Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 02-Nov-2016 | Report No: PIDISDSC19644

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Congo, Republic of	P160801		Integrated Public Sector Reform Project (P160801)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Jan 25, 2017	Apr 27, 2017	Governance
Lending Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Congo	Ministry of Finance	

Financing (in USD Million)

Financing Source	Amount
International Bank for Reconstruction and Development	40.00
Total Project Cost	**40.00**

Environmental Assessment Category	Concept Review Decision
C-Not Required	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

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B. Introduction and Context

Country Context

The Republic of Congo (Congo) is a lower-middle-income oil-dependent country in Central Africa, with per capita gross national income of US$2,540 (2015). From 2011 to 2015, Congo's annual growth rate has averaged 3.9 percent, which is lower than the 8.5 percent target set by the 2012–2016 National Development Plan (NDP) to achieve the country's ambitions to become an upper-middle-income country by 2025. This was largely due to the poor performance of the oil sector. During the last four years, oil production declined by an average annual rate of 6.2 percent, essentially due to interruptions of oil production in some offshore wells. Therefore, Congo's revenue mobilization has declined due in large part to the fall in oil production, which is a direct result of drop in oil prices. The oil sector accounts for more than 60 percent of gross domestic product (GDP), 75 percent of government revenues and 90 percent of total exports, therefore the recent developments bring about high level of uncertainty with regard to public revenues. In fact, significantly lower oil revenues are the main drivers for the 2014 fiscal deficit.

Congo has a relatively small population of 4.1 million, about 65 percent of whom live in the urban corridor between Brazzaville and Pointe Noire. The country is highly urbanized with a high proportion of the population living in the three main urban centers. However, both urban and rural areas have endowed with natural resources, such as extensive forests, arable land and minerals, as well as a deep-sea port in Pointe-Noire, all of which offer considerable opportunities for growth and development beyond the oil and gas sectors.

The high levels of poverty, unemployment and inequality are significant threats to the country's economic development aspirations, as captured in the NDP. These challenges are outlined in the latest Poverty Reduction, Growth and Employment Strategy Paper for the period 2012–2016, the main objective of which is to stimulate inclusive economic growth and to diversify the economy away from its dependence on oil. Other objectives of the Poverty Reduction, Growth and Employment Strategy Paper include improving governance, developing basic infrastructure, promoting social inclusion and equity, and reducing poverty from 46.5 percent in 2011 to 35 percent by 2015.

Congo faces persistent challenges during this period of relative sociopolitical stability after a lengthy period of conflict throughout the 1990s. The country continues to suffer from weak public institutions and limited implementation capacity in the public sector, thereby not fully capitalizing on the opportunities offered by its significant oil revenues and reserves. Congo did not meet the Millennium Development Goals (MDGs) related to universal primary completion, though it achieved gender parity in primary education and is close to parity in secondary education. Moreover, with an estimated population growth rate of 3.2 percent per year, the demographic transition is not yet in sight even with Congo’s middle-income status and relatively high rate of urbanization. The cohorts of youth entering the labor market are large and are expected to increase in the coming years, with limited prospects for gainful employment.

Sectoral and Institutional Context

A resource rich country, Congo has potential to develop itself. However, governance challenges, lack of transparency and inefficient public sector management affect the government’s capacity to undertake development effort and deliver public services. The lack of economic diversity puts the country in a vulnerable position with most of its revenues coming from volatile oil sales. The country also faces challenges on the efficient use of resources within a decreasing budget space context. The main challenges are:

State Reform and Public administration management. The reform of state is a high priority for the Government of the Republic of Congo. But, there is no strategy for the modernization of the state. Congo is estimated to have around 80,000 civil servants. However, this number is not reliable as there has never been a civil service census and there is no civil service database. The lack of reliable systems and processes is pervasive across the administration. For example, there is no civil service strategy for career management and recruitment which leads to disconnect between needs and actual recruitment. As a result, there is a ten year lag between recruitment and graduation from government public administration schools. More importantly, the recruitment process is highly opaque. The public administration also remains largely non-computerized leading to inefficiencies in service delivery. In order to establish a strategy to reform public service management, it is important to have a reliable database for civil service, as well as revise the legal framework and implement an organic framework in line with the needs of the administration.

Public financial management. The cumbersome public expenditure processes are responsible for the poor performance of sector ministries. Low budget performance is a direct result of an inefficient procurement system and lack of a solid planning process in public investment management. The lack of control over budget execution, due to low financial and human resources capacity of control institutions, also affects the quality of the expenditure process. The planned 10 percent increase in budget allocation for strategic sectors such as health, education, energy, and agriculture, between 2008 and 2013, had no impact on service delivery due to low budget execution. As a result a limited number of people have access to basic services. For instance, in 2014, only 1/3 of the population had access to clean water.

Initial reforms have been undertaken by the government to improve the financial management system. Procurement reforms have started in 2009 with the implementation of the legal and institutional framework. The reform resulted in the decentralization of procurement agents to ministerial departments, the implementation of an independent control authority *(Autorité de Régulation des Marchés Publics* – ARMP), as well as a shift towards the use of more competitive procurement methods. However, challenges related to low capacity still remain resulting in significant delays. The government has also initiated a PFM computerization master plan which was validated in 2009. This was followed by the implementation of information management systems in customs (SYDONIA), tax (SYSTAF) and financial management (SIDERE) which are still not completed. Also there are challenges in integrating these systems.

Going forward, Congo is planning to implement program budgeting by 2020, following the transposition of the 6 PFM CEMAC Directives with support from IMF/AFRITAC. The 6 PFM CEMAC Directives are Transparency Code, Budget Law, Accounting Regulations, Charter of Accounts, Budget Classification and Central Government Operations Statement. The deadline for transposition is January 2018. However, there is limited strategic coordination of reform efforts, leading to flaws in integrating economic forecast and budget, as well as the lack of upstream reforms such as accounting reforms. The revised public financial management legislation will be implemented through a strategic action plan which will include restoring credibility of the public expenditure chain, reinforcing control mechanisms, finalizing the integration of information systems, and implementing the shift toward a budget organized around programs.

Revenue management. On the revenue side, dependence on oil and volatility of oil revenue affect fiscal performance. Over the last couple of years, oil revenues have decreased and non-oil revenues have not increased. Therefore, total revenues have dropped from 46.5 percent of GDP in 2013 to 27.7 percent of GDP in 2015. Non-oil fiscal revenues stand at around 13 percent of GDP. The main challenge is the existence of informal sector, as well as the limited capacity of tax administration and tax exemptions. Reforms, such as the introduction of a unique tax identifier, the updating of taxpayers database, the implementation of tax withholding at source and the creation of customs one stop shops, have contributed to the increase in revenue collection for certain tax categories, such as the Value-Added Tax (VAT) and personal income tax. Further capacity building of the tax and customs administration is necessary to continue the increase in revenue mobilization. Main priorities of reforms should include reforming business processes automation of tax collection. Furthermore, identification of buoyant sources of revenue, such as land and forestry taxation, may also provide additional revenues.

Extractive industry governance. The government has started reforms in the management of the extractive industry. Congo has joined the Extractive Industry Transparency Initiative (EITI) in 2004, which allowed the country to improve transparency in the management of the extractive sector. These improvements include publication of quarterly reports of revenue transfers between the State Owned Oil Enterprise (Société Nationale de Pétrole du Congo) and the Treasury, and the publication of contracts in the oil sector. However, significant delays in the production of EITI reports may affect the EITI status of the country and jeopardize the gains of previous reforms.

Forestry governance. Forestry is the second biggest source of revenue for the country, contributing to US$ 0,350 billion of tax revenues to the State. However, there is room for improvements, as 40 percent of forestry tax revenues are not reversed to the State. The main problem is the diversion of funds. As there are limited budgetary resources allocated for the sector, resources at the local level are diverted for direct use. Furthermore, the loopholes in the tax code and collection further limit efforts to raise revenues from forestry sector. The lack of control resulting from failure to apply existing legislation and illegal transactions, including non-compliance with exploitation quota, jeopardize the future of the sector. Absence of transparency and lack of knowledge of existing forestry resources limit the capacity of control over forestry exploitation and affect the implementation of sectoral regulations. Main priorities include the reinforcement of the forestry revenue collection and management process, and capacity strengthening for the administration to monitor and control sectoral governance.

Relationship to CPF

The proposed Public Financial Management Reform Project is a key component of Congo's Country Partnership Strategy (CPS) FY13-16 and is fully aligned with the Government's Poverty Reduction Strategy Paper II (PRSP II). Its design also reflects the findings of the 2015 Performance and Learning Review (PLR). The CPS is organized around the two pillars and the foundation of the new World Bank Strategy for Africa: (i) competitiveness and employment, and (ii) vulnerability and resilience. The foundation is good governance and capacity building. Improved governance/government effectiveness is one of the five pillars of Congo's PRSP for 2012-2016. Actions envisaged under this pillar include: (i) improving human resource management; (ii) improving staff capacity; (iii) developing results-focused management tools; (iv) putting in place a remuneration system that will encourage performance and improve efficiency in public service; and (v) putting in place a decentralized civil service system.

C. Proposed Development Objective(s)

The Project Development Objective (PDO) is to: (i) improve revenue mobilization and public expenditure management; and (ii) enhance accountability.

Key Results (From PCN)

The revised Project Development Objective (PDO) is to: (i) Improve revenue mobilization and public expenditure management; and (ii) Enhance accountability.

These objective will be achieved by supporting government efforts to mobilize domestic revenue, improved public expenditure, and public administration management and controls.

Key Results

At PDO level, the key results expected from this project are as follow:

(i) % of non-oil tax revenue as a share of GDP;

(ii) Number of ministries that have executed more than 50 % of their annual investment budget;

(iii) % of deviance between personnel records and payroll records in databases;

(iv) % of budget covered by external audit;

(v) Number of direct beneficiaries (% of which female).

D. Concept Description

The proposed operation covers selected areas deemed critical to achieve its development objectives and its design has been informed by solid analytical work (PLR, Public Expenditures Management and Financial Accountability Review/PEMFAR and Policy Notes on governance aspects) and the Action Program of the Republic of Congo.

The scope of governance being wide, a programmatic approach will be employed to support the implementation of the priorities, depending on progress made in the implementation of reforms and the appetite of the Government to reform. The Project will focus on three blocks of reforms, which are: (i) Public Financial Management Reform; (ii) State Reform; and (iii) Accountability.

Accordingly, the project is organized in three components, including: (i) Strengthening public sector management; (ii) Improving governance and accountability of the public sector; and (iii) Building project implementation capacity.

Component 1: Strengthening public sector management (US$ 25.2 million).

The objective of the component is to improve revenue collection and rationalize expenditure chain. There are four sub-components:

Sub-component 1.1.: Improving revenue mobilization (US$ 7.0 million)

The objectives of this sub-component are to reinforce custom and fiscal administration capacities in terms of organization, fiscal control and procedures automation, as well as to improve information system.

This sub-component will finance the following activities:

- Secure existing and potential revenues: (i) Reduce loss of revenues through rationalized exemption systems, and (ii) Implement a property tax system.

• Strengthen the management capacity of tax administration: (i) Undertake a TADAT evaluation, (ii) design and implement a tax administration modernization strategy, and (iii) Develop and implement a training program for tax administration.

Sub-component 1.2.: Improved revenue collection practices from the forestry sector (US$ 1.2 million).

A diagnostic study on forestry sector identified weaknesses in tax administration of forestry revenues. As a consequence, forestry exploitation is under-reported and its value underestimated, with significant revenue losses to the government. To address this challenge, corrective measures will be implemented following the recommendation of the tax audit of the value chain, including establishment of forestry tax nomenclature to guide the "Direction Générale des Impôts et des Domaines (DGID)" in its collection strategy with forestry operators, enhanced communication, as well as information-sharing between the Ministry of "Economie Forestière" and DGID on data relevant collection (registered operators and monthly production statistics).

Activities to be financed under this sub-component are:

• Improve transparency of forestry revenue management: (i) Technical assistance to conduct a tax audit of the forestry value chain; (ii) Design and dissemination of a guide on the forestry tax policy and regulations; and (iii) extension of ITIE activities to the forestry sector.

• Improve capacity for the management of forestry revenue: (i) Improved institutional and administrative capacity of DGID and the Ministry of Economie Forestière based on the finding of the audit; and (ii) training for DGID and Ministry of Economie Forestière on forestry taxation and accounting.

Sub-component 1.3.: Strengthening public expenditure management (US$ 12.0 million)

This sub-component aims to address weaknesses on public expenditure management identified in PEMFAR, the recent World Bank Policy Note on governance and the CPS 2013-2016.

Activities to be financed under this sub-component are:

• Improve strategic planning capacity: (i) Definition of the new Programme National de Développement (PND), (ii) updating of macro-economic data to prepare a suitable medium-term expenditure framework.

• Improve investment management capacity: (ii) audit of investment programming and management chain, and (iii) support for the reform of public investment management system.

• Improve capacity for public expenditure management: (i) Supporting the implementation of the revised public financial management legislation; (ii) Design and implement training programs for actors involved in budget execution management.

Sub-component 1.4.: Continuing to support the implementation of the procurement law (US$5.0 million)

The objective of this sub-component is to address all weaknesses of the public procurement system in terms of efficiency, economy and transparency identified in the Procurement Policy Note led by the World Bank in June 2016.

Under this sub-component, the project will support the implementation of procurement reform by financing the following activities:

• Improve procurement management systems: (i) Implementation of an integrated procurement management system, (ii) Review of legal and regulatory framework; and (ii) Conduct an independent audit of public procurement;

• Strengthen the capacity of procurement institutions: (i) Strengthening of the institutional framework and management capacity; (ii) Design a training strategy and implement a training program for civil servants, private sector and civil society involved in public procurement; (iii) Restructuring and strengthening of procurement management units; and (ii) strengthening the structures in charge of controls.

Component 2: Improving governance and accountability of the public sector (US$ 8.0 million)

The objectives of the component are to strengthen accountability linkages within the expenditure chain and to strengthen human resource management processes. There are two sub-components:

Sub-component 2.1.: Enhanced personal management (US$ 4.0 million)

The objectives of this sub-component are to support the design of the strategic state reform plan and to develop a career directory within the civil service administration in order to improve civil service management.

This sub-component will finance the following activities:

• Support the government to define a strategic approach on public sector: Design and dissemination of the States Reform Strategic Plan;

• Rationalize the management of civil service: Development of an integrated management system of civil service registry, linked with public financial management systems.

Sub- component 2.2.: Improving capacity of public accountability structures (US$ 4.0 million).

The main objective of this component is to strengthen the capacity of the public accountability structures to enable them to conduct regular financial audits, monitor performance and compliance, and optimize resources in line with international auditing standards.

This sub-component will finance the following activities:

• Support institutional reform of accountability structures: (i) Harmonization of the institutional framework of the public accountability structures; (ii) Improving coordination between the Supreme Audit Authority and the Parliament (National Assembly and Senate) by strengthening communication;

• Capacity strengthening for public accountability structures: (i) Development and implementation of a training plan/program for internal and external audit institutions (IGF and Court of Account) based on International standards (ISSAI – INTOSAI, possibly in collaboration with existing national training institutions; (ii) Conducting joint application missions (Supreme Audit Authority and Finance General Inspectorate) with the support of international experts; (ii) Development and implementation of training program on control of public financial management for parliamentary financial commissions and the supporting staff, (iii) Acquisition of IT materials for accountability institutions (IGF, Court of Account, Parliamentary finance commissions)

• Improve transparency of accountability institutions: (i) Strengthening the archiving systems and website to broadcast regular audit missions reports in order to reach a wider audience; (ii) Creation of Supreme Audit Authority website to give public access to the widest possible reports it produces and training its officers in the use and updating of this site.

• Support social accountability and citizen engagement: Provide support to selected Civil Society Organizations to effectively undertake social accountability actions on public financial management.

Component 3: Building project implementation capacity (US$ 6.8 million).

The objectives of this component are to enhance project implementation capacity and to support the application of an M&E system for tracking progress in governance reform.

Sub-component 3.1: Building project implementation capacity (US$ 4.2 million):

This sub-component will serve to enhance project implementation capacity. The project would be implemented by the Ministry of Planning. In view of the current level of fiduciary risk for Bank project implementation in the Republic of Congo, consultants would be hired to manage the procurement and financial aspects, as well as the project monitoring and evaluation system.

Sub-component 3.2: Monitoring and Evaluation (US$ 2.6 million)

The project will finance capacity building for the Governance Unit in the Prime Minister's Office (PMO), which tracks the implementation of the governance reforms and in the Ministry of Finance, which is charged with the implementation of the PFM reforms, as well as for the Ministry Delegate within the PMO in charge of relations with Parliament, to improve technical and administrative management in the relation with government and Parliament.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Not applicable.

B. Borrower's Institutional Capacity for Safeguard Policies

Not applicable.

C. Environmental and Social Safeguards Specialists on the Team

Lucienne M. M'Baipor

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Aug 29, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Not applicable.

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APPROVAL

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