International Monetary Fund

Democratic Republic of the Congo and the IMF

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June 30, 2010

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Democratic Republic of the Congo: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 15, 2010

The following item is a Letter of Intent of the government of the Democratic Republic of the Congo, which describes the policies that the Democratic Republic of the Congo intends to implement in the context of its request for financial support from the IMF. The document, which is the property of the Democratic Republic of the Congo, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
LETTER OF INTENT

Kinshasa, June 15, 2010

Mr. Dominique Strauss-Kahn
Managing Director
The International Monetary Fund
Washington, D.C. 20431, U.S.A

Dear Mr. Managing Director

1. The Democratic Republic of the Congo continues to advance its socioeconomic development agenda, which is being supported by the international community. There has been good progress in fostering national reconciliation, restoring peace in the eastern provinces, and stabilizing the economy following the adverse effects of the global financial crisis. The Government also renegotiated the Sino-Congolese Cooperation Agreement (SCCA) involving large mining and investment projects to make it consistent with debt sustainability. Nevertheless, daunting challenges remain, including national calamities, persisting security issues in the northern and eastern provinces, and the implementation of the constitutionally mandated fiscal decentralization involving the provinces.

2. Despite these challenges, the Democratic Republic of the Congo implemented satisfactorily its economic program supported by the IMF's Extended Credit Facility (ECF). All quantitative performance criteria at end-December 2009 were observed, and almost all of the structural benchmarks were implemented, albeit with some delay. These policies and reforms helped stabilize the exchange rate, reduce inflation, and nurture economic growth.

3. The 2010 economic program aims to address the economic challenges facing the country consistent with the priorities set forth in our Poverty Reduction and Growth Strategy (PRGS). It focuses on enhancing macroeconomic stability, increasing investment in physical and human capital, and implementing structural reforms to strengthen public financial management, enhance central bank independence, and boost our economy's supply response. The policies and reforms to achieve the program's objectives are set out in the attached Memorandum of Economic and Financial Policies (MEFP). In this context, the government of Democratic Republic of the Congo requests the completion of the first review of the ECF arrangement.

4. We believe that the policies and reforms set forth in the attached MEFP are adequate to achieve our program's objectives. Nevertheless, we are committed to take any further measures that may prove necessary for achieving the program's objectives. During the

period covered by the three-year arrangement, the Democratic Republic of the Congo will consult with the staff of the IMF on the adoption of any additional measures deemed to be appropriate.

5. The Democratic Republic of the Congo will provide the IMF with any information it may request for monitoring the implementation of the program's economic and financial policies. Furthermore, the government will conduct with the IMF a subsequent review of the first annual program (covering the period January 2010–June 2010) no later than end-December 2010 and an initial review of the second year of the program (July 2010–June 2011) no later than end-June 2011. It intends to make the contents of this letter, the attached MEFP, the Technical Memorandum of Understanding (TMU), and the related IMF staff report available to the public. Therefore, it authorizes the Fund to publish these documents on its website once the Executive Board concludes the first review of the ECF arrangement.

Sincerely yours

_______/s/_______

Adolphe Muzito
Prime Minister

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

APPENDIX I
ATTACHMENT I
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2009–12

Kinshasa, June 15, 2010

I. INTRODUCTION

1. This memorandum describes the economic and financial policies as well as the structural reforms that the Government intends to implement in its program supported by an arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for the remaining period July 2010 to June 2012. Through this program, the Government is pursuing efforts to reestablish the conditions for lasting political, economic, and social stability. In particular, the proposed policies and reforms aim to address the legacy of decades of poor economic management, armed conflicts, corruption, and disregard for the rule of law.

II. RECENT ECONOMIC DEVELOPMENTS

2. The global financial crisis weakened macroeconomic performance. Real GDP growth is estimated to have declined from 6.2 percent in 2008 to 2.8 percent in 2009 owing to weak mining and tertiary sector activities. Year-on-year inflation rose from 27.6 percent at end-2008, to 53.4 percent by end-2009 in response to a weakening of the Congolese franc against the U.S. dollar as exports declined sharply. However, annualized inflation declined to 15 percent at end-April owing to a tightening of monetary policy in late 2009 and a supportive fiscal policy. The external current account deficit narrowed by 6 percentage points of GDP, reflecting largely lower profit repatriation because of weak mining activity and higher official transfers. The special and general SDR allocations together with external budget support boosted international reserves to US$1 billion at end-2009, up from US$78 million at end-2008.

3. Despite unfavorable economic conditions, the Government maintained macroeconomic discipline. It limited the 2009 domestic fiscal deficit to 2.5 percent of GDP compared to a programmed deficit of 3.1 percent of GDP. As a result, the Government reduced its net credit from the banking system despite delays in the disbursement of foreign assistance (equivalent to 0.8 percent of GDP) and of the second tranche of the SCCA signing bonus (1.1 percent of GDP). Fiscal performance remained strong through the second quarter of 2010. The recovery in the mining sector and continued improvements in tax administration boosted revenue—mainly income tax and nontax revenues—by 0.7 percentage points of GDP above program projection. Two-thirds of the revenue overage was used to finance additional security-related spending and the front loading of capital spending for infrastructure in the context of the preparation of the 50th anniversary of the country's independence. The other third was used to reduce net credit to government from the banking system.

4. Prudent monetary policy helped reduce inflation. The Central Bank of Congo (BCC) stepped up sales of central bank bills and raised its policy rate to 70 percent during the second half of 2009. However, the lack of coordination between the BCC and the Treasury in liquidity management resulted in marginally higher-than-programmed base money growth at end-year (24.9 percent instead of programmed 19.6 percent). Nevertheless, continued prudent monetary policy supported by improved fiscal policy contributed to a significant disinflation during the first four months of 2010. In view of this, the BCC reduced its policy rate in three steps to 42 percent between March and May 2010.

5. Program performance was satisfactory. All quantitative performance criteria and indicative targets through end-December 2009 were observed, except for the indicative targets on base money and wage arrears (MEFP, Table I.1).[1] Moreover, although three out of ten quantitative indicative targets—net foreign assets, net domestic assets, and base money—were not observed at end-March 2010, the deviations were relatively small and corrective measures have been taken to ensure that the program remains on track. In particular, in April the BCC increased its purchases of foreign exchange from commercial banks and sales of central bank bills. On the structural front, we observed almost all of the benchmarks, albeit with some delay. The restructuring of a large commercial bank with systemic importance is requiring more time than originally envisaged, and the central bank, in consultation with the IMF's Monetary and Capital Markets department, launched the restructuring process in May 2010, which is expected to be completed before the end of the year. Regarding the benchmark on government submission to parliament of an organic budget law, upon judicial review it was determined that an "organic" law is inconsistent with the Constitution, including the provision related to the prohibition of borrowing by provinces. As a result, in March 2010 the Government submitted to parliament a budget finance law, consistent with the Constitution. The continuous structural benchmark regarding the timely production of fiscal accounts without foreign financing spending was observed beginning in June 2010 because of the impact of the December 2009 civil service strike that hampered the proper functioning of the expenditure management chain. However, the continuous structural benchmark regarding the timely production of fiscal accounts with foreign financing spending was not observed because of difficulties in obtaining information on several foreign financed projects.

[1] The accumulation of wage arrears vis-à-vis diplomats based overseas during the last quarter of the year amounted to CGF 2 billion or 0.4 percent of the total wage bill. This was because wage payments to diplomats are done outside the automated system in place for all other civil servants.

III. ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF 2010

A. Macroeconomic framework

6. The Democratic Republic of the Congo's economic objectives remain broadly unchanged from those set out in the November 2009 MEFP. The firming up of international commodity prices and increased investment (including that under the SCCA) are expected to support real GDP growth of 5.4 percent in 2010. Year-on-year inflation is targeted to fall to 15 percent supported by prudent macroeconomic policies. The external current account deficit is projected to widen mainly because of higher investment-related imports financed largely by development assistance and foreign direct investment. Gross international reserves are targeted to reach US$1.2 billion (or the equivalent of 7.5 weeks of non-aid imports).

B. Macroeconomic policies

7. The government's fiscal policy remains focused on curtailing government recourse to central bank financing. The domestic fiscal balance is targeted at 1.0 percent of GDP (0.3 percentage points lower than originally programmed), implying 1.5 percentage point of GDP reduction in net credit to the government.[2]

8. Revenue mobilization remains a key pillar of the program. The objective is to raise the ratio of domestic revenue (excluding the signing bonus under the SCCA) from 15.8 percent of GDP in 2009 to 18.1 percent in 2010 (1.4 percentage points of GDP higher than programmed). This will be facilitated by the stronger than programmed revenue performance realized during the first quarter of 2010, as well as by new policy measures. Regarding the latter, the Government: (i) is aligning the reference fuel prices for taxation purposes with world market prices (0.3 percentage points of GDP); (ii) is enforcing the payment of personal income taxes by political institutions (0.2 percentage points of GDP); and (iii) eliminated ad hoc income tax and tariff exemptions (0.2 percentage points of GDP). The Government's policy is to save all revenue beyond that projected under the program, including the second tranche of the SCCA signing bonus, and we will consult with IMF staff before considering the use of such revenues.

9. The Government will implement a prudent expenditure policy while creating the fiscal space for priority programs. It will limit domestically financed spending to 19.1 percent of GDP, about 1 percentage point of GDP higher than in the original program. While the wage bill and expenditure on goods and services will remain broadly unchanged, we have decided to reduce domestically financed investment (by 0.6 percentage points of GDP) to make room for higher spending on the preparation for 2011 presidential elections and national security. We believe, however, that the impact of lower domestically financed government investment will be minimal given the low project implementation rate and the large investment program under the SCCA

[2] In order to compare original program projection figures (in percent of GDP) with the outturn, the original program projection figures were rebased using the new GDP estimate for 2010.

(equivalent to 5.6 percent of GDP). The revised program for 2010 also provides for: (i) a larger-than-envisaged central bank deficit on account of the higher than expected cost of monetary policy (0.3 percent of GDP); (ii) the repayment of government obligations to a systemically important commercial bank that is being restructured (0.2 percent of GDP); and (iii) the repayment of arrears in transfers to the provinces and the tax collection agencies (0.4 percent of GDP). Ongoing reforms to bolster expenditure management will help ensure strict adherence to the revised expenditure policy.

10. To ensure the long-term sustainability of its external debt, the central government, local governments and the BCC are committed to a prudent external debt management policy. It will rely on grants and highly concessional loans with a grant element exceeding 35 percent for financing projects with the highest social and economic rates of return. The government will refrain from contracting or guaranteeing new debt that would jeopardize debt sustainability and will consult with Fund staff prior to making any such commitments or guarantees.

11. The primary objective of monetary policy in 2010 is to reduce further inflation. The growth of base money is targeted at 31 percent in 2010, in line with the expansion of nominal GDP. The BCC will maintain a prudent monetary policy and a positive real policy interest rate. It will continue to rely on the sale of central bank bills to manage liquidity. Further, it will limit intervention in the foreign exchange market to smoothing short-term exchange rate volatility in line with the floating exchange rate regime and the BCC's foreign reserve target.

C. Structural reforms

12. Structural reforms will continue to focus on modernizing tax and customs administration, strengthening public financial management (PFM), restructuring and recapitalizing the BCC, and enhancing the economy's supply response. The detailed and updated measures and their timetable are provided in the attached Matrix of Economic and Financial Policy Measures.

13. Modernizing tax and customs administration and PFM remains a priority in 2010. On tax administration, key reforms envisaged include the adoption of a value added tax (VAT) law, expansion of one-stop customs widows, and establishing new tax centers in key provinces for medium-sized enterprises in anticipation of the introduction of the VAT in 2012. On PFM, the modernization of the expenditure management system will be guaranteed by the adoption by end-December 2010 of a new finance law, which will trigger a series of reforms, at both the central and provincial levels, that will help streamline budget planning, execution and monitoring. The law will also define the devolution of functions, and their modalities, from the central government to provinces while taking into account the PFM capacities of provinces. The law will also define the modalities of transfer to provinces of national resources. It also envisages strict borrowing limits to help avoid loss of fiscal control and excessive borrowing. With the adoption and implementation of a new procurement code, the Government aims at improving transparency of public spending.

14. Financial sector reforms will focus on reinforcing the BCC's role and independence in implementing monetary policy and strengthening banking supervision. Given that the first steps of reorganizing/restructuring of the BCC have been achieved (i.e., the appointment of all general directors and the establishment of new organic units in line with the organizational structure developed with technical assistance from the IMF's MCM department), the focus will be on privatizing the Mint and the BCC hospital and rationalizing the BCC's pension system. Progress on these fronts will help reduce the operational costs of the BCC. Further, the groundwork for recapitalizing the BCC is underway and we expect to submit the recapitalization law to Parliament by end-September 2010. On the other front, the focus will be on restructuring weak commercial banks, which is essential for enhancing financial intermediation, and strengthening banking supervision. With the completion of central bank audits of nine key banks, the BCC will develop restructuring plans for those considered most fragile with regard to their prudential ratios.

15. Reforms to improve the economy's supply response are critical for strengthening economic growth and reducing poverty. The Government is finalizing its work on advancing the ongoing reform of public enterprises, especially those that provide growth-critical services. In this context, we are also in the process developing plans to minimize the social cost of the restructuring, of enterprises, especially on public enterprise employees. The Government is also improving governance and the business climate through enhancing property rights protection by harmonizing domestic regulations with those under the OHADA protocol and adhering to the Extractive Industries Transparency Initiative.

D. Program monitoring and related issues

16. The monitoring of the program will continue to be carried out based on semiannual reviews of quantitative performance criteria and quarterly indicative targets while structural reforms will be assessed in the context of semiannual reviews (Tables 1 and 2). The revised program establishes performance criteria for end-December 2010 and indicative targets for end-September 2010. The end-June 2010 quantitative performance criteria and benchmarks remain unchanged from those established in the November 2009 MEFP. The second review is expected to be completed by end-December 2010 and the third review by end-June 2011. The attached TMU provides the definitions and adjustors relevant for the quantitative performance criteria and benchmarks from July 1, 2010 onwards. The TMU accompanying the November 2009 MEFP remains applicable to the quantitative performance criteria and indicative targets through end-June 2010. A safeguards updates assessment was completed in April 2010, as required under the IMF's safeguards policy. The authorities provided to staff an audit report of selected performance criteria. In addition, the BCC drafted an action plan to implement International Financial Regulation Standards, which is expected to be adopted in December 2010.

17. The Government will reinforce its monitoring mechanism through extensive inter-department consultation and exchange of information, under the supervision of the Prime Minister's Office, as outlined in its November 2009 MEFP.

18. The Government has recently completed an update on the implementation its first PRGS. It is also in process of preparing a second generation PRGS. It launched the process in March 2010 and the work is expected to be completed by end-2010.

Sincerely yours,

________/s/__________	________/s/__________	__________/s/______________
Mapon Matata Ponyo Minister of Finance	Jean-Baptiste Ntwawa Minister of Budget	Jean-Claude Masangu Mulongo BCC Governor

Table I.1. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2009 - 2010

(CGF Millions, unless otherwise indicated)

	2008	2009 Cumulative change[2]					2009	2010 Cumulative change[3,4]										2010
	Stock Dec.	Dec.					Stock Dec.	March					June	Sept.		Dec.		Stock Dec.
	Prel	Perf. Criteria	Perf. Criteria Adj.	Act	Difference	Obesrvation	Act.	Indicative	Indicative Adj.	Act.	Difference	Obesrvation	Perf. Criteria	Indicative	Rev.	Indicative	Perf. Criteria	Prog
Performance criteria																		
Floor on net foreign assets of the BCC [5] (U.S.$ millions)	-610	35	-109	-3	106	Observed	-613	-23	14	15	1	Observed	144	510	648	576	613	0
Ceiling on net domestic assets of the BCC [5]	773,772	51,343	155,070	95,545	-59,525	Observed	869,089	42,225	7,974	-1,748	-9,722	Observed	-69,580	-180,079	-266,056	-825,115	-869,089	0
Ceiling on net bank credit to government	262,875	-105,837	-2,110	-80,522	-78,412	Observed	182,353	-80,725	-114,976	-108,355	6,622	Not Observed	-122,644	-99,636	-183,140	-154,723	-182,353	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including the EADs or the BCC [6]	…	0	0	0	0	Observed	…	0		0	…	…	0	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, and loans contracted by the EADs or the BCC [6]	…	0		0	0	Observed	…	0		…	…	…	0	0	0	0	0	0
BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget [6]	…	0		0	0	Observed	…	0		…	…	…	0	0	0	0	0	0
Accumulation of External payments arrears[6]	…	0		0	0	Observed	…	0		0	…	…	0	0	0	0	0	0
Indicative targets																		
Narrow base money	378,098	75,016	75,016	93,624	18,608	Not Observed	471,722	26,001	26,001	7,393	-18,608	Observed	22,834	145,089	148,586	-453,114	-471,722	0
Domestic balance (cumulative from the beginning of the year)		-285,251	…	-226,761	58,490	Observed		55,623	…	78,129	22,506	Observed	79,117	-57,794	-3,776	-153,960	-116,768	…
Accumulation of wage arrears		0		2,000	2,000	Not Observed		0		…	…	…	0	0	0	0	0	
morandum items:																		
roject deposits	13,976	0	0	-4,460	-4,460		9,516	11,661	11,661	-13,976	-25,637		9,516	9,516	9,516	0	0	11,661
alance of payments support (U.S. dollars, millions)		174	…	122	-52	…	…	-37	…	0	37	…	378	341	568	583	647	…
Programmed foreign assistance[7]		359	…	187	-173	…	…	0	…	12	12	…	451	451	678	730	793	…
Programmed external debt service payments		185	…	65	-120	…	…	37	…	12	-25	…	74	110	110	147	146	…
igning bonus from the Sino-congolese Cooperation Agreement (U.S. dollars, millions)		250	…	125	-125	…	…	0	…	0	0	…	0	0	0	0	125	…
rivatization proceeds (U.S. dollars, millions)		45	…	72	27	…	…	0	…	0	0	…	0	0	0	0	0	…

Source: Congolese authorities and IMF staff estimates and projections.

[1] For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.
[2] Cumulative changes are calculated from end-December 2008.
[3] Cumulative changes are calculated from end-December 2009.
[4] The performance criteria and indicative targets for end-June and March 2010 are those established in IMF Country Report No. 10/88.
[5] The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (US$1 = CGF 639.32; and 1 Euro = 905.07).
[6] These performance criteria will be monitored on a continuous basis.
[7] Non U.S. dollar denominated balance of payment support is valued at program exchange rates.

Table I.2a. The Democratic Republic of the Congo: Structural Benchmarks, 2009–10

Measure	Test dates	Status
Restructuring one large commercial bank [1/]	End-Dec. 2009	Observed with a delay; end-May 2010.
Adoption by the Council of Ministers of an action plan prepared by the committee responsible for assessing tax incentives and exemptions granted under the mining code, investment code, and special convention.	End-Dec. 2009	Observed with a delay; March 2010.
Implementation of ASYCUDA++ in the customs offices in Kinshasa	End- Dec. 2009	Observed.
Repayment plan for 2008 arrears based the internal audit of the Inspection General des Finances and establish a plan to identify and audit of any remaining government arrears.	End- Feb. 2010	Observed with a delay; March 2010.
Submission to Parliament of a draft organic law on public finance that *inter alia* prohibits provinces from borrowing from commercial banks and the Central Bank.	End-March 2010	Observed; Budget Finance Law without restrictions on provincial borrowing was submitted to parliament, in line with the constitution.
Generation and publishing of a monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous	Observed with a delay; starting from June 1, 2010.
Inclusion of externally financed expenditure in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous	Not observed
Publication of mining sector partnership contracts between public and private enterprises with 60 days of signature (including information on signing bonuses, taxation system, private shareholders, and members of the board of directors).	Continuous	Observed.
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Observed.

Source: Congolese authorities; and IMF staff assessments.

[1/] IMF staff and authorities agreed to postpone implementation of this measure, while awaiting the recommendations of the January/February 2010 MCM mission.

Table I.2b.The Democratic Republic of the Congo: Structural Conditionality and Macroeconomic Relevance, July–December 2010

Measure	Test date	Macroeconomic Rational
Adoption by the Parliament and promulgation of the law introducing a modern single-rate VAT.	End-December 2010	Enhance revenue mobilization to achieve the fiscal objectives of the program.
Establishment of the Kasumbalesa one-stop customs window.	End-July 20101	Enhance revenue mobilization to achieve the fiscal objectives of the program while reducing cost of doing business.
Increase the border fuel price for taxation purposes (PMFF) to at least one-third of the commercial price (PMFC) of fuel imports starting from June 2010, the authorities will gradually reduce the gap in order to reach the target by end-November 2010.	End-November 2010	Reduce distortions in relative prices and limit revenue losses.
Adoption by the Parliament and promulgation of the law on government finance.	End-December 2010	Develop a rule-based public financial management.
Submission to Parliament of the draft law on the recapitalization of the BCC.	End-October 2010	Enhance the independence of the central bank.
Generation and publishing of a monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous	Strengthen the monitoring of the program.
Inclusion of externally financed expenditure (excluding exceptional spending) in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous	Strengthen the monitoring of the program.
Publication of mining sector partnership contracts between public and private enterprises within 60 days of signature (including information on signing bonuses, taxation system, private shareholders, and members of the board of directors).	Continuous	Enhance economic governance and ensure accountability for public resources management.
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Improve economic governance and public financial management.

Source: Congolese authorities; and IMF staff assessments.

DEMOCRATIC REPUBLIC OF THE CONGO

Matrix of Economic and Financial Policy Measures, 2009 to 2011

Sector		Measures	Timetable
I. Tax and budgetary policies and reforms			
A. Tax policy		**Objective: Modernize the tax system**	
	1.	Reduce the number of low-yielding taxes: • • Adoption by the Council of Ministers of the report on identifying low-yielding taxes. • Submit to the Parliament draft laws on the elimination of these taxes.	 Done. End-June 2010.
	2.	Limit tax and customs incentives and exemptions: • • Establish a commission to evaluate the tax incentives and • exemptions in the mining. • • Adoption by the Council of Ministers of the action plan, which is elaborated by the Commission in charge of evaluation of incentives and fiscal exemptions, granted in the framework of the Mining Code, Investment Code and special conventions. **(structural benchmark)** • Refrain from granting or renewing discretionary tax incentives and exemptions outside the investment.	 Done. Done. Continuous.
	3.	Reduce the number of nuisance charges and border levies: • • Produce a report identifying para fiscal taxes and border • fees, without a quid pro quo, and adopt an action plan to • eliminate them. • Implement the action plan.	 End-December 2009; delayed to end-July 2010. End-December 2010.
	4.	Implement a VAT: • • Adopt and enact the draft law establishing the modern • Single-rate VAT **(Structural benchmark)**. • Collect the first VAT tax returns from businesses by the DGI.	 End-December 2010 End-January 2012
	5.	Implement the new Customs Code: • • Adoption by the Council of Ministers. • • Submission to the Parliament. • Promulgation by the President.	 Done. Done. End-December 2010.
B. Customs administration		**Objective: Modernize customs administration**	
	1.	• Transfer customs activities from the Congolese Office of Control (OCC) to General Directorate of Import and Excise Duties (DGDA): • • Adoption by the Council of Ministers of the new statutes of the • OCC and DGDA. • • Modify the decree which determines the number of services operating at borders.	 Done. End-December 2010.

Sector		Measures	Timetable
	2.	• Issuance by the Prime Minister of a decree to convert DGDA into a Directorate-General of Customs reporting to the Ministry of Finance.	Done.
	3.	• Strengthen the rules requiring pre-inspection of imports by BIVAC; for goods not yet subject to pre-inspection, DGDA will determine their value by using the BIVAC database.	Done.
	4.	• Implement ASYCUDA++ in all customs offices where the volume and type of trade justify it: • • At Kinshasa. (**structural benchmark**) • At other customs office that account for either a minimum of 5 percent of imports (CIF value) or a minimum of 10 percent of transit (CIF value).	 Done. End-December 2011.
	5.	Introduce the one-stop window at all customs offices: • Set up a one-stop window at Kasumbalesa (**structural benchmark**). • Set up a one-stop window at all other customs offices.	 End-July 2010 End-December 2011.
C. Tax administration		**Objective: Strengthen tax administration**	
	1.	• Merge the DGRAD with the DGI: • • Set up an independent commission to study the • advisability and feasibility of merging the DGRAD with • the DGI. • Adopt the report on the advisability and feasibility of merging the DGRAD with the DGI.	 Done. End-September 2010.
	2.	Extend the use of the new single tax identification number (NIF) to all provinces.	End-December 2010.
	3.	Transfer all enterprises that meet the eligibility criteria to the DGE portfolio.	Done.
	4.	• Establish tax centers (CDIs) in all provinces to manage medium-sized enterprises: • • Establish three CDIs: Bas Congo, Nord Kivu and Sud • Kivu. • Establish CDIs in all other provinces.	 End-December 2010 (ongoing). End-December 2011.
	5.	Finalize a study on the feasibility of implementing a computerized revenue system.	End -March 2011.
D. Collection of mining taxes		**Objective: Increase revenues from the mining sector**	

Sector		Measures	Timetable
	1.	• Strengthen tax administration in the mining sector: • • Strengthen the capacity of the specialized unit, including • by means of agreements with specialized audit • companies and international consulting firms. • Submit to Parliament draft legislation to transfer all responsibility for tax administration in the mining sector from the DGRAD to the new specialized unit in the DGE, which becomes responsible for internal assessment, in keeping with international best practice, for the audit and collection of all taxes, fees, and royalties from the major mining companies.	End-June 2010. End-October 2011.
	2.	Starting in July 2009, conduct annual audits by the Inspectorate General of Finance, six months after the year in question, to verify that all tax revenue paid by the mining companies have, in fact, been transferred to the general account of the Treasury.	End-December 2010.
	3.	In the context of strengthening the capacity of OFIDA, establish centers of expertise for the principal mining exports at Kasumbalesa, Sakania, Katanga, Goma and Bukavu.	End-June 2011.
	4.	Strengthen monitoring of oil producers by subjecting them to regular inspections (at least once a year) to check the information contained in their declarations to the DGRAD and the DGI.	Continuous.
E. Management of public finances		**Objective: Strengthen the management of public finances**	
		Adoption by the government of an action plan on reforms of public finances.	Done.
(i) Legal and institutional aspects	1.	Law on public finances • Submit to the Parliament the draft legislation. • Adoption the by Parliament and promulgation of by the President (**Structural benchmark**). • Adopt by the Council of Ministers decrees to implement the law.	Done. Done End-March 2011.
	2.	Adoption by the Council of Ministers of an action plan to transfer areas of responsibility between the central government and the provinces.	End of December 2010.
	3.	Submit to the Parliament the draft audit report by the Audit Office on the 2008 budget implementation.	Done.
	4.	Adoption by parliament and promulgation by the President of the new Public Procurement Code and its implementing regulations: • Adopt and promulgate the law related to public procurement. • Sign the regulation.	Done. End-June 2010.
	5.	Reform the financing of tax collection agencies: • Eliminate transfers to the three government tax collection agencies and replace them with budget appropriations.	Done.

Sector		Measures	Timetable
		• Replace performance bonuses with budget appropriations covering operating and capital costs and with incentives for officials in the tax collection agencies.	End-January 2011.
	6.	Approve of general regulations on government accounting.	End-December 2010.
	7.	Submit to the Parliament a draft organic law on the Audit Office.	End-December 2010.
	7.	Review the regulatory framework of the Office of the Inspectorate General of Finance.	End-December 2010.
(ii) Budget preparation	1.	Develop a medium-term budget framework: • For the Ministry of Health and the Ministry of Education. • In all ministries, in close cooperation with sector ministries.	 End-September 2010. End-December 2012.
(iii) Budget execution	1.	• Publish a decree by the Minister of Finance to oblige the government to pay resident suppliers in the DRC in local currency.	Done.
	2.	• Conduct an audit of all accounts of government entities at the BCC and at commercial banks.	End-December 2010.
	3.	Strengthen the computerized expenditure process by improving the software and updating the hardware.	End-March 2011.
	4.	Regularize domestic arrears: • Prepare a plan to repay accumulated arrears as of the end of 2008, based on the audit done by the Office of the Inspector-General of Finance. (**structural benchmark**) • Carry out the action plan to repay accumulated arrears as of the end of 2008 gradually.	 Done. End-January 2011.
	5.	Limit the use of the extraordinary expenses procedure: • Comply rigorously with the decree of December 2008, and halt the use of discretionary disbursements. • Implement a strategy to incorporate the procedure for making urgent expenditures within the computerized expenditure cycle.	 Done. Done.
	6.	Draw up a disbursement plan that conforms to the cash-flow plan.	Continuous.
(iv) Accounting system and budget reports	1.	Finalize the implementation of double-entry bookkeeping at the Directorate of the Treasury in the Ministry of Finance and expand it to all revenue collection agencies.	End of December 2010.
	2.	• Production and publication of monthly tables (**structural benchmark**): • • Generate and publish monthly budget execution tables • (reconciled with the TOFE, the BCC, and the monetary • statistics), no later than 30 days after the end of each • month. • Include externally financed expenditures (excluding exceptional spending) in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	 Continuous. Continuous.

Sector		Measures	Timetable
(v) Payroll administration	1.	• Extend the Simplified Transitional System (PTS) for the payroll to: • • all public officials and government employees • all provinces	 End-December 2010. End-December 2010.
	2.	Harmonize the various civil service payroll administration systems, particularly by revising the salary schedules established under those systems.	End-December 2010.
		II. Monetary and financial policy	
A. Reform of the central bank		**Objective: Make the central bank independent and efficient**	
(i) Restructuring of the central bank	1.	**Restructure the National Mint** • • Evaluate assets of the Mint (building, equipment, human resources). • • Create the restructuring committee of the Mint. • • Adoption of a restructuring action plan. • • Restructure the Mint.	 End-June 2011. End-May 2010. End-June 2010. End-June 2011.
	2.	**Restructure (privatize) the central bank hospital:** • • Create the restructuring committee of the hospital. • • Adoption of a restructuring action plan. • • Restructure the hospital.	 End-May 2010. End-June 2010 End - June 2011.
	3.	Reorganize the pension plan: • Close off access to the old pension plan, so that it no longer applies to staff members who are in active service or to new staff. • Appoint a pension committee. • Inform all central bank staff about the main features of the new pension plan. • Administer the new pension plan and manage its investments.	 End-January 2011. End-March 2011. End-July 2011. End-July 2011.
(ii) Recapitaliza-tion of the central bank	1.	Adopt by the Council of Ministers the action plan to recapitalize the central bank based on the recommendations of the IMF technical assistance mission.	End-July 2010.
	2.	Submit to the Parliament the draft law on the recapitalization of the central bank.	End-October 2010.
	3.	Adoption by the Council of Ministers of the budget needed to recapitalize the central bank by issuing government securities. Interest rates and maturities remain to be determined, depending on market conditions.	End-November 2010.
	4.	Recapitalize the central bank.	End-June 2011.
B. Monetary policy		**Objective: Strengthen the central bank's capacity to devise monetary and exchange policy**	
(i) Issuing of currency, and quality of currency in circulation	1.	• Increase the banknote processing capacity to 100 percent by allocating the necessary resources to the Treasury Directorate:	2009 to 2011
	•	40 percent;	End-June 2010.

Sector		Measures	Timetable
	•	70 percent;	End-December 2010.
	•	100 percent.	End -June 2011.
	2.	• Adopt a 3-year strategy to reform the currency issuance function in the provinces, to improve the quality of currency in circulation, in coordination with assistance from the IMF expert.	Done.
	3.	Issue coins in 2011 in accordance with the strategy developed with the assistance of the IMF expert.	End-June 2011.
(ii) Foreign exchange operations	1.	Hold regular foreign exchange auctions and publish advance notices on the Internet to maintain a continuing presence on the foreign exchange market and assure the transparency of market operations.	Ongoing (done).
C. Banking supervision; banking system		**Objective: Strengthen banking supervision capacity and improve the health of the banking system**	
(i) Banking supervision	1.	Implement a new matrix of sanctions for noncompliance with the banking supervision regulations.	End - June 2010.
(ii) Banking system	1.	Perform audits to assess the quality of the loan portfolio of all remaining banks, and establish a plan to restructure or recapitalize them.	End-May 2010.
	2.	Adopt a strategy to improve the health of commercial banks based on the results of the March 2009 assessment undertaken with technical assistance from IMF and World Bank experts.	Done.
	3.	Restructure a major commercial bank.	Initial steps taken by end-May 2010.
D. Accounting and transparency		**Objective: Improve accounting and transparency**	
(i) Accounting and audit operations	1.	Approve by the central bank's board of directors an action plan to adopt and implement International Financial Reporting Standards (IFRS).	End-December 2010.
(ii) Transparency and communica-tions	1.	Not later than six months after the end of the financial year, publish the central bank's financial statements and audit reports, including the auditor's opinion.	Continuous.
III. Other structural reforms			
A. Civil service	1.	Complete the survey of the civil service.	End-December 2011.
	2.	Complete the survey of the army and the police.	End-December 2011.
B. Business climate	1.	Send to Parliament the OHADA membership treaty.	Done.
	2.	• Adopt by the government a commercial cod project, which allows eliminating all tariff and nontariff barriers that are not consistent with the international agreements ratified by the DRC.	End-November 2010**.**
	3.	Submit to Parliament a draft law on liberalizing the insurance sector.	End-November 2010.
	4.	Set up commercial courts in: • the cities of Kisangani and Matadi; • the remaining provinces.	 End-December 2010. End-December 2011.

Sector		Measures	Timetable
C. Political Decentralization	1.	Implement the 40-percent revenue transfer formula: • transition period; • implementation.	 Done. Done.
(i) Classification of levies and charges for the provinces and ETDs	1.	Submit to Parliament a draft law on the classification of levies and charges for the provinces and decentralized territorial entities (ETDs).	End-November 2010.
(ii) Strengthen the management of public finances at the provincial level	1.	Simplify the budget classification of provincial administrations: • Revise the revenue and expenditure classification system. • Introduce a simplified classification system for the 2012 budget law for the provinces.	 End-November 2010. End-December 2011.
	2.	Develop and approve an action plan to strengthen capacity for the management of public finances at the provincial level.	End-September 2010.
	3.	In all provinces, implement a computerized expenditure process and link it to the central government's expenditure process.	End-December 2010.
D. Debt management	1.	Execute the action plan for effective implementation of the decree that centralizes external debt management in the DGDP including all information concerning public debt as well as all application measures.	End-December 2011.
	2.	Effectively collect and centralize data on internal and external public debt in the DGDP.	End-December 2010.
E. Transparency	1.	Publication within 60 days: • Of mining sector partnership contracts between public and private enterprises (including information on signing bonuses, taxation system, private shareholders, and members of the board of directors. (**structural benchmark**) • Of the negotiation results between mining companies and the government regarding the review of mining contracts.	 Continuous. Done.
	2.	Implement the Extractive Industries Transparency Initiative (EITI).	End-September 2010.
	3.	Establish an independent watchdog agency on corruption: • Prepare and adopt the draft law to establish an independent watchdog agency on corruption. • Submit to the Parliament by the Government the draft law.	 End-October 2010. End-November 2010.
F. Statistics	1.	Submission by the government of the draft statistics law to the Parliament.	Adopted by the government in January 2010.
	2.	Revision of national accounts statistics: • Finalize the estimated national accounts data (SNA 1993) for 2005 and 2006. • Finalize the estimated national accounts data (SNA 1993) for 2007. • Finalize the estimated national accounts data (SNA 1993) for 2008.	 Done. End-September 2010. End-December 2010.
		• Have the government adopt the national accounts in accordance with SNA 1993.	End-March 2011.

Sector	Measures		Timetable
	3.	Finalization and adoption by the government the national statistical development strategy (SNDS).	End-September 2010.
G. Reform of State enterprises	1.	Develop and submit to the Council of Ministers the social programs for the targeted enterprises: • SNCC and REGIDESO. • SNEL. • ONATRA and RVA.	End-July 2010 Done. End-December 2010. End-June 2011.
	2.	Evaluate cross-debts between the government and State enterprises, and between State enterprises: • Select the consultant. • Complete the evaluation report. • Adopt the action plan by the government.	 Done. End-November 2010. End-December 2010.

APPENDIX I
ATTACHMENT II
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
TECHNICAL MEMORANDUM OF UNDERSTANDING ON PROGRAM IMPLEMENTATION

Kinshasa, June 15, 2010

1. This memorandum updates the Technical Memorandum of Understanding (TMU) accompanying IMF Country Report No. 10/88. It defines the quantitative targets that will be used to assess the performance by the Democratic Republic of the Congo under the program supported by the Extended Credit Facility (ECF). It also specifies the content and frequency of the data needed for program monitoring. The updated TMU is applicable from July 1, 2010 onwards while that accompanying IMF Country Report No. 10/88 will continue to apply until June 30, 2010, including the definitions of the quantitative targets and adjustors. Unless otherwise indicated, all the quantitative targets are measured in terms of cumulative changes since the beginning of the year (January 1). Variables denominated in U.S. dollars will be converted to Congo francs by using the program exchange rate of CGF 639.32 per U.S. dollar. Variables denominated in currencies other than the U.S. dollar (excluding the SDRs and Euro) will first be converted to U.S. dollars at the end-period US$/currency exchange rate. Variables denominated in SDR will be valued at the program exchange rate of CGF 994.02 per SDR. Variables denominated in euro will be valued at the program exchange rate of CGF 905.07 per Euro.

2. **Institutional coverage: The central government** comprises all units of government that exercise authority over the entire economic territory. However, unless otherwise indicated for the purposes of this memorandum, the central government does not include nonprofit organizations controlled and financed by the central government. The **banking system** is understood to mean the Central Bank of the Congo (BCC) as well as existing or newly licensed commercial banks.

IV. QUANTITATIVE PERFORMANCE CRITERIA

3. Quantitative performance criteria are established end-December 2010 and indicative targets for end-September 2010 with regard to the following variables:[1]

- Changes in the net foreign assets of the BCC;
- Changes in the net domestic assets of the BCC;

[1]The end-June performance criteria are those established in the MEFP accompanying IMF Country Report No. 10/88.

- Changes in net banking system credit to the government (central government);
- Payments of government expenditures (including emergency expenditures) by the BCC without the prior authorization according to proper budgetary procedures by the Ministries of Budget and Finance;
- Nonconcessional medium- and long-term foreign loans contracted or guaranteed by the central government, local governments, or the BCC;
- Nonconcessional short-term foreign loans contracted or guaranteed by the State, local governments, or the BCC; and
- The accumulation of external payment arrears.

A. Floors on the Net Foreign Assets of the BCC

4. **Definition**: Net foreign assets (NFA) are defined as the difference between the BCC gross international reserves and its total liabilities. **Gross foreign assets** are defined as the sum of the following items: (i) monetary gold holdings of the BCC; (ii) SDR holdings; (iii) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross reserves: claims on residents in foreign exchange, nonconvertible currency holdings, and reserves that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities. **Foreign liabilities** are all BCC foreign exchange liabilities to nonresidents (including SDR allocations), including the IMF.

5. The following **adjustments** will be made to the NFA floors.

- **Balance of payments support (BPS)**: NFA will be adjusted (i) upward by an amount equivalent to total BPS in excess of the programmed levels, (ii) downward by (a) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and US$50 million by end-September 2010 and (b) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and US$100 million by end-December 2010; and (iii) downward by an amount equivalent to any shortfall in debt relief under the Heavily indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) from the IMF.

- Scheduled external d**ebt service**: NFA will be adjusted (i) upward by an amount equivalent to under payment of debt service relative to programmed amounts; (ii) downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the Sino-Congolese Cooperation Agreement (SCCA)**: NFA will be adjusted (i) upward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) downward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds in convertible currencies (PPCC)**: NFA will be adjusted upward by an amount equivalent to total PPCC in excess of the programmed levels.

6. **Definition**: BPS includes (all grants and loans) minus (grants and loans for externally financed projects) plus (debt relief granted by the IMF under the HIPC initiative and MDRI). External financing for the National Disarmament, Demobilization, and Reintegration Program (DDR) is defined as externally financed projects and is therefore not included in the definition of BPS.

7. **Definition**: scheduled external debt service payments (excluding those to the IMF) are defined as debt service due (principal and interest) minus debt relief (excluding debt relief offered by the IMF).

B. Ceilings on the Net Domestic Assets of the BCC

8. **Definition**: The net domestic assets (NDA) of the BCC are defined as base money (see ¶18 below) minus NFA. Based on this definition, the NDA of the BCC include: (i) net credit to the government (central government) (see paragraph 10 below); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; and (v) other net assets.

9. The following **adjustments** will be made to the NDA ceilings.

- **BPS**: NDA will be adjusted (i) downward by an amount equivalent to total BPS in excess of the programmed level; (ii) upward by (a) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 31,966 million by end-September 2010 and (b) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 63,932 million by end-December 2010; and (iii) upward by an amount equivalent to any shortfall in debt relief under the HIPC/MDRI from the IMF.

- **Scheduled external debt service**: NDA will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NDA will be adjusted (i) downward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) upward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds**: NDA will be adjusted downward by the total amount of privatization proceeds (including PPCC) in excess of the programmed level.

C. Ceiling on Net Banking System Credit to the Government

Definition: Net banking system credit to the government (NCG) is defined as the sum of net BCC and commercial bank claims on the central government, plus the BCC's net cash deficit. For purposes of program monitoring, government deposits related to externally financed projects are excluded from NCG. External budget support (BPS excluding balance of payment support from the IMF) will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

10. The following **adjustments** will be made to the NCG ceiling.

- **BPS**: NCG will be adjusted (i) downward by an amount equivalent to total BPS (excluding that from the IMF) in excess of the programmed level, and (ii) upward by (a) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 48,050 million by end-September 2010 and (b) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 96,100 million by end-December 2010.

- **Debt service payment**: NCG will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NCG will be adjusted (i) downward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) upward by an amount equivalent to total shortfalls relative to programmed levels in the disbursement of signing bonus from SCCA.

- **Privatization proceeds**: the NCG ceiling will be adjusted downward by an amount equivalent to total privatization proceeds in excess of the programmed levels.

D. Ceilings on New Nonconcessional Loans Contracted or Guaranteed by the Central Government, Local Governments, or the BCC

11. **Definition**: With regard to contracted or guaranteed debt, the central government is defined as all units of government that exercise authority over the entire economic territory, including nonprofit organizations controlled and financed by the central government.

12. **Definition**: Debt is defined as set out in Executive Board Decision No. 12274, Point 9, as revised on August 3, 2009 (see Annex).[2] For program purposes, external debt is measured on a gross basis using the residency criterion.

E. Ceilings on New Medium-and Long-term Nonconcessional Loans Contracted or Guaranteed by the Central Government, Local Governments, or the BCC

13. **Definition**: nonconcessional debt is defined as all loans with a grant element of less than 35 percent, calculated as the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of the debt at the time it is contracted is calculated by discounting future flows of payable debt service. The discount rates used for that purpose are the commercial interest reference rates (CIRR) specific to each currency, published by the OECD. The average ten-year CIRRs will be used to calculate the PV of debt having a maturity of at least 15 years, and six-month average CIRRs for loans with shorter maturity. For the purposes of the program, the most recent CIRRs published by the OECD will be used to assess concessionality of loans.

14. **Definition**: the limit on nonconcessional medium- and long-term loans applies to contracted or guaranteed debt and liabilities for which the equivalent value has not been received. It excludes (i) the use of Fund resources; (ii) lending from the World Bank, the African Development Bank, and the International Fund for Agricultural Development; (iii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt; and; (iv) concessional debts.

15. **Definition:** the guarantee of a debt arises from any explicit legal obligation of the central government, the BCC, or other agencies on behalf of the central government to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the central government, the BCC, or other agencies on behalf of the central government to finance a shortfall incurred by the loan recipient.

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[2] http://www.imf.org/external/np/pp/eng/2009/082009.pdf .

F. Ceilings on New Nonconcessional Short-term Loans Contracted or Guaranteed by the Central Government, Local Governments, or the BCC

16. **Definition**: short-term debt is defined as debt having an initial maturity of one year or less, with the exception of normal import credits having a maturity of up to one year,[3] including overdraft positions and debt owed or guaranteed by the government or the BCC.

G. Ceiling on the Accumulation of External Payment Arrears

17. **Definition**: external payment arrears include external debt service obligations (principal and interest) that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the PRGF arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations.

V. Quantitative Indicative Targets

18. The indicative targets pertain to: (i) base money; (ii) the non-accumulation of wage arrears; and (iii) the domestic fiscal balance.

A. Ceilings on Base Money

19. **Definition**: base money is defined as the sum of (i) currency outside banks; (ii) cash holdings of commercial banks; (iii) deposits of commercial banks with the BCC; (iv) private sector deposits with the BCC; (v) deposits of public enterprises with the BCC; and (vi) foreign exchange deposits and provisions for imports with the BCC.

B. Ceilings on the Accumulation of Wage Arrears

20. **Definitions**: Wage arrears are defined as approved personnel expenses that have not been paid for 30 days. Wages include the total compensation paid employees (civil service; including permanent benefits). These arrears will be valued on a cumulative basis from January 1, 2009.

C. Ceiling on the Domestic Fiscal Balance

21. **Definitions**: the **domestic fiscal balance** is defined as (domestic revenue) minus (domestically financed expenditure). **Domestic revenue** is defined as (total revenue and grants) minus (grants) minus (signing bonus from the SCCA). **Domestically financed expenditure** is defined as (total expenditure and net lending) minus (externally financed

[3] A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

investments) minus (foreign interest payments) plus (the BCC's operating deficit) plus (the net accumulation of domestic arrears).

22. The following **adjustments** will apply to the ceiling on the domestic fiscal balance:

- **BPS**: The floors on the domestic fiscal balance will be adjusted upward by an amount equivalent to the excess of total shortfall of BPS (excluding that from the IMF) relative to programmed levels over CGF 48,050 million by end-September 2010 and over CGF 96,100 million by end-December 2010.

VI. Consultation Clause

23. In the event that revenue exceeds the programmed amounts during the program period, the authorities will consult the IMF before allocating any surplus revenue to additional expenditure. Further, the authorities will consult with the IMF before implementing any revisions to the policies contained in the MEFP.

VII. Data to be Reported for Program Monitoring Purposes

24. The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table.

Summary of Data to be Reported

Information	Responsible entity	Frequency	Reporting deadline
Volume of foreign exchange purchases and sales on the interbank market	BCC	Daily	One day
Volume of BCC purchases and sales on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate	BCC	Daily	One day
Average CGF/USD reference exchange rate offered by commercial banks to their customers	BCC	Daily	One day
Average CGF/USD reference exchange rate used by exchange bureaus	BCC	Daily	One day
Integrated monetary survey	BCC	Monthly	Two weeks
BCC balance sheet	BCC	Monthly	One week
Monetary survey of retail banks	BCC	Monthly	Two weeks
Structure of retail banks' interest rates	BCC	Monthly	Two weeks
Reserves (voluntary and required) of retail banks	BCC	Daily	One day
Volume of CGF transactions on the interbank market	BCC	Daily	One day
Outstanding central bank claims on retail banks	BCC	Daily	One day
Foreign exchange sales (including through auctions) by the BCC	BCC	Weekly	One week
Outstanding and new issues of central bank bills (BTR)	BCC	Weekly	One day
Change in the free reserves of banks	BCC	Weekly	One day
Structure of BCC interest rates	BCC	Monthly	One week
Consumer price index	BCC	Weekly	One week
Retail banks' financial soundness indicators	BCC	Monthly	Two weeks
Commodity exports (value and volume), imports (value and volume) and domestic production indicators	BCC	Monthly	Three weeks
Implementation of the BCC foreign exchange cash flow plan	BCC	Weekly	One week

Summary of Data to be Reported (Concluded)

Information	Responsible entity	Frequency	Reporting deadline
Implementation of the BCC domestic currency cash flow plan	BCC	Monthly	One week
Amounts and holders of promissory notes (bills) guaranteed by the BCC	BCC	Monthly	Three weeks
Evolution of Commitment Plan and Treasury Plan Implementation	MF/MB	Weekly	One day
Implementation of the government cash flow plan	MF	Monthly	Two weeks
Amount, terms, holders, and stock of promissory notes (bills)	MF/BCC	Monthly	Three weeks
Breakdown of customs and excise revenues	MF	Monthly	Four weeks
Breakdown of direct and indirect taxes	MF	Monthly	Four weeks
Breakdown of nontax revenues	MF	Monthly	Four weeks
Projected expenditure commitment schedule	MB	Quarterly	Two weeks
Budgetary monitoring statement (ESB)	MB	Monthly	Two weeks
Approved wage bill by type of beneficiary	MF	Monthly	Three weeks
Wage bill paid by type of beneficiary	MF	Monthly	Three weeks
Compensated employees by category	MF	Monthly	Three weeks
Civil service wage scale	MF	In the event of change	Three weeks
Amounts of emergency spending, amounts approved by the emergency spending committee, amounts adjusted and paid by the BCC	MF/BCC	Monthly	Three weeks
Privatization receipts	MF/BCC	Monthly	Three weeks
Public sector domestic debt by category and by creditor	MF	Monthly	Three weeks
Loan contracts for any new external debt contracted or guaranteed by the central government, the BCC and local governments	MF/BCC	Monthly	Three weeks
Budget execution monitoring table showing Annual Treasury and Commitment Plans and all stages of expenditure execution through payments.	MF/MB	Weekly	Three days
Price Waterhouse Coopers audit reports, indicating any adjustments made to data reported at test dates	BCC		One week

Annex

Definition of debt

(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property, and

(b) Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.