

Democratic Republic of Congo: Emergency Programme to Mitigate the Impacts of the Financial Crisis (PUAICF)¹

Overview of the Programme

The Programme d'Urgence d'Atténuation des Impacts de la Crise Financière Internationale (PUAICF) was designed as a balance of payments support programme accompanied by a government commitment to allocate counterpart funds to meet urgent expenditure items in the 2009 budget, in response to the effects of the international financial crisis on the Democratic Republic of Congo (DRC).

A request for support was received in March 2009, following a consultative mission in February 2009 and correspondence with the IMF about the possibility of providing support. The programme was formulated in close cooperation with support provided by the IMF², the World Bank³ and the European Commission⁴, and was approved by the ADF Board on 6th May 2009 and was effective a week later. It was intended in part to bridge the gap in balance of payments support until the IMF's PRGF was in place. The programme was financed by an ADF grant (under ADF-XI) of UA 65 million, and was designed in line with the approach⁵ set out in the Bank's "Response to the Economic Impact of the Financial Crisis" (which was approved by the Board in March 2009). The grant was disbursed in a single tranche in August 2009.

The Programme was designed and approved very quickly with OSGE and the Country Economist playing the principal roles in the design process. Following the initial request, the President of the Bank raised concerns (on 16th April 2009) that the approach proposed (with a timetable aimed at Board approval in June) would lead to unacceptable delays in the availability of support. On 21st April (following the distribution of the Appraisal Report for Peer Review and to the Country Team the previous day) the President agreed to the waiving of all normal time requirements and internal procedures, including proposing a reduced time for distribution of documents to the Board. Feedback on the Appraisal Report was received by April 22nd and the revised Appraisal Report was submitted to OPSCOM on 24th April, with a translation available for a Special OPSCOM meeting on 27th April. All documentation was then completed by 30th April for consideration by the Board on May 6th.

¹ This note is based on a review of documentation including the project file and the Project Appraisal Report and interviews with Bank staff. The Project Completion Report was not yet available when the note was prepared.

² The IMF provided a facility for balance of payments support under the Exogenous Shocks Facility of USD 195 million in March 2009 which was fully disbursed during the same month and a PRGF programme was also negotiated to follow this.

³ The World Bank in February 2009 provided a Balance of Payments and budget support of USD 100 million. This was targeted on essential imports, primary and secondary teachers' salaries, and the water and electricity arrears of government.

⁴ The European Commission was envisaging providing 48 million Euros emergency support focused on food security, for the second half of 2009.

⁵ Specifically, Annex 3 of the Appraisal Report includes an assessment of whether the following provisions for emergency support in ADF countries were met: Immediate consultation with RMC governments to review existing priorities and pipeline; Close coordination with other institutions on appropriate response; Internal consultations within the Bank Country team; and creative efforts to deepen private sector engagement

The operational objectives of the Programme were defined as:

- (i) Facilitation of the supply of essential imported goods and products; and
- (ii) Facilitation of the financing of top priority expenditures of the 2009 Budget.

The expected outcomes were:

- (i) Strengthening of international reserves of the Central Bank of Congo (BCC) and availability of essential imported commodities;
- (ii) Establishment of some key benchmarks for reaching the enhanced HIPCII completion point by end 2009;
- (iii) Implementation in 2009 of the crisis exit emergency plan of the National Railway Corporation of Congo (SNCC);
- (iv) More regular payment in 2009 of salaries of primary and secondary school teachers; and
- (v) More regular payment in 2009 of the water and electricity bills of public entities.

The Programme therefore involved two "Components":

- Component 1: Facilitate the Supply of Imported Essential Goods and Commodities
- Component 2: Commitment by the Government to Use the Local Currency Equivalent of the Foreign Exchange to Finance Urgent Targeted Public Expenditures:
 - Sub-component 2A: Commitments to Establish Triggers of the Enhanced HIPCII Completion Point [specifically to complete the PRSP and to ensure service delivery in priority sectors]
 - Sub-component 2B: Commitments to Deliver Urgent Public Services [SNCC Crisis Exit Emergency Plan, Primary and Secondary School Teachers' Salaries; Payment of Water and Electricity Bills].

Because of the weakness of government fiscal systems, and to ensure funds were in fact used for the agreed budgeted expenditures, counterpart resources were not administered through the Treasury General Account, but rather through the establishment of four special accounts which could be separately managed and audited to ensure that resources were used in line with agreed priorities:

- The designation of a BCC account to receive the foreign exchange funds.
- The opening of a special account of the Treasury General Account with the BCC to receive the local currency equivalent of the foreign exchange transferred.
- The opening of a special SNCC account with BCC to receive the funds in local currency allocated to this public enterprise.
- Opening of a special account in a commercial bank to receive funds in local currency allocated to the operating costs of the programme implementation and audit mechanism.

The foreign exchange provided could be used for a list of eligible essential imports:

- Oil and fuel products.

- Food products.
- Construction materials.
- Telecommunications equipment.

Lessons

Although the PCR for the project is not available at the time of writing, the PUAICF appears (along with the support provided by other donors) to have achieved its objectives. In relation to balance of payments support, there was an increase in reserves from 0.6 of a week's import needs in March 2009 to 6.98 weeks at the end of August 2009 and adequate justification was available for the first USD 77 million of imports when the programme was reviewed in November 2009. It appears that counterpart funding objectives were also met.

The experience with PUAICF showed that the Bank was able to provide a rapid and effective response to urgent balance of payments and fiscal needs of a post-conflict RMC in a highly fragile situation and with very weak systems using the approach set out in the Bank's policy on response to the international financial crisis (which provided additional flexibility for the reprogramming of ADF resources), and working in close coordination with other donors providing similar support.

The approach of ensuring that counterpart funds were used for agreed priorities (which were already in the government budget) through the use of special accounts appears to have minimised fiduciary risk without compromising government priorities or undermining government budget systems, and it is considered that this approach has scope for being further used in fragile contexts.