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MEMORANDUM

TO : THE BOARDS OF DIRECTORS

FROM : Vincent O. NMEHIELLE
Secretary General

SUBJECT : CONGO: COUNTRY STRATEGY PAPER 2018 - 2022*

Please find attached the above-mentioned document.

Attach.

Cc: The President

*** Questions on this document should be referred to:**

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SCCD:BWJ

AFRICAN DEVELOPMENT BANK GROUP

REPUBLIC OF CONGO

COUNTRY STRATEGY PAPER 2018-2022

COUNTRY ECONOMICS DEPARTMENT - ECCE
DIRECTORATE-GENERAL, CENTRAL AFRICA – RDGC

November 2018

Translated Document

AFRICAN DEVELOPMENT BANK GROUP

REPUBLIC OF CONGO:

COUNTRY STRATEGY PAPER (CSP) 2018-2022

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FISCAL YEAR
1 January– 31 December

CURRENCY EQUIVALENTS OF THE UNIT OF ACCOUNT
(**November 2018**)
UA 1 = EUR 1.22
UA 1= USD 1.38
UA 1 = CFAF (XAF) 801.04

WEIGHTS AND MEASURES

1 metric tonne = 2 204 pounds
1 kilogramme (kg) = 2.204 pounds
1 metre (m) = 3.28 feet
1 millimetre (mm) = 0.03937 inch
1 kilometre (km) = 0.62 mile
1 hectare (ha) = 100 ares

ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
ALSF	African Legal Support Facility
CBFF	Congo Basin Forest Fund
CEMAC	Central African Economic and Monetary Community
CODE	Committee on Development Effectiveness
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
CSP	Country Strategy Paper
DAM	Delegation of Authority Matrix
DGGT	General Delegation for Major Works
DRC	Democratic Republic of Congo
ECCAS	Economic Community of Central African States
EITI	Extractive Industries Transparency Initiative
EPSA	Enhanced Private Sector Assistance
ESW	Economic and Sector Work
EU	European Union
FIGA	Impulse, Guarantee and Accompaniment Fund
FLEGT	Forest Law Enforcement for Governance and Trade
GAP	Governance Action Plan
GDP	Gross Domestic Product
GNI	Gross National Income
GT	Thematic Group
HCDPP	High Council for Public-Private Dialogue
HIMO	Labor Intensive
IFC	International Finance Corporation
IMF	International Monetary Fund
MDG	Millennium Development Goal
MEFPPPI	Ministry of Economy, Finance, Planning, Public Portfolio and Integration
MDG	Millennium Development Goal
MUCODEC	Congolese Savings and Loan Fund
NEPAD	New Partnership for Africa's Development
NVA	New Agricultural Villages
PACADEC	Business Climate and Economic Diversification Support Project
PACIGOF	Investment Climate and Forest Governance Support Project
PARSEGD	Socio-economic Reintegration Support Project for Disadvantaged Groups
PCT	Congolese Labour Party
PDCRH	Skills and Human Resource Development Project
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	Public Finance Management
PIU	Project Implementation Unit
PND	National Development Plan
PPIP	Portfolio Performance Improvement Plan
PPP	Public-Private Partnership
PR	Progress Report
RF	Road Fund
RISP	Regional Integration Strategy Paper
SDGs	Sustainable Development Goals
SMEs	Small- and Medium-sized Enterprises
SNE	Société nationale d'électricité (National Electricity Corporation)
TFP	Financial Technical Partner
TYS	Ten-Year Strategy (2013-2022)
UA	Unit of Account
UPND	United Nations Development Programme
UNS	United Nations System
VSE	Very Small Enterprise

EXECUTIVE SUMMARY

1. **This Country Strategy Paper (CSP) proposes a new framework for Bank Group operations** in Congo for the period 2018-2022 for adoption by the Boards. It is in follow-up to the CSP 2013-2017 that was approved by the Boards in November 2012.

2. **In November 2012, the Boards of Directors approved CSP 2013-2017** *(ADB/BD/WP/2012/144)* **for the Republic of Congo**. The strategy was based on the following pillars: (i) *develop regional infrastructures to unlock the potential of the economy and strengthen its integration* (Pillar I); and (ii) *improve human resources and the business environment to promote inclusive growth*. (Pillar II). The first pillar was revised during the mid-term review in June 2015, as follows: *develop infrastructure to strengthen the competitiveness of the economy and regional integration*. Pillar II remained unchanged. **The 2013-2017 Country Strategy Completion Report, combined with the 2018 Portfolio Performance Review and the presentation of the proposed pillars for CSP 2018-2022** ***(ADB/BD/ WP/2018/160),*** was approved by the Committee on Operations and Development Effectiveness (CODE) on 10 September 2018. During the implementation of CSP 2013-2017, five (5) new operations were approved. The achievements of CSP 2013-2017, which vary from pillar to pillar, were deemed satisfactory overall by CODE members. All the identified risks materialised and CODE members took note of lessons learned from the CSP implementation and approved the pillars of the future strategy proposed by Management, namely: ***(i) promote agribusiness value chains (Pillar 1);*** and ***(ii) strengthen human capital and governance (Pillar 2). CODE's*** directives were taken into account during the preparation of the 2018-2022 strategy proposed in this report.

3. **Aligned on the thrusts of the National Development Plan, this CSP also includes the outcomes of the Bank's dialogue missions to Congo during which meetings were held with the authorities** at both the strategic and technical level. The main conclusions of this report, including the proposed pillars and operations, were selected following a broad participatory process during the dialogue missions fielded in February 2018 (VP/ECVP Dialogue Mission), March 2018 (study tour undertaken by Senior Advisers and Advisers), May 2018 (CSP Preparation Mission) and October 2018 (Post-CODE Dialogue Mission) in Brazzaville. **Lastly, this new framework also draws on the Bank's knowledge products on Congo**, including Technical Notes on: (i) Economic Diversification; (ii) Strengthening of Human Capital; and (iii) Strengthening of Governance; as well as the study on the timber industry in Congo Basin countries.

4. **Bank Portfolio**. As of 30 September 2018, the portfolio comprised 6 operations, solely in the public sector, with a total commitment estimated at UA 208 million. The portfolio's overall performance score went from 2.3 in 2013 to 3.4 in 2015 and 3.1 in 2018, on a scale of 1 to 4.

5. **Strategy for the period 2018-2022**. The major objective of the Bank's new strategy is to support government strategy to diversify the Congolese economy for inclusive and sustainable growth. It builds on lessons from implementing the previous CSP, the persistent constraints and challenges, as well as the country's priorities laid out in the National Development Plan (PND). This strategic direction is consistent with the two objectives of the Bank's 2013-2022 Ten-Year Strategy relating to inclusive growth and transition to green growth. This strategy, which also hinges on the Bank's main priorities, aims primarily to contribute to the structural transformation of the Congolese economy and improvement of its competitiveness. As noted above, these pillars are consistent with the Bank's five operational priorities (High 5s), namely: "Feed Africa", "Light up Africa" and "Integrate Africa" (for Pillar 1); "Industrialise Africa" and "Improve the quality of life for the people of Africa" (for Pillar 2).

6. **The first pillar aims to support Government's economic diversification strategy**, particularly through agricultural development and promotion of agro-industrial value chains. This pillar, which would also be accompanied by the strengthening of infrastructure (transport, ICT, energy), is aimed at helping the country to take greater advantage of the opportunities related to infrastructure and regional integration.

7. **The second pillar aims to leverage government action by building capacity in the formulation of global and sector policies, and by structuring the implementation of these policies.** In supporting human capacity building and better governance, the Bank will seek to improve public finance management and control bodies, upgrade technical and managerial skills in rural trades, and improve human resources in the education sector.

8. **Crosscutting issues including gender, green growth promotion, youth employment and fragility aspects will also be central to the Bank's strategy**. Moreover, in view of growth prospects and business opportunities linked to the expected economic diversification, Congo's regional integration in the CEMAC and ECCAS zones will also benefit from Bank support under the Central Africa Regional Integration Strategy whose operations are complementary to those of the CSP.

9. **The Bank's commitment to implementing CSP 2018-2022 will also be build up over time**. The Bank intends to adopt a gradual intervention approach, depending on the evolution of the country's socio-economic context. This approach, which takes into account CODE's guidelines, will allow for stronger ownership of the operations by the Client as well as better alignment of the operational framework on Congo's priorities. The context of economic crisis and reduced fiscal space justifies the Government's strategic choices in the PND. The main guiding principle is to "do better with less", and to strive more for quality than for volume in physical and human investments. Moreover, the Bank's gradual support will help to clean up the portfolio and improve the preparation of larger-scale projects that meet the good quality-at-entry conditions. Lastly, the Bank's strategy will give prominence to the private sector to enable it to play a leading role in the agricultural transformation effort. Given its crosscutting dimension, governance will also be at the core of dialogue with the authorities. The operations will be financed primarily through the ADB window.

10. **Moreover, given the widespread and recurrent operational weakness, the Bank will strengthen its presence in Congo.** Through sustained dialogue and close monitoring of portfolio management, the Bank's Liaison Office in the country intends to play a leading role in implementing CSP 2018-2022.

I. INTRODUCTION

1. **This Country Strategy Paper (CSP) proposes the new intervention framework** of the African Development Bank Group in the Republic of Congo for the period 2018-2022. It replaces the 2013-2017 CSP (*ADB/BD/WP/2012/144*) approved by the Boards on 14 November 2012.

2. ***The content of this report reflects the conclusions of the Bank's missions to Congo at the strategic and operational level.*** This new intervention framework, which was developed in a participatory manner, also draws on the Bank's knowledge products on Congo, the summaries of which are annexed. These mainly consist of technical notes on: (i) economic diversification; (ii) strengthening of human capital; and (iii) strengthening of governance; as well as the study on the timber industry in the Congo Basin countries.

3. ***The Bank's new strategy in Congo was also developed in the wake of the adoption of the new National Development Plan (PND) 2018-2022.*** The PND focuses on three areas: (i) improving governance; (ii) enhancing human capital by reforming the education system and vocational training; and (iii) diversifying the economy based on growth sectors. This Plan takes into account the Sustainable Development Goals (SDGs) and the goals of Agenda 2030 of the African Union**.**

4. **The strategic thrusts of the new CSP 2018-2022 also reflect key lessons from implementing CSP 2013-2017** and the recommendations formulated by the Committee on Operations and Development Effectiveness (CODE) on 10 September 2018 during the review of the completion report **(AB/BD/WP/2018/160**). CODE recommended, among other things, that measures be proposed to address the root causes of the country's fragility, debt distress and other macroeconomic problems.

5. **CODE's recommendations are also fully in line with those formulated at the end of the study tour to Congo undertaken by Senior Advisers and Advisers in March 2018**. In addition to the need for a restructuring of the portfolio, CODE made several other recommendations following the study tour to Congo, including: (i) focusing loans on ***economic diversification*** efforts through green growth by the private sector and regional integration infrastructure; and (ii) focusing non-lending activities and political dialogue in Congo on the Government's ***private sector strategy*** and the alignment of policies on the private sector.

6. **For these reasons, the new CSP aims *"to support the diversification and competitiveness of the Congolese economy, for inclusive and sustainable growth"***. Therefore, the Bank's strategy seeks to tackle the causes of the country's fragility by, among other things: ***(i) promoting agribusiness value chains (Pillar 1); and (ii) strengthening human capital and governance (Pillar 2).*** These two pillars, which have been approved by the Congolese authorities and CODE, would foster the reduction of regional and gender disparities, while laying the groundwork for the structural transformation of the economy by stimulating growth and promoting decent jobs. Therefore, these pillars are aligned on the priorities identified in PND 2018-2020, the Ten-Year Strategy 2013-2022 and the Bank's High 5s.

7. **In addition to the Introduction, this report covers five other chapters**: (i) country context; (ii) strategic options; (iii) portfolio review and lessons learned; (iv) Bank's strategy in Congo; and (v) conclusions and recommendations for the Boards.

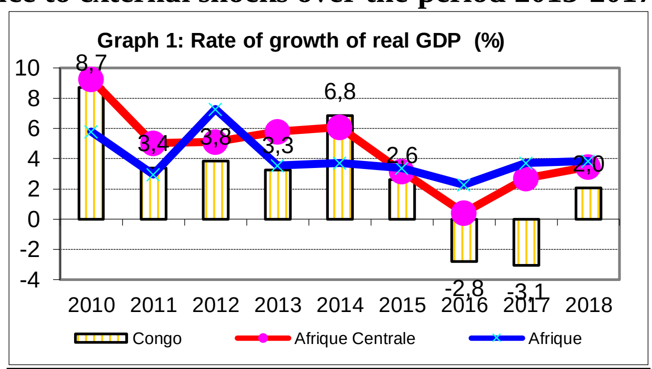
II. COUNTRY CONTEXT AND OUTLOOK

2.1 Political and Security Context

2.1.1 **Recent developments in Congo have been marked by political and security tensions,** following the period of stability that the country had been experiencing since 2008. The tensions came into full view after the Constitution was revised with a view to the 2016 presidential elections. Since the re-election of the President in 2016 and the victory in the 2017 legislative and senatorial elections of the ruling party, the *Parti Congolais du Travail* (PCT) (Congolese Labour Party), calls for inclusive dialogue have increased, with the "Living Together" initiative of the President of the Republic and calls from the opposition and the international community. The crisis in the Pool region, which had caused security tensions and disrupted supplies to Brazzaville in 2016-2017, has been subsiding since the signing of a ceasefire agreement on 23 November 2017. This situation was further consolidated following the July 2018 release of 85 supporters of former rebel leader Pastor Ntumi Frédéric Bintsamou, against whom all legal proceedings were dropped after the lifting of the international arrest warrant against him.

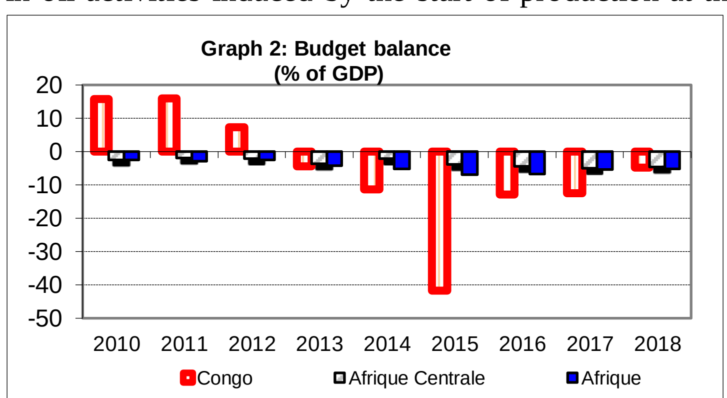
2.2 Economic Context

2.2.1 **The Congolese economy showed limited resilience to external shocks over the period 2013-2017**. The real GDP rate grew at an annual average 1.4% over the period under review. This performance was mainly attributable to unfavourable trends in commodity prices, particularly those of oil, and a difficult socio-political and security context. It will be recalled that the oil sector is the main engine of the Congolese economy, with an average share of 55% of GDP formation, more than 85% of total exports and close to 80% of budget resources.



Source: Statistics Department of AfDB, PEA April 2018

2.2.2 **In 2017, real GDP contracted by 3.1%** despite the 15.3% increase in oil sector output after two years of consecutive decline, as a result of the 7.9% drop in non-oil sector output. The construction and public works sector recorded a decline of 43.6% following a reduction in public investments. The 2017 economic indicators show a deepening recession that was reflected in the acceleration of layoffs in the oil services, construction, hospitality and brewery sectors, despite the growth in oil activities induced by the start of production at the Moho North Field. On the demand side, private investment in the Moho North oil field contributed positively. Total consumption and public investment contracted as the Government implemented an austerity budgetary policy and private enterprises were affected by domestic arrears. Public investment fell sharply, from 24.6% of GDP in 2013 to 10.9% in 2017, due to budgetary constraints. The decline in domestic demand triggered a sharp deceleration in inflation to an annual average of 0.5% in 2017, compared with 3.6% in 2016 and 4.6% in 2013.

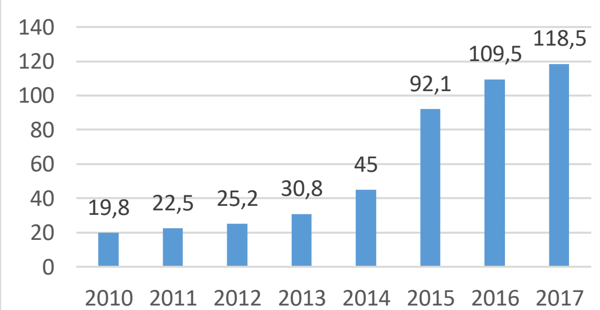


Source: Statistics Department of AfDB, PEA April 2018

2.2.3 **In terms of public finances, the significant drop in tax revenue led to tensions in the State budget, which was adjusted significantly**. In 2017, domestic revenue amounted to CFAF 1 415 billion, or 28% of GDP, compared with 33.2% of GDP in 2016 and 32.4% in 2013. Oil revenue, representing 37.5% of total GDP in 2013 (62.8% of oil GDP), fell to 13.5% of GDP in 2017 (28.5% of oil GDP), leaving relatively limited budgetary headroom for the satisfactory implementation of the National Development Plan (PND). The tax-to-GDP ratio, excluding oil revenue, was 14.4% in 2017 compared with 8.7% in 2013. Expenditures fell from CFAF 2 818 billion in 2013 to CFAF 1 828 billion in 2017 (36.8% of GDP, compared with 49.6% of GDP in 2013). The relatively high level of off-budget expenditures, transfers and subsidies to public enterprises, which represented 26.9% of budgetary expenditures in 2017, affected the quality of public expenditures. Due to of these expenditures, the volume of public investments to help stimulate economic growth fell in relative terms to only 10.9% of GDP in 2017, compared with 30% in 2014 and 20.3% in 2015. The budget deficit represented 12.5% of GDP in 2017, mainly the result of the contraction of public expenditures and the freezing of certain investment projects, although this was an improvement over the deficit recorded in 2016, which represented 12.9% of GDP.

2.2.4 **The debt sustainability analysis (DSA) conducted jointly by the IMF and the World Bank in 2017 shows that Congo is debt-distressed**. This follows the sizeable public investment spending undertaken in recent years for such projects as the programme to fully "municipalise" the national territory ("*communalisation*"). The total outstanding public debt was estimated at around USD 10 600 million (118.5% of GDP) at end-2017. This level of debt has increased sixfold from its 2010 level (20 % of GDP), following the discovery of large non-concessional loans that had not been previously disclosed. External debt accounts for 80.5% of GDP and is dominated by debt to China (28.3%) and three oil traders, namely Glencore, Trafigura and Orion (23.5%). The outstanding domestic debt, which almost doubled between 2016 and 2017, was estimated at USD 3 570 at end-2017, representing 38% of GDP. It consists mainly of BEAC's statutory advances (10%) and arrears (17.2%), which are being audited.

Graph 3: External debt ratio as % of GDP



Source: IMF, World Bank, national authorities, April 2018

2.2.5 **The country's large macroeconomic imbalances have forced the Government to accumulate huge external and internal arrears**[1], leading to major difficulties in covering its debt service obligations (around 8% of GDP at end-2017). This situation has tarnished Congo's credibility with donors and resulted, among other things, in the downgrading of the country's rating as of July 2017 by the main international rating agencies. The Government has started holding debt-restructuring discussions with its creditors. To improve public finances and support investment for the revival of the national economy, the State will have to better organise the taxation agencies to optimise tax collection, especially community taxes, which have fallen by 25%, by streamlining tax exemptions.

2.2.6 **Concerning the country's external balance, the current account has continued to post a deficit, although it has improved slightly when compared with 2016.** Despite the contraction of imports, the current account showed a deficit of 13.1% of GDP in 2017 following the 70.1% posted in 2016, compared with a positive balance of 1.7% of GDP in 2014. This situation mainly reflects the deterioration of the trade balance.

[1] The country has no arrears with the Bank Group.

Official foreign exchange reserves fell by 46.6% to CFAF 277 billion at end-2017 (0.99 months of imports) versus CFAF 519 billion at end-2016 (1.8 months of imports). This current level of reserves is not only below the minimum of 20% of demand commitments required by BEAC statutes but falls far short of the 4- to 5-month import threshold recommended for oil-exporting countries operating under a fixed exchange rate regime. These deficits have amplified the external vulnerability of CEMAC.

2.2.7 **In the monetary sector, trends for aggregates are characterised by a contraction of bank liquidity and a decrease in net foreign assets**. At end-2017, overall money supply stagnated at CFAF 1 972 billion following the 12.8% decline observed at end-December 2016. Credit to the economy fell sharply due to sluggish domestic demand. Deposits decreased by 27.1% between 2014 and 2017 to CFAF 1 075 billion, owing to the tightening of BEAC's monetary policy and the reduction of the amounts eligible for commercial bank refinancing by BEAC. To enhance the financing of productive activities, BEAC has abolished statutory advances to States, and reformed bank refinancing limits that are determined at the regional rather than national level. The net foreign assets of the banking system fell sharply from CFAF 2 768 billion at end-2015 to CFAF 212 billion at end-2017, due to the balance of payments deficit.

2.2.8 **The economic outlook is positive but still subject to relatively high risks**. With the North Moho oil field coming on stream in 2017 and the expected dynamism of other economic sectors such as construction, transport and communications, the economic outlook for 2018 and 2019 is relatively good, with real GDP growth rates of 2.0% and 3.7%, respectively. Inflation is expected to stabilise in 2018 and 2019 at 1.4% and 1.6% respectively, well below the 3% maximum set under the CEMAC regional convergence criteria. As in 2017, the main risk remains the volatility of oil prices, the main source of foreign exchange in the country. Other risks include poor economic diversification, security uncertainty, particularly in the Pool region, and the slow implementation of structural and institutional reforms.

2.2.9 **In April 2018, the Congolese authorities and the IMF concluded a pre-agreement on policies that could be supported by the IMF's Extended Credit Facility** as part of regional efforts to address the recent oil price crisis and strengthen macroeconomic and external stability. Formal approval by the IMF Executive Board, which was expected by the end of July 2018, has been postponed to a later date.

2.3 Social Context

2.3.1 **The poor economic performance recorded has had a negative impact on the population's already fragile socio-economic situation.** Indicators have improved on the social front, but at a pace that is too slow to bring about a significant reduction in poverty and inequality, particularly from a gender perspective. The human development index rose from 0.564 in 2013 to 0.591 in 2014. The State’s financial efforts in recent years have also helped to improve the social indicators, particularly in education and, to a lesser extent, health. Despite these improvements, Congo's social indicators continue to trail those of African countries with similar income levels. Although the incidence of poverty declined from 50.2% in 2005 to 37% in 2011, it is still below the average for countries with similar income levels. Inequality remains quite high in the Congolese economy with a Gini coefficient of 0.46. The inter-country comparison ranks Congo 90th out of 105 countries according to this index. Unemployment also continues to have an impact on a relatively large proportion of the labour force, affecting 30% of young people aged 15 to 29 and 19% of women. These weak social indicators are at variance with Congo's status as a middle-income country (MIC) and call for robust structural actions by the Government to reverse the situation and improve the pace and quality of economic growth.

2.3.2 **According to the 2015 UNDP report, the Republic of Congo has made specific efforts to achieve the Millennium Development Goals (MDGs).** The main targets achieved relate to primary education (MDG2), gender (MDG3) and health (MDG6). Efforts in these areas are measurable in terms of free education, provision of anti-malaria treatment for children, pregnant women and women delivering by caesarean section, availability of antiretroviral treatment and access to safe drinking water for all. However, major challenges remain in reducing poverty and hunger, and improving the quality of education and the sanitation system.

2.4 Governance and Business Climate

2.4.1 **Major challenges with regard to good governance persist**. The primary reasons for weaknesses in this area are: (i) accountability issues; (ii) weak coordination of government action; (iii) resistance to change; and (iv) the complexity of certain reforms and the lack of qualified human resources to carry them out. In its 2017 public sector corruption perceptions report, Transparency International ranked Congo 161st out of 180 countries in the world, and 26th out of 32 countries surveyed in Africa. Compared to 2016, Congo's score improved slightly in 2017, from 20 to 21. Several reform programmes in public finance management and governance are being implemented by the Government, with the support of TFPs. The Country Policy and Institutional Assessment (CPIA) rating was 2.9 in 2016, down 0.1 point from 2015. Although a National Anti-Corruption Commission has been set up, it sorely lacks the means to perform its work.

2.4.2 **There are still significant challenges to improving the business environment** despite the commitment of the authorities to promote private sector-driven growth. Further efforts are needed to enhance the attractiveness of the private investment environment. In an effort to implement the action plan to improve the business climate, the country has made it easier to close businesses by introducing a new arbitration procedure for companies in financial difficulties and a simplified resolution procedure for SMEs. The time required to start a business has been reduced to 48 hours in Brazzaville following the implementation of administrative reforms at the Business Formalities Centre ("*Centre de Formalités des Entreprises*") (CFE). Despite these measures, Congo's 177th ranking out of 190 in 2017 in the *Doing Business* survey reflects a private sector environment that is still not very attractive. With regard to paying taxes, the same report ranked the country 183rd out of 190, which shows the progress that remains to be made, particularly in terms of reducing administrative costs. Moreover, the mismatch between skills produced by the education system and the needs of the economy seriously hampers the development of the non-oil sector, despite the affordable cost of labour. Overall, the trend in infrastructure quality indicators, policies and the macroeconomic environment highlight the continuing inertia regarding the substantial changes to be made in the business climate, as perceived by private operators above all.

Category	Rank in 2016	Rank in 2017	Improvement Status (▼)
Ease of doing business	177	179	▲
Starting a business	178	177	▼
Dealing with construction permits	124	125	▲
Registering property	171	177	▲
Getting credit	118	133	▲
Protecting investors	145	146	▲
Paying taxes	183	185	▲
Trading across borders	182	184	▲
Enforcing contracts	155	155	►
Closing a business	117	...	▲

2.5 Crosscutting

2.5.1 **<u>Gender</u>: Although gender equality policies and commitments exist, much remains to be done in terms of implementation to ensure equality between men and women.** The 2016 Human Development Report ranks Congo 141st in the world in terms of gender inequality, down four spots compared with the previous ranking. The unemployment rate is also higher for women than for men. The vast majority of working women are concentrated mainly in the informal sector. In the political arena, women continue to be poorly represented in decision-making spheres. In 2017, the country adopted a new national gender policy aimed, among other things, at combating all forms of sexual violence and strengthening the institutional mechanism for implementing that policy.

2.5.2 **<u>Climate change and the environment:</u> Congo is committed to sustainable management of its natural resources in an environmentally sound manner**. The country has a legislative framework on environmental protection and a Forest Policy 2014-2025, the objective of which is to sustainably manage the country's forests, contribute to the emergence of a green economy and combat climate change. However, many obstacles hinder the implementation of various measures and their scope. Violations of laws in this area are frequent, while accountability remains very limited. With regard to the environment and climate change, it is worth noting the establishment of the Blue Fund, chaired by Congo.

2.5.3 **<u>Regional integration</u>: Congo has made regional integration a pillar of its development strategy.** The country has fully adhered to the protocol on the free movement of people and goods in the CEMAC zone. Within ECCAS, progress in terms of the opening of Congo through free movement and its good infrastructure integration into the Community, contrast with the delay in its productive and commercial integration at the regional level. However, the security problems posed by Islamist groups and armed confrontations constitute a major challenge for regional integration and affect the free movement of goods and people in the region.

III. STRATEGIC OPTIONS

3.1 Country Strategic Framework

3.1.1 **Congo adopted its new National Development Plan (PND) 2018-2022 in August 2018**. This plan, prepared through a participatory and inclusive process, replaces PND 2012-2016, which was developed in a context of relative abundance of budgetary resources and concerned a programme of major transformative investments and accelerated municipalisation throughout the territory. In contrast, PND 2018-2022 was developed in a context of severe economic and financial crisis resulting from the sharp drop in oil prices since 2014. This difficult climate has led the Government to take vigorous financial stabilisation measures to rebalance the budget, rebuild foreign exchange reserves and curb the country's debt distress, as part of a community strategy in the CEMAC zone.

3.1.2 **Therefore, PND 2018-2022 is more realistic and selective in its ambitions**. The context of economic crisis and reduced budgetary space justified the strategic choices made by the Government in the PND. The main guiding principle is to seek to **"do better with less"**, and to strive more for quality than for volume in physical and human investments, to rely more on reforms than on investments, all with a view to improving the quality of services and access for greater economic and social impact, but with a lower budgetary impact. Against that backdrop, the Congolese Government developed this second-generation PND to guide its actions during the period 2018-2022. This process was supported by the Bank and other development partners, including the World Bank. The PND 2018-2022 also includes operational annexes - including a multi-year programme of priority actions (PPAP 2018-2022) and a medium-term macro-budgetary framework. The substance of this Plan stems from the *"March Towards Development"* social project and takes into account the Sustainable Development Goals (SDGs) and the goals of the African Union's Agenda 2030 for Africa's development. With the adoption of the new PND, Congo now has a coherent framework for coordinating the interventions of development partners.

3.1.3 **Reflecting this concern, the Government built PND 2018-2022 on three pillars: (i) governance; (ii) human capital; and (iii) diversification.** For the Government, the goal is first to ***strengthen governance*** in all areas of public intervention, to improve the quality of services and the effectiveness of public policy. Second, the authorities intend to ***strengthen human capital*** by reforming the education system, implementing civic education programmes and combating anti-values, to develop women and men who are not only well equipped technically but also have proper moral and civic values, and who can constitute the human bedrock essential for the structural transformation of the Congolese economy and society. Third, Congo aims to ***accelerate its economic diversification*** through agriculture, tourism and the private sector, to reduce its dependence on oil and increase its resilience for sustained growth, generating jobs and helping to combat poverty and all forms of economic and social marginalisation.

3.2 Constraints and Challenges

3.2.1 **The main development challenges are highlighted by the economic and financial context in which PND 2013-2017 was prepared.** It was within that same context that the CSP Congo 2018-2022 was prepared, requiring the Bank to support the country's efforts to: (i) diversify economic activity, the source of employment and inclusive growth; (ii) improve governance; and (iii) support the development of human capital.

3.2.2 **In general, there is a strong interdependence between these three themes, which are also the main pillars of PND 2018-2022:** governance (Pillar 1), human capital (Pillar 2) and diversification (Pillar 3). For example, accelerating diversification, which entails the structural transformation of the economy, calls for increased competitiveness of the economy, which requires improving the quality and productivity of the main factors of production. This applies in particular to human capital, which is also the human bedrock for stronger governance through the incubation of a culture and values conducive to development. Strengthening human capital (Pillar 2) is thus an essential condition for both accelerating diversification (Pillar 3) and strengthening governance (Pillar 1). In turn, strengthening governance involves improving economic and social policies and services, and thus reducing factor and transaction costs, thereby improving the business climate, stimulating the private sector and accelerating the structural transformation of the economy, particularly through diversification.

Diversifying the economy to kick-start structural transformation

3.2.3 **Given the preponderance of the hydrocarbon sector (55% of GDP, 85% of exports, 80% of budgetary resources), the Congolese economy has shown limited resilience in the face of falling oil prices.** This situation has exposed Congo's fragility and vulnerability to external shocks, while internally, the country faces a difficult socio-political and security climate. Therefore, it is essential for the country to diversify its economy, particularly through agriculture, to: (i) develop a vision and a policy for transforming the agricultural sector; (ii) ensure food and nutrition security for its people; and (iii) develop agricultural production and exports of industrial crops and become a leading exporter, etc.

3.2.4 **A favourable business climate remains a catalyst for this sought-after structural transformation.** Improving the business climate remains indispensable for attracting private investment, the main driver of diversification. It should help to: (i) put in place adapted financing policies and instruments; (ii) foster the development of small- and medium-sized enterprises (SMEs), in particular through the development of an investment code with provisions conducive to the development of SMEs in joint ventures between local and foreign private partners; (iii) set up an effective and attractive institutional, legal and regulatory framework for private investment; and (iv) building the operational capacity of key stakeholders.

3.2.5 **This diversification cannot materialise without viable and effective economic infrastructure that can support the growth of the Congolese economy.** As part of the CSP 2013-2017, the Government, with the support of the Bank, built major road and corridor infrastructure facilities connecting Congo and neighbouring countries. The paved road network coverage almost doubled from 1 976 km in 2011 to 3 675 km in 2016. The two major cities of the country, which are 520 km apart, have been connected. The integrating network connecting Congo with Cameroon is almost established. Despite this performance, these infrastructure facilities remain insufficient. The paved road network in Congo remains below the threshold necessary for the country's emergence. The interconnection of the country's main regions has not been achieved, because the country does not have an extensive and high-quality road network. Interdepartmental roads are still to be built to improve access to production areas. At the municipal level, functioning airstrips lack adequate control towers for safe air navigation. Rail and harbour transport faces problems of modernisation of the railway and renewal of equipment. In terms of electricity and other forms of energy, power generation and the electricity access rate doubled between 2011 and 2016, but the generation loss rate remains so high that electricity sold to users represents less than half of the power generated. Businesses continue to face power cuts and outages and have to resort to generators, which increases production costs. With regard to drinking water, high loss rates and quality control problems persist despite the increase in the number of boreholes built or rehabilitated. The inadequacy of basic infrastructure facilities and their impact on production costs hamper competitiveness. In information and communication technologies, Congo is for now interconnected only with the Democratic Republic of Congo, generating high costs of access to digital services and a weakness of redundancy of its international connectivity in case of technical failures on the only international submarine cable (the West Africa Cable System - WACS) with a landing station in the country. The first phase of the Congolese component of the Central Africa Backbone (CAB) Project will connect Congo to Cameroon and the Central African Republic.

Improving governance and restoring macroeconomic balances

3.2.6 **Restoring macroeconomic balances is a prerequisite for growth and structural transformation.** This involves improving governance, which remains a key element in mitigating risks relating to sustainability of public finances, spending efficiency and debt management, and creating a business-friendly environment. Congo's debt distress stems from the low capacity to mobilise resources, and the reverse, producing a snowball effect. The problem of indebtedness also affects the country's attractiveness and impedes investments. Consequently, budget planning, oversight and public expenditure efficiency will be important aspects to be addressed in the context of economic governance. The low digitalization of the different public finance systems and the lack of interconnections between them generate significant public resource losses. The scores for the main governance indicators also remain relatively low for Congo and reflect a situation of weak governance.

3.2.7 **The PND review acknowledged that Congo's poor governance performance is also manifested** on the political, legal, administrative and other fronts, which have a negative impact on the authorities' ability to implement public programmes. The IMF diagnostic study report on governance and corruption in 2018 also confirmed that governance weaknesses have significant negative effects on inclusive growth. Governance weaknesses, corruption, lack of transparency and weaknesses in oversight and procurement procedures result in significant revenue losses in the State budget.

Strengthening human capital to support reform efforts and strengthen competitiveness

3.2.8 **Weak human resource capacity calls for the strengthening of human capital**. Such improvement is essential to meet the requirements of global competitiveness of the Congolese economy. There are many difficulties relating to education in Congo, including the mismatch between the training received and the training required by employers. In addition: (i) the training offered is not very diversified; (ii) the reception infrastructure facilities are insufficient; (iii) there is a lack of specialised teachers; (iv) the relationship between existing job opportunities and growth sectors is not established; and (iv) absence of refresher training for staff. The rate of access to technical education is low and stifles supply. Youth and women's unemployment, estimated in 2016 at 30% and 19%, respectively, remains a major concern for the Government. Support for skills and human resource development is essential to reduce the skills gap and promote quality production in strategic sectors with high production and value-added potential, such as industry, agribusiness and agricultural enterprises, tourism and information and communication technologies (ICTs). A skilled workforce will improve employability, promote competitiveness and attract investments. The Bank is already supporting skills and human resource development, which was one of the pillars of the Bank's previous strategy (CSP 2013-2017) in Congo.

3.2.9 **Improving human capital remains the best vehicle for combating inequality and exclusion.** The core sector of the economy, hydrocarbon extraction, is not necessarily conducive to redistribution, unless the Government can ensure that dividends from the sector trickle down to the poorest segments of the population. A large portion of the population cannot participate fully in economic activity, hence in growth, because of its exclusion. The risks of marginalisation are significant for populations outside the formal sectors of the economy, in the absence of social benefits, such as unemployment insurance, health insurance and/or participation in a pension scheme. In the absence of opportunities, this economic exclusion tends to be transmitted from generation to generation as access to quality education is poor. Exclusion is also potentially a source of social instability.

3.3 Strengths and Opportunities

Natural potential that can support diversification

3.3.1 ***Agriculture:*** **The agricultural sector has enormous potential for higher value-added activities and productive employment.** Endowed with exceptionally rich biodiversity, considerable fresh water resources, agricultural land estimated at 10 million hectares, and very favourable conditions for the development of agriculture, livestock farming, fisheries and aquaculture, Congo offers enormous potential for diversification in the agrifood industry, and in economic transformation. The agricultural sector, which is not fully developed (less than 10% of cultivated land, about 6.7% of non-oil GDP in 2016), has the capacity to feed the national population and save the country the XAF 500 billion in food imports per year, which account for more than 80% of its food requirements). It also has the potential to meet food demand in the sub-region and contribute to the country's trade balance. PND 2018-2022 makes agriculture a

Box 1: Strategic framework for the development and enhancement of the agricultural sector in Congo

The strategic framework is the National Agricultural Development Plan (PNDA), in line with the National Programme for Agricultural Investment and Food and Nutritional Security (PNIASAN) 2017-2021), itself inspired by the Comprehensive Africa Agriculture Development Programme (CAADP) of the New Partnership for Africa's Development (NEPAD). The pillars of the CAADP are: (i) expansion of areas under sustainable land management and reliable water control systems; (ii) improvement of rural infrastructure and market trade capacity; (iii) increase in food supply, famine reduction and improved emergency responses to food crises; (iv) forestry, livestock farming, fisheries resources, gender and climate change. Several operations, including agricultural value chains, are already planned in this regard for the 2018-2022 period.

strategic area for economic diversification, owing to its ability to contribute to economic growth and job creation (Annex 7).

3.3.2 ***Forest subsector* - Forest resources are important for both the export and the local market, including for the subsistence of rural Congolese people.** Congolese forests cover 65% of the country's surface area and are estimated at 22 million hectares. The sector is teeming with potential, especially for processing for local industry needs and other uses. These resources are also vital for the subsistence of rural Congolese people, providing them with the bulk of their wood energy, construction materials and food resources (hunting/gathering of non-timber forest products). The production and consumption of wood energy, the country's main source of domestic energy for cooking (nearly 85% of households), constitute essential sources of income for rural households. However, they also constitute one of the direct causes of deforestation and depletion of forest resources, in the absence of any sustainable management and formalisation of the sector. One solution to this problem would be to improve the resilience of rural populations, in supply zones, through income diversification, by initiating, among other things, the development of an innovative value chain for the sustainable wood energy supply sector of the Brazzaville urban basin.

3.3.3 ***Natural resources* - Congo has immense natural resources potential that is not yet fully exploited, including minerals and other resources** (iron, diamond, lead, uranium, copper, phosphates, magnesium, potash, zinc, hydropower, oil of which the country is the fourth-largest producer in Africa, forests and timber, agriculture and gas, to name just a few). The two current export pillars: timber and oil, are operated by foreign companies. Oil and natural gas reserves are estimated at 1.6 billion barrels and 90 billion cubic metres, respectively. In agriculture, uncultivated arable land is estimated to represent about one-third of the country’s total surface area. Only cassava is widely grown for subsistence and accounts for 90% of food production. Other crops available are sugar cane, rice, wheat, peanuts, coffee, cocoa and various vegetables. The country is also endowed with immense and rich tropical forests. These resources and their full exploitation and transformation would be a huge asset for diversification and sustainable growth.

3.3.4 ***Regional integration* - Regional integration offers opportunities to expand the country's production and export base.** To that end, the ongoing rehabilitation of national infrastructure facilities, in particular Pointe Noire Port, and Congo’s position on the regional transport corridors are important assets for restoring the competitiveness of the Congolese corridor and taking advantage of the significant trading opportunities offered by the regional market.

Reforms undertaken to support improvement of governance and the macroeconomic framework

3.3.5 **Reforms and the strengthening of the macroeconomic framework - The programme of reforms undertaken to restore external stability and budgetary balance reflects government’s strong commitment.** The successful implementation of the economic and financial reform programme, with the support of technical and financial partners (TFPs), will be an opportunity to restore an environment conducive to economic revival. It will help to improve the business climate, strengthen governance and gradually return to growth. The return of oil sector growth is expected, thanks to the North Moho deposit and the rise in international oil prices. The medium-term outlook, supported by governance reforms, is an asset for investors.

Ongoing initiatives to strengthen human capital

3.3.6 **The increase in reception capacity with the construction of the university and the prospects of diversifying training offerings will help to strengthen human capital.** The establishment of schools and institutes specialising in such areas as wood processing, mining, construction and technological innovation, bodes well for Congo.

3.4 Aid Coordination and Bank's Positioning

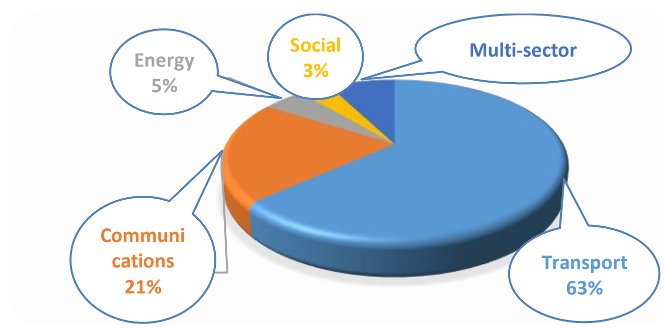
3.4.1 **Aid coordination, which had improved in recent years as a result of the establishment of the TFP Consultation Framework and thematic groups, faced some difficulties during the CSP implementation period**. The Bank's decision to ensure a physical presence on the ground through the effective deployment of a country economist since February 2015 has established a solid relationship with partners involved in Congo. Significant improvement in aid coordination will require strong Government leadership and considerable administrative capacity, which still needs to be developed. The Bank will continue to play an important role in improving partner coordination. In this regard, it should be stressed that the Bank has been co-chairing the TFP Thematic Group on Infrastructure since February 2015. The Bank is also actively involved in key working groups such as those on governance, public finance management and statistics. To improve coordination, the Government set up the Inter-ministerial Technical Committee for Monitoring Budget Support in May 2018. The main challenge remains the improvement of project preparation and implementation capacity to increase the country's absorptive capacity.

IV. PORTFOLIO REVIEW AND LESSONS LEARNED

4.1 Current Bank Portfolio in Congo

4.1.1 **The Bank's portfolio in Congo as at 30 September 2018 comprised six public sector operations only, with total commitments estimated at UA 208 million.** Between 2013 and 2017, the Bank's net commitments in Congo increased 1.5-fold, from UA 144 million in 2013 to UA 158 million in 2015 and UA 208 million in 2017. The financing instruments used are grants and project loans to the public sector, and institutional support. The portfolio is funded mainly from ADB (7.6%) and ADF resources (92.4%). The breakdown of the portfolio by type (public and regional) and by sector is presented in Annex 8. **It should be noted that since 2016 no new operation has been approved for Congo owing to its debt distress.**

Figure 4: Breakdown by Sector



4.2 Portfolio Quality and Performance

4.2.1 **In accordance with the current guidelines (see ADF/BD/IF/2013/59 of 22 April 2013)**, the portfolio performance rating concerns active national public sector projects; regional projects are subject to qualitative evaluation. The overall portfolio performance rating went from 2.3 in 2013 to 3.4 in 2015 and 3.1 in 2018, on a scale of 1 to 4 (see Annex 9). However, this performance is down when compared to the situation noted during the 2015 review, owing primarily to the difficulties of mobilising counterpart funding and the delay in submitting audit reports (only 40% of reports submitted on time). However, it is worth noting that this satisfactory performance is the result of close monitoring of the portfolio and implementation of the recommendations of the supervision missions. The Bank's Kinshasa Office played an important role in the implementation of the Bank's portfolio in Congo.

4.2.2 **Implementation of the Country Portfolio Performance Improvement Plan (CPPIP 2016-2017) (see Annex 6) resulting from the 2016 review is deemed satisfactory overall, with 74% of the issues identified addressed.** The Plan's main recommendations concern: (i) acceleration of project start-up and reducing procurement timeframes; (ii) timely provision of counterpart funds and funds for beneficiary entities; (iii) timely submission of audit reports; and (iv) strengthening of project monitoring and evaluation mechanisms. The PPIP 2018-2019 in Annex 7 focuses on accelerating the implementation of outstanding measures and key recommendations for project implementation. It is worth noting that the overall portfolio suffers from non-payment of counterpart funding, which impedes effective and efficient project implementation. This situation has resulted in the restructuring of some projects, including by using parallel co-financing instead of joint co-financing or by reducing the contract size to cut the quota of counterpart resources.

4.3 Lessons from CSP 2013-2017

4.3.1 **The lessons for both the Bank and the Government are summarised in the framework below.** These lessons are squarely in line with the findings of the report from the study tour conducted by Senior Advisers and Advisers from 5 to 9 March 2018. The main recommendations were also taken into consideration in selecting the pillars of the DSP 2018-2022. The Bank will position itself more as a veritable knowledge-based institution through analytical work aimed at filling existing knowledge gaps. However, this work will be streamlined in number, with a focus on quality to provide strategic advice to the country.

- **For AfDB**

From a strategic standpoint

- **Pay particular attention** to both physical investments and governance;

- **The Bank must develop its partnership with the private sector**. In the new CSP, it is important for the Bank to be able to play a catalytic role in this critical sector to diversify the Congolese economy, seizing the opportunities offered by the country’s graduation;

- Focus on **large, transformative and integrated** projects. The relatively small size of Bank-financed national projects has limited its development impact, particularly under Pillar II of CSP 2013-2017;

- **It is also important to bear in mind that fragility also affects middle-income countries like Congo**. The strategy must take this feature into account.

At the operational level

- **Improve quality-at-entry and be more pragmatic in programming its operations.** The greatest attention should be paid to the actual state of project preparation and readiness, and the availability of technical studies;

- Strengthen the **links between the expected outcomes and the outcomes** of the strategy based on statistical data to measure the outcomes indicators of the logical framework backed by the CSPs;

- For non-lending operations, **the Bank should focus on knowledge products and equip itself to deliver them;**

- Adapt **Liaison Office staff** to the structure of the Bank's portfolio;

- Conduct the analysis of **Congo's financial parameters** to explore the possibility of fully funding future projects; and

- **Ensure** the sustainability of infrastructure.

- **For the Government**

  - **Strengthen** aid coordination;

  - Jointly organise with AfDB **quarterly working sessions on the status of implementation of the portfolio**;

  - **Educate** all stakeholders, including the highest authorities, about the loan agreement ratification process, with a view to reducing delays;

  - **Make the necessary arrangements to clear counterpart fund arrears** for ongoing projects to avoid delays in their implementation;

  - **Finalise the recruitment of external audit firms** to reduce delays in the production of audit reports;

  - **Strengthen the role of internal audit** in monitoring the implementation of audit report recommendations;

  - Support funding for the implementation of development programmes. **Governments will need to accelerate the implementation of reforms to increase domestic resources**.

V. BANK GROUP'S STRATEGY FOR THE PERIOD 2018-2022

5.1 Rationale of the Bank's Strategy and Pillars

5.1.1 **Previous analyses have shown that a model of economic development that focuses heavily on a single sector, however promising it is, and subject to the wishes of the international market, is not sustainable in the long term.** As already indicated, Congo has many assets and opportunities, but the country still faces several challenges and constraints that limit the process of structural transformation of its economy and the creation of decent jobs with higher value added. Diversifying the economy for sustainable and inclusive growth is a major challenge in addressing inequality and exclusion. The limited endowment in transformative infrastructure and the weak (human and governance) capacity, resulting in particular in the inefficiency of public spending, and the still-unfavourable business environment constitute the major challenges to the development of a modern, diversified and competitive economy. The challenges identified above are also barriers to trade and regional integration. Faced with these constraints, the country has assets and opportunities, which the Government can use to fulfil its development ambitions.

5.1.2 **Congo has many strengths and opportunities for economic and social development, but it also faces significant weaknesses and challenges. Both the public and the private sectors have institutional weaknesses and capacity deficiencies in governance, design and conduct of development policies**. It is important for the Bank to provide Congo with solid support in its efforts to meet the challenge of overcoming the crisis and diversifying its economy. Taking into account the main challenges and opportunities identified, the strategic and operational lessons learned from the previous strategy, the country dialogue with the Government and the TFPs, the private sector and civil society, CSP 2018-2022 will be based on the following selection criteria:

- ✓ Alignment on Congo's PND 2018-2022, the Bank's Ten-Year Strategy 2013-2022, the Central Africa Regional Integration Strategy Paper (CA-RISP) 2018-2025 being prepared, but whose strategic orientation has already been approved by CODE;
- ✓ Amplification of the impacts of previous interventions under the CSP 2013-2017 in infrastructure and governance;
- ✓ The selection of intervention areas, taking into account the synergy and complementarity with other TFPs;
- ✓ Promotion of inclusive and green growth by: (i) strengthening energy capacity geared towards hydropower, renewable energy (solar); and (ii) developing agricultural value chains with high potential for job creation, especially for young people and women, in rural areas; and
- ✓ The current context of the country, which does not allow the Bank to develop its sovereign portfolio.

5.1.3 **Despite its temporary status as a country with unsustainable public debt, Congo meets the conditions for a new, comprehensive CSP in lieu of an interim strategy.** In addition to having a new National Development Plan (PND), the country is neither in conflict nor under sanctions for arrears. The outcome of ongoing negotiations on China’s debt could help to facilitate discussions with the IMF, with a view to concluding a macroeconomic reform and stability programme. Should conditions for executing the 2019 budget be fulfilled, the country could have substantial budget headroom to support the borrowing programme to finance investments that have practically stopped in the past two years. Hence, the Bank’s provision of budget support to Congo will depend on the country’s debt sustainability, which could be guaranteed with the conclusion of a programme with the IMF.

5.2 Objective of CSP 2018-2022 and Strategic Pillars

5.2.1 **The objective of CSP 2018-2022 is to contribute to the diversification and competitiveness of the Congolese economy to bring about growth that is inclusive and sustainable, and therefore resilient to the effects of fluctuations in hydrocarbon prices (oil and gas).** This strategic direction is in line with the inclusive and sustainable growth objectives of the Bank's Ten-Year Strategy 2013-2022 as well as the High 5s, whose approach is based on a vision for transformation and transition towards a green economy. In accordance with CODE's guidelines laid down during the review of the completion report of the previous strategy and the dialogue with the authorities, it is proposed that CSP 2018-2022 should revolve around the following two complementary pillars: ***(i) promote agribusiness value chains (Pillar I*** – covering three of the High 5s: *"Feed Africa", "Industrialise Africa", "Light up and Power Africa"; and "Integrate Africa");* and ***(ii) strengthen human capital and governance (Pillar II*** - corresponding to two of the High 5s: *"Industrialise Africa" and "Improve the quality of life for the people of Africa").*

5.2.2 **The two pillars selected were deemed relevant by CODE members.** When the draft CSP pillars were presented to CODE members, in accordance with the new directive on the preparation of CSPs, they welcomed the selectivity and the strategic choices proposed, and the interdependence of the pillars. However, they suggested that emphasis be placed on green growth, gender, and the analysis of pockets of fragility and the business climate, and that the private sector be given greater consideration and a gradual approach adopted for Bank interventions.

5.2.3 **The Bank will pay greater attention to the integration of crosscutting themes - gender, social issues, employment, climate change, and regional integration - into new operations.** The pillars and crosscutting themes complement each other and are a continuation of the pillars and crosscutting themes of the Bank's previous strategy, although with strategic and operational innovations. Thus, Bank operations will systematically integrate governance with a focus on strengthening public finance management, and improving natural resource management and sector governance (transport, ICT, energy, forestry, mining, agriculture, etc.). Similarly, gender analysis will be systematised in the preparation of new projects to ensure that the projects promote equal opportunities. In addition, new Bank projects will be designed to maximise job creation for men and women. Priority will also be given to the inclusion of climate change resilience issues in projects, and to projects that promote regional integration.

Pillar I: Promote agribusiness value chains

5.2.4 **The objective of this pillar is to support the development of agricultural infrastructure, stimulate and increase production/manufacturing, and trade in agricultural products, to spark the emergence of value chains in agricultural, agribusiness and agrifood sectors.** The overall objective is to promote productive and commercial agriculture, through the development of agricultural, silvicultural, pastoral, and fisheries value chains. Specifically, the goal will be to improve the marketed agricultural production, farmers' income, create decent jobs, strengthen the competitiveness of non-extractive tradable goods and secure greater shares of regional markets in CEMAC and ECCAS zones and beyond. The Bank's support aims to: (i) improve the productivity and resilience of basic agricultural sectors (cassava, plantain, agroforestry, inland fisheries and aquaculture, poultry) by developing the necessary infrastructure for agricultural development, supporting research, improving soil fertility, and building the technical capacity of producers; (ii) promote cooperative agricultural and youth entrepreneurship; (iii) finance agriculture through the procurement of inputs and equipment; (iv) improve the business environment and build institutional capacity for the mobilisation of private investments; (v) rehabilitate the two existing New Agricultural Villages (NVAs) and build three NVAs; and (vi) promote three agrifood processing zones in the special economic zones provided for in the PND.

5.2.5 **This support is consistent with the National Agricultural Investment and Food and Nutrition Security Programme (PNIASAN) 2017-2021, and National Agricultural Development Plan (PNDA),** which aim to promote the growth of the agricultural and rural sector to bring about a rapid and significant reduction in poverty, roll back hunger, and increase farm and non-farm income.

5.2.6 **The Bank provided a report on the study on the sustainable industrialisation of the timber sector in Congo Basin countries**. Ownership and implementation of the strategic thrusts of the regional study on the sustainable industrialisation of the sector in Congo at country level could boost GDP. The Bank will support

Congo in implementing the recommendations of the study relating to: (i) the uniform application of the 60% log-export quota to develop the timber processing industry; (ii) the establishment of development plans for production forests; and (iii) the establishment of forest plantations.

5.2.7 **Promoting agricultural and industrial value chains presupposes that energy supply in the areas concerned will be boosted. In this regard**, Bank support for the energy sector in these areas will enable access to modern, reliable, sustainable and cost-effective energy to support the structural transformation process, as well as industrialisation and the creation of formal paid jobs. Access to affordable energy remains a key factor in improving private sector competitiveness and the well-being of households. The Bank will support transformative investments by building mini-hydropower plants and power supply lines for power grid interconnection (transmission and distribution). The support is in line with both the Letter of Energy Sector Policy 2017 (LPSE2017), as well as with thrust 4 of Congo's energy policy: "Promote renewable energy and increasing energy supply", and supports Pillar 1 of Bank strategy for Congo: "Promote agribusiness value chains".

5.2.8 **Based on the Central Africa Regional Integration Strategy Paper (CA-RISP 2018-2025), the thrusts of which are complementary to CSP 2018-2022, Congo will benefit from several regional operations** identified in infrastructure and support for institutional and human capacity building. The transport and telecommunications sectors will be covered by the Regional Integration Strategy Paper (RISP), which is a subsidiary document to the CSP. All infrastructure facilities (transport, ICT and energy) provided for by RISP will complement the CSP investments. The Bank's operations will include ancillary economic and social infrastructure intended to facilitate access to basic social services and markets, as well as labour-intensive works to create direct jobs for young people and women, and to support the biodiversity of the Congo Basin.

Pillar II: Strengthen human capital and governance

5.2.9 **This pillar aims to leverage the development and competitiveness of the economy by building capacity for formulating global and sector policies, and by structuring the implementation of such policies.** In supporting human capacity building and better governance, the Bank will aim to improve public finance management and control bodies, upgrade technical and managerial skills in human resources, support the development of basic education and support technical and qualifying training in trades in growth sectors. The Bank's intervention will also focus on strengthening the business climate. These objectives make for the consolidation of the gains of the previous CSP in sector governance. This pillar reflects the priorities of the National Development Plan (PND) in terms of the development of human capital and the strengthening of governance. Lastly, the Bank could prepare programme-based support operations depending on such factors as progress in the improvement of debt sustainability and the availability of Bank resources, and on other eligibility criteria. Governance reforms will eliminate inefficiencies in the targeted sectors, help to improve the business environment and competitiveness, and increase the contribution to economic growth.

5.2.10 **The Bank's assistance is justified by the need to support Congo's efforts towards the structural transformation of its economy in the face of the collapse of oil prices through:** (i) financial assistance to make up for the drastic drop in oil revenue and to finance the priority programmes of the "March towards Development", the President of the Republic's social project covering the period 2016-2021; and (ii) support reforms aimed at (a) diversifying the sources of growth through the improvement of the business climate; (b) streamlining public spending; and (c) improving domestic revenue mobilisation.

5.3 Non-Lending Programme

5.3.1 **The non-lending programme could be the Bank's main activity during the first two years of this CSP, given that the debt sustainability situation will certainly have an impact on sovereign lending window financing opportunities.** Activities planned under this framework include:

- Feasibility studies on seven (7) mini-hydropower plants to improve the quality-at-entry of energy projects and the electricity access rate in rural areas;

- The study on fiscal potential and domestic resource mobilisation. Public resource mobilisation is crucial for contributing significantly to the conduct and success of economic policy. Hence, estimating the fiscal potential becomes an imperative;

- Preparation of a monograph for Congo, based on the regional study on the timber sector; and

- Update of the gender profile in agriculture and agribusiness.

5.3.2 **These activities will ensure that crosscutting themes are better taken into account** in the preparation of new operations that will be designed following a programme-based approach. In addition, they will provide an opportunity to strengthen dialogue with the Government on sector-based public policies in collaboration with other TFPs. Furthermore, the Bank will provide technical assistance within the framework of the African Legal Support Facility (ALSF) to build capacity in the energy sector, including: (i) preparing a toolkit of legal documents; and (ii) training executives on the stakes associated with energy sector PPP-type projects. The Bank could also consider the use of the ALSF to provide support to the Government in debt management.

5.4 Expected Outcomes

5.4.1 **The expected outcome of CSP 2018-2022 is the strengthening of the economic diversification dynamics** based on the development of agricultural and agribusiness value chains, the strengthening of human capital as well as the substantial improvement of economic, financial and sector governance. This outcome will be achieved through implementation of transformative projects, economic and sector reform programmes that would: (i) ensure, through a proactive State policy, the transition from a subsistence agricultural model to a modern agricultural system, with high productivity and value added, as well as job-generating potential; (ii) open up agricultural production areas for easy access to markets, and improve the country's competitiveness by rehabilitating and/or developing the transport, ICT and energy infrastructure network.

5.4.2 **Under Pillar 1 "Promote agribusiness value chains",** the CSP has two objectives: *(i) substantially increase the quality and stock of critical rural infrastructure to attract private promoters wishing to invest in the development of agricultural value chains; and (ii) strengthen infrastructure in support of production.*

5.4.3 **With regard to the agricultural sector**, the CSP plans to contribute to the development of modern agriculture by setting up infrastructure in support of production (irrigation, feeder roads, etc.); processing (slaughterhouses, landing docks, flour mills, etc.); rural electrification; conservation and marketing (shops, border and national markets, warehouses, cold stores, etc.); as well as food research and control laboratories; and agricultural training institutes. The Bank project will also support the transformation of the rural environment, through its modernisation. This is essential for **the promotion of agrihubs or agrifood processing areas,** hence the need to improve access to basic social services such as drinking water and sanitation, health, and rural housing. In concrete terms, that calls for the rehabilitation of the two existing new agricultural villages (NVA) and the building of new ones (number to be specified under the target indicator). This component will take into account the promotion of youth entrepreneurship, and will encourage the acquisition of technical and managerial skills by young people in the fields of agricultural value chains, in an effort to promote youth entrepreneurship. In this regard, the initiatives of the two Songhai centres (Luvaku and Otsendé) and the two new agricultural villages (Invuba and Nkau) could be expanded.

5.4.4 **Interventions under this assistance are complementary to ongoing Bank operations**. The Bank already provides significant support in the road, energy and telecommunications sectors. It will explore opportunities for co-financing operations with TFPs operating in the same sectors, and will continue to work in synergy with them on ongoing projects such as Ketta-Djoum II (JICA) PDCRH (AFD) and the Business Environment Improvement Support initiative (WB), as well as on new ones such as Agricultural Value Chains.

5.4.5 **With regard to Pillar 2 "Strengthen human capital and governance",** the Bank's strategy is aimed at two objectives: *(i) improve the quality of human resources; and (ii) strengthen governance capacity*.

5.4.6 **Improve the quality of human resources** - The transformation of the agricultural sector and the emergence of agribusiness involve the introduction of new technologies and the use of new skills. It will also be essential to link education, vocational training, learning and research-development to the new activities to be promoted. The Bank's support will help mainly to determine the sectors, curricula and trades to be developed, as well as build the capacity of training centres in terms of equipment and premises. The Bank will support wide dissemination of best practice in: (i) productivity improvement; (ii) product quality research; and (iii) product preservation, processing and marketing.

5.4.7 **Governance capacity building - Bank operations will systematically integrate governance** with a focus on strengthening public finance management, natural resource management and sector governance (energy, transport, agriculture). They will cover all the institutional, legislative and regulatory changes that will have to accompany the development of agribusiness and special economic zones (SEZs). Regarding the improvement of forest/timber sector governance, support will continue to be centred on the restructuring of the sector, strengthening resources and on forest certification governance, to better develop the sector’s inclusive and green growth potential. Gender analysis will be systematised during the preparation of new projects to ensure that they promote equal opportunities. In addition, new Bank projects will be so designed as to maximise job creation, especially for young people and women. Climate change resilience issues will also be taken into account in projects as a matter of priority.

5.5 CSP Financing Instruments

5.5.1 **Given that the Republic of Congo is eligible for the ADB window**, its allocation is determined by the Bank's guidelines for "reference loan amounts". These amounts provide a general framework for the Bank's maximum commitment and are purely indicative. They can vary according to the country's risk profile and the Bank’s resources. Transformative infrastructure will be financed through PPP loans. Furthermore, the Bank will explore the possibility of using trust funds and co-financing with other partners. Recourse to new instruments (for instance the results-based financing approach) will be sought, drawing from the experience of other partners.

5.6 Monitoring and Evaluation

5.6.1 **The results-based logical framework will serve as a basis for the monitoring and evaluation of the results achieved under the Bank's assistance programme.** It is based on the PND national monitoring system. Annual Country Portfolio Performance Reviews (CPPR) will also assess the progress achieved in implementing the operations. A mid-term report will be prepared in 2020 to assess progress towards the achievement of CSP outcomes and to propose necessary adjustments. The completion report will be prepared at the end of the strategy period in 2022. Through dialogue and portfolio management, the Bank Liaison Office in the country is expected to play a leading role in implementing CSP 2018-2022. It was agreed that quarterly meetings would be held to review the implementation status of projects.

5.7 Country Dialogue

5.7.1 **The physical presence of the Bank through the strengthening of the Country Liaison Office team will lead to sustained quality dialogue and close monitoring of the portfolio.** In this regard, the country dialogue, backed by economic work, will focus on diversifying the economy, mobilising domestic resources, in a context marked by the sharp drop in spending, particularly in social sectors, improving the private sector environment, strengthening governance and public finance management, including transparency in the management of oil and natural resources. Issues relating to inclusion and redistribution policies, regional integration, women's empowerment and youth employment will also feature prominently in the dialogue with the authorities. Dialogue with the private sector will be strengthened to diversify the portfolio. At the operational level, issues related to project implementation and portfolio improvement will remain central to the Bank's dialogue with the Government and other stakeholders, including Parliament.

5.8 Risks and Mitigation Measures

5.8.1 It should be noted that the necessary lessons were drawn from most of the risks identified in the previous CSP and the new one. The five types of risks that could hinder the achievement of CSP 2018-2022 outcomes have been identified and mitigation measures proposed as shown in the diagram below.

Figure 2: Risks and Mitigation Measures

Risks	Mitigation Measures
Macroeconomic risk and climate shocks (high)	• Partner support for growth sectors (roads, energy, agriculture)) • Partner support for structural reforms • Assistance for disaster risk management and strengthening of the country's resilience to climate change.
Fiduciary risk (high): corruption risks	• Economic and Financial Reform Support Programme • New Public Procurement Code that is more in line with international standards • Fight against corruption (creation of anti-corruption judiciary centres)
Operational risk related to low technical capacity (high): local private sector and public administrative services	•Use PPF Fund to improve project quality-at-entry • Training and advice to project teams • Support for negotiating PPP contracts and sharing oil profits
Financial risk (high): sustainability of external debt	• Support of the international community for inclusive political dialogue (African Union, European Union, United Nations, etc.) • Demobilization-Disarmament-Reintegration Programme for ex-combatants
Financial risk (high): sustainability of external debt	• Partner support for structural reforms to broaden the tax base and improve the quality of public spending • Debt management capacity building: maximizing the use of concessional and semi-concessional borrowing

VI. CONCLUSION AND RECOMMENDATIONS

6.1 **Conclusion:** Congo is well placed to succeed in its economic diversification and transformation strategy. The reforms, supported by dialogue with TFPs, are likely to help restore economic performance, and especially improve governance and the business climate, which are the necessary conditions for accelerating the development agenda. The country's natural wealth and the potential offered by the agricultural and agribusiness sectors, the continued investment in infrastructure (agricultural, transport, energy, water, sanitation and ICT) are undeniable assets for diversifying the sources growth and improving the people's living conditions. As Congo's strategic partner, the Bank is expected to continue providing financial and technical support for CSP 2018-2022 to help the country achieve this goal.

6.2 **Recommendations:** In light of the foregoing, the Bank's Boards of Directors are requested to review and approve the AfDB Group’s Country Strategy Paper (CSP) 2018-2022 for Congo, whose strategic pillars are: ***(i) promote agribusiness value chains (Pillar 1); and (ii) strengthen human capital and governance (Pillar 2).***

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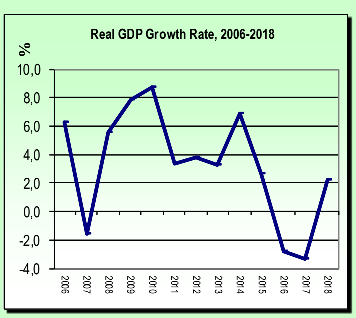
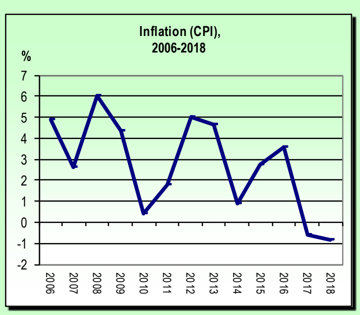
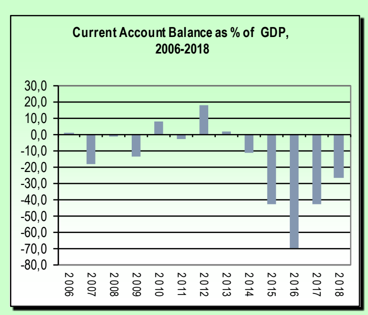
Annex 1: Congo - Key Macroeconomic Indicators

Congo
Selected Macroeconomic Indicators

Indicators	Unit	2000	2013	2014	2015	2016	2017 (e)	2018 (p)
National Accounts								
GNI at Current Prices	Million US $	1 710	10 678	11 353	10 858	8 107	...	...
GNI per Capita	US$	550	2 430	2 520	2 350	1 710	...	...
GDP at Current Prices	Million US $	3 221	14 026	14 099	8 554	7 867	8 790	9 988
GDP at 2000 Constant prices	Million US $	3 221	5 633	6 019	6 176	6 002	5 801	5 931
Real GDP Growth Rate	%	7,6	3,3	6,8	2,6	-2,8	-3,4	2,2
Real per Capita GDP Growth Rate	%	4,9	0,7	4,2	0,1	-5,3	-5,8	-0,4
Gross Domestic Investment	% GDP	22,6	29,4	40,5	40,7	43,8	29,4	19,5
Public Investment	% GDP	7,0	19,9	30,0	20,3	15,9	10,9	7,9
Private Investment	% GDP	15,7	9,4	10,4	20,4	27,8	18,5	11,6
Gross National Savings	% GDP	36,2	46,8	49,3	-6,9	-27,8	11,1	22,2
Prices and Money								
Inflation (CPI)	%	0,4	4,6	0,9	2,7	3,6	-0,6	-0,8
Exchange Rate (Annual Average)	local currency/US$	712,0	493,9	493,6	591,2	592,7	617,5	619,4
Monetary Growth (M2)	%	70,2	3,5	11,9	-9,9	-12,8	-4,0	...
Money and Quasi Money as % of GDP	%	15,7	38,3	42,7	52,9	50,1	41,3	...
Government Finance								
Total Revenue and Grants	% GDP	26,6	45,1	40,7	30,4	32,3	31,7	33,0
Total Expenditure and Net Lending	% GDP	25,5	49,6	52,0	72,1	45,2	36,8	30,6
Overall Deficit (-) / Surplus (+)	% GDP	1,1	-4,5	-11,3	-41,7	-12,9	-5,1	2,4
External Sector								
Exports Volume Growth (Goods)	%	5,8	-4,8	3,4	-5,2	-4,5	11,6	16,4
Imports Volume Growth (Goods)	%	9,7	2,8	25,7	44,8	-0,3	-40,6	-8,3
Terms of Trade Growth	%	143,0	-7,8	-4,3	-24,8	-13,1	45,6	3,2
Current Account Balance	Million US $	436	238	-1 635	-3 673	-5 514	-3 761	-2 722
Current Account Balance	% GDP	13,5	1,7	-11,6	-42,9	-70,1	-42,8	-27,2
External Reserves	months of imports	2,2	8,5	7,2	2,9	1,1	1,8	2,1
Debt and Financial Flows								
Debt Service	% exports	5,5	3,0	5,2	9,8	14,2	10,5	17,7
External Debt	% GDP	164,9	32,1	36,0	80,5	87,1	82,6	78,9
Net Total Financial Flows	Million US $	87	786	464	2 456	3 251	...	...
Net Official Development Assistance	Million US $	32	151	106	89	88	...	...
Net Foreign Direct Investment	Million US $	166	2 914	5 502	1 486	2 006	...	...







Source : AfDB Statistics Department; IMF: World Economic Outlook,April 2018 and International Financial Statistics, April 2018;
AfDB Statistics Department: Development Data Portal Database, April 2018. United Nations: OECD, Reporting System Division.

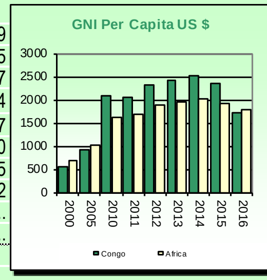
Notes: ... Data Not Available (e) Estimations (p) Projections Last Update: May 2018

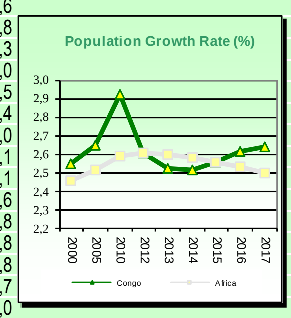
Annex 2: Congo - Comparative Socio-economic Indicators

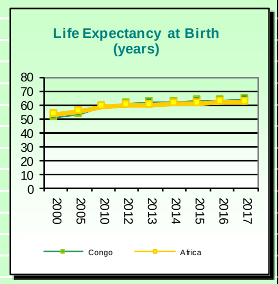
Congo

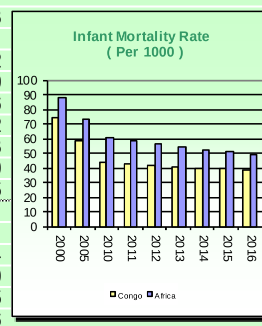
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Congo	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)	2017	342	30 067	80 386	53 939
Total Population (millions)	2017	4,9	1 184,5	5 945,0	1 401,5
Urban Population (% of Total)	2017	66,7	39,7	47,0	80,7
Population Density (per Km²)	2017	14,2	40,3	78,5	25,4
GNI per Capita (US $)	2016	1 710	2 045	4 226	38 317
Labor Force Participation *- Total (%)	2017	70,5	66,3	67,7	72,0
Labor Force Participation **- Female (%)	2017	67,7	56,5	53,0	64,5
Sex Ratio (per 100 female)	2017	100,1	0,801	0,506	0,792
Human Develop. Index (Rank among 187 countries)	2015	135	...	...	...
Popul. Living Below $ 1.90 a Day (% of Population)	2011	37,0	39,6	17,0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2017	2,6	2,6	1,3	0,6
Population Growth Rate - Urban (%)	2017	3,1	3,6	2,6	0,8
Population < 15 years (%)	2017	42,5	41,0	28,3	17,3
Population 15-24 years (%)	2017	18,7	3,5	6,2	16,0
Population >= 65 years (%)	2017	3,7	80,1	54,6	50,5
Dependency Ratio (%)	2017	85,8	100,1	102,8	97,4
Female Population 15-49 years (% of total population)	2017	23,3	24,0	25,8	23,0
Life Expectancy at Birth - Total (years)	2017	63,8	61,2	68,9	79,1
Life Expectancy at Birth - Female (years)	2017	65,4	62,6	70,8	82,1
Crude Birth Rate (per 1,000)	2017	35,0	34,8	21,0	11,6
Crude Death Rate (per 1,000)	2017	7,9	9,3	7,7	8,8
Infant Mortality Rate (per 1,000)	2016	38,5	52,2	35,2	5,8
Child Mortality Rate (per 1,000)	2016	54,1	75,5	47,3	6,8
Total Fertility Rate (per woman)	2017	4,7	4,6	2,6	1,7
Maternal Mortality Rate (per 100,000)	2015	442,0	411,3	230,0	22,0
Women Using Contraception (%)	2017	41,6	35,3	62,1	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2007	10,8	46,9	118,1	308,0
Nurses and midwives (per 100,000 people)	2007	94,0	133,4	202,9	857,4
Births attended by Trained Health Personnel (%)	2014	80,1	50,6	67,7	...
Access to Safe Water (% of Population)	2015	76,5	71,6	89,1	99,0
Access to Sanitation (% of Population)	2015	15,0	51,3	57	69
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2016	3,1	39,4	60,8	96,3
Incidence of Tuberculosis (per 100,000)	2016	378,0	3,8	1,2	...
Child Immunization Against Tuberculosis (%)	2016	85,0	245,9	149,0	22,0
Child Immunization Against Measles (%)	2016	80,0	84,1	90,0	...
Underweight Children (% of children under 5 years)	2015	12,3	76,0	82,7	93,9
Prevalence of stunding	2015	21,2	20,8	17,0	0,9
Prevalence of undernourishment (% of pop.)	2015	28,2	2 621	2 335	3 416
Public Expenditure on Health (as % of GDP)	2014	4,2	2,7	3,1	7,3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2012	104,2	106,4	109,4	101,3
Primary School - Female	2012	107,8	102,6	107,6	101,1
Secondary School - Total	2012	52,1	54,6	69,0	100,2
Secondary School - Female	2012	48,4	51,4	67,7	99,9
Primary School Female Teaching Staff (% of Total)	2012	53,5	45,1	58,1	81,6
Adult literacy Rate - Total (%)	2011	79,3	61,8	80,4	99,2
Adult literacy Rate - Male (%)	2011	86,4	70,7	85,9	99,3
Adult literacy Rate - Female (%)	2011	72,9	53,4	75,2	99,0
Percentage of GDP Spent on Education	2010	6,2	5,3	4,3	5,5
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2015	1,6	8,6	11,9	9,4
Agricultural Land (as % of land area)	2015	31,1	43,2	43,4	30,0
Forest (As % of Land Area)	2015	65,4	23,3	28,0	34,5
Per Capita CO2 Emissions (metric tons)	2014	0,6	1,1	3,0	11,6









Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; *last update :* *May 2018*
UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

*Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)*
*** Labor force participation rate, female (% of female population ages 15+)*

Annex 3: Indicative Loan Programme 2018-2022

INDICATIVE LOAN PROGRAMME				
Sectors/Projects Indicative Operations Programme				
	UA - Million	**Year**	**Source of Financing**	**Co-financier**
Pillar 1: Promote agribusiness value chains				
Agriculture (*Feed Africa)*				
1. Agricultural and Livestock Value Chain Development and Resilience Project (poultry, cassava, plantain, savannah agroforestry - cashew and cocoa), including youth entrepreneurship, inclusive financing, institutional development and sector governance	100	2020	ADB	Green Fund Other funding to be sought Financing to be sought (WB, IFAD JICA, GIZ, Arab Fund, USAID)
2. Project for the Development and Resilience of the Inland Fishing and Aquaculture Value Chains, including youth entrepreneurship, inclusive financing, institutional development and sector governance	50	2020	ADB	Green Fund Other funding to be sought (WB, IFAD, JICA, GIZ, Arab Fund, USAID)
3. Project for the Rehabilitation and Extension New Agricultural Villages	50	2021	ADB	
4. Agrifood processing areas (at the level of the three special economic zones of Pointe Noire, Ouesso and ....)	90	2022	ADB	Private Sector
5. Congo Basin Ecosystems Conservation Support Programme	40	2019	ADB	Green Fund
6. Congo Basin Timber Sector Integrated Development Support Programme (PADIB-BC)	150	2020	ADF	Green Fund
Energy (*Light up and Power Africa)*				
1. Congo Energy Sector Support Project (PASEC)	25	2019	ADB	
2. Construction of 6 Micro-Hydroelectric Plants (studies in progress)	80	2021	ADB	
Transport/ITC (*Industrialise Africa)*				
1. Construction of the of Dolisie Dry Port	150	2019/2021	ADB	
2.Development of the Nyanga-Divénié Road (36 km) and Kayes-Banda road (35 km)	70	2022	ADB	
Pillar 2: Strengthen Human Capital and Governance				
Governance (*Industrialise Africa)*				
1. Economic and Financial Reform Support Programme (PAREF) Phase I	150	2019	ADB	WB/AFD
2. Education Sector Development Support Project		2020		
3. Project to Support the Development of the Education, Training and Learning Centres (CEFAs) for Rural Trades		2021	ADB	
4. Capacity Building Support Project for the Agriculture Technical High School		2020	ADB	
5. Investment Climate and Governance Support Project Phase 2		-	ADB	
6. Project to Support the Modernisation of Public Finances and Strengthen Supervisory Bodies		2019	ADB	

Multinational Projects Concerning Congo and Included in the RISP-				
Transport/ITC (*Industrialise Africa)*				
1. **Multinational Congo-Gabon** : - Asphalting of the Dolisie-Doussala road Phase 2 and Facilitation of Transport on the Libreville-Brazzaville Corridor (covering a distance of 133 km) - Asphalting of the Mila Mila-Mossendjo-Mayoko-Mbinda-Gabon Border Road, Mila Mila-Mossendjo section (116.35 km), construction of a 525 m-long bridge on the Sangha River in Ouesso, with development and asphalting of the access road to the structure and to the city of Pokola, over a distance of 45.875 km - Asphalting of the Mila Mila-Mossendjo-Mayoko-Mbinda-Gabon Border Road, Mossendjo-Gabon Border section Phase 2, covering a distance of 109 km	189 246.52 198	2020 2019 2020	Not defined ADB Not defined	
2. Road-Rail Access Way Project	100	2019	ADF GRANT	
3. Brazzaville-Kinshasa Rail Road Bridge	240	2020/2021	AfDB	
4. Central Africa Transport and Transit Facilitation Project (FPTT-CA) on the Brazzaville-Yaoundé, Douala-Bangui and Douala-Ndjamena Corridors.	50	2020	AfDB /ADF	
5. Transport Sector Support Project Phase 3: Multinational Congo-Gabon-Development of the Nzambi-Gabon Border road (92 km); Multinational Angola-Congo-DRC: Development of the Dolisie-Kimongo (Angola Border) - Londéla Kayes-DRC Border road (130 km) and the Etoumbi-Kelle-Gabon Border road (181 km)	250	2021	Not defined	

Note: This loan programme does not take into account private sector operations that could be appraised during the strategy implementation period. It will be implemented gradually, depending on the maturity of operations, and the financial capacity of the country and the Bank.

Annex 4: Indicative Non-Lending Programme for CSP 2018-2022 (in UA million)

Projects	Instruments	Linkage with the High 5s	Year	Administrative Budget	FAPA GRANT	Fiduciary Fund	PPF Fund	ALSF	Total - AfDB Group (in UA million)
Pillar 1: Promote agribusiness value chains									
Study on the development of 7 mini hydropower plants	Study		2020						
Support for the restructuring of the energy sector and energy sector governance practices	Study	Agriculture, industry, quality of life and regional integration	2019						
Pillar 2: Strengthen human capital and governance				-					
Study on the fiscal potential and the mobilisation of domestic resources	Study	Agriculture, industry, quality of life and regional integration	2019						
Update of the gender profile in agriculture and agro-industry	Study	Agriculture, industry, quality of life and regional integration	2020						

Annex 5: Results-Based Framework of the Bank's CSP 2018-2022 for Congo

PND Development Objectives	Constraints hindering the achievement of Outcomes	Outcomes expected at the end of the CSP period (2022)	Outputs at the end of the CSP period (2022)	Outcomes expected at midterm (2020)	Outputs expected at midterm (June 2020)	AfDB Interventions (ongoing and during the CSP)
PILLAR I: PROMOTE AGRIBUSINESS VALUE CHAINS						
Outcome 1: ***Develop agricultural production and agribusiness value chains***						
Ensure self-sufficiency in basic commodities and promote exports of some high value-added products through productive, inclusive and resilient agriculture	High poverty rates in rural areas (75% versus 46.5% at national level) Predominance of low-productivity family-style farming, characterised by small farms of 1.4 ha on average, which is the main source of crop production and does not meet the demand of the domestic market. Heavy imports of food and mostly meat products, worth an estimated CFAF 500 billion/year Lack of agricultural entrepreneurship Poor structuring of the agro-industrial value chain Lack of agricultural sector financing	Reduction of rural poverty rates to 60% Producer income are improved by 30% The environment of the agricultural sector, including institutional capacity and governance, is conducive to the development of a modern, market-oriented agriculture Food crop productivity is improved by at least 50%. The yields of the livestock (poultry), agricultural (plantain, cassava), inland fisheries and aquaculture sectors are improved and the output covers the food needs, thanks to the use of innovative, adapted and resilient techniques and technologies. Consumption needs of staple food crops are fully covered 50-60%% reduction in post-harvest losses for the targeted staple crops 5 000 decent jobs are created through skills development in rural trades and youth agricultural cooperative entrepreneurship.	Reforms are introduced and capacity developed in the areas of management, monitoring and evaluation, and control (agricultural land registration, agricultural insurance, development agencies, fisheries stock assessment, agricultural statistics, rural financing, etc.) Agricultural, livestock and fisheries infrastructure built (at least 1 000 km of rehabilitated and maintained rural roads, 5 border markets, at least 40 warehouses, departmental markets, storage facilities are rehabilitated, 5 research	Rural poverty rate at 70% Producer income are improved by 15% The agricultural sector environment is conducive to the development of value chains The productivity of the livestock (poultry), agricultural (plantain, cassava), inland fisheries and aquaculture sectors improves by 20% and their output covers 60% of the food needs. 20-30%% reduction in post-harvest losses for the targeted staple crops	Reforms are introduced and capacity developed in the areas of management, monitoring and evaluation, and control (agricultural land registration, agricultural insurance, development agencies, fisheries stock assessment, agricultural statistics, rural financing, etc.) 50% of the infrastructure is built 500 ha of agroforestry developed Soil fertility	**Ongoing projects** • Rural Electrification Project in Congo (PERCO) • Investment Climate and Governance Project (PACIGOV) • Skills and Human Resource Development Project (PDCRH) **New Projects** • Agricultural and Livestock Value Chain Development and Resilience Project (poultry, cassava, plantain, savannah agroforestry (cashew and cocoa)). Including youth entrepreneurship, inclusive financing and institutional development and sector governance. • Project for the Development and Resilience of the Inland Fisheries and Aquaculture Value Chains. Including youth entrepreneurship, inclusive financing and institutional development and sector governance • Project for the Rehabilitation and Extension New Agricultural Villages • Agrifood processing areas (at the level of the three special economic zones of Pointe Noire, Ouesso,) **Analytical works and legal assistance** • Feasibility study on the connection of electric power transmission lines • •Update of the gender profile in agriculture and agribusiness • Study on the sustainable industrialisation of the timber sector in the Congo Basin countries, Congo country component

PND Development Objectives	Constraints hindering the achievement of Outcomes	Outcomes expected at the end of the CSP period (2022)	Outputs at the end of the CSP period (2022)	Outcomes expected at midterm (2020)	Outputs expected at midterm (June 2020)	AfDB Interventions (ongoing and during the CSP)
		30% reduction in overall food imports Increase in processed agricultural production Increase in marketed agricultural production The agricultural sector is financed. Agricultural investment increases by 15%	laboratories, foodstuff control laboratories and improved seed/plant production centres are rehabilitated; Social and support infrastructure for women is built. 2 000 ha of community agroforestry (cashew and savannah cocoa farming –is developed Soil fertility management techniques adopted 1 500 young enterprises - 50% of them run by women and generating at least 5 000 jobs - are developed and supported through the incubator or new agricultural village initiative Structuring, capacity building on new technologies and practices and development of cooperative entrepreneurship for the stakeholders of plantain, cassava,	1 000 decent jobs are created through the development of skills in rural trades and youth agricultural cooperative entrepreneurship. Reduction of total food imports by 10% The financing mechanism is developed.	management techniques adopted 500 young people, 50% of them women, are trained in agricultural entrepreneurship Cooperative entrepreneurship is structured and developed The value chain development fund that would develop financial products adapted to the agricultural sector is set up.	

PND Development Objectives	Constraints hindering the achievement of Outcomes	Outcomes expected at the end of the CSP period (2022)	Outputs at the end of the CSP period (2022)	Outcomes expected at midterm (2020)	Outputs expected at midterm (June 2020)	AfDB Interventions (ongoing and during the CSP)
			poultry and inland fisheries subsectors (at least 30% them women) The value chain development fund that would develop financial products adapted to the agricultural sector is functional.			
Outcome 1.2: ***Enhance infrastructure in support of production***						
Enhancement of support and structuring infrastructure	Inadequacy of the power supply and the infrastructure required for power generation, transmission and distribution Poor quality of service, power cuts, Significant transport infrastructure deficit Unreliability of existing transport infrastructure	Improvement of the quality-at-entry of energy projects Improvement of the billing ratio Improved rural access rate 30% increase in the average daily truck traffic (93 vehicles in 2016) on National Road (RN) 9 developed in 2021 The 15 hours trucks took to ply the RN9 in 2016 are reduced by ,,,% following the improvement of this road in 2021	7 feasibility studies conducted Billing ratio 10 000 rural households supplied electricity Bridge built over the Congo River in 2022 Km of ancillary rural roads built in 2022	Procurement of 120 000 electricity meters and customer inventory	The Congo Energy Sector Support Project (PASEC) is adopted in 2019 The Mini Hydropower Plant Construction Project is approved in 2021	**Ongoing Projects** • Ketta-Djoum Road Project Phase 2 • Doulsa-Dolisie Road Project • Rural Electrification rural Project in Congo (PERCO) **New Projects** • Road Infrastructure Development Project (PAIR), Phase II, RN • Economic Competitiveness Support Programme (CAPC) combined with a Partial Credit Guarantee • Bridge-Road-Rail Project

PND Development Objectives	Constraints hindering the achievement of Outcomes	Outcomes expected at the end of the CSP period (2022)	Outputs at the end of the CSP period (2022)	Outcomes expected at midterm (2020)	Outputs expected at midterm (June 2020)	AfDB Interventions (ongoing and during the CSP)
	High average operating cost for vehicles					
PILLAR 2: STRENGTHEN HUMAN CAPITAL AND GOVERNANCE						
Outcome 2.1: Improve the quality of human resources						
Strengthening of high value-added and intensive promising sectors by creating decent and sustainable jobs	Lack of training possibilities in agricultural trades Poor structuring of agricultural and industrial value chains Lack of private investments to support inclusive growth sectors (agriculture and industry)	Increased training possibilities in agricultural trades and agribusiness	Number of agrihubs set up in 2022	Number of agricultural entrepreneurs trained Number of jobs created in the agricultural processing industry (of which...% held by women)		**Ongoing Projects** • Investment Climate and Governance Support Project (PACIGOV) • • Skills and Human Resource Development Project (PDCRH) **New Projects** • Agricultural Value Chain Project • New Agricultural Villages Project (NVA) **Analytical Works** • Gender profile in agriculture and agribusiness • Study of the Integrated Pole Project for Agro-Industrial Growth in the South • Technical support for governance and the promotion of the blue economy
Pillar 2 - .2: Build Governance Capacity						
Strengthening of sector governance for the efficiency and sustainability of structuring investments	The credibility of the budget is relatively low in view of the discrepancies between the budgeted expenditure and revenue and achievements, and a situation of over-indebtedness					**Ongoing Projects** • Investment Climate and Governance Support Project (PACIGOV) • CAB-Congo Project (Phase 1) **New Project** • Economic Reform Support Programme (PAREF)

PND Development Objectives	Constraints hindering the achievement of Outcomes	Outcomes expected at the end of the CSP period (2022)	Outputs at the end of the CSP period (2022)	Outcomes expected at midterm (2020)	Outputs expected at midterm (June 2020)	AfDB Interventions (ongoing and during the CSP)
Strengthening of the quality and performance of public services	Fiscal transparency is affected by weak internal and external control systems Weakness in public financial management and domestic revenue mobilisation Low management capacity of the electricity sector Business environment not conducive to the development of very small, small and medium-sized enterprises Poor national connectivity in localities in the hinterland of the country Lack of digital media for communication between the administrative services, individuals and enterprises	Modernise revenue services and budget resources collection procedures The Rural Electrification Master Plan is operational Highly reduced cost of access to digital services in areas with little or no access by private operators Number of dematerialised administrative procedures Financial transactions flows between various economic agents are largely dematerialised	Mobilisation of non-oil revenue is increased by Plan for the development of a Rural electrification Master Plan The power generation, transmission and distribution infrastructure of the SEEC is upgraded Communication infrastructure in place in 1 000 towns / villages in the hinterland of the country thanks to the availability of various adapted technologies (2 G, 3 G, LTE, WiMax) Enhanced e-	The technical and commercial performance of SEEC has improved Increase of the connected communities by at least 1 000 towns / villages Quick wins (easily achievable procedures with the greatest impact) adopted and in use	The Rural Electrification Master Plan is developed Infrastructure in place in these 1 000 towns / villages 500 additional services developed and set up	• Energy Sector Support Project in Congo (PASEC) • Agricultural Value Chain Project • New Agricultural Villages Project (NVA) • CAB-Congo Project (Phase 2) **Analytical Works** • Feasibility studies on priority projects in the energy sector. Study on fiscal potential and domestic resource mobilisation

PND Development Objectives	Constraints hindering the achievement of Outcomes	Outcomes expected at the end of the CSP period (2022)	Outputs at the end of the CSP period (2022)	Outcomes expected at midterm (2020)	Outputs expected at midterm (June 2020)	AfDB Interventions (ongoing and during the CSP)
	Lack of interoperable digital facilities for financial transactions between the administrative services, individuals and enterprises		services platform Digital financial services platform in place and extended to all national financial transactions	Drastic decrease in paper money in circulation	Digital payments of all salaries, pensions and other State subsidies	

Annex 6: 2016/2017 Country Portfolio Performance Improvement Plan

Problems Identified	Measures Planned	Monitoring Indicators	Responsibility for Implementing Measures	Timelines/Frequency
Contract Awards				
Lack of familiarity with the Bank's rules and procedures by Parliament and PIUs	Organise awareness seminars for members of Parliament on the Bank's procedures and operations.	At least 1 sensitisation seminar organised	AfDB (RDGC/ECAD)/ MPSIR	March 2017 Not achieved
	Organise training workshops or fiduciary clinics for PIU staff on Bank rules and procedures.	At least 2 fiduciary clinics or continuing education workshops for PRC staff organised	AfDB (SNFI/ ECAD/ RDGC)	June 2017 Not achieved
	Strengthen AfDB's assistance to PIUs to prepare dossiers and speed up the processing of requests for no-objection approvals.	Average procurement processing time reduced to two weeks	SNFI (COCD/ Regional)	Continuing
Failure to use procurement plans (PP) as real working tools	Ensure the systematic development and updating of the PP, as well as their mandatory use as procurement cycle management tools.	All projects have a validated procurement plan for 2017	PIU	February 2017 Achieved
	Based on the PP, set up a close monitoring system for procurement and contract execution activities at the level of the PIUs.	100% of projects regularly monitor their PP	SNFI /PIU	Continuing
Failure to use national public procurement system.	Regarding the effectiveness of the Bank's Public Procurement Policies, initiate a country system review with a view to finalising the draft Congo Procurement System Evaluation Report.	Congo Country System Assessment Report has been approved	AfDB / SNFI / ARMP	December 2017 Not achieved
Financial Management				
Project Quality at Entry	Establish the financial management system before project start-up.	100% of new projects have a financial management system before the first disbursement or latest before the start of works.	PIU	Continuing
	Ensure that new projects are subject to sound cost analysis at the appraisal phase.	At least 50% of new projects were prepared using PRI grants or the state budget. The detailed studies are available.	MPSIR	Continuing
Slow disbursement processing	Shorten disbursement request processing timeframes.	Average processing timeframe for disbursement requests less than or equal to 15 business days	PIU/FIFC/COCD	Continuing

Problems Identified	Measures Planned	Monitoring Indicators	Responsibility for Implementing Measures	Timelines/Frequency
	Establish a mechanism to monitor the need for and disbursement of counterpart funds.	100% disbursement rate of counterpart funds in relation to the schedule of each project.	MPSIR	Continuing
Delays in audits	Ensure timely recruitment of auditors.	100% of projects submit their audit report for the financial year 2015 no later than 31 December 2016.	SNFI/PIU	31 December 2016 Achieved
	Ensure orderly financial closure of projects.	At least 100% of projects closed in 2016 submit their final audit report latest by 30 June 2017.	SNFI/PIU	June 2017 Achieved
Weak follow-up of audit recommendations	Hold follow-up meetings on audit report recommendations and strengthen the role of internal audit in following up audit recommendations.	At least 75% of audit recommendations are implemented.	SNFI/PIU	Continuing
Project monitoring				
Slippage on project start-up	Accelerate the start-up of new projects.	All new loans are declared effective for first disbursement no later than 6 months after approval.	MPSIR / AfDB	Continuing
	Ensure sites are available for all new projects prior to AfDB funding approval.	Number of projects with start-up delays due to unavailability of locations.	Government	Continuing
Weakness in project monitoring and supervision	Strengthen supervision missions by at least two per year for projects in difficulty.	All projects (100% of) are supervised at least twice a year.	AfDB (sector depts.)	Immediate and Continuing Achieved
	Establish an institutional framework for regular systematic monitoring of AfDB-financed projects.	An institutional framework created at MPSIR for project monitoring.	MPSIR	31 December 2017 Not achieved
	Organise half-yearly and annual project monitoring meetings	2 half-yearly portfolio monitoring meetings organised in 2017	MPSIR/AfDB (RDGC/COCD)/ PIU	31 December 2017 Partly achieved
	Make an inventory of the legislative texts to be approved and/or ratified as well as those of the committees currently being established and transmit them to MPSIR and the Bank.	Inventory of pending texts and committees carried out and transmitted to MPSIR and the Bank (ORCE) The Focal point has been designated and is operational.	PIU Coordinators MPSIR/AfDB (RDGC)	31 March 2017 Not achieved

Annex 7: Country Portfolio Performance Improvement Plan 2018-2019

Performance Criteria	Problems Encountered	Action Required	Expected Outcomes	Entity Responsible for the Implementation	Implementation Deadline
Procurement	Poor knowledge of the Bank's rules and procedures on the part of the Parliament and the PIU	Organise awareness seminars for parliamentarians on Bank procedures and operations	At least 1 awareness seminar organised	AfDB (RDGC/ECAD)/ MPSIR	March 2019
		Organise training workshops or fiduciary clinics for PIU staff on Bank rules and procedures	At least 2 fiduciary clinics or continuing education workshops for PIU staff organised	AfDB (SNFI/ ECAD / RDGC)	November 2018
		Enhance AfDB assistance to PIUs in the preparation of files and speed up the processing of requests for no-objection notification	Average procurement processing timeframe reduced to two weeks	SNFI (LICG/ Regional)	Immediately
	Failure to procurement plans (PP) as real working tools	Ensure the systematic development and update of procurement plans, as well as their mandatory use, as a management tool for the procurement cycle	All projects have a validated procurement plan for 2017	PIU	June 2018
		Based on the procurement plans, set up at the level of PIUs a system for closely monitoring contracting and procurement activities.	All projects (100%) monitor their procurement plans on a regular basis	SNFI /PIU	Ongoing
Financial Management	Project quality-at-entry	Set up the financial management system prior to the start-up of projects	All new projects (100%) have a financial management system prior to the first disbursement or at the latest prior to the start-up of works	PIU	Ongoing
		Ensure that new projects are subject to thorough cost analysis during the appraisal phase	At least 50% of new projects were prepared using MIC grants or the State budget. Detailed studies are available	MPSIR / AfDB	Ongoing
	Delays in the processing of disbursements	Improve the timeframes for processing disbursement requests	Average timeframe for the processing of disbursement requests less than or equal to 15 working days	PIU/FIFC/ LICGLICG	Ongoing

Performance Criteria	Problems Encountered	Action Required	Expected Outcomes	Entity Responsible for the Implementation	Implementation Deadline
		Set up a mechanism for monitoring the needs and the disbursements of counterpart funding	The Government undertakes to apply for restructuring in respect of projects affected by the non-release of counterpart funding.	MPSIR	Immediately
	Audit delays	Ensure the timely recruitment of auditors	All projects (100%) submit their audit report for fiscal 2019 no later than 31 December 2018. All projects closed in 2017 submit their final audit report no later than 30 June 2018	SNFI/PIU	31 December 2018
	Weakness in monitoring the implementation of audit recommendations	Organise meetings for monitoring the implementation of audit report recommendations and strengthen the role of internal audit in monitoring the implementation of audit report recommendations	At least 75% of audit recommendations are implemented.	SNFI/PIU	Ongoing
Project Monitoring and Implementation	Weakness in project monitoring and supervision	Speed up the effectiveness of new projects	The first disbursement of all new loans are declared effective no later than 6 months after the approval of the loans	MPSIR / AfDB	Ongoing
		Ensure that sites are available for all new projects prior to Bank approval of financing	Number of projects experiencing start-up delays due to unavailability of sites	Government	Ongoing
		Step up project supervision missions to at least twice a year	All projects (100%) are supervised at least twice a year	AfDB (Sector Depts.)	Immediately and ongoing
	Delays in the loan/grant ratification and contact signing process	Establish a formal framework for the regular and systematic monitoring of AfDB-financed projects	Build the capacity of the institutional framework set up at MPSIR for project monitoring	MPSIR	31 December 2018

Annex 8: Congo – Areas of Intervention of Key Technical and Financial Partners

Congo's Partners	Focus Areas of Congo's Development Partners							
	Infrastructure	Rural Development	Environment	Private Sector	Governance	Education	Santé	solidarity
IMF					x			
World Bank	x	x	x	x	x	x	x	x
European Union	x	x	x		x	x	x	
United Nations		x	x		x	x	x	x
United States		x			x	x	x	
African Development Bank Group	x	x	x	x	x	x		
IFAD		x	x					
AFD (France)	x	x	x	x	x	x		
Global Alliance for Vaccines and Immunisation							x	
Germany (GIZ)	x	x			x			
GFATM (Global Fund to Fight Aids, Tuberculosis and Malaria)							x	
JICA	x	x			x	x		
China	x	x	x	x	x	x	x	x

Annex 9 : Situation of the Bank's Portfolio in Congo as at 30 September 2018

No.	Division	Sector	SAP Code Project	Project Name	Approval Date	Signature	Effectiveness	Effectiveness of 1st Disb.	Closing Date	Amount (UA m)	Balance (UA m)	% Disb.	Age
NATIONAL PROJECTS										**76.2**	**72.6**	**4.72%**	**3.8**
1	PITD3	Commun.	P-CG-GB0-002	Central Africa Backbone (CAB) Project – Congo Component- **ADF LOAN**	18-May-16	25- May-16	4-Jan.-17	4-Jan.-17	30-Jun.-21	43.1	42.5	1.6%	2.4
2	RDGC1	Energy	P-CG-FA0-001	Rural Electrification Project in Congo (PERCO) - **ADF LOAN**	6-Dec.-12	5-Apr.-13	22-Sept.-14	22-Sept.-14	30-Dec-19	10.0	7.8	22.0%	5.8
3	RDGC2	Social	P-CG-IAE-001	Skills and Human Resource Development Project (PDCRH) - **ADF LOAN**	18-Dec.-14	14-Sept.-15	23-Aug.-16	23-Aug.-16	31-Dec-20	7.3	7.0	4.1%	3.8
4	RDGC4	Multi-Sector	P-CG-KZ0-001	Investment Climate and Governance Support Project (PACIGOV) - **AfDB LOAN**	1-July-15	23-Dec.-15	27-Jan.-17	27-Jan.-17	31-Dec-20	15.8	15.3	2.9%	3.3
MULTINATIONAL PROJECTS										**131.8**	**86**	**35%**	**3.9**
5	RDGC1	Transport	P-Z1-DB0-088	Congo: Ndende-Dolisie Road and Transport Facilitation Project - **ADF LOAN**	18- Dec.-13	19-Feb.-14	22-Jun-15	22-June-15	30-Jun.-19	30.5	22.8	25.1%	4.8
6	RDGC1	Transport	P-Z1-DB0-167	Congo: Ketta-Djoum Road Construction Phase II - **ADF LOAN**	21-Oct.-15	17-Dec.-15	11-janv.-17	11-Jan.-17	31-Dec-20	101.3	63.2	37.6%	3.0
TOTAL										**208.0**	**158.6**	**23.7%**	**3.8**

Annex 10: Rating of Supervised Projects According to the EER Rating System (Implementation Progress and Outcomes – PRI system)

Project Name	IMPLEMENTATION PROGRESS (IP)				DEVELOPMENT OBJECTIVE (DO)			Overall Score out of 4	Status
	Compliance with the clauses	Project system and procedures	Project implementation and financing	IP	Progress towards RBLF Outputs	Progress towards RBLF Outcomes	DO		
RURAL ELECTRIFICATION PROJECT	4	3	2.33	**3.1**	3	3	**3**	**3.1**	**NPPP**
SKILLS AND HUMAN RESOURCE DEVELOPMENT PROJECT	4	3	2.33	**3.1**	3	3	**3**	**3.1**	**NPPP**
INVESTMENT CLIMATE AND FOREST GOVERNANCE SUPPORT PROJECT	4	3	3	**3.3**	3	3	**3**	**3.2**	**NPPP**
Average	4	**3.00**	**2.55**	**3.2**	**3**	**3**	**3**	**3.1**	

Legend of EER System (Rating scale of 1 to 4)

- Highly satisfactory performance (3.5 to 4)
- Satisfactory performance (2.5 to 3.49)
- Unsatisfactory performance (1.5 to 2.49)
- Highly unsatisfactory performance (1 to 1.49)

Annex 11: Congo - Agricultural Sector Overview

Agricultural and Rural Sector

1. Constraints and Challenges

For Congo's agricultural, silvicultural, pastoral and fisheries sector to pull its full weight in the country's economic diversification, finding appropriate solutions to the constraints on this sector's performance will be essential. Such constraints include:

- The prevalent social insecurity and extremely high monetary poverty rate in rural areas (75% against 46.5% at national level (UNDP, 2015), leading to rural-urban migration. Roughly 64% of Congolese population are urban dwellers and youth underemployment is particularly rife;

- The predominance of low-yielding family farms (230,000 workers for 145,000 smallholdings averaging 1.4 ha) constituting the leading crop production source and thus failing to meet domestic market demand. Food imports, principally meat products, are estimated at CFAF 500 billion/year.

- Huge agricultural sector financing needs in a context of public resource and private investment scarcity.

To remove these constraints, the Congolese Government has drawn up a National Agricultural Development Plan (PNDA) 2018-2022, estimated at CFAF 1000 billion. The PNDA aims to address the following key challenges:

- Cover the food and nutritional needs of the populace
- Increase agricultural, livestock, and fisheries productivity through smallholder involvement in modernisation and through agro-industries
- Improve competitiveness of production chains
- Improve the production environment through accompanying measures
- Increase producer (farmers, breeders, fishermen and fish farmers) income
- Create sustainable jobs for the youth
- Promote environmentally friendly production methods and natural resource management
- Facilitate the integration into the market economy of agro-pastoral and fishery producers
- Raise agricultural training and research quality to match production and labour market needs
- Increase the participation of vulnerable groups and communities through dedicated programmes
- Stimulate inter-ministerial coordination and public-private partnership on the agricultural and rural sector
- Monitor policy measures taken to create an enabling environment

Forestry Sub-Sector

Forest resources are absolutely vital for the livelihoods of rural Congolese communities, providing them with the bulk of fuelwood, lumber, but also food resources, foremost among which are non-timber forest products from hunting and gathering in a socio-economic context marked by predominant poverty.

Furthermore, the production and consumption of wood fuel, the country's principal domestic energy source for cooking (nearly 85% of households) (CN-REDD, 2014), feature among the leading direct causes of deforestation and degradation of Congo's forest resources, with no sustainable management and formalisation of the sector. However, fuelwood also represents a major and essential income source for rural households that are adjacent to major roadways or waterways, and which supply large urban markets, such as Brazzaville, Pointe Noire and Ouesso.

The fuelwood needs in the supply basin (Brazzaville, Pool and Plateaux), was estimated at 969,196 tonnes in 2014, and could increase to 1,230,878 tonnes in 2023[2], thus covering 35.09% of needs by that time. The current methods of harvesting forest resources for the various supply chains (uncontrolled, mismanaged), processing (low-yielding traditional carbonisation), and use as fuelwood (with improved stoves, which remains negligible) represents a constraint on sustainable development objectives advocated by the Republic of Congo, as reflected in particular by its National REDD + Strategy.

The sustainable fuelwood supply to the Brazzaville urban basin is among the priority environmental and socio-economic issues to which the National REDD + Strategy is seeking a pragmatic and efficient response through its Strategic Option 4: Rationalization of fuelwood production and use, and promotion of other clean energy sources. To address this major challenge, the proposed investment strategy is based on three broad, complementary and objectively measurable goals: increasing national carbon sequestration capacity and reducing GHG emissions; embarking on the development of an innovative value chain for sustainable fuelwood supply to the Brazzaville urban basin; and improving the resilience of rural dwellers in the supply area through income diversification.

2. Agricultural Sector Opportunities

Congo's agricultural and rural sector belongs to an exceptionally biodiversity-rich environment offering highly favourable conditions for the development of agriculture, livestock, fishing and aquaculture. Agricultural land covers ten million hectares, freshwater resources (surface and groundwater) are estimated at 1,588 billion m3 per year, giving a potential per capita of 88,196 m3/year. Despite this potential, food imports stand at around CFAF 500 billion / year. Crop production is derived mainly from family farming with 230,000 workers for 145,000 smallholdings averaging 1.4 ha. The annual cultivated area measures roughly 400,000 ha taking into account the possibility of two cropping seasons in virtually every administrative district (*département).* Food crops occupy 75% of cultivated areas and women represent 70% of the agricultural labour force.

Under the National Development Plan (PND 2018-2022) being developed, agriculture constitutes a strategic economic diversification thrust, in view of its ability to contribute to economic growth and job creation. Congo's youth, who represent 65% of the population, constitute a potential asset for the country if trained with a view to generating a demographic dividend. Otherwise, this same youth, struggling with unemployment, underemployment and idleness can become a serious threat to social cohesion, political stability and peace. According to the survey on transition to working life (ETVA) conducted in 2015 by the Directorate General of Skills Training and Employment (DGFQE) with the technical support of the National Institute of Statistics (INS) and the ILO, the unemployment rate for youth aged 15 to 29 is 30.5%; the percentage of long-term youth unemployment is 31% (unemployment duration of over two years). The unemployment rate for technical and vocational education graduates is 48.8% and 33.1%, respectively.

1. What policies are adopted by the countries and RECs in this sector and what results have been obtained in implementing this policy over the last five years? In the wake of the PND, Congo drew up its agricultural sector strategy, through the National Agricultural Development Plan (PNDA) 2018-2022, estimated at nearly CFAF1,000 billion, to make a substantial contribution to the creation of sustainable jobs, food and nutritional security and poverty reduction. It is about rationally exploiting the existing potentialities, by relying on competitive and sustainable production, modernising family farms and promoting commercial agriculture to reverse the large trade balance deficit in agricultural products.

[2] Data sheets on carbon stocks and avoided emissions of forest plantations, (CN-REDD, 2017)

The PNDA is consistent with the National Agricultural Investment and Food and Nutrition Security Programme (PNIASAN) 2017-2021, with focus on the following programmes: agriculture and livestock development; fisheries and aquaculture development; support for forest resources value addition; improved access to land and financing; strengthening of agricultural research and dissemination of innovations; improving the food and nutrition status; building national operational capacity. PNIASAN is consistent with the Comprehensive Africa Agriculture Development Programme (CAADP) of the New African Partnership for Development (NEPAD). The CAADP pillars are: extension of land under sustainable land management and reliable water control systems; improvement of rural infrastructure and commercial market capacity; increasing food supply, reducing famine and improving emergency responses to food crises; forestry, livestock, fishery resources, gender and climate change. PNIASAN is consistent with the Common Agricultural Policy (CAP) and the ECCAS Regional Agricultural Investment Programme on Food Security and Nutrition.

2. What operations are scheduled for implementation in the sector during the period 2018-2022?

INDICATIVE LENDING PROGRAMME				
Sectors/Indicative Operations (Projects and Programmes)				
	UA Million	**Year**	**Source of Financing**	**Co-financier**
Pillar : Promoting agro-industrial value chains				
Agriculture (*Feed Africa*)				
1. Agricultural and Livestock Value Chain Development and Resilience Project (Poultry, cassava, plantain, savannah agroforestry (cashew and cocoa). Including youth entrepreneurship, inclusive financing and institutional development and sector governance	100	2019	AfDB	Green Fund Other financing to be sourced (WB, IFAD, JICA, GIZ, Arab Funds, USAID)
2. Development and Resilience Project for Continental Fisheries and Aquaculture Value Chains. Including youth entrepreneurship, inclusive financing and institutional development and sector governance	50	2020	AfDB/Green Fund	Green Fund Other financing to be sourced (WB, IFAD, JICA, GIZ, Arab Funds, USAID)
3. New Agricultural Villages Rehabilitation and Extension Project	50	2021	AfDB	
4. Agrifood processing areas (in the three special economic zones of Pointe Noire, Ouesso and ....)	90	2022	AfDB	Private Sector
5. Ecosystems Conservation Support Programme - Congo Basin (PADIB-BC)	40	2019	AfDB	Green Funds
6. Support Programme for the Integrated Development of the Wood Sector in the Congo Basin (PADIB-BC)	150	2020	ADF	Green Funds

3. Expected Outcomes

- Agriculture, livestock, fisheries and agro-forestry sector

  - Development of agricultural competitiveness supportive infrastructure: irrigation, energy, roads, food quality control laboratories, soil research and control laboratories, slaughterhouses, livestock loading ramps, commercial infrastructure, storage, multi-service platform and social infrastructure;

  - Supporting the dissemination of research results with the Technologies for African Agricultural Transformation (TAAT) programme to promote high-yielding and resilient varieties;

  - Technical capacitation and development of producer organisations through the creation of business cooperatives having business plans; intermediation with service providers for the supply of inputs, and for processing, marketing and financing;

  - Promoting new information and communication technologies for the distribution of inputs and the dissemination of information to producers, such as the "e-registration farmers" platform in Nigeria;

  - Promoting resilience and the green economy with community agroforestry, ecosystem restoration, and improved stoves among others.

- Governance and capacity building of institutional actors

  - Steering and monitoring/evaluation of the requisite reforms for PNDA implementation;

  - Monitoring and control of legality;

  - Establishment of development agencies to promote the transformation of traditional non-productive agriculture to a modern, market-oriented agriculture, through advisory support to small producers on all agricultural, silvicultural, pastoral and fisheries value chains;

  - Promoting an enabling environment to attract private investment to the agriculture sector, by addressing land tenure security issues, putting in place public-private partnerships suited to the agricultural sector and introducing incentives to facilitate the establishment of a plant for the production of fertilisers and other inputs; suppliers of inputs, packaging;

  - The need to promote agrifood processing zones: preparation of a master plan for the development of agrifood processing zones;

  - Establishment of financing mechanisms suited to small producers, SMEs, and young agricultural entrepreneurs: financial products for the refinancing of financial institutions and guarantees. Need to capitalise ongoing experiences in some countries including Cameroon, and Nigeria with the Incentive Risk Sharing Agriculture Lending (NIRSAL);

  - Organisation of investors' forums for the mobilisation of funds, to provide PNDA's financing needs;

  - Financing of study trips; Training of Trainers Programme;

- Promoting Youth Entrepreneurship

    - Rehabilitate and extend the initiatives of the two Songhai centres (Luvaku and Otsendé) and the two new agricultural villages (Invuba and Nkau);

    - Promote an enabling environment for the creation and support of more than 5,000 youth-run enterprises by including the incubation process in the vocational training curriculum.

Annex 12: Country Fiduciary Risk Assessment (CFRA)

Country fiduciary risk level	Substantial

A. Introduction

The key objective of the Country Fiduciary Risk Assessment (CFRA) is to conduct a fiduciary risk assessment of each sub-system of a country's public financial management to propose measures and a plan of action to mitigate identified risks, thus enabling the full or partial use of Public Financial Management (PFM) subsystems in implementing Bank Group-financed operations. This assessment relates to the procurement sub-system.

The assessment was conducted in May 2018 and was based on the most recent diagnostic reports including the Memorandum on the conditions of implementation of ARMP activities funded by the Public Sector Integrated Reforms Project (ARMP, September 2017), which is the self-assessment report of the public procurement system (ARMP, January 2016); the Public Expenditure Management and Financial Accountability Review (PEMFAR) prepared by the World Bank in May 2015, the Public Financial Management Performance Measurement Framework (PEFA Framework) financed by the European Union in June 2014, the assessment of national procurement procedures in the context of national competitive bidding (AfDB, June 2012), the Public Finance Management Performance Measurement Framework in the Republic of Congo according to the June 2014 PEFA methodology, the September 2018 report of the International Fund (IMF) on monitoring and updating reforms on budget execution and control, and the IMF report on Governance and Corruption in the Republic of Congo. It also drew from the conclusions of working sessions with the Directorates of the Ministry of Finance and Budget (MFB), the Adviser on Budget in the MFB Cabinet, the Court of Auditors and Budgetary Discipline (CCDB) and the National Anti-Corruption Commission. Furthermore, it is underpinned by the conclusions of the working sessions held with some Directorates of the Ministry of Planning, the Public Procurement Regulatory Authority (ARMP), the Directorate General of Public Procurement Control (DGCMP), the Directorate General of Public Accounts, the Budget Directorate, the Autonomous Sinking Fund, the Anti-Corruption Observatory, the Inspectorate General of Finance, the Court of Auditors, the National Commission to Combat Corruption and Extortion, and partners like the World Bank.

It also drew on the conclusions of the working sessions with the Public Procurement Regulatory Authority (ARMP), the General Directorate of Public Procurement Control (DGCMP), the General Directorate of Public Accounts, the Budget Directorate, Autonomous Sinking Fund, the General Inspectorate of Finance, the Audit Office, the Anti-Corruption Observatory and the National Commission Against Corruption, Fraud and Bribery and partners such as the World Bank.

B. Executive Summary

Following the adoption of the six CEMAC Directives on public finance management in December 2011, Congo has undertaken reforms as part of the implementation of a new legal and institutional framework for public finance management. A new Constitution was adopted by referendum on 25 October 2015. Moreover, Act No. 10-2017 of 9 March 2017 on a public finance management transparency and accountability code, and Organic Act No. 36-2017 of 3 October 2017 on the Appropriations Act (LOLF) were also adopted and promulgated. In 2018, the other four CEMAC Directives were transposed through the publication of the following decrees, thus stabilising the new PFM legal framework: Decree 2018-67 on the general regulation of public accounting, Decree 2018-68 on the State accounting plan (PCE), Decree 2018-69 on the State budgetary nomenclature (NBE), and Decree 2018-70 on the State financial transactions table (TOFE). The Government is determined to put a PFM in place that meets international standards, characterised by transparent public finance management and good governance, and to finalise the transposition of the CEMAC directives and the ongoing procurement and development of an Integrated Public Finance Management System (SIGFIP), whose mission is to automate the entire State expenditure and revenue chain. However, these efforts have yet to produce the expected results in view of the lack of an overall vision of the strategic reform plan being developed within the MFB, and delays in finalising and publishing the decree establishing, organising and operating the Public Finance Reform Committee. PEFA 2014 identifies weaknesses in Congo's PFM, including: (i) the recurrent non-compliance with the credit limits authorised by the Appropriations Act, as well as the distribution of these credits among the various ministries and institutions; (ii) the lack of control over cash flows that leads, despite budget surpluses, to arrears accumulation risks; (iii) poor transparency in view of the virtual absence of dissemination of budgetary information and access to data (systematically subject to authorisation by top hierarchy); (iv) recourse to exceptional procedures authorising the execution of expenditure without prior commitments, in particular for investment expenditure; (v) delays in the reorganisation and integration of IT systems (ASYCUDA, SYSTAF, SYGADE, SIDERE, etc.); and(vi) weak capacity of internal and external oversight bodies. To date, the organic law on the organisation and functioning of the CCDB has not yet been adopted and promulgated – a situation that does not allow the CCDB to fully exercise its functions and responsibilities. Setting up the single treasury account has also been slow and inadequate. The new SIGFIP project is ambitious and does not provide a linkage with the SIDERE system in use.

Regarding public procurement, Congo underwent a reform process that began with an interim CPIP assessment conducted by the World Bank in collaboration with the government in June 2006. The CPIP assessment concluded that the national procurement system is extremely weak and does not meet OECD-DAC standards. Since then, Congo has made considerable progress with the implementation of the CPIP Action Plan, which has yielded tangible results. Currently, and according to PEMFAR 2015, the quality of Congo's public procurement system is rated 51.3 per cent satisfactory, slightly above the OECD-DAC scale, which is a substantial improvement compared to 2006. The country has a public procurement code approved by Decree No. 2009-156 of 20 May 2009 and its implementing regulations. The Code underscores transparency and competition; it is accompanied by a modern legal and regulatory framework and the establishment of procurement bodies, namely the Public Procurement Regulatory Authority (ARMP), the General Directorate of Public Procurement Control (DGCMP) and the Public Procurement Management Units (CGMP). Since the promulgation of the new Code, significant progress has been achieved particularly in curbing misuse of the direct contracting method and decentralisation characterised by a separation of powers of contracting parties and regulation of the public procurement system. Additionally, the Bank's 2012 assessment of national procedures recommended that country procurement procedures be used in national competitive bidding for Bank-financed projects.

To date, the procurement system in the Republic of Congo remains characterised by the following chronic deficiencies: (i) a legal and regulatory framework fraught with barriers to participation, requiring greater transparency as to the description of some conditions affected by ill-defined concepts so as to avoid wrongful interpretations, and which remains unclear about the context of use of some procurement methods; (ii) an institutional framework facing management capacity challenges; (iii) procurement practices revealing major gaps that significantly affect the transparency, efficiency and credibility of the system; and (iv) the system’s integrity that remains plagued by inadequate implementation of public procurement auditing operations and enforcement of effective anti-corruption fight.

C. Assessment of procurement risks and mitigation measures

The methodology used for assessing fiduciary risk as it relates to procurement is that recommended by the Bank. It derives from the OECD/DAC Methodology (MAPS) modified by the Bank and adapted to its operational context. The Bank's Methodology (Customised MAPS) is based on a qualitative assessment of 21 indicators selected (out of 54 in the original tool) as critical (essential) from the Bank's perspective. These 21 sub-indicators are distributed under Pillars 1, 2, 3 and 4 of the MAPS methodology developed by the OECD/DAC. The assessment was conducted using the legal documents constituting the legal and regulatory framework, the Diagnostic Studies available [3]on the one hand, and information drawn from interviews with some public procurement sector actors, on the other. The results and conclusion of the assessment are presented below.

[3] ***Public Financial Management Performance Measurement Framework in the Republic of Congo, financed by the European Union in June 2014***

Detailed Analysis of Risk Factors of Congo's Procurement System

The country fiduciary risk assessment (CFRA) for the procurement sub-component concluded that the risk level was considered substantial for a variety of reasons, including the lack of competence of institutional actors, the control environment and the quality of the redress mechanism. This situation is corroborated by the conclusions of the PEFA report (ADE, European Union Financing of June 2014) which, despite noting a substantial improvement in the legal and regulatory framework of the national public procurement system, assigns the D + rating (the lowest) to the assessment of the PEFA PI-19 public procurement indicator.

This situation is also reported by PEMFAR[4], which awards an overall score of 1.54/3 to the National Procurement System (SNPM) after assessing the four pillars of the MAPS methodology.

Within the CFRA context, the regulatory framework, the institutional environment, the management practices and the integrity of the Congolese government procurement system were analysed in light of the 21 sub-indicators deemed critical by the Bank ("Critical Indicators") by identifying areas of concern and their impact. The results of the assessment summarised according to the pillars of the OECD/DAC MAPS methodology are as follows:

Pillar I (Moderate) Legal and regulatory framework for public procurement - The legal and regulatory framework for public procurement is well structured and codified, promotes fairness and competition with open bidding established as a default procurement method, is broad in scope and applies to all public entities. In 2009, Congo adopted a new public procurement code by Decree No. 156-2009 of 20 May 2009 and modern implementing legislation[5]. This public procurement code ("CMP") applies to all contracts for goods, works, ordinary services and intellectual services financed from resources of the State, local authorities as well as their public establishments, their joint stock companies with public majority shares, and their agencies and offices, with the exception of those relating to defence, security and the strategic interests of the State[6]. It incorporates most of the internationally accepted principles and pursuant to provisions of Article 53, imposes no particular barrier to the participation of a bidder in a bid where it has technical and financial capacity. However, this desire of the CMP is contradicted by a regulatory provision contained in the Works BD, notably Article 53.1 of the General Terms and Conditions of the Contract (CCAG), which excludes foreign bidders with the exception of CEMAC bidders from bidding for contracts financed by the national budget. To obtain the best possible prices, the CMP prohibits contract splitting that is punishable (Article 147 of the CMP) and makes open bidding the default procurement method for goods and works procurement (Article 28-4 of the CMP). To adapt to all situations, the CMP offers the possibility of using other procurement methods (for goods and works), defining the prerequisites for their use[7]. However, the CMP considers their use as an exception that should be authorised by the DGCMP. The CMP recommends a wide publication[8] of business opportunities, ensures an adequate minimum bid preparation period[9] and imposes the use of standardised BDs (those available were published in 2011/2012) that must contain objective preset evaluation criteria. The bid opening arrangements provided for in the legal and regulatory framework are acceptable overall, although improvements are needed to enhance the transparency of all processes. For reasons of transparency, the CMP requires the publication of the

4 PEMFAR : Public Expenditure Management and Financial Accountability Review , World Bank, May 2015

5 -Decree No. 2009 – 157 of 20 May 2009 on the duties, organisation and functioning of the Public procurement Regulatory Agency (ARMP)
- Decree No. 2009 - 158 of 20 May 2009 reorganising the General Delegation for Major Projects;
- Decree No. 2009 -159 of 20 May 2009 on the duties, organisation and functioning of the General Directorate of Public procurement Audit;
- Decree No 2009 - 160 of 20 May 2009 laying down the procedures for the approval of public procurement;
- Decree No. 2009 - 161 of 20 May 2009 on the organisation and functioning of the Public Procurement Management Unit;

6 Sections 75 and 76 of the *CMP*

7 The situation is not the same for the intellectual services for which the conditions of use and the methods of selection of consultants are not defined.

8 However, it would be better if CMP specified the required publication media

9 This period is 30 days (Section 47 of the *CMP*) and can be reduced to 20 days in case of emergency authorised by the General Directorate of the Public procurement Code

results of any competitive bidding (Article 97) and provides redress opportunities to any bidder feeling aggrieved in the course of a competitive bidding (Art. 141). Overall, the legislative and regulatory framework for the public procurement is coherent, structured and in line with international best practice. However, its implementation poses several major problems (see Pillar III) relating more to practise than the instruments per se.

The weaknesses identified under Pillar I may be summarised as follows: Despite the aforementioned significant strides introduced by the 2009 reform, there are lingering weaknesses in the current legislative and regulatory framework, namely: (i) barriers to bidding by foreign bidders outside CEMAC and/or CEMAC bidders not registered in the trade register of Congo; (ii) lack of an instrument clearly defining "strategic interest contracts" (which form part of the special contracts procurable through direct contracting), resulting in their wrongful use by stakeholders; (iii) lack of requisite supervision of the participation of public enterprises in the competitive bidding to ensure fairness to all bidders; (iv) non-indication of situations requiring pre-qualification; (v) non-specification of the mandatory advertising media; (vi) possibility of bid opening (goods and works) at a date other than that fixed as bids submission deadline where this may fall on a non-working day [10](Article 59 of the CMP); (vii) non-requirement of a public opening of the technical proposals of the consultants; (viii) absence of conditions for the use of consultant selection methods.[11]

In light of the foregoing and the impact of the risks involved, **the risk level for the aspects covered by Pillar I is deemed moderate.**

<u>Pillar II: Institutional Framework and Management Capacity</u> – **At the institutional level, the current code establishes a separation between the executive functions of procurement and control and regulation.** Accordingly, while ARMP is responsible for regulating the system, DGCMP is in charge of pre-auditing the procurement operations implemented by the CGMP set up within the contracting authorities. Although operationalising several public procurement institutions has suffered major difficulties and delays, the institutional framework of the code is largely implemented. This institutional framework in place is in line with the principles of separation of tasks advocated at the international level given that an institution may have conflicting tasks in its functions. Since the Code entered into force in 2009, the ARMP has been carrying out its tasks by: (i) disseminating new instruments; and (ii) coaching and training key stakeholders, including the private sector and civil society, whose members are represented on the Regulatory Board and the Complaints Review Committee (CRD).

The weaknesses identified under Pillar II can be summarised as follows: Although aligned with international requirements, the institutional framework faces challenges that have an impact on its management capacity, even though these are not covered by the "critical" sub-indicators. These include: (i) lack of adequate financial wherewithal to enable the regulator (and other actors) to fulfil its tasks;[12] (ii) lack of an information system for gathering comprehensive and reliable data; (iii) lack of a sustainable training strategy.

10 In this case, only the opening (but not the submission deadline) is postponed to the next day by the *CMP*

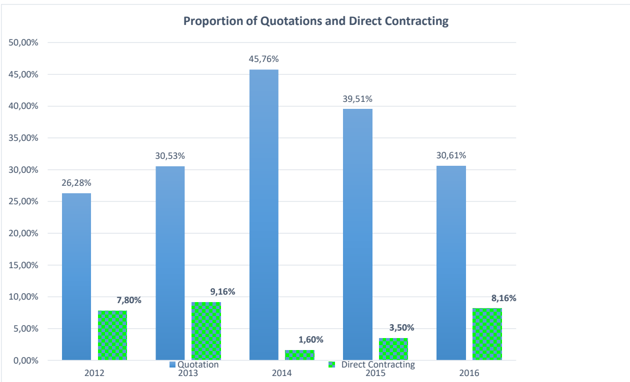
11 Except for the selection method based exclusively on technical quality

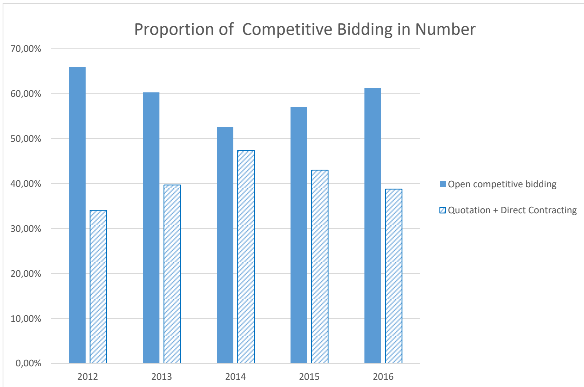
12 See status of audits at Pillar IV

In the light of the foregoing and the impact of the risks involved, **the risk level for the aspects covered by Pillar II is considered Moderate.**

<u>Pillar III: Procurement Activities and Market Practises</u> - Procurement operations and practices in the Congo reveal major shortcomings in several areas that significantly affect the transparency, efficiency and credibility of the system. Indeed, the misapplication of instruments due to various reasons including the lack of competences of the actors severely undermines the system as implemented. The problems identified include:

Non-use of open bidding as a procurement rule: Although under the Code open bidding is the default procurement method for goods and works procurement (Article 28- 4 of the CMP), the contrary is practised. The practice in the country is indeed marked by excessive use of so-called "exceptional" procurement methods characterised by either a low level or lack of competition. This situation, where the exception seems to replace the rule, is noted by several diagnostics (including those of the ARMP) and corroborated by recent data collected over several years by the ARMP. Actually, over a five-year period of observation between 2012 and 2016, the ARMP data show that open bidding represents an average of barely 58% in terms of number, even though in terms of volume this represents 81% of contract amounts. However, an in-depth analysis of these data shows that under the exceptional procurement methods used, direct contracting is limited to an annual proportion close to 10% in number (the rest represented by request for quotations (RFQs). Over the aforementioned period during the three years (2012, 2013 and 2016), direct contracting represents a value approaching 10% of the total number of contracts awarded. Over the same five-year period, the unusual rate of use of RFQs (an average of 37% in number volume and 9% in volume) is undoubtedly indicative of unlawful contract splitting and/or a lack of planning.





*Non-application of advertising rules***:** The advertising rules provided for by the instruments in force are not observed, thus negatively affecting the transparency of processes. For instance, with regard to the publication of business opportunities, even if these data are not complete, recent data provided by ARMP show a worrying tendency toward non-publication of bid invitations in the Official Public Procurement Bulletin (BOAMP). Between 2012 and 2016, only 60% of the bid invitations were published in the official bulletin.[13]

[13] However, these ARMP figures will have to be qualified by the fact that the non-publication in the BOAMP does not necessarily mean non-publication in other media (see mandatory media issue raised in Pillar I). It is important that further investigations be conducted to assess the total absence of advertising

The situation is more worrying as concerns the publication of results required by the CMP. Over five years between 2012 and 2016, the average rate of publication of results of contracts awarded through competitive bidding stands at 4%. Yet this regulatory requirement is vital for transparency as it enables bidders to, inter alia, seize within the regulatory time limits, the appeal bodies if upon publication of the results they feel aggrieved by the BD requirements. Over a period of five years between 2012 and 2016, merely 4.7% of the contracts awarded were published in the official procurements bulletin.

Table on the Status of Procurement Outcomes

Year	Procurement by Competition		Decision Published	
	Number	Value (XAF)	Number	Rate
2012	414	57 807 425 375	42	10,1%
2013	833	128 026 928 160	43	5,2%
2014	1 045	115 017 741 978	15	1,4%
2015	276	87 556 170 130	24	8,7%
2016	45	7 054 264 266	0	0,0%
Total	**2 613**	**395 462 529 909**	**124**	**4,7%**

Source : ARMP 2016

Poor quality of BDs sent to bidders: The poor quality of a large number of BDs poses the problem of the capacity of the public procurement management units (CGMP) but also and particularly that of DGCMP tasked with prior review of these documents. The 2015 public procurement audit conducted by ARMP notes that of a sample of 33 audited contracts, 76% of BDs do not include selection criteria or bid evaluation criteria.

Poor performance of procurement implementation: Implementation performance of procurement cycles is rather weak. Data from 2012 to 2016 provided by ARMP show that out of a sample of 7,995 contracts provided for in the *CMP* only 2,995 (i.e. 40%) actually observed procurement procedures. Concerning the others, the processes failed to start for various reasons, from planning to lack of specifications to budget unavailability. The system is also characterised by lengthy contract approval times.

Although the private sector is present in the structures of the institutional framework[14] in place, it lacks trust in the system despite a rather acceptable legal and regulatory framework. The average rate of participation in competitive bidding is extremely low. This is confirmed by the 2014 and 2015 contract audit reports with an average of 2.8 bidders per bid. Similarly, few bidders use their right to redress conferred by the *CMP*. Over a period of 7 years between 2010 and 2016, only 29 appeals, including 5 on procurement (the rest are contracts management-related disputes) were received by ARMP's Redress Committee (CRD). This lack of trust on the part of the private sector is due mainly to existing practices such as: a propensity to use direct contracting as a procurement method; **artificial barriers** to participation in the public procurement (see Pillar I), lengthy payment periods (100% of payments due within 90 contractual days are made in more than 120 days), difficulty in obtaining the application of late payment interest, etc. That said, the private sector is fairly protected in terms of the disputes that may arise in the course of contract execution with a fair dispute resolution process that includes in terms of pre-litigation, amicable settlement and arbitration (Articles 144 145) even if actual implementation is difficult. Although there are procedures to facilitate the enforcement of the arbitral award (provided for by the OHADA Treaty)[15], Congo's non-ratification of the New York Convention remains a cause for concern.

The weaknesses identified under Pillar III are as follows: (i) the skills gap of all actors involved in the public procurement award and audit chain; (ii) the private sector's lack of trust in the credibility procurement system; (iii) lack of archiving standards for public procurement files; (iv) the risk of corruption fostered by non-competitive procurement; (v) price escalation due to: (a) erratic use of direct contracting (b) low level of competition (if any) in competitive bidding; excessive payment delays; (vi) risk of non-recognition of internationally agreed arbitral awards; (vi) low absorption capacity of the investment budget due to lack of efficiency, etc.

In light of the foregoing, **the risk level for the aspects covered by Pillar III is considered high.**

Pillar IV: <u>System Integrity and Transparency</u> - Recent reform has contributed towards improving the procurement system's integrity and transparency. However, monitoring and auditing are

[14] Board of regulatory body, Dispute Settlement Committee etc.

[15] The country is a member of OHADA

ineffectual and anti-corruption enforcement is dysfunctional for varied reasons. The CMP does include provisions requiring the publication of information on procurement transactions. It organises the public procurement control function between the DGCMP in charge of due diligence and the ARMP, which is tasked with conducting annual public procurement audits. This specific public procurement audit is supplemented by others provided for by instruments on public financial management. Accordingly, pursuant to the said instruments, public procurement is audited by the General Inspectorate of Finance (IGF) responsible for internal control on behalf of the executive and the Audit Court for external control. In terms of integrity, the CMP allows any aggrieved bidder to complain through an independent administrative appeal mechanism meeting international standards. This mechanism is implemented by an egalitarian tripartite appeal body (composed of representatives of the administration, the private sector and civil society) with decision-making powers that are may be raised against parties unless appealed against before the law courts. Likewise, the CMP meets other integrity requirements such as those relating to breaches of public procurement (even if the list of infringements remains extremely limited), conflicts of interest, penalties applicable to bidders and government authorities[16]. There is an institutional framework dedicated to the anti-corruption fight (particularly in the public procurement sector), notably the National Commission against Corruption and Bribery (CNLCCF) and the Anti-Corruption Observatory (OAC). Lastly, ARMP strives to improve the publication and dissemination of key information on its own website.

Despite the foregoing, implementing the audit arrangements is ineffectual and dysfunctional. The quality of the preliminary review by DGCMP is actually unsatisfactory (as noted by several audit missions) and requires capacity building. Due to the lack of financial resources, ARMP is unable to fulfil its obligations of conducting annual public procurement audits on a regular basis. In this regard, audits ceased from 2015. Similarly, control by the IGF is limited and extremely inadequate due to the lack of capacity and financial resources. In practice, the State Inspectorate and Audit Court are not involved in public procurement auditing. The few audit and control reports made by the aforementioned institutions have no effect in that their recommendations, potentially capable of improving the system progressively generally remain unimplemented due to the lack of an operational follow-up mechanism. Furthermore, there is no clear internal control mechanism at the level of the contracting authorities. Lastly, despite the small number of appeals received, the CRD does not process cases within the timeframes set by the regulations[17], whereas the latter sets a maximum deadline (7 working days) beyond which any suspension of a process is automatically lifted if the CRD fails to make a decision. Such lack of effectiveness of the CRD thus poses a risk for aggrieved bidders whose rights may not be reinstated.

Also, the implementation of the accountability and anti-corruption mechanism is not effective in public procurement sector despite the government's efforts to strengthen its legal and institutional framework. This is attributable to several factors including: (i) non-publication of key information on public procurement, particularly audit and control reports; (ii) non-publication of decisions relating to fraud and corruption; (iii) limited scope of procurement infringements (some major practices not covered); (iv) absence of a specific code of conduct and ethics for procurement; (v) absence of prosecutions and sanctions against perpetrators (to date, there is no list of bidders sanctioned for offences in awarding and executing Public Procurement contracts); absence of anonymous whistle blowing; and (vii) inadequacy of the wherewithal to enable the anti-corruption institutions to carry out their tasks. This context confirms the country’s different rankings at the international level. According to Transparency International’s 2017 rankings, the Republic of Congo’s corruption perception index (CPI) came 161st among 180 countries with a score of 21/100.The Mo Ibrahim Index of African Governance (IIAG) also shows that governance has not improved. In 2016 and 2017, the country was ranked 42nd among 54 countries with a score of 4.8 out of 100 (below the African average of 50 points) which represents a slight decrease compared to the year 2015.

The weaknesses identified under Pillar IV are as follows: (i) Inadequacy of the DGCMP's due diligence; (ii) irregularity in conducting annual public procurement audits; (iii) inadequate IGF control; (iv) non-coverage in practice of public procurement aspects through controls by the Audit Court; (v) absence of a follow-up mechanism for recommendations; (vi) lack of internal control within each

[16] See Law No. 31-2012 of 11 October 2012 laying down contract award and management offences and penalties
[17] See ARMP Monitoring and Evaluation Report (2009-2016)

contracting authority; (vii) non-compliance with the CRD's maximum time limit for processing appeals; (viii) non-publication of key public procurement information including audit and control reports; (ix) non-publication of decisions relating to fraud and corruption; (x) limited scope of public procurement infringements (some major practices such as obstruction are not covered); (xi) lack of specific code of conduct and ethics in procurement; (xii) lack of prosecution and punishment; (xiii) absence of anonymous whistle-blower mechanisms and (xiv) inadequate wherewithal to enable the anti-corruption institutions to carry out their tasks, etc.

In light of the foregoing, **the risk level of aspects covered by Pillar IV is considered high.**

D. Bank's Congo Fiduciary Strategy for Procurement during the CSP

The Bank's Procurement Strategy for Congo with respect to procurement is part of the Bank's Policy on Fiduciary Management. It aims, where possible, to make greater use of the Country system while contributing towards building the capacity of management and control entities and institutions to ensure sound financial governance and effective delivery of public services to citizens. In addition, the Bank will continue encouraging the application of international standards, rules, procedures and best practice in fiduciary management for better performance of the projects and programmes it finances.

In Congo, this strategy will be based, inter alia, on the effective implementation of the action plan resulting from the assessment of the procurement system according to the MAP II methodology that the country is planning to implement with the support of the Bank, as well as other upcoming PFM reforms. It will focus on the following points:

- recommended level of use of the country public procurement system;
- Bank support for procurement reforms; and
- Bank support for portfolio performance and individual projects management.

1) Recommended Level of Country Procurement System Use

The government's efforts, which led to the 2009 reforms, have yielded substantial progress in Congo’s procurement system with an acceptable legal and regulatory framework embodied inter alia by the current code, which overall incorporates internationally accepted requirements, establishes a satisfactory institutional framework and puts in place a credible and equitable redress mechanism. This undeniable progress has enabled the system to make a qualitative leap with an overall rate of achievement of OECD/DAC core indicators of 51.3% in 2014 against 16% in 2006 as noted by the World Bank in the framework of PEMFAR and CPIP respectively. This observation is confirmed by the Bank’s 2012 assessment of the suitability of using or not using country procedures in the context of National Competitive Bidding for Goods and Works financed by its resources in projects in Congo. This diagnosis reached the conclusion that national CB procedures could be used subject to minor adjustments.

Thanks to the Bank's new procurement policy, which allows the use of the country system as a whole (and not only country procedures), information has been gathered to guide a preliminary assessment of Congo’s procurement framework. This assessment was conducted by the Bank using key indicators referred to as "critical" selected from the list of OECD/DAC indicators. Given the outcomes of the said assessment, which resulted in a significant risk level due mainly to problems of practice and capacity, the use of the Congolese procurement system will be not be considered in Bank-financed operations in the course of the period covered by the CSP, unless the following conditions are met: (i) existence of an effective reform momentum enabling stakeholder capacity enhancement and the integrity of the system (for PSOs); (ii) existence of moderate-type and size transactions for which using the national system poses a low or reasonable risk (investment project).

2) **Bank Support in Procurement**

The purpose of the Bank's support for the procurement component during the CSP period will be to assist the country in assessing its system through the new MAPS II methodology and in capacity building. During the CSP period, the Bank will support the country in assessing its national system according to the MAPS II methodology to be used to prepare a Procurement Development Action Plan (PDAP) that will serve as a basis for country dialogue on public procurement. This strategy adopted for procurement aspects is in line with the Bank's new procurement policy approved on 14 October 2015, which offers the possibility when the conditions are met for the use of the national system as a whole (procedures and institutions). Its use will ensure greater resource efficiency, thanks to improved ownership and rapid implementation of projects.

More specifically, the areas of collaboration will focus on the following aspects:

- Support to Improving the National Procurement System; and
- Capacity building of procurement actors through institutional support and fiduciary clinics

3) Bank Support for Portfolio Performance and Individual Projects Management- The key activities of such support are as follows:

- Provide advice and technical assistance to executing agencies in resolving general or specific procurement issues;
- Organise fiduciary clinics and workshops that meet the information or training needs of the executing agencies of projects or programs;
- Take the initiative to put in place harmonised arrangements at the level of projects and programmes co-financed with other TFPs.

CONGO - Country Fiduciary Risk Assessment (CFRA)

System / Subsystem	**Risk factors**	**Initial risk**	**Mitigation measures**	**Residual risk**
Procurement	• Obstacle to the participation of bidders based on nationality • Misuse of direct contracting due to the lack of definition of "strategic interest contracts" that can be concluded without any competition. • Lack of equity between SOEs and the private sector CB participants • Lack of clarity/precision on: (a) situations where prequalification is required; (b) mandatory publication media; (c) conditions of use of each consultant selection method; • Bid opening (works or goods) on a day other than the deadline set for the submission of bids if the latter coincides with a non-working day. • Non-public opening of consultants' technical proposals; • Lack of adequate financial resources for the regulatory body resulting, inter alia, in	**S**	• Revise all instruments (including Article 53.1 CCA works) to remove any artificial barriers to participation in CB and postpone any registration requirements after contract award. • Adopt the CMP Special Procurement Decree • Issue an instrument governing the participation of the SOEs in CB • Amend the CMP or issue another instrument to provide the required clarifications • Revise Article 59 of the CMP to also postpone the deadline for submission of bids while stating that the deadline for submission must also be that of the opening of bids. • Revise Article 66 of the CMP regarding the opening of bids for consultants by requiring a public opening of technical proposals and reflect this in the Request for Proposal (RFP) • Specify in the budget law of each budget year a provision setting the rate of regulation fee to be collected by ARMP • Design and install an integrated and comprehensive Information System to provide real-time data for analysis and decision-making	**M**

System / Subsystem	Risk factors	Initial risk	Mitigation measures	Residual risk
	irregularity/absence of Public Procurement Audits • Lack of an e-tool for procurement data collection to ensure traceability of related transactions. • Skills deficit of actors (ARMP, DGCMP, CGMP etc.) • Poor records keeping • Price escalation • Non-recognition of arbitral awards made abroad • Weakness of DGCMP pre-audits and IGF control • Non-coverage of procurement issues by the Audit Court and the IGE • Non-implementation of recommendations from audits and controls • Absence of internal control • Non-publication of key information related to procurement • Limited scope of the list of public procurement offences • Lack of prosecution and sanctions following implication in prohibited procurement practices • Absence of an operational anonymous whistle blower mechanism • Lack of adequate resources to enable anti-corruption institutions to perform their tasks		• Define a sustainable training strategy and ensure its implementation • Define standards for archiving procurement documents and disseminate them to Contracting Authorities (CA) • Abstain from misuse of direct contracting and create the conditions to attract more bidders, notably by paying the service providers within the contractual deadlines • Have the country adhere to the New York Convention • Set up a programme to enhance the technical and operational capacity of the DGCMP and the IGF • Urge the structures concerned to extend in practise their activities to public procurement • Create a standing consultation framework between the audit institutions (ARMP, DGCMP, IGF, IGE, Audit Court, etc.) and set up a formal framework for monitoring recommendations. • Create within each contracting authority an internal control structure. • Amend or strengthen existing instruments to enable the publication of: (a) audit and control reports; (b) decisions and sanctions for procurement violations; (c) the results of the bid invitation; (d) decisions made by the CRD, etc. • Revise the list of offences to cover other increasingly common prohibited practices such as obstruction, coercion and so on. • Remove practical obstacles and effectively enforce the penalties provided by the instruments. • Establish a secure whistle-blower mechanism with the adoption of whistle-blower protection • Provide adequate resources for anti-corruption institutions.	

E. Procurement Risk Assessment and Mitigation Measures

1- Budgeting: Preparation, Execution and Control

The rules relating to the nature, content, preparation, preparation and adoption of finance laws are clearly defined in the LOLF. The Appropriations Act for the year determines, for each year, the nature, amount, distribution of the State's resources and expenses, and the resulting budgetary and financial balance. **It also approves all loan agreements with international, bilateral or multinational donors.** Efforts are being made to organise the preparation of the budget, budget preparation procedures are being formalised, and macroeconomic and budgetary forecasting and framework capacity has been improved with a view to ensuring a better match between ministries' policies and budget proposals through the establishment of sector MTEFs in all ministries. Budgetary regulation mechanisms are rudimentary. There is also recourse (without sufficient supervision) to procedures without prior commitment or prior authorisation, which lead to overspending. Although budgetary revenues match projections, this is not the case for expenditure where recurrent non-compliance with the credit limits authorised by the Appropriations Act is observed.

The capacity of the budget subsystem is not quite sufficient for the preparation of programme or project budgets. The budget subsystem is not appropriate for the implementation and control of the approved budget in the context of programme and project execution. The budgetary management risk is substantial.

2- Cash Flow

Although Congo systematically posts a surplus budget, cash flow problems emerge during execution. Cash management planning, which must be the basis for budgetary regulation, is not yet effective. Despite budget surpluses, cash flows are not controlled, resulting in risks of arrears accumulation. In fact, arrears do exist, even if they do not appear in the accounts because of the cancellation of liquidated and authorised commitments of expenditure for the financial year, and their recommitment to the following financial year. The Treasury does not have the capacity to know and consolidate the cash holdings of all administrative departments and public entities. The financing provided by the donor may be managed in a single sub-account of the Treasury at the Bank of Central African States opened in the name of the public accountant. The modalities for operating this sub-account are determined by order of the Minister of Finance in agreement with the donor concerned. **The capacity of the treasury subsystem is inadequate to manage aid resource flows and disbursements. The treasury single account is an appropriate and reliable means of administering aid funds. The risk associated with this component is substantial**.

3- Accounting and Financial Reporting

The rules governing the execution, accounting, cash flow management and control of donor funds, be they from international agencies or foreign States, are those laid down by the LORFE. The LOLF provides that accounting for donor funds shall take effect from 1 January 2020.

The IT systems for the maintenance of administrative and financial accounts are dysfunctional. They are unable to keep the accounts up to date or provide budget management information. The computerisation programme of the Ministry of Finance, which aims to rehabilitate and integrate all systems (ASYCUDA, SYSTAF, DMFAS, etc.), is well behind schedule. The monthly TOFE is produced from non-accounting data by the Research and Planning Directorate of the Ministry of Finance, but not disseminated. The accounts are produced at the end of the financial year for use in preparing the Audited Budget, but with much difficulty.

The management of the external debt and the contractual domestic debt is carried out under very satisfactory conditions by the Congolese Sinking Fund (*Caisse Congolaise d'Amortissement*), which produces reliable monthly data on outstanding amounts, current service and arrears stock. It also produces annual reports on debt sustainability and debt strategy. Efforts still need to be made on non-contractual debt, which emanates from arrears on expenditure, management of which is transferred to the CCA. Efforts will have to focus in particular on clarifying the handling of transfers pending at the Treasury at the end of the financial year. **The risk associated with this component is high**.

4- Internal Audit

Internal control of the public administration or administrative control is carried out ex-ante by the Financial Control Department (*Contrôle Financier)* as regards the regularity of expenditure commitments and validation; it is carried out ex-post by the General Inspectorate of Finance and the State General Inspectorate. The State General Inspectorate is the highest control structure of the administrative order. The control system has been reorganised and strengthened, thanks to better supervision and provision of procedures manuals to financial controllers. However, no progress has been recorded in terms of limiting the use of exceptional procedures that allow expenditure to be executed without prior commitments, particularly for capital expenditure. With regard to internal audits (ex post audit), control bodies exist, but their capacity to intervene had remained quite limited. Priority has been given to these bodies under Public Finance Management Improvement Action Plan (PAAGFP). Although not yet fully operational, they have made considerable headway in terms of organisation. With the support of technical partners, the State Inspectorate General has worked to develop a Code of Ethics and various manuals adapted from international standards for inspectors and auditors. Decree No. 2006-493 of 3 August 2006 reorganising the IGE enshrines this institution as an audit and internal control body. The setting up of IGE's organisation is still ongoing.

At first, this institution seems to have lacked orientation for refocusing its activities on the missions assigned to it by Decree 2006. Its 2012 activity report shows that it devoted much time and resources to participating on meetings of boards of directors or acceptance committees for works carried out under public projects. However, 2012 was also marked by significant progress in building the capacity of the IGE through: (i) the adoption of a Code of Ethics and Professional Conduct; (ii) the adoption of an IGE procedures manual adapted from international standards, and (iii) the implementation of the legal framework for operation of the IGE (preparation of texts for the appointment of State Inspectors General and State Inspectors). In 2013, the IGE continued to build its capacity, but had no programme to carry out audits and controls as set out in the manuals adopted in 2012 and in accordance with recommended practices (audits focusing on systemic aspects, accuracy and integrity of financial and operational data, asset protection, compliance with laws and regulations, etc.).

A Public Expenditure Management and Financial Accountability Review (PEMFAR), and an assessment of the Republic of Congo's national public procurement system is ongoing as of the date of this appraisal. The expected outcomes will provide information and inputs to strengthen PFM internal control. The public procurement system was completely overhauled in 2009 to align it more closely on international standards and best practice. The bodies provided for were gradually established and have become operational. **The risk associated with this component is substantial.**

5- External Audit

In Congo, external audit is the responsibility of the Parliament and the Court of Auditors and Budgetary Discipline (CCDB). Judicial control of the budgetary and accounting operations of public departments is carried out by the CCDB, which certifies the State's accounts. The LORFE specifies that the certification of the State accounts by the Court of Auditors and Budgetary Discipline shall become effective from 1 January 2020. **The CCDB exercises control over the management of the departments charged with executing programmes and allocations**. It issues opinions on annual performance reports before they are sent to Parliament, which may request that the CCDB carry out any investigation necessary for its information. Apart from the examination of the statistics and accounts of the State budget provided to it by the Ministry of Finance in the context of preparing its budget execution and compliance report, the Court of Auditors does not carry out (or carries out very few) audits on public departments. Moreover, there is no formal relationship between the CCDB and the other control institutions, namely the IGE and the IGF. They do not establish a coordinated audit mission programme or exchange reports. The reports of the Court of Audit on the execution of the budget generally contain recommendations to the Government, which are notified by the President of the Court to the Minister of Finance. The latter systematically responds to the President of the Court by providing explanations on the issues raised, and by indicating the measures taken or planned to correct the weaknesses identified. Operations, activities and accounts relating to donor funding may be subject to a specific audit mandated by the donor concerned. **The SAI's capacity is sufficient to carry out audit work in accordance with its mandate. The risk is substantial**.

F. Bank's Fiduciary Strategy in Congo during the CSP

1) In accordance with the provisions of the Paris Declaration on Aid Effectiveness (2005); the Accra Agenda for Action (2008); the Busan High Level Forum on Aid Effectiveness (2011); the Bank's decision on whether to use the national public finance management system was reviewed based on: (i) the assessment of the country's PFM performance; (ii) the Bank's directives, practices and risk tolerance; (iii) national preferences; and (iv) other factors such as the governance and corruption perception level. This examination shows that the risk level as assessed does not allow the Bank to adopt an approach based exclusively on national procedures and systems. However, the Bank will continue to support PFM

system reforms with technical and financial partners (TFPs) through various instruments, with a view to mainly using national procedures and systems in the long term.

Specifically within the framework of this strategy, financial management actions envisaged are structured around Pillar II. More specifically, it will be necessary to strengthen internal and external control bodies, support MFB's public finance management reforms, and develop user guides and procedure manuals, and ensure their dissemination.

National institutions responsible for internal and external oversight, fraud and corruption control (IGF, IGE, CDC, OAC, OAC, CNLCFC) currently have competent teams and appropriate tools that should be supported, through capacity building. All these internal and external public finance control institutions will have to interact through the consultation framework to be set up, to ensure the concerted follow-up of actions.

However, as part of its strategy, the Bank and technical and financial partners will continue to support PFM system reforms through various instruments, to allow for the predominant use national procedures and systems in the long term.

Budget support operations are not part of the lending programme, but will be examined on a case-by-case basis, if necessary. Budget support will make full use of the public expenditure circuit.

Each proposed sector operation will be subject to an assessment that will propose appropriate measures to mitigate the fiduciary risks specifically identified for that operation.

The Bank shall limit the creation of independent management units: operations will preferably be carried out by project implementation units within permanent government departments. These will have a mechanism to strengthen their fiduciary capacity and will be supported by the Bank through close monitoring via its Regional Office.

For emergency or reconstruction operations, financial management safeguard measures will be proposed on a case-by-case basis.

Annex 13: Information Note on Fragility and Resilience in Congo

The Republic of Congo has moved out of the harmonised list of States in transition, but still has pockets of fragility and faces significant political, economic and social risks. It is a potentially rich country and one of Africa's largest oil producers, but features among the heavily indebted poor countries. Half of its population, largely concentrated in its two largest cities, Brazzaville and Pointe-Noire, lives below the poverty line.

Besides its abundant mineral resources, the Republic of Congo has substantial hydrocarbon deposits, with oil and natural gas reserves estimated at 1.6 billion barrels and 90 billion cubic metres respectively. The country has made remarkable economic progress, but is yet to leverage its natural resources. Its heavy reliance on hydrocarbons has diverted interest in other industries, such as agriculture and forestry.

Country Context: Congo had enjoyed a relatively stable political context that has been strengthened since the signing of a political agreement with the main armed rebellion in the South of the country in June 2008. Political tensions were been manifested openly with the amendment of the Constitution for the purpose of the 2016 presidential election. Since the re-election of President Sassou NGUESSO on 20 March 2016 and the victory of *Parti Congolais du Travail* (PCT), the government promptly launched *"Marche vers le développement"* (Towards development) the President's vision of society for 2021, and the "*Vivre ensemble*" (Living together) initiative, which calls for unity, dialogue and national cohesion.

Since 2014, the Congolese economy continues to bear the full brunt of the consequences of the falling world oil prices, which have dealt a severe blow to the State budget. Currently, oil prices are starting to pick up, but their impacts are not yet tangible and the non-oil sectors are not yet responding, while Congo's efforts to diversify its economy and build its resilience are yet to materialise.

Congo currently faces the major challenge of successfully leveraging its economic potential to improve the living conditions of its populace. With a little more than four million inhabitants, the country has a low density of 13 inhabitants / Km2. The bulk of its population is urban (nearly 70% of the population) despite its agricultural potential. The scale of its economic growth and the impact of the reforms undertaken remain inadequate to enable a significant reduction in poverty, which remains high for a middle-income country (USD 2,300/capita). The Millennium Development Goals (MDGs) have not been achieved either.

Key drivers of fragility: Congo is not in crisis; its security situation has remained stable and peaceful for a considerable period, as evidenced by the fragility index, which has improved by -3.4 for 10 years up to 2014. This situation seems to be improving after the 2016 elections. However, there are permanent political divisions that augur the possibility of a plunge into intra-community conflicts that could lead to widespread mistrust and fear countrywide.

At the socio-economic level, the situation is reflected by the contradictions between a high rate of investment derived from oil revenue and the weak social indicators characterised by a poorly diversified economy, a poor business climate and a predominant informal sector that has become indispensable for the poverty reduction. Indeed, Congo's economy is highly dependent on natural resources revenue, hence its current vulnerability to the fluctuating prices of oil and other mineral resources. Congo is among the heavily indebted poor countries with an external debt representing 110% of GDP. Coupled with poverty and the oil crisis, they exert additional pressures on the State in terms of service delivery and the risk of exacerbating community tensions.

Sources of Resilience: Despite its various pockets of fragility, Congo maintains the capacity to face its challenges and absorb shocks without plunging back into crisis. Systems capable of managing natural resources are in place, and the government could generate sufficient revenue to provide essential services to its citizens. Public institutions exist, it suffices to operationalise them to work efficiently, and the State has the potential to provide basic services.

Additionally, Congo is richly endowed with tropical forests and also boasts swathes of uncultivated arable land, representing about one third of its total surface area. Besides its abundant mineral resources, it has huge hydrocarbon deposits, with substantial oil reserves and natural gas reserves estimated respectively at 1.6 billion barrels and 90 billion cubic metres.

In short, Congo's vegetation cover, its natural capital endowment, its sustainable production potential in the timber sector, the hydraulic potential and the clean transportation opportunities offered by the river network constitute valuable assets for its economy.

Annex 14: Note on Climate Change Management in Congo

Congo's Climate Change and Commitment to Green Growth

The Republic of Congo, straddling the equator and the heart of the world's second-largest forest, covers 342,000 km2. The country has a high forest cover (23.5 million hectares of forests, representing 69% of the national territory) and a low rate of deforestation and forest degradation with merely 0.05% per year, or about 12,000 hectares/year (CNIAF 2015) as a carbon sink and an invaluable biodiversity reservoir for the entire planet. Its equatorial type climate presents a strong year-to-year variability.

As stated in the "Congo Vision 2025" Strategy, a 10% growth per year is projected given all its development efforts. As part of the country’s socio-economic development, there are plans to reduce (At least 48% reduction of emissions compared to the scenario of uncontrolled development (trend) in 2025 and 55% in 2035 according to the INDC) the country's GHG emissions without compromising its development capabilities. Accordingly, alternative low-carbon and low-natural resource consumption policies falling within the wider framework of the "green economy"[18], are promoted in its INDC. The sectors concerned are energy, including hydrocarbons (industrial processes and waste treatment), mines and cement plants, agriculture and livestock, land use and forestry.

Climate change impacts in the Republic of Congo manifest in the form of impacts via three (3) channels[19], namely precipitations, temperature and water resources, which reflect inputs from rain, groundwater and evapotranspiration. Since the 1970s, the Congo has experienced: (i) a general drop in annual precipitation countrywide with a considerably natural spatial variability whereby the most abundant rainfall occurs in the country’s Southwest; (ii) a general rise in maximum temperatures of about 0.76°C and 0.69°C for minimum temperatures with moderate temporal variability. However, in terms of seasons, the most pronounced warming occurs in the dry season (June to September) or southern winters. Spatially, warming is more pronounced in savannah areas in the country’s Centre and South. It is artificially heightened in the big cities (Brazzaville and Pointe Noire) and in the other cities of more than 10 thousand inhabitants; (iii) overall receding flows of the Ubangi-Congo rivers (+ 19% to -9%) and their tributaries from the 1970s (Laraque et al., 2001). Similarly, in South Congo, Kouilou-Niari flows are decreasing.

The impacts on the biophysical environment are manifested through increasingly extreme events such as: frequent floods in the Congo Basin (Mossaka), the low-lying part of the littoral and in a specific way in Brazzaville; siltation of the bays, necessitating constant berthing point relocations and navigation stoppages over an ever-increasing number of days (1940-1969: 1 day, 1990-1993: 103 days) and erosions in the coastal zone dating further back (with a significant annual coastline reduction in Loango Bay) and in urban hillside squatter settlements. Thus far, the climate change impacts are not highly noticeable on Congo’s forests that will increasingly suffer anthropic constraints. The decreased precipitation has generated a recharge deficit of deep aquifers particularly in Pointe-Noire. In the long term, this city’s water supply will suffer more constraints. The declining flows disrupt the operation of hydropower dams in the Niari Valley.

In the socio-economic sectors, the mainly rain-fed agriculture is highly sensitive to climatic variations. The instability of the “rainy-farming” seasons (October to December and March to May), either one of which may be shortened or delayed, or may even disappear, limits the range of possible crops. The noted rising trend of extreme temperatures, particularly higher minimum temperatures in the Niari Valley (20°C) could be conducive to selected oil palm cultivation. Similarly, some food legume varieties such as *Cajamus cajan* (pigeon pea) and *Vigna inguiculata* (Cowpea) will tolerate moderate rainfall and will find better weather conditions (CNI, 2001).

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18 Congo is engaged in the REDD + process to fight against climate change; however, REDD + is also a tool for the country to fight poverty and promote the green economy.

19 Indeed, according to the 2010 report on the assessment of the effects of climate change on the progress of the MDGs of UNDP

Forecasts of climate models software such as MAGICC/SCENGEN (GIEC/ IPCC) show that for all localities North of 2°S (North and Central Congo) there would be an increase in rainfall at a rate of 0.25 at 0.3% every 5 years and South of this latitude, the change in precipitation will be almost nil, sometimes slightly negative (between 2030 and 2100), that is to say stable. During the dry season, the Congo will experience more rainfall reduction from the current state, i.e. harsher dry seasons, particularly in Southern Congo. However, temperatures are rising in all localities. The increase in temperature would exceed the annual scale 1°C (in 2050) and could reach 3°C by 2100. Taking into account the increase of the first two transmission channels, the decline in flows should be maintained and Congo's rivers will find difficulty returning to their pre-1970 equilibrium. By 2050, a population of 750 000 inhabitants which will be approaching 1 200 000 in 2100 will be threatened. The Urban Heat Islands (UHI) generate hot flashes that affect the quality of life and work and foster the aggravation of some diseases (malaria, allergies ...).

Faced with this situation, the country has not remained on the sidelines of negotiations and other regional and global initiatives on the issue of combating climate change. The Republic of Congo is a signatory to the 12 June 1992 United Nations Framework Convention on Climate Change (UNFCCC) ratified on 25 June 1996. In 2006, Congo ratified the Kyoto Protocol. In accordance with its commitments under the UNFCCC, the Republic of Congo also ratified the Paris Climate Change Agreement in 2015. The country has produced several official documents and commissioned several studies[20] that address the climate change issue. In April 2018, the country hosted the first Summit of Heads of State of the Climate Commission and the Blue Fund for the Congo Basin, which ended with the adoption of a protocol to operationalise the initiative, launched from Marrakech at the COP22. Additionally, in the 1980s, the Congo has passed a law that instituted the "National Tree Day", celebrated on 6 November of each year. Besides, there are other important initiatives in forest ecosystems preservation, such as the National Afforestation and Reforestation Programme (PRONAR), which aims to plant 1 million hectares of forest, the certification of nearly 2.5 million hectares of forests, the development of a National Action Plan for Environment (PNAE), an Action Plan for Climate Change and a coastal zone adaptation strategy[21].

The Republic of Congo's GHG mitigation policy aims to (i) Mitigate GHG emissions from the energy sector and the fight against unplanned deforestation (REDD), while controlling energy consumption making greater use of renewable energy; (ii) Maintain or even enhance the carbon sequestration potential of forests through better management of the sector and through reforestation.

The vision for climate change adaptation is based on the integration of this component into a coherent investment plan based on the country's development strategy.

[20] The following are the key documents and studies concerned:
- Initial National Communication (CNI 2001);
- Second National Communication 23 (SCN 2009);
- Inventory of greenhouse gases in the Republic of Congo (2000, 2002, 2007);
- Initial national strategy and the implementation action plan of the UNFCCC (2002);
- Studies on climate change vulnerability and adaptation assessment in the Republic of Congo (2002, 2008)
- Studies on technology and expertise transfer needs in the field of climate change (2004, 2009).

[21] This strategy is based on measures aimed at integrated management of the coastal zone through the establishment of an appropriate legal framework, acquisition of monitoring tools and lastly training and information. The guidelines recommend the development of a coastal urban development plan, promotion of income-generating activities related to marine and coastal ecosystems. To this must be added a mechanism comprising mangrove conservation projects for the protection of the coastline, the protection of species, the establishment of specific facilities for waste reception and management, monitoring the nesting of turtles and the creation of a coastal and marine environment observatory. Physical barriers and bank rehabilitation works are measures being taken to protect the coast and the Pointe-Noire city, which is particularly exposed.

Annex 15: Responses to the Recommendations from CODE and from the Senior Advisors and Advisors:

I- CONCERNING THE COUNTRY STRATEGY PAPER (CSP) 2013-2017 COMPLETION REPORT COMBINED WITH THE 2018 PORTFOLIO PERFORMANCE REVIEW AND THE PROPOSED CSP 2018-2022 PILLARS

Recommendation 1: Should the IMF and Congo fail to reach an agreement, the Bank's sovereign guaranteed loans and budget support for Congo will be compromised.

Response: Management explained that if Congo's debt remained unsustainable, sovereign guaranteed loans would continue to be suspended and the Bank's interventions would be limited to loans without sovereign guarantees.

Recommendation 2: Management should speed up the preparation of CSP 2018-2022, given the considerable delay already recorded. Management must also inform CODE whether it intends to move to the next CSP or request an extension of the current CSP latest by 20 October 2018, depending on prospects for concluding an agreement with the IMF.

Response: Despite its temporary debt unsustainability situation, Congo meets the conditions for a full CSP instead of an interim strategy. In addition to having a new National Development Plan (PND), the country is neither in conflict nor under sanction for late payments[22]. Therefore, Management considers that our rules allow for preparation of a full CSP Congo

Recommendation 3: Should a new CSP be adopted, it should contain measures to address, at source, the factors of fragility, over-indebtedness and other macroeconomic issues facing the country.

Response: The main objective of the Bank's new strategy is to support the Government in its strategy to diversify the Congolese economy for inclusive and sustainable growth. The CSP gives an important place to the factors of fragility, particularly under Pillar 1, as it also does to governance, macroeconomic management and debt sustainability.

Recommendation 4: Committee members requested the organisation of Board seminars on two relevant issues: counterpart funding and evaluation of the Bank’s portfolio performance/CSP performance.

Response: Management has already prepared a working paper on counterpart funding.

II- RECOMMENDATIONS OF THE SENIOR ADVISORS AND ADVISORS DURING THEIR STUDY TRIP TO THE CONGO IN MARCH 2018

On Bank Strategies

Recommendation 1: Focus lending on economic diversification efforts through private sector, green growth, and regional integration infrastructure.

Response: Both pillars aim to promote diversification through inclusive and sustainable growth. Particular emphasis will be placed on the development of agro-industrial value chains, the strengthening of governance and the development of human capital.

Recommendation 2: Focus non-lending activities and policy dialogue in Congo on Government’s private sector strategy and coherence of the private sector policy.

[22] Management discussed this matter with the CODE Chair in line with recommendations made during consideration of the CSP 2013-2017 completion report.

Response: The pillar on the promotion of agro-industrial value chains gives a major role to private sector involvement. The Bank will also continue dialogue to improve the business climate.

Recommendation 3: Review the counterpart funding strategy.

Response: The counterpart funding level will be reviewed according to the nature of each project, the country and Bank's capacity.

On the portfolio and Operations

Recommendation 4: Use the opportunity of drafting the new CSP to engage with the Government on a full portfolio review.

Response: Dialogue has been strengthened and several ongoing projects have already been restructured.

Recommendation 5: Use the Bank's convening power to encourage constructive dialogue between the Government and project stakeholders.

Response: This convening power has been maintained with the assignment of a country economist to Congo. It will be further strengthened with the governance expert who will move to Congo in November 2018

Recommendations 6: Balance macroeconomic support for policy support operations with effective reforms.

Response: The budget support programme and institutional support projects will address this recommendation.

Recommendation 7: Bear in mind that fragility also affects middle-income countries.

Response: Pockets of fragility are well identified and the CSP addresses this concern.

On Organisation

Recommendation 8: Increase proactiveness and agility, be the best student in the class in terms of donor coordination; monitor and act on client and stakeholder satisfaction.

Response: The strengthening of the Liaison Office and the development of knowledge products are particularly relevant to this concern. The expected expansion of the portfolio will encourage the Bank to strengthen its presence, to the client's satisfaction.

Annex 16: Summary of the Technical Notes to help in preparing the Country Strategy Paper (CSP) 2018-2022 of the Republic of Congo

Note 1: Economic diversification

Note 2: Human capital

Note 3: Governance

1. Context

1.1 The purpose of these technical notes is to support the strategic thrust adopted by the Bank in the process of formulating the new Country Strategy Paper (CSP) for Congo to cover the period 2018 – 2022.

1.2 This new CSP follows on from CSP 2013-2017 whose implementation and completion elicited the following points:

- The expected results and outputs are overall satisfactory. Between 2013 and 2017, the Bank's net commitments in the Congo doubled from 144 million Units of Account (UAM) in 2013 to UAM 158 in 2015 and UAM 285 in 2017, for an active portfolio of nine (9) operations.

- Congo's economy has shown limited resilience to the oil crisis, with an average annual growth of 1.3%.

- Congo faces the following challenges: (i) ***Diversification*** - A major challenge facing Congo's economy is to successfully raise its non-oil sector production and thereby mitigate oil price volatility-related risks; (ii) Congo's ***inadequate basic economic infrastructure*** remains a constraint on its development and economic growth; (iii) **Governance** – Improved governance remains crucial to mitigating risks relating to fiscal sustainability, spending efficiency and debt management, and creating a business-friendly environment; (iv) ***Low human resource capacity*** - Strengthening human capital is essential to meeting the demands of overall competitiveness of markets and curbing unemployment, etc.

1.3 **The reference framework for Congo's CSP 2018-2022 is the new National Development Plan (PND) 2018-2022** that will guide the country's inclusive and resolute march towards development and shared prosperity. In the context of the country's current economic crisis the Congolese authorities have structured the PND 2018-2022 around three pillars, namely governance, human capital and diversification, and their related operational strategic objectives as follows respectively: (i) ***strengthening governance*** in all areas of public intervention, for improved quality of services and effectiveness of government action; (ii) ***developing human capital*** through education system reform and implementation of civic education programmes and the fight against negative values, to ensure that those trained are technically skilled, but also in moral and civic terms, well- qualified and potentially constituting the underlying human bedrock of the structural transformation of the Congolese economy and society; (iii) ***fast-tracking economic diversification*** through agriculture, tourism and the private sector, to reduce the country's oil dependency and enhance its resilience for sustained growth and jobs generation and to combat poverty and all forms of economic and social marginalisation in Congo.

1.4 **The Bank's Committee on Operations and Development Effectiveness (CODE) endorsed the pillars suggested for the 2018-2022** CSP at the presentation of the 2013-2017 CSP Completion Report on 10 September 2018, which elicited the following: the need for the Bank to draw on the strategic thrusts of the National Development Programme (PND) in setting out the strategic thrusts of the future CSP. Drawing lessons from the implementation of CSP 2013-2017, the chronic constraints on development and taking into account the Bank's five (5) top priorities (High 5s"), and PND 2018-

2022 of Congo, the key objective of the Bank's new strategy is ***"to contribute to economic diversification and competitiveness for inclusive and sustainable growth".*** In this regard, two pillars are proposed for CSP 2018-2022, namely:

- Promote agro-industrial value chains (Pillar 1); and
- Strengthen human capital and governance (Pillar 2).

1.5 **Accordingly, the strategic thrust of the Congo CSP 2018-2022 covers the three (3) themes of the PND, namely: (i) diversification; (ii) human capital; and (iii) governance.** The Bank proceeded to produce Technical Notes for further reflection on these themes and to provide more information on the current Congo CSP 2018-2022 being developed. This document thus provides brief summaries of the Technical Notes produced within the said framework.

1.6 **These Technical Notes were prepared under the coordination of the Country Economics Department (ECCE) and the Regional Directorate General-Central (RDGC),** with the technical assistance of Prof. Charles O. N'CHO, a Congo economy expert from the University of San Francisco.

1.7 **Besides these context elements (Section 1), this Summary includes four other parts**, namely: (i) General Introduction presenting the PND 2018-2022 guidelines (Section 2); (ii) Executive summary of Note No.1, on Economic Diversification (Section 3); (iii) Executive Summary of Note No. 2 on Human Capital (Section 4); and (iv) Executive Summary of Note No. 3 on Governance (Section 5).

2. General Introduction

2.1 Congo has just adopted a new National Development Plan (PND) for the period 2018-2022. The Government intends to make this PND the reference framework for the organisation and management of its development program, including the strategic alignment of the State budget with the annual action plans of ministries. It also intends to make it the sole reference for the conduct of its dialogue with the private sector and technical and financial partners, and the alignment of their respective supports for Congo's economic and social development priorities.

2.2 The first-generation PND (PND 2012-2016) operationalised the vision of society of the President of the Republic called "*Le* Chemin d'avenir, *de l'espérance à la prospérité"* (or "the Way to the Future, from Hope to Prosperity"*),* which sought to *"modernise and industrialise"* Congo through a structural investment programme and accelerated "municipalisation" in all the administrative districts ("*départements")*. This plan was drawn up in a context of relative abundance of budgetary resources. Congo had just obtained substantial debt reduction in 2010 when it reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative, which cut its external debt from 60 % of GDP in 2008 to 21% in 2010. Furthermore, the price of oil was then on the uptrend. These two factors considerably widened the fiscal space, enabling the State to finance a massive fiscal stimulus that increased the investment budget from CFAF 1445 billion in 2012 to peak at CFAF 1998 billion in 2014, an average growth of 17.6% over the period.

2.3 Conversely, PND 2018-2022, which comes to operationalise the President of the Republic's "revised" vision dubbed *"Marche vers le développement, allons plus loin ensemble"*, ("*Marching towards development, Going further together")* in a context of severe economic and financial crisis. The crisis that Congo has been experiencing since 2016 stems from the sharp drop in oil prices in 2014-2015, but also the financial stabilisation measures that the Government has had to take to rebalance the budget, rebuild foreign exchange reserves and to curb the country's over-indebtedness, as part of a Community strategy within the CEMAC zone.

2.4 This context of economic crisis and reduced fiscal space has led the Government to be more selective and more "frugal" in its new PND decisions. Its intention is first to persevere in its short-term financial stabilisation efforts to rebalance the budget and consolidate its external position, and also to prepare the economic revival for sustained growth in the medium term. It is also committed to seeking efficiency in its interventions, "doing better with less", seeking more quality than volume of physical and human investments, and relying more on reforms than on investments. The ultimate goal is improved service quality and access for greater economic and social impact, but with less budgetary impact.

2.5 To address these concerns, the Government has chosen to build the PND 2018-2022 around three "priority thrust areas" and related operational objectives, namely (i) strengthening governance, (ii) human capital development and value addition; and (iii) fast-tracking economic diversification.

2.6 Specifically, the Government intends to: (i) strengthen governance in all areas of public intervention to improve the quality of services and effectiveness of its actions; (ii) develop human capital through education system reform, and by implementing programmes on civic education and against negative values, to develop well-equipped individuals who technically and in moral and civic terms can constitute the human bedrock essential to Congo’s qualitative economic and societal transformation; (iii) accelerate economic diversification through agriculture, tourism and the private sector, to reduce its oil dependency and enhance its resilience for sustained growth, job generation and to combat poverty and all forms of economic and social marginalisation in the Congo.

2.7 The three strategic areas selected are closely interrelated, but even more so in the context of the economic crisis and reduced fiscal space. It is important to identify the correlations among these three pillars of the PND, first in general terms as cruxes of inclusive and sustainable development, but also in the particular context of the crisis in Congo.

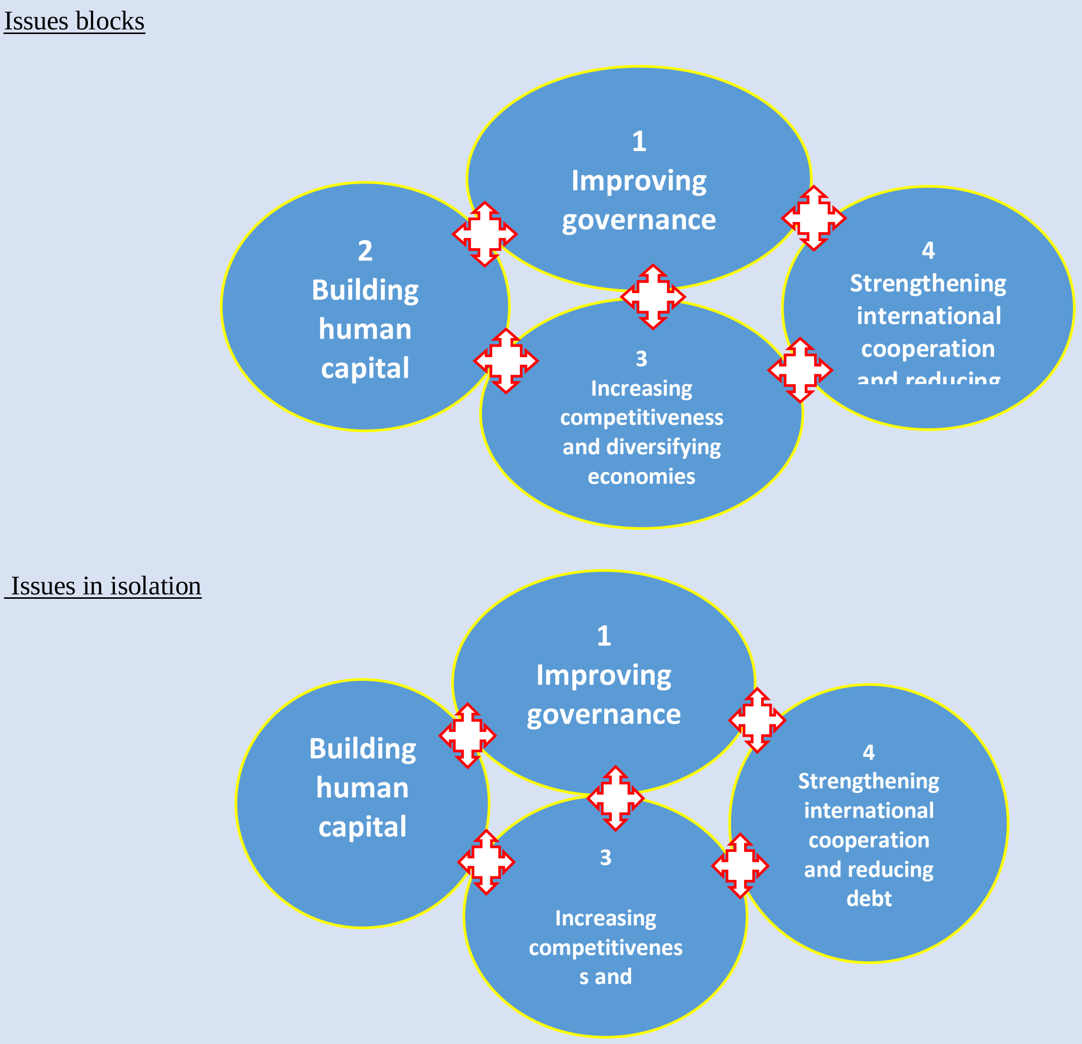
2.8 In general, the correlations between governance (Thrust No.1 of the PND), human capital (Thrust No. 2) and diversification (Thrust No. 3) are well documented in literature on the cruxes of inclusive and sustainable development of developing countries (cf. Figure 1). For instance, it is well established that accelerating diversification, i.e. the structural transformation of the economy, requires an improvement in the competitiveness of the economic space, which requires that of quality and quality productivity of key factors of production, including physical capital and human capital. The latter also constitutes the human bedrock of strengthened governance through the incubation of a culture and values conducive to development. Strengthening human capital (Thrust No. 2) is thus a decisive factor for both diversification (Thrust No. 3) and good governance (Thrust No. 1)

2.9 In return, strengthening governance means improving economic and social policies and services, and thus reducing factor and transaction costs, which strengthens the business climate, stimulates the private sector and accelerates the structural transformation of the economy. In other words, good governance is crucial for economic diversification. Lastly, economic diversification supports growth, job creation, income improvement and poverty reduction. This increased and sustained growth provides the State with the wherewithal to support as well the development of social services (education, health, etc.). In other words, diversification promotes human capital development, enhancement and preservation, directly through its growth and employment outcomes, and indirectly by strengthening social services.

2.10 The PND’s focus on the governance-human capital-diversification triad is even more appropriate in the context of the economic crisis in Congo, which requires well-coordinated strategies for financial stabilisation, economic recovery, and protecting the populations, particularly the most vulnerable. Indeed, the crisis that results partially from the oil shock highlights the vulnerability of Congo’s economy, the population, the State budget and thus the country’s development programme as a whole, in relation to oil. This justifies the Government's decision to accelerate diversification of non-oil production and exports. At the same time, the crisis also limits the State's budgetary capacity to support such diversification through large-scale investments; hence the relevance of the alternative to step up governance reforms. In contrast to investment, these reforms are not a money pit; but they have strong economic impacts by stimulating the private sector and growth, and significant social outcomes by enhancing the quality of essential public services offered by the State to the people. This is even more favourable in times of crisis when, more than ever, the State must provide to the populace - the most vulnerable in particular- minimum coverage in terms of access to essential services, particularly health and social protection, which means keen attention to human capital protection and preservation, the second component of the "triad".

2.11 From the foregoing, it appears that, through PND, Congo's government has made coherent and judicious decisions in view of the prevailing context and emergencies, but also of the need for sustained, inclusive and sustainable development. The purpose of this note on diversification and the two other complementary notes - respectively on human capital and governance - is precisely (i) to assess the relevance and complementarities in PND choices, and (ii) to clarify/justify the choices of the African Development Bank in its strategy of assistance to the development of Congo during the period 2018-2022.

Figure 1: PND 2018-2022 Priorities and Sustainable Development Circles for Africa



Source: Adapted from "Can Africa claim the 21st century", World Bank, 2000.

3. Note 1 Executive Summary: Economic Diversification

3.1 Since the 1970s, and through its successive development plans, the Congolese Government has constantly placed economic diversification excluding the oil sector at the heart of its strategy of accelerated growth and sustainable development. As a recent indication, the PND 2012-2016 had long dwelt on the problem of diversification and had proposed to this end integrated sector strategies through seven "clusters", including agriculture and the agrifood chain, forest and wood processing industries, buildings and building materials, and tourism and hospitality.

3.2 Despite this constantly determination, Congo's economy shows few signs of structural transformation. Clearly, it remains highly dependent on the oil sector, whose extreme volatility is the main source of chronic macroeconomic instability that hampers the country's growth and sustained development.

3.3 The dominance of the petroleum sector is reflected through several indicators, including: (i) the oil sector's heavy weight respectively in the national product (30% of real GDP and 58% of nominal GDP in annual average during the period 2002-2017), exports (90% of goods exports), private investment (80%) and foreign direct investment (83%), as well as government revenue (60%); (ii) the extremely unstable growth due to the volatility of oil price and production (324% coefficient of variation for the growth of oil GDP in value and 930% for volume growth), the balance of payments as well as public finances.

3.4 Beyond macroeconomic instability, the State budget's dependence on fluctuating oil revenue severely constrains the State's own capacity to support its spending programmes to foster economic transformation, growth and job creation. It also constrains its ability to support social spending commensurate with the expectations of the people and the objectives of inclusive development in Congo.

3.5 Why is it that despite the government's constantly demonstrated determination, a tangible transformation of Congo's economy has not successfully begun? A review of Congo's economic policies compared with those of countries that are better performing in their structural transformation reveals that the issue is not lack of will, but rather the poor quality of the diversification policies and the low efficiency of public interventions.

3.6 The experience of countries that have achieved their structural transformation indicates that they have focused chiefly on the private sector and not on State-owned enterprises, as is in Congo's case. They have also developed and vigorously pursued trade and investment openness strategies to stimulate private sector production and exports. By contrast, the review of the business and trade policy environment shows that, despite declarations of intent, Congo is struggling to resolutely implement the reforms needed to improve the business climate and reduce transaction costs to stimulate private investment and thus, economic transformation.

3.7 As an indication, and according to recent assessment of the *Doing Business* 2018 report, Congo remains at the bottom of international rankings in terms of the attractiveness of the business environment (47th out of 54 African countries, and 179th out of 190 countries in the world). The gap between Congo and the best-performing African countries such as Rwanda and Mauritius continues to widen, particularly for transaction costs. For instance, exports and imports cost respectively 10 and 6 times more in Congo than in Rwanda, which does not have a coastline. Similarly, Congo's export time limit is more than 13 times that of Mauritius, and for importation more than 23 times. In addition, Congo is struggling to reform public enterprises and implement its privatisation programme, which should make room for the private sector and improve the quality of economic and social services.

3.8 Ultimately, the biggest obstacle to Congo's economic diversification is the weak competitiveness and attractiveness of the business climate, which inhibits the development of the private sector, which constitutes the leading driver of diversification. Furthermore, it means that the failure of Congo's economic diversification is by no means inevitable. Congo is capable of rising to this challenge. It is less a matter of undertaking heavy structural investments, and more of that of deepening structural reforms to create more favourable conditions for private sector development.

3.9 Theoretical and empirical studies confirm that the Congo stands to benefit much from these reforms and the outcomes of diversification. This will strengthen the macroeconomic stability that is essential for progress on all other fronts. By providing the government with more stable and predictable budgetary resources, increased diversification will also strengthen the provision and quality of productive and social public services. Lastly, it will enable Congo to support and intensify its programme to combat poverty and other forms of economic and social insecurity, and thus to pursue its vision of accelerated, inclusive and sustainable development.

3.10 A summary assessment of PND 2018-2022 diversification programmes indicates that the Government has made relevant and timely choices in view of the economic and financial crisis situation as well as the medium-term recovery requirements. However, it will need to be even more selective and opt for actions with rapid results and low budgetary costs. In the agricultural strategy, these considerations call for the development of industrial agriculture. Congo has vast expanses of forest and savannah that make it attractive to agro-industrial investors. However, there will be a need to accelerate the implementation of land reform to facilitate and rationalise the acquisition of land and its rapid development by investors, while also protecting the rights of local communities.

3.11 Although not featuring among the PND priorities, forestry also offers the Congo good prospects for rapid diversification through increased logging and wood processing. Large operators are already in place and have adequate capacity to increase production. However, there will be a need to revise the transformation constraints (for example to lower the processed timber/log quota from 85/15 to 70/30) to better motivate operators and boost production, processing and export.

3.12 Focus will also be required on two crosscutting areas to support diversification through agriculture and forestry. The first concerns road transport infrastructure. The aim is to continue expanding the network of regional roads to facilitate and boost national and regional trade. However, to make these investments profitable, the implementation of trade facilitation reforms, which are part of the PND priority program, will require stepping up. The second concerns the financing issue. In this regard, the PND proposed the creation of specialised financial tools to address the financing constraints of SMEs and SMIs in the agriculture and forestry sectors.

3.13 The AfDB for its part, and as part of its country strategy, will continue to support Congo in the traditional sectors, including regional transport infrastructure, with a special focus on facilitating transport and developing rural roads. It may also contribute towards financing the diversification fund to encourage SMEs and SMIs in agricultural and forestry activities.

3.14 More specifically, three (3) programs/projects are proposed at the AfDB's discretion:

- ***Transport sector Support program,*** with 3 components: development of the integrative road network; rehabilitation of feeder and forest roads; transport facilitation;
- ***Peri-urban agriculture extension support project***, including agricultural irrigation;
- ***Economic diversification financing support program***, its main component being the financing of wood processing SMIs/SMEs and the development of agriculture SMEs.

4. Note 2 Executive Summary: Human Capital

4.1 In implementing PND 2018-2022, the Government of Congo also intends to strengthen its reputedly weak human capital through education system reform, the implementation of programmes on civic education and the fight against negative values. The aim is to provide technical, moral and civic skills to well-equipped women and men who can form the human bedrock for Congo’s economic and societal transformation.

4.2 Theoretical and empirical analyses of economic development and country experiences confirm the relevance of this choice. It is well established that *"investing in knowledge pays the best interest"* (Benjamin Franklin). Indeed, countries that have invested heavily in education, training and the health of their populations have drawn substantial dividends in terms of economic transformation, accelerated growth, job creation, income distribution and poverty reduction. In the process, they knew how to make their youth not a burden, but a productive force that contributes to technical, economic and social progress.

4.3 The issue of investing in human capital currently forms the very core of debates on accelerated and inclusive development strategies. As an indication, the World Bank, among others, has made it the central theme of its new World Development Report 2019, just recently presented at the Annual Meetings in Bali, Indonesia[23]. The report dramatises the importance and the assured profitability of investing in human capital by saying that *"Whatever the future holds, investment in human capital is a no-regrets policy that prepares people (particularly youth) for the challenges of the future."*[24]

4.4 Studies and experience have shown that investing in human capital is beneficial to the inclusive and sustainable development of countries, for a number of complementary reasons: (i) Developing human capital enhances labour productivity as well as physical and financial capital, which promotes economic transformation, sustained growth and job creation; (ii) in turn, increased productivity and growth mean higher wages for the factors of production, hence wages and income per capita, which benefits consumption as much as savings and investment. Recent studies have shown that between 10% and 30% of differences in per capita income observed between countries are attributable to human capital. The experiences of some countries - such as Botswana and Malaysia - prove this undeniably. These are countries which, like Congo, are endowed with the "manna" of natural resources, but which, unlike Congo, have been able to invest it substantially and resolutely in human capital, and which, as a result, have successful economic transformation for sustained, inclusive and sustainable development.

4.5 The Government of Congo for its part has recognised the importance of human capital for economic transformation, strengthening of governance and the modernisation of Congolese society. However, unlike the aforementioned countries, Congo has not been able to invest wisely the substantial revenue from its natural resources in developing its human capital. As a result, the economy has hardly changed and Congo's economic and social performance has remained weak rather than robust because it is dependent on oil resources, which are notoriously volatile. As an indication, the macroeconomic framework is particularly fragile; the poverty rate rose to 40% in 2017 according to estimates, oscillating between its high level of 50.7% in 2005[25] and the low of 35% in 2016; the unemployment rate remains particularly high, affecting more than 30% of youth aged 15 to 29, of whom more than half (58%) have been jobseekers for at least one year (long-term unemployment).

4.6 The weakness of Congo’s human capital is particularly evident in the performance of the education system, which suffers from problems of capacity and quality in view of inadequate resources invested and sector governance. This results well-known and chronic deficiencies: (i) *in terms of access*- access rates are still low with 30% admission rate in high school, and merely 10.4 students per 1000 inhabitants for higher education ; (ii) *in terms of efficiency* of the *system*– completion rates are even lower, 37% and 21% in secondary education respectively for boys and girls; (iii) *in terms the quality of what is produced from it* - the success rates for the various official exams are low, below 50% for the BEPC and 20% for the baccalaureate, and only 29% of the pupils leaving the primary cycle have a sufficient level of mastery of mathematics and 40.6% had acceptable results in the standard tests of French fluency; and (iv) the employability of those who graduate - less than a quarter (23.9%) of Congolese youth find stable employment after leaving school.

4.7 Health performance indicates similar problems of care access and quality. Despite government efforts in recent years, both in terms of infrastructure and nursing staff, the technical plateau remains extremely low and the staff unmotivated, particularly with the accumulation of salary arrears since 2014, and the beginning of the economic crisis. As a result, most health indicators are stagnant or declining. Furthermore, Congo's social protection system is still embryonic and barely covers 1% of the population since 2005, which is markedly low compared to the 1998-2014 average for Sub-Saharan African countries (14.3%), and that of the low-end MICs (21.3%).

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[23] World Bank, World Development Report 2019, "The Changing Nature of Work", Washington DC, October 2018.

[24] To this end, the World Bank has launched a new initiative to promote investment in human capital called "The Human Capital Project (HCP)".

[25] According to the Congo Household Survey (ECOM, 2005, 2011), the poverty rate was 50.7% in 2005 and 46.5% in 2011.

4.8 Already disadvantaged by its small population size (around 5.2 million in 2018), Congo will need to make substantial and sustained efforts to strengthen its human capital to leverage the "demographic dividend" expected in terms of accelerated economic transformation, increased wealth shared by all Congolese. The experience of other countries, particularly Botswana, indicates that Congo can meet this challenge if it is resolute in its choice to invest in human capital, and diligent in carrying out related actions.

4.9 In this regard, PND 2018-2022 provides a comprehensive list of programmes for strengthening human capital, education and training, as well as health and social protection. However, to remain consistent with its desire to set clear priorities and given the tight fiscal space, the Government stands to benefit by not sprinkling its resources and diluting their effectiveness by embracing everything, but rather by focusing on a few emergencies and priorities.

4.10 Definitely, the most urgent need is to provide a rapid and permanent response to the sector-wide problem of human resources capacity and motivation. This means putting in place and rigorously executing a plan for the clearance of arrears and regular payment of salaries for all teaching and nursing staff. No effective and lasting solution to the other problems of access and quality of services can be found without this prerequisite. The second priority is to address the human resource needs of the diversification sectors. This means allocating adequate resources to vocational training and skills training for the agricultural, tourism, education and health professions.

4.11 The AfDB for its part will be able to become more involved in this area, for instance by targeting its budget support towards elimination of arrears and regular payment of wages. It can also help to relieve the problem of teacher training, for instance by supporting the construction of a teacher training school in Congo, like that of Cameroon. In summary, the AfDB could support the following specific actions:

(a) *Support for clearance of salary arrears* for teaching and nursing staff*;*

(b) *Support for professionalisation of education,* notably the establishment of a higher technical teacher training college;

(c) *Support for girls' schooling* through cash transfers for girls from the poorest social groups;

(d) *Support for extension of primary health care,* through support (financial and/or material) to integrated health centres (IHCs) in the poorest areas.

5. Note 3 Executive Summary: Governance

5.1 Improved governance has always been a major concern for the Congolese authorities, as evidenced by its recurrent inclusion in the various planning documents over the past fifteen years. For the National Development Plan (PND) 2018-2022, this issue is raised to the top of all national priorities.

5.2 Despite this declared desire to improve governance, the country is struggling to perform well. The Mo Ibrahim index of assessment of governance in Africa (Ibrahim Index of African Governance, IIAG, 2017) gives a rating of 43 out of 100 in Congo, which it ranks 42nd out of 54, that is to say among the worst performers on the continent. This ranking is confirmed by the World Bank's CPIA (Country Policy Institutional Assessment) index, which puts Congo far below the African average. The findings of the 2012-2016 PND review point in the same direction, revealing that the principal cause of the underperformance observed in the implementation of this plan was the poor quality of the choices and the inefficiency of the interventions, i.e. - governance deficit, particularly economic and administrative.

5.3 Yet, the potential benefits of good governance are obvious and important. It has been proved that governance quality and economic growth are positively related. This correlation is because good governance and strong institutions play a pivotal role in the inclusive growth process. As they encourage entrepreneurs to invest in the country, which makes it easier to absorb the adverse shocks that the economy may suffer without curbing growth. Such mobilisation of private resources leads to increased mobilisation of public resources, through both taxation and external support. Conversely, poor governance leads to unsuitable policy and economic programme choices.

5.4 The Congolese authorities are thus right to insist in their successive plans on removing the constraints that maintain the country at the bottom of different rankings. Accordingly, their current responses as contained in PND 2018-2022, tackle, as always, all aspects of governance (political, judicial, security, administrative, economic and financial). However, in the final analysis, given Congo's limited budgetary resources, it would stand to benefit more in terms of relevance and effectiveness by focusing its efforts on the most urgent aspects having a high impact on the other priorities of the moment (macroeconomic stability, economic diversification, strengthening of human capital). This amounts to prioritising administrative governance to improve government efficiency, and economic governance to improve macroeconomic stability and contain public debt.

5.5 To enable the African Development Bank (AfDB) to contribute towards achieving this goal as an important priority objective, the following two programmes are submitted for its consideration in the preparation of its CSP 2018-2022 for the Congo:

- *Economic Management and Public Sector Reform Support Program*
- *Diversification and private sector strengthening support Programme*

Annex 17: Map of the Republic of Congo