

**DEMOCRATIC REPUBLIC OF CONGO**

**STRATEGIC PLAN  
FOR PUBLIC FINANCE REFORM**

March 2010

## CONTENTS

Acronyms & Abbreviations .....	4
INTRODUCTION AND EXECUTIVE SUMMARY .....	6
PART ONE: STRATEGY FOR OVERHAULING PUBLIC FINANCE .....	9
Introduction .....	10
I. CONTEXT .....	10
1.1. An encouraging overall situation that remains economically delicate .....	10
1.1.1. Security context and political situation .....	10
1.1.2. Socioeconomic reality: poverty and debt .....	10
1.2. Overhauling public financial management .....	12
1.2.1. Ongoing major reforms .....	12
1.2.2. The need to overhaul public financial systems and management .....	12
II. VISION AND APPROACH .....	14
2.1. An ambitious vision .....	14
2.1.1. Legitimacy: meeting expectations .....	14
2.1.2. Effectiveness: results-based management .....	16
2.2. A systemic and realistic approach .....	16
2.2.1. A systemic approach .....	16
2.2.2. A gradual and participatory process .....	17
III. OVERALL MEDIUM TERM OBJECTIVES .....	19
3.1. Public finance overhaul within a modern legal framework .....	19
3.1.1. Updating the legal framework .....	19
3.1.2. Relevance of the public finance bill (LOFIP) .....	19
3.2. Reaffirming the centrality of the budget to public financial management .....	20
3.2.1. At the national level .....	20
3.2.2. At the provincial level .....	21
PART TWO: THE PUBLIC FINANCE REFORM PROGRAMME IN THE MEDIUM TERM .....	22
Introduction .....	23
IV. ESTABLISHMENT OF THE NEW SYSTEM OF PUBLIC FINANCIAL MANAGEMENT .....	23
4.1. The budget system .....	23
4.1.1. Medium term budget framework (MTBF) .....	23
4.1.2. Affirming the departments in charge of the budget and launch of the MTBF .....	24
4.2. Public accounting and the management information system .....	25
4.2.1. Public accounting and reporting .....	25
4.2.2. Cash management .....	26
4.2.3. The Integrated Public Financial Management Information System (IFMIS) .....	26

V.	OPERATION OF THE NEW PUBLIC FINANCIAL MANAGEMENT SYSTEM .....	28
5.1.	Reforming the execution of budget revenue and expenditure .....	28
5.1.1.	Budget expenditure execution .....	28
5.1.2.	Debt management .....	29
5.1.3.	The tax and revenue management system .....	29
5.2.	Other major reforms .....	31
5.2.1.	Decentralization and public finance: feasibility, balance, and progressivity .....	31
5.2.2.	External controls on public financial management .....	33
5.2.3.	Operational capacity building for public financial management agencies .....	34
VI.	IMPLEMENTING THE REFORM PROGRAMME .....	36
6.1.	Reform management .....	36
6.1.1.	Institutional measures .....	36
6.1.2.	Information and communication .....	37
6.1.3.	Reform risks and phases .....	37
6.1.4.	Tiered reform under a sliding three-year program .....	37
6.2.	The 2010-2012 action plan .....	38
6.2.1.	Action plan contents .....	38
6.2.2.	Raising funding .....	39

List of text boxes

1.	Public debt, development and solvency .....	11
2.	The sustainability of public finance .....	15
3.	Why the emphasis on performance? .....	16
4.	Corruption: a systemic disease .....	17
5.	Macroeconomic framework and budget framework letter .....	24
6.	The introduction of VAT: essential for the DRC .....	30

Annex 1. Summary matrix of measures in the public finance reform action plan, 2010-2012

Annex 2. Sample data sheet

## ACRONYMS AND ABBREVIATIONS

ACP	Africa-Caribbean-Pacific
AfDB	African Development Bank
AU	African Union
BB	Budget bill
BWI	Bretton Woods Institutions
COMESA	Common Market for Eastern and Southern Africa
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DGDA	Customs and Excise Department
DGE	Large Enterprises Department
DGI	Taxation Department
DGRAD	Administrative and State Revenue and Equity Department
DRC	Democratic Republic of the Congo
EC, CEC	European Commission, Commission of the European Communities
ECCAS	Economic Community of Central African States
EDF	European Development Fund
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
EU	European Union
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
IGF	Financial Inspectorate General
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPFM	Integrated Public Financial Management
IsDB	Islamic Development Bank
LOFIP	Law on Public Finance
LOLF	Organic Law on the Budget
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTR	Mid-Term Review
NGO	Non-governmental Organization
NIP	National Indicative Program

OECD	Organization for Economic Cooperation and Development
OFIDA	Customs and Excise Bureau
OGEDEP	Public Debt Management Bureau
ON	National Payment Authorization Officer
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PF	Public Finance
PIP	Public Investment Program
PIS	Project Identification Sheet
PMFP	Minimum requirements for the Public Financial Management platform
PRGF	Poverty Reduction and Growth Facility
PRSF	Poverty Reduction Strategy Framework
PRSP	Poverty Reduction Strategy Paper
REPMP	Public Procurement Evaluation Report
RIP	Regional Indicative Program
ROSC	Report on the Observance of Standards and Codes
SA	Structural Adjustment
SADC	Southern African Development Community
TA	Technical Assistance
TCF	Technical Cooperation Facility
TFP	Technical and Financial Partners
TOFE	government Financial Operations Table
UNDP	United Nations Development Program
USD	US Dollars
WB	World Bank

## INTRODUCTION AND EXECUTIVE SUMMARY

Good public financial management is crucial to the Democratic Republic of Congo now and in the future, as the country emerges from a long history of legitimacy crises fuelled by numerous armed conflicts. These conflicts have undermined the State's monopoly of the use of force, hampered the nation's development and reduced its capacity for governance. Given this legacy and given the needs of the population, the government has adopted a development strategy founded on five pillars: (i) strengthen the country's institutions to facilitate good governance and consolidate peace; (ii) consolidate macroeconomic stability and growth; (iii) improve access to social services and reduce vulnerability; (iv) fight against HIV/AIDS; and (v) support community dynamics.

How the issues raised through each of these pillars are dealt with will depend largely on how financial resources are mobilized and used. It is therefore important to address and resolve specific weaknesses within public financial management in order to give the development strategy credibility and enable its effective and satisfactory implementation. It is not enough merely to respond to deficit situations or to the temporary effects of armed conflicts and political crises; instead, one must respond to the disintegration of the public financial system which, among other things, is responsible for the decline in the value of the nation's currency and for the difficulties encountered in targeting the efforts of the authorities towards the most vulnerable populations.

Intent on accelerating social and economic reform, the government has expressed the need for a strategy paper that is specific to public finance reform and that fits within the broader development strategy for the nation as a whole. As is often the case with any reform, public finance reform is multi-dimensional. It involves a large number of public institutions, as well as actors from the social and economic spheres. It is therefore essential to pay particular attention to the reforms' overall coherence and convergence. A widely-disseminated and discussed strategy document is extremely useful to such a purpose: by outlining the country's intended path, it facilitates a general understanding of planned measures and contributes to building consensus regarding the reforms.

The aim of this Strategic Plan for Public Finance Reform (SPPFR) is therefore two-fold:

- Present the government's vision and goals with respect to public financial management and outline the major reforms the government intends to implement in this area in the coming years.
- Provide a useful benchmark for national actors (public and private sectors, civil society) as well as for development partners, so that their respective contributions fit into an overall framework that is both coherent and synergistic.

This strategy document is laid out in two parts: the first describes the government's strategy for overhauling public finance, and the second sets out the reform program that will be implemented over a period of five to seven years.

*Part One* details the strategy to overhaul public finance, based on a diagnosis that has garnered wide consensus among the various social and economic actors, public institutions and development partners in the DRC. In the last five years developments in the political and security situations have been encouraging, especially from the point of view of promoting development actions. Despite this, however, the economic and social situation remains plagued by poverty; although economic growth rates are indeed positive once again, they remain too weak to provide an effective means of combating this poverty. In addition to this the DRC has to deal with a

debt burden so onerous that improvement can hardly be envisaged without sizeable debt relief. Finally, public financial management is marked by several persistent weaknesses, specifically with respect to the credibility of the budget as a tool for implementing public policy and for controlling the execution of Parliament-authorized expenditure.

Given this situation, the government's vision of public financial management is one which ultimately responds effectively and efficiently to economic and social development needs, and which uses international best practices with respect to democratic legitimacy, transparency and accountability. With these aims in mind, the reforms will be designed and carried out in a gradual manner, using a systemic and participatory approach.

Out of the government's vision have come the two overall, medium-term goals relating to the overhauling of public finance:

- Overhaul public finance by using a modern legal framework; this emphasizes the relevance of the proposed public finance bill (LOFIP)
- Reaffirm the key role the budget must play in the implementation of the government's social and economic policy and more specifically in the management of public funds (at the central government level and in the provinces).

*Part Two* of this paper deals with the reform program itself and opens with the actions required to implement – and ensure the smooth running of – the fundamental components of the new public financial management system. These include: (i) a reformed budget system that begins to make use of a Results-Based Management (RBM) approach, by gradually introducing multi-yearly recurrence and performance evaluations; (ii) a public accounting system that brings double-entry book-keeping into general use, is supported by a restructured and hierarchical network of public accountants, makes full use of modern information management technology, and combines all three aspects in order to bring about efficient cash management and effective accountability.

The reform program also includes measures laying the groundwork for the proper operation of the new public financial management system, specifically with respect to budget spending execution and controls, improving debt management, and modernizing the tax and revenue management systems. However, the PSRFP does not address some of the major current issues such as strengthening statistics, civil service reform, public enterprise reform and the reform of the Central Bank of Congo. While aspects of those issues relating to government finance will occasionally be mentioned, they nonetheless represent reform projects whose scope exceeds that of public financial management.

The government, aware of the importance of managing reform regardless of its policy content, took appropriate institutional measures in 2009 that included among others the establishment of the Steering Committee for Public Finance Reform (COREF). COREF is responsible for encouraging, facilitating, coordinating and monitoring execution of the reforms, while the various ministries and entities remain responsible for the detailed preparation and daily implementation of their respective and specific reform components. The government has also made sure to incorporate training, information and communication actions into the program as a whole, aiming to minimize the risk of lack of understanding or even resistance that is inherent in any such widespread reform effort.

The government believes, furthermore, that reform must be implemented through a sliding, three-year action plan. This document presents a summary of that plan for the 2010-2012 period. The main elements of this action plan naturally coincide with the components mentioned above, such as the establishment of a new budgetary system (gradually introducing a medium term

budget framework and improved expenditure controls), the overhaul of public accounting and cash management, and the modernization of tax systems (the major elements of which are the introduction of a value added tax and direct taxation reform).

Finally, initial assessments indicate that implementing the action plan will lead to sizeable funding needs. However, since these represent crucial reforms for the Democratic Republic of Congo at this stage in its history, the government will take all necessary measures in collaboration with its development partners to ensure the execution of the changes it deems essential to the proper management of public funds.

PART ONE

STRATEGY TO  
OVERHAUL PUBLIC FINANCE

## *Introduction*

The overall progress of the DRC during the 2000-2010 decade has been encouraging on many levels, although the country's general situation remains precarious, in particular on the economic front, which only emphasizes the importance of tackling without delay the issues plaguing public financial management.

Therefore, the context is generally favorable for the government to implement its strategy for overhauling public financial management. The underlying vision, approach and medium- and long-term overall objectives all reflect an ambition equal to the challenge facing the country.

## **I. CONTEXT**

### **1.1. An encouraging overall situation that remains economically delicate**

#### **1.1.1. Security context and political situation**

Following the armed conflicts afflicting the DRC until 2001, the Inter-Congolese Dialogue (February-April 2002, Sun City, South Africa) led to a power sharing agreement, followed by the signing of peace agreements with neighboring countries and the establishment of a transition government in July 2003. A constitutional referendum was held in December 2005, followed by multiparty presidential and legislative elections in 2006, both of which represented high points in the restoring law and order in the country.

The subsequent constitution of provincial assemblies and the taking of office by elected governors and senators in 2007 confirmed the increasing peacefulness of the political situation and presence of a climate more conducive to development actions. It is true, however, that with respect to the security situation the challenges faced in the implementation of some of the peace agreements led to a resumption of hostilities in the province of North Kivu in August 2008. Nevertheless, thanks to the efforts of both the warring forces and the international community, peace returned at the start of 2009. The political consensus that currently exists with respect to democratic institutions is one of the major assets for bringing the country back onto a development track.

#### **1.1.2. Socioeconomic reality: poverty and debt**

Improvements in the political situation have enabled the DRC, together with the international community, to undertake a vast program of macroeconomic and sector reforms intended to reduce poverty and promote long-term growth. Hyperinflation has been reined in, monetary and budgetary policies have on the whole been prudent, and a floating exchange rate has been introduced. Overall economic growth climbed to 30% from 2002 to 2006, ending more than a decade of decline. In July 2003, the country reached decision point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which opened the door to interim debt relief. This became possible upon the country's completion of the Enhanced Interim Program (EIP 2001-2002) and the first few semesters of the government Economic Program (GEP 2004-2005), supported by an IMF facility developed in line with the Interim Poverty Reduction and Growth Strategy Paper.

The DRC's economic performance since 2006 has been less impressive, due to internal security and political shocks (North and South Kivu provinces in 2008), followed by external economic

shocks induced by the worldwide economic decline that led to a decrease in investments, notably in the mining sector. Although growth has continued, there has nonetheless been a noticeable slowdown (6.2% in 2008, most likely below 3% in 2009). In addition to this, expenditure increases have created a budget deficit far higher than forecast as well as a rise in inflation to about 40% for 2009 and a depreciation of the national currency, which fell from 550 Congolese francs (CDF) in mid-2008 to over CDF 900 to USD 1 by the end of 2009.

Most significant is that the growth experienced during the 2000-2010 decade was not high enough to achieve any real reduction in poverty; in fact, very little progress of note has been made towards reaching the millennium development goals. Monetary poverty remains at an estimated 71%, while 4 out of 10 children do not attend school, 1 out of every 5 children dies before the age of 5, more than three-quarters of the population do not have access to clean drinking water and more than 4 out of 5 people do not have access to electricity.

At the same time, the DRC remains crushed under the weight of its foreign debt, which reached a nominal value of USD 12.7 billion at the end of 2008 plus USD 2.8 billion in arrears, severely hampering the country's ability to pursue its own development activities. The government will therefore spare no effort in ensuring that the DRC can reach the decision point under the Enhanced HIPC Initiative in 2010, which will enable it to obtain debt relief from both the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). To this end the government intends to carry out public financial management reform to create the surplus required to fully restore its credit standing in the medium and long term.

**Box 1: Public debt, development and solvency**

The public debt is a mortgage on the future since it will eventually have to be repaid with interest. At any given time it limits the flexibility of fiscal policies as maturity dates must always be kept in mind. On the other hand, it enables the funding of expenditures such as the investments needed to reduce poverty and which, on the whole, contribute to national welfare. However, a nation may only become indebted if it is solvent to begin with; solvency is thus a requirement for any investment financed by borrowing. This solvency requires that the country generates budget surpluses in order to meet debt maturities. However, it has been many years since the DRC generated any kind of primary surplus (namely, a positive balance of government operations, between primary revenue and expenditure, excluding net interest-only debt service).

In order to become solvent once again and thus be able to borrow to meet its development needs, the government needs a fiscal strategy that enables it to generate a positive primary balance while reducing the burden of the debt, in particular through sizeable debt relief agreements.

The government and its external partners have carried out debt sustainability analyses, all of which have shown that the indebtedness level is not sustainable without sizeable debt relief, as proven by the accumulation of external debt arrears over the last few years. Furthermore, even if such debt relief caused indicators to fall below the critical thresholds generally used in sustainability analyses, the country's debt situation would nonetheless remain very precarious. The Congolese economy's vulnerability to external shocks (the worldwide economic slowdown or crisis) as well as internal shocks (instability in the mining regions) means that the indicators mentioned above could well rise above the thresholds once again, leading to the return of a situation the country has been in for the last several years, namely accumulating external debt arrears.

The nation's domestic debt must also be considered, although it is relatively small (approximately USD 1.3 billion at the end of 2008, or 11% of the GDP). However, the government is keenly

aware that the combination of the prolonged freeze on the domestic debt and the accumulation of fiscal arrears from one year to the next affects the Treasury's credibility as well as the ability of the government's creditors to carry out their activities, and thereby to continue supporting growth through consumption and investment.

In December 2009 the government therefore set out an economic and financial program supported by the IMF under the Poverty Reduction and Growth Facility (now the Extended Credit Facility) and the HIPC Initiative. The proper implementation of this program is one of the government's major priorities, including adherence to the quantitative criteria and structural measures selected.

## **1.2. Overhauling public financial management**

The long-term combination of little-to-no economic growth and persistent internal and external imbalances presents a serious potential risk, as it would impact the legitimate objectives of long-term public finance sustainability, of poverty reduction and even of social peace. It is therefore essential that the government's reform effort be resolutely and steadfastly implemented.

### 1.2.1. Ongoing major reforms

In recent years the DRC has undertaken several reforms in the area of public financial management. First, in an effort to modernize the legal framework for economic and social life, important laws on public finance were revised or proposed, including the revision of budget laws applicable to small and medium enterprises, a bill on public procurement, a bill on customs regulations, a bill relating to the introduction of the value added tax, and a bill on public finance.

Second, the computerization in 2003 of the operational expenditure chain now allows on the spot tracking of expenditure through the circuit and the monitoring of commitments relative to authorized appropriations and disbursements relative to commitments. In addition to the production and transmittal of budget monitoring statements to the ministries and agencies receiving the funds, particularly at the end of each month, public financial management now owns a precious tool for credit managers and more generally for those responsible for guiding government actions.

Finally, in 2003 the government launched its tax system modernization program, which included (i) the reorganization and modernization of the tax administration, which reconfigured the tax departments into three tiers depending on the taxpayer's income; (ii) revised legislation, specifically changes in the turnover tax as a preliminary step to the introduction of the value-added tax (VAT); (iii) improved tax management with the creation of a new taxpayer identification number (NIF); (iv) the modernization of customs procedures; (v) the establishment of one-stop shops at certain customs posts; and (vi) the computerization of customs offices.

### 1.2.2. The need to overhaul public financial systems and management

Despite the efforts described above, public financial management still suffers from severe shortcomings which can be summed up as revenue and expenditure control problems. More specifically, and as emphasized by several diagnostic studies carried out by the government in collaboration with its development partners<sup>1</sup>, it has become apparent that: (i) the budget often

---

<sup>1</sup> Priority Programme, governance contract, report on the Public Expenditure Review carried out by the World Bank, report on the PEFA study funded by the European Commission, IMF mission reports.

deviates from the priorities set out in the development strategy; (ii) the credibility of the budget is limited by the disparities between authorized spending and budget execution, which leaves many administrative departments without budgeted resources while others benefit from large overruns; (iii) fiscal transparency is affected by the size of extra-budgetary expenditures; (iv) the lack of control over staffing and the practice of earmarking overall budget allocations for any specific purpose detract from the relevance of the balance; (v) the expenditure process is weakened by the large volume of exceptional procedures; and (vi) controls by supervisory bodies are weak and often ineffective. Furthermore, revenue security still presents an important challenge due to numerous dysfunctions arising from the multitude of regulations and parties involved, as well as from institutional weaknesses in the agencies concerned.

In addition, the Constitution provides for decentralization in the organization and operation of public institutions. Among other things, it details the exclusive and respective jurisdictions of central and provincial agencies, and the authority shared between the central government and the provinces. The jurisdictional transfer called for by the Constitution must come through a transfer of financial resources based on the allocation of 40% of the national revenue to the provinces. However, the decentralization process faces unprecedented challenges, specifically with respect to the management of financial resources, which can only be successfully transferred to the provinces and decentralized local authorities if accompanied by improvements in governance (public service improvements, transparency, and accountability). The problem is that the weaknesses of these newly-created provincial agencies are a major constraint in this process, particularly for a public financial management that can effectively provide public services to the population.

Given the public financial management shortcomings that have grown over the last few decades and the challenges presented by decentralization and poverty reduction, the government has deemed it necessary to entirely rethink the revenue and expenditure as a whole, the aim being to overhaul the public finance system while still making the best use of the achievements of the last few years.

## II. VISION AND APPROACH

Overhauling the public finance system requires a thoughtful medium and long-term vision. The ultimate goal of the government's vision is ambitious because the improvements to be made require bold steps. At the same time, however, the approach selected for overhauling the public finance system has remained solidly realistic and aware of the situation and attendant constraints of the end of the first decade of the new millennium.

### 2.1 An ambitious vision

Ambitious indeed, the government's vision for public finance is primarily inspired by the expectations of the social, political and economic actors. It also takes into account the reality of a globalised world in which the DRC must continue to play a role.

#### 2.1.1. Legitimacy: meeting expectations

***Meeting the nation's expectations.*** The government's primary goal is to set up a public finance system that meets the nation's expectations. This requires a vision of public finance that applies the three following principles:

*Respecting the basic principles of political governance.* Any overhaul must lead to a public financial management system that respects and upholds the fundamental principles and architecture of political governance. This includes particularly: (i) the sovereignty of the people, carried out through elected representatives in a context of political diversity; (ii) the separation of powers; (iii) public management through a decentralized institutional architecture; and (iv) the rule of law.

Upholding these principles means, for instance and according to Article 174 of the Constitution, that taxation may only be imposed through law and that tax exemptions or relief can equally only be provided through law. Similarly, the separation of powers involves strengthening parliamentary control and increasing the independence of the Audit Office from the executive branch.

*Public financial management dedicated to poverty reduction.* Ordinary citizens and economic stakeholders expect public financial management to encourage strong growth, aimed at reducing poverty and inequality, broadening access to basic services, making optimal and sustainable use of economic opportunities, and furthering the nation's balanced and harmonious development.

For the government, responding to these expectations means making careful choices in the allocation of public resources and giving priority to health, education, rural development, agriculture and infrastructure sectors, while emphasizing actions targeting the areas hardest hit by poverty, namely rural areas and the outskirts of the larger urban areas. In the medium term, these choices should lead to a marked improvement in social and economic indicators due to higher quality public spending.

*Fiscal sustainability.* Finally, the government's vision calls for public financial management that is both sustainable and self-sustaining. This requires that the State and its public institutions in general acquire the capacity to self-finance their needs in line with the independence or autonomy that they are granted by law.

It is important to correct the sizeable imbalances and the unsustainable nature of the current financial situation (both in terms of the excessive foreign debt and its long-term sustainability and

in terms of reaffirming the State's social role). In the medium term and using its ordinary resources, the government's intention is to be able to ensure:

- primary fiscal balance;
- regular salary payments;
- debt servicing as a priority;
- properly operational and satisfactory public services;
- a significant contribution towards the necessary investment in economic and social infrastructure.

**Box 2: Fiscal sustainability**

Sustainability is a state in which a country's finances enable it to maintain existing programs and meet its obligations to its creditors without increasing the burden of debt on the economy. In some situations governments can tolerate increases to their debt burden: for instance, when internal revenue increases significantly it becomes possible to consider an increase in public debt service, without such an increase having a negative impact on existing programs and services. However, the capacity to produce such an increase in revenue (e.g. through taxation, usage fees for public goods and services or through licenses and permits) is closely linked to the overall state of the economy and more particularly to its growth rate.

***Meeting international standards and best practices.*** The government also intends to create a public financial management system under which the actions of state agencies follow international standards and best practices. Thus, with reference to the generally recognized PEFA performance measurement framework, the government has elected to use the following elements of good fiscal governance as guiding principles.

- **Credibility of the budget** – The budget is realistic and implemented as intended.
- **Comprehensiveness and transparency** – The budget and fiscal risk analysis are comprehensive, and fiscal and budgetary information is accessible to the public.
- **Policy-based budgeting**– The budget is prepared with due regard to government policy.
- **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for its monitoring.
- **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
- **External scrutiny and audit** - Arrangements for scrutiny of public finances and follow up of execution are in place.

Aside from the importance of understandability, transparency and accountability in internal governance, the DRC must follow international standards and best practices in order to maintain its role in Africa and to continue developing beneficial relationships with its external partners. Due to its geographical position at the heart of the African continent, surrounded by nine other countries, the DRC's economy is linked to three sub-regions: Central Africa, Southern Africa and East Africa. These links are formalized by its membership in various regional institutions (ECCAS, SADC, and COMESA). The DRC's integration into several continental economic zones, as well as the implementation of development programs and projects supported by multilateral and bilateral development assistance organizations, requires the standardization of procedures and regulations, specifically with respect to the vast spheres of statistics and

accounting. The statistics and financial statements must themselves be the result of work done by using measures that are professionally acceptable in the respective fields.

### 2.1.2. Effectiveness: results-based management

The government's far-reaching vision also includes an emphasis on the effectiveness of action by the authorities based on measurable and monitored performance. This involves using a results-based management (RBM) approach whose primary tools at the public finance level are the medium-term expenditure framework (MTEF) and budgeting by program or program- budgets.

#### **Box 3: Why the emphasis on performance?**

Performance assessments are an essential tool for responding to a specific challenge – the democratic requirement of accountability – and to one of the constraints particular to public action – the information gap owing to the lack of market mechanisms. Not measuring performance would lessen the quality of the democratic debate and hamper effective management.

To begin with, public stakeholders (be they politicians or managers) must be accountable for the use of public resources to a much greater degree than private organizations or enterprises. Articles 14 and 15 of the Universal Declaration of the Rights of Man and of the Citizen express this democratic requirement of accountability to the citizens, to users, to taxpayers and to their representatives. This accountability requirement is even stronger since it is the natural counterpart to the management freedoms offered by the new budget framework and by the global terms of credit within programs. Setting goals beforehand and measuring the results achieved are the foundations of results based management accountability.

In the medium term, the government expects that budget cycles and administrative structures for expenditure will lead to the full integration of program-budgets into the budget execution process. This will constitute a radical reform, which among other things assumes: (a) that the law on annual program-based finances will be passed and will replace the current means-based one; (b) that program managers will be made accountable; (c) a redefinition of the relationship between the Minister of Finance—sole payment authorization officer—and the other ministers who are currently appropriation managers; (d) an improvement in the presentation of budget documents intended for parliament, including a document providing more details on the medium-term objectives of budget strategy; (e) a reinforcement of the link between the annual budget law, the MTEF, and budget priorities already listed in documents such as the Growth and Poverty Reduction Strategy Paper (GPSRP) as well as sector policies and strategies; (f) that each ministry will prepare yearly performance projects as well as a yearly performance report to be distributed to parliament and the public.

## **2.2. A systemic and realistic approach**

Turning the vision described above into reality will require several years of effort, as well as a realistic understanding of the difficulties to be faced and of the implementation of reform actions. This makes it necessary to adopt a systemic approach to public finance reform and to follow a gradual and participatory process.

### 2.2.1. A systemic approach

A realistic understanding of the requirements first demands an understanding of the systemic nature of the changes to be wrought, this latter being itself a result of the nature of the problems to be corrected. A systemic approach has several associated implications. It must deal with

general public finance reforms in a functional manner that pays close attention to the interconnections between reform areas. With this in mind, the government is aware that overhauling public financial systems will necessarily involve the possibility of changes to current institutional arrangements. In each case measures will be taken in order to properly carry out the reforms.

**Box 4: Corruption: a systemic disease**

The issue of corruption clearly illustrates the systemic nature of the problems to be tackled and therefore of the reforms to be implemented, and its substantial reduction is essential to any overhaul of public finance. Corruption is not a phenomenon unique to any particular activity sector or profession, nor is it a practice that spreads randomly. It is, in fact, both the result and the cause of multiple dysfunctions. Its widespread nature within society (within public agencies in particular) is proof of its deep roots in the mores and in “the system”, against which isolated and independent initiatives would be of little lasting use. Fighting corruption demands action on “the system” at various levels, including among others: laws and regulations, departmental organization, work methods and processes, personnel training and compensation, capacity-building within the judicial system, the widespread distribution of information and in particular financial data, and the reinforcement of the role of civil society.

A systemic approach also involves working on the environment surrounding the system to be reformed. In the case of public finance, this will involve the organization and operation of state agencies. Overhauling public financial management will inherently require a re-examination of, for instance, the arrangements governing the management of (central and provincial) government employees and public organizations: statutes, types and methods of recruitment, compensation, mobility incentives, and so on. On a general level, if the public finance overhaul is to be successful, it will require constant coordination with the public administration reforms that constitute another element of the widespread reforms the government has undertaken.

Lastly, a systemic approach means that a coherent and relevant overall system must be designed from the start, even if it may take several years to fully set up. This is the current situation of public finance. Thus, although the government intends to move forward in stages, its ultimate goal is to provide the State with a new public finance system that is coherent, comprehensive and integrated and governed by a specific law.

**2.2.2. A gradual and participatory process**

*An approach that is gradual and evolving and that allows room for experimentation.* Properly pacing the reforms is just as important as selecting the right reform measures. A gradual approach is an obvious choice in many cases (even when the selected options are agreed to by consensus) because of practical constraints: limited numbers of competent personnel, working conditions that are often sub-standard, overly heavy work schedules for those tasked with implementing the reforms.

The government intends to organize the reform effort into several phases, or even several steps within a single phase. As a result, depending on the progress made in the reform work, the reform program presented in part two of this document will cover the preparation, introduction, or furtherance of a particular reform.

It is also worth noting that the innovative and technically complex nature of the reforms may make it necessary to have the ability to test responses and practical arrangements before confirming them as the option of choice. As an example, the implications of decentralization with respect to public financial management will most likely require a careful process through experimentation and testing prior to the final validation and widespread application of particular reform arrangements.

*A participatory process.* The government is aware that to be truly successful, reforms need to be based on a participatory approach, particularly in a context where the state agency system has broken down and where the State needs to rehabilitate itself in the eyes of its citizens. A participatory approach has already been in use for several years, as shown by the preparation of the GPRSP, and was also used in developing the strategy and policies presented in this SPPFR. In addition to the relevant public agencies (central and provincial), both the private sector and civil society (taxpayers, beneficiaries, opinion leaders) contributed to the development of the SPPFR and its associated action plan and will continue to play their respective roles in the effective implementation of the public finance reforms in the years to come.

### III. OVERALL MEDIUM TERM OBJECTIVES

The aim is to reach a point at which sound and sustainable public finances work to support economic growth and to effectively reduce poverty. In order to achieve this aim the government has set out two overall medium-term objectives; these respectively underline the importance of (i) the legal foundations that must regulate public finance and (ii) the budget as a tool for public financial management both at the central government level and at the level of the provinces and decentralized local authorities.

#### 3.1. Overhauling public finance within a modern legal framework

##### 3.1.1. Updating the legal framework

Public finance is currently managed using institutional and legal frameworks that are not adapted to the new Constitution, passed by referendum and made into law in February 2006, one of whose tenets is decentralization. Public financial management is based on financial law No. 83-003 of February 23, 1983, as amended and complemented by ordinance-law No. 87-004 of January 10, 1987, but it is no longer in line with these financial laws despite the efforts made to take into account various innovations brought about by the reforms the government has been implementing since 2002 (particularly with respect to the presentation of budget documents, expenditure chain red tape, appropriations carried forward from one year to the next and budget classification of revenue and expenditure).

While partial reform has been possible these last few years, overhauling public finance will require an entirely new legal framework upon which to build the entire legal and regulatory architecture through which public funds are mobilized and used. This is the aim of a public finance law (LOFIP) that would provide a systemic framework and be followed by other laws relating to the application of the finance law, including general regulations for public accounting.

Such a public finance law would also be a cornerstone at the operational level, and would in many ways be the catalyst for the general reform of Congolese public finances that would take place over a number of years. Because its aim is systemic, once LOFIP passes it will offer permanent benchmarks and coherence testing for management and for the reform actions. Gains made will be consolidated by ensuring that the practical innovations introduced are coherent with the LOFIP legal framework.

The final drafting of the bill and the passing of the LOFIP law by the legislature is thus currently a major priority, given that the entire process of reforming the public finance system depends upon it.

##### 3.1.2. Relevance of the public finance bill (LOFIP)

*An effective translation of the government's vision into law.* The government's proposed LOFIP bill benefited from comments and suggestions from external partners and will soon be presented to legislators. The bill is highly relevant at this point because the public finance framework it proposes to set up takes into account the tenets of the Constitution and requires that government action be organized with a view to proper performance.

LOFIP's modern, up-to-date perspective can be clearly seen in the changes its passing will involve, namely the change from means-based to results-based management. LOFIP formalizes

the reforms already underway and looks ahead to modern public financial management; it is characterized by innovation as well as by important reaffirmations, including:

- The principles of budgetary unity and universality, which imply that any budget should present a list of all revenue and all expenditure and that by subtracting the latter from the former one should arrive at a balance.
- A recapitulation of total revenue and total expenditure which implies that public expenditure not in the budget will be prohibited; these are commonly known as extra-budgetary expenditures.
- Budget management achieved through program-budgets, in which budget allocations are granted for actions to be taken within the framework of explicit government policies.
- A multi-year budget framework that underpins the development of the medium-term expenditure framework used by ministries and institutions, of which the budget law becomes the annual installment. This will ensure continuity for program management by favoring multi-year commitment authorizations that are voted in their entirety during the first year of their planning, and whose corresponding appropriation payments are recorded in each fiscal year.
- The centralization of the central government's public funds in a Treasury single account with the institution that serves as the government's cashier, which would provide a single source of cash and cash flow.

*A greater role for legislators during the vote on the budget law.* The LOFIP bill is modern in another way: it will bring about a radical change in the way budget laws are voted annually, reinforcing the role of the legislators in assessing government strategies and policies. This will require:

- an overall vote for revenue evaluations (general budget, government budgets and special accounts);
- a vote on developments in the debt that will frame the debate on the issue;
- a vote on appropriations by program (tied to government policies and missions) rather than by ministry. This will open the way for debates centered on public policies mirrored in the broad categories of expenditure;
- specialized appropriations by broad category of expenditure, bringing in the principle of fungibility with increased accountability for program managers;
- a single vote on the ceiling for government-paid employment authorizations, which will also see an overall debate on government employment and payroll.

Given the number of innovations involved, applying the clauses in LOFIP and its associated texts will, at least in some cases, need to be prepared and implemented in stages. As an example, the ultimate vision of a program-based budget approach that includes objectives to be achieved is a complex one and not well known, as yet, to all the different actors involved.

## **3.2. Reaffirming the centrality of the budget to public financial management**

### **3.2.1. At the national level**

From now on the government will take the necessary measures to ensure that the budget shall play a central role in the management of public finance, through its daily management of public funds. This requires abandoning old, legacy practices, especially since some of these completely circumvent the budget. Ignoring the budget can lead to a redeployment of funds between expenditure categories that is motivated by personal preference rather than genuine concern for

effective service provision. Furthermore, any activities that are not managed and reported within the framework of an appropriate budget procedure are not likely to be subjected to the same scrutiny and controls as those that are formally included in the budget. This only increases the likelihood that such activities will end up taking place without reference to the budget goals set by the government and that any risks they may include will not be taken into account – which increases the risk that budget balance goals will not be met or can lead to untenable debt for the State.

The fundamental role of the budget in public financial management can be seen in detail in the presentation of the major reform projects. It should be noted that re-establishing the credibility and usefulness of the budget will require, among other things, an increase in the budget's scope, a multi-year perspective, relevant forecasting, reliable accounting and effective controls. Institutionally, reaffirming the centrality of the budget will involve reinforcing the role of the departments involved in budget preparation and expenditure management at the level of those ministries with cross-cutting responsibilities (Budget, Finance, Planning) as well as at the level of the line ministries.

### 3.2.2. Provincial level

The importance of financial and particularly of budget management is just as strong in the provinces and at the level of the decentralized local authorities. The government is firmly committed to achieving the goal of decentralized public management and organization. It was a choice made by the Congolese nation and expressed in the Constitution of 2006 and through the passage of three major organic laws relating respectively to: (i) the fundamental principles for the free administration of the provinces; (ii) operational arrangements for the conference of provincial governors; and (iii) the composition, organization and operation of the decentralized local authorities and their relationships with the central government and with the provinces.

However, financial constraints (both at the central and at the provincial level) and the inadequate capacities of most of the provincial agencies mean that a genuine transfer of jurisdiction is taking place much more slowly than was originally anticipated. In other words, the real and effective implementation of decentralization is also dependent on pertinent resource management through central and provincial budgets.

**PART TWO**

**THE PUBLIC FINANCE REFORM  
PROGRAMME IN THE MEDIUM TERM**

## *Introduction*

In order to effectively reduce poverty, the government has committed to restoring the State's crucial functions with special emphasis on the efficiency and effectiveness of the structures involved. However, without adequate, predictable and timely means these structures will continue to experience difficulties that hamper the successful achievement of their respective missions. Responding to this concern makes it imperative to implement a widespread program of public finance reforms in the months and years to come – a program that from its very beginning lays the foundations for a new system of public financial management that is in line with the government's medium- and long-term vision.

The main elements of this reform program are presented below, divided into three sections dealing first with the establishment of this new system of public financial management, then with its operation, and finally with the implementation of the reform program. However, the government is aware that sustained and simultaneous effort is required in three other major reform areas: (i) rebuilding the statistical system; (ii) modernizing the civil service management, including the organization of the provincial and territorial civil service; and (iii) reforming the BCC (Congolese Central Bank). While these areas are not dealt with in this SPPFR, it should nonetheless be noted that the success of the reforms in those areas will be crucial to the genuine transformation of public finance in the DRC.

Implementing the reforms in the areas presented in the sections below will necessarily require institutional changes, but the possible effects of these changes cannot all be foreseen in terms of the allocation of responsibilities, organization of departments, and work methods and procedures. The government will adopt a pragmatic approach with respect to such issues, and will carry out any changes that become necessary both within specific ministries (or entities) and at the level of the number and portfolios of the ministries involved in economic and financial affairs.

## **IV. ESTABLISHMENT OF THE NEW SYSTEM OF PUBLIC FINANCIAL MANAGEMENT**

The government is aware that it is not possible, in the short term, to achieve a radical transformation of the public finance system through the adoption of program budgeting and MTEF approaches. Thus, in order to improve budget preparation and execution through the transition and towards a new framework for public finance in the medium term, an initial reform phase will be carried out that will lay the groundwork for the future system. This will be achieved through the introduction of a new budgetary framework, the modernization of public accounting, the reform of treasury management and the implementation of an Integrated Financial Management Information System (IFMIS).

### **4.1. The budget system**

#### **4.1.1. Medium Term Budget Framework (MTBF)**

The government aims to submit the budget law for 2012 to the parliament for voting, along with a medium term budget framework. These MTBFs are often called basic MTEFs because they

constitute in fact the first step towards a complete MTEF. However, the government knows that establishing the MTBF is already a sizeable challenge for the DRC, given the innovations its establishment involves, such as:

- a more transparent financial planning and budget preparation process, based in part on a more solid macroeconomic framework and to a multi-year perspective;
- better allocation of resources to strategic priorities owing to more explicit national priorities and sector strategies;
- greater overall fiscal discipline, resulting among other things in a budget framework letter that uses more accurate revenue and debt service forecasts.

**Box 5: Macroeconomic framework and budget framework letter**

*Macroeconomic framework* follows the consistency of the four main documents used to describe an economy: the government financial operations table (TOFE), the balance of payments (BP), the national accounts using the supply-use table for goods and services (SUT) and the monetary survey (MS). This consistency is facilitated by shared variables such as the foreign public debt shared by the TOFE and the BP, or the net government position (NGP) and bank financing of the government (Treasury bonds, etc.) shared by the TOFE and the MS. Consistency is also ensured by projection methods for certain variables from one document based on the variables in another document, for example projecting revenue with respect to the GDP, or customs revenue with respect to imports.

In a budget process based on a multi-year perspective, *the budget framework letter* will mainly use the data in the TOFE from which can be derived – among other things – the foreseeable margin of increase in public expenditure. In addition to the overall volume of expenditure and the financial goals set out in the fiscal budget policy, the budget framework letter indicates the earmarks for each ministry or public institution. Each individual ministry is then able to propose specific uses for the resources set out in each earmark depending on their sector priorities and strategies.

4.1.2. Affirming the departments in charge of the budget and launch of the MTBF

In order to restore the State budget to its primary role as a tool for economic and financial management, the government intends to strengthen the departments in charge of the budget and to confer upon them the authority they need within the public administration to introduce the MTBF, with its implications for budget preparation and execution. Several proposals are currently under review, one of which would create an overarching budget department, and the government will rule on them during the course of 2010.

The government intends to approach the establishment of the MTBF as a project in and of itself. Introducing this kind of new budget framework will require the focused efforts of a group of national and international experts in order to train State employees and properly organize the relevant departments, including the Research and Planning Departments (DEPs) of the various sector ministries and the relevant departments within the ministries of budget, finance, and planning.

Preparatory work was carried out during 2009 in the sector ministries (specifically those in charge of health and education), including the formulation of sector strategies and multi-year expenditure programs. The task at hand now will be to test the new methods and procedures planned for in the new framework of budget preparation and execution for the 2011 budget year, with a view to extending them during 2012 to other ministries who will in the meantime have set out their own sector strategies.

In the framework of the actions to be carried out during 2010, the government selected the following ministries as pilot ministries: health, education, agriculture and rural development.

The year 2010 will therefore see the laying out of important milestones, the aim being to pass a 2011 budget bill that may be “traditional” in terms of the legal wording, but that will be presented in a new form and with associated documents that introduce the innovations leading to the more significant changes in the 2012 budget bill.

In other words, 2010 is a crucial year with respect to the establishment of a new budgetary framework, owing to the laws to be passed and the preparatory work to be done, including (i) improving macroeconomic and financial framework development and forecasting; (ii) implementing the strategies of priority social sectors as well as three-year expenditure programs by sector; and (iii) consolidating supplementary budgets.

## **4.2. Public accounting and the management information system**

### **4.2.1. Public accounting and reporting**

Remodeling budget preparation and execution cannot be done without first modernizing public accounting, including the organization of the body of public accountants. The legal and regulatory frameworks for public accounting will also be updated to bring them in line with the LOFIP provisions once this law has been passed.

Measures have already been taken to modify the way in which budget accounting is done; until recently, this was still done using single-entry book-keeping methods, using the traditional method of executing parliamentary directives and recording credit releases. Now, double-entry book-keeping is being established within the Accounting Centralization Division of the Treasury, and this is a major step towards the implementation of rights-based accounting similar to the accounting that regulates general enterprise.

However, the accounting system still suffers from a number of weaknesses that the government intends to remedy in order, among other things, to expand double-entry book-keeping practices to all the state-owned financial entities and gradually also to the provinces and decentralized local authorities. One of the government’s first actions will therefore be to set up a specific and single budget and account classification, aware that (i) the general chart of accounts that serves as its basis will be changed to better fit the government’s specific needs; and (ii) the cost accounting structure costs will be linked to the budget expenditure structure set out in LOFIP.

Carefully kept general accounting is a governmental priority. This will be more easily achieved by setting up the IFMIS system which will enhance the quality of governmental action by providing the information contained in monthly balance sheets that are produced in a timely and regular manner.

Modernizing accounting methods and practices does, however, require prior institutional strengthening. Using an audit of the current situation as a starting point, the government has decided to reorganize the network of 900 or so public accountants working in the DRC. These accountants will be reorganized into a hierarchical structure that will establish a small number of primary and central public accountants and a larger number of secondary public accountants (subordinate to the primary accountants). In any case, upgrading the skills of public accountants has become imperative with the introduction of the new provisions.

#### 4.2.2. Cash management

Improving budget execution implies a prior improvement in cash management, especially to ensure that disbursements remain in line with the government's priorities and strategies as set out in the budget.

The first step in this improvement will consist in consolidating the various accounts and limiting the number of Treasury accounts (and sub-accounts) held at the BCC and other commercial banks. This will enable the ministers in charge of finance and of the budget to obtain more comprehensive and accurate information with respect to available resources. The quality of this information will also be improved, through regular exchanges between the banking sector (the BCC and other commercial banks) and the Treasury and Payment Authorization Department (DTO), and these regular communications will themselves be strengthened by the use of more up to date information technology.

In addition, the government will build on previously-introduced practices intended to develop the weekly, monthly and quarterly cash plans into powerful asset management tools, thereby enabling efficient and effective spending prioritization that is both explicit and adheres to budget decisions. Therefore, starting in 2010, the selected pilot ministries will be expected to prepare quarterly commitment plans that are based on concrete expenditure programs and public procurement plans.

Finally, the government is aware of the need to restructure the DTO so that it can control the Treasury's cash assets as well as the expenditure flows that may affect these availabilities.

#### 4.2.3. The Integrated Public Financial Management Information System (IFMIS)

Launched in 2003, the computerization of the expenditure chain has modernized the public expenditure circuit. The procedures established include:

- Single-step processing of commitment and settlement data by the Budget Supervision Department (DCB) of the Budget Ministry, and of authorizations data by the Finance Ministry's DTO.
- A specific track for expenditure in which each operator in the chain must act in turn by controlling and validating and then passing the record on to the next operator.
- Real-time information access to a record;
- Customizable confidentiality levels enabling each operator in the processing chain to see and/or update only the data relevant to that party

Unfortunately, the computerization of the expenditure chain has not led to the expected results in terms of the speed of processing records and the scope of expenditure coverage. This is partly due to the fact that the computerization was carried out without any modification to the budget framework or to the budget execution process and procedures. Furthermore, as it dealt mainly with existing procedures, the computerization really only covered one sub-system of public financial management.

Having learned from this initial experience, however, the government intends to strengthen public financial management by making use of a more modern and effective tool for computerized information management. The aim is to set up an integrated information system that provides a larger database (populated and used by the departments in charge of the various operations relating to the mobilization and use of public funds) and that comprises several modules including budgeting, expenditure management, accounting and reporting, cash

management, debt management, revenue management, asset management and so on. With this kind of functionality in place, the IFMIS system will enable the following activities:

- steering the implementation of development policies;
- strengthening the State's financial transparency;
- contributing to the genuine traceability of funds allocated to sector policies, particularly those for priority sectors;
- encouraging a better circulation of budget and accounting information;
- facilitating the effective implementation of internal and external controls.

The development of such a computerized information system will be carried out by means of a specific strategy and action plan, both of which will:

- be based on the results of organizational and procedural audits, as well as on standards that will be instituted;
- encourage consultation among the various operators, leading to the actual use and ownership of the reforms;
- enable the production of a realistic implementation timetable for IFMIS that can then be rigorously followed.

## **V. OPERATION OF THE NEW PUBLIC FINANCIAL MANAGEMENT SYSTEM**

### **5.1. Reforming the execution of budget revenue and expenditure**

#### **5.1.1. Budget expenditure execution**

As mentioned previously, budget expenditure execution is extremely slow, the causes of which only confirm the need for far-reaching reform. One of the primary causes is the large number of parties involved, which results in verification and control redundancies in the technical departments. Furthermore, the past political dynamics of the DRC did not facilitate the delegation to civil servants of tasks related to public spending, resulting in the personal intervention of the Budget Minister (commitment and verification) and of the Finance Minister (payment authorization) once the relevant technical departments had given their opinions. Lastly, the red tape involved in normal expenditure execution in the context of a limited cash flow tends to favor the use of exceptional procedures (urgent expenses or release of funds) under conditions that do not adhere to the spirit of the regulatory arrangements that instituted those extra-ordinary procedures.

The difficulties mentioned above will ultimately be removed by the implementation of the MTEF and the program-budget approach. These elements inherently involve shifting responsibilities within the expenditure circuit as well as a radical change in controls rooted in a results-based approach (as opposed to traditional value-for-money and fitness-based controls).

Arrangements do however need to be made to cover the transition period, in order to improve the effectiveness of budget expenditure management and to lay the groundwork for the system to come. To this end, the government has decided to:

- Rigorously apply the measures forbidding any new releases of funds if funds already available have not yet been adjusted within the expenditure circuit.
- Starting with the second half of the 2010 budget year, the personal involvement of the ministers (of Budget and Finance) who manage appropriations in expenditure commitment, verification, payment authorization will be reduced. The government's aim here is to ascribe greater accountability to the Directors of the relevant departments and to be able to evaluate their respective performance.

- From January 2011 the spending commitment and verification phases will be entirely carried out and validated within the pilot ministries by the heads of those ministries.
- As soon as it has been passed by Parliament, the public procurement code will be published. In addition to this, the transfer of responsibility for expenditure commitment and verification to the pilot ministries will also be accompanied by quarterly presentations made by those ministries of their procurement and spending commitment plans.
- In the framework of preparing the 2011 budget, pilot ministries will need to have matched staffing with payroll in their departments and to maintain that match in the event of any organizational changes.

### 5.1.2. Debt management

The DRC's sizeable debt illustrates the vital need to pay constant attention to debt management. There are issues with the centralization of debt issues and management where debts have often been incurred by various parties beyond the control of the Public Debt Management Department (DGDP). Given this situation, the government intends to implement reforms in the following three main areas:

*Legislative and regulatory reform.* This will involve passing a new law on the public debt which subsumes and streamlines the provisions of the various other laws and ordinances passed in the last few years. This should include the legal establishment of a requirement to demonstrate justification to substantiate any government commitment: prior vetting by the DGDP of any proposed commitment by the State or one of its public institutions. This new law will be complemented by regulatory provisions governing the centralization of information relating to the public debt and setting out good conduct rules in order to oversee borrowing at the level of the provinces and decentralized local authorities.

*Development of a medium-term debt policy* that the DGDP will have to translate into a debt strategy for each fiscal year.

*Operational capacity-building for the DGDP.* In addition to information centralization and oversight of any new borrowing decisions, the DGDP must also be fully able to perform analyses and develop proposals relating to the overall debt policy. This will require a new organization of services and departments as well as new working methods and procedures, all of which the government would like to see in place before the end of 2011.

A key element enabling the DGDP to fully carry out its role will be to update the computerized public debt management system that has been in place since 2005 (including government-guaranteed debts). In addition to centralizing information and recording all daily activities, this system must improve the regular production of forecasts used to develop cash plans, as well as the forecasts required for sustainability analyses and for the development of debt strategies for each budget cycle.

Review of the technical options available in updating this computerized debt management system will take place during 2010, taking care to ensure that there will be a functional interface between the DGDP system and the IFMIS system mentioned above.

### 5.1.3. The tax and revenue management system

The tax system remains burdened by a myriad of taxes and quasi-taxes on highly variable revenue, which are neither simple nor transparent enough to improve the business environment. Furthermore, the current context of economic policy is characterized by two strategic approaches with far-reaching tax implications: (i) regional integration, which requires aligning tariff regimes with those of neighboring countries, and (ii) decentralization and the revenue sharing stipulation in the Constitution, which must be very carefully applied in order to avoid increasing the complexity of the tax system and over-taxing certain taxpayers.

With this in mind, the government will carry on its reform activities aiming at two primary objectives: (a) modernizing and simplifying the tax system and (b) streamlining the management of taxes and duties in order to secure the revenue chain.

*Modernizing the tax system.* The government's initial approach to modernization began by tackling indirect taxation, hence the current action to replace the turnover taxation with the VAT, a more modern and economically neutral method of taxation. The bill relating to the introduction of a value added tax highlights the government's concern with simplification as the proposed arrangement consists of a single tax rate of [15%] and a zero rate.

#### **Box 6: The introduction of VAT – essential for the DRC**

The need to both simplify the tax system and increase budget revenue makes the introduction of VAT to the DRC a highly attractive course of action. A Value Added Tax is currently in use in 140 countries including many African nations. One of its advantages lies in the fact that it is possible to adapt VAT to the specific context of developing economies while still obtaining substantial tax revenue. This is thanks to a combination of two aspects of VAT: it is applicable to a potentially large tax base and it is economically neutral.

As a general tax on consumption that is proportional to the price of goods and services and independent of the number of transactions involved in the production process, VAT is payable on imports and at every production stage, on the sale price of a product, deducting the tax on cost price elements, which comes down to taxing only the "value added" by each potential taxpayer. It has no impact on company investments or on exports. A single rate is recommended when administrative capacities are limited. VAT is also the most efficient means to compensate for foreseeable losses from the removal of tariffs.

VAT is thus a prudent and useful tool to consolidate revenue. In fact, given the challenges and issues involved in direct taxation, the reform of indirect taxation is the means most governments have chosen to use in order to substantially increase their tax revenues.

Simplifying the tax system also means streamlining incidental administrative taxes. Because this latter practice leads to onlending to the departments charge of these taxes, its proliferation has given rise to some 774 administrative taxes; it can therefore not be considered independently from the general context of constant budget shortfalls within which these departments have had to operate for decades. That said, there have been redundancies noted not only from one ministry to the other, but even within a single given ministry. Furthermore, the low revenue yield of the vast majority of these administrative taxes means they are in most cases not worth keeping.

The modernization of the tax system cannot take place without wide-ranging reform of direct taxation, which the government intends to initiate in 2012. This will include:

- Setting up an income tax for individuals, which respects the principle of fairness while avoiding progressive tax rates that would lead to a schedule that would be difficult to manage due to the number of brackets involved;

- Excluding the mining and forestry industries and SME, removing all differences in profit taxation rates and instituting instead a single corporation tax that would gradually be brought to 30% (instead of the 40% currently applicable to companies falling under the Large Enterprise Department of the DGI).

A result of extraordinary circumstances in which administrative and state revenue plunged, the existence of two agencies in charge of the tax and quasi-tax system (DGI and DGRAD) has had evident limitations for some years now. The ongoing tax modernization, especially the introduction of VAT and the sizeable reduction in the number of administrative taxes, will make the continued existence of these two separate entities even less sensible. During 2010 the government will therefore conduct an opportunity and feasibility study to evaluate the possibility of merging the DGI and DGRAD.

*Modernizing customs.* It is equally important to the government that its customs administration be efficient and modern. This will include: (i) the development of a new customs code that is adapted to the current context of international trade; (ii) amendments to the customs administration by-laws to turn it into a department of the Finance Ministry; (iii) the streamlining and simplification of customs clearance procedures, particularly through the establishment of 'one-stop' shops at key goods entry and exit points where employees from various administrative departments involved will be stationed; (iv) migrating the offices still using the ASYCUDA version 2.7 computerized customs system to a more up to date version.

Streamlining customs procedures will, among other things, mean that the customs service must take over all customs-related activities that are currently being performed by the Congolese Control Office (OCC), which will in turn focus on quality control and verification of compliance with physical, technical and safety standards. The DGDA will then once again be the only entity carrying out tasks related to determining the value of goods and to collecting the amounts due when passing through the national borders.

*Securing the revenue chain.* Reforming tax legislation should broaden the tax base, although this is not by itself a guarantee of good performance in terms of revenue. The government is aware of the gaps that often exist between (i) the theoretical revenue level, estimated based on the potential tax base and actual collections and (ii) the actual amounts collected and the revenue recorded in Treasury accounts. Improving revenue performance will therefore not be fully effective without greater security in the revenue chain – in other words, streamlining the management of collections and thus being able to ensure that each stage of the process is carried out without any potential loss of earnings for the Treasury.

The new legal and regulatory measures mentioned above will greatly reduce the number of exemptions and will provide more rigorous oversight of the collection conditions for legally authorized taxes. After that, the structural reforms and the departmental computerization programs already mentioned will further enhance the security of the revenue chain by reducing the number of parties involved and by clarifying the responsibilities of each of them (including those outside the fiscal agencies, such as the commercial banks and the BCC).

Finally, there will be an inter-ministerial mechanism for securing tax revenue, as required by the poor collection rates for forestry and mining taxes and by the discrepancies between statistical data produced by the revenue ministries and the departments of the Finance Ministry and the BCC. Such a mechanism will include controls on the consistency of data coming from various sources, proposals for the continued improvement of recovery procedures, and finally data gathering that might prove useful for later investigations that the government or Parliament might deem necessary. Based on modern information technology, the establishment of such a

mechanism as early as 2010 would also meet the government's commitments with respect to the Extractive Industries Transparency Initiative (EITI)

## **5.2. Other major reforms**

### **5.2.1. Decentralization and public finance: feasibility, harmony and progression**

The 2006 Constitution states very clearly the need for decentralization in the exercise of political power and public affairs; it specifically sets out the nature and extent of provincial autonomy as well as that of the decentralized local authorities. However, in many areas the base law is careful not to provide any specific conditions for applying the principles it enshrines or the directions it provides. This has led to sometimes very lively debate on the decentralization mechanisms that are already in place or that are being considered by central and provincial powers. The government sees this debate as productive and enlightening.

*Specific objectives for implementing decentralization with respect to public finance.* It would be unrealistic to expect the decentralization process to be fiscally neutral in the DRC. However, the government does want to create a consensus on the implementation of decentralization through a process that is financially both sustainable and feasible – in other words, that is compatible with the country's public financial outlook in the medium and long term. There is no other way to make decentralization durable or to make the best use of the advantages decentralization will offer in terms of grassroots development, increased citizen participation in the management of public concerns, and sheer proximity between those governing and those that are governed.

The government is also determined to ensure that decentralization comes about as harmoniously as possible (in terms of coordination and convergence), in order to (i) ensure that social and economic operators throughout the country are exposed to the same rules and procedures and (ii) facilitate the centralization and aggregation of economic and financial information that is crucial to the development of national policies and strategies – including preparing, executing and controlling the national budget (which the Constitution defines as including both the central and provincial ones).

*Actions to be taken.* The meetings held by the Provincial Governors' Conference and the efforts made since 2006 in several provinces with support from various development partners have provided a number of lessons that must be put to good use. The government intends to promote a combined action with provincial executives based on a minimal platform for public financial management with respect to decentralization (PMFP), which will at any given time provide rules for management, administrative organization and the results expected from both the provinces and the central authority. The PMFP will be a tool that can change over time in order to meet the goal of harmonization; and the provinces that wish to set up a public financial management system going beyond the minimal requirements will be able to do so provided they have the required resources (including human resources).

As mentioned in paragraph 3.2.2 on the central role of the budget in the public finances of the provinces, the key element of the PMPF will be the development of a framework for provincial budget preparation and execution that is in line with the principles set out in the LOFIP (as yet unapproved) but that is also feasible and uses methods and technologies whose very simplicity is a sign of their relevance. Thus, using results-based management and based on the list of powers conferred upon and transferred to the provinces by the Constitution, the initial PMFP should require the following of each and every province:

- A budget presentation within a multi-year framework and with a document setting out the provincial government's strategies and priorities.
- Regulations relating to budget policy such as payroll ceilings, debt limits, and the conditions for the achievement and maintenance of a balanced budget.
- The application of a standard procedure with respect to ex-ante controls, verification, payment authorization, and payment (which must include one public accountant and must diminish the involvement of the governor in the execution of budget expenditure).
- Standard procedures for the management of tax and quasi-tax collection within the provincial remit for the provincial revenue agencies.
- Acceptance of the tax sharing arrangements for transfers to the provinces and the decentralized local authorities.
- The regular production of statistical and accounting data relating to public finance, including information intended for distribution to the wider audience.

The PMFP will be built on over the years, as the various provincial agencies become stronger, the aim being to achieve complete alignment between public financial management in the provinces and its counterpart at the central level. The first PMFP will be drafted and submitted for approval to the Provincial Governors' Conference before December 31, 2010, along with proposals relating to the monitoring and evaluation of the mechanism.

#### 5.2.2. External controls on public financial management

The government will continue to take all necessary measures to make it easier for parliament and for the Audit Office to carry out the responsibilities conferred upon them by the Constitution. Also, aware that consolidating democratic practices requires informing the citizens, the government will include greater fiscal transparency to the general public as one of the guiding principles of its reforms.

*Parliament.* Article 100 of the Constitution states that parliament votes the laws and monitors the government, public enterprises, and public institutions and services. Given parliament's monopoly on law-making and the scope of the control it wields in economic and financial affairs, collaboration between the government and the two houses of parliament (the National Assembly and the Senate) will be essential to the successful implementation of the SPPFR.

On the government's side such collaboration must first take the form of exchanges before bills are laid in parliament; this will be fruitful for strategies and reform ideas from the very early stages of drafting. The government was pleased to work with members of the Economic and Financial Commissions (ECOFIN) of the National Assembly and of the Senate in the course of several discussions that took place during the preparation of the action plan included in this SPPFR.

Given the scope of the reform program, the work done by the ECOFINs will intensify during the months to come and will remain at that level for several years. They will play a decisive role in the implementation of a legal framework for the public finance reforms (starting with passage the LOFIP bill) and in providing the legal seal of approval for each proposed change, thus authorizing its execution. At the same time, the review of the annual budget law based on the MTBF will, initially, require an increase in ECOFIN member workloads.

In anticipation of this increased workload and with the help of external partners, the government has taken steps to strengthen ECOFIN operational capacities by improving their working conditions and resources.

*Affirming the role of the Audit Office)*

The Constitution of 2006 states that the Audit Office is under the oversight of the National Assembly and that it controls the management of State finances, of public assets, of provincial and decentralized local authority accounts, and of government agency accounts. However, the organic law mentioned in Article 179 of the Constitution has not yet been passed and so the Audit Office continues to use its original ordinances that date from 1987, which endangers the legal validity of its rulings.

The Audit Office is also required to strengthen its activities and adapt to ongoing or planned changes in the public financial management, such as: the nature and cycle of the national budget, the development and reorganization of the public accountants network; and the increase in public funds managed by decentralized (provinces and local authorities) or autonomous public institutions. The Audit Office must continue to carry out its traditional mission but will also gradually acquire new ones which it must immediately begin to prepare, including affirming its role in the provinces and carrying out the performance audits needed in order to move towards a results-based public financial management.

With support from its development partners, the government has taken steps to further reinforce the operational capacity building the Audit Office will need, through skills development and improved working conditions and resources, etc..

2010 should also see the passage of (i) an organic law setting out the portfolio, organization and operation of the Audit Office and the by-laws for its members, (ii) arrangements outlining job specifications for the magistrates of this body as well as their selection criteria and conditions.

*Enabling the public to monitor public financial management.* One of the government's primary goals is to provide the general public with greater fiscal transparency, given that the legitimacy of the new system and new public financial management methods will depend on the quantity and quality of the information made available to economic operators and average citizens. Making the finance law available on the internet was a good first step, but it needs to be complemented by further action. Furthermore, any increase in transparency must happen at both the central and provincial levels of public financial management.

With respect to general budget and starting with the 2011 budget bill, the framework letter detailing government policies, priorities and constraints will be available on the internet alongside the budget proposal submitted to Parliament. Later, mid-term and end-of-term budget execution reports detailing activities and outturns will also be made available, even before final accounting and review by the Audit Office.

In the medium term, once the necessary informational structures and systems have been set up, the government will increase the dissemination of information relating to public financial management, for instance by regularly publishing the resources made available to ministries and the provinces.

### 5.2.3. Operational capacity-building for public financial management agencies

The personnel working in the departments in charge of the various aspects of public financial management will have to face a double challenge: (i) adapting to a public finance system that is different from the one they have used to date in terms of direction, goals, methods and procedures; and (ii) mastering modern information processing technology in the absence of

which the new public financial management system the government intends to set up cannot operate properly.

In confronting these challenges, the human resources of the central and provincial financial management agencies also have to deal with limited capacity and lack of motivation. In addition to the legislative amendments, institutional and organizational reforms, and changes in work methods and procedures already mentioned in this SPPFR, the government will work to build the operational capacity of the financial agencies through the following vehicles:

- Employee training and re-training programs, designed to be in line with the reform goals and executed in each individual ministry or agency taking into account the new organizational structures that reflect the updated functions and procedures.
- A program to develop managerial and leadership skills for high-level managers.
- The rehabilitation, construction and furnishing of buildings and their outfitting in line with the objectives assigned to the departments of the various financial agencies in Kinshasa and in the provinces.

## VI. IMPLEMENTING THE REFORM PROGRAMME

### 6.1. Reform management

#### 6.1.1. Institutional measures

Using existing structures and mechanisms, the government has taken the necessary institutional steps to bring about change.

*Political steering of the SPPFR.* The Minister of Finance will be leading the reforms, but will be able to lean on colleagues from the Inter-Ministerial Commission tasked with monitoring the programs implemented in agreement with international financial institutions (CISPI). Chaired by the Minister of Finance, CISPI brings together the ministers of Planning, Budget, and Economy, as well as several other ministers with sector or thematic responsibilities linked to economic and financial reform. This entity will act as the SPPFR steering committee and will review proposals and files before they are presented to the Council of Ministers (if required).

*Technical assistance and coordination.* These duties have been assigned to the Steering Committee for Public Finance Reform (COREF), and the Decree of 17 August 2009 signed by the ministers of Finance, Budget, and Planning reinforced its mandate to facilitate, monitor implementation, and evaluate the public finance reforms under the authority of the Minister of Finance. With support from development partners, arrangements have already been made to provide COREF with appropriate expertise and working conditions in order to carry out its mission.

*Making permanent administrative structures accountable.* Notwithstanding COREF's expected key role, the various departments and units remain primarily responsible for preparing and implementing the reforms in accordance with their respective portfolios. External expertise to be brought in will be deployed to these departments to assist them in carrying out the various reforms. This is a logical division of labor, but it also reflects the government's determination to ensure ownership of these changes by the personnel who will ultimately have to apply them.

The government will designate one or two structures to lead each component or sub-component of the reform. For example, the Budget Ministry departments in charge of budget preparation and monitoring budget execution will steer the implementation of the MTBF. In each case, the leading structure will work together with COREF to ensure that the activities carried out by the various structures involved in its assigned component of the reforms are coordinated with respect to content and schedules.

*The consultation framework.* The implementation of the SPPFR will benefit from the consultation framework that already exists throughout the thematic groups in which government and provincial representatives, development partners, private sector representatives and civil society representatives are involved. Questions and proposals relating to the SPPFR will continue to be reviewed during the Economic Governance Thematic Group meetings before being presented, if applicable, to CISPI.

#### 6.1.2. Information and communication

The implementation of the SPPFR will have widespread positive consequences for the vast majority of the DRC's population. However, as is often the case, these positive effects are not immediate while any changes implemented will rapidly come into conflict with vested interests,

including some within the government agencies. In some cases those opposing the reforms will be doing so based on pure perception rather than on any real risk of material loss or potential loss of income in the medium term.

It will therefore be necessary to support reform development and implementation with information and communication actions designed and carried out with specific target groups in mind. Initially this will involve providing clarifications and explanations within the State agencies themselves, in order to allay the concerns of the various categories of personnel and to make sure that managers and supervisors rally behind the goals and elements of the reform. Similar actions targeting the private sector and civil society will also be required, and on a broader level targeting the general population.

The government is aware that these information and communication actions will be a decisive factor in the success of the reform program; they will therefore receive close attention and will be carried out with support from communications experts.

#### 6.1.3. Reform risks and phases

Aside from the resistance mentioned above, implementing such widespread change within national and provincial financial agencies might encounter difficulties relating to the limited capacities of those agencies. The intense training that is planned and the external expertise that will be available for a limited time to these government agencies will certainly contribute to building the capacity of these departments to implement and apply the new methods and procedures. However, the government believes it is necessary for the agencies and departments to lead themselves through the reform process with respect to their various jurisdictions, in order to ensure that the changes made are sustainable and lasting.

In light of the foregoing, the government is mindful of the need for gradual implementation; this translates into a public finance reform that is organized in several stages, both in its overall implementation and in the implementation of the reforms in each specific area of public financial management. Such an approach is necessary in order to avoid risks such as: (i) the de-motivation of overworked managers and employees; (ii) failure to entrench the reforms resulting in their unsustainability; or (iii) alteration of the reforms, which would then fail to yield the expected results.

#### 6.1.4. Tiered reform under a sliding three-year program

The scope of the reform needed by public financial management means that the reform measures must be painstakingly developed and rigorously implemented in tiers that are coordinated (by COREF, for instance) but that remain distinct in their various technical and operational details. This approach is already being applied to tax reform and public procurement reform. The government wants to make it a universal approach while taking into account the fact that the various public finance reforms may be at varying stages of progress.

In the case of many of the major components of public finance reform, the relevant agencies will proceed to a detailed preparation of the reforms required (or to the updating of files). This will lead to the development of a precise action plan along with a schedule that will be integrated into the overall action plan for public finance reform.

With respect to this overall action plan, the government has elected to use a sliding three-year plan that will be updated and approved on a yearly basis. This will enable the structures tasked with reforms to carry out their respective actions with the benefit of a longer-term perspective and thus a greater capacity for anticipation.

The action plan's execution will be monitored and will include an evaluation of the results achieved with respect to the goals set at the start of the year; the lessons learned from these evaluations will subsequently contribute to better goal-setting and activity development for the following three-year plan.

## **6.2. 2010-2012 action plan**

### **6.2.1. Action plan contents**

The measures and actions detailed in the three-year, 2010-2012 action plan (appended) are a reflection of the strategic options described above, specifically the broad aims of basing any reform on a solid legal foundation and reaffirming the central role of the budget with respect to public financial management. The action plan also reflects the commitment by the Central and provincial executives to parallel central and provincial public finance reforms, even though human resource, information technology and logistical constraints may occasionally require delays and adaptation.

The number of laws that need to be passed is the sign of an unavoidable phase in the overhaul any system. Since government does not set the parliamentary calendar, the schedule given in the action plan may not correspond exactly to what will actually happen and when. However, given the importance of the work of modernizing the laws and the improved working conditions of both Houses, the government is counting on Parliament's collaboration through legislative co-production involving both deputies and senators in order to carry out its reform responsibilities in a timely manner.

The three-year action plan is in harmony with the provisions of the economic and financial program, developed in the framework of the Poverty Reduction and Growth Facility (now the Enhanced Credit Facility) and approved by the IMF in December 2009. In fact, one of the action plan's first goals is to facilitate the proper execution of this program.

The action plan's main features are as follows:

- Revise the legal framework: passing and promulgation in 2010, of the LOFIP in particular, and of the bill on public procurement, the bill on the general regulations of public accounting, and the bill relating to the classification of revenue generated by the provinces.
- Modernize tax instruments and strengthen the tax and customs administrations: passing and promulgation in 2010 of the bill on VAT and the bill relating to the Customs code, among others.
- Improve expenditure management, specifically through the reinforcement and streamlining of the expenditure chain; the creation of a double-entry accounting system; increased reliability of the computerized payroll and its extension to the provinces; the reinforcement of debt management.
- Strengthen fiscal supervision, specifically through the passing and implementation of the strategic plans for supervisory entities, in this case the Audit Office and the General

Inspectorate of Finance, and through increased accountability on the part of appropriation control officers.

#### 6.2.2. Raising funding

Since the start of the 2000s, the DRC has carried on useful dialogues with its external partners, whose contributions have been vital to the noteworthy results that have been obtained to date with respect to governance, and more specifically with respect to the public finance reforms already achieved and those currently being carried out. The quality of this dialogue is primarily due to the strong consensus regarding the diagnosis of weaknesses and constraints affecting the public financial management system. Also, collaborating with partners in reform implementation these last few years, and the exchanges that have been organized in the course of drafting this SPPFR, have given the government the pleasure of witnessing the convergence of its views with that of the donors with respect to the goals, approaches and content of the public finance reform program detailed in this document.

Building on what has been done to date, the government intends to organize the already available funding<sup>2</sup> and to mobilize additional funding into sub-programs or individual, detailed projects that can be funded with domestic resources and/or external grants. Some of these sub-programs and projects will include:

- Budget preparation and execution reform, at the central level and at the level of the provinces and decentralized local authorities
- Upgrading public accounting and strengthening the Treasury.
- Modernizing the fiscal system and securing the revenue chain.
- Setting up agencies responsible for modern public financial management in the provinces.
- Capacity building for personnel involved in public financial management at both the central and provincial levels.
- Strengthening external controls on public financial management.

In all, as these reforms are crucial to the Democratic Republic of Congo at this stage in its history, the government will do everything in its power to collaborate with its partners and successfully carry out the changes it deems essential to public financial management.

---

<sup>2</sup> Initial estimates place funding needs at around US\$ 113 million for a 5-7 year period.