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The World Bank**

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**TECHNICAL ANNEX
FOR
A PROPOSED GRANT
IN THE AMOUNT OF SDR 117.0 MILLION
(US\$164 MILLION EQUIVALENT)
AND A PROPOSED CREDIT
IN THE AMOUNT OF SDR 35.7 MILLION
(US\$50 MILLION EQUIVALENT)
TO THE
DEMOCRATIC REPUBLIC OF CONGO
FOR AN
EMERGENCY ECONOMIC AND SOCIAL REUNIFICATION SUPPORT
PROJECT**

August 14, 2003

Poverty Reduction and Economic Management 3
Country Department 9
Africa Regional Office

CURRENCY EQUIVALENTS

SDR 1.00 = US\$1.4016

US\$1.00 = Francs Congolais 430

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FISCAL YEAR

January 1 to December 31

ABBREVIATIONS AND ACRONYMS

BCECO	Bureau Central de Coordination
COPIREP	Comité de Pilotage de la Réforme des Entreprises Publiques,
CPAR	Country Procurement Assessment Review
CQ	Consultant's Qualification
DRC	Democratic Republic of Congo
EMRRP	Emergency Multi-sector Rehabilitation and Reconstruction Program
EMRR Project	Emergency Multi-sector Rehabilitation and Reconstruction Project
ERC	Economic Recovery Credit
ESRP	Emergency Stabilization and Recovery Project
FMR	Financial Monitoring Report
FY	Fiscal Year
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Agency
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MDRP	Multi-Country Demobilization and Reintegration Program
MLC	Mouvement de Libération du Congo
MONUC	Mission d'Observation des Nations Unies au Congo
NCB	National Competitive Bidding
NGO	Non Governmental Organizations
NS	National Shopping (NS),
OP	Operation Policy
PCU	Project Coordination Unit
PER	Public Expenditure Review
PRGF	Poverty Reduction and Growth Facility
QCBS	Quality-Cost Based Selection
RCD	Rassemblement Congolais pour la Démocratie
RN	Route Nationale (national road)
SMP	Staff Monitored Program
SOE	Statement of Expenditure
TOR	Term of Reference
TSS	Transitional Support Strategy

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Agency, so that short-term transactions (up to three years) can be covered against political risk. These actions are complemented by efforts aimed at strengthening the judiciary with the support of the European Union.

- *Mining and forestry sectors.* New mining and forestry codes were promulgated in July 2002 and September 2002 respectively – laying the ground for recovery in sectors which are key both to spur economic growth and to increase export revenues. These codes, prepared with the support of the World Bank, reflect international best practices, to attract foreign investors and enhance transparency in sectors where widespread corruption has prevailed for several decades. Efforts are now underway to re-establish an accurate mining cadastre (which has not been systematically updated since 1974) and review the forestry concessions awarded to date. The Government has also taken preliminary steps to restructure state-owned mining companies (in particular Gécamines).

The continued debt burden

40. Over the past decades, weak policies and conflict, compounded by sometimes misguided borrowing and lending decisions, have produced an unsustainable debt burden – and DRC is one of the most debt-laden IDA countries. Thanks to considerable efforts by both DRC Government and its creditors, critical steps have been taken for clearing arrears, which were preventing the re-engagement of key development partners. Arrears to the IMF and the World Bank were cleared in June and July 2002 respectively, and a clearance plan was agreed upon and funded for the African Development Bank's arrears. Paris Club creditors met in September 2002 and agreed to a generous restructuring of DRC's external debt. Furthermore, DRC reached its Decision Point in July 2003 and became eligible for debt relief under the enhanced HIPC Initiative from all of its creditors for a total amount of approximately US\$10 billion in nominal terms (or US\$6.3 billion in net present value terms over time).

41. Despite these efforts, however, scheduled debt service is expected to remain very high, and will still represent 30 to 45 percent of expected Government revenues between 2003 and 2006. With such a high level of commitments, the Government will not have sufficient room to support key activities necessary for the success of the reunification process. External assistance is thus still needed to help face the challenges associated with reunification, and to keep the overall recovery program on track.

Emerging priorities associated with reunification

42. All participants in the inter-Congolese dialogue have endorsed the economic program and called for its continued implementation. Still, the reunification process is taking place in a context of acute social and humanitarian crisis – and new challenges are emerging, which could result in partly or wholly derailing the program. In the coming period, and in line with its strategy, the Government has a two-fold agenda to facilitate the process of economic and social reunification to be successful:

- *Ensure key economic reforms are implemented throughout the country.* Key reforms already undertaken on the Government side have to be implemented throughout the country, in order to maintain the hard-won macroeconomic stability, restore sound economic governance, and create an environment for private sector-led growth in the northern and eastern provinces. Critical issues include: (i) fiscal mobilization, (ii) transparency in the management of public resources, (iii) public expenditure management, (iv) private sector activities, (v) exploitation of natural resources, (vi) public enterprises reform, and (vii) financial sector reform. Specific action plans and indicators have been or will be defined within the context of the economic policy dialogue with the Bank and the IMF.
- *Restore reunified, decentralized, and functioning institutions.* This will require first and foremost to resume wage payment to civil servants, as a critical pre-condition for public institutions to function. Efforts will also be needed to reintegrate long-divided entities into countrywide institutions, while maintaining an adequate degree of local autonomy and decentralization. Specific action plans and indicators will be defined at sectoral level, in particular with the support of activities funded under the Project's institutional strengthening component.

Design and implementation arrangements

43. The Bank has gained experience in providing adjustment support to DRC, with the successful implementation of the US\$450 million ERC approved in June 2002. This Credit has played a key role for the normalization of the DRC's relations with its external creditors, as well as for supporting the earlier stages of the economic reform process. Resources provided through the ERC have been put to good use and have contributed to restoring a minimal capacity for both economic governance and social services delivery. Provision of further balance of payments support to appears to be both a critical and an effective mean to support Government's efforts within the context of the reunification process.

44. The Government is committed to implement the two-fold agenda of reform necessary for the success of the process of economic and social reunification. In view of the existing track record, and to avoid cross-conditionality with other operations supporting economic reforms, there will be no specific macro-economic trigger for the release of funds under the component. This is consistent with OP 8.50 (Operational Policy on Emergency Recovery Assistance) under which the Project is prepared.

45. The balance of payments component will support and facilitate implementation of the Government's two-fold agenda. It is expected to permit the continuation of key recovery programs by financing critical imports, otherwise likely to be affected by fiscal resource constraints caused by the need to respond to the emergency, and contribute to stabilize the macro economy, by reducing the fiscal deficit and making additional foreign exchange available.

(ii) Improve capacity to manage public resources. Support will be provided within the broader context of the ongoing PER, with a focus on strengthening public resource management in reunified provinces.

(iii) Strengthen transparency. Support will aim to extend the scope of recent reforms to the entire country. Initial activities will include: extending activities of the recently-established Anti-Corruption Commission; conducting audits of the tax and customs administrations; screening public service payroll, with a view to identifying and removing "ghost workers"; and building a constituency for the fight against corruption, through information sessions and public debates.

(iv) Improve public dissemination and debate on economic reforms. The Component will aim to replicate a successful effort funded under the EERP to build support for the reform process through information and public debate –with a focus on reaching stakeholders in the eastern and northern parts of the country.

- *Support to the PRSP process (US\$4 million).* The preparation of a solid and broadly participatory PRSP is a critical element of the process of economic and social reunification: it is through this process that the consensus on priorities for country-wide recovery can be consolidated and translated into operational plans. The Project will provide financial and technical assistance to ensure the breadth and quality of the participatory process, in particular in reunified provinces – and to finance the sectoral surveys and other analytical work necessary for the preparation of sound sectoral strategies. This will be undertaken in close coordination with other donors, with a view to complementing activities for which financing is already in place.
- *Forestry reforms (US\$4 million).* The Project will support re-unification of DRC's forest institutions, and help improve local governance over natural resources (two thirds of DRC's huge forest endowment are located in reunified provinces). In particular, it will help bring into practice the provisions of the new Forestry Code and help address the issue of illegal logging. It will also support sound environmental management. Activities will be oriented towards developing local processes and ownership rather than just delivering outputs. In line with the recommendations of a sector institutional review, activities under the Project will be articulated around two major sets of priorities:

(i) Prepare a forest zoning plan – with a focus on the most-forested provinces (in particular Equateur and Province Orientale). This is critical to secure land rights and transparent access to forest resources for all stakeholders. The Project will finance: mapping services and verifications on the ground, socio-economic assessments, facilitation of local consultations to help Government and local stakeholders organize rural

areas in three broad categories according to their primary objectives (rural development, sustainable production, environmental protection). The project will also provide basic training and equipment for forestry services to lead the planning process.

(ii) *Lay the ground for implementation of the new law's forest concession system* – with a focus on converting old forest contracts into the new concession regime. The Project will finance methodological support and field verifications to: assess compliance with past obligations; re-design concessions boundaries where appropriate; and monitor preliminary steps by concession holders towards developing sound forest management plans. The Project will also support the setting up of a forest information system, and the re-activation of communication between central and local forestry services, as well as basic training and equipment to strengthen capacity of forestry services.

- *Reunification and decentralization of public institutions (US\$1 million).* Specific strategies and action plans are needed in each sector for a smooth and effective reunification of key public institutions. This process will take place within the broader context of reunification and the redefinition of the respective resources and responsibilities of central, provincial, and local levels of Government. It will require a dialogue between relevant stakeholders (including representatives of the Government, of the various levels of the relevant institutions, and of users' associations), and a review of experiences in other large countries. The Project will support this process in specific sectors and for specific institutions, in coordination with efforts currently underway under the EMRR Project to develop sector strategies. The Project will finance facilitation services, workshops, and study tours as may be necessary, as well as the provision of external expertise, studies, and audits. It may also include the limited provision of goods and works as needed.
- *Engineering and other studies for preparing the extension of EMRRP (US\$2 million).* Support will be provided to carry out the technical studies which are necessary to prepare for the eventual extension of the EMRRP throughout the country. These studies will focus on identifying sectoral priorities, scope of works, and possible implementation mechanisms (and also include social and environmental studies as may be needed). They will be complementary to efforts currently underway under the EMRR Project to define sectoral strategies and prepare key sectoral reforms.

Cost breakdown

55. The component will finance a number of activities, the exact nature and scope of which is expected to evolve during implementation. An initial cost breakdown (in US\$ million) is detailed in the table below:

- For component 3, to transparency in procurement and adequate supervision of contractors, as well as on performance in addressing environmental and social issues;
- For component 4, to the process of selection of NGOs, and contractors, and the effective and transparent implementation of activities;
- For component 5, to the quality of the facilitation processes and the transparency of financial management.

MONITORING AND EVALUATION

142. Regular reviews will be carried out every 6 months after effectiveness to assess progress, achievement of overall objectives, and the respective roles of the different partners and to reorient the Project if needed to ensure achievement of objectives. The reviews will involve visits by specialists to selected sites for first-hand assessment of executing entities' performance. The PCU will be responsible for: (i) preparing the necessary documentation for the reviews, and (ii) planning the review meeting. In particular, the PCU will contract a consultant (under project finance) to review and assess the progress of implementation and prepare the necessary documentation for the periodic reviews. The PCU will also organize meetings with implementing partners (e.g., NGOs) and key stakeholders and direct beneficiaries, for the supervision mission to receive direct feedback from all relevant parties.

ENVIRONMENTAL ASPECTS AND COMPLIANCE WITH BANK SAFEGUARD POLICIES

143. The Project is classified as environmental category B because no activity funded under the Project is expected to have a significant negative environmental or social impact (the EERP and EMRRP which included similar infrastructure rehabilitation activities received a similar classification). It should be noted that the emergency was in no way related to inappropriate environmental management practices. Special steps will be taken for specific components:

- *For component 3*, the rehabilitation works are expected to trigger several Safeguard Policies (namely on forestry, natural habitats, and involuntary resettlement), although their impact can be mitigated. It should be noted that works will focus on rehabilitation of an existing infrastructure (no new construction), and that there will be no change in the horizontal alignment or cross-section of the highways. Contracts will include clauses on restoration of the borrowing pits opened for the works as well as on environmental protection at the contractors base camps (e.g., waste products from vehicle maintenance, sanitation facilities). An Environmental and Social Assessment, financed under the Project, will be prepared, approved by the Bank and disclosed in country and in the Infoshop within one year of effectiveness (as per OP8.50).

Outputs for each component:	Output indicators:	Project reports:	Critical Assumptions and Risks (from Outputs to Objective)
	Woods Institutions (quantitative targets).		
Component 2: Institutional Strengthening 1. Restoring essential administrative capacity for sound economic governance in reunified provinces. 2. Ensuring implementation of forestry reforms in reunified provinces. 3. Support institutional reunification. 4. Carrying out engineering and other studies to prepare for a large-scale reconstruction program	- Use of sound budgetary and public expenditures procedures in the areas. - Number of concessions recalled; - Number of new concessions attributed in a transparent manner. - Smooth reunification of institutions, and definition of adequate relations between the central and local levels within reunified institutions, with a view to maximizing internal efficiency, transparency, and responsiveness to users' needs (report on decentralization process and mid term review). - Availability of adequate engineering and other studies to support the preparation of a large-scale rehabilitation and reconstruction program (availability of studies).	- Bank supervision mission reports; - PCU quarterly reports; - Midterm review by December 2005; - ICR by June 2008; - Project database; - Beneficiary surveys; - IMF missions reports	- Political reunification proceeding well; - Reform program continuously implemented by the Government.

I.A.4. Project Location: (Geographic location, information about the key environmental and social characteristics of the area and population likely to be affected, and proximity to any protected areas, or sites or critical natural habitats, or any other culturally or socially sensitive areas.)

Components 1 and 2 are not expected to be geographically localized.

Component 3 is expected to finance the de-bottlenecking (through minimal rehabilitation and no realignment) of the existing (non-covered) road Kisangani - Beni and the existing (non-covered) Bukavu - Mbuji Mayi road in order to make them passable. It will also provide resources for a supplemental to the existing contract for the rehabilitation of the Matadi - Kinshasa road, to complete works already launched;

Component 4 will be implemented in selected cities, which are expected to include Bukavu, Goma, Kindu, and Kisangani (with an expected focus on urban streets, drainage, and education / health facilities rehabilitation);

Component 5 will be implemented in pilot areas, which are expected to include the districts of Gemena, Isiro, and Masisi.


B. Check Environmental Classification: B (Partial Assessment)

Comments:

The Emergency Reunification Project is classified as environmental category B because activities financed under the Project are not expected to have significant negative environmental impacts. No new major construction is envisaged (rather, the Project will support the rehabilitation and reconstruction of deteriorated infrastructure).

The Emergency Reunification Project is an emergency recovery operation, processed under OP 8.50. A full environmental assessment will be completed within one year of effectiveness.

C. Safeguard Policies Triggered (from PDS)

(click on  for a detailed description *or* click on the policy number for a brief description)

Policy	Triggered
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> TBD
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Forestry (OP 4.36, GP 4.36)	<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> TBD
Pest Management (OP 4.09)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Cultural Property (OPN 11.03)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Indigenous Peoples (OD 4.20)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> TBD
Safety of Dams (OP 4.37, BP 4.37)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD

Section II - Key Safeguard Issues and Their Management

D. Summary of Key Safeguard Issues. Please fill in all relevant questions. If information is not available, describe steps to be taken to obtain necessary data.

II.D.1a. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts.

Environmental Assessment (OP 4.01, BP 4.01, GP 4.01). Activities financed under Components 3, 4, and 5 are expected to include some rehabilitation activities, in particular infrastructure repairs. These activities, however, are expected to remain limited in nature and scope, with a screening out of all activities with a potential negative impact and no adequate mitigation measures. Activities financed under Components 1 and 2 are not expected to have any significant environmental impact (see below for forestry). Safeguard policy 4.01 on environmental assessment safeguards is triggered.

Natural Habitats (OP4.04, BP 4.04, GP 4.04). Activities in natural habitats will be screened out from Components 4 and 5. Activities under Component 3 are not expected to have an impact on natural habitats.

Forestry (OP 4.36, GP 4.36). The support to implementation of economic reforms will include assistance in implementing forestry reforms throughout the country. These reforms, which have been developed with the assistance of the Bank, are already implemented in Government-held territories - with significant achievements (including a provision for re-distribution of 40% of forest fees to local communities, and the effective cancellation of 24 millions hectares of invalid concessions). The Project aims to extend the implementation of such measures to the rest of the country. It is not aimed at changing forestry policies, but rather at implementing changes already supported through earlier operations (in particular the Economic Recovery Credit). The safeguard on forestry is triggered.

Pest Management (OP 4.09). The Project is not expected to finance pesticides or activities which could have affect agricultural or public health.

Cultural Property (OPN 11.03). The Project is not expected to affect any cultural property. Activities under Components 4 and 5 which could have a negative impact on cultural property will be screened out during the selection process.

Indigenous Peoples (OP 4.20). The Project is not expected to include activities in areas inhabited by indigenous peoples.

Involuntary Resettlement (OP/BP 4.12). Some activities financed under Components 3 and 4 may require the resettlement of limited groups of people. Involuntary resettlement safeguard is therefore triggered.

Safety of Dams (OP4.37, BP 4.37). The Project does not include the financing of dams, or dam-related activities.

Projects in International Waters (OP 7.50, BP 7.50, GP 7.50). No activity financed under the Project is expected to be located in international waters.

Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60). No activity financed under the Project is expected to be located in disputed areas.

II.D.1b. Describe any potential cumulative impacts due to application of more than one safeguard policy or