system; (e) the

strengthening of the process for the preparation of the public accounts and the issuance of the judgement thereon; and (f) the implementation of the CDC auditing work program.

Subcomponent 2.2: Strengthening the Legislative Oversight (AF: US\$0.8 million equivalent). The purpose of this subcomponent is to strengthen the capacities of the Economics and Finance Committees in the national assembly and the senate. As a result, they will be able to better carry out their ex ante and ex post auditing missions under the budget laws. The subcomponent also aims to facilitate public access to information on the work of these two committees. The activities scheduled in this subcomponent are as follows: (a) improving the technical capacities of the Economics and Finance Committees in the national assembly and the senate and (b) upgrading their information systems.

Subcomponent 2.3: Increasing Public Access to Key Fiscal Information and Participatory Public Expenditure Management (AF: US\$1.0 million equivalent). The objective of the subcomponent is to promote transparency, accountability, and citizen control in the area of PFM at the central, provincial, and local levels. The activities planned for this subcomponent will focus on providing support for (a) participation and transparency in the process of programming, budgeting, and adoption of public finance laws; (b) the strengthening of citizen control on budget execution; (c) the implementation of the participatory budgeting process at the level of TDEs in close consultation with their respective provinces; and (d) the advocacy of civil society to promote transparency and accountability in the management of public finances.

Component 3: Establishing PFM Systems at the Provincial Level (AF: US\$23.2 million equivalent). This component aims to improve the PFM systems in former provinces covered by the World Bank before the decoupage,¹² using, as reference, the minimum package reform platform agreed upon with donors and the respective PFM roadmaps of each province. The former eight provinces, supported through the World Bank with its two projects (PFMAP and the Governance Capacity Enhancement Project), have now been split into 20 provinces; however, the geographical area of intervention remains the same. Given the resource constraints to cover all 20 provinces, a gradual approach will be adopted. While the focus of the World Bank support will still remain on the eight provinces to build on the existing achievement and not lose the momentum of its interventions, support to newly created provinces will (a) be done with due consideration of the level of commitment of provincial authorities and (b) target activities that are focused and realistic, both with regard to their scope and level of ambition, and could include capacity-building activities to disseminate good practices and laws/decrees across all provinces. In any case, activities supported in provinces will derive from the minimum package of PFM reforms activities, agreed between donors and provinces. Activities under this subcomponent will be focused on providing support to strengthen (a) the capacities of the provincial assembly, including upgrading and equipping of offices; (b) the provincial government's institutional and technical capacities; (c) the institutional and technical capacities of the provincial revenue division; (d) the capacity of the provincial public procurement bodies; (e) the operation of the Steering and Monitoring Committee for Local Public Finance Reform (*Comité de Pilotage et de Suivi*, CPS); and (f) the development of participatory budgeting and budget control by the citizens in relation with Subcomponent 2.3.

Component 4: Project Management (AF: US\$6.0 million equivalent). This component aims to provide assistance to the COREF for coordination; administration; communication; FM; procurement; monitoring and evaluation, in particular for the annual self-assessment of the PEFA indicators; auditing; and the dissemination of project activities to the central and provincial levels. At the provincial level, the COREF will put in place local teams consisting of a provincial coordinator and senior-level staff in charge of FM and procurement to supervise the activities. This component will also support the activities of the standing dialogue framework to implement the PFM reform program (*Cadre Permanent de Concertation sur les*

¹² After the decoupage, the former eight provinces covered by the World Bank have been split into 20 provinces; however, the geographical area of the World Bank's intervention remains the same. The remaining six provinces that are not supported by the proposed AF are covered by AfDB.

Réformes des Finances Publiques), including change management activities intended to build consensus and identify incentives for change.

Current Component Name	Proposed Component Name	Current Cost (US\$, Millions)	Proposed Cost (US\$, Millions)	Action
Component 1 - Improving budget execution processes	Component 1 - Supporting Domestic Revenue Mobilization and Expenditures Management	4.50	23.00	Revised
Component 2 - Strengthening budget oversight	Component 2 - Strengthening Budget Oversight and Improving Transparency	5.10	7.40	Revised
Component 3 - Strengthening public financial management systems at provincial level	Component 3 - Establishing PFM Systems at the Provincial Level	10.00	33.20	Revised
Component 4 - Project management	Component 4 - Project Management	2.50	8.50	Revised
	Total:	22.10	72.10	
Other Change(s)				
Implementing Agency Name		Type	Action	
COREF		Implementing Agency	No Change	
Change in Implementation Schedule				
Explanation:				
The change in implementation schedule is reflective of the proposed extension of project closing date, from December 31, 2018 to December 31, 2021, to allow for successful implementation of the scaled-up and newly introduced activities.				

IV. Appraisal Summary

Appraisal Summary
Economic and Financial Analysis
Explanation:
The economic analysis of the PFM activities financed under this AF remains the same, as for the ongoing and completed activities. The proposed AF continues to support investment and capacity building for improved PFM reforms, through enhancing the credibility, transparency, and accountability in the

management and use of DRC's central and selected subnational public finances. Therefore, return of investments under the project will be, to a large extent, accrued through improved public financial governance, service delivery, and better performance of the PFM institutions, capable of employing financial and human resources in an effective, transparent, and accountable way. These expected returns, while identifiable, are indirect and difficult to quantify and are expected to exceed the proposed investment of US\$50 million. Nevertheless, it is important to note the direct economic and social impact the reforms will have in the local context, including the following examples:

- Establishing tangible improvements in budget credibility, coverage, and realism through improvements in macro-fiscal planning and forecasting, budget compilation, and comprehensiveness;
- Strengthening DRM and reporting as a basis for improved fiscal management;
- Building a solid and reliable accounting and reporting function;
- Supporting improvements in internal and external controls and accountability processes in expenditure management to address issues affecting aggregate fiscal discipline and thus enhance service delivery;
- Establishing functional PFM systems and strengthening the capacity of provinces to plan and account for resources transferred to them; and
- Supporting the overall governance and management platform for coordinating and monitoring the implementation of the overall PFM reform processes.

More broadly, the major benefits of the proposed AF come in the form of knowledge and governance improvements through the provision of (a) the means for better public resource management; (b) access to more reliable and comprehensive data for better policy decisions; and (c) improved transparency and accountability.

The World Bank and other key development partners, including the International Monetary Fund (IMF), DFID, African Development Bank (AfDB), Canadian International Development Agency, EU, and others, have been engaged in supporting PFM improvement in DRC over the years. The strong convening power of the World Bank, the need to strengthen country PFM systems as the platform for managing budget support resources, and the need to strengthen the collaboration framework with donor partners are compelling reasons for the World Bank's engagement in support of the country's own program of reforms. Moreover, the World Bank is uniquely placed to provide support and knowledge on various PFM-related issues, including improving DRM and expenditure management, strengthening budget oversight, improving transparency, and establishing PFM systems at national and subnational levels, among others. The proposed areas of intervention and activities were designed through active dialogue with the authorities during project preparation. Thus, the AF design is a reflection of where the Government of DRC sees the greatest value added for the World Bank involvement, given the World Bank's knowledge on the topics in question and the absence of coverage by other development partners. Moreover, the implementation of this AF will build on the positive results achieved through the implementation of the parent project.

The advantage of the World Bank, compared to other development partners, is its ability to contribute to all stages of the value chain. Accordingly, the World Bank is in possession of the instruments to support (a) an enabling environment that will attract other donors and (b) enhancement of capacities for oversight and enforcement of MDAs' obligations. Consequently, the value addition of the World Bank's engagement is found in the balanced and multidimensional sector support, which targets various aspects of the public sector governance in the interest of promoting poverty reduction and shared prosperity.

Technical Analysis

<p>Explanation:</p> <p>The proposed project seeks to respond to the needed strategic PFM reform interventions, building on the achievements of the PFMAP operation that is currently under implementation and consolidating on reforms salient to supporting sustainable PFM outcomes. The AF will provide the technical assistance, required equipment, and capacity-building needs, using an investment project financing instrument. It does not seek to comprehensively cover all the reform necessities in the PFM arena, but will focus on the priorities that are identified by the Government of DRC as critical building blocks for further heightening of reforms. In essence, the focus is to target areas that can trigger improvements in fiscal policy management, through either the orderly provision of enabling tools or capacity enhancements, particularly, those that can show visible but fundamental positive outcomes in PFM performance over the medium term. The AF will support the addressing of some of the key issues that have manifested themselves in the macro-fiscal structural deficiencies inherent in DRC's economy, especially from an institutional, technical, and human resource capacity perspective of the PFM arena.</p>
<p>Social Analysis</p> <p>Explanation:</p> <p>The project does not trigger any social safeguards policies. The social impacts of the project are expected to be positive, because it will improve transparency over the use of public finances, as well as access to information on both public sector budgets and expenses, and provide opportunities for engaging with the authorities in the budget process. Further, project implementation will be enhanced by obtaining feedback through stakeholders' consultations, in which the gender dimension will be considered. For instance, citizen engagement feedback will be sought and contributions will be considered in the course of project implementation, establishing a framework for strategic dialogue between the civil society, government, parliament, and development partners, on various budgetary and other PFM issues.</p>
<p>Environmental Analysis</p> <p>Explanation:</p> <p>No environmental or social safeguards policies are triggered for the AF of the project. The environmental category of the project remains 'C'. The Grant will finance the upgrading and equipping of offices, but no Safeguards instruments are needed. The total amount of financing for works amounts to only about US\$1.5 million equivalent, to be spent over a period of five years. The works are minor and would all be procured through direct contracting or shopping.</p>
<p>Risk</p> <p>Explanation:</p> <p>The overall governance environment in DRC is conducive to risk, given the country's fragility and political situation. In this context, successful implementation of public sector and FM reforms is a challenge. The overall risk rating for the project is assessed as Substantial, influenced by the country's political and macroeconomic situation, as well as weak governance and capacity risks.</p> <p>Political and Governance (High). The 2016 and 2017 elections might be marred by violence and contestations, which, in turn, will affect the achievement of this project's PDO. This risk is beyond the scope of this project and may affect the entire World Bank portfolio in DRC.</p> <p>Macroeconomic (Substantial). Exports are dominated by mining products, while prices remain volatile on world markets. Due to weak governance and unresolved security issues, the risk that macroeconomic policy goes off tracks remains elevated. A sharp fall in mining product prices is difficult to absorb and may destabilize the macroeconomic policy. Fiscal pressures that are accommodated by (a) monetary financing,</p>

(b) domestic arrears, or (c) defaults on external debt are risks for economic stability. The current project is intended to help mitigate against the risk of possible macroeconomic policy slippages, in particular by supporting the Government to improve its capacity to identify and implement urgently needed reforms. In the absence of the implementation of comprehensive macroeconomic policy reforms, the Government faces a possible forced adjustment. The substantial risk in this category shall be partly mitigated by close monitoring and the World Bank's close coordination with the IMF and the donor community.

Sector Strategies and Policies (Substantial). Risks related to governance strategies and policies in DRC remain Substantial and will continue to have a potentially negative impact on project performance. Economic governance risks in DRC remain considerable and affect the whole of the political, economic, and social spheres. Successful implementation of any project that addresses areas of strong vested interest (such as decentralization, PFM, and public service management) will, therefore, be affected by negative dynamics. To mitigate these risks, an enhanced economic governance dialogue has been put in place since September 2010, which includes critical aspects of institutional reform in the public sector and in national-subnational relations so that a positive dynamic is built around project interventions. This includes an emphasis on procurement and PFM reforms that will help reduce governance risks, overall, and in projects, in particular.

Technical Design of Project or Program (High). Complexities of the proposed reforms, the project, and expansion from central to provincial level (from 8 to 20 provinces, following the decoupage) present a challenge. To address the high risk arising from the technical design of the proposed operation, the project will use an incremental approach to implement the proposed reforms, focusing on a limited number of provinces and starting with diagnostics. While the focus of the World Bank support will still remain on the eight provinces, to build on the existing achievement and not lose the momentum of the World Bank interventions, support to newly created provinces will (a) be done with due consideration of the level of commitment of provincial authorities and (b) target activities that are focused and realistic, both with regard to their scope and level of ambition, and could include capacity-building activities to disseminate good practices and laws/decrees across all provinces. Activities supported in provinces will derive from the minimum package of PFM reforms activities, agreed between donors and provinces.

Institutional Capacity for Implementation and Sustainability (Substantial). Capacity constraints constitute critical risks for projects that involve numerous stakeholders, at both central and provincial levels. The overall implementation arrangements established to monitor and manage PFM reforms under the PFMAP will be maintained for the AF. These arrangements have been in place for managing the project satisfactorily over the last two years and will be maintained accordingly. By building on existing structures and arrangements, the AF will leverage the strong technical and fiduciary capacity to scale up the implementation of the ongoing project. Implementation will include the following structures: (a) Joint Government/Development Partners Committee on PFM Reforms; (b) COREF; and (c) beneficiaries of the reforms (key PFM departments, CDC, Parliamentary Accounts Committees, and CSOs). Staffing of the PCU will be strengthened because of an increased number of new activities. Recognizing the importance of assisted development and on-the-job capacity building, wherever an involvement of consultants is proposed, they are expected to be not only carrying out their respective contractual arrangements but also be embedded into the institutional teams, working closely with staff and building internal capacity for sustained operation. However, the institutional capacity risk is assessed as Substantial because it includes some potential sensitive reform agendas. In addition, frequent change of senior government authorities could undermine sustained government commitment to the project. The project team will strengthen further collaboration and dialogue at the senior level to keep the authorities engaged in the project implementation and monitoring and to mitigate relevant risks.

Fiduciary (Substantial). Country fiduciary systems have been strengthened, but capacity constraints remain significant. Procurement and FM systems are evolving under new legal and institutional frameworks, hence reducing the likelihood of major fiduciary problems. Project-related systems, therefore, become less isolated and better embedded, reducing their exposure. However, the new systems remain fragile and the potential

impact of misconduct and mismanagement remains substantial. To mitigate the fiduciary risk, it is crucial to ensure that project and beneficiary staff continue to consider the project a worthwhile investment of time and effort, so that the created capacity is retained and further strengthened. In addition, the project implementation teams at central and provincial levels have been significantly strengthened to improve implementation capacity. The World Bank team will also maintain a close monitoring of the project activities through conveying regular implementation support missions and continual hands-on support. A country-based task team leader has already been appointed to supervise the project. Independent and periodic assessments will also be conducted.

Stakeholders (Substantial). Governance projects of this type are, by their nature, susceptible to political volatility around critical aspects of the agenda that is being supported. DRC will continue to show such volatility as a result of divided political elites and the lack of a consolidated political party system. In addition, this project deals with the sensitive issue of national versus subnational relations, which poses further risk. At subnational level, the lack of stability and continuity and shifting coalitions in favor of and opposed to decentralization may affect project implementation and outcomes. Subnational governments, which are critical beneficiaries of the project, are subject to attempts at political intervention, which renders them more unstable than they would normally have been, hence making it more difficult for the project to have sustainable impact. However, at the same time, volatility has not had a negative impact at the political level, as successive political leaders in the various provinces have provided their support and engagement to achievement of the PDO of the PFMAP under implementation. To mitigate this risk, a proactive approach to policy dialogue will be taken by the World Bank team, as well as the project implementation team. Project stakeholders will be assisted in formulating arguments and advocate for an agenda of transparency and accountability, at all levels of government. Also, proactive and intensive dialogue will be led with authorities (at central and provincial levels) to mitigate the possible negative impact of political changes.

V. World Bank Grievance Redress

28. Communities and individuals who believe that they are adversely affected by a WBG supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1. Revised Results Framework and Monitoring Indicators

Public Financial Management and Accountability Project - Additional Financing

Project Development Objectives

Original Project Development Objective - Parent:

The proposed project development objective is to enhance the credibility, transparency, and accountability in the management and use of central government and selected subnational governments' finances. Considering the complementarity with other donor- and Bank-funded programs, the proposed MDTF operation will focus on downstream PFM reforms of the central government and public financial management in selected provinces (Equator, Kasai Oriental, and North Kivu).

Revised Project Development Objective - Additional Financing:

The project development objective (PDO) is to improve domestic revenue mobilization, public expenditure management, and accountability, at central level and in selected provinces.

Results

Core sector indicators are considered: Yes

Results reporting level: Program Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual (Current)	End Target
Marked for Deletion	PEFA-PI-1: Aggregate expenditure outturn compared to original approved budget. At least 90% of the aggregate expenditures compared to original approved budget were executed.	<input type="checkbox"/>	Text	Value	D	No data Yet	C
				Date	31-Oct-2012		31-Oct-2017
				Comment			
Marked for Deletion	PEFA-PI-10: Public access to key fiscal information	<input type="checkbox"/>	Text	Value	C	No Data yet	B
				Date	31-Oct-2012		31-Oct-2017
				Comment			

Marked for Deletion	PEFA-PI-16: Predictability in the availability of funds for commitment of expenditures	<input type="checkbox"/>	Text	Value	D	No data yet	C+
				Date	31-Oct-2012		31-Oct-2017
				Comment			
Marked for Deletion	PEFA-PI-20: Effectiveness of internal controls for non-salary expenditure	<input type="checkbox"/>	Text	Value	C		B
				Date	31-Oct-2012		31-Oct-2017
				Comment			
Marked for Deletion	PEFA-PI-26: Scope, nature, and follow-up of external audit	<input type="checkbox"/>	Text	Value	D+		C+
				Date	31-Oct-2012		31-Oct-2017
				Comment			
Marked for Deletion	PEFA-PI-28: Legislative oversight of audit report	<input type="checkbox"/>	Text	Value	D		C
				Date	31-Oct-2012		31-Oct-2017
				Comment			
Marked for Deletion	SNG PEFA PI-1: Aggregate expenditure outturns compared to original approved budget	<input type="checkbox"/>	Text	Value			C
				Date			31-Oct-2017
				Comment			
Marked for Deletion	SNG PEFA PI-2: Composition of expenditure outturn compared to original approved budget	<input type="checkbox"/>	Text	Value			C
				Date			31-Oct-2017
				Comment			
Marked for Deletion	SNG PEFA PI-3: Aggregate revenue outturn compared to original approved budget	<input type="checkbox"/>	Text	Value			C
				Date			31-Oct-2017
				Comment			
New	Annual tax collection rate	<input type="checkbox"/>	Percentage	Value	Not available	3.00	8.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured by the annual increase in tax collection at central level. Data source: Government Statistics. Responsibility: COREF. Frequency:		

					Annually.		
New	Budget execution rate, excluding donor-funded projects	<input type="checkbox"/>	Percentage	Value	Not available	68.00	70.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured as a percentage change in the budget execution rate (excluding donor-funded projects) in comparison to the approved annual budget at central level. Data source: Annual budget reports. Responsibility: COREF. Frequency: Annually.		
New	Public expenditures audited by the Inspectorate General of Finance	<input type="checkbox"/>	Percentage	Value	Not available	0.00	20.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Overall public expenditures at central level covered by the annual audits carried out by the Inspectorate General of Finance. Data source: Annual Audit Report. Responsibility: COREF. Frequency: Annually.		

Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual (Current)	End Target
Marked for Deletion	Average lead time of processing the expenditure until the payment in the 5 pilots line ministries	<input type="checkbox"/>	Days	Value	37.00		15.00
				Date	31-Oct-2012		31-Oct-2017
				Comment			
New	Accuracy of domestic revenue projection	<input type="checkbox"/>	Percentage	Value	Not available	73.00	87.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured by comparing the annual domestic revenue collection with the initially projected domestic revenue projection, at central level. Data source: Annual budget reports. Responsibility: COREF. Frequency: Annually.		
New	Female staff trained on fiscal		Percentage	Value	Not available	0.00	20.00

	and custom administration	<input type="checkbox"/>		Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured as number of female staff in comparison to the overall staff within the fiscal and custom administrations, that has completed the available training programs. Data source: Training reports and lists of participants. Responsibility: COREF. Frequency: Annually.		
New	Public procurement contracts awarded outside the public procurement system	<input type="checkbox"/>	Percentage	Value	Not available	59.00	25.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured as a percentage of the annual public procurement contracts that have been awarded outside of the current public procurement system in reference to the total number of annually awarded public procurement contracts. Data source: ARMP reports. Responsibility: COREF. Frequency: Annually.		
New	Delay from completion of the annual audits by <i>Cour des Comptes</i> to submitting the audited financial statements to parliament	<input type="checkbox"/>	Months	Value	Not available	3.00	2.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured through the average time from completing the annual audits by the CDC to the time by which they're submitted to the parliament for further review and processing. Data source: CDC report. Responsibility: COREF. Frequency: Annually.		
New	Territorial Decentralized Entities (TDEs) with participatory budgeting under implementation (Citizen engagement indicator)	<input type="checkbox"/>	Number	Value	Not available	1.00	50.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured through the cumulative number of TDEs that have implemented participatory budgeting in the course of project implementation. Data source: Evaluation report of the budget participation processes. Responsibility: COREF. Frequency: Annually.		

New	Pro-poor expenditure execution rate in provinces	<input type="checkbox"/>	Percentage	Value	Not available	0.00	12.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured through the average relative difference between the actual and planned pro-poor expenditure execution at provincial level, annually. Data source: Budget execution report of the provinces. Responsibility: COREF. Frequency: Annually.		
New	Internally generated revenue by provinces	<input type="checkbox"/>	Percentage	Value	Not available	3.00	10.00
				Date	31-Oct-2012	01-Dec-2016	31-Dec-2021
				Comment	Description: Measured through the average annual increase in the amount of internally generated revenues by provinces. Data source: Report of the provincial boards. Responsibility: COREF. Frequency: Annually.		

Annex 2. Detailed Description of Modified or New Project Activities

1. The PDO is to improve domestic revenue mobilization, public expenditure management, and accountability, at the central level and in selected provinces. While the original PFMAP addressed the expenditure chain processes, it lacks activities to support the revenue mobilization and management. To provide a response to these additional challenges, the World Bank is preparing two complementary AFs to build on the progress made through the two ongoing projects (PFMAP and PSRRP). The former eight provinces supported by the World Bank with the two projects (PFMAP and the Governance Capacity Enhancement Project) have now been split into 20 provinces; however, the geographical area of intervention remains the same. Given the resource constraints to cover the entire 20 provinces, a gradual approach will be adopted. While the focus of the World Bank support will still remain on the eight provinces to build on the existing achievements and not to lose the momentum of the World Bank's support, endeavors to support the newly created provinces will (a) be done with due consideration of the level of commitment of provincial authorities and (b) target activities that are focused and realistic, both with regard to their scope and level of ambition, and could include capacity-building activities to disseminate good practices and laws/decrees across all provinces. In any case, activities supported in provinces will derive from the minimum package of PFM reforms activities, agreed between donors and provinces.

Component 1: Supporting Domestic Revenue Mobilization and Expenditures Management (AF: US\$18.5 million equivalent)

2. This component aims to support the Government's efforts in improving its revenue mobilization capacity and expenditures management to empower the line ministries in the budget execution processes. It is divided into five subcomponents: (a) supporting DRM; (b) strengthening the budgetary capacity of line ministries; (c) supporting the implementation of the public procurement law; (d) strengthening cash management and public accounting system; and (e) strengthening the internal control systems.

Subcomponent 1.1: Supporting Domestic Revenue Mobilization (DRM) (AF: US\$6.0 million equivalent)

3. This subcomponent includes two axes: (a) support to the enlargement of the taxpayers' database and (b) strengthening of the tax administrations' capacities.

Axis 1: Support to the Enlargement of the Taxpayers' Database

4. **Objective.** This axis aims to support the existing three tax administrations (DGI, in charge of tax administration; DGRAD, in charge of non-tax revenue administration; and DGDA, in charge of customs administration) to capture and exploit the country fiscal potential. To meet this purpose, the main actions will consist of (a) supporting the implementation of a strategy for the expansion of taxpayer's database resulting from fiscal potential studies; (b) improving and consolidating the VAT reform; (c) supporting the improvement of tax policies and legislation on tax exemptions; (d) strengthening inspection services to fight against fraud on tax; and (e) supporting voluntary compliance initiatives.

5. **Current status.** The DRC tax system is characterized by (a) inadequate tax policies and legal frameworks with the absence of any policy for taxing some types of profits, especially capital gains; (b) low contribution of the extractive industries sector to the revenue.¹³ This low revenue mobilization reflects the heavy taxation of a small number of formal labor; (c) VAT introduced since 2012 still facing collection challenges due to heavy procedural and control bottlenecks and exemptions;¹⁴ (d) undertaxation of profits, in an economy with widespread informality and large exemptions granted to many taxpayers; and (e) endemic fraud on tax hampering the government tax collection effort. In the context of the PFM reform strategy, activities in the field of taxation have been planned to overcome these weaknesses.

6. Since 2015, at the request of the Government, the World Bank has initiated a study to assess the country's fiscal potential. This study has started with a tax gap analysis and is still continuing. It builds on and complements the IMF fiscal affairs technical assistance, which examined several aspects of tax policy and administration in DRC.¹⁵ In parallel to this study, the Government has also recruited a national consultant to perform the evaluation of the tax potential in the mining sector. Pending the conclusions of these studies, there is currently no strategy to efficiently exploit the country's fiscal potential to increase DRM.

7. Since 2012, the Government has introduced VAT to increase its tax revenue contribution to GDP. During the first two years, the VAT's contribution to revenue reached almost 4.5 percent of GDP; since 2014, the VAT is facing challenges both with regard to the tax collection and refunds processes. Thus, it is important to consolidate the VAT reform through improving the exemptions policies and enhancement of collections and refunds procedures and processes.

8. With regard to the incentive measures granting broad tax exemptions leading to significant amount of tax expenditures, the Government has set a goal to revise provisions related to tax exemptions, in both the mining code and the forestry code. The ultimate objective is to minimize the impact of these exemption measures on the level of DRM.

9. In addition, DRC's economic structure is characterized by a predominant informal sector with a weak or nonexistent taxation mechanism and a low level of voluntary compliance coupled with a propensity of fraudulent practices by taxpayers.

¹³ Revenues from the extractive industries sector are below potential. Total revenues collected from oil and mining was only 17.8 percent of the value of exports of oil and mineral products, which is low by international standards. The problem is essentially in the mining sector, where the ratio is only 13.8 percent, while in the oil sector it reaches 54 percent.

¹⁴ The VAT ratio decreased from 4.5 percent of GDP in 2013 to 3.3 percent of GDP in 2014.

¹⁵ IMF has completed several missions to DRC to look into the tax system, of which several missions in 2013 were to simulate fiscal scenarios in the mining sector and implement the Fiscal Analysis of Resource Industries model at the Ministry of Finance (*Missions du projet de réforme de la fiscalité minière*). The IMF has also completed an evaluation of the VAT administration in October 2013 (*Évaluation de l'Administration de la TVA dix-huit mois après son introduction*) and two technical assistance missions in February and August 2015 to strengthen the administration of the VAT and taxes on international trade (*Renforcement de l'Administration de la TVA et autres droits et taxes à l'importation*). Finally, the 2015 Article IV included two special focus papers, one on mining taxation (The Contribution of the Mining Sector to the Congolese Economy) and another one on the credibility of revenues and spending projections in the budget (Strengthening Budget Credibility).

10. Addressing the abovementioned weaknesses will require a deep revision of existing tax policies and procedures and the development of new modernized instruments to boost DRM in DRC.

11. **Proposed activities.** The activities planned as part of this axis are as follows:

- (a) Supporting the fiscal potential assessment by levies, sectors, and tax administration;
- (b) Supporting the consolidation of the VAT reform;
- (c) Supporting the improvement of tax policies and legislation for the modernization of tax instruments and procedures and the rationalization of the exemptions;
- (d) Strengthening inspections of services' interventions in view of fighting against fraudulent practices on tax; and
- (e) Supporting initiatives for voluntary compliance.

Table 2.1. Detailed Activities - Subcomponent 1.1 - Axis 1

Activities	Subactivities
<p>(a) Supporting the fiscal potential assessment by levies, sectors, and tax administration</p> <p>Objective. (a) Allow tax administrations to have reliable information and make realistic tax revenue forecasts and estimates on the basis of available data and (b) exploit to the maximum the country's existing fiscal potential to increase DRM.</p>	<ol style="list-style-type: none"> 1. Support the implementation of the recommendations of ongoing studies on the country's fiscal potential. 2. Support the improvement of the existing taxpayers register management system. 3. Support initiatives to detect unregistered businesses and individuals and broaden taxpayers' database.
<p>(b) Supporting the consolidation of the VAT reform</p> <p>Objective. Improve the VAT collection and refunds procedures and processes to increase its contribution to tax revenue.</p>	<ol style="list-style-type: none"> 1. Support the establishment of certified cash registers to allow an integrated billing system. 2. Support trainings and dissemination initiative on the VAT regulation. 3. Support the implementation of the recommendations of the 2015 IMF mission on VAT, particularly in relation to the exemptions.
<p>(c) Supporting the improvement of tax policies and legislation for the modernization of tax instruments and procedures and the rationalization of tax exemptions</p> <p>Objective. Allow tax administrations to have tax instruments, whose management enables efficient recovery of public revenues.</p>	<ol style="list-style-type: none"> 1. Support the initiative to introduce Corporate Income Tax and Personal Income Tax. 2. Support the initiative to simplify the nomenclature of taxes, levies, and royalties for the central government. 3. Support the drafting and enforcement of a procedure manual for the collection of the mining sector royalties. 4. Support the drafting of the amendment of the decree-law on non-tax revenues reform. 5. Support the revision of the regulation related to incentives and exemptions (included in the investments code, mining code, and the forestry code) with a view to their streamlining.

Activities	Subactivities
<p>(d) Strengthening inspections of services' interventions in view of fighting against fraudulent practices on tax</p> <p>Objective. Equip tax administrations with inspections of services capable to reduce fraud on tax on the basis of potential risks assessment methodology.</p>	<ol style="list-style-type: none"> 1. Support the efforts to strengthen the interventions of inspections of services by the implementation of the inspection's audit programs. 2. Support the training session on techniques and tools to detect fraud on tax. 3. Support actions to strengthen and enforce mixed brigades of control involving the three tax administrations, namely, DGI, DGRAD, and DGDA.
<p>(e) Supporting initiatives for voluntary compliance</p> <p>Objective. Encourage taxpayers to comply with their tax obligations (registering, filing, payment, and reporting).</p>	<ol style="list-style-type: none"> 1. Support the organization of awareness-raising campaign on voluntary compliance. 2. Support the dissemination of the tax code and regulations. 3. Support the improvement of the quality and cost-effective services rendered to taxpayers. 4. Support the efforts to reduce taxpayer costs of compliance through simplification of procedures and administrative formalities.

Axis 2: Strengthening of the Tax Administrations' Capacities

12. **Objective.** This axis aims to support the three tax administrations (DGI, DGRAD, and DGDA) to improve their capacity to mobilize more domestic revenues. For this purpose, the main actions will consist of (a) strengthening the organizational, physical, and technical capacity of tax administrations to improve the quality of services delivered to taxpayers and (b) improving the quality of human resources and their working conditions.

13. **Current status.** DRC's tax system is characterized by a persistent capacity and knowledge gap in light of the evolution of practices and new technological processes used, in sectors like mining, oil, telecommunications, banking, and insurance. Thus, the weak capacity of tax administrations is also becoming one of the critical bottlenecks to DRM.

14. Since 2003, the Government has initiated some structural reforms of DGI (direct and indirect tax) and DGDA (customs) that have led to a reorganization of these administrations. For the DGI, the reform has consisted of the segmentation of structures, according to a functional approach, thus distinguishing the operational structures (Large Taxpayers Office - *Directorate des Grandes Entreprises*, Medium Taxpayers Office - *Centre des Impôts*; and the Small Taxpayers Office - "*Centres des Impôts Synthétiques*") and the monitoring structures (the central administration and the provincial directorates). With respect to DGDA, it moved since December 2009 from the status of a state-owned enterprise to the status of a public service administration under the Ministry of finance. The DGRAD (non-tax revenue) was not concerned by these reforms and is still facing organizational and operational challenges.

15. In varying respects, tax administrations are experiencing difficulties related to the absence of or outdated infrastructures. This includes (a) the absence of buildings to house some operational services; (b) the lack of an integrated tax management information system; and (c) the inadequacy of the various materials necessary for a well-functioning tax administration.

16. With the evolution of the legal framework and the development of the mining, oil, telecommunication, banking, and insurance sectors that use new technologies, tax administration

officers are suffering from critical knowledge gap. Thus, it is necessary and urgent to strengthen the capacity of tax officers to match the knowledge level of staff working in the abovementioned sectors.

17. **Proposed activities.** The activities planned as part of this axis are as follows:

- (a) Supporting the improvement of tax administrations' organizational framework;
- (b) Supporting the upgrading of offices to house operational services of tax administrations;
- (c) Supporting the implementation of an integrated tax management information system; and
- (d) Strengthening the operational and human resources capacities.

Table 2.2. Detailed Activities - Subcomponent 1.1 - Axis 2

Activities	Subactivities
<p>(a) Supporting the improvement of tax administrations' organizational framework</p> <p>Objective. Align tax administrations' capacity with their vested missions.</p>	<ol style="list-style-type: none"> 1. Support the establishment of dedicated units in charge of monitoring mining royalties in the new mining provinces. 2. Support the process of creation of decentralized units in charge of allocation of Tax Identification Number in the former provinces of Bandundu, Equateur, Kasai Occidental, Province Orientale, Maniema, Nord Kivu, and Sud Kivu. 3. Support the finalization of the organizational framework of DGRAD taking into account the new 'decoupage' of provinces and the ongoing computerization with SAP system.
<p>(b) Supporting the upgrading of offices to house operational services of tax administrations</p> <p>Objective. Improve working conditions of tax administrations.</p>	<ol style="list-style-type: none"> 1. Support the upgrading of offices of the new provincial directorates for DGI and DGRAD, including Lualaba, Tanganyika, and Ituri for DGDA's new divisions. 2. Support the existing provincial training centers for teaching in the field of customs in the pools of Kinshasa, Lubumbashi, and Goma. 3. Support the acquisition of communication equipment and vehicles.
<p>(c) Supporting the implementation of an integrated tax management information system</p> <p>Objective. Equip tax administrations with an automated information system to improve their performance and reduce tax fraud.</p>	<ol style="list-style-type: none"> 1. Support the computerization efforts of tax administrations. 2. Support the implementation an integrated tax management information system for DGI. 3. Support the establishment of electronic filling and payment for DGI and DGRAD. 4. Support the initiatives of interconnection of DGDA information system with those of foreign customs administrations: Tanzania, Zambia, Kenya, Uganda, Burundi, Republic of Congo, and South Africa. 5. Support the generalization and the strengthening of the computerization of DGDA by the migration of the system from the Automated System for Customs Data (ASYCUDA)++ to ASYCUDA World. 6. Support the modernization of the DGI's small taxpayers. 7. Support the Customs Administration's performance measurement process through the software ASYCUDA World.

Activities	Subactivities
<p>(d) Strengthening the operational and human resources capacities</p> <p>Objective. Have well-functioning tax administrations with qualified people to deliver their duty with enhanced professional integrity and skills.</p>	<ol style="list-style-type: none"> 1. Support the organization of training to meet the operational and performance evaluation requirements. 2. Support the organization of specific training courses needed to understand the basics in mining, oil, telecom, banking, and insurance sectors. 3. Support the training of tax officers in the area of transfer pricing. 4. Strengthen the capacity of statistics services to improve revenue forecasts and estimates in tax administrations. 5. Train the tax officers and executives of DGI, DGRAD, and DGDA on internal control and internal audit. 6. Support the training of customs tax officers on the ASYCUDA World software, in the former provinces of Orientale, Kasai Occidental, du Kasai Oriental, Nord Kivu, and Sud Kivu. 7. Support the dissemination of the Code of Ethics and Professional Business Conduct for all tax administrations.

Subcomponent 1.2: Strengthening the Budgetary Capacity of Line Ministries (AF: US\$2.9 million equivalent)

18. This subcomponent includes two axes: (a) strengthening the capacity of the Minister of Budget to improve budget forecasting and support efforts to introduce the PBB reform in selected line ministries and (b) improving budget execution through the devolution of commitment authority to line ministries by strengthening the capacity of their DAF.

Axis 1: Strengthening the capacity of the Minister of Budget to improve budget forecasting and support efforts to introduce the PBB reform in selected line ministries

19. **Objective.** This axis aims to improve the current line items budgeting process and introduce the PBB in line with the requirements of the LOFIP.

20. **Current status.** In spite of the existence of a new legal framework, the budget planning and preparation process remains weak with the lack of a comprehensive and credible budget linked to public policies and expected performance. DRC's budgetary allocations did not adequately align with its policy priorities defined in the country's PRSP. The budget process remains characterized by the (a) lack of credibility and completeness of the budget; (b) non-compliance with budget preparation procedures; and (c) disconnect between line ministries budget allocation and their performance and sector strategies.

21. With regard to budget credibility, the following weaknesses remain: (a) existence of significant differences between actual and planned spending due to unreliable budget estimates; (b) non-compliance with the budget calendar; (c) weak public debt management; and (d) insufficient use of instruments and tools for programming and forecasts such as the medium-term budget framework, MTEF, and the Public Investment Program (PIP).

22. Budget completeness continues to suffer from (a) the existence of several extra budgetary operations not captured in the budget and (b) difficulties in capturing donors' external resources.

23. To comply with the legal deadline set by the LOFIP to introduce the PBB in 2019, the Government has sought and obtained an IMF technical assistance, through its Regional Center for Technical Assistance in Central Africa.

24. With the Regional Center for Technical Assistance in Central Africa support, the process to introduce the program-based budgeting was initiated and budgetary models '*maquette budgétaire*' of the entire departments and institutions, with the exception of the presidency, have been carried out and five draft performance annual reports have been issued.

25. Despite their relevance, these results alone are not sufficient to implement the PBB reform. Thus, the COREF has developed an operational plan for the implementation of the program-based budgeting, which aims to build and strengthen the capacity of key actors within line ministries to gradually introduce the PBB reform.

26. **Proposed activities.** The activities planned as part of this axis are as follows:

- (a) Supporting the improvement of the budget preparation process;
- (b) Supporting the establishment of a program-based budgeting task force in pilot ministries; and
- (c) Developing and implementing a capacity-building program for the PBB.

Table 2.3. Detailed Activities - Subcomponent 1.2 - Axis 1

Activities	Subactivities
<p>(a) Supporting the improvement of the budget preparation process</p> <p>Objective. Produce a credible and comprehensive budget with realistic forecasts and estimates.</p>	<ol style="list-style-type: none"> 1. Support the validation and adoption of the draft decree on the budgetary governance. 2. Support the development and implementation of budgetary instruments and tools including guides on medium-term budget framework and MTEF. 3. Support the development of the PIP as an instrument for programming of investment for (a) production and dissemination of the guide for the development of PIP, (b) development of the mapping of projects and programs, and (c) coaching for the development of the PIP. 4. Support the organization of budgetary conference with citizen participation. 5. Support the debt management improvement process. 6. Conduct a study on the rationalization of government bodies financed from the budget to determine the appropriateness of their allocation in accordance with the provisions of the LOFIP. 7. Support the improvement of capturing and managing donors' external resources.
<p>(b) Supporting the establishment of program-based budgeting task force in pilot ministries</p> <p>Objective. Initiate change management within the departments and institutions, to introduce the performance base budgeting</p>	<ol style="list-style-type: none"> 1. Support the finalization of the budgetary nomenclature integrating the programmatic classification and harmonized with the Chart of Account; 2. Support the distribution of roles and responsibilities according to the different levels of intervention in the PBB reform (Minister or his Deputy, Program manager...); 3. Strengthen the capacity of DPSB in charge of the central monitoring of the PBB.

Activities	Subactivities
(c) Developing and implementing a capacity-building program for the PBB Objective. Promote and disseminate required professional skills for a better implementation of the PBB reform.	<ol style="list-style-type: none"> 1. Support the training of trainers on the PBB and the dissemination of tools within pilot line ministries. 2. Support the coaching for the preparation of the first PBB of departments and institutions. 3. Strengthen the human resource capacities (including training) and software equipment for the PBB monitoring. 4. Develop in-house software for the PBB management (forecast, execution, monitoring, and evaluation).

Axis 2: Improving budget execution through the devolution of commitment authority to line ministries by strengthening the capacity of their DAF

27. **Objective.** This axis aims to improve budget execution through the devolution of commitment authority to line ministries that will be fully accountable for the management of the expenditures of their department, in line with the requirements of Article 103 of the LOFIP.

28. **Current status.** Budget execution is affected mainly by (a) redundant and lengthy steps in budget execution processes, including various political interventions in the approval of commitments and payments; (b) abuse in the use of the exceptional/emergency procedures; and (c) excessive centralization of budget execution authority in the Ministry of Finance and Ministry of Budget. Budget credibility is a major concern due to abuse in exceptional procedures bypassing the expenditures chain. The overall budget execution rate decreased from 56 percent in 2013 to 51 percent in 2014 and from 36 percent to 31 percent, respectively, in social and infrastructure sectors. Although the latest report by DRC's Supreme Audit Institution shows a budget execution rate of 68 percent for fiscal year 2015, a significant improvement compared to previous fiscal years, there is space for further improvements

29. To endow line ministries with commitment authority and budgetary capabilities, the Government, with the support of the initial PFMAP, has initiated the process of establishment of DAF within departments and institutions. The process started with 12 departments and needs to be extended to all ministries.

30. Currently, the expenditures chain information system is centralized at the Ministry of Budget and not connected to spending units in MDAs. Spending agents have to walk to the Department of Budget Control (*Département du Contrôle Budgétaire*, DCB) to manually enter their commitment request in the expenditure chain, which creates additional delays and bottlenecks in the budget execution process. With the establishment of the DAFs in line ministries, the extension of the expenditure chain in MDAs has become critical.

31. According to the LOFIP, each commitment authority should be assigned a budget control officer whose role will be to conduct prior review of commitments. However, the function of budget control officer is not yet well structured to operate adequately and presents the following weaknesses: (a) there is a lack of regulation organizing the function of budget controller; (b) the prior control of commitments is currently conducted manually without connection with the expenditures chain information system; (c) the current workforce of budget controllers is very weak compared to the assignments needed at the budget authority level, and most of the existing

staff are eligible for retirement; and (d) there is redundancy of budget control between the DCB and the budget controller assigned to line ministries (*Contrôleur Budgetaire Affecté, CBA*).

32. **Proposed activities.** The activities planned as part of this axis are as follows:

- (a) Supporting the process of establishment of the DAF in line ministries;
- (b) Supporting the extension of the expenditure chain information system in MDAs; and
- (c) Strengthening the role and the capacity of budget control officers.

Table 2.4. Detailed Activities - Subcomponent 1.2 - Axis 2

Activities	Subactivities
<p>(a) Supporting the process of establishment of the DAF in line ministries</p> <p>Objective. Endow departments and institutions with budgetary capacity to improve budget execution through the commitment authority to line ministries.</p>	<ol style="list-style-type: none"> 1. Support the recruitment process of additional DAF function in MDAs. 2. Develop and implement training programs for recruited staff. 3. Equip DAF with materials, tools, and instruments needed for their functioning, including upgrading of the required offices.
<p>(b) Supporting the extension of the expenditure chain information system in MDAs</p> <p>Objective. Improve automation of the budget execution process through the connection of spending units to the expenditure chain information system.</p>	<ol style="list-style-type: none"> 1. Realize the feasibility study of the extension of the expenditure chain information system. 2. Support the acquisition of information technology materials needed for the extension process. 3. Equip and train the technical staff of the Minister of Budget and Information Technology Department. 4. Strengthen the capacity of the spending units including the services of payroll management. 5. Support the connectivity between existing information systems: expenditures chain, debt management (SYGADE), and payroll management (SYGECPAF). 6. Support the monitoring and evaluation of the expenditures chain (exceptional expenditures, off-budget expenditure tracking, end-of-year regularization operations, and so on).
<p>(c) Strengthening the role and the capacity of budget control officers</p> <p>Objective. Enhance the prior review function in the budget execution process.</p>	<ol style="list-style-type: none"> 1. Revise the roles and respective duties of the DCB and the budget controllers to bolster the CBA accountability and lessen redundant controls in the DCB. 2. Endow the CBAs with an administrative regulation to organize the function of budget controller. 3. Revise the 2010 Procedure of Controls Manual in light of the establishment of the DAF and the PBB process. 4. Support the recruitment, establishment (equipment), and training of the CBAs. 5. Revise the vade mecum of the required supporting documents to justify public expenditures.

Subcomponent 1.3: Supporting the Implementation of the Public Procurement Law (AF: US\$3.0 million equivalent)

33. This subcomponent aims at supporting the establishment of structures for the management and control of procurement systems at the central level, with a view to improve the transparency, ensure the effectiveness of the public oversight, promote efficiency and competition, and

strengthen the control a priori and a posteriori of public procurement, including improved public access to information. To achieve this, the AF will fund the following main activities: (a) strengthening the capacity of the main actors on the legal and regulatory framework governing public procurement; (b) strengthening hardware capabilities; (c) acquiring an integrated public procurement information system; (d) supporting the organization of periodic public procurement audits; (e) supporting the implementation of the ARMP; and (f) establishing a public procurement magazine.

34. **Current status.** Contracts' management in DRC is currently governed by the procurement act No. 10/010 of April 27, 2010. This act lays down the basic rules relating to the preparation, contracting, execution, and control of public procurement. The functions of procurement management and control are strictly separated and exercised respectively by the Directorate General for Managing Public Contracts (*Direction Generale de Controle des Marché Publics*, DGCMP) and ARMP.

35. However, the effective implementation of the new procurement regulation suffers from the following issues: (a) some procurement units still not being functional despite their existence; (b) the non-control by some actors of different innovations of the new regulations on public procurement; (c) the manual treatment and the less-efficient process of public procurement not fully guaranteeing the traceability, transparency, and completeness of the information of the public markets; (d) an irregular audit of the public procurement and the lack of follow-up of audit recommendations; and (e) the absence of the regulatory body for the markets in the provinces.

36. To ensure the respect of the legal procedures for the management of public markets, the mastery of the different innovations through training and extension in favor of the main actors, including the officials and executives of the public administration, the actors of the civil society, and those in the private sector, particularly the members of the Federation of Enterprises of the Congo, is indispensable. It is also important to ensure the organization of periodic audits on public procurement with a view to assessing the progress and correct, if necessary, the weaknesses.

37. It is fitting also to ensure automation of the system of management and control of public procurement, a major asset to ensure traceability, transparency, and completeness of the information.

38. **Proposed activities.** The activities planned as part of this subcomponent are as follows:

- (a) Strengthening the capacity of the main actors on the legal and regulatory framework governing public procurement;
- (b) Strengthening the physical capacity of the structures for the management and control of public procurement;
- (c) Acquiring a software for the management of public procurement and creating a gateway with the chain of expenditure;
- (d) Supporting the organization of the qualitative assessment of the procurement system and periodic audits of public procurement;

- (e) Supporting the gradual development of the provincial branches of the ARMP; and
- (f) Creating a public procurement magazine.

Table 2.5. Detailed Activities - Subcomponent 1.3

Activities	Subactivities
<p>(a) Strengthening the capacity of the main actors on the legal and regulatory framework governing public procurement</p> <p>Objective. To adapt to and implement the new regulations on public procurement to ensure adherence to the legal procedures for the award of public contracts</p>	<ol style="list-style-type: none"> 1. Organize training workshops for actors in the management of public procurement at the central level. 2. Arrange study tours for the exchange of experiences with similar counterparts in other countries. 3. Organize awareness workshops and popularization of the law on public procurement to the benefit of the civil society and the private sector, particularly the members of the Federation of Enterprises of the Congo. 4. Ensure the coaching of the DGCMP.
<p>(b) Strengthening the physical capacity of the structures for the management and control of public procurement</p> <p>Objective. To install computer hardware for efficiently handling the process of public procurement as a whole, and organize and conduct variety of trainings for the public procurement staff.</p>	<ol style="list-style-type: none"> 1. Equip ARMP, DGCMP and their respective branches with furniture and computer hardware, including upgrading of the required offices. 2. Organize workshops of specific training courses for the benefit of the public procurement staff for the management and control of public procurement.
<p>(c) Acquiring a software for the management of public procurement and the creation of a gateway with the chain of expenditure</p> <p>Objective. To install a software that is adapted to the legal and regulatory framework for public procurement for programming, implementation and monitoring of all public procurement processes, in order to ensure traceability, transparency, and completeness of the public procurement information</p>	<ol style="list-style-type: none"> 1. Acquire and implement a computerized system for the management of public procurement. 2. Create a gateway between the software of management of the public contracts and the chain of the expenditure. 3. Support the training of users.
<p>(d) Supporting the organization of the qualitative assessment of the procurement system and periodic audits of public procurement</p> <p>Objective. To ensure the qualitative assessment of the procurement system and the periodic audits on public procurement with a view to assessing the progress and correct, if necessary, the weaknesses</p>	<ol style="list-style-type: none"> 1. Support the organization of the qualitative assessment of the public procurement system. 2. Support the organization of independent audits of annual public markets by the ARMP. 3. Support the organization of the workshops of validation of the public procurement audit reports and evaluation of the system of public procurement. 4. Support the monitoring missions' evaluation of the recommendations of the audits.

Activities	Subactivities
(e) Supporting the gradual development of the provincial branches of the ARMP Objective. To ensure the operationalization of the public procurement function at the level of provincial branches, in line with the new regulations on public procurement	1. Support the upgrading and equipping of the provincial branches of the ARMP.
(f) Creating a public procurement magazine Objective. To promote the transparency, completeness, competition, and control of public procurement	1. Support the creation of a magazine for public procurement.

Subcomponent 1.4: Strengthening Cash Management and Public Accounting System (AF: US\$5.9 million equivalent)

39. The objective of this subcomponent is (a) to ensure the reliability and completeness of the financial information generated by the public accounting system as well as the efficiency of cash management and (b) to support and strengthen the capacity of the newly created accounting profession, ONEC. In addition, it intends to develop a strategy for accompaniment and partnership with a view to strengthen the links between the accounting profession and the actors in the public sector, including CPCC.

40. This subcomponent includes the following three axes: (a) strengthening the public accounting system; (b) improving cash flow management; and (c) supporting and strengthening the capacity of the accounting profession.

Axis 1: Strengthening the Public Accounting System

41. **Objective.** The objective of this axis is to provide the country with a sound public accounting organization capable to produce accurate, complete, and reliable public financial information. It aims to comply with the provisions of Article 21 of the Decree 13/050 of November 6, 2013 on the general regulation on public accounting (*Règlement Général sur la Comptabilité Publique*, RGCP) and of Articles 3, 11, 12, and 14 of the Decree 13/051 of November 8, 2013 on the administration's rules applicable to public accountants.

42. **Current status.** The current situation is characterized by (a) an accounting system governed by a revised legal framework, the enforcement measures of which are struggling to be implemented; (b) non-compliance of current accounting practices with international standards; (c) a lack of an appropriate organization for public accounting and cash management, which prevents centralization of public financial information; (d) manual bookkeeping making it difficult to monitor budget execution and accounting data and produce reliable and timely financial statements; and (e) lack of well-trained accountants in the new accounting standards.

43. Public accounting in DRC is handled by various departments within the Ministry of Finance, without clear synergy. These departments include the Directorate of Treasury and

Payment authorization (*Direction du Trésor et de l'Ordonnancement*), Directorate of Public Accounting (*Direction de la Comptabilité publique*), and the Directorate of Accounts Generation (*Direction de la Réédition des comptes*). To address this situation, the Government has initiated the process of creation of the DGTCP; with a national network of public accountants at the national and provincial levels.

44. This envisaged organization requires (a) a complete mapping of the accounting positions to establish throughout the country; (b) a progressive establishment of accounting positions; and, (c) the interconnection of different positions to ensure proper centralization of accounting information necessary to produce the state financial statements in accordance with the RGCP.

45. **Proposed activities.** The activities planned as part of this axis are as follows:

- (a) Supporting the implementation and enforcement of the RGCP;
- (b) Supporting the creation and operationalization of the DGTCP;
- (c) Supporting the establishment of the national network of public accountants; and
- (d) Supporting the production of public accounts and financial statements.

Table 2.6. Detailed Activities - Subcomponent 1.4 - Axis 1

Activities	Subactivities
(a) Supporting the implementation and enforcement of the RGCP Objective. To enforce compliance and observance of international accounting standards and codes	<ol style="list-style-type: none"> 1. Support the drafting of instructions and instruments accompanying the RGCP. 2. Support the dissemination and training on the RGCP.
(b) Supporting the creation and operationalization of the DGTCP Objective. To mainstream the organization of public accounting within the Ministry of Finance to improve efficiency and guarantee the quality of public accounting information	<ol style="list-style-type: none"> 1. Support the advocacy for the signature of the decree creating the DGTCP. 2. Support the recruitment process of the staff. 3. Provide the accounting services with the required operating equipment (office equipment and furniture, computer hardware, and so on). 4. Provide training to the DGTCP staff. 5. Support hands-on technical assistance to DGTCP (coaching).
(c) Supporting the establishment of the national network of public accountants Objective. To have a structured and centralized accounting organization at the central, provincial, and local levels.	<ol style="list-style-type: none"> 1. Support the drafting of instructions organizing the national network of public accountants. 2. Conduct a mapping of accounting positions to establish. 3. Support the establishment of the accounting units in Kinshasa and provinces, including upgrading and equipping of offices. 4. Provide training and coaching to the accounting network. 5. Support the ongoing implementation of the accounting information system initiated by EU with SAP.
(d) Supporting the production of public accounts and financial statements Objective. To improve the quality, timeliness, and reliability of public accounts and government financial statements	<ol style="list-style-type: none"> 1. Finalize and disseminate the manual to produce public accounts and financial statements. 2. Build the capacity of the Department of Accounts Generation and support the training of its staff.

Axis 2: Improving Cash Flow Management

46. **Objective.** This axis aims to improve the efficiency of cash management and diversify the sources of financing of the budget.

47. **Current status.** The end of the fiscal year in DRC often reveals a significant volume of expenses incurred but not paid due to lack of sufficient cash. This situation, caused by the low level of DRM, is accentuated by (a) the lack of an intervention on the stock market and (b) the lack of clarity on the cash balances of the significant number of public accounts opened in commercial banks.

48. To cope with this situation, the Government set among its priority the creation, first, of a market for government securities and, second, a national financial market. This orientation is justified by the willingness of authorities to diversify the sources of funding to serve the needs of the state budget and to improve cash flow management.

49. **Proposed activities.** The activities planned as part of this axis are as follows:

- (a) Supporting the initiatives for the establishment of the government securities market;
- (b) Supporting the initiatives for the establishment of the Single Treasury Account; and
- (c) Supporting the improvement of cash flow management.

Table 2.7. Detailed Activities - Subcomponent 1.4 - Axis 2

Activities	Subactivities
<p>(a) Supporting the initiatives for the establishment of the government securities market</p> <p>Objective. Diversify the sources of financing of the state budget with a view to cover its cash flow needs.</p>	<ol style="list-style-type: none"> 1. Support the establishment of the legal framework organizing government securities markets regarding (a) terms and conditions of issuance and reimbursement of securities and (b) relations between the Central Bank, the DGTCP, public debt, and public investors. 2. Provide technical validation and dissemination of the securities market regulations. 3. Provide training of stakeholders on stock exchange management.
<p>(b) Supporting the initiatives for the establishment of the Single Treasury Account</p> <p>Objective. Start the process of establishment of the Single Treasury Account in accordance with the provisions of Article 110 of the LOFIP (all agencies and all public services are required to deposit all their cash resources in a single account open at the Central Bank).</p>	<ol style="list-style-type: none"> 1. Support the census of public accounts opened by MDAs. 2. Support the drafting of regulations and instructions on procedures to open or close public accounts in compliance with the eligibility criteria of the LOFIP. 3. Support the production of the repertory of the public accounts held by public administration agencies.

Activities	Subactivities
(c) Supporting the improvement of cash flow management Objective. Enhance the efficiency of cash management to cope with the Government's cash needs.	1. Support planning and accounting. 2. Support the establishment of a mechanism of centralization of financial transactions in real time. 3. Support the establishment of procedures for the investment of cash resources. 4. Support the strengthening of the capacity of stakeholders involved in cash management. 5. Support the improvement of cash flow management information system.

Axis 3: Supporting and Strengthening the Capacity of the Accounting Profession

50. **Objective.** The objective of this axis is to organize the accounting profession and develop a strategy for partnership with a view to strengthen the links between the accounting profession and the actors in the public sector, including CPCC.

51. **Current status.** Since February 2015, the accounting profession is organized by Law No. 15/002 creating ONEC. The lack of an appropriate legal framework was one of the major recommendation of the DRC Report on the Standards and Code – Accounting and Auditing¹⁶ conducted by the World Bank in 2009. Also, currently, ONEC does not meet the minimum criteria of membership obligation to be a member of the International Federation of Accountants (IFAC).

52. According to ONEC, currently, 70 percent of the economic entities do not have proper bookkeeping and tend to produce multiple balance sheets, refraining deliberately to fulfill their tax obligations. In addition, many businesses struggle to keep their accounts according to Organization for the Harmonization of the Business Law in Africa (OHADA) accounting principles entered into force since January 2014.

53. In addition, the LOFIP introduced the accrual basis of accounting in public sector accounting. However, public accountants are not familiar with this new accounting method. Thus, there is an opportunity to develop a strategy for partnership to strengthen the capacity and links between the accounting profession and the public sector actors.

54. **Proposed activities.** The activities planned as part of this axis are as follows:

- (a) Strengthening the capacity of ONEC and facilitating its adhesion to IFAC;
- (b) Supporting the partnership between the accounting profession and the public sector actors; and

¹⁶ The aim of this report is to assess accounting and financial auditing standards and practices applied in DRC in the private and parastatal sectors, using the International Financial Reporting Standards and the International Standards on Auditing as references and bearing best international practices in both fields in mind. The main aim of this assessment is to make recommendations to the Government to enhance accounting and financial auditing practices as well as financial transparency in the private sector and in public enterprises in DRC. The development aims of these recommendations are to (a) stimulate private investment and improve the competitiveness of enterprises, (b) enhance governance in the private and parastatal commercial sector, and (c) further integrate the Congolese economy at the global level.

(c) Strengthening the capacity of CPCC.

Table 2.8. Detailed Activities - Subcomponent 1.4 - Axis 3

Activities	Subactivities
<p>(a) Strengthening the capacity of ONEC and facilitating its adhesion to IFAC</p> <p>Objective. Provide ONEC with the required technical and human resources capacities to become an IFAC member and organize with efficiency and effectiveness the accounting profession in DRC.</p>	<ol style="list-style-type: none"> 1. Support the finalization of ONEC's organization with the establishment of the remaining commissions and bodies. 2. Support the organization of professional exams to access to the accounting profession. 3. Organize continued professional training of the members of ONEC. 4. Support the establishment of provincial accounting bodies. 5. Support the upgrading of hardware equipment and documentation, including upgrading and equipping of offices. 6. Support the dissemination of tools developed by the Regional OHADA Project. 7. Disseminate the Code of Ethics and Business Conduct for the accounting profession.
<p>(b) Supporting the partnership between the accounting profession and the public sector actors</p> <p>Objective. Foster collaboration between the private and public sector accounting practitioners.</p>	<ol style="list-style-type: none"> 1. Support the development of a memorandum of understanding between ONEC and the public sector accounting organization (DGTCF). 2. Support the dissemination of OHADA accounting rules. 3. Support the development of a protocol for collaboration between ONEC, the tax administration (DGI), the private sector, and the Congolese Association of Banks, with a view to guarantee the reliability of financial statements.
<p>(c) Strengthening the capacity of CPCC</p> <p>Objective. Enforce compliance of accounting practices with international accounting standards to produce reliable financial statements.</p>	<ol style="list-style-type: none"> 1. Strengthen the CPCC material and human resources capacities. 2. Support the production of the state consolidated balance sheet.

Subcomponent 1.5: Strengthening the Internal Control Systems (AF: US\$0.7 million equivalent)

55. **Objective.** This subcomponent aims to (a) strengthen the controls function within the line ministries to mitigate budgetary risks and (b) enable the IGF to efficiently conduct its missions of compliance, financial, and performance audits.

56. **Current status.** The current internal control system within the public administrations is characterized by the following: (a) inspection units in line ministries are not familiar with risk-based audit approach and lack the capacity to conduct performance audit of public policies and programs. There is no control of the management of the risk by the technical inspections in a context characterized by the weakness of the means of operation; (b) there is a lack of coordination between the various government control entities; and (c) currently, most of the IGF staff are eligible for retirement and are not being replaced, which undermines the capacity of the IGF to fulfill its auditing function.

57. The envisaged reform on the devolution of commitment authority to line ministries requires the strengthening of the internal control system and the capacity of inspection units. This will contribute to mitigate the inherent risk associated with a greater autonomy granted to line ministries.

58. **Proposed activities.** The activities planned as part of this subcomponent are as follows:

- (a) Supporting the improvement of the institutional and legal framework of the IGF;
- (b) Strengthening the capacity of the IGF and inspection units to implement a risk-based audit approach;
- (c) Training and accompanying inspections unit to conduct financial audit, compliance audit, and performance audit of public administrations; and
- (d) Acquiring office and computer equipment for the IGF and inspection units.

Table 2.9. Detailed Activities - Subcomponent 1.5

Activities	Subactivities
(a) Supporting the improvement of the institutional and legal framework of the IGF Objective. Provide the IGF with a regulatory framework adapted to the provisions of the LOFIP.	<ol style="list-style-type: none"> 1. Support the drafting and implementation of the revised regulations of the IGF. 2. Support the recruitment of new inspectors to replace retiring inspectors. 3. Support the IGF to coordinate and provide coaching to inspection units in line ministries.
(b) Strengthening the capacity of the IGF and inspections units to implement a risk-based audit approach Objective. Foster the implementation of a risk-based auditing approach by the IGF and inspection units in line ministries.	<ol style="list-style-type: none"> 1. Support training and coaching to implement the risk-based audit methodology. 2. Support the risk mapping in each of the five pilot sectoral ministries. 3. Support the audit missions on the basis of the defined risk mapping.
(c) Training and accompanying inspections unit to conduct financial audit, compliance audit, and performance audit of public administrations Objective. Conduct audit missions in accordance with international standards.	<ol style="list-style-type: none"> 1. Support the finalization of the Sectoral Audit Manual (within the audit management software TeamMate). 2. Support training and coaching on financial, compliance, and performance audits. 3. Conduct at least five performance audits based on risk mappings.
(d) Acquiring office and computer equipment for the IGF and inspection units Objective. Give the IGF and the pilot inspection offices equipment and tools tailored to carrying out their missions.	<ol style="list-style-type: none"> 1. Provide office and computer equipment for the IGF and inspection units. 2. Purchase additional licenses for TeamMate for at least five technical inspectors in line ministries. 3. Ensure the maintenance of audit software. 4. Support the development of in-house software (record management, human resource management, and so on).

Component 2: Strengthening Budget Oversight and Improving Transparency (AF: US\$2.3 million equivalent)

59. This component aims to strengthen the external control of the public finances. It consists of three subcomponents: (a) strengthening the external audit process; (b) strengthening the legislative oversight; and (c) increasing public access to key fiscal information and participatory public expenditure management.

Subcomponent 2.1: Strengthening External Audit Processes (AF: US\$0.5 million equivalent)

60. **Objective.** The objective of this subcomponent is to improve the technical capacity and the effectiveness of the CDC.

61. **Current status.** The CDC is part of the national assembly. Its scope of authority extends to auditing the execution of the budget law and the accounts of the provinces, the decentralized subnational authorities, and the independent government agencies. The provincial auditing sections are not yet in place. The CDC is governed by legislation that dates back to 1987. An organic draft law whose purpose is to modernize the organization and operation of the institution was prepared and is now being reviewed by the parliament.

62. Under the initial financing, 52 magistrates' trainees have benefited from the technical assistance provided by the experts of the Regional Supreme Audit Organization (CREFIAF). This support was used to produce audit methodology guides and acquire auditing software with a hands-on support. To sustain the achievements of this assistance, it is important to continue the coaching of judges to enable them to lead audit missions with autonomy.

63. According to the Decree-Law n°87-031 of July 22, 1987, every public agency is mandated to send its public accounts to the CDC for review and judgment. However, this procedure is not followed, and the CDC is not able to issue its report on the judgment of public accounts required by both the LOFIP and the RGCP. Therefore, it is critical to support the process of production and judgment of public accounts.

64. Coordination between the administrative auditing entities (the IGF and technical inspection offices) and the supreme external auditing institution (CDC) is nearly nonexistent. This situation heightens the risks of duplication of labor and scattering of efforts.

65. **Proposed activities.** The activities planned as part of this subcomponent are as follows:

- (a) Supporting the implementation and dissemination of the CDC Organic Law;
- (b) Supporting capacity building for the CDC's staff;
- (c) Supporting the strengthening of coordination between the CDC and IGF;
- (d) Supporting the improvement of the CDC information system;
- (e) Supporting the process of production and judgment of public accountants' accounts;
and
- (f) Supporting the implementation of the CDC auditing work program.

Table 2.10. Detailed Activities - Subcomponent 2.1

Activities	Subactivities
<p>(a) Supporting the implementation and dissemination of the CDC Organic Law</p> <p>Objective. To provide the CDC with a modern and efficient legal framework to support the implementation of the reforms induced by the new organic law</p>	<ol style="list-style-type: none"> 1. Examine and vote on the draft Organic Law of the CDC by the parliament. 2. Promulgate and implement the organic law. 3. Provide support for the organization of seminars or workshops disseminating information on this text. 4. Support the reorganization of the CDC in line with the new organic law (drafting of accompanying texts).
<p>(b) Supporting the capacity building for the CDC's staff</p> <p>Objective. To give the CDC the means to effectively ensure its mission of external control of the implementation of the budgets of the entities of the central public administration</p>	<ol style="list-style-type: none"> 1. Conduct travel studies for the members of CDC. 2. Perform in-depth training on the use of the software for the benefit of the staff of the CDC.
<p>(c) Supporting the strengthening of coordination between the CDC and IGF</p> <p>Objective. To improve the dialogue in the field of planning, programming interventions and sharing of information, so that they can carry out their mandate in the area of budgetary control</p>	<ol style="list-style-type: none"> 1. Develop a protocol of agreement establishing a platform of collaboration and defining the mechanisms of coordination by CDC and IGF; 2. Provide support to the organization of the first activities of coordination.
<p>(d) Supporting the improvement of the CDC information system</p> <p>Objective. To facilitate the sharing of information between the Government (Ministry of Finance and the Ministry of Budget) and the CDC</p>	<ol style="list-style-type: none"> 1. Carry out a study for the establishment of a network between the Government (Ministry of Finance and the Ministry of Budget) and the CDC. 2. Put in place the tools to enable the CDC to have a database on economic and financial data (server, search engine, procedures, power, and maintenance of the base).
<p>(e) Supporting the process of production and judgment of public accountants' accounts</p> <p>Objective. To improve the jurisdictional control on the management accounts of public entities</p>	<ol style="list-style-type: none"> 1. Train the judges of the CDC on public accounting, as well as the judgment of the management accounts and the certification of accounts. 2. Support the start of the process of devolution of the CDC in the provinces.
<p>(f) Supporting the implementation of the CDC auditing work program</p> <p>Objective. To support the CDC in the achievement of its annual program of audits of departments, governed financial statements, and SOEs</p>	<ol style="list-style-type: none"> 1. Supervise the magistrates in the realization of audit (including the monitoring mechanism of the recommendations).

Subcomponent 2.2: Strengthening the Legislative Oversight (AF: US\$0.8 million equivalent)

66. **Objective.** This subcomponent aims to strengthen the capacities of the Economics and Finance Committees in the national assembly and the senate. As a result, they will be able to better carry out their ex ante and ex post auditing missions under the budget laws. The subcomponent also aims to facilitate public access to information on the work of these two committees.

67. **Current status.** In DRC, the parliament comprises two houses (the national assembly and the senate) that exercise legislative authority and are administratively and financially independent. Each house has an Economics and Finance Committee. These committees are responsible for scrutinizing the draft budget laws in advance, including the original budget law, the supplementary budget law, and the budget review law before they are enacted.

68. The two committees use the expertise of the administrative entities (study offices) of their respective houses. To be effective, these offices should be upgraded and their capacities should be strengthened. They should also have the information and data necessary to prepare the documentation that is submitted to the committees.

69. To strengthen public access to the parliamentary information and promote the documentary research necessary for the work of the committees, it is important to put in place a documentation center, consisting of a library and a computer room connected to the Internet, at the disposal of the members of the parliament and senators, as well as the public, including civil society.

70. **Proposed activities.** The activities planned as part of this subcomponent are as follows:

- Strengthening the technical capacities of the Economics and Finance Committees of both houses; and
- Supporting the upgrade of the information system in the national assembly and the senate.

Table 2.11. Detailed Activities - Subcomponent 2.2

Activities	Subactivities
<p>(a) Strengthening the technical capacities of the Economics and Finance Committees</p> <p>Objective. To, on one hand, improve the quality of public hearings and, on the other hand, deepen the techniques of analysis and study of parliamentary documents submitted to the Economics and Finance Committees</p>	<ol style="list-style-type: none"> 1. Recruit a consultant responsible for the support of the technical services of the Economics and Finance Committees. 2. Organize workshops for the dissemination of the Manual of Procedures for the review of financial laws. 3. Organize training seminars for members of the two commissions on themes related to certain aspects of the PFM reform (the preparation of the budget, the innovations of the LOFIP, monitoring of the execution of the budget, the Table of Government Financial Operations and parliamentary control, and so on). 4. Promote study tours to exchange experience and practical internships with the Economics and Finance Committees in other countries. 5. Equip the Economics and Finance Committees of the senate with office equipment and computer equipment. 6. Rehabilitate the premises housing the Economics and Finance Committees of the senate.

Activities	Subactivities
<p>(b) Supporting the upgrade of the information system in the national assembly and the senate</p> <p>Objective. To enhance the access of the public to the parliamentary information and promote the documentary research necessary for the work of review of various laws submitted to the Economics and Finance Committees</p>	<ol style="list-style-type: none"> 1. Put in place the tools allowing the Economics and Finance Committees of the two rooms to have a database on economic and financial data (server, search engine, procedures, power, and maintenance of the base). 2. Put in place a documentation center (library and internet).

Subcomponent 2.3: Increasing Public Access to Key Fiscal Information and Participatory Public Expenditure Management (AF: US\$1.0 million equivalent)

71. **Objective.** This subcomponent aims to promote transparency, accountability, and citizen engagement in the area of PFM at the central, provincial, and local levels.

72. **Current status.** The joint study of the Collaborative African Budget Reform Initiative and the International Partnership on Budget;¹⁷ on transparency and citizen participation in DRC identified the following weaknesses: (a) non-compliance by the government of the time and of the budgetary calendar; (b) lack of press engagement in the sharing of information; (c) low level of involvement of other services of the government and of civil society in the budget planning process, especially relating to the budget of investments; (d) a lack of information particularly on the public sector salary structure and the contracts for goods and services; (e) the persistence of expenditure by the exceptional procedure; and (f) a deficit in the production and publication of financial reports and accounts, particularly the midterm reports.

73. In addition, the study on the mechanisms for citizen participation in public finance in DRC conducted in 2015¹⁸ and the findings of the national forum of November 2015 relating thereto have revealed the following weaknesses: (a) absence of a regulation on the participation of citizens in public finances; (b) weakness in the presentation of the simplified budget of the TDE; (c) lack of technical and institutional capacities, in the provinces and in the TDE, in the field of citizen participation; (d) low level of involvement of the citizen to all stages of the budgetary process; and (e) non-consideration of the financial support of the development partners in the budget of the TDE.

74. In light of the findings drawn up, it is important to effectively involve citizens in PFM through actions to contribute to strengthen the citizen control. In this regard, the project has, through the initial funding, supported the participation of CSOs in discussions of budgetary orientation, budgetary conferences and budgetary analyses, as well as the implementation of the participatory budget in the TDEs.

75. **Proposed activities.** The activities planned for this subcomponent will focus on the following:

¹⁷ CABRI Report – Fiscal Transparency and Participation in Democratic Republic of Congo – July 2014.

¹⁸ COREF Report – « *La participation Citoyenne aux Finances Publiques Locales en RDC* », Octobre 2015

- (a) Supporting participation and transparency in the process of programming, budgeting, and adoption of public finance laws;
- (b) Supporting the strengthening of citizen control of the budget execution;
- (c) Supporting the implementation of the participatory budget process at the level of TDEs in close consultation with their respective provinces; and
- (d) Supporting the advocacy of civil society to promote transparency and accountability in the management of public finances.

Table 2.12. Detailed Activities - Subcomponent 2.3

Activities	Subactivities
<p>(a) Supporting participation and transparency in the process of programming, budgeting, and adoption of public finance laws</p> <p>Objective. To promote the transparency and participation in the process of programming, budgeting, and adoption of laws of finance</p>	<ol style="list-style-type: none"> 1. Support the strengthening of the capacities of sectoral CSOs in monitoring. 2. Support the monitoring done by sectoral CSOs. 3. Support improvement of the quality of the budget monitoring and other reports on the implementation of the budget, at the national, provincial, and TDEs levels. 4. Support the improvement of the quality of citizens' budgets at the central, provincial, and TDEs levels. 5. Support the publication of the eight key documents on the transparency of the budget. 6. Support improvement of the content of the documents of budget strategy and their publication within the time limits. 7. Support the organization of workshops on transparency and the participation at all levels.
<p>(b) Supporting the strengthening of citizen control of the budget execution</p> <p>Objective. To get the authorities to account for the management of public finances</p>	<ol style="list-style-type: none"> 1. Support the organization of campaigns of dissemination of the budgets and information relating to the implementation of the budget with regard to expenditures and revenues. 2. Support the production of radio and/or television programs on major budgetary themes with the participation of members of civil society and representatives of the Government. 3. Support the strengthening of the capacities of CSOs on the participatory follow-up assessment of public action. 4. Support the publication of monitoring reports for citizens' access. 5. Support the establishment of the charter for the transparency and ethics among all stakeholders (civil society and the Government). 6. Support the development of a communication plan for the awareness of the public finances. 7. Support the publication of the nomenclature of taxes.

Activities	Subactivities
<p>(c) Supporting the implementation of the participatory budget process at the level of TDEs in close consultation with their respective provinces</p> <p>Objective. To involve citizens in the budgetary choices of TDE</p>	<ol style="list-style-type: none"> 1. Support the holding of the meetings of the Provincial Working Group on the Participatory Budget and strengthen the links in operation between the TDEs and the provinces. 2. Support the training of the leaders of the TDEs and members of civil society in the principles, methods, and tools of the participatory budget (including budgetary contents and management of public investments). 3. Support the organization of the process of consultation of citizens at the local level in the areas of definition and prioritization, and take into their feedback related to monitoring of budget execution. 4. Support the production of archives and the keep record of all achievements in the process of participatory budgeting. 5. Support the advocacy for the institutionalization of the participatory budget at the national level. 6. Organize awareness-raising actions to strengthen tax citizenship. 7. Inform the press of achievements in the process of the participatory budgeting.
<p>(d) Supporting the advocacy of civil society to promote transparency and accountability in the management of public finances</p> <p>Objective. To strengthen good governance in the management of public finances</p>	<ol style="list-style-type: none"> 1. Support the preparation, adoption, and implementation of legal and statutory texts on transparency and good governance in the management of public finances, in particular the law relating to the Access to Information Act, the Court of Account, the decree on budgetary governance, and so on. 2. Support advocacy for the implementation of the provisions of the LOFIP on the distribution of revenue to the national character and of common interest. 3. Support advocacy for the implementation of the recommendations of the various reports of the institutions of control of public finances. 4. Support advocacy for the publication of annual reports of the CDC. 5. Support civil society participation in meetings under regional and international forums on issues of governance.

Component 3: Establishing PFM Systems at the Provincial Level (AF: US\$23.2 million equivalent)

76. **Objective.** This component aims to improve the PFM systems in the former provinces covered by the World Bank before the decoupage,¹⁹ using as reference the minimum package reform platform agreed upon with donors and the respective PFM roadmaps of each province. The former eight provinces supported by the World Bank with its two projects (PFMAP and the Governance Capacity Enhancement Project) have now been split into 20 provinces; however, the geographical area of intervention remains the same. Given the resource constraints to cover all 20 provinces; a gradual approach will be adopted. While the focus of the World Bank support will still remain on the eight provinces to build on the existing achievement and not lose the momentum of its interventions, support to the newly created provinces will (a) be done with due consideration of the level of commitment of provincial authorities and (b) target activities that are focused and realistic in both their scope and level of ambition and could include capacity-building activities to

¹⁹ After the decoupage, the former eight provinces covered by the World Bank have been split into 20 provinces; however, the geographical area of the World Bank's intervention remains the same. The remaining six provinces that are not supported by the proposed AF are covered by AfDB.

disseminate good practices and laws/decrees across all provinces. All activities supported in provinces will derive from the minimum package of PFM reform activities agreed between donors and provinces. Specific activities could be funded depending on the circumstance and specific context of each province. These activities will contribute to increase own-source revenue mobilization in the provinces; improve expenditure management, including public procurement; and enhance transparency, accountability, and participation.

77. **Current status.** After more than five years of implementation of the minimum package platform and as a result of the decoupage, the COREF has conducted an evaluation of the PFM system in the provinces with a particular focus on (a) the mobilization of provincial own-source revenue and (b) the expenditure chain in provinces.

78. With regard to mobilization of provincial own-source revenue, the evaluation revealed that almost all provinces have put in place provincial revenue administrations with various levels of capacity. Most of them are struggling to have basic administrative capacity (office building, tax register, and so on), staffing, and equipment to operate effectively.

79. In some cases, there is no legal basis for collecting certain provincial taxes, and provinces are not always complying with the provision of the law n°13/001 of February 23, 2013 laying down the classification of taxes, fees, and royalties. In addition, tax collection is made manually with inherent risk of revenue leakage. Thus, there is a need to automate the revenue collection process and improve the provincial tax legal framework.

80. On public expenditure management in the provinces, the majority of provinces do not have the required decentralized administrative services to prepare the records related to the main stage of the expenditures chain, that is, commitment, certification, payment authorization, and so on. Most of these operations are handled by deconcentrated services of the Ministry of Budget in provinces. In some provinces, public expenditures operations are centralized at the governorate level, which does not guarantee checks and balances and transparency of public expenditures.

81. With the exception of the provinces of Kwilu, Sud Kivu, Haut Katanga, and Congo Central, and Tshopo and Maniema, which benefited, respectively, from the support of the former Governance Capacity Enhancement Project of the World Bank and the AfDB's PFM project to implement an automated expenditure chain, other provinces are still lagging behind. The implementation of an integrated expenditures information system is critical to increase traceability and transparency in provincial public expenditures management. The initial project is supporting the automation process in Nord Kivu, and the AF will allow to scale up this initiative in the provinces of Kinshasa, Equateur, and Kasai Oriental.

82. Concerning public procurement in provinces, almost all old provinces have created procurement units in charge of the management and control of provincial public procurement, whereas the newly created provinces do not yet have these units. However, the majority of public procurement contracts awarded by provinces are not in line with the procurement code and bypass the procurement units. To improve this situation, the AF will contribute to strengthen the capacity of provincial procurement units and actors of public procurement, raise awareness to enforce compliance with the procurement code, and support procurement auditing missions.

83. Each province in DRC is endowed with an executive body, the provincial government, and a legislative body, the provincial assembly. The provincial government consists of 10 ministers, and the provincial assembly has 108 deputies. These two bodies share budgetary prerogatives; the Government prepares and executes the budget, and the provincial assembly enacts the budget and debates the results of budget execution.

84. The process of budgetary preparation and programming involves the cabinets of the Ministries of Budget, Finance, and Planning, as well as the governor's adviser, the provincial budget division, the provincial finance division, and the provincial planning division, as well as the other revenue-generating divisions. The budgetary process lacks capacity from actors and is not well organized as there is no budgetary calendar.

85. The procedures for scrutinizing the budgets and the administrative and end-year treasury accounts are not formalized in a procedures manual. The insufficient knowledge of elected officials of budgetary matters; the lack of a technical support structure and the lack of equipment limit the provincial assembly's effectiveness. To improve this situation, the AF will not only strengthen the capacity of provincial stakeholders through trainings and coaching but also increase participation and transparency with the support to citizens and CSOs.

86. **Proposed activities.** The activities planned as part of this component are as follows:

- (a) Strengthening the capacities of the provincial assembly;
- (b) Strengthening the provincial government's institutional and technical capacities;
- (c) Strengthening the institutional and technical capacities of the provincial revenue division;
- (d) Strengthening the capacity of the provincial public procurement bodies;
- (e) Supporting the operation of the CPS; and
- (f) Supporting the development of a participatory budgeting and budget control by the citizens in relation with Subcomponent 2.3.

Table 2.13. Detailed Activities - Component 3

Activities	Subactivities
<p>(a) Strengthening the capacities of the provincial assembly</p> <p>Objective. Give the provincial assembly the means to effectively carry out its missions of scrutinizing and enacting the provincial budgets and supervising budget execution.</p>	<ol style="list-style-type: none"> 1. Organize training for the provincial deputies on the presentation, preparation, and execution of the budget, as well as public accounting. 2. Provide the provincial assembly with experts from the central level. 3. Design, disseminate, and distribute to the deputies a procedures manual for the provincial assembly to scrutinize budgets, administrative accounts, and end-year treasury accounts. 4. Produce a compendium of the legislation that governs local PFM in DRC and provide it to the deputies. 5. Equip the provincial assembly with computer hardware, printers, uninterruptible power supplies, scanners, and photocopiers. 6. Organize study tours for the deputies to other provincial assemblies both in DRC and abroad.
<p>(b) Strengthening the provincial government's institutional and technical capacities</p> <p>Objective. Give the public administration the technical and material resources they need to effectively manage provincial public finances.</p>	<ol style="list-style-type: none"> 1. Support the implementation of provincial divisions of the budget, treasury and payment authorization, payroll, and procurement. 2. Train the employees and acquire computer hardware, printers, scanners, photocopiers, and generators, as well as support upgrading and equipping of offices. 3. Support the establishment of DAFs in three pilot ministries. 4. Organize workshops to disseminate all the legislation that governs local public finance at the provincial level and in the decentralized subnational entities (TDEs). 5. Disseminate this legislation widely to all local PFM stakeholders at the provincial and TDE levels. 6. Support the preparation of the Table of Government Financial Operations in the province by training the employees involved. 7. Provide technical assistance for preparing the macroeconomic framework and macro-budgetary framework. 8. Support the implementation of public accounting. 9. Computerize the revenue, expenditure chain, and payroll management.
<p>(c) Strengthening the institutional and technical capacities of the provincial revenue division</p> <p>Objective. Improve revenue management at the provincial level.</p>	<ol style="list-style-type: none"> 1. Conduct organizational audit of the provincial division of revenue (support the redefinition and classification of jobs). 2. Proceed with the assessment and the status of the revenue collection chain. 3. Establish a taxpayer's database for the province. 4. Organize ad hoc missions of technical assistance and coaching of the provincial division of revenues by experts in the field of taxation from the central level. 5. Support the process of harmonization of taxes, royalties, and fees in the provinces. 6. Organize for the benefit of the staff of the Provincial Division of Revenue specific training in taxation, public accounting, and computer science. 7. Computerize the revenue collection (integrated system of PFM in provinces).

Activities	Subactivities
<p>(d) Strengthening the capacity of the provincial public procurement bodies</p> <p>Objective. Streamline the process of public expenditure management as well as public procurement process in provinces.</p>	<ol style="list-style-type: none"> 1. Organize a high-level workshop to analyze the organizational procedures for procurement in the province. 2. Organize workshops to disseminate the procurement code and its implementing regulations. 3. Support the preparation of procedures manuals for (a) procurement at the provincial level; (b) expenditure execution; (c) provincial budget preparation; and (d) administration, finance, and accounting. 4. Support the organization of workshops for the dissemination of the Procurement Code and its operational instructions. 5. Support the organization of procurement audit missions.
<p>(e) Supporting the operation of the CPS</p> <p>Objective. Give the Steering and Monitoring Committee the means to better perform its duties.</p>	<ol style="list-style-type: none"> 1. Support the CPS for the organization of workshops to disseminate PFM reforms included in the minimum package platform. 2. Support the CPS for the organization of training activities in the management of local public finance in the TDEs. 3. Provide logistical support for the operation of the CPS.
<p>(f) Supporting the development of a participatory budgeting and budget control by the citizens in relation with Subcomponent 2.3</p> <p>Objective. Promote the involvement of citizens in the process of budget preparation and control both expenditure and revenue, so that public spending locally performed better meets their expectations.</p>	<ol style="list-style-type: none"> 1. Train the public on the process of budget preparation and execution. 2. Train the public on the contents of local public finance. 3. Organize awareness activities to develop the involvement of citizens in the process of preparation, execution, and oversight of the local budget.

Component 4: Project Management (AF: US\$6.0 million equivalent)

87. **Objective.** This component aims to provide assistance to the COREF for coordination, administration, communication, FM, procurement, monitoring and evaluation, in particular for the annual self-assessment of the PEFA indicators, auditing, and the dissemination of project activities to the central and provincial levels. At the provincial level, the COREF will put in place local teams consisting of a provincial coordinator and senior-level staff in charge of FM and procurement to supervise the activities. This component will also support the activities of the standing dialogue framework to implement the PFM reform program, including change management activities intended to build consensus and identify incentives for change.

Table 2.14. Detailed Activities - Component 4

Activities	Subactivities
<p>(a) Strengthening of the COREF</p> <p>Objective. Manage the project's activities with efficiency and effectiveness.</p>	<ol style="list-style-type: none"> 1. Hire the teams (coordinator and financial and procurement officers) to coordinate the COREF in provinces. 2. Hire additional fiduciary staff. 3. Organize awareness workshops to build consensus around the reform. 4. Organize steering and midterm review committees. 5. Support the COREF in its activities for the Tax Administration Diagnostic Assessment Tool and PEFA self-assessment at least yearly to assess the changes in the intermediate indicators. 6. Audit project activities. 7. Finance the overhead cost for coordination. 8. Support the institutional communication on the project and on the PFM reforms. 9. Organize supervision and monitoring and evaluation missions. 10. Organize the training of the staff of the project. 11. Conduct the recruitment of individual consultants for missions of short duration.

Annex 3. Revised Estimate of Project Costs

Current Component Name	Proposed Component Name	Original IDA Allocation (US\$, millions)	Original MDTF Allocation (US\$, millions)	Current Total Allocation (US\$, millions)	Proposed AF Allocation (US\$, millions)	Total Proposed Allocation (US\$, millions)
Component 1 - Improving budget execution processes	Component 1 - Supporting Domestic Revenue Mobilization and Expenditures Management	1.00	3.50	4.50	18.50	23.00
Component 2 - Strengthening budget oversight	Component 2 - Strengthening Budget Oversight and Improving Transparency	1.20	3.90	5.10	2.30	7.40
Component 3 - Strengthening public financial management systems at provincial level	Component 3 - Establishing PFM Systems at the Provincial Level	2.30	7.70	10.00	23.20	33.20
Component 4 - Project management	Component 4 - Project Management	0.50	2.00	2.50	6.00	8.50
Total:		5.00	17.10	22.10	50.00	72.10

Annex 4. Implementation Arrangements and Support

Project Institutional and Implementation Arrangements

1. **The overall implementation arrangements established to monitor and manage PFM reforms under the PFMAP will be maintained under the AF.** By building on existing structures and arrangements, the AF will leverage the strong technical and fiduciary capacity to scale up the implementation of the ongoing project. Implementation will include the following structures: (a) Joint Government/Development Partners Committee on PFM Reforms; (b) the COREF; and (c) beneficiaries of the reforms (key PFM departments, the CDC, Parliamentary Accounts Committees, and CSOs).
2. **Joint Government/Development Partners Committee on PFM Reforms.** This joint committee was established in October 2012 and includes key stakeholders involved in PFM reforms in DRC. On the country side, it includes the Minister in charge of finance (Chair), Minister in charge of budget, COREF, Central Bank, the President of the CDC, Heads of Parliamentary Accounts Committees, Heads of the key administrations in charge of the reforms (revenue authorities, budget, procurement, accounting, and so on), local authorities (Provincial Minister in charge of finance or budget and Provincial Head of Parliamentary Accounts Committee). On the donors' side, the joint committee includes development partners involved in PFM reforms, including the World Bank, IMF, DFID, AfDB, French Cooperation, and the United Nations Development Program. This committee will continue to function as the Steering Committee of the AF and meet every quarter to (a) discuss the strategic direction and orientation of PFM reforms; (b) review the implementation progress of the PFMAP; and (c) discuss any coordination issues in the funding of the reform program. It should be noted that the quarterly meetings of the Steering Committee will be held on the occasion of the quarterly meetings of the joint committee. Although these meetings will be open to all donors involved in PFM reforms, they will not replace the quarterly meetings of the joint committee itself.
3. **COREF.** The COREF will be in charge of the fiduciary and technical coordination of the AF activities. Its current staffing includes: (a) coordinator; (b) deputy coordinator; (c) FM specialist; and (d) procurement specialist. In addition, the COREF has recruited six Technical Assistants in charge of monitoring the implementation of the activities with the focal points of the departments and institutions. The COREF will hold monthly meetings with the focal points to discuss the implementation progress of the PFMAP, including project activities. Each focal point will be in charge of reporting to the COREF the implementation progress of the activities of his/her department/institution. At the regional level, the COREF will set up provincial teams in charge of monitoring the implementation of the activities.
4. **The COREF will continue to be in charge of the FM and disbursement arrangements.** The technical capacity of this body has been improved by the recruitment of six Technical Assistants and the appointment of short-term consultants to provide advice and technical support. Thus, the COREF meets the World Bank's minimum requirements under OP/BP 10.00. A single budgeting, accounting, reporting, and auditing body will continue to be required. The COREF will produce a consolidated financial and physical progress report every semester, to be discussed at the joint government/development partners' meetings.

5. **Overall, there is an enthusiastic and strong stakeholder interest and commitment that has been generated through the PFMAP under implementation.** The provinces have indicated strong demand for improved transparency and decentralization of FM in support of improved service delivery objectives, although absorptive capacities remain uneven. The Ministry of Finance and the legislature continue to be critical stakeholders, and their roles within the stakeholder group will remain crucial to the achievement of the results under the project.

Financial Management, Disbursements, and Procurement

Financial Management Arrangements

6. An FM assessment of the COREF, the main implementing unit for the PFMAP AF, was conducted. The objective of the assessment was to determine whether the COREF has adequate FM arrangements in place to ensure that the project funds will be used for the purposes intended in an efficient and economical manner.

7. The assessment complied with the provisions of the World Bank Directive: Financial Management Manual For World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-DIR.01), Issued (Retrofitted): February 4, 2015 and Effective from March 1, 2010, and World Bank Guidance: Reference material - Financial Management in World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-GUID.02), Issued and Effective from February 24, 2015.

8. The COREF continues to present a number of strengths in FM: (a) the accounting staff is qualified and experienced; (b) the staff has strong experience in FM of World Bank-funded projects; (c) a computerized FM system is available; (d) the external auditors issued clear opinions on the 2015 financial statements of the PFMAP financial statements, and the management letter did not raise any major internal control issue; and (e) the performance of the COREF in FM has been Satisfactory.

9. **Financial reporting and monitoring.** Due to the inclusion of the new provinces in the area of intervention of the project, five additional staff will need to be recruited: an additional accountant at the central level and four administrative/financial assistants (*assistant administratif et financier*) at the provincial level.

10. **Internal control.** The existing Project Implementation Manual (which includes FM procedures) will be updated two months after effectiveness to take into account the expanded activities. It will update specific FM arrangements, including internal controls, budget process, assets safeguards, and roles and responsibilities of all stakeholders. The World Bank will pay attention to the adequacy of internal control during the supervision mission.

11. **Budgeting.** The COREF's Manual of Procedures currently used already includes detailed budgeting procedures, the preparation of annual work plan, and the adoption by the Steering Committee of the budget execution.

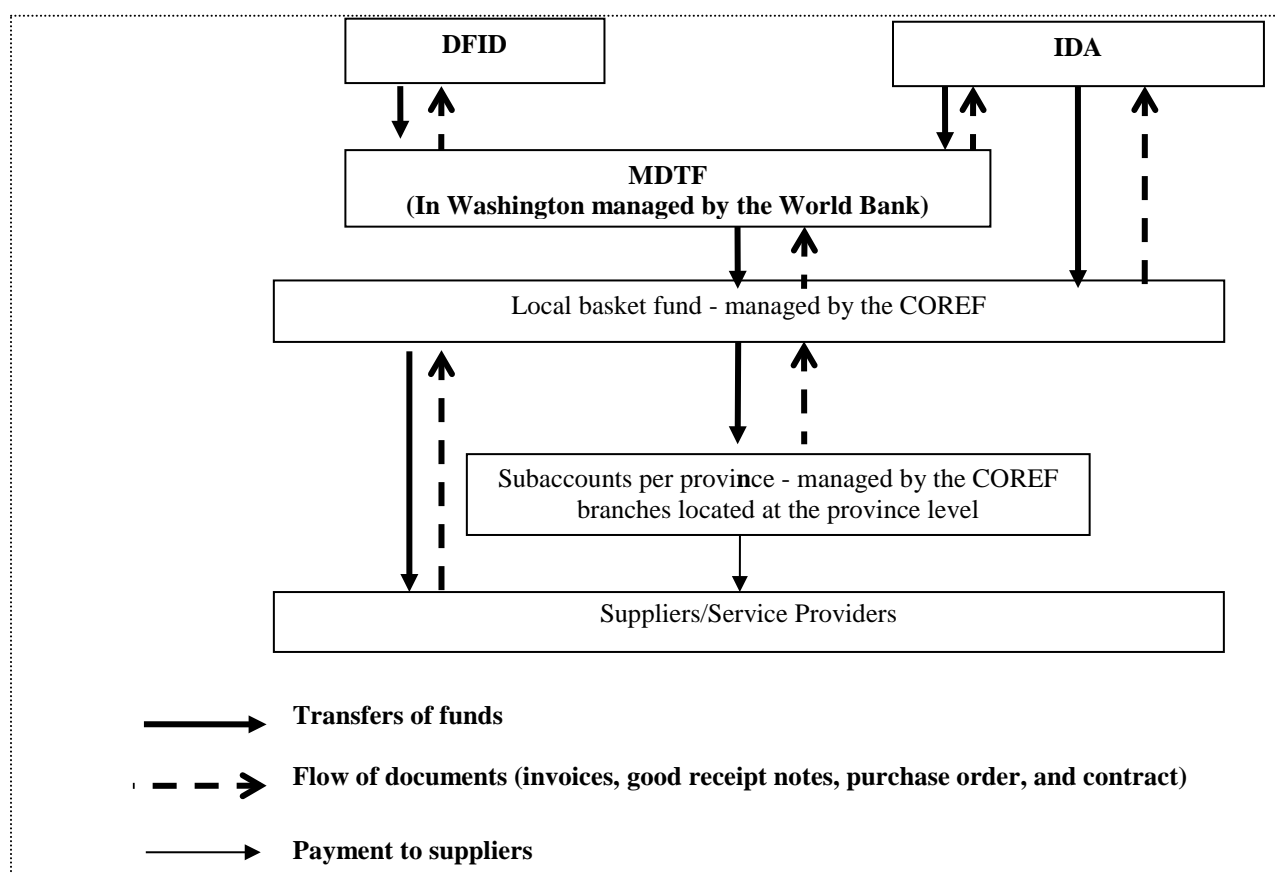
12. **Accounting.** The PFMAP AF will rely on the financial and accounting procedures of the PFMAP. At least two sets of financial reports will be prepared by the COREF. The quarterly interim financial reports (IFRs), as required by the World Bank and the Annual Financial Statements will include the project's consolidated financial statements. The quarterly IFRs will be

prepared and submitted to the World Bank, 45 days after the closing of each quarter. The IFRs will be based on formats developed in the World Bank's Guidelines on Financial Monitoring Reports with some adjustments. The Manual of Procedures will indicate provisions for quarterly and yearly financial reporting, including physical progress. The quarterly reports will include a table on budget execution. The format of this report will include (a) a statements of sources and uses of funds; (b) a table summarizing the use (utilization) of funds by category, activities, and components; (c) an updated procurement plan; (d) a report on the physical progress of activities; and (e) the summary of missions of internal audit, as well as implementation status of the recommendations of internal or external audit and supervision missions. Project accounts will be maintained on an accrual basis, supported with appropriate records and procedures to track commitments and to safeguard assets.

Disbursements

13. **Disbursement methods.** By effectiveness, the project will use the transaction-based disbursement procedures, that is, replenishment, direct payment, reimbursement, and special commitments. The transaction-based disbursement method will be applied for the Designated Account (DA), which will receive an initial advance of US\$2.5 million. Funds flows for the DA are illustrated in figure 4.1:

Figure 4.1. Funds Flow Arrangements



14. **Disbursement arrangements.** The transaction-based disbursement method will be applied. The DA will be used for all payments less than 20 percent of the ceiling (US\$2.5 million), and replenishment applications will be submitted as often as possible.

15. **Quarterly replenishment applications.** The DA will be replenished through the submission of withdrawal applications quarterly or more often if needed by the COREF, which will include bank statements and other documents as may be required.

16. **Disbursements by category.** Table 4.1 sets out the expenditure categories to be financed by the loan. This table takes into account the prevailing Country Financing Parameter for DRC in setting out the financing levels. In accordance with World Bank standard procurement requirements, contracts will continue to be approved ‘all taxes included’ for local expenditures.

Table 4.1. Disbursement Category Table

Category	Amount of the Grant Allocated (Expressed in SDR)	Percentage of Expenditures to Be Financed by the Grant (Inclusive of Taxes)
Goods, works, non-consulting services, consultants’ services, operating costs, and workshops and training for the project	37,000,000	100
TOTAL AMOUNT	37,000,000	100

17. **Designated Account.** The COREF will have one DA that will be managed by joint signature of both the COREF FM Specialist and the Project Coordinator. The DA will be opened in a reputable commercial bank acceptable to IDA. This account will be held in U.S. dollars. The DA will receive cash advances to pay project expenses eligible for IDA financing. Any interest earned on funds deposited in the DA shall be deposited into the project account. Payments will be made in accordance with the provisions of the Manual of Procedures (that is, joint signatures by the COREF Coordinator and Chief Financial Officer). The DA will be managed according to the disbursement procedures described in the project’s Manual of Procedures and the disbursement letter.

Financial Reporting

18. Unaudited IFRs will be prepared on a quarterly basis. The IFRs will include sources and uses of funds by project expenditures classification. They will also include a comparison of budgeted and actual project expenditures (commitment and disbursement) to date and for the quarter. The COREF will submit the IFRs to the World Bank within 45 days following the end of the calendar quarter.

External Audit

19. The Financing Agreement will require the submission of audit reports of financial statements for the project to IDA. Each such audit of the financial statements shall cover the period of one fiscal year of the recipient.

20. An external auditor with qualification and experience satisfactory to the World Bank will be appointed to conduct the audit of the project’s financial statements.

21. A single opinion on the audited financial statements in compliance with International Standards on Auditing will be required.
22. The external auditor will prepare a management letter giving observations and comments and providing recommendations for improvements in accounting records, systems, controls, and compliance with financial covenants in the Financing Agreement.
23. The audited financial statements shall be furnished to the World Bank not later than six months after the application deadline.
24. The COREF will amend the terms of reference of the current auditor to include the audit of the financial statements of the COREF AF.
25. The project will be required to produce a final audit report no later than six months after the closing of the project.
26. In compliance with the DRC Use of Country Systems Report, DRC's CDC could start being involved in the process of the external auditors' selection and their reports reviewing. In line with the new access to information policy, the project will comply with the disclosure policy of the World Bank of audit reports (for instance, making available to the public without delay, after receipt of all reports, the final financial audit, including audit reports qualified) and place the information on its official website within one month after acceptance of the final report by IDA.

Implementation Support and Supervision Plan

27. FM implementation support missions will be consistent with a risk-based approach and will involve a collaborative approach with the project team. A first implementation support mission will be performed six months after project effectiveness. Afterward, the missions will be scheduled by using the risk-based approach model and will include the following: (a) monitoring of the FM arrangements during the supervision process at intervals determined by the risk rating assigned to the overall FM assessment at entry and subsequently during implementation (Implementation Status and Results Report); (b) integrated fiduciary review on key contracts; (c) review of the IFRs; (d) review of the audit reports and management letters from the external auditors and follow-up on material accountability issues by engaging with the task team leader, client, and/or auditors, The quality of the audit (internal and external) also is to be monitored closely to ensure that it covers all relevant aspects and provides enough confidence on the appropriate use of funds by recipients; (e) physical supervision on the ground; and (f) assistance to build or maintain appropriate FM capacity.
28. Based on the outcome of the FM risk assessment, the implementation support plan shown in table 4.2 is proposed.

Table 4.2. Implementation Support Plan

FM Activity	Frequency
Desk reviews	
IFRs review	Quarterly
Audit report review of the program	Annually

FM Activity	Frequency
Review of other relevant information such as interim internal control systems reports	Continuous as they become available
On-site visits	
Review of overall operation of the FM system	Annual (Implementation Support Mission)
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit, and other reports	As needed
Transaction reviews (if needed)	As needed
Capacity-building support	
FM training sessions	Before the project starts and thereafter as needed

29. The objective of the above implementation support plan is to ensure the project maintains a satisfactory FM system throughout the project's life.

Conclusion of the Assessment

30. The overall residual FM risk at preparation is considered Substantial. The proposed FM arrangements for this project are considered adequate to meet the World Bank's minimum fiduciary requirements under the World Bank Directive: Financial Management Manual For World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-DIR.01), Issued (Retrofitted): February 4, 2015 and Effective from March 1, 2010, and World Bank Guidance: Reference material - Financial Management in World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-GUID.02), Issued and Effective from February 24, 2015.

General: Procurement Rules to Be Applied

31. **All procurement to be financed under the project will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works, and Non Consulting Services under IBRD Loans and International Development Association (IDA) Credits and Grants by World Bank Borrowers', dated January 2011, revised in July 2014; 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011, revised in July 2014; and the provisions stipulated in the Legal Agreement.** The project will carry out implementation in accordance with the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD and IDA and Grants', dated October 15, 2006, and revised in January 2011 (the Anti-Corruption Guidelines). As there will not be any complex procurement contracts (most of them will pertain to procuring consultants and hardware/software), the previous ("old") procurement framework will remain applicable under the AF, as it is under the original PFMAP.

Revised Requirements for National Competitive Bidding

32. **Revised eligibility.** Eligibility of bidders and acceptability of their goods and services shall not be based on their nationality and/or their origin, and association with a national firm shall not be a condition for participation in a bidding process. Therefore, except for the ineligibility situations referred to in paragraphs 1.10(a) (i) and 1.10(a) (ii) of the Procurement Guidelines, the eligibility of bidders must be based solely on their qualification, experience, and capacity to carry out the contract related to the specific bidding process.

Revised Implementation Arrangements for Procurement and Capacity Assessment

33. The team within the COREF in charge of procurement is composed of one procurement specialist and one procurement assistant recruited on a competitive basis, respectively, in March 2016 and May 2016.

34. The procurement capacities of the COREF were evaluated in November 2016. The assessment found that the procurement team in place has an acceptable procurement qualification and experience to carry out the procurement activities of this project.

Assessment of the Risks and Related Mitigation Measures

35. **Risks that have been identified.** The key issues and risks concerning procurement for implementation of the project have been identified and include the following: (a) there is an increase in workload for the procurement team since it will have to support and strengthen the capacity of at least eight provinces to improve the PFM system comprising procurement, (b) the administrative system as it operates in practice creates opportunities for informal interference in the procurement process by senior officials—creating opportunities for waste, mismanagement, corruption, collusion, and fraud; (c) government officials likely to be involved in project procurement through tender and evaluation committees may not be familiar with World Bank guidelines and rules; and (d) a control and regulation mechanism according to the provisions of the country procurement law and its application procedures could delay the procurement process if mandatory reviews are required.

36. The overall unmitigated risk for procurement is Substantial. Proposed corrective measures that have been agreed to mitigate the risk are summarized in Table 4.3:

Table 4.3. Action Plan Corrective Measures

Ref.	Tasks	Responsibility	Due Date
1	According to the workload, a procurement expert will be recruited on temporary basis to support the procurement team of the COREF.	COREF	As needed
2	Organize workshop at provincial level involving all stakeholders including civil society.	COREF	3 months after effectiveness
3	Update the Project Implementation Manual that will include the specificities of the AF.	COREF	1 month after effectiveness
4	Provide procurement training to the staff involved in the procurement activities.	COREF	On regular basis
5	Identify the root cause of procurement delays at the national level and propose appropriate solutions.	COREF	At project midterm review
6	Apply a 'one-strike' policy to all contractors and consultants, and any case of complicity in corruption, collusion, nepotism, and/or fraud will lead to dismissal, disqualification from all further project activities, and prosecution.	COREF	Permanently

37. The prevailing risk can be improved to moderate provided that the above corrective measures are implemented.

Revised Thresholds for Procurement Methods and Prior Review

Table 4.4. Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$)	Procurement Method	Contracts Subject to Prior Review (US\$)
1. Works	< 200,000	At least three quotations	None
	All amounts	Direct contracting	All contracts ≥ 100,000
2. Goods	≥ 1,000,000	ICB	All
	< 1,000,000	NCB	None
	< 500,000	Shopping from all major brands of vehicles dealers or distributors of petroleum products	Shortlist of (a) vehicles dealers and (b) distributors of petroleum products. The technical specifications of vehicles.
	< 100,000	Shopping	None
	All amounts	Direct contracting	All contracts ≥ 100,000
2. Services			
Firms	≥ 200,000	—	All contracts ≥ 500,000
	< 200,000	CQS	None
	All amounts	SSS	All contracts ≥ 100,000
IC	≥ 200,000	IC	All
	< 200,000	IC	None
	All amounts	SSS	All contracts ≥ 100,000
All terms of reference regardless of the value of the contract are subject to prior review. All justifications for direct contracting/SSS including the estimated amount regardless of the value of the contract are subject to prior review.			

Note: ICB = International Competitive Bidding; NCB = National Competitive Bidding; CQS = Selection Based on Consultants' Qualifications; SSS = Single-Source Selection; and IC = Individual Consultant.