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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>ADB</td>
<td>African Development Bank</td>
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<tr>
<td>ADF</td>
<td>African Development Fund</td>
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<tr>
<td>CORAF</td>
<td>Congolaise de Raffinage</td>
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<tr>
<td>CSP</td>
<td>Country Strategy Paper</td>
</tr>
<tr>
<td>CNCCF</td>
<td>Commission National de Lutte contre la Corruption, la Concussion et la Fraude (National Corruption, Extortion and Fraud Commission)</td>
</tr>
<tr>
<td>CFCO</td>
<td>Chemin de Fer du Congo Océan (Congo-Océan Railway)</td>
</tr>
<tr>
<td>CPA</td>
<td>Country Performance Assessment</td>
</tr>
<tr>
<td>DSA</td>
<td>Debt Sustainability Analysis</td>
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<td>EC</td>
<td>European Commission</td>
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<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<tr>
<td>€</td>
<td>Euro</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<tr>
<td>I-CSP</td>
<td>Interim Country Strategy Paper</td>
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<td>IDA</td>
<td>International Development Association of the World Bank</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>MDRI</td>
<td>Multilateral Debt Relief Initiative</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MTF</td>
<td>Multilateral Debt Trust Fund</td>
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<td>NPV</td>
<td>Net Present Value</td>
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<td>PCC</td>
<td>Post-Conflict Country</td>
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<td>PCCF</td>
<td>Post-Conflict Country Facility</td>
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<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<td>Poverty Reduction Strategy Paper</td>
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<td>SDR</td>
<td>Special Drawing Rights</td>
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<td>SNPC</td>
<td>Société Nationale des Pétroles du Congo (Congo National Petroleum Corporation)</td>
</tr>
<tr>
<td>UA</td>
<td>Unit of Account (UA 1 = SDR 1)</td>
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CONGO – DECISION POINT DOCUMENT
UNDER THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES (HIPC)
INITIATIVE

EXECUTIVE SUMMARY

Background

In March 2006, the Republic of Congo (hereafter ‘Congo’) qualified for debt relief and became the 25th regional member country (RMC) to reach the decision point under the enhanced HIPC Initiative. As a result, the Boards of Directors of the IMF and the World Bank approved debt relief assistance for the country from multilateral and bilateral creditors amounting to US$ 1,679 million, in end-2004 net present value (NPV) terms.

Macroeconomic and Structural Reform Record

Congo has embarked, since late 2002, on an irreversible course to reinforce the framework for peace and political stability and implement policy reforms in order to set the country on a sustainable path of growth and poverty reduction. Large challenges remain, however, including the need to further enhance transparency in the management of Congo’s natural resources, and strengthen budget management, address widespread and primarily urban poverty, and continue to demobilize armed combatants.

Special Features of the HIPC Initiative Assistance to Congo

There are a number of features of the Congolese external debt profile that make it relatively unique among HIPCs. Its public and publicly guaranteed external debt is estimated at US$9.2 billion in nominal terms, or US$9.0 billion in NPV terms at end-December 2004, before the Paris Club debt treatment. This corresponds to an NPV of debt of 661 percent of fiscal revenues, and 252 percent of exports as of end-2004. This makes the country one of the most indebted developing countries in the world on a per capita basis. Together, debt to multilateral and official bilateral creditors accounts for about 63 percent of the total outstanding debt stock, with the official bilateral debt accounting for 59 percent. Multilateral debt represents merely 4 percent of the country’s public and publicly guaranteed external debt, making Congo the first decision point country with such a skewed debt structure. The remaining 37 percent of the overall debt is owed to commercial creditors. Of this amount, about 55 percent (or 22 percent of the total debt stock) is owed to non-litigating London Club creditors. The rest is owed to creditors of oil-collateralized loans (4 percent of total debt stock) and litigating creditors (10 percent of total debt stock).

On December 16, 2004, Congo and its Paris Club creditors agreed to restructure the country’s public external debt under Naples terms, bringing the stock of outstanding external debt in NPV terms to US$5.2 billion as of end 2004. After application of a common reduction factor of 32.45 percent to reduce the ratio of external debt to revenue to the HIPC target level of 250 percent, the total debt relief assistance under the enhanced HIPC Initiative amounts to US$ 1,679 million. Of this total, multilateral creditors will
account for US$ 118 million (7 percent), while bilateral creditors will deliver US$ 971 million (58 percent). The remaining debt relief assistance of US$ 590 million (35 percent) will be delivered by the commercial creditors. The Bank Group’s share of debt relief will amount to US$ 41.86 million in 2004 NPV terms, which is equivalent to about 35 percent of the multilateral creditors’ assistance, and about 2.5 percent of total assistance from all creditors.

**HIPC Debt Delivery Modality**

In view of the fact that Congo is a post-conflict country and has successfully initiated its reform agenda, the Bank assisted the country to mobilize additional international support to clear the country’s arrears. The African Development Bank and other IFIs (BADEA, OPEC Fund, and IFAD, among others) offered arrears clearance schemes to support the country’s efforts to reach the HIPC Decision Point. Under the Post Conflict Country Facility (PCCF), Congo was able to clear its arrears of UA 100 million to the Bank Group at end-2003. The Facility coordinated the contributions of the Bank Group (UA 33.3 million), from Congo itself (UA 34.3 million), and those of the donor community comprising Norway, France and the European Commission together (UA 32.4 million).

Based on agreement with the HIPC Trust Fund and the World Bank, total credit to the Bank Group from the arrears clearance operation amounts to US$ 98.72 million at end-2004 exchange rates. Out of this amount, the Bank has made available US$ 41.86 million towards its share of Congo’s HIPC debt relief at decision point. By mutual agreement with the BWIs, there is an over-delivery of Bank Group debt relief to Congo, equivalent to US$ 56.86 million in 2004 NPV terms, to be used at Congo’s completion point as topping-up or additional debt relief due to data revisions.

**Recommendation**

The Boards of Executive Directors are invited to approve the proposed enhanced HIPC debt relief assistance of the Bank Group for Congo of US$ 41.86 million in end-2004 NPV terms at the decision point.
I. INTRODUCTION

1.1 In March 2006, the Republic of Congo (hereafter ‘Congo’) became the 25th regional member country (RMC) to reach the decision point under the enhanced HIPC Initiative. As a result, the Boards of Directors of the IMF and the World Bank approved US$ 1,679 million worth of debt relief in end 2004 NPV terms for the country under the enhanced HIPC framework. Congo qualified for HIPC debt relief after having demonstrated good progress in stabilizing its economy and satisfactorily implementing appropriate policies for macro economic and financial stability, growth and poverty reduction.1

1.2 This document presents, in eight sections, the justification for Congo’s qualification for HIPC assistance at the decision point. Following this introduction, section II provides an assessment of Congo’s implementation of political and security policies and its track record on policy reforms to date in order to reach the decision point.2 Section III presents a summary of the Bank Group’s future operations as embedded in its Results-based Country Strategy Paper (2005 – 2007).3 Section IV highlights the country’s arrears clearance program,4 whereas section V presents the breakdown of HIPC costs to all creditors at decision point. Section VI summarizes Congo’s debt sustainability prospects and its sensitivity to exogenous shocks. Section VII presents the financing arrangement, and section VIII, Management’s recommendations for consideration by the Boards.

II. ASSESSMENT OF QUALIFICATION TO HIPC DEBT RELIEF

2.1 Policy Reforms for Poverty Reduction

2.1.1 Once classified as a lower-middle income economy, Congo experienced a continuous decline in per capita income from the mid-1980s to the late-1990s. Per capita income of about US$ 770 in 2004, was about 70 percent of its 1984 level. As a result, poverty increased significantly, especially in the 1990s following three armed conflicts that led to tremendous institutional weaknesses. The World Bank estimates that 70 percent of the Congolese population lives under the poverty line (defined as US$ 1 per day) compared to about 30 percent in 1993. Unemployment affects more than 50 percent of the active population, with youth being particularly affected. The 2004 United Nations Human Development Index ranked Congo 144th out of a total of 177 countries. Evidence of widespread poverty in Congo is reflected in the social and labor force statistics. Comparing selected social indicators during the period of 1980/84 with 2000/2004, Congo shows clear downward trends, for example, in adult literacy (from 46 to

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2 The full assessment and analytical presentation of the policy reform requirements can be found in the HIPC decision point document prepared by the Bretton Woods Institutions (BWIs) attached herewith in Annex I for ease of reference.
19 percent); in secondary school enrollment (from 74 to 42 percent); and in immunization ratio of children less than one year (from 50 to 31 percent).

**Political Reform, Peace and Security**

2.1.2 Recent political developments are encouraging against the background of recurrent conflicts in the 1990s. Under the umbrella of peace, Congo completed a four-year political transition period, held elections, and made significant progress in putting in place democratic institutions required by the constitution. Peace and security have improved since government was appointed following a constitutional referendum, presidential elections, legislative, local, and senatorial elections; all held during the first semester of 2002. With these positive changes, Congo has been in a position to establish important prerequisites for reaching the decision point under the enhanced HIPC Initiative. Nonetheless, the security situation remains fragile.

2.1.3 Emerging from a long period of armed conflict with serious consequences for the population (800,000 displaced citizens, about one third of the population) the Government has pursued the process of demobilization, disarmament and reintegration (DDR) of the 9000 ex-combatants with the support of the European Union and the World Bank. Although the country’s security situation has returned to normal, Congo witnesses sporadic outbreaks of violence and fighting between government troops and the opposition militia.

**Economic Stabilization, Structural Reforms and the PRSP Process**

2.1.4 The overall improving political and security conditions allowed the authorities to make good progress toward restoring macro-economic and financial stability. Since end-2002, the government has focused on the country’s economic and social recovery within the framework of its “New Espérance” (New Hope) program. The Government’s efforts were supported by the BWIs, ADF and other donors. Assistance from ADF was provided through a Post Conflict Country Facility (PCCF) of UA 33.3 million and a policy-based loan (PBL) economic recovery credit of UA7.0 million. As a result, the onset of peace in 1999/2000 boosted economic activity and contributed to macroeconomic stability, helped by enhanced macroeconomic management and the significant rise in oil prices.

2.1.5 Non-oil real GDP increased by about 9.5 percent per annum on average from 2000 to 2004, propelled by improvements in agriculture, commerce and transportation. The basic primary fiscal balance has improved since the late 1990s. Inflation, as measured by the consumer price index, declined significantly from an average of 8.2 percent in the 1990s to below 2 percent between 2000 and 2004, helped by the trend toward fiscal consolidation, a more reliable supply line from Pointe-Noire to Brazzaville, and a strengthening of the Euro vis à vis the US dollar. The extremely high level of world oil prices in recent years was exceptionally favourable for the Congolese economy, creating macroeconomic spin-offs. Real GDP increase is expected to jump at double-digit figures in 2005-06, boosted by the oil sector. The oil revenue represents 71 percent of
total government revenue.\(^5\) In combination with an increase of exported oil quantities and a greater transparency in the oil revenue statistics, the tax revenue is projected to rise again by more than 20 percent in 2005.

2.1.6 Significant steps have been taken to improve relations with creditors since the beginning of 2003, but with differing degrees of success. The government has contracted no new loans using oil as collateral with maturity exceeding one year since October 2002. Further structural and sectoral reforms are being undertaken or have been initiated. The privatization of state-owned banks was successfully completed. The Government is improving the legal and regulatory framework as a way to prepare or accompany liberalization, privatisation, and public/private partnership, notably in telecommunications, electricity, water and petroleum distribution. The distribution of refined oil products is being privatized, although the transfer of property rights is not yet complete. The government succeeded in attracting private operators in mobile telecommunications, with improvements in quality and price of service. The government significantly reduced the rate of the tax on corporate profits and in parallel adopted an investment charter rationalizing tax holidays. The government established a one-stop window to facilitate investment procedures. Large challenges remain, however, including the need to further enhance transparency in the management of Congo’s natural resources, strengthen budget management, address widespread and primarily urban poverty, and continue to demobilize armed combatants.

**Recent Performance under the PRGF Arrangement**

2.1.7 The BWIs’ reports and the Bank’s results-based CSP indicate that Congo’s performance under the PRGF arrangements has remained broadly on track. A full description of performance will be undertaken in the context of the second review under the PRGF arrangement, planned during the second quarter of 2006. Preliminary indications are that eight of the ten qualitative performance criteria for end-September 2005 under the program supported by the PRGF were met. These include: (i) a ceiling on the change in the net claims of the banking system on the government; (ii) no new medium- or long-term non-concessional borrowing; (iii) no new external debt (including leasing) with an initial maturity of less than one year incurred or guaranteed by the government; (iv) no new oil-collateralized external debt by or on behalf of the central government; (v) a ceiling on nonconcessional external debt contracted by the SNPC; (vi) no new external payment arrears on nonreschedulable debt; (vii) a ceiling on domestic arrears payments; and (viii) no new domestic arrears payments.

2.1.8 Regarding the two triggers not met, it is important to highlight that the floor on the primary fiscal balance was missed by a large margin, 3.6 percent of GDP, owing primarily to exogenous factors and the authorities’ weak response. In addition, an expenditure overrun, equivalent to 0.6 percent of GDP was incurred, mainly due to automatic payments to private oil companies for their 2004 oil delivery to CORAF that had remained unpaid. Although the world oil prices were higher than programmed, the

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positive revenue impact on Congo was offset to some extent by the sharp rise in the discount on Congolese crude oil. In addition, fees and commissions related to asset protection efforts increased sharply. The Congolese authorities plan to request waivers for the nonobservance of these two quantitative performance criteria at the time of the second review under the PRGF arrangement scheduled before June 2006.

Medium to long term strategy for Poverty Reduction

2.1.9 In 2004, the government prepared an I-PRSP, based on consultations with the civil society and donors. The poverty strategy proposed in this I-PRSP is based on five thematic pillars: (i) consolidation of peace and good governance; (ii) consolidation of macro-economic stability and promotion of key economic sectors, (iii) improving access to basic social services and social protection; (iv) improving access to infrastructure; and (v) strengthening the fight against HIV/AIDS. In 2005, this I-PRSP was analysed by donors, including ADF, which recommended, among others, widening the participatory approach, improving the quality and availability of data, and continuing to focus on targeted areas of intervention such as fiscal transparency, public finance management, the legal framework, and economic growth. The government has begun the preparation of a full PRSP, based on the five thematic pillars, expected to be ready by late 2006.

Macroeconomic objectives and projections

2.1.10 With oil accounting for 87 percent of Congo’s exports, and in view of the envisaged depletion of oil production by 2010, the country’s external trade remains fragile. Therefore the Government seeks to increase and diversify the non-oil export sector, which currently represents about 48 percent of GDP. According to some estimates from the BWIs, their baseline scenario assumes that Congo benefits from traditional debt relief mechanisms, with a significant downward impact on debt service. The projections also assume that the share of pro-poor spending in overall outlays will increase to allow Congo to make progress toward the MDGs. Reflecting these assumptions, real GDP growth is projected at close to 5 percent per year during 2005-24, with a rise in investment.

2.1.11 Non-oil real GDP is projected to rise steadily over the period, largely on account of higher investment, reflecting the positive impact of structural reforms designed in particular to promote greater private sector activity. Inflation is projected to average about 2 percent annually, mostly reflecting a prudent fiscal policy. The overall budget balance is projected to remain positive throughout the forecast period, but to decline significantly from 2012 onward reflecting a projected decline in oil revenues. Export and import volumes are expected to grow by 3.5 percent and 5 percent respectively per year on average during 2005-24. Debt will be key to maintain the financing requirements. However, financing is assured, thanks to resources already committed in 2005 by bilateral and multilateral donors, and financing assurances provided by Paris Club donors.

Governance, Structural and Institutional reforms

2.1.12 In view of Congo’s heavy dependence on oil, enhancing transparency in oil sector operations is a key aim of the government’s reform program. The SNPC action plan is being implemented, although with some delays. In order to improve implementation, the government has hired a private consulting firm to assist in the process. As well, the government publicly announced in June 2004 its commitment to adhere to the Extractive Industries Transparency Initiative (EITI). With regard to public expenditure management, the government plans to adopt a medium-term budget framework. Such a framework would enable improved management of both oil- and non-oil revenue and better mapping of expenditures with the priorities in the PRSP, taking into account the sustainability of these expenditures. In addition, actions are being taken to promote the private sector including reforming the legal and judicial framework for business, with better guarantees of property rights and the independence of the judiciary. Finally and more generally, the government intends to ask the national governance and anti-corruption commission to undertake, between the decision and completion points, a study of corrupt practices in the public sector, to be undertaken with the assistance of a group of internationally reputed experts.

Social and Sectoral Policies

2.1.13 Congo is very far from meeting the MDGs in relation to mortality, health and education. The Government plans to take a number of actions to enable Congo to make significant progress in reaching the social MDGs. In the education sector, the government has prepared an ‘Education for All Action Plan’ focussing in the short run on rehabilitating war-related destroyed facilities and on improving the service quality in the form of decentralizing management, training/hiring of teachers, and transparency. In the long term, access and quality of secondary and higher education systems will be enhanced.

2.1.14 The implementation of the National Health Development Plan, ratified by the authorities in June 2005, is apt to reconstruct the health system, which has been severely damaged during the civil wars and cannot even deliver minimum preventive and curative services to the population. Additional health personnel will be recruited. In cooperation with the EU, Congo will support the pharmaceutical sector and establish an independent drug agency. With the financial support from IDA and the Global Fund for HIV/AIDS, Malaria and Tuberculosis the country will be in a position to fight against the further spread of HIV/AIDS.

2.1.15 During 2006, the National Commission for HIV/AIDS will evaluate the progress made since 2003 and develop a new national strategic plan for 2007-09. Congo is highly urbanized, with about 70 percent of the population living in urban areas, while huge imbalances exist among inner-city neighbourhoods. During consultations with civil society on urban poverty held in June 2005, the government decided to focus on the following two constraints: (i) securing land ownership and tenure; and (ii) setting up
financing mechanisms to improve the supply of housing to the population. Addressing these constraints would reduce the vulnerability of city dwellers.

2.1.16 In the light of all the foregoing, the Congolese authorities have emphasized that Congo’s external debt remains unsustainably high and could further delay the country’s economic and social reform programs. Debt relief under the enhanced HIPC Initiative would help to finance critical social and infrastructure programs, and allow the government to accelerate and intensify reconstruction efforts, as well as improve access to primary education, preventive health care, and rural infrastructure.

III. BANK GROUP ASSISTANCE TO CONGO

3.1 The Bank’s Results-based CSP highlights that as a post-conflict country, Congo is facing severe declines in the living conditions of the population and the quality of public services. Hence, restoring security, rehabilitating the destroyed infrastructure and reintegrating displaced persons are all priority measures to create conducive conditions for economic growth and sustainable poverty reduction. With reference to the selectivity and alignment policy of the Bank Group, the Results-based CSP defines two pillars of intervention: (i) economic management capacity building to improve the effectiveness of application and control of resources in favour of the I-PRSP priority sectors; and (ii) contribution to socio-economic integration via improving the population’s access to basic social services.

3.2 Both pillars address specifically the country’s war related problems of institutional weakness due to administrative disorganization aggravated by the departure of qualified staff, the destruction of infrastructure and the deterioration of the populations’ living conditions. Economic and sector studies on governance, particularly regarding oil sector transparency, and the revival of the agriculture and forest sector would complement the country’s efforts in achieving its objectives of economic diversification and transparency.

3.3 Under the first pillar the Bank will provide up to UA 3.0 million for capacity building support to public agencies for economic and financial management and those responsible for ensuring budgetary discipline,. Greater attention will be given to effective budget and rational debt management and to monitoring and evaluation of the implementation of the poverty strategy. The second pillar aims at contributing to the socio-economic (re-)integration of refugees, ex-combatants and vulnerable social groups, through income-generating activities and rehabilitation of basic community infrastructure to the tune of UA 14.8 million. Sustainable economic integration of marginalized and war affected groups is sought by developing professional and vocational skills and self-employment.

3.4 Following the proposal of the Gleneagles Summit of 8 July 2005 to cancel all debt outstanding to the IMF, IDA and ADF for all HIPC completion point countries, negotiations with the ADF Deputies reached broad agreement on the implementation
IV. CONGO’S ARREARS CLEARANCE PROGRAM

4.1 Congo successfully emerged from its long protracted wars. The prospects for a lasting peace and national reconciliation appeared promising. As a result, donors stepped up action to mobilize funding to actively support the country’s reform agenda. This situation resulted in Congo meeting the eligibility criteria under an arrears clearance framework, which paved the way for clearing all its arrears to the Bank Group under the Post Conflict Country Facility (PCCF).\(^9\)

4.2 According to the PCCF arrears clearance guidelines, a three-way sharing of the financing costs was applied with contributions from Congo, the donors and the Bank Group’s PCCF. Out of the total arrears to the Bank Group of UA 100 million at end-2003, Congo paid UA 34.3 million and donors pledged approximately UA 32.4 million. This is made up of France contributing EUR 24 million (UA 20.3 million\(^10\); 63 percent), Norway, NOK 70 million (UA 7.1 million; 22 percent), and the European Commission committing the contribution of EUR 6 million (UA 5.0 million; 15 percent). On 17 November 2004 the Boards of Directors approved a grant of UA 33.3 million from the PCCF as its contribution to Congo’s arrears clearance, representing about 33 percent of Congo’s total stock of arrears to the Bank Group at December 31, 2003.\(^11\)

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\(^7\) The MDRI implementation modalities include: implementation date of 1\(^{st}\) January 2006; cut-off date of 31 December 2004; credit coverage defined as debt outstanding and disbursed (DOD); and the eligibility of 33 regional member countries made up of: 14 post-completion point countries, 10 post-decision point countries, 8 pre-decision point countries, and Eritrea as a ‘sunset clause country’.

\(^8\) Based on the above mentioned MDRI implementation modalities, Congo is expected to benefit from the Initiative with an estimated debt relief from ADF of UA 7.03 million over the period of the initiative, from 2006 to 2054. This is equivalent to about US$ 10.28 million at the ADF-X replenishment-specific exchange rate. Congo’s estimated total debt relief assistance is detailed as follows: (i) UA 2.41 million for the period (2008 to 2015); and (ii) UA 4.61 million to be delivered during the remaining four decades (2016-2054).

\(^9\) In order to qualify for a PCCF arrears clearance mechanism, there are two key sets of requirements. First, the country must meet the set of criteria for designation as a post conflict country (PCC). Specifically, the country must make significant progress in re-establishing peace, improving good governance structures, re-launching the economy and promoting resettlement, disarmament and reintegration. Secondly, the country must meet the additional requirements to qualify for a PCCF arrears clearance operation. In particular, the country must be engaged in coordinated reform programs with the IFIs and the donor community and must have serviced all new maturities falling due on Bank Group, IMF and World Bank debt, demonstrating non-discriminatory debt servicing. Satisfactory implementation of actions to meet these conditions will also facilitate the removal of sanctions, and make the country eligible for debt relief at decision point under the enhanced HIPC Initiative. See Republic of Congo: Proposal for Clearing the Arrears under the Post Conflict Country Framework, Ref.: ADB/BD/WP/2004/134, dated 17 November 2004.

\(^10\) Based on September 30, 2004 exchange rates, for details see Congo’s Arrears Clearance Financing Plan, Annex 6, page 2/2 of the PCCF Board Document.

\(^11\) It is important to underscore the fact that the letter from EC stated categorically that it has made an irrevocable pledge to pay directly to the Bank an amount of Euro 6.0 million (UA 5.0 million). On the basis of that letter the Board
V. HIPC INITIATIVE ASSISTANCE

5.1 Congo is a relatively unique case among the HIPCs. Before considering the Paris Club debt treatment, at end-December 2004, Congo’s public and publicly guaranteed external debt, including arrears, was estimated at US$ 9.2 billion in nominal terms. This makes the country one of the most indebted developing countries on a per capita basis. Congo’s debt to multilateral and official bilateral creditors accounts for about 63 percent of the total outstanding debt stock (multilateral debt represents merely 4 percent, bilateral debt 59 percent). The remaining 37 percent of the debt is owed to commercial creditors. Of this amount, about 55 percent (or 22 percent of the total debt stock) is owed to non-litigating London Club creditors. The rest is owed to creditors of oil-collateralized loans (4 percent of total debt stock) and litigating creditors (10 percent of total debt stock).

5.2 Debt relief under the enhanced HIPC Initiative is expected to reduce Congo’s external debt by about a third, after accounting for the impact of traditional debt relief mechanisms. The country’s external outstanding debt after the delivery of traditional debt relief amounted to US$ 5.2 billion in NPV terms as at end 2004. The delivery of traditional debt relief lowers the external debt to revenue ratio to about 370 percent. To reduce this ratio further to the HIPC target of 250 percent debt-to-revenue ratio implies a common reduction factor of 32.45 percent for all creditors. This is equivalent to the enhanced HIPC debt relief in the amount of US$1,679 million in end-2004 NPV terms.

Table 1: Breakdown of Congo’s Total HIPC Costs

<table>
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<th>Creditors</th>
<th>Total debt relief assistance at decision point</th>
<th>Percentage of Multilateral Cost</th>
<th>Percentage of Total Debt Relief Cost</th>
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<tr>
<td>Bilateral Creditors</td>
<td>971</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td>Commercial Creditors</td>
<td>590</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Multilateral Creditors</td>
<td>118</td>
<td>100</td>
<td>7</td>
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<th>of which Bank Group</th>
<th>41.86</th>
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<td>49</td>
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</tr>
<tr>
<td>IMF</td>
<td>8</td>
<td>7</td>
<td>0.5</td>
</tr>
<tr>
<td>Other Creditors</td>
<td>19</td>
<td>16</td>
<td>1.1</td>
</tr>
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</table>

Total Debt Relief Assistance 1,679 100


accepted the pledge as actual payment and this permitted management to fully clear Congo’s arrears to the Bank Group in November 2004. It was agreed with donors and the HIPC Trust Fund to count the UA 32.4 million as credit to the Bank Group’s debt relief contribution under the to HIPC initiative. See paras 7.3-7.4 below for more details. The contribution from EC will be received shortly, given the fact that Congo has now reached its decision point.


13 Figures might not add up due to rounding.
5.3 Multilateral creditors account for US$ 118.0 million, which is 7 percent of Congo’s debt relief. Bilateral and commercial creditors will deliver the remaining higher balance of US$ 1.56 billion, equivalent to 93 percent. The Bank Group’s share of debt relief will amount to US$ 41.86 million in NPV terms, equivalent to about 35 percent of the multilateral creditor’s assistance, and 2.5 percent of total assistance from all creditors. Further details are presented in Table 1 above:

5.4 The partition of the debt relief due to Republic of Congo from the different creditors is set out in the chart below:

**Chart 1: Partition of Congo’s HIPC Assistance among the Creditors**

VI. DEBT SUSTAINABILITY AND SENSITIVITY ANALYSIS

In the Debt Sustainability Analysis (DSA), two alternative scenarios were carried out to simulate the trajectory of Congo’s external debt burden after HIPC assistance. The first one considers the sensitivity of the projections to the effects of lower oil prices (market price of oil at 40 percent lower) on exports and governments revenues, assuming an unchanged level of external assistance and investment. The second scenario considers the impact of a three-percentage point lower non-oil GDP growth relative to the baseline. Both scenarios indicate that the NPV of debt to revenue remains below the 250 percent threshold over the simulation period 2005-14.
VII. DELIVERY MODALITY AND FINANCING ARRANGEMENTS

7.1 Congo has embarked, since late 2002, on an irreversible course to reinforce the framework for peace and political stability and implement policy reforms in order to set the country on a sustainable path of growth and poverty reduction. To support this program, the Bank Group, under its PCCF, as highlighted above in sections III and IV, has provided financial assistance of UA 33.3 million to Congo in order to clear the country’s arrears to the Bank Group by end 2004. Donors have also contributed a total of UA 32.4 million in support of the PCCF arrears clearance scheme for Congo. According to the agreement reached with donors and the HIPC Trust Fund, up-front payments to clear arrears of eligible PCCF countries under the arrears clearance mechanism of the Bank Group will be acknowledged under the enhanced HIPC Initiative.

7.2 The required Bank Group HIPC debt relief contribution due to Congo of US$ 41.86 million was determined by applying the common reduction factor (32.45 percent) to Congo’s total debt service obligation to the Bank Group (US$ 129.01 million). In line with the agreement reached with donors and the HIPC Trust Fund regarding the PCCF arrears clearance operation, contributions from donors and the PCCF are credited to the Bank Group’s share of HIPC debt relief at decision point. Accordingly, total credit to the Bank Group from the arrears clearance operation for the Congo amounts to US$ 98.72 million at end-2004 exchange rates. Consequently, there is an over-delivery of Bank Group debt relief to Congo, equivalent to US$ 56.86 million in 2004 NPV terms, at decision point.

7.3 Agreement has therefore been reached with the HIPC Trust Fund and the Economic Policy and Debt Department of the World Bank that this calculated overdelivery will be credited to the Bank Group’s debt relief contribution to be required, in case of any additional debt relief that may be necessary at Congo’s completion point, such as topping-up or additional debt relief from all creditors due to data revisions.

VIII. RECOMMENDATIONS

The Boards of Executive Directors are invited to:
- Note the justifications for Congo’s qualification for HIPC assistance at its decision point under the enhanced HIPC framework;
- Note that the Bank Group interim assistance comes entirely in the form of grant through the PCCF arrears clearance mechanism; and
- approve the Bank Group’s share of HIPC debt relief for Congo, equivalent to US$ 41.86 million in end-2004 NPV terms.
Annex I

IMF/World Bank: Congo – HIPC Decision Point Document