**Congo Republic**

- **Land area, thousands of km²**: 342
- **Population, thousands (2005)**: 3,999
- **GDP per capita, $ PPP valuation (2005)**: 1,298
- **Life expectancy (2000-2005)**: 51.9
- **Illiteracy rate (2005)**: 14.2

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**key figures**

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All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/075316054601
Reconstruction is underway in Congo after more than a decade of political instability and sporadic armed conflicts. The enormous damage wreaked by the civil war, ravaging the capital, Brazzaville, and the Pool region several times between 1997 and 2003 is compounded by the harmful effects of many years of poor public-resource management. The balance after the last outbreak of violence in 2003 is one of a country that is impoverished and heavily in debt, and the economic development of which is immensely hampered by inadequate and outdated infrastructure of all kinds and an important deficit in capacities.

Nevertheless, the country could, today, be served by an unprecedented opportunity. Among the oldest oil-producing countries in Africa, Congo benefits from a very favourable economic situation due to the rise of international crude-oil prices, translating into a spectacular increase in state revenues in 2005. Moreover, new reserves have been discovered, so oil production is expected to rise even more in 2006.

In addition, given the progress made in the transparency of oil-revenue management, the relations between Congo and international aid agencies have improved considerably: at the end of 2004, following the signing of the Poverty Reduction and Growth Facility (PRGF) programme with the International Monetary Fund (IMF), the Paris Club of lending nations cancelled a good part of Congo’s debt, bringing the debt/GDP ratio down from more than 240 per cent in 2003 to less than 150 per cent at the end of 2004. Access to the Heavily Indebted Poor Countries (HIPC) initiative, originally scheduled for the end of 2005 but postponed to the beginning of 2006, leaves hope that additional resources will be available in the coming years. One of the government’s priorities for 2005 was to re-establish the state’s financial credibility in keeping with the commitments made to the donor community, notably to the IMF. A major portion of the additional resources has thus been used since December 2004 towards the payment of arrears of the external debt and the first stages of a settlement

![Figure 1 - Real GDP Growth and Per Capita GDP](image-url)

**Source:** IMF data; estimates (e) and projections (p) based on authors’ calculations.

The high price of crude oil coupled with access to the HIPC initiative augurs well for the country’s economy which nevertheless remains weak.
of the social debt (wage arrears) and the trade debt (arrears to the state’s suppliers). These payments were continued in October and December 2005.

Congo therefore has, today, all the means necessary, in terms of both financial and natural resources, to succeed in reorganising its public finances and reconstructing its social and economic fabric. The country must nonetheless take up three challenges that are weighing on its future. First, debt reduction is conditioned to the finalisation and strict application of the Poverty Reduction Strategy Paper (PRSP), notably in the priority sectors (health and education), for even if there is major progress in the management of revenues, notably oil revenues, much is left to be accomplished in the management of expenditure. Postponement of the decision point, originally timed for the end of 2005, testifies to the difficulty of this process. Second, Congo’s economy is heavily dependent on the oil sector, which makes it fragile, especially given that production has already been predicted to decrease in 2007. Third, social and political stability remains extremely precarious: there are still rifts within the country, and social discontent is growing among the population, the majority of which is losing patience as it waits for the expected, but not forthcoming “positive fall-out from the oil revenues”.

In general, Congo’s economy experienced satisfactory growth in 2005 compared with 2004, with an increase in oil production (12.5 per cent) and growing production in non-oil sectors (4.2 per cent) despite a fall in the forestry sector. For the economy as a whole, the growth rate, which was 3.6 per cent in 2004, was expected to reach 8.4 per cent in 2005, and to fall to 5 per cent in 2006 and 2.8 per cent in 2007, due to the natural decline of oil production.

**Recent Economic Developments**

The Congolese economy has remained scarcely diversified and strongly dependent on oil. Since 1973, when the first oil field, Émeraude, was put into operation by Elf, the oil sector has been the foundation of the entire economy. In 2004, it amounted to 55 per cent of GDP and 95 per cent of exports. Most of Congo’s oil production, which stands among the oldest in the continent, takes place offshore. The major operators in the country are Total, ENI and Zetah.

The contribution of the sector to growth in 2004 was limited because the expected increase in production was lower than predicted, rising by a mere 0.4 per cent from 2003 with an output of 82 million barrels. In contrast, the good performance of the onshore oil field of Mboundi, the positive effects of which were already expected for 2004, contributed to raising production by 12.5 per cent in 2005. In December, however, production was estimated at 92 million barrels, 3 million barrels short of the year’s forecasts.

Production should rise considerably in 2006, thanks to the development of new oil fields and the new momentum given to investor confidence by the soaring crude-oil prices. The oil companies thus financed many research and exploration projects. Among these are Total, ENI and Murphy’s ultra-deep offshore drilling with the use of new technology, Zetah’s seismic field survey in the Mboundi site and its exploration of the Noumbi permit area, and Chevron’s exploration of a third well in the K/AIMI Border Unit (a common interest area between Congo and Angola). Total, Zetah and ENI also directed investments to development and exploitation. Moreover, they have tended to increase production while limiting the natural decline of the older fields. Production is hence projected by the authorities to increase by about 15 per cent in 2006.

For the reform of the oil sector, 2005 was a crucial year. In parallel to the application of the Extractive Industries Transparency Initiative (EITI), Congo’s state oil company, the Société nationale des pétroles du Congo (SNPC), went through major restructuring towards refocusing its activities upstream from the oil sector. In the course of the year, two different companies were set up: the Société nationale de recherche et d’exploration pétrolière (Sonarep), following the liquidation of

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1. Total has in particular initiated development projects in the Moho Bilondo field, and should start production in 2008.
Congorep for exploitation and research, which is scheduled to start production in 2006; and Cotrade, for marketing crude oil. The downstream sector (distribution of the refined product), which was formerly managed in part by Hydrocongo – a company currently being liquidated – has been entirely taken over by a private consortium.

Timber, the leading non-oil product and second in exports, represents a major resource for the country’s economy, notably in its capacity to create jobs. Forestry production, after strong expansion between 2001 and 2003, has slowed down considerably since 2004 (0.3 per cent growth), largely due to declining log production (0.2 per cent). An increase in the production of semi-
finished wood products (+10 per cent) only partially compensates for this shortfall. In 2004, the forestry sector amounted to just 1 per cent of GDP, and its contribution to growth had dropped slightly since 2003. This trend worsened in 2005, with a 10 per cent drop in wood production involving both logging (3.2 per cent) and wood products (34 per cent). Moreover, production of eucalyptus billets, interrupted in 2004 because the monopoly company (now being privatised) ran into difficulties, did not start up again in 2005 as planned.

Several factors explain this negative performance. First, the disrepair of the infrastructure makes transporting products to the port of Pointe-Noire very difficult. Companies, located mainly in the north tend to send their products out on Cameroonian roads to the port of Douala. This increases transport costs, for the distance is longer and the price of fuel is higher in Cameroon than in Congo, where fuel is subsidised.

Furthermore, the sector underwent greater tax pressure with the application of the forestry code of 2003, intended to align the country with the tax rate common to the Economic and Monetary Community of Central Africa (CEMAC). This tax hike has turned out to be problematic, given the constriction the sector is undergoing, and has been the reason why many companies have not yet started production, even though they hold new exploitation permits. The code further stipulates that companies will have to process 85 per cent of their production in Congo and export no more than 15 per cent of their logs. The goal is to promote job creation and improve management of the forest ecosystem. The implementation rate having amounted to 49 per cent for 2005, the difference is subject to additional tax. Certain companies, however, preferred to produce less, rather than to be subjected to more taxes.

After wood, the sugar industry is the next major potential resource for the Congolese economy, especially in terms of jobs. Not very competitive internationally, production is mainly intended for the domestic market, rather than for export. This potential remains largely unexploited, however, mainly because of the absence of sugar refining in the secondary sector. Production falls under the monopoly of a single company, Saris Congo. In 2004, thanks to the increase in farmland obtained in the framework of the ten-year reflationary agricultural policy (supported by the Food and Agriculture Organisation [FAO]), production increased by 8.2 per cent, up from 59.4 thousand tonnes to 64.3 thousand tonnes. However, a significant 4.8 per cent fall occurred in 2005, mainly related to the difficulties in supplying the Brazzaville market and providing fertilizers, both of these related to the lack of adequate transport infrastructure.

In total, the agribusiness sector, ignored for many years by public policy, is developing largely under its potential. In a country where the climate and the quality of soil are particularly favourable for agriculture, it amounted to only 5 per cent of GDP in 2004. This situation also prevails in the food-crop sector and contributes to the continuing existence of pockets of food insecurity. In this respect, the Programme national de sécurité alimentaire (national food-security programme [PNSA]) will be launched in 2006 with the active support of the FAO, in keeping with the intermediate PRSP priority of developing the agricultural sector.

In the secondary sector, construction grew substantially, especially through the many basic-infrastructure rehabilitation and reconstruction initiatives. In the framework of the “accelerated municipalisation” policy, many public-investment projects are carried out each year in different places (Pointe-Noire in 2004, Impfondo in 2005) in conjunction with the decentralised celebration of Congo’s national independence day, 15 August. Beyond the short-term demand and employment benefits, however, the long-term impact remains unclear, particularly because the integration of these projects into local development plans, and their maintenance and upkeep have not been addressed.

In services, as in agriculture, the informal sector is of overwhelming importance. A 2003 survey in Brazzaville showed that it was predominant in trade, restaurant services and construction. As services’ contribution to growth has increased since 2004, it can be assumed that its veritable engine is the informal
sector. Growth can further be explained by the benefits for trade and restaurants from rising income generally, as well as from sporting and political events in Brazzaville and Pointe Noire. In 2005, the transport and telecommunications sectors also enjoyed new investments by the autonomous port of Pointe Noire, the Congo-Ocean Railway (COR) and the mobile-telephony companies, which led to increased services. Non-market services could also benefit from investments made in the social sectors.

Oil was again the major engine of growth in 2005, after a significant slowdown in 2003. The contribution of wood and timber has declined and secondary industry is mostly supported by the dynamic performance of public works and private investment, particularly in the oil sector.

These developments contributed to increasing per capita income in 2005 and to the considerable stimulation of private consumption, which saw a real 5 per cent increase over 2004. Growth in 2005 was also reinforced by continued significant improvement in the terms of trade since 2004. This progress can be explained by the rise in the prices of oil and of tropical wood, as well as by the appreciation of the euro against the dollar. Consequently, the trade-balance outcome and, more generally, the balance-of-payments outcome have improved.

Even though 2005 ended with a spectacular budget surplus, the situation did not translate into negative pressure on demand; the surplus of receipts over expenditures can in fact be largely attributed to a strong rise in oil revenue. These trends should continue in 2006 and 2007.

The strong positive contribution of external demand to demand composition explains the fall in the share of investments and domestic consumption as a percentage of GDP. This trend should continue in 2006, with the predicted increase in oil production, then be reversed in 2007, with significant regrowth in the other domestic sectors.

### Table 1 - Demand Composition (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
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<td>7.0</td>
<td>5.7</td>
<td>5.7</td>
<td>6.5</td>
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<td>19.2</td>
<td>17.2</td>
<td>13.3</td>
<td>12.9</td>
<td>13.9</td>
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<td><strong>Consumption</strong></td>
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<tr>
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<td>32.6</td>
<td>25.1</td>
<td>24.4</td>
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<td><strong>External sector</strong></td>
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<tr>
<td>Exports</td>
<td>75.6</td>
<td>80.7</td>
<td>79.3</td>
<td>84.5</td>
<td>87.8</td>
<td>86.3</td>
<td>83.5</td>
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<tr>
<td>Imports</td>
<td>60.2</td>
<td>54.0</td>
<td>53.7</td>
<td>57.3</td>
<td>44.2</td>
<td>41.5</td>
<td>43.2</td>
</tr>
</tbody>
</table>

Source: IMF data; estimates (e) and projections (p) based on authors’ calculations.

### Macroeconomic Policies

#### Fiscal Policy

Congo belongs to the CEMAC, part of the Franc Area. Monetary policy is shared among all member countries. The country is therefore committed to apply both a certain fiscal discipline and the convergence criteria. In 2005, growth in Congo was probably the fastest in the region after Chad. In contrast to 2004, when only fiscal-discipline convergence criterion had been respected, inflation in 2005 remained under 3 per cent despite inflationary pressures from the rise in the oil price. That year, for the first time, the country also complied with the criterion of non-accumulation of arrears (internal and external). On the other hand, it was not able to apply the criterion for the ratio of public-debt stock over GDP, still largely above 70 per cent.
Since the launch of the “New Hope” programme at the end of 2002, management of public finances has improved considerably thanks to the leeway provided by the rise in the price of oil and to the more rigorous management of oil revenues. Continuing structural reforms had a beneficial effect on the whole of the revenue system.

Although Congo is the country with the highest tax rate in the CEMAC (44 per cent of GDP in 2005), wages remain low outside the oil sector (6.7 per cent of GDP in 2005). Oil accounted for 70 per cent of total government revenue on average in the 1997-2003 period. This dependence is a source of vulnerability and over the past few years the government has sought to reinforce its system of revenues, which have increased regularly since 1997 with only two exceptions: 1998 and 2003, which saw the return of hostilities and poor performance of the oil industry.

In 2004, the rise in total revenue was 21 per cent over 2003, with an implementation rate of 96 per cent. Oil revenue climbed by 25.8 per cent and non-oil revenue by 14 per cent thanks to a series of structural reforms, which have already started to clear up the system even though they are being implemented progressively.

In expenditure, progress in management remains limited and the situation fragile. The Government of Congo has accumulated major deficits in the past, caused by a surplus of expenditure over revenue, leading to the accumulation of arrears. To limit these expenditures and finance infrastructure-reconstruction projects, the government constrained wages, now frozen since 1994 (after a 12-to-25 per cent reduction). The GDP share of wages has declined from 9 per cent in 1998 to 5.8 per cent in 2003 and 4.2 per cent in 2005. Current expenditure thus remains vastly insufficient compared with the country’s needs.

<table>
<thead>
<tr>
<th>Table 2 - Public Finances (percentage of GDP)</th>
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<tr>
<td>1997</td>
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<tr>
<td><strong>Total Revenue and grants</strong></td>
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<tr>
<td>Tax revenue</td>
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<tr>
<td>Oil revenue</td>
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<tr>
<td><strong>Total expenditure and net lending</strong></td>
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<tr>
<td>Current expenditure</td>
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<td>Excluding interest</td>
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<tr>
<td>Wages and salaries</td>
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<tr>
<td>Interest</td>
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<tr>
<td>Interest on the public debt</td>
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<tr>
<td>Capital expenditure</td>
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<tr>
<td><strong>Primary balance</strong></td>
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<tr>
<td><strong>Overall balance</strong></td>
</tr>
</tbody>
</table>

a. Only major items are reported.

Source: IMF data; estimates (e) and projections (p) based on authors’ calculations.
In 2004, current expenditure grew 5.7 per cent from the preceding year, with an increase in total wages of 2.2 per cent (due to new recruitment in the education and health sectors) and a 2.6 per cent rise in other current expenditure. As for investment expenditure, after the drop in 2003, it rose by 19 per cent in 2004, and its implementation rate, over domestic financing, was 93 per cent. Real public investment went primarily to public works, notably to infrastructure.

Despite this growth in total expenditure, fiscal year 2004 ended with a surplus primary balance, confirming the country’s positive trend. This is exclusively explained, however, by the growth in oil revenue. The primary balance, excluding oil revenue, is structurally very negative, reflecting the persistent economic dependence on the oil sector. The overall balance has also shown positive signs since 2003, with a significant surplus in 2004. This has made it possible for Congo to start addressing its external debt and regularising its position with regard to public donors.

The positive trend continued in 2005 thanks to the spectacular increase in oil revenue, largely offsetting the weak growth in wage-related expenditure (5.8 per cent) and in capital expenditure (around 20 per cent). On the other hand, non-oil revenue, despite a 3.5 per cent rise, remains inferior to projections. A non-budgeted surplus of 351.2 billion CFA francs, equivalent to a 69 per cent increase from 2004, as well as non-programmed spending led the government to call up a supplementary-estimate amendment in October 2005 and to draft a new budget law.

In conclusion, the fiscal year 2005 ended with a budget surplus (commitment basis, excluding grants) of nearly 600 billion CFA francs, the equivalent of 19.4 per cent of GDP. The preceding year, surplus was around 100 billion CFA francs, corresponding to 3.9 per cent of GDP. As in 2004, and in agreement with the IMF, the surplus revenue has been “sterilised”, that is, primarily earmarked for the financing of domestic and external debt.

Management of oil revenue continues to improve in the country. Congo’s adherence to the EITI includes the certification of revenue, regular audits of the SNPC and the Congolaise de Raffinage (CORAF, Congo’s sole refinery), as well as biannual reports to the government from each oil company operating in the country. In addition, since 2003, the SNPC no longer has the right to incur a debt or make payments in the government’s name; it is also obliged to transfer all its revenue to the public treasury within eight days.

Even though the sector upstream of the oil industry has been remarkably reformed, the downstream sector still remains problematic. Use of the non-budgeted oil surplus has been the subject of animated controversy both in parliament and among civil society. Already in 2004, the non-convocation of a supplementary estimate had been highly contested, even if the former minister of finance had provided explanations regarding the use of the surplus 136.6 billion CFA francs, earmarked to fill the gap between revenue and expenditure, and to settle the arrears on external and domestic debt. In 2005, the surplus was much greater, and debates regarding its use were increasingly stormy. The government was especially challenged on its decision not to devote at least part of the surplus to increasing civil servants’ wages. This situation is at the core of new social tensions and general discontent.

As for expenditure, most of the questions being raised deal with the transparency and effective use of investments. The donor community, in particular, is concerned, as 2005 should have been the first year of application of the interim PRSP, with significant increase in current expenditure and investment in social sectors. Nonetheless, although the 2005 budget breakdown at the end of September, revealed a nearly 100 per cent implementation rate for investments from capital, positive repercussions in the targeted sectors have yet to be seen. This situation raises doubts about the government’s capacity for a rigorous implementation of the final PRSP, all the more so that the latter goes into far greater detail than the interim version.

The 2006 budget, set jointly with the IMF, reflects the priorities already laid out in the 2005 budget and included in the interim PRSP, namely to fight poverty and to concentrate expenditure in the social sectors. As
in the 2005 budget, the basic assumptions used for projections of state resources in 2006 remain conservative because of the highly volatile price of oil. The average annual reference price per barrel is in the $56 to $60 range, cut down by a prudence factor and the reduction normally applied to Congolese crude oil. Based on these assumptions, a rise in revenue and expenditure can be expected. Reflecting the priorities of the interim PRSP, a nominal 30 per cent rise in capital expenditure is foreseen. The decision point was reached in March 2006, but strict execution of the 2006 budget, as well as the drafting of the final PRSP will be essential in attaining the PRSP achievement point, the date of which depends on a positive assessment of the execution of the final PRSP.

Over the years, Congo has accumulated a significant domestic debt amounting to 531 billion CFA francs at the end of 2004, or 13 per cent of total debt inventory, and 21 per cent of GDP. The positive repercussions of the increase in oil production, in conjunction with that of oil prices, have allowed the country to start tackling the problem, considered as a priority by the IMF. Moreover, in 2004, the World Bank promised to grant Congo a $30 million structural-support grant to facilitate the implementation of a strategy to deal with this debt.

Domestic debt includes the social debt (24 months of unpaid civil-servant wages, and the pensions and rights of the employees of liquidated companies) and the debt to economic players, in particular the state’s suppliers. Although the decision to start settling the domestic debt was made in December 2003, payment of the arrears did not begin until December 2004, once authentification of the social debt had been completed by the Congolese amortisation fund. Every month, payment in arrears costs the state about 10 billion CFA francs. As for the commercial debt, it was to be the subject of a settlement plan drafted and approved at the end of 2005. Audit of this part of the domestic debt having been completed, the means to address it should be imminent. Debts under 10 million CFA francs are to be paid entirely. Those superior to this amount will be subjected to a 25 to 66 per cent rebate, depending on the terms of payment chosen by the creditor.

**Monetary Policy**

The good macroeconomic performance also brought about a consolidation of the monetary situation in 2005. Three different impacts were recorded: improvement in the external position (net foreign assets increased by 550.7 per cent) translated into a major increase in the official reserves; net loan claims to the state have strongly decreased (116.9 per cent), significantly improving the cash position; and credit to the economy has increased by 6.9 per cent in a context of excessive bank liquidity, not to mention the 24.7 per cent increase in money supply from its 2004 level. Despite the inflationary pressures generated by the rise in oil prices and by increased household consumption, the inflation rate remains moderate, at 2.9 per cent, less than the rate for 2004 (3.6 per cent). This is due to the fall in food prices. Inflation should remain identical in 2006 and then drop in 2007, resting at around 2.4 per cent.

**External Position**

Oil remains Congo’s primary export at 94.2 per cent of its value in 2005, making Congo the fourth producer of black gold in sub-Saharan Africa. Its main clients are the United States and China. The latter has recently become its primary oil-importing trade partner. The main supplier of imported products is France.

The volume of crude exports, which followed a negative trend until 2004, moved from 10.6 million tonnes to 12.3 million tonnes in 2005, a 16 per cent increase. Exports for 2006 were equally forecast to rise, with a projected increase in production. As for the export of refined petroleum products, mostly heavy fuel, it has continued to drop since 2003, due mainly to problems encountered by the CORAF. It has increased in value, however, because of the rising price of oil. Nonetheless, even the volume of exports should go up in 2006.

After having risen by 13 per cent between 2003 and 2004, the volume of timber exports fell in 2005, especially in trunks (-22 per cent), due to a drop in production. Exports of eucalyptus logs doubled from
In 2005, total non-oil exports will have been well below expectations, constituting just 4.6 per cent of total exports, against 8.2 per cent in 2004. The trade balance for the year was nevertheless positive, featuring an increase of 40 per cent from 2004. This positive result is due to a 53.2 per cent rise in total exports, even if imports also rose by 56 per cent. As a result, the current-account balance improved significantly, following a solid trend despite serious deterioration in the balance of services and revenues. The total outcome of the balance of payments went from a deficit of 90.9 billion CFA francs in 2004 to a surplus of 157.9 billion CFA francs in 2005.

The situation of Congo’s debt in 2004 has therefore clearly improved, thanks to a more favourable attitude of foreign bilateral and multilateral creditors. The recent changes have allowed the country to come out of an unsustainable situation, which made it one of the most indebted states in the world. This was possible thanks to the PRGF approval in December 2004, which led to the reopening of discussions between Congo and the donor community. The success of the recent programmes implemented with the IMF (and the World Bank as of 2001) has also given new momentum to relations with the donors, which was materialised in 2004 at a meeting of the Paris Club of lending nations and at a round table organised by the World Bank. It was on this occasion that the country was granted financial facilities, conditioned on continuing good relations with the IMF. To obtain the expected cancellation and rescheduling of arrears ($1 570 million cancelled and $1 450 million rescheduled), Congo committed itself to three points: first, to stop incurring debts with oil as a guarantee and make sure that old debts are being settled; second, to guarantee regular service of its non-reschedulable bilateral debt; third, to find a fast and effective solution to the arrears question by taking advantage of the new oil revenues.

The public-debt/GDP ratio was also dramatically reduced, going from 243 per cent in 2003 to 148.6 per cent in 2004 and to 104.4 per cent in 2005. The country’s public indebtedness at the end of 2004 amounted to 3 945 billion CFA francs, 86.5 per cent of which was external debt. The positive evolution of indebtedness at the end of 2004 was mostly due to settlement of aggregate arrears: these had in effect gone from 70 per cent of the total external debt at the end of 2003 to 52 per cent at the end of 2004. The composition of total debt was also modified: the share of loans claimed by the Paris Club was significantly reduced: from 58 per cent in 2003 to 47.6 per cent in 2004. Other multilateral agencies hold 7 per cent. Private debt (bank debt, speculative funds, guaranteed debt and various creditors) henceforth constitutes 38 per cent of the total debt, but remains problematic because it can be neither rescheduled nor cancelled. One-third of this debt involves creditors in litigation (due to arrears in payment) who have legally won the possibility of acquiring assets of the country. In addition, part of the commercial debt concerns loans on the future production of oil (guaranteed debt), a former practice that was stopped in 2003 as one of the conditionalities of IMF-backed programmes.
New debt-reduction measures were conditioned on reaching the HIPC Initiative decision point, originally planned for December 2005 and postponed to 2006 following pressures from civil society to improve transparency in the management of oil revenue. Access to the initiative will considerably affect the evolution of the external debt. The decision would in fact lead to the cancellation of nearly 70 per cent of the country’s external debt, while the Paris Club lending nations have also committed to cancelling nearly 90 per cent of the debt (Cologne terms) once the Republic of Congo has attained the achievement point.

### Structural Issues

#### Recent Developments

Having concentrated its efforts on structural-reform matters – transparency and good management of public finances – the government has somewhat neglected issues such as the privatisation process and improvement of the business environment. There has only been progress in the hydroelectric-generation sector, with the completion of construction work on the Imboulou dam. For 2006, the government is planning to privatise the CORAF.

The privatisation process in Congo, begun in 1987 with World Bank backing, is moving ahead, albeit very slowly. On the eve of the first conflict in 1991, one-third of the public enterprises had moved into the hands of private operators. This promising start suffered a paralyzing blow with the civil war, and it was not revived until 2002 with the liquidation (still incomplete) of Hydrocongo, the company in charge of fuel distribution and marketing. The national sugar industry was sold to a French group (SOMDIA) and the hotel Mvoumvou was taken over by a Congolese company. Nonetheless, key enterprises still need to be privatised to enable the economic development of the country and the fight against poverty. These key enterprises are public services: electricity, water and rail transport. The situation has remained blocked at the bidding stage. Private operators have asked that the existing infrastructure should be put back in working order before the transfer, but such rehabilitation has never been undertaken for lack of resources. In May 2005, an emergency programme was set up by the World Bank to resume the privatisation of the water and...
electricity utilities. The cabinet reshuffle at the beginning of the year, however, delayed the process. As a result, the privatisation of the national water board, the Société nationale de distribution de l’eau (SNDE) and that of the national utilities company, the Société nationale d’électricité (SNE) are at the same stage as they were in 2004.

The government recently cancelled the decree attributing ownership of the SNDE to the British company Biwater, which proposed an unscheduled increase in the price per cubic metre of water. The process has since been stalled.

One billion CFA francs were made available for the SNE to install new electricity-consumption meters in Brazzaville. Since the civil war, private consumers had paid a fixed monthly fee of 15 000 CFA francs, regardless of consumption. This engendered serious losses for the SNE, already in trouble because of the disrepair of their equipment. Since September 2005, with the beginning of meter installation, consumers are expected to pay according to their consumption. The government was thus able to comply with IMF indications by decreasing subsidies granted to the SNE and by starting reorganisation of the company. The rates were not differentiated according to income, however, which risks penalising the poorest part of the population for access to services.

In spite of its exceptional hydroelectric potential, electricity supply in Congo is vastly insufficient to meet the consumption needs of about 125 MW. Today, the country has two hydroelectric dams, Moukoukoulou and Djoué, with installed capacities of 74 MW and 15 MW respectively. However, this represents only 3.5 per cent of the exploitable potential and only 44 and 47 per cent of their respective capacities. In the same vein, the gas-fired power plant Djeno, with a 25 MW installed capacity, only uses 37 per cent of its potential. Generation from these power plants is therefore insufficient to meet internal demand. As a result, there is inefficient distribution of the service to the population, aggravated by the antiquated infrastructure of the SNE and considerable dependence on imports from Kinshasa. Although national generation rose slightly from 2004, imports also followed step. Furthermore, the rise in the price of oil also trickled down to raise the price of electricity imports significantly. Payments to Kinshasa’s national utilities company, the Société nationale d’électricité (SNEL) were consequently more onerous, partly explaining the continuation of subsidies for the SNE.

In this context, access to services remains highly uneven, in particular between urban areas, where there are more than 95 000 subscribers, and rural areas, where they barely reach 5 300. There are measures, nonetheless, that could improve access to electricity and even make the country self-sufficient: privatisation of the SNE, commissioning the extremely high-tension (EHT) lines connected to the new Imboulou dam (which will have an installed capacity of 120 MW) planned for 2009 or construction of the Brazzaville 32 MW thermal power station, for instance. Otherwise, two other hydroelectric dams are being built: Li Ouessou in the extreme north of the country and Sounda in the south.

The privatisation process is also stalled in the telecommunications sector, owing to the absence of a redundancy programme to make it possible to absorb the cost of the very large number of lay-offs that followed the dissolution of the national bureau of postal and telecommunications services, the Office national des postes et télécommunications (ONTP), and its division into two companies: Sotelco, a public limited company, 100 per cent of the capital of which is owned by the state pending its opening to new shareholders, and Sopeco, which remains public. An assessment in view of this opening as well as an organisational audit was ordered for Sotelco, whose management had undertaken major job losses. The government’s lack of determination to face the social costs engendered by privatisation in terms of lay-offs and compensation seems to be one of the reasons of the general delay in the process.

The financial sector, the first to be restructured and privatised, met with major difficulties, following which it had to be once again reorganised. Two banks were at the centre of the crisis: La Congolaise de Banque and Coﬁpa, the latter of which had to be recapitalised.
by the state, which previously had to negotiate with the IMF to allow it to grant public subsidies. Following this episode, which led to a new privatisation, an agreement was reached between the two banks in June 2005 for systematic information sharing on questionable loan claims. A new bank, La Banque de l’Habitat, with mainly Tunisian capital but partly remaining public, should open its doors in 2006, bringing the number of banks in the country to five. The federation of Congolese mutual savings and credit banks, Mutuelles congolaises d’épargne et de crédit (MUCODEC), in the microfinance sector, can also be added to the list.

The development of the private sector remains hindered by a business environment that is still poor, owing to the exclusionary effects of oil on the other sectors of activity and to the lack of transparency in business management. The almost systematic collusion in the procurement contracts since the end of the war with de facto ratification by the market commission has also been damaging. This practice offers numerous opportunities for misappropriation and over-invoicing. Official calls for tender are only applied to operations involving more than 500 million CFA francs and are managed by the general delegation for major works, the Délégation Générale des Grands Travaux. The judicial system often falters, and corruption is still seen as endemic: in 2005, the international non-governmental organisation devoted to combating corruption, Transparency International, ranked Congo 130 out of 158 countries in terms of corruption. It is against this background that the court of accounts and budgetary discipline, the Cour des comptes et de discipline budgétaire, created by the Constitution and approved in 2002, was set up in March 2005. The development of the private sector thus remains synonymous with the informalisation of the economy.

**Transport Infrastructure**

Transport infrastructure in Congo is among the worst in the region. Its continuous deterioration since the beginning of the 1990s, caused by almost total lack of maintenance, was severely worsened by the repeated conflicts. Yet Congo benefits from a very favourable geographic situation: numerous inland waterways, a coastal zone featuring the only deep-sea port in the Gulf of Guinea, and four borders. This enormous potential, which could make it a key transit country in the region with consequent benefits to its economy, remains completely unexploited. This diagnosis applies to every mode of transport in the country – roads, railways, maritime and inland navigation, and air travel featuring two international airports – except, in part, the maritime sub-sector.

The government has nevertheless announced its priority for the national transport plan, the Plan national de transport (PNT), approved at the end of 2005: to rehabilitate all transport infrastructure in order to guarantee minimum service for the movement of persons and adequate service for the transport of goods. These measures are meant as much to serve the diversification of the economy as to permit reduction of dependence on the oil sector.

The link between the administrative capital, Brazzaville, and the economic capital, Pointe Noire, which is a vital axis of the Congolese economy, is crucial. Government efforts, as well as co-operation agreements with international partners in the transport sector, are focused in particular on its development. The Pointe Noire seaport, autonomous since 2000, through which the totality of oil exports transits (85 per cent of all total imports and exports), is today nearly cut off from the rest of the country (except by air) because of the disastrous condition of the inland infrastructure – road and rail. The great difficulty in moving goods towards the port, notably wood from the north of the country, causes enormous losses among all economic operators.

The road network is in such terrible condition that it takes between 10 and 17 hours to drive the barely 68 kilometres between Brazzaville and Kinkala. Degradation is generalised on the national road network, which comprises 17 289 kilometres in total, only 5 per cent of which (around 800 kilometres) are paved. The rest includes the secondary earth-road network called “rural service roads”, greatly deteriorated by the
strong seasonal rains and the transport of heavy, often excessive, cargo. The inadequacy of the road network puts the whole country in an almost completely land-locked situation, except for part of the north, where the many rivers remain navigable six to seven months a year. The main roads are vitally important to the forestry companies in the north of the country and the government has asked the forestry-industries association, the Groupement d'entreprises forestières, to contribute to road construction and maintenance. Work started in 2003 but has since been interrupted because the companies that prefinanced the work are waiting to be reimbursed.

The forecast public investment will thus be concentrated on the rehabilitation and/or construction of the Pointe Noire-Brazzaville-Ouesso backbone (the current national roads RN 1 and RN 2), onto which the rest of the network will be grafted. The sum intended for all the roads is in the order of 676 billion CFA francs, almost 69 per cent of the total investment planned by the PNT. This amounts to a disbursement of nearly 65 billion CFA francs per year, which will be partially covered by external aid.

An agreement was concluded with the European Union (EU) in December 2005 for the financing of a first section of the RN 1, Brazzaville-Kinkala, for a price tag of 31 billion CFA francs. An international call for tender was issued and work should begin in June 2006, with an expected completion deadline of 24 months. The Brazzaville-Kinkala link could thus be finished in 2008. The EU required, as part of the conditions at the signing of the convention, the establishment of a road fund. The latter, which will be replenished up to 132 billion CFA francs, 54 billion of which in the first five years, will be directed towards maintenance work on the whole network.

Railways, the only means of land transport that connects the capital and the Pointe Noire seaport, are operational but often under attack from rebels in the Pool region. The situation not only presents a security problem for passengers, it translates into cargo storing in Pointe Noire while containers remain empty in Brazzaville. All of this produces considerable costs for the economic operators.

In consequence, a noticeable drop in demand for railway transport is observed, as much for passengers as for goods. Between 1992 and 2004, the annual transport of goods dropped by 33 per cent, peaking at 92 per cent during the war years, while passenger travel fell by 80 per cent, with a 97 per cent peak in 1999.

To pull Congolese railways out of this impasse, the authorities plan to privatise the exploitation of the COR, which was also in fact a condition for Congo to access the HIPC initiative. In 2000, the government produced a series ordinances concerning the division of the Agence trans-congolaise des communications (ATC) and the establishment of three public institutions: the autonomous port of Pointe Noire, the COR, and the autonomous port of Brazzaville with the secondary ports.

In agreement with the World Bank, which is to give its approval at each stage, the COR was then franchised for 25 years. In 2001, the World Bank made emergency credit available for rehabilitation of the equipment, but the work was only partially completed. Following the call for tender, two candidates were short-listed: the Congo Rail consortium (SNCC) and the South African consortium Sheltam Mvela. After long negotiations on the price of the franchise, only the South African consortium was left. The government’s final decision should be rendered shortly.

The sum of investment in the railway sector is estimated in the PNT to amount to 106 billion CFA francs (11 per cent of transport investments). The franchisee will assume half of this amount, while the rest will be shared between the state and regional contributions. The international donors have committed to supporting the franchising process of COR with a contribution of €35 million to the initial-investment programme.

The inland-waterway sub-sector represents important potential in the country, in particular for the
devoted to the development of internal and external trade. It ensures connection to Central Africa and the Democratic Republic of Congo (DRC) and offers the possibility of connecting to Cameroon and Gabon. It is the privileged means of transport for goods coming from the north, notably wood. Indeed, the northern part of the river Congo makes it possible to ship heavy goods to Brazzaville's riverside port, known as the Beach. The Beach suffers, however, from serious congestion, making transit and mooring difficult. Such a situation, which affects all the ports in the country, is the consequence of poor financing and maintenance of the facilities.

The PNT plans to assign 9 per cent of its resources for inland navigation, 90 per cent of which will be assumed by the state. Activities include dredging, the rehabilitation of port equipment, and the renewal of facilities and services.

**Political and Social Context**

The gradual consolidation of peace was marked by two events in 2005, which also highlighted its ambiguities. On the one hand, in August, at the end of a three-week trial, the criminal court of Brazzaville acquitted fifteen police and military officers accused of the 1999 disappearance of 353 Congolese at the Beach, Brazzaville's riverside port. These were persons returning from the DRC, where they had fled the war. In the absence of guilty parties, the state was required to compensate the families of 86 of the missing. On the other hand, former Prime Minister Bernard Kolelas, sentenced to death in absence in 2000 for war crimes, was authorised by the head of state to return to Congo from exile, covered by an amnesty decree. Reconciliation with this emblematic figure of the political opposition, head of the Mouvement congolais pour la démocratie et le développement intégral (MCDDI), could contribute to political appeasement. The country, in effect, is still prey to the armed rebellion of the Reverend Frédéric Bitsangou, alias “Pasteur Ntoumi”, who has been marginalised as a result. Many of his partisans, the former “Ninjas” hitherto tolerated by the authorities in the capital, were driven out following clashes with the police force causing six deaths in Brazzaville on 13 October. This event had briefly kindled the fear of renewed conflict. Several weeks later, the MCDDI suspended its participation in one of the main opposition coalitions. The capacity for military disturbance by the radical Ninjas remains nonetheless significant, especially in the Pool region, where there are still some areas of instability. This region might also be experiencing, according to a report by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) released in early 2005, a “neglected humanitarian crisis”. The disarmament programme backed by the international community, currently on hold, could otherwise still be implemented in 2006, as the World Bank and the Government of Congo signed a $17 million plan for the disarmament and resocialisation of combat veterans in December 2005.

In the social area, 2005 was marked by a general strike of public-school teachers, begun on 3 October then suspended in an atmosphere of confusion nearly seven weeks later, following an agreement obtained by negotiators whose legitimacy was contested. According to many observers, the movement was the reflection of a greater general social discontent. The gradual extinction of the centres of tension that have endured after the war and the sky-rocketing prices of crude oil have indeed created high expectations of “peace and oil dividends” among the population. Accumulation of the social debt, exacerbated by the stagnation of the privatisation process, as well as the freezing of “financial benefits following advancements, reclassifications and other promotions” since 1995 (except for the military, police officers and magistrates) have crystallised a large part of employee demands. This context is not particularly promising for the reforms in utility invoicing (moving from fixed-fee to meter-based invoicing) or for the possible liberation of the prices of petrol at the pump – currently subsidised by the government.

Failing to meet the conditions for evaluation of its national diamond-production capacity, Congo was unable to be reintegrated into the Kimberley process (for preventing diamonds from conflict zones being sold on the legitimate market to finance wars), from which it was excluded in 2004.
The education and health sectors figure among the major beneficiaries announced in the interim PRSP, completed in 2004, and the priorities listed by the government. Although major public investments were planned for 2005, however, (38 per cent of the budget was to be allocated to these sectors) results are yet to be seen. In light of the high hopes engendered by the surplus oil and the goal of fighting poverty, progress in the key social sectors remains insufficient. It is difficult, however, to evaluate the situation precisely, as the faltering statistical apparatus cannot collect reliable data.

A model country in terms of education even after the decade of conflicts, Congo saw its primary-school enrolment fall from 100 per cent to 89 per cent in 2004, with one of the highest rates in all of Africa of students repeating a year (30 per cent in primary schools, 40 per cent for third year alone).

There are many reasons for this weak performance. First, educational infrastructure was heavily damaged in the south during the war, and there is a glaring lack of maintenance. School facilities in the cities are in very poor condition, while there is a lack of infrastructure in the rural areas, making access to primary education in the countryside particularly difficult. Moreover, the quality of education has dropped sharply due to the lack of educational materials and teaching personnel. Although the public registries list 15,300 teachers, the real numbers are around 9,000. In general, the missing teachers are looking for better-paying jobs in the various government agencies and political offices. The pupil-teacher ratio (PTR) in 2004 was 98 at the national level, peaking at 108 for public schools in urban areas. The situation also testifies to the inefficient management of human resources. The strike of more than a month at the beginning of the school year in 2005 threatened the smooth running of that school year and prompted the meeting of an interministerial commission to try and bring teachers back into classes. The strike was finally suspended (with a warning of resumption in March 2006), but at the end of 2005, the teachers were still slow in returning to the classrooms. The situation remains fragile, particularly in the south.

The Support to Basic Education Project of 2003, financed by a grant from the World Bank, did not start up its activities until March 2005. In question was the cabinet reshuffle of early 2005, undertaken to provide a better response to the main difficulties encountered in the sector. The project aims, among others, at: building capacity, with personnel-management planning and the formulation of education policies; rehabilitating the education infrastructure and fostering community management of schools, with the formation of committees in charge of the maintenance of educational institutions; improving quality and renewing educational methods, with teacher training and the purchase of textbooks, and; supporting the enrolment of out-of-school children and Pygmy children, very few of whom attend school.

The health sector is characterised by increasingly obvious difficulties in accessing care and by the deterioration of health centres. Once again, the years of conflict accelerated the degradation of the institutions already lacking in upkeep. The destruction has been met with insufficient offers of infrastructure, especially in the remote areas of the country. The new Demographic and Health Survey planned for mid-2006 should provide detailed information on the state of health in Congo.

For the last ten to twelve years in which statistics were available, reductions were recorded in infant mortality (from 83 per 1000 in 1990 to 70 per 1000 in 2005) and in child mortality (110 per 1000 in 1990 to 104 per 1000 in 2002). The maternal-mortality rate, however, jumped from 890 per 100,000 in 1990 to 1,100 per 100,000 in 2002. Badly treated infectious and parasitic diseases such as malaria (endemic in the country), acute respiratory infections, diarrheal diseases, tuberculosis and HIV/AIDS are all to blame.

According to the Joint United Nations Programme on HIV/AIDS (UNAIDS), the rate of HIV/AIDS for the adult population was 4.9 per cent at the end of 2003. This signifies a generalised epidemic.

Congo is getting a $19 million grant from the World Bank to fight the pandemic. In 2005, the Global
Fund for Aids, Tuberculosis and Malaria (GFATM) promised $45 million over a period of five years.

As in most African countries, access to antiretroviral drugs (ARVs) in Congo is problematic. The cost of monthly treatment has soared to 5,000 CFA francs, an exorbitant sum for a large part of the population, more than half of which lives below the poverty line. Of the 30,000 in need, only 3,000 sick – about 400 of whom are in Brazzaville – have access to ARVs. Cooperation with the GFATM should lead to some improvement in this area. For their part, the largest businesses operating in the country have been caring for sick employees and their families since 2004.

HIV/AIDS has also led to an increase in the number of orphans. According to UNAIDS, 97,000 children had lost at least one parent to the virus at the end of 2003. These children's living conditions are particularly hard, due not only to the loss of their parents, but also because of the strong stigma associated with the disease. The phenomenon has become extremely important in the last few years, with the proliferation of born-again churches distributing information on protection matters that is often incorrect and therefore dangerous.

The Ebola epidemic, a fatal disease that appeared in the north-west of the country with particularly virulent outbreaks, has let up to some extent since 2005. The only recorded episode occurred in the western basin and caused the death of ten people. Given the speed of transmission of the virus, this limited incidence may indicate that the early-warning system in place is working effectively.