AFRICAN DEVELOPMENT BANK GROUP

DEMOCRATIC REPUBLIC OF CONGO: COMPLETION POINT DOCUMENT UNDER THE ENHANCED HIPC INITITIAVE

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List of Acronyms and Abbreviations

ADB	African Development Bank
CAF	Country Assistance Framework
CRF	Common Reduction Factor
DRC	Democratic Republic of Congo
DRF	Debt Reduction Facility
ECF	Extended Credit Facility (formerly PRGF, IMF)
ESW	Economic Sector Work
EU	European Union
FDI	Foreign Direct Investment
FSF	Fragile State Facility
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JSAN	Joint Staff Advisory Note
HIPC	Heavily Indebted Poor Countries
LDC	Least Developed Countries
MDRI	Multilateral Debt Relief Initiative
MOF	Ministry of Finance
NHSS	National Health Sector Strategy
NPV	Net Present Value
RMC	Regional Member Country
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
PV	Present Value
RCUR	Risk Capital Utilization Rate
SCCA	Sino-Congolese Cooperation Agreement
SDR	Special Drawing Rights
SMP	Staff Monitoring Programme
UA	Units of Account

EXECUTIVE SUMMARY

On July 1, 2010, the Boards of Directors of the World Bank and IMF approved irrevocable debt relief assistance to Democratic Republic of Congo (DRC) under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The DRC is the 26th Regional Member Country (RMC) of the African Development Bank Group (Bank Group) to reach the HIPC Completion Point and qualify for a debt relief of US$ 7,252 million in end-December 2002 Present Value (PV) terms, of which 1,009.7 million is from the Bank Group. This document presents the justification for DRC reaching the Completion Point and seeks Boards of Directors' approval for the Bank Group's portion of the debt relief.

The preparation of this document was delayed for the following reasons. Firstly, the IMF and World Bank approved the HIPC Completion Point of DRC on 1 July 2010. Because of the World Bank's disclosure policy the final report was only available on 16 September 2010, which included a large number of revisions in the document. Secondly, the nominal debt was revised during a loan reconciliation exercise and therefore the Bank Group's share of debt relief increased from US$905.1 million at Decision point to US$1,009.7 million at Completion point in end-2002 PV terms. This was caused by the rise in the DRC's public debt stock which led to an increase in the common reduction factor from 80.2 percent to 82.4 percent. The increase in the Bank Group's share of debt relief of US$104.6 million in end-2002 PV terms is equivalent to US$179.6 million in nominal terms. Additional consultations were required to ensure that this increase would be covered by the Debt Relief Trust Fund (formerly HIPC Trust Fund) as agreed at Decision Point.

Assessment of Requirements for the Completion Point

DRC has satisfied all seven Completion Point triggers agreed with the authorities at Decision Point. The triggers that have been implemented include: Completion of a full Poverty Reduction Strategy through a participatory process and its implementation for one year; Continued maintenance of macroeconomic stability, as demonstrated by satisfactory performance under the IMF's Extended Credit Facility-supported program; Use of budgetary savings resulting from enhanced HIPC Initiative-related debt relief; Strengthened public expenditure management; Improvements in governance and service delivery in priority sectors; Adoption of satisfactory sectoral development strategies and related implementation plans for health, education and rural development; and improved debt management systems and strategies.

DRC's Debt Stock at Completion Point and Debt Relief Under the HIPC/MDRI

The stock of HIPC-eligible external debt estimated at the Decision Point in 2002 has been revised upward following the debt reconciliation exercise. As a result, the nominal stock of debt has increased to US$10,772 million, and the PV of debt after traditional debt relief has been revised upward by US$933 million to US$8,801 million in end-December 2002 NPV terms.

The total HIPC debt relief to be provided to DRC is US$ 7251.5 million in end December 2002 PV terms. This is composed of 36.3 percent from multilateral creditors, 59.3 percent and 4.3 percent from commercial creditors. The Bank Group's share of the HIPC debt relief is US$ 1009.7 million (US$ 888.4 million for ADB and US$ 121.3 million for ADF) and accounts for 38.3 percent of the total multilateral debt relief and 13.3 percent of the total debt relief.

By reaching the Completion Point, DRC would qualify for MDRI debt relief from the ADF, World Bank's IDA and the IMF on debts eligible for cancellation. The ADF would provide UA 105 million (US$ 162 million) in nominal terms while IDA and EU-LDC Initiative would provide respectively, US$887.0 million and US$75.3 in nominal terms. The IMF provided relief through its own modalities.

Debt Sustainability and its Sensitivity

Full delivery of debt relief at the Completion Point reduces the DRC's external public debt burden considerably. At end-2010, the PV of external debt-to-exports indicator fell from 182.5 percent after traditional debt relief to 57.5 percent with the delivery of the additional debt relief provided by the HIPC/MDRI along with beyond-HIPC bilateral assistance.

While HIPC and MDRI debt relief substantially reduce DRC's debt burden, the sensitivity analysis shows that DRC would remain vulnerable to lower exports and higher borrowing costs. To address this would require continued progress on structural reforms aimed to promote export growth over the long term, and to limit external borrowing to high concessional sources. The sensitivity analysis also highlights the need to diversify the economy to reduce the risk of adverse shocks and maintain low debt vulnerabilities by implementing prudent debt management strategies.

Bank Group's Intervention in DRC

The DRC should be commended for implementing fully all necessary reforms to meet the Completion Point triggers despite challenging economic, social and security conditions. The Bank Group has supported DRC's efforts to satisfy the Completion Point triggers as well as its overall development goals in several ways including by mobilizing resources for DRC's debt relief through innovative financing mechanism; providing two extensions of the HIPC interim period assistance (in 2007 and 2009); providing tailor-made interventions to address the financial and food crises; and providing supplemental resources and capacity building support.

Based on DRC's Results-Based Country Strategy Paper, the Bank Group also supported the DRC in achieving the Completion Point triggers through programme interventions by focusing in the last two Country Strategy Papers (covering the period 2005-2007 and 2008-2012) on the areas of promoting good governance and improving socio-economic conditions and supporting pro-poor growth. Resources from the ADF's Perfomance Based Allocation system and the FSF were utilized to fund agricultural and rural development, infrastructure rehabilitation and semi-urban and rural electrification projects, governance reform and capacity building initiatives. The Bank Group's operational engagement in DRC was supported by the ADF country allocation of ADF-11 (2008-2010) that amounted to UA 207.1 million as well as UA 60 million from Pillar I and 7.5 million from Pillar III of the Fragile States Facility (FSF).

Debt Relief Delivery Modality and Financing Arrangements

The modality for delivering DRC's debt relief by the Bank Group is unique. In 2002, the Bank Group committed to mobilizing the resources to clear DRC's arrears and to finance the Bank Group's share of HIPC debt relief. The initial resource mobilization enabled the Bank to generate income from the payment of interest on DRC's loans. The Bank has since made successive allocations of net income to the DRC Special Account. This is described as the interest recycling mechanism.

During the interim debt relief, the required Bank Group's contribution towards DRC debt relief through the DRC Special Account was estimated at US$ 571.27 million in nominal terms and the total accumulated debt relief US$ 1,252.81 million. With the upward revision of the HIPC debt relief required for DRC at Completion Point, all the additional resources needed to meet the Bank Group's commitment would come from the Debt Relief Trust Fund (DRTF) as the revision does not affect the interest recycling mechanism (DRC Special Account) portion of the financing arrangement. This brings the total funding required from the DRTF to US$ 731.64 million in nominal terms, which includes an increase of US$ 179.6 million between the Decision point and Completion Point. The US$ 731.64 million in nominal terms is equivalent to US$ 424 million in PV terms at the end of 2002.

Recommendations

The Boards of Directors are invited to: (i) take note of the justification for DRC reaching its Completion Point under the Enhanced HIPC Initiative and thus qualifying for irrevocable debt relief under the initiative; (ii) approve Completion Point debt relief under the Enhanced HIPC Initiative of US$ 1009.7 in end-December 2002 present value terms; and (iii) approve DRC's qualification for debt relief under MDRI.

DEMOCRATIC REPUBLIC OF CONGO: COMPLETION POINT DOCUMENT UNDER THE ENHANCED HIPC INITIATIVE

1. Introduction

1.1. On July 1, 2010, the Boards of Directors of the World Bank and IMF approved irrevocable debt relief assistance to Democratic Republic of Congo (DRC) under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The DRC is the 26th Regional Member Country (RMC) of the African Development Bank Group (Bank Group) to reach the HIPC Completion Point and qualify for an irrevocable debt relief of US$ 7,252 million in end-December 2002 Present Value (PV) terms, of which 1,009.7 million is from the Bank Group. This decision by the Bretton Woods Institutions was based on implementation of specific policy measures, i.e. floating Completion Point triggers, agreed with the authorities when the DRC reached its Decision Point in 2003 and revised during the course of the interim period.

1.2. The amount of HIPC assistance estimated at Decision Point in 2002 has been revised upwards from US$ 6,311 million to US$ 7,252 million, in Net Present Value (NPV) terms as at end-December 2002. This was caused by the rise in the DRC's public debt stock which led to an increase in the common reduction factor from 80.2 percent to 82.4 percent. Having reached the Completion Point, the DRC will also benefit from additional debt relief from the African Development Fund (ADF), the World Bank's International Development Association (IDA), and the IMF under the Multilateral Debt Relief Initiative (MDRI).

1.3. This document presents the justification for the DRC reaching the Completion Point and qualifying for debt relief under the Enhanced HIPC Initiative and the MDRI. It also seeks Boards' approval for the Bank Group's portion of the HIPC debt relief to DRC amounting to US$ 1009.7 million in 2002 NPV terms, which is composed of US$ 888.4 million from the ADB and US$ 121.3 million from the ADF. Furthermore, the document seeks Board's approval for debt relief of UA 105 million in nominal terms under the Multilateral Debt Relief Initiative (MDRI).

1.4. The report is outlined as follows: The first section assesses the triggers for reaching the Completion Point. The second section presents the total debt stock and discusses debt relief assistance under the HIPC and MDRI. The third section presents the long-term debt sustainability and sensitivity analysis after provision of HIPC/MDRI debt relief. The fourth section describes the role of the contribution of the Bank's Group intervention in the DRC. The fifth and sixth section, discusses respectively the financial modalities and Management recommendation for the Boards' consideration. The final joint IMF/World Bank "HIPC Initiative Completion Point document for DRC" is attached to this document.

2. Assessment of Implementation of Completion Point Triggers

2.1. According to the assessment by the staff of the AfDB, IMF and the World Bank, the DRC has satisfied all seven Completion Point triggers agreed with the authorities when the DRC reached its Decision Point. The implementation status of the Completion Point triggers are summarized below (details provided in Annex 1):

Implementation of the Poverty Reduction Strategy

2.2. In 2006, the government adopted the Poverty Reduction Growth Strategy (PRGS) paper which has been the central reference document in guiding the design of all Government policies. The PRGS was subsequently extended from 2008 to 2010. The PRGS is built around five main pillars, namely: (1) improve governance and consolidate peace by strengthening institutions; (2) promote growth and consolidate macroeconomic stability; (3) enhance access to basic social services and reduce vulnerability; (4) combat HIV/AIDS; and (5) improve community dynamics and the social environment. Overall, the PRGS has been important in consolidating macroeconomic stability, strengthening economic governance, and deepening program ownership.

2.3. Significant progress has been made in several areas such as macroeconomic stability; public financial management; improvements in access to education, child and maternal health, life expectancy and HIV/AIDS; and decentralization of basic services. Achievements in areas such as improved access to water and sanitation, maternal nutrition, gender and environment have been more modest. Despite the difficult economic and social disruptions, poverty incidence does not seem to have deteriorated significantly. The adoption of sector strategies in several key sectors in 2010, as well as analytical work, including a diagnostic trade integration study and surveys of public service delivery are expected to strengthen the evidence base for policy formulation and evaluation of the next PRSP.[1]

Maintenance of a Sound Macroeconomic Program

2.4. The DRC has maintained macroeconomic stability after reaching the Decision Point, as evidenced by satisfactory performance under the IMF's Extended Credit Facility (ECF)-supported program. The performance under the current ECF arrangement (December 2009-June 2012) has been satisfactory thus far. In the context of the first ECF-support program in 2003-04, the government implemented prudent policies that curtailed the monetization of fiscal deficits - the principal cause of macroeconomic instability - and helped reduce inflation and exchange rate pressures. They also made notable progress in structural reforms in the areas of revenue administration, Public Financial Management (PFM), and the financial sector.

2.5. Policy implementation started to weaken in 2005 as the focus of the transitional government shifted to the 2006 national elections; and, subsequently, because of periodic flare ups of conflict in the eastern province and inadequate fiscal discipline. During the period 2006-2008 the country suffered from exogenous shocks including an increase in food and fuel prices and a drop in prices of DRC's main export commodities which worsened the macroeconomic situation. This led to a deterioration of the macroeconomic environment (increase of public sector deficit, depreciation of national currency, reduction of foreign currency reserve, increase in inflation and drop in economic growth).

2.6. Since January 2009, the authorities have improved the macroeconomic policies and reinvigorated structural reforms. This was undertaken in the context of the IMF Staff Monitored Program (SMP) and the ECF-supported program which started in December 2009. These structural reforms were critical to improving macroeconomic management, including tightened and streamlined expenditure commitment procedures, strengthened

[1] This is also referred to as the Poverty Reduction Growth Strategy (PRGS).

administrative capacity to collect revenue, established transparent procedures for the commitment and payment. In 2010, real GDP growth is estimated at 5.4 percent supported by the recovery of the mining sector on the back of high export prices, while increased public and Foreign Direct Investment (FDI) in mining and public infrastructure is expected to sustain growth in the services sector. Another area of improvement was that the average Government revenue (excluding grants), increased from 8.6 percent of GDP for the period 2001-2005 to 16.9 percent for the period 2006-2010.

Satisfactory use of Budgetary Savings from HIPC Resources for Pro-poor Spending

2.7. During the period of 2003-09, the DRC received interim debt relief of US$1,308.8 million, some US$187 million per year while on average non-security priority spending exceeded 2003 levels by US$250 million per year. Spending by the national authorities on agriculture, education and health sectors was extremely modest at the end of the war in 2003. As a share of total national expenditure, these expenditures rose from 4 percent in 2003 to 18 percent in 2008 and 2009.

2.8. The PFM system is sufficiently established and well-run at the national level to monitor the tracking of priority spending for poverty alleviation. Monthly reports on the status of budget implementation, albeit produced with a lag, are available and provide credible information on budget execution at the national level. Weaknesses in the provincial public finance management systems regarding the collection of data on priority expenditure do not impede the assessment of social sector spending.

Improvement in Public Expenditure Management

2.9. The conditions for the Completion Point trigger under the public financial management and their implementation status are summarized below:

(i) Implementation of a modernized budget-execution system, providing information from commitment to payment, and allowing for the monitoring of arrears: The modernization of public expenditure management in 2008 culminated in the development and adoption of a manual of procedures and the automation of the expenditure chain. At any given time, the system can generate the status of individual expenditure items and provide up-to-date budget implementation information covering every stage of the expenditure chain from commitment to payment. The system also allows the monitoring of payment authorizations from the Treasury and actual payments by the Central Bank, which in turn permits the monitoring of arrears. The budget execution system has over the years provided a solid base for the improvement of budget control and expenditure management as the monitoring reports are used by the Ministry of Budget and Treasury to prepare their quarterly commitment and payments plans, respectively.

(ii) Adoption and implementation of a double-entry government accounting system and a new chart of accounts: The authorities introduced double-entry accounting in late 2005 with the creation of the Central Accounts Division (CAD) and the development and adoption of a Chart of Accounts and a procedure manual along with its computerized application. New accounting units and a computer application for accounting were set up within each of the three collection departments (Tax, Customs, and Administrative Revenue) that transfer the accounting information to the accounting department of the Treasury on a regular basis. Double-entry government accounting system and new chart of accounts was adopted. These have been used for budget execution since 2008.

(iii) Production of quarterly budget execution reports using economic, administrative, and functional classifications: The budget nomenclature allows for the presentation of execution reports according to a variety of classifications (i.e. economic, administrative, and functional) consistent with the IMF‘s 2001 Government Finance Statistics manual. Classification by source of funding (local versus foreign), and by geographic location (central versus provincial governments) is also available, in addition to classification based on pro-poor spending, including the use of HIPC resources. Budget execution reports called “Etats de Suivis Budgétaires” have been produced quarterly since 2008 using the three most widespread international classifications.

Improvement in Governance and Service Delivery in Priority Sectors

2.10. The two conditions for the Completion Point trigger under governance and service delivery in priority included:

(i) Completion of a budget-tracking exercise on health, education, rural development and infrastructure expenditure. This consists of monitoring the execution of poverty-related public expenditure; and evaluation by user groups of the quality of related public services, and evaluation by service-providers of constraints to effective provision were undertaken in 2010. The authorities have made great efforts to gather information and monitor pro-poor spending. Other activities that were carried out include the monitoring of the execution of poverty related public expenditures and the establishment an inter-ministerial committee to monitor and prioritize pro-poor public expenditures.

(ii) Adoption and implementation of a new procurement code and key implementing decrees: A new Procurement Law was adopted by parliament and signed by the President in April 2010. The administrative and institutional elements to support the new code have been put in place including the relevant secondary legal acts and the creation and staffing of a Public Procurement Directorate. This unit is tasked with overall responsibility to review and give no objection on procurement decisions, including bid documents for large contracts; and the nomination and installation of the board of the *Agence de Régulation de Marchés Publics* (ARMP).

Adoption of Satisfactory Sectoral Development Strategies and Related Implementation Plans for Health, Education and Rural Development

2.11. The government has adopted satisfactory development related to all three key sectors, i.e. Health, Education and Agricultural and Rural Development.

(i) The health sector objective is to ensure access of the entire population to primary health care, with special focus on vulnerable groups. The National Health Sector Strategy (NHSS) and National Health Development Plan were validated by Ministry of Health and development partners in March, 2010. To reduce fragmentation of services in health zones and vertical interventions of partners, the NHSS emphasized the importance of an integrated approach to basic health service provision through revitalization of health zones and alignment of donor interventions. These plans contribute to the improvement of the general health status of the population and containment of epidemics and transmission of diseases.

(ii) Progress has been made in the education sector with the adoption of the basic Education Strategy along with a priority action plan. The strategy, which was developed in consultation with a broad range of stakeholders, has put forward a strategic framework to ensure a more equitable and sustainable access to basic education of acceptable quality. The strategy is accompanied by a medium term expenditure framework that will help assure sustained implementation of priority policies as well as associated budgetary expenditures. Finally, there is also a priority action plan focusing on the planned fee-free policy and other critical actions and/or studies required to further operationalize policy options laid out in the strategy document.

(iii) The agriculture and rural development sector has also seen improvements with the restructuring of the Ministry of Agriculture and the creation of the Ministry of Rural Development in 2008. A collaboration mechanism was put in place to improve coordination at the level of the public administration in the elaboration of a new sector strategy. The establishment of Agriculture and Rural Management Councils at district level has created a platform for participation and inclusion at the provincial level. The two ministries of Agriculture and Rural Development have also finalized an agriculture and rural development sector strategy based on the findings of a 2006 analytical rural sector review and the agriculture policy note of May 2009.

Improving Debt Management

2.12. In 2005, the Government installed and fully activated a computerized debt-recording system, covering all public and publicly guaranteed debt. The Direction Générale de la Dette Publique (DGDP) – General Directorate for Public Debt- is the agency within the Ministry of Finance responsible for the analysis and management of the public debt portfolio. This agency has installed a Debt Management and Financial Analysis System (DMFAS) capable of producing external debt reports at the DGDP. The installation cost of the system, as well as DSM+ software for debt management and analysis, was jointly financed by the AfDB and IDA with technical assistance from the United Nations Conference on Trade and Development.

2.13. A more long-standing problem has been the lack of coordination and monitoring of the government‘s debt policy. As a first step toward addressing this problem, a Prime Ministerial Decree (No. 08/04 dated February 26, 2008) assigned DGDP the sole responsibility for centralizing and managing public debt; this was followed by the development of an Implementation Action Plan, which was endorsed by the Ministry of Finance. The legal mandate assigned to DGDP as well as the Action Plan have been regularly publicized since November 2009 with assistance from AfDB under the *Projet d'Urgence d'Atténuation des Impacts de la Crise Financière* (Emergency Program to mitigate the impact of the Financial Crisis). The Bank Group is currently preparing an initiative which includes a component to strengthen the debt management capacity unit, including human resources, management of debt data and debt sustainability analysis. The final outcome of these initiatives will ensure future debt will remain at sustainable levels.

Overall Assessment

2.14. With the foregoing, it is evident that DRC has met all the seven Completion Point triggers and therefore should be granted debt relief under the enhanced HIPC Initiative.

2.15. The DRC should be commended for implementing fully all necessary reforms to meet all the Completion Point triggers despite challenging economic, social and security conditions. The Bank Group has supported DRC's efforts to satisfy the Completion Point triggers as well as its overall development goals in several ways including by mobilizing resources for DRC's debt relief through innovative financing mechanism; providing two extensions of the HIPC interim period assistance (in 2007 and 2009); providing tailor-made interventions to address the financial and food crises; and providing supplemental resources and capacity building support.

3. DRC's Debt Stock and Debt Relief under HIPC/MDRI

Analysis of DRC's Debt Stock and HIPC Debt Relief by Creditors

3.1. The stock of HIPC-eligible external debt estimated at Decision Point in 2002 has been revised upward following the 2010 debt reconciliation exercise. As a result, the nominal stock of debt has increased by US$113 million to US$10,772 million, and the PV of debt after traditional debt relief has been revised upward by US$933 million to US$8,801 million in end-December 2002 NPV terms. The revision is attributable to the following changes in the external debt:

- **Multilateral Creditors:** The total multilateral debt stock as of end-December 2002 has increased by US$46 million in nominal terms. This change was primarily due to the addition of debt involving Banque de Développement des Etats des Grands Lacs (BDEGL), with whom the government had suspended relations at the time of the Decision Point. The corresponding PV in end-2002 terms was revised upward from US$3,077 million to US$3,196 million due to new information available at the time of the Completion Point reconciliation mission. This led to revisions in the PV of debt outstanding at end-2002 to a number of creditors, including the AfDB Group and the IMF.

- **Paris Club Bilateral Creditors:** Most of the upward revision of outstanding debt at the Decision Point after traditional debt relief mechanisms is attributable to revisions in Paris Club claims. The PV of debt to Paris Club creditors at end-December 2002 after traditional debt relief has been revised from US$4,318 million to US$4,944 million (an increase of US$626 million). This is mainly due to data revision following the debt reconciliation mission in 2010. The Paris club creditor countries and Brazil have fulfilled their obligation and cancelled their share of debt on 17 November 2010[2].

- **Other official bilateral creditors**. The nominal value of the stock of debt owed to other official bilateral creditors has increased by US$11 million to US$448 million and the corresponding PV of debt after traditional relief has increased to US$278 million in December 2002 terms.

[2] The press release "The Paris Club Agrees on a Reduction of the Debt of the Democratic Republic of the Congo in the Framework of the Enhanced Heavily indebted poor countries initiative" is attached in Annex 2

- **Commercial Creditors:** The increase in the stock of outstanding commercial debt at end-December 2002 by US$337 million reflects the inclusion of claims previously not included in the Decision Point database.

3.2. Based on the revised debt stock, the amount of HIPC assistance required to bring DRC's debt to a sustainable level has been revised upward from US$6,311 million estimated at the Decision Point to US$7,252 million at the Completion Point in end-December 2002 PV terms. As a result, the common reduction factor (CRF) has marginally increased from 80.2 percent to 82.4 percent. Creditors accounting for approximately 96 percent of the revised HIPC assistance have given DRC assurances of their participation including all multilateral creditors with two exceptions[3]; all Paris Club creditors; and some other official bilateral creditors. China provided outright cancellation of some of its claims in 2007.

3.3. Table 1 and Figure 1 present the breakdown of debt relief to DRC by creditors. Commitments by multilateral creditors makes up 36.3 percent of total HIPC assistance, with the Bank Group providing the largest share of multilateral debt relief (13.3 percent of total debt relief); bilateral creditors would provide 59.3 percent of the total debt relief, which corresponds to 56.2 percent for Paris Club and 3.2 percent for non-Paris club members, respectively; and debt relief from commercial creditors would account for 4.3 percent.

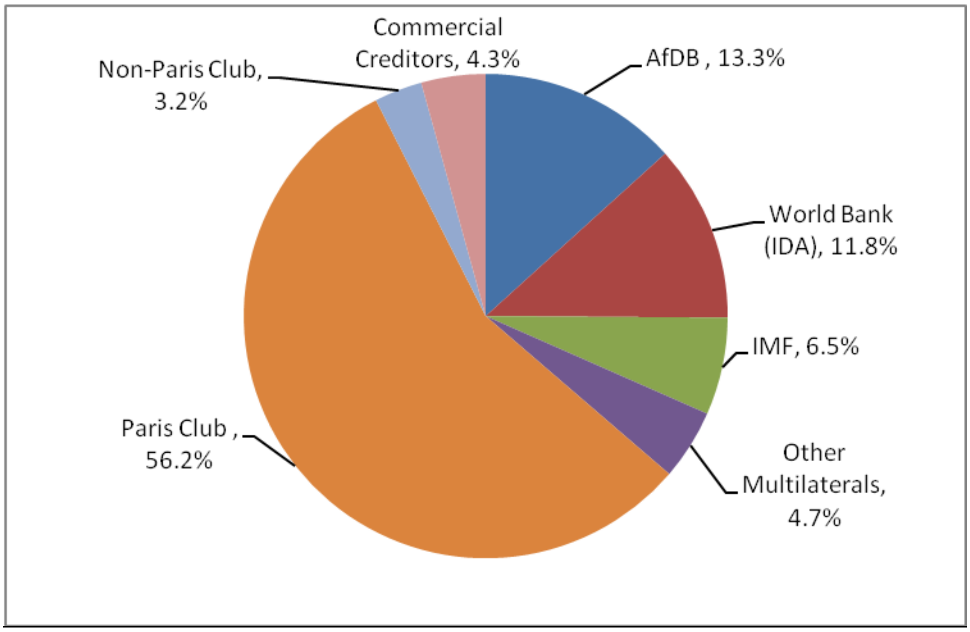
Table 1: Creditor Participation in DRC's HIPC Debt Relief

Creditors	Completion Point Debt Relief (end-December 2002 PV)	Percentage of Total Debt Relief from Multilateral Creditors (%)	Percentage of Total Debt Relief from all Creditors (%)
Multilateral Creditors	**2633.5**	**100**	**36.3**
AfDB	**1009.7**	**38.3**	**13.3**
World Bank (IDA)	854.0	32.4	11.8
IMF	471.5	17.9	6.5
Other Multilaterals	298.3	11.4	4.7
Bilateral Creditors	**4302.6**		**59.3**
Paris Club	4073.6		56.2
Non-Paris Club	*229.0*		3.2
Commercial Creditors	**315.4**		4.3
Total HIPC Debt Relief	**7251.5**		**100**

Sources: IDA/IMF: DRC – Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Completion Point Document and Multilateral Debt Relief Initiative (MDRI), June 15, 2010.

[3] The Banque de Development des Etats des Grand Lacs (BDEGL) and the Banque des Etats de l'Afrique Centrale (BEAC) have not officially agreed to participate

<u>Figure 1</u>: Distribution of DRC's HIPC Debt Relief by Creditor Group



Sources: IDA/IMF: DRC – Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Completion Point Document and Multilateral Debt Relief Initiative (MDRI), June 15, 2010.

Interim Debt Relief and Creditors Participation

3.4. IDA, the AfDB Group, the European Union (EU) and the IMF have provided HIPC debt relief through both arrears clearance operations and interim relief. The International Fund for Agricultural Development (IFAD), BADEA[4], Banque des Etats de l'Afrique Centrale (BEAC) and European Investment Bank (EIB) have delivered a portion of their HIPC assistance through arrears restructurings. The breakdown of HIPC assistance from the AfDB Group, IDA, IMF and other multilateral creditors are the following:

- **AfDB Group:** The HIPC debt relief from the Bank Group amounts to US$713.8 million (US$ 571.26 million from interest recycling mechanism and US$ 142.50 million from donor contribution through the Debt Relief Trust Fund). The AfDB Group's total debt relief has been delivered through the restructuring of arrears at the Decision Point and debt service reduction during the interim period. The remainder of the AfDB Group's HIPC relief is to be delivered in the form of debt service relief of DRC's debt service due from the Completion Point until July 2026.

- **IDA:** Debt relief has been delivered through the clearance of arrears and debt service reduction during the interim period amounting to US$442.7 million in end-2002 PV terms or 52 percent of total HIPC relief estimated at the Decision Point. IDA is assumed to provide the remaining amount of relief through a 90 percent reduction of DRC's debt service through November 2027.

- **IMF:** The IMF's share of debt relief for the DRC under the HIPC Initiative amounts to SDR337.5 million (US$471.5 million) in PV terms. Of this amount, SDR57.2 million (equivalent to about US$79.9 million) has been delivered through the concessional element associated with the disbursement of an ECF

4 This Bank is a financial institution funded by the Governments of the Member States of the League of Arab States.

loan following the DRC's arrears clearance to the IMF in June 2002, which counted toward the IMF's contribution to HIPC assistance.

- **Other multilateral creditors.** Other multilateral creditors that provide debt relief through their own modalities include: BADEA, EU, EIB, IFAD, BEAC, BDEGL, IFC and OFID.

3.5. Bilateral and commercial creditors have also participated in debt relief operation. Paris Club creditors have agreed to provide their share of enhanced HIPC assistance (estimated at US$ 4074 million in end-December 2002 PV terms). The major Paris Club creditors are the United States and France with 15.5 percent and 10.8 percent, respectively, of the HIPC eligible debt stock at end-December 2002, followed by Belgium and Japan with approximately 7 percent of the debt stock. Switzerland has already delivered its share of debt relief by cancelling 100 percent of its claims in 2003. Several Paris Club creditors will also provide additional debt relief beyond obligations under the HIPC Initiative, including 100 percent stock-of-debt cancellation. This additional relief is estimated at about US$47 million at end-December 2009 PV terms.

3.6. Non-Paris Club bilateral creditors are expected to provide relief on HIPC-eligible debt on terms comparable to those of the Paris Club. The PV of HIPC relief expected from non-Paris Club creditors at end-December 2002 is estimated at US$229 million. The major non-Paris Club creditor is the United Arab Emirates comprising 1.6 percent of HIPC-eligible debt, followed by Kuwait (0.9 percent), China, Serbia and Montenegro (former Yugoslavia) and Taiwan, Province of China (0.4 percent each). The authorities have negotiated relief efforts in the interim period with some of Non-Paris Club bilateral creditors and are working toward reaching agreements on provision of the remaining debt relief at the Completion Point with all non-Paris Club creditors.

3.7. Several commercial creditors have provided HIPC-comparable relief in the interim period. The commercial debt has been divided into claims held by the London Club and non-London club creditors. Several missing claims have been included in the debt stock at Completion Point which has almost doubled from the figure that was used at the Decision Point. For most of these claims the authorities have managed to obtain rescheduling on HIPC comparable terms. As of end-December 2009, the claims held by commercial creditors fell by about US$400 million to US$214 million in nominal terms.

Considerations for Exceptional Topping-Up Assistance

3.8. The Enhanced HIPC Initiative framework allows for the provision, on an exceptional basis, of additional debt relief (or "topping-up") at the Completion Point. Additional debt relief is provided if a country's actual debt burden indicators have deteriorated compared to the Decision Point projections, and this deterioration is primarily attributed to a fundamental change in the country's economic circumstance due to exogenous factors.[5]

3.9. DRC does not qualify for topping-up. The ratio of debt-to-exports at end-December 2009 PV terms, after full delivery of the HIPC assistance, is now estimated at 44.2 percent, which is 53 percentage points below the projection at time of the Decision Point. The ratio of PV of debt-to-exports, after the full delivery of additional voluntary bilateral debt relief beyond the HIPC Initiative at end-December 2009, would further

[5] Additional debt relief may be provided to bring a country's debt ratio to the relevant HIPC threshold at the Completion Point. To date six countries have received topping-up assistance under the enhance HIPC Initiative: Burkina Faso, Ethiopia, Rwanda, Malawi, Niger, Sao Tome and Principe and Guinea-Bissau.

decline to 43.3 percent, which is below the 150 percent threshold for consideration of topping-up assistance. Higher-than-expected exports and lower-than-expected new borrowing mainly explain why the PV of the debt-to-exports ratio at end-2009 is 53 percentage point lower than anticipated at the time of the Decision Point.

Debt Relief under the Multilateral Debt Relief Initiative (MDRI)

3.10. Upon reaching the Completion Point under the Enhanced HIPC Initiative, DRC would qualify for additional debt relief under the MDRI from the ADF, IDA and the IMF. In addition, the EU LDC Initiative will provide a full debt relief on selected EU loans that are still outstanding after HIPC assistance. The MDRI debt relief is broken down as followed:

- The ADF would provide debt relief to DRC under the MDRI amounting to US$162.1 million (UA 105 million) in nominal terms. This amount is calculated based on debt disbursed as of December 31, 2004 and still outstanding on July 1, 2010. This implies an average debt service savings (net of HIPC assistance) of US$3.9 million per year until 2053.
- IDA would provide debt relief under the MDRI amounting to US$887.0 million in nominal terms. IDA would provide MDRI debt forgiveness by canceling the DRC‘s debt service obligations for credits disbursed before end-2003 and still outstanding at end-September 2010 after the application of HIPC assistance. MDRI debt relief from IDA would imply average debt service savings (excluding HIPC assistance) of US$28.4 million per year until 2043.
- For the IMF, because of an extended interim period and revision of the HIPC assistance, the estimated balance in the DRC‘s HIPC Umbrella Account is sufficient to cover the remaining MDRI-eligible debt (i.e. all debt disbursed before end-2004 and still outstanding).
- The EU will provide additional resources through the LDC Initiative in the form of 100 percent cancellation of future debt service of US$75.3 million on selected loans over-and-above relief provided through HIPC.

Debt Sustainability and Sensitivity Analysis

3.11. The objective of the Debt Sustainability and Sensitivity Analysis is to ensure that debt remains manageable in the long term. The baseline macroeconomic framework assumes a strong recovery in economic activity over the medium term, supported by large investments in mining and public infrastructure projects. The key assumptions that underpin the baseline macroeconomic projections are the following:

- **The near-term outlook** is dominated by a rebound in world commodity prices (copper in particular) and external demand associated with the global economic recovery, followed by a strong recovery over the medium term fueled by a US$3.2 billion investment in a mining project along with US$3 billion in investments in public infrastructure projects envisaged under the Sino-Congolese Cooperation Agreement (SCCA).
- **Real GDP growth** is projected to increase from 2.8 percent in 2009 to an average rate of 6.8 percent in 2010-15 and then gradually decline to 4.4 percent in the long run.

- **Government revenues** (excluding grants) are projected to rebound from 17 percent of GDP in 2009 to 20 percent in 2010, and then increase gradually to just under 24 percent over the long term. Meanwhile grants drop sharply from 11.7 percent of GDP in 2009 to 6.6 percent in 2010 and then decline gradually to under 4 percent in the long run.

- **The current account** deficit widens dramatically from 10 percent of GDP in 2009 to over 20 percent in 2010-11, mainly due to a large increase in imported inputs for mining and public infrastructure projects. The deficit narrows thereafter as mining exports expand and investment-related imports diminish over time, gradually declining below 4 percent of GDP by the end of the 20-year projection horizon. Much of the widening in the current account deficit in 2010-11 is covered by net Foreign Direct Investment (FDI), which increases from 5.7 percent of GDP in 2000 to 8.6 percent in 2011 and then quickly falls back to 5.6 percent in 2013. The surge in FDI inflows reflects foreign investment in a series of mining projects planned over the next few years (notably those financed under the SCCA).

- **External financing** in the short term is dominated by loans disbursed to fund public infrastructure projects under the SCCA, which account for over one half of gross borrowing needs over the period 2010–14. The average grant element of new borrowing rises steadily from 20 percent in 2010-11 to over 48 percent in 2015-16 and then declines gradually to under 45 percent in the long run.

3.12. Within the macro framework presented above, full delivery of debt relief from all sources at the Completion Point would reduce the DRC's external public debt burden considerably. At end-2010 the PV of external debt-to-exports indicator would fall from 182.5 percent after traditional debt relief to 57.5 percent with the delivery of the additional debt relief provided by the Enhanced HIPC/MDRI Initiatives along with beyond HIPC bilateral assistance, which is below the HIPC threshold of 150 percent.

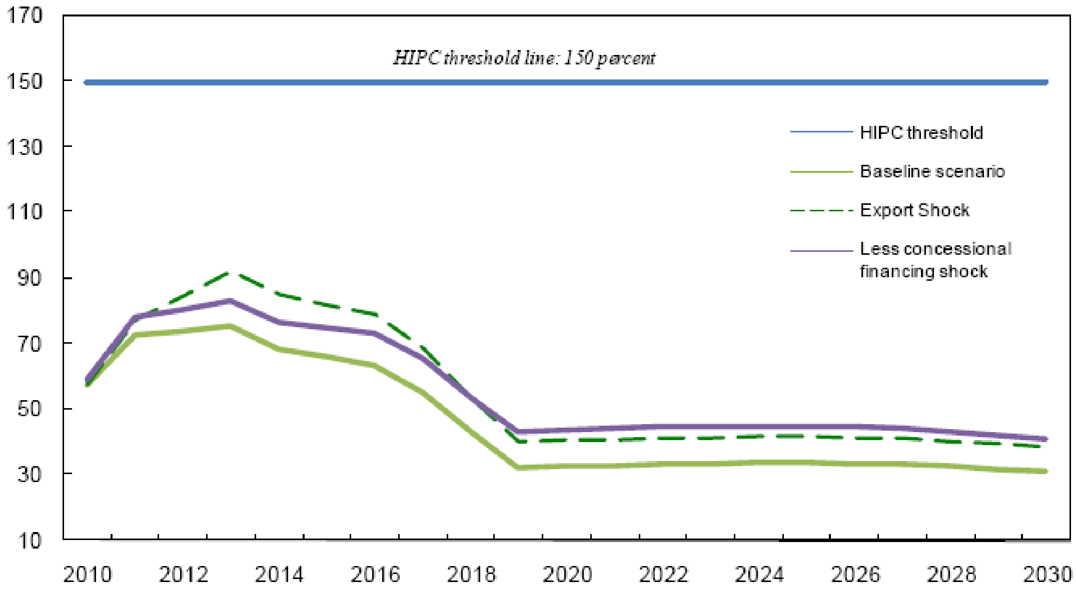
3.13. Furthermore, the external debt outlook is projected to improve markedly over the long term with full delivery of debt relief. The external debt indicators initially worsen over the medium term, but then improve gradually over the longer term. This is mainly due to a public guarantee on external borrowing to finance public infrastructure projects under the SCCA.

Sensitivity Analysis and Long-Term Debt Sustainability

3.14. As indicated in Figure 2 below, the external debt-to-exports indicator remains well below the HIPC threshold level under two alternative scenarios: lower export growth and less concessional borrowing terms. In first scenario "export shock" export values remain at their 2010 levels (zero growth) in 2011-12 compared to a 19 percent expansion in the baseline scenario. In scenario two "less concessional financing shock" the average grant element of new borrowing declines to 23 percent by the end of the 20-year projection period, compared to 45 percent in the baseline. The external debt indicators worsen over the medium term in both alternative scenarios, but improve over the longer term. The external debt-to-exports indicator remains well below the 150 percent threshold level in both cases.

Figure 2: **Present value of external Debt-to-export after HIPC and MDRI assistance**

(In percentage)



Sources: IDA/IMF: DRC – Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Completion Point Document and Multilateral Debt Relief Initiative (MDRI), June 15, 2010.

3.15. The sensitivity analysis highlights the need for strong and continued efforts to diversify the economy to reduce the risk of adverse shocks and maintain low debt vulnerabilities by implementing prudent debt management strategies. While HIPC and MDRI debt relief substantially reduce DRC's debt burden, the sensitivity analysis clearly shows that DRC would remain vulnerable to lower exports and higher borrowing costs than assumed in the baseline scenario. In order to ensure that the new debt remain below the HIPC thresholds, it will be crucial to continue to make progress on structural reforms aimed to promote export growth over the long term, and to limit external borrowing to high concessional sources.

4. Bank Group's Intervention in DRC

Strategic Orientation

4.1. The Bank Group supported the DRC in achieving the Completion Point triggers through programme interventions by focusing in the last two Country Strategy Papers (covering the period 2005-2007 and 2008-2012) on the areas of promoting good governance and improving socio-economic conditions and supporting pro-poor growth. These documents were based on the 2006 Poverty Reduction and Growth Strategy Paper and the donor's Country Assistance Framework (CAF). The CAF is intended to coordinate and harmonize the monitoring of external aid to the country, which is a key challenge in a post-conflict country like DRC.

4.2. Guided by the DRC Results-Based Country Strategy Paper, the Bank Group has supported DRC in consolidating peace and improving delivery of basic services through direct sector interventions and capacity building initiatives. Resources from the ADF's Performance Based Allocation system and the FSF were utilized to fund agricultural and rural development, infrastructure rehabilitation and semi-urban and rural electrification projects as well as governance reform and capacity building initiatives. Economic Sector Work was also undertaken in 2009 which focused on strengthening Regional Economic Development in Bas Congo in the context of decentralization of local government. The recommendations emphasized the strengthening of service delivery and local economic development. The Bank Group's operational engagement in DRC was supported by the ADF country allocation of ADF-11 (2008-2010) that amounted to UA 207.1 million as well as UA 60 million from Pillar I and 7.5 million from Pillar III of the Fragile States Facility (FSF).

4.3. As of December 2010, the Bank's active portfolio in the public sector consisted of eleven operations covering nine projects and one ESW. The total portfolio is UA 418.3 million of which UA 96.97 million (23.18 percent) have been disbursed (see Annex 3 for details). The breakdown of the portfolio is the following: Infrastructure Sector (75.76 percent), Agriculture (14.79 percent) and Social sector (9.56 percent). The average age of the portfolio is 4 years.

4.4. To strengthen the development of the private sector in DRC, the Bank approved an operation to support a copper and cobalt project in Katanga province for US$ 100 million in September 2007 and an equity investment in the Advans Bank of Congo amounting to US$ 1.1 million and 0.650 million in the form of technical assistance in January 2008. Finally, an increase in the Bank's equity investment in Advans Bank for US$ 1.1 million was approved in December 2009.

4.5. The indicative lending program for the period 2010-2013 (see annex 4 for details) envisages four projects under Pillar 1 "Support for good governance": the local government support project and the public administration human resources development project planned for 2010 but will be approved in 2011. It is also envisaged to launch an initiative to support the Government reforms program as well as an initiative to support business climate improvement in 2012. Under Pillar 2 "Promoting pro-poor growth", the Bank will support five projects, including semi-urban and rural electrification project and the aviation safety project approved in 2010. For the period 2011-2012 of the strategy, there are plans to fund a Drinking Water Supply and Sanitary project, a road project and a rural infrastructure support project.

Banks Group's Response to the Food and Financial Crisis

4.6. The 2008-09 financial crisis led to a drop in economic growth, which was reduced from 6.2 percent in 2008 to 2.6 percent in 2009. At the same time, the food crisis resulted in further stress on already limited household expenditures. These economic challenges could lead into civil strife and eliminate the recent gains in post-conflict reconstruction. The Bank Group responded through tailor-made projects to mitigate the financial and the food crises. These initiatives, together with the strong policy commitment of DRC, ensured that this country stayed on track and met the triggers to successfully reach the Completion Point of the Enhanced HIPC Initiative.

4.7. To mitigate the impact of the financial crisis, the Bank Group provided balance of payment support in the amount of UA 65 million under the "Emergency Program to mitigate the impact of the Financial Crisis" initiative. The operational objectives of this initiative were: (a) facilitation of the supply of essential imported goods and products; and (b) facilitation of the financing of top priority expenditures of the 2009 Budget. The expected outcomes were: (i) strengthening of the international reserves of the Central Bank of Congo and availability of essential imported commodities; (ii) establishment of some key benchmarks for reaching the enhanced HIPC Initiative Completion Point by end 2009; (iii) implementation in 2009 of the crisis exit emergency plan of the National Railway Corporation of Congo, a strategic public enterprise for economic recovery and social stability; (iv) more regular payment in 2009 of the salaries of primary and secondary school teachers; and (v) more regular payment in 2009 of the water and electricity bills of public entities.

4.8. The Bank Group also responded to the 2008 food crisis by supporting agricultural productivity and food security. This was undertaken by using non-committed resources through restructuring the DRC portfolio, which resulted in the release of UA 5.323 million.[6] This financed the procurement of inputs and items of equipment to ensure greater food security. This operation would increase annual production by 5850 tonnes of chicken meat and 360 tonnes of pork, with the view to making it a pilot farm for countrywide expansion.

Banks Group's Contribution to Capacity Development

4.9. The DRC is one of the 18 countries benefiting from assistance under the FSF. In this context, a capacity building and targeted technical assistance grant allocation of UA 7.5 million (US$ 11.09 million) has been approved by the Bank for DRC under FSF Pillar III. FSF capacity building assistance is a multi-sector and rapid response instrument, which complements the Bank's traditional capacity building operations. The current FSF-supported capacity development projects include the following:

1. **Technical assistance for strategic planning.** The objective is to assist DRC, in partnership with UNDP, in the preparation of a Long Term and Sustainable Development Strategy (Vision 2035) and implementation of a results focused action plan.
2. **Technical assistance and capacity building in economic management.** Three projects aimed at strengthening DRC's institutional capacity in the following areas: (i) macroeconomic policy and public financial management[7]; (ii) implementation of a strategy for optimizing the Diaspora's contribution to reconstruction and development in DRC; and (iii) implementation of a strategy and an action plan for urban planning and local development; and
3. **Provision of institutional capacity support to key ministries**. This project included providing essential IT infrastructure to government offices, including the Prime Minister's Office, the Ministry of Finance, the Ministry of planning, the Ministry of budget and the technical Committees for Monitoring and Evaluation of the macroeconomic and structural reforms program.

4.10. These projects are implemented in coordination with other donors (UNDP, UNFPA, World Bank, IMF, etc.) to ensure synergies with other operations, and in line with the Bank Group's commitment for aid effectiveness and the principles of good international engagement in Fragile States.

[6] These two projects from which non committed resources were reallocated from are: (i) Agricultural and Rural Sector Rehabilitation Project in Katanga Kasaï-Oriental and Kasaï Provinces; and (ii) Agricultural and Rural Sector Rehabilitation Project in Bandundu and Bas-Congo Provinces (ADF/BD/WP/2009/79/Approved)

[7] A dozen of international experts from the diaspora and the private sector

5. Debt Relief Delivery Modality and Financing Arrangements

5.1. The Boards of Directors recall that the modality for delivering DRC's debt relief by the Bank Group is unique. In 2002, the Bank Group committed to mobilizing the resources to clear DRC's arrears and to finance the Bank Group's share of HIPC debt relief. The initial resource mobilization enabled the Bank to generate income from the payment of interest on DRC's loans.[8] The Bank has since made successive allocations of net income to the DRC Special Account. This is described as the interest recycling mechanism. Part of DRC's arrears to the ADB was consolidated into a new loan and the ADF arrears were cleared through a grant.

5.2. Table 2, below provides a summary of the financing arrangement approved by the Bank Group's Boards at the Decision Point[9] and the status of debt relief delivery in end-December 2002 PV terms. During the interim debt relief period, the required Bank Group's contribution towards DRC debt relief through the DRC Special Account was estimated at US$ 571.27 million in nominal terms and the total accumulated debt relief US$ 1,252.81.million[10] With the upward revision of the HIPC debt relief required for DRC at Completion Point, all the additional resources needed to meet the Bank Group's commitment would come from the Debt Relief Trust Fund (DRTF) as the revision does not affect the interest recycling mechanism (DRC Special Account) portion of the financing arrangement. This brings the total funding required from the DRTF to US$ 731.64 million in nominal terms, which includes an increase of US$ 179.6 million between the Decision and Completion Point (see annex 5 on Bank Group Debt Relief Projections). The US$ 731.64 million in nominal terms is equivalent to US$ 424 million in PV terms at the end of 2002.

<u>Table 2</u>: DRC HIPC Debt Relief Financing Arrangements

(In millions in nominal terms US$)

DRC debt relief financing	Contribution from the Bank interest recycling mechanism	Contribution from the Debt Relief Trust Fund*	Total contribution for DRC HIPC assistance
Interim debt relief	571,27	142.50*	713.77
Completion Point debt relief**	681.54	589.14	1,270.68
Total	1,252.81	731.64**	1,984.45

* *Debt Relief Trust Fund contributions exclude the grant (US$59.8 million) provided prior to the Bank DRC Decision Point approval 2004*

** *The Debt Relief TF Completion grant is equivalent to US$424 million, in end-December 2002 npv terms.*

8 In 2002, the Bank Group established a special arrangement to finance its share of DRC's debt relief, which at the time was estimated at US$ 1.8 billion in nominal terms. At the time there were no dedicated facility (e.g. such as the PCCF and FSF) to support the clearance of arrears. Accordingly, the Bank Group committed to mobilizing resources through a special funds account (the DRC Special Account). The DRC Special Account, operates through a "partial payment-partial consolidation" or interest recycling mechanism approved by the Board of Directors in 2002. Under this arrangement, the Bank Group makes an annual allocation of net income equal to the amount of interest received on DRC's consolidated loans. The DRC Special Account then provides debt relief to DRC in the following year. See *Mechanism for Clearing the Arrears of the Democratic Republic of Congo and Additional Information on the Arrears Clearance Mechanism for the Democratic Republic of Congo (DRC).* ADB/BD/WP/2002/52/Add.1 and ADF/BD/WP/2002/58/Add.1, approved by Board of Directors' Resolutions B/BD/2002/16 and F/BD/2002/15 on 26 June 2002.

9 Resolution B/BD/2004/8- F/DB/2004/6

10 The seed money required to activate the interest recycling mechanism, amounting to US$ 54 million and US$ 17.5 million, was provided by bilateral donors and the DRTF respectively.

5.3. Under the Enhanced HIPC Initiative, the DRC's debt relief will be provided in accordance with the terms described in paragraph 47 and 48. These modalities will be implemented pursuant to a Grant Agreement concluded between the Bank Group and the World Bank (IDA). These debt relief modalities are consistent with the applicable rules and policies of the African Development Bank and the African Development Fund.

The Impact on the Bank's Exposure to DRC and projections for prudential ratios

5.4. The Board of Directors also recall that DRCs debt to ADB accounts for a significant proportion of the Bank's total outstanding debt. DRC's reaching the Completion Point will therefore have a significant impact on two key parameters affecting the Bank's prudential ratios: (i) the level of exposure to DRC; and (ii) the risk rating of the country at the Completion Point. The full impact on the Bank's Exposure to DRC and projects for prudential ratios is attached in Annex 6.

6. Recommendations

6.1. The Boards of Directors are invited to:

(i) Take note of the justification for DRC reaching its Completion Point under the Enhanced HIPC Initiative and thus qualifying for irrevocable debt relief under the initiative;

(ii) Approve Completion Point debt relief under the Enhanced HIPC Initiative of US$ 1009.7 in NPV terms as of end December 2002.

(iii) Approve DRC's qualification for debt relief under MDRI.

Annex 1: Status of floating Completion Point triggers

TRIGGER	STATUS/COMMENTS
1. PRSP	
Completion of a full PRSP through a participatory process and its implementation for one year, duly documented in the DRC's annual progress reports and confirmed as satisfactory by a Joint Staff Advisory Note (JSAN).	Implemented. The JSAN confirmed satisfactory preparation and implementation of the strategy - Staff also deemed overall implementation of the PRGS during the 12 months leading up to Completion Point as satisfactory, with high budget execution rates and budgetary allocations for priority spending, good initial results on social outcomes, and significant progress on structural reforms.
2. Macroeconomic stability	
Continued maintenance of macroeconomic stability after reaching Decision Point, as shown by satisfactory performance under the IMF's ECF-supported program.	Implemented. The staff report for the First ECF Review was circulated to the IMF Executive Board concurrently with the HIPC document on June 14, 2010. Overall, it was indicated that there was continued macroeconomic stability after reaching Decision Point.
3. Use of budgetary savings	
Use of budgetary savings resulting from Enhanced HIPC Initiative-related debt service relief during the interim period for poverty-related expenditures in accordance with the I-PRSP, with supporting documentation.	Implemented. HIPC resources have been allocated to key areas with greatest impact on poverty, e.g., social sectors and security.
4. Public expenditure management	
(a) Implementation of a modernized budget-execution system, providing information from commitment to payment, and allowing for the monitoring of arrears;	Implemented. New modern budget-execution system covering the four key stages of expenditure management in use since 2008 at the Chaine de la Depense unit of MOF.
(b) Adoption and implementation of a double-entry government accounting system and a new chart of accounts; and	Implemented. Double-entry government accounting system and new chart of accounts was adopted. These have been used for budget execution since 2008.
(c) Production of quarterly budget execution reports using economic, administrative, and functional classifications.	Implemented. Budget execution reports called ESBs have been produced quarterly since 2008 using the three most widespread international classifications. These reports also provide the status of budget arrears monthly.
5. Governance and service delivery in priority sectors	
(a) Completion of a budget-tracking exercise on health, education, rural development and infrastructure expenditure, consisting of (i) monitoring the execution of poverty-related public expenditure; (ii) evaluation by user groups of the quality of related public services; and (iii) evaluation by service-providers of constraints to effective provision; and	Implemented. Budget-tracking exercise to monitor the execution of social sector expenditures completed. Survey of users and providers of four essential public service delivery items completed in 2010.

(b) Adoption and implementation of a new procurement code and key implementing decrees.	Implemented. New procurement code passed by Parliament in April 2010 and all key implementing steps and documents adopted including the establishment of key institutions and the adoption of a manual of procedures. An implementation report will be prepared by November 2010.
6. Social and rural sectors	
Adoption of satisfactory sectoral development strategies and related implementation plans for health, education and rural development.	Implemented. The government adopted in 2010 satisfactory development strategies and related action plans for all three sectors, which were developed on the basis of reliable analyses and consultations with stakeholders.
7. Debt management	
Installation and full activation of a computerized debt-recording system, covering all public and publicly guaranteed debt, as well as public enterprise debt not carrying the guarantee of the State that can: (a) produce monthly debt-service projections, and incorporate actual disbursement and debt-service payment execution data; and (b) support the centralization of debt information in a single center. In addition, monthly debt-service projections will be published in advance on a quarterly basis.	Implemented. Computerized debt-recording system covering all the various types of public debt installed and fully activated. Monthly debt-service statements, including debt-service projections, produced on a quarterly basis and sent to the MOF for payments. All debt information is now centralized at the OGEDEP.

Source: IDA/IMF: DRC – Enhanced Heavily Indebted Poor Countries (HIPC) Initiative: Completion Point Document and Multilateral Debt Relief Initiative (MDRI), June 15, 2010.

Annex 2: Press release of the Paris Club (17 November 2010)

CLUB DE PARIS
PARIS CLUB

PRESS RELEASE

THE PARIS CLUB AGREES ON A REDUCTION OF THE DEBT OF THE DEMOCRATIC REPUBLIC OF THE CONGO IN THE FRAMEWORK OF THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE

The representatives of the Paris Club creditor countries and Brazil met with the representatives of the Government of the Democratic Republic of the Congo (DRC) on 17 November 2010 and agreed on a reduction of the debt following the DRC having reached its Completion Point under the enhanced initiative for the Heavily Indebted Poor Countries (enhanced HIPC Initiative) on 1 July 2010.

As a contribution to restoring the DRC's debt sustainability, the Paris Club creditors will provide a cancellation of US$ 7 350 million, fulfilling all their commitments under the enhanced HIPC initiative.

Paris Club creditors expressed their concern over the business environment and urged the Government of the DRC to carry out further reforms to improve governance, strengthen the rule of law and fight corruption which are necessary conditions to ensure a sustainable development after the enhanced HIPC initiative. They noted the DRC's determination to implement a comprehensive poverty reduction strategy and an ambitious economic program providing the basis for sustainable economic growth, including the commitment to improve governance and business environment.

The case of the DRC raised the issue of non cooperative behavior from some litigating creditors.

The Government of the DRC committed to seek from all its remaining external creditors a treatment comparable to HIPC debt relief.

The Government of DRC committed to devote the additional resources coming from the debt cancellation to priority areas identified in the country's poverty reduction strategy paper.

Background notes

1. The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries. It meets on a monthly basis in Paris with debtor countries in order to agree with them on restructuring their debts.
2. The members of the Paris Club which participated in the reorganization of the Democratic Republic of the Congo's debt were representatives of the governments of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, the Russian Federation, Spain, Sweden, Switzerland, the United Kingdom and the United States of America. Brazil also participated in this reorganisation and committed to provide its share of the effort under the Enhanced HIPC initiative.
3. Observers at the meeting were representatives of the government of Finland, as well as the International Monetary Fund (IMF), the International Development Association (IDA), the African Development Bank (AFDB), the Organisation for Economic Co-operation and Development (OECD) and the Secretariat of the UNCTAD.
4. The delegation of the Democratic Republic of the Congo was headed by Mr MATATA PONYO Mapon, Minister of Finance. The meeting was chaired by Ms Delphine d'AMARZIT, Co Chairperson of the Paris Club, Assistant Secretary at the Directorate-General of the Treasury of the French Ministry of Economy, Finance and Industry.

Technical notes

1. The Democratic Republic of the Congo's economic program is supported by a three-year arrangement under the Extended Credit Facility approved by the Executive Board of the International Monetary Fund (IMF) on 11 December 2009.
2. The Democratic Republic of the Congo's public external debt was estimated to be US$ 13.70 billion as of end 2009 (source: IMF and IDA documents). The debt owed to Paris Club creditors was estimated to be US$ 7.53 billion as of 1st July 2010 (source: Paris Club).
3. IDA-administered EU loans are included in this treatment.

Annex 3: Bank Group's current operations as at 31 December 2010

Project	Amount (UA)		Disbursement rate	Geographic coverage (by province)	Key dates		
	Commitment	Disbursed			Signature	Effectiveness	Effective closure
Agricultural and Rural Sector Rehabilitation Support Project in the Bas Congo and Bandundu provinces (PARSAR)	18, 000,000 (Loan)	8,813,772.82	48.97%	Bas-Congo, Bandundu	25/5/2004	4/2/2005	31/03/2011
	7, 000,000 (Grant)	4,747,794.20	67.83%		25/5/2004	4/2/2005	31/03/2011
Agricultural and Rural Sector Rehabilitation Project (PARSAR)	35, 000,000	22,359,930.18	63.89%	Katanga, East Kasai Or, West. Kasai	2/2/2006	12/5/2006	31/01/2013
Agriculture Sector Study (ESA)	1, 800,000	1,052,051.72	56.87%	Bas-Congo, Bandundu, 2 Kasai, Kin, Manie – East P.	11/10/2006	17/1/2007	30/12/2010
Total Agriculture and Rural Sector Development	**61, 850,000**	**36,973,548.92**	**59.78%**				
Nsele-Lufimi and Kwango-Kenge Roads Rehabilitation Project	52,450,000	33,629,845.42	64,12%	Kinshasa, Bandundu, W. Kasai, East Kasai	29/12/2005	27/6/2007	31/12/2011
Inga Hydroelectric Power Plants and Kinshasa. Network Rehabilitation and Reinforcement Project (PMEDE)	35, 700,000	-	0.00%	Kinshasa, Bas-Congo	10/4/2008	-	31/12/2014
Semi-Urban Drinking and Water Supply and Sanitation Project (PEASU)	70,000,000	18,032,058.91	25,76%	Bas-Congo, Equateur, West Kasai	9/8/2007	4/4/2008	31/07/2012
Emergency Air Safety Project	88,600,000	_	_	Entire DRC	2/11/2010		31/12/2015
Rural and Peri-urban Electrification Project	69,690,000	_	_	Kinshasa, Bas-Congo, Bandundu, Sud Kivu, Province Orientale	-	-	31/12/2014
Total Infrastructure Sector	**316,440,000**	**51,661,904.33**	**16,33%**				
Health Project I – Eastern Province Healthcare Development Master Plan Support (PAPDDS)	20, 000,000 (Loan)	5,067,009.48	25,34%	Eastern Province.	25/05/2004	17/03/2005	31/3/2012
	5, 000,000 (Grant)	1,816,841.23	36.34%	Eastern Province.	25/05/2004	17/3/2005	31/3/2012
Post-conflict Socio-Economic Reintegration Support Project (PARSEC)	15, 000,000	1,447,924.52	9,65%	Katanga, N.Kivu- S.Kivu, Eastern P., Maniema	9/8/2007	25/9/2008	30/6/2011
Total Social Sectors	**40,000,000**	**8,331,775.23**	**20.83%**				
Total Portfolio	**418,290,000**	**96,967,228.48**	**23,18%**				

Annex 4: 2008-2013 Lending Program

Operation	Year	ADF 11 (UA million)		ADF 12 (UA million)		Total
		Performance-based Allocation	FSF	Performance-based Allocation	FSF	
Ongoing						
Rail-Road Bridge Between DRC and Congo Study (multinational operation)	2008	1				**1**
NELSAP Interconnection Project (multinational operation)	2008	9.2				**9.2**
Inga Site Development Study (multinational operation)	2008	3.17				**3.17**
Programme to Mitigate the Impact of International Financial Crisis	2009	65				**65**
Public Administration Human Resource Strengthening**	2010	20				**20**
Local Governance Support Project **	2010	10				**10**
Electricity Infrastructure Rehabilitation and Extension	2010	9.69	60^{+}			**69.69**
Emergency Air Safety Project	2010	88.6				**88.6**
Congo-Sangha River Navigation Study (Congo-CAR-DRC)	2010	0.44				**0.44**
Long Term Perspective Study 2030	2010		0.3^{++}			**0.3**
Strengthening of Capacity and Technical Assistance of Public Finance Management Experts	2010		0.75^{++}			**0.75**
Other FSF Window III Activities	To be deter-mined		6.45^{++}			**6.45**
Total		207.1	67.5			**274.6**
Programming 2011/2013*						
Rural Infrastructure Support Project	2011			50		**50**
Boali III Interconnection Project (DRC-CAR)	2011			10		**10**
Public Sector Reform Project	2012			30		**30**
Road Project	2012			50		**50**
Rural and Semi-Urban Water Supply and Sanitation	2012			30		**30**
Improving Business Climate	2013			20		**20**
Emergency Air Safety Project (phase II)	2013				60	**60**
Rail-Road Bridge Between DRC and Congo Study (multinational operation)	2013			11.67		**11.67**
Congo-Sangha River Navigation project (Congo-CAR-DRC multinational operation)	2013			5.56		**5.56**
Total				207.23	60	**267.23**

(*) Depending on the financial allocation to the country under ADF-12, (**) Projects for 2010 not yet approved

(+) Window I FSF Supplementary Support, (++) Window III of FSF Targeted Support.

Annex 5: Bank Group Debt Relief Projections

Year	Provision of Debt Relief at Decision Point						Revised Provision of Debt Relief at Completion Point					
	ADF	ADB				Bank Group	ADF	ADB				Bank Group
	Debt Relief Trust Fund (Debt Service)	Interest Recycling Payments from DRC Special Account	on Principal Payments		Total ADB		Debt Relief Trust Fund (Debt Service)	Interest Recycling Payments from DRC Special Account	on Principal Payments		Total ADB	
			from DRC Special Account	Debt Relief Trust Fund					from DRC Special	Debt Relief Trust Fund		
2003	1,227	-	-	-	-	1,227	1,227				-	1,227
2004	5,039	77,762	-	3,563	81,325	86,364	5,039	77,762	-	3,563	81,325	86,364
2005	4,286	84,944	-	9,949	94,893	99,179	4,286	84,944	-	9,949	94,893	99,179
2006	5,055	92,410	1,389	12,767	106,567	111,621	5,055	92,410	1,389	12,767	106,567	111,621
2007	5,366	90,729	1,950	17,045	109,723	115,089	5,366	90,729	1,950	17,045	109,723	115,089
2008	5,298	88,784	2,213	21,887	112,884	118,183	5,298	88,784	2,213	21,887	112,884	118,183
2009	5,196	85,796	3,282	25,719	114,797	119,992	5,196	85,796	3,282	25,719	114,797	119,992
2010	5,338	82,467	3,594	30,417	116,479	121,817	5,338	82,467	3,594	30,417	116,479	121,817
2011	5,306	78,637	4,099	34,802	117,538	122,844	5,306	78,637	4,099	34,802	117,538	122,844
2012	5,346	74,447	4,488	39,976	118,911	124,257	5,346	74,447	4,488	39,976	118,911	124,257
2013	5,381	69,266	5,446	43,446	118,158	123,540	5,381	69,266	5,446	43,446	118,158	123,540
2014	5,348	63,789	5,743	48,174	117,706	123,055	5,348	63,789	5,743	48,174	117,706	123,055
2015	5,315	57,754	6,303	52,452	116,510	121,825	5,315	57,754	6,303	52,452	116,510	121,825
2016	5,284	51,351	6,633	56,547	114,530	119,815	5,284	51,351	6,633	56,547	114,530	119,815
2017	5,250	44,192	7,053	45,471	96,715	101,965	5,250	44,192	7,053	53,311	104,555	109,805
2018	5,217	37,819	6,182	-	44,001	49,217	5,217	37,819	6,182	51,332	95,332	100,549
2019	5,184	31,427	6,586	-	38,013	43,197	5,184	31,427	6,586	54,431	92,445	97,628
2020	5,152	24,732	6,892	-	31,624	36,776	5,152	24,732	6,892	57,562	89,185	94,338
2021	5,118	17,500	7,426	-	24,926	30,044	5,118	17,500	7,426	-	24,926	30,044
2022	5,225	9,969	7,726	-	17,695	22,919	5,225	9,969	7,726	-	17,695	22,919
2023	5,330	2,029	-	-	2,029	7,358	5,330	2,029	-	-	2,029	7,358
2024	4,586				-	4,586	5,295				-	5,295
2025					-	-	5,259	-	-	-	-	5,259
2026					-	-	2,451	-	-	-	-	2,451
Total	**109,8466**	**1 165,8036**	**87,0054**	**442,2144**	**1 695,0234**	**1 804,8701**	**118,2653**	**1 165,8036**	**87,0054**	**613,3785**	**1 866,1875**	**1 984,4528**

Annex 6: The impact of DRC on Bank's Exposure to DRC and projections for prudential ratios

The Board of Directors recalls that DRCs debt to ADB accounts for a significant proportion of the Bank's total outstanding debt. DRC's reaching Completion Point will therefore have a significant impact on two key parameters affecting the Bank's prudential ratios: (i) the level of exposure to DRC; and (ii) the risk rating of the country at the Completion Point.

- DRC's total outstanding loan balance to the ADB window amounted to UA 762 million at the end-December 2010, representing 9 percent of the total outstanding portfolio. This includes UA 469 million to be paid by DRC and UA 293 million to be paid by the Debt Relief Trust Fund. (DRTF, formerly HIPC Trust Fund) The Bank's exposure to DRC is expected to decrease after the Completion Point.
- Regarding the country risk rating, the debt relief provided under the enhanced HIPC Initiative and MDRI will be considered as a credit enhancement as well as an improvement in the country debt sustainability index which is an important factor for the country rating. The country's risk rating is therefore expected to improve by one notch and the risk capital charge applied to the exposure will decline from 89 percent to 57 percent. Due to its rating in the high risk category, a risk capital charge of 89 percent is assigned to DRC, and its used risk capital amounts to UA 678 million. Table 1 below summarizes the Bank's exposure to DRC in terms of nominal exposure and risk capital utilization, and provides the comparison with the 5 largest exposures in the Bank's portfolio.

Table 1: The Bank's exposure to DRC at the end of December 2010

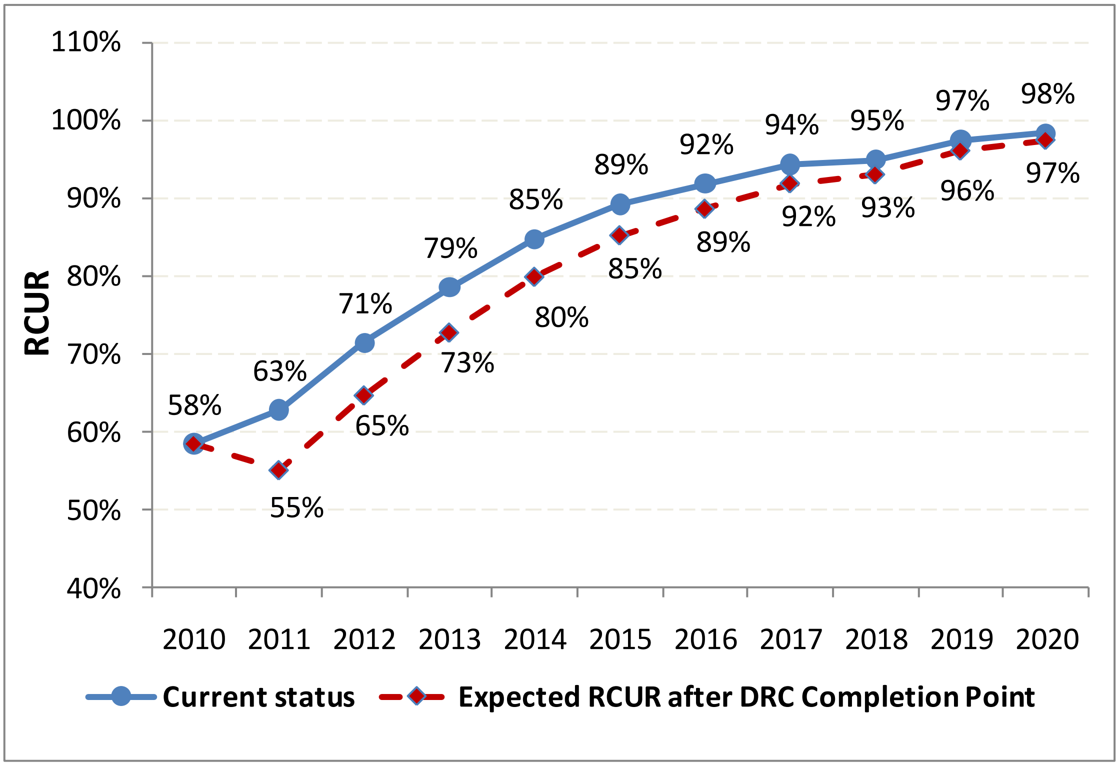
Concentration		**Outstanding**		**Used Risk Capital**	
		Notional	Share	Notional	Share
Borrower Concentration	Exposure to 5 largest borrowers	5,250	*60%*	861	*34%*
	of which: - DRC	762	*9%*	678	*26%*

Taking into account the engagements of both the Bank and the DRTF to provide the total amount of debt relief that is committed to DRC at the Completion Point, the Bank's exposure to DRC may be considered reduced by the amount received from DRTF (see annex 7 for details). Therefore, after the Completion Point, the Bank's exposure to DRC would be reduced[11] by UA 293 million, the amount due by HIPC Trust Fund.

The double impact (exposure reduction and decrease in risk capital charge) of DRC reaching the Completion Point on the Risk Capital Utilization Rate (RCUR) is shown in Figure 1. This figure indicates that compared to initial projections compared to excluding the impact of DRC reaching the Completion Point, the RCUR will decline by approximately 8 percent during the year following the Completion Point. In subsequent years, the impact is less significant as the Bank's outstanding exposure to DRC decreases. It is also assumed that DRC's risk rating will improve by one notch as its debt sustainability improves.

[11] At Completion Point the DRTF transfers in the form of a grant to the Bank the total amount of the allocations on NPV basis. These resources are invested and disbursed by the Bank.

Figure 3: Impact of DRC Completion Point on Risk Capital Utilization Rate



Annex 7: Cash Flows Details related to DRC Debt Relief Mechanism

UA million	Cash Flows of Consolidated Loan as of 31 December 2010			Interest recycled (ADB Income allocation)*	DRTF Allocation	Balance to be paid by DRC
Year	Interests	Principal	Total	Interests	Principal in UA million**	Principal
2010		10.02	10.02	68.12	10.02	
2011	68.80	40.76	109.56	67.32	22.60	18.16
2012	65.56	46.42	111.98	63.46	25.96	20.46
2013	61.09	51.49	112.58	58.77	28.21	23.28
2014	56.38	56.55	112.93	53.82	31.28	25.27
2015	51.18	61.66	112.84	48.39	34.06	27.61
2016	45.67	66.18	111.85	43.11	34.62	31.57
2017	38.89	57.64	96.52	34.96	33.33	24.31
2018	32.85	59.28	92.12	30.20	35.34	23.93
2019	27.50	62.91	90.41	24.68	37.38	25.53
2020	21.89	66.59	88.47	18.91		66.59
2021	15.83	70.22	86.05	12.68		70.22
2022	9.51	73.86	83.36	6.77		73.86
2023	2.85	37.95	40.80			37.95
Total	**497.98**	**761.53**	**1,259.51**	**531.18**	**292.80**	**468.73**

Source: FFMA

* *Each year an income allocation equal to the earned on the consolidated loan is made. Interest payments due on J anuary 1st of any year are assumed to be made by December 31 of the previous year.*

** *HIPC TF commitment is in USD million. Amounts are converted using exchange rate at the end of December 2010. T he current outstanding balance is USD 435.5 million and is equivalent to UA 282.8 million.*

Annex 8: IMF/World Bank HIPC Completion Point document for DRC

http://siteresources.worldbank.org/INTDEBTDEPT/CompletionPointDocuments/22784041/DRCCompletionPoint.pdf