Report No: AUS0000828

Democratic Republic of Congo

Governance of State-Owned Enterprises

May 2019

WORLD BANK GROUP
Governance

Abbreviations and Acronyms

CEO	chief executive officer
COMINIERE	*Congolaise d'exploitation Minière*
COPIREP	*Comité de Pilotage de la Réforme des Entreprises Publiques*
CPCC	*Conseil Permanent de la Comptabilité au Congo*
CPF	Country Partnership Framework
CSP	*Conseil Supérieur du Portefeuille*
DEPP	*Direction des Entreprises Publiques et de la Privatisation*
DRC	Democratic Republic of Congo
EPIC	*Etablissement public industriel et commercial*
ERP	enterprise resource planning
GDP	gross domestic product
GECAMINES	*Générale des Carrières et des Mines*
HR	human resources
ICR	Implementation Completion and Results Report
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IPF	Investment Project Financing
KPI	key performance indicator
MHI	Manitoba Hydro International
MIBA	*Société Minière de Bakwanga*
MIS	management information system
OHADA	*Organisation pour l'Harmonisation en Afrique du Droit des Affaires*
PASAG	*Projet d'Amélioration de la Sécurité à l'Aéroport de Goma*
PCDSP	*Projet Compétitivité et Développement du Secteur Privé*
PEMFAR	Public Expenditure Management and Financial Accountability Report
PEMU	*Projet d'alimentation en Eau Potable en Milieu Urbain*
PIU	Project implementation unit
PMEDE	*Projet de Développement du Marché de l'Electricité pour la Consommation Domestique et l'Exportation*
PROMINES	*Projet d'Appui au Secteur Minier*
PTM	*Projet de Transport Multimodal*
RBM	results-based management
REGIDESO	*Régie de Distribution d'Eau*
RVA	*Régie des Voies Aériennes*
RVF	*Régie des Voies Fluviales*
SA	*société anonyme*
SAPMP	Southern Africa Power Market Program
SCIM	*Société Congolaise d'Investissement Minier*
SCPT	*Société Congolaise des Postes et Télécommunications*
SCTP	*Société Commerciale des Transports et des Ports*
SEM	*Société d'économie mixte*
SNCC	*Société Nationale des Chemins de fer du Congo*
SNEL	*Société Nationale d'Electricité*
SOCOF	*Société Congolaise de Fibre Optique*
SOE	state-owned enterprise
SOKIMO	*Société Minière de Kilo-Moto*
SONAHYDROC	National Oil Distribution Company
SONAL	*Société Nationale de Loterie*
SONAS	National Insurance Company
SYSCOHADA	Accounting System of the OHADA

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Acknowledgments

This report was prepared by a team of the World Bank between October 2018 and May 2019. The team was led by Henri Fortin, Lead Financial Management Specialist (GGOAC), and included Jean Mabi Mulumba, Senior Public Sector Specialist (GGOAC), Ana Cristina Hirata Barros, Senior Financial Management Specialist (GGOSC), Love Ghunney, Governance and Public Sector Specialist (GGOSC), and Kady Synthia Keita, Consultant (GGOAC). The team benefitted from the guidance of Jean-Christophe Carret, Country Director (AFCC2), Manuel Vargas, Practice Manager (GGOAC), and Chadi Bou Habib, Program Leader, Equitable Growth, Finance and Institutions (AFCC2).

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Executive summary

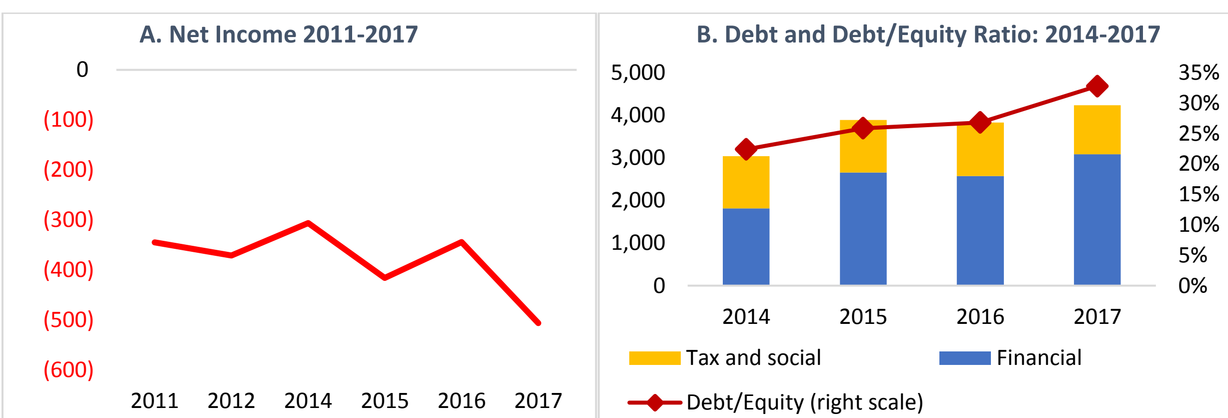
i. **The Democratic Republic of Congo (DRC) has a relatively large portfolio of State-Owned Enterprises (SOEs) covering a range of sectors, with a high concentration in energy, transport and water utilities, and mining.** There are seven large, strategic enterprises operating in these four sectors. In addition to these, the portfolio includes a dozen or so fully- or majority-owned enterprises (including the national insurance company), plus 20-odd minority stakes in the mining, manufacturing or service sectors. This note therefore focuses on the so-called strategic SOEs (*entreprises publiques structurantes*) as these are by far the most significant and the information on other SOEs is more limited.

ii. **SOEs play a central role in the national economy.** Historically, the State has relied on SOEs to remedy market failures, spur development and achieve other development objectives. Currently, the State controls all key utilities (electricity, water, transport), the national oil and gas company, and a number of mining companies. These SOEs rank among the largest employers in the country. According to government estimates, the book value of the SOE portfolio at the end of 2016 was $16.5 billion, representing close to 50 percent of gross domestic product (GDP). Total SOE revenues account for approximately 8 percent of GDP.

iii. **Congolese SOEs operate in highly challenging environments and face serious operational problems including low tariffs, technical and commercial losses and redundant headcount, leading to significant financial losses (Figure A).** Service-delivery performance (e.g., access to electricity and percentage the population with access to clean water) is poor overall and generally below regional benchmarks.

iv. ***Générale des Carrières et des Mines* (GECAMINES) and *Société Nationale des Chemins de Fer du Congo* (SNCC, national railways) are the largest loss-makers by far and together accounted for $435 million in 2017.** The five other SOEs had small losses or barely managed to break even. Based on the limited information obtained, many of the smaller SOEs are also loss-making. For instance, the seven smaller state-owned mining companies together had losses of close to $50 million in 2016.

Figures A and B: Financial Key Performance Indicators of the seven strategic SOEs ($ million)



v. **The SOEs' recurring losses have put them in vulnerable financial situation, with an estimated total debt of $4.4 billion at the end 2017 (including arrears), up from $3 billion in 2014 (Figure B).** The SOEs have accumulated arrears corresponding to taxes and social charges of over $1 billion. In addition to operational inefficiencies, these liquidity problems stem in part from the fact the State is facing difficulties to settle its electricity, telecommunications and water invoices and owes larges amounts to the SOEs in these sectors.

vi. **Attempts have been made to improve the governance of the Congolese SOEs through a range of measures.** These measures, which are a mix of structural changes to the corporate governance and one-off efforts first to stabilize and then to "turn around" the SOEs, included

(a) ***Corporatization.*** All SOEs except one are now fully corporatized, with the benefit of subjecting them to the common framework of the Organization for the Harmonization of Company Law in Africa (OHADA), which groups 17 Francophone countries in Sub-Saharan Africa. In addition, board chairs were appointed who were not the SOE's chief executive officer.

(b) ***Bringing international sectoral expertise*** through service contracts to "stabilize" the SOEs' operations and improve the way they were run.

(c) ***Performance agreements*** through which the largest SOEs committed to business improvement measures and the State to clearing arrears and facilitating tariffs increases.

(d) ***Technical and financial audits.*** For each of the seven strategic SOEs, the government commissioned audit of so-called opening balance sheets and, subsequently, annual financial statements from 2012 to 2017.

vii. **To date, the reform efforts have led to few tangible improvements, and the governance of SOEs remains fundamentally weak.** Significant outcome of the World Bank's support in terms of governance include a new legal framework for SOE governance, the fact SOEs are therefore put on the same footing as the private sector companies in their corporate governance, and more reliable financial reporting.

viii. **The State ownership (*Etat actionnaire*) function lies essentially with the country's President and the SOE Ministry, and key ownership decisions are not transparent.** Two advisory bodies under the SOE Ministry perform some ownership functions but they have no decision-making authority and limited institutional capacity.

ix. **The public has very limited access to information on the performance and finances of individual SOEs and the portfolio as a whole.** Hard copies of financial statements of the SOEs can be obtained through the public registry but no information is available online. The system overall is particularly non-transparent.

x. **Since 2003, the World Bank has leveraged its large portfolio of investment project financing operations to support SOE reform**. A relatively small part of the total envelope of $1.9 billion, distributed across nine operations, financed technical assistance in the form of service contracts and audits.

xi. **Overall, improvements achieved in the corporate governance of SOEs has been relatively limited, but useful lessons can be learned from that experience.** These include the need to use performance agreements selectively and to ensure arrangements are in place for monitoring and evaluating their implementation; the need to mitigate the risks associated with service contracts and the inherent challenge they pose; and the need to create sustainable internal controls and capacity for reporting, so that audit report findings are effectively followed up.

xii. **Going forward, opportunities exist to improve the governance of SOEs in DRC, drawing some lessons of the disappointing results from past and recent efforts.** The main areas were improvements should be sought include:

a. ***Strengthening the State ownership function***. Ownership functions should be assigned to a specialized agency with sufficient resources to set and implement policies for competencies-based appointments and monitor the performance of the key SOEs.
b. ***Enforcing the provisions of the OHADA-based company law in SOEs***, especially regarding the preparation of directors' report, filing of board minutes and timely submission of audited financial statements, to be able to reap the benefits of corporatization.
c. ***Professionalizing boards of directors*.** Through the ownership entity, the government should set and apply clear criteria for merit-based appointments on boards.
d. ***Enhancing the use of information and communication technology within the SOEs.*** The State should ensure SOEs are equipped with modern management information system and functioning websites, and facilitate peer-learning and technical support to the SOEs in this area.
e. ***Making the SOE sector and the associated debt much more transparent.*** Transparency can be provided both at the individual SOE level and at the portfolio level. Specifically, the largest SOEs should be required to publish their annual financial statements with the corresponding audit report on their websites. For SOEs who do not have a functioning website yet, the ownership entity should publish their financials on its own website. Over time, additional key documents (e.g., management reports) should be disclosed. At the portfolio level, the ownership entity should publish an aggregate report including an analysis of the SOEs' debt and fiscal risks.
f. ***Reassess the rationale for the State*'s *ownership of certain economic activities***, especially in the tradables sector and other segment of the economy or regions where the private sector may be better positioned to deliver public services. A recent trend has seen several governments – especially in Sub-Saharan Africa – reconsider the justification for State control over certain economic activities and decide to privatize commercial assets.

xiii. **The government should also develop a strategy for tackling the mounting SOE debt.** Urgent attention should be given to the transparency of SOEs debt accounts and borrowing practices, and to curtailing any new SOE debt on non-concessional terms. Governance improvements and key sectoral reforms will play a key role in stabilizing the level of debt. To address the stock of debt, two key issues will be (a) payment arrears (both clearing the existing stock and putting in place mechanism to avoid the creation of new arrears in the future), and (b) and potential non-core assets in SOEs, to offset part of their debt. Some debt workout might be envisaged but it will not solve the current SOE debt problem by itself.

xiv. **As part of the new Country Partnership Framework 2020-2023, the World Bank remains uniquely positioned to leverage its financing instruments to support SOE reform.** Drawing the lessons from past operations in the last 15 years, Bank targeted support can help build capacity for corporate governance, achieve greater transparency of SOE operations, sharpen and strengthen the State ownership function. The following changes in approach are suggested:

a) ***Bank support to individual SOEs in DRC should be selective***. The Bank should engage only with SOEs that deliver services aligned with the CPF objectives and critical to achieving the twin goals. In these cases, the SOE policy objectives should be well defined and transparent. Likewise, the application of maximizing finance for development (MFD) principles should apply, such as a clear rationale for State intervention and the adoption of measures to open space for sustainable private sector solutions. Finally, candid assessments of the SOE commitment to reform -building upon track record rather than intentions- and associated political economy factors should underpin selectivity.

b) ***Bank support to individual SOEs should be performance-based.*** While technical assistance will be required to advance the areas for improvement cited above, these interventions should be tied to results-based financing mechanisms. The use of Disbursement-Linked Indicators (DLIs) should be encouraged to ensure that Bank funding of project and program inputs is directly connected to the achievement of concrete and relevant results.

c) ***Development Policy Financing (DPF) can help create the enabling conditions for improved SOE performance***. If the authorizing environment allows for Bank provision of budget support, the associated policy actions can complement projects in supporting much-needed cross-cutting measures to enhance the environment for SOE governance and performance.

I. Background

A. State-Owned Enterprises in DRC

1. **State-Owned Enterprises (SOEs) play a critical role in the Congolese economy, providing essential services and managing key extractive assets.** Historically, the State has relied on SOEs to remedy market failures, spur development and achieve other development objectives. Currently, the State controls all key utilities (electricity, water and transport), several mining companies, the national oil and gas company, and various enterprises in the services and trade sectors. The private sector, including small and medium-sized enterprises, is heavily dependent on the services and infrastructure provided by these SOEs. Moreover, SOEs are key players in large cross-border infrastructure projects which are crucial to realizing regional integration goals, especially in the power and transport sectors. Total SOE revenues for 2014 accounted for 8% of gross domestic product (GDP), which represents an average relative weight in the national economy in the Africa region (World Bank regional study on SOEs). According to government estimates, the book value of the SOE portfolio at the end of 2016 was $16.5 billion (almost 50% of GDP).

2. **Within a relatively large SOE portfolio, there are seven strategic SOEs that are the country's largest corporate entities and employers.** These seven SOEs, referred to as "*entreprises publiques structurantes*", are by far the largest and pose the most challenging issues for the country. They are fully owned by the DRC State (100% ownership). Taken together, they own assets representing 51% of the DRC's GDP (2016). Table 1 lists the seven strategic SOEs and provides the most recent employment information available about them. Additional information on the strategic SOEs is included in Annex 1.

Table 1 – DRC's Strategic SOEs: Overview

SOE Acronym	Sector(s)	Full Name	Year Formed	Number of employees
GECAMINES	Mining, commodity trading	*Générales des Carrières et des Mines*	1906	6,692
REGIDESO	Production and distribution of water	*Régie de Distribution d'Eau*	1939	5,030
RVA	Air transportation	*Régie des Voies Aériennes*	1972	3,045
SCPT	Post and Telecommunications	*Société Congolaise des Postes et des Télécommunications*	1885	1,121
SCTP	Railways, ports and river transport	*Société Commerciale des Transports et des Ports*	1935	8,013
SNCC	Railway and port operations, inland waterway and road transport	*Société Nationale de Chemins de Fer du Congo*	1889	7,141
SNEL	Electricity production and distribution	*Société Nationale d'Electricité*	1967	6,500

Sources: CSP, COPIREP and World Bank

3. **Besides these strategic SOEs, the State controls 14 enterprises in various sectors, and it holds equity stakes in some 40 local companies.** The 14 other SOEs include the mining companies *Société Minière de Bakwanga* (MIBA; diamond) and *Société Minière de Kilo-Moto* (SOKIMO; gold), the national

insurance company SONAS, transportation companies TRANSCO and *Régie des Voies Fluviales* or RVF (respectively buses and waterways) and the new asset company for the fiber optics backbone SOCOF. Annex 2 provides a list of these SOEs and equity stakes with basic information. This list prepared based on information dating back to 2012. It may be incomplete or outdated.

4. **Over the recent years, a large part of the Bank's investment project financing (IPF) has been channeled toward the strategic SOEs.** As in many partner countries, the Bank as developed a large portfolio of IPF operations covering sectors in which the key infrastructure SOEs operate. Since the Bank's reengagement with DRC around 2003, the Bank has supported nine operations financing large investments and technical assistance in the electricity, mining, telecommunications, transport and water sectors, several of which included activities to improve the operations of the respective SOEs (which are essentially the seven strategic SOEs plus the smaller mining SOEs). Section IV discusses these SOE-related IPF operations.

B. Objective and Scope of this Report

5. **The objective of the report is to (i) assess the quality of SOE governance in DRC, and (ii) gauge the impact of Bank-funded investment projects on SOE governance.** For the assessment of SOE governance, the work has drawn heavily on the Bank's standard methodology which is captured in the 2014 Corporate Governance of SOEs Toolkit.[1] The report also seeks to identify SOE reform activities financed by the Bank through its IPF portfolio in the last 15 years and the impact of these activities in terms of governance improvements in the respective SOEs or in terms of State ownership capacity.

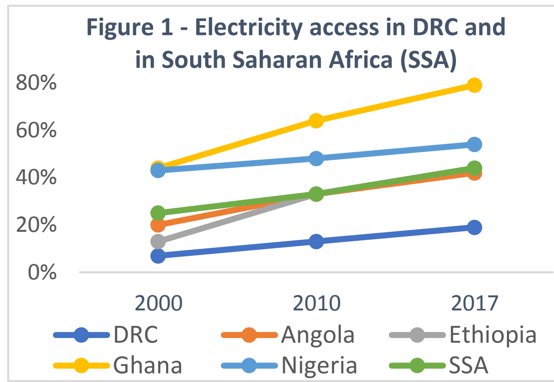
6. **The report focuses primarily on the seven strategic SOEs, due to their economic significance and considering the very limited information available on the other SOEs.** Thanks to its longstanding engagement with seven strategic SOEs through its IPF operations (see above), the Bank has access to a high volume of information regarding these SOEs. Bank teams leading these IPF projects provided a large portion of the information used for the diagnostic. The State's Steering Committee for SOE Reform (*Comité de Pilotage de la Réforme des Entreprises Publiques* or COPIREP – see Para. 28) provided the rest of the information. The task team had several meetings with COPIREP and also met briefly with the coordinators of two of the IPF projects regarding SNEL and RVA, and with members of the management teams of REGIDESO, SCPT, SCTP and SNEL. In addition, the team held audio-conference meetings with representatives of the firms Manitoba Hydro International (MHI) and ERANOVE to discuss the situation of SNEL and REGIDESO respectively (see Para. 52). The complete list of meetings held during the two field missions and through video-conferences is included in Annex 3.

[1] http://documents.worldbank.org/curated/en/228331468169750340/Corporate-governance-of-state-owned-enterprises-a-toolkit.

II. Financial Performance of DRC SOEs

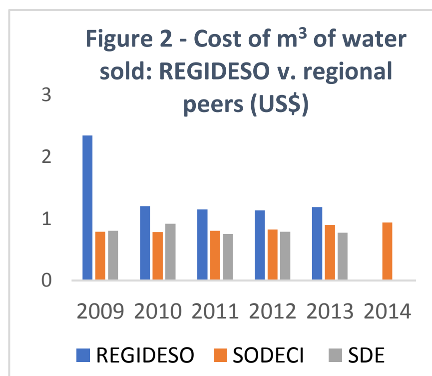
7. **Congolese SOEs operate in highly challenging environments and their service-delivery performance is poor overall.** Recurring security problems, social unrest and the authorities' difficulties to maintain order especially in the Eastern provinces make it inherently challenging to operate electricity, rail or water pipes networks. In addition, Congolese SOEs have faced continuing operational challenges in the areas of maintenance, human resources (HR), billing and revenue collection. As a result, they generally underperform their regional peers in terms of service delivery. Two cases in point are the electricity and water sectors which are briefly discussed in the next two paragraphs.

8. **The DRC faces a severe electricity deficit, and one of the highest in Africa.** Despite its large hydropower potential, DRC has difficulties in providing adequate energy services to most of its population. The percentage of the population with access to electricity, while showing a significant increase since in 2000, is still well below the regional average in 2017 (19% v. 44% - Figure 1). Recent increases in generation capacity, especially with the rehabilitation of the Inga 1 and 2 hydropower plant, will bring SNEL's production capacity from 800 to 1430 MW, thus helping partially bridge the current supply gap. Other problems DRC is facing are low energy efficiency (20 MJ/US$ v. a regional average of 7 in 2016) and high cost of electricity (approximately $0.20, against a world average of $0.06).



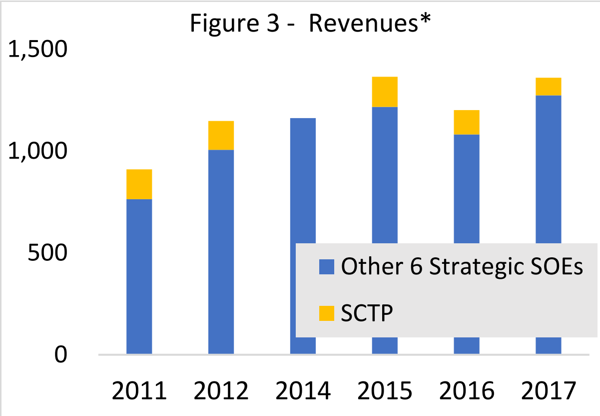
Source: ESMAP (trackingsdg7.esmap.org/)

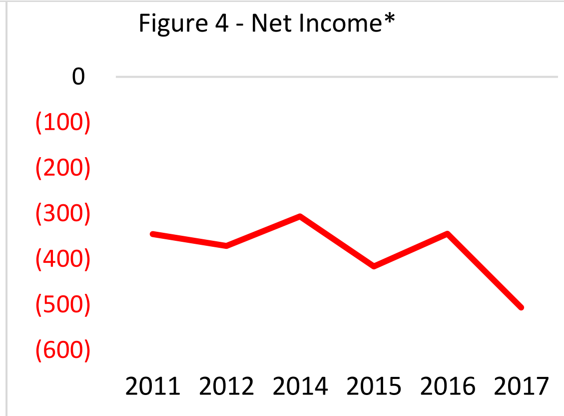
9. **Similarly, access to clean water is low, and the cost of water is high.** With an access rate to clean water of 49% in 2014, DRC performs much worse than its peers and the Sustainable Development Goal no. 6 of universal access by 2030 will be very hard to achieve. Moreover, the cost of the water sold by REGIDESO is much higher than that of its peers in Côte d'Ivoire (SODECI) or Republic of Congo (Figure 2).



10. **The revenues of the strategic SOEs have grown by an average of 6% since 2011 (Figure 3), with significant variance from one SOE to another.** The average aggregate revenues of the seven SOEs over the period 2011-2017 is $1.2 billion (Table 2). SNEL accounted for more than 40% and had the sharpest growth (11% on average). GECAMINES has the second largest revenues (23% of the total) but these showed the greatest variance (from a maximum of $371 million in 2017 to a minimum of $182 million in 2016). Historically large SOEs like SNCC and SCTP have seen their revenues dwindle during the current decade.

Figures 3 and 4 – Aggregate Financial Performance of the Strategic SOEs: 2011-2017 ($ billion)





* Data for SCTP not available in 2014.

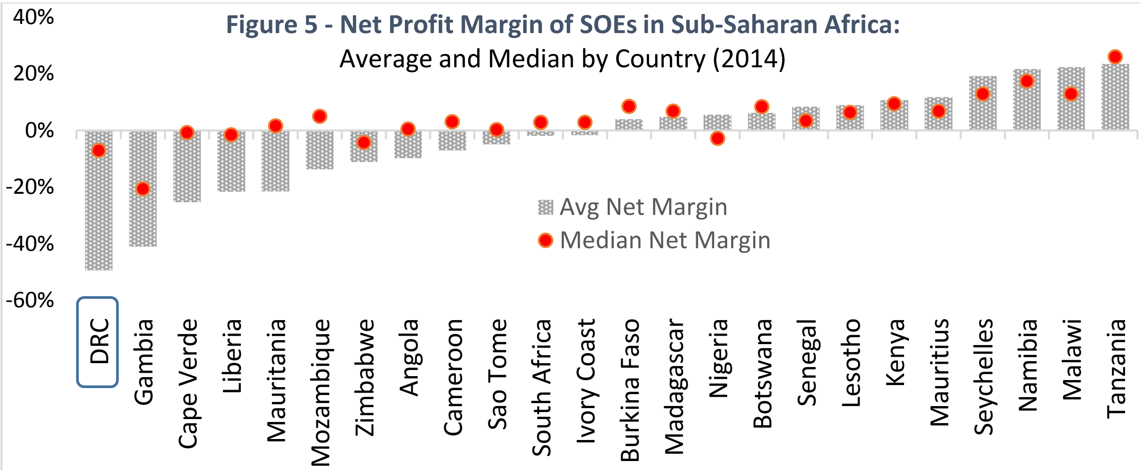
11. **All strategic SOEs except SNEL have been loss-making since 2011 (Figure 4), with an average aggregate loss of $411 million between 2011 and 2017 (Table 2).** The transport, telecommunications and water strategic SOEs have all posted losses each year. Some of these SOEs have seen their financial performance improve over the recent years, especially SCPT, which draws significant revenues from the fiber optics connection between Kinshasa and the coastal city of Muanda. Compared to other countries in Sub-Saharan Africa, DRC SOEs are some of the worst performers in terms of profitability (Figure 5). The reasons being these recurring losses include tariffs insufficient to cover normal operating costs, high technical losses (goods and services delivered but not billed), high payroll costs and low labor productivity.

Table 2 – Revenues, Net Income and Debt of Strategic SOEs in 2017 ($ million)

SOE	Revenues		Net Income		Debt at End-2017		
	2017	2011-17 av.	2017	2011-17 av.	Financial	Tax/Social	Total
GECAMINES	370.9	288.1	(285.8)	(149.3)	702.4	436.3	1,138.7
REGIDESO	153.5	142.3	(15.7)	(25.2)	11.8	99.0	110.8
RVA	91.5	89.2	(6.1)	(19.7)	11.8	88.7	100.5
SCPT	34.9	19.0	0.2	(26.5)	290.5	115.1	405.5
SCTP	87.9	139.1	(52.1)	(66.5)	61.4	115.3	175.4
SNCC	39.8	42.3	(150.6)	(141.3)	135.1	221.1	356.2
SNEL	582.5	503.1	3.8	17.1	1,932.7	190.0	2,122.7
Total	**1,361.0**	**1,223.1**	**(506.3)**	**(411.4)**	**3,145.7**	**1,265.5**	**4,409.8**

Note: average 2011-2017 excludes 2013.

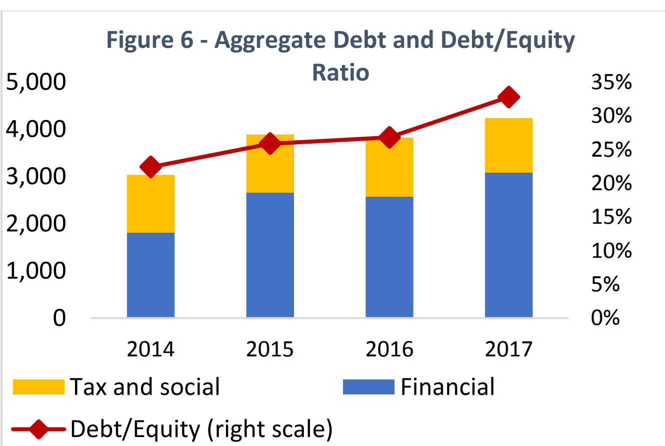
12. **GECAMINES and SNCC are by far the worst performers, with losses for the year 2017 of $286 million and $151 million respectively (Table 2).** The high volatility in GECAMINES's revenues and net income since 2011 is worth noting, and so is the level of its losses in 2017, which means its costs were almost double revenues during that. By contrast, SNCC's revenues and losses have been relatively stable, but the magnitude of its losses (almost four times its revenues) is striking. Annex 2 provides additional information on the financial performance of the two SOEs.

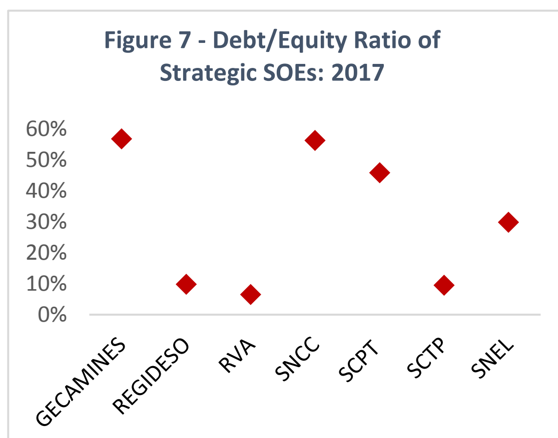


Source: staff calculations as part of a regional study on SOEs (unpublished).

13. **The debt of the seven strategic SOE debt totals more than $4.4 billion at the end of 2017 (Table 2).** Besides financial liabilities, these SOEs have accumulated large tax and "social" (mainly payroll) arrears. Debt stems from two sources: (a) losses accumulated over the recent years, as discussed above, and (b) recurring collection problems—the State itself and other SOEs are particularly delinquent in their payments to the seven strategic SOEs. This cross-arrears issue affects most markedly SNEL and REGIDESO which provide significant services provided to State entities. In REGIDESO's case, the State is the largest subscriber of water services and it owed the company an estimated $136 million as of end-2018. Collection rates for revenues from State entities since 2013 is barely 10%. Regarding SNEL, collection rates for electricity invoiced to State bodies and other SOEs are very low (approx. 15%).

Figures 6-7 – Strategic SOEs Debt: 2014-2017 (US$ million)





Source: COPIREP

14. **Debt levels have increased since 2014, and so have their ratios of debt to equity (Figure 6).** The aggregate debt of the seven strategic SOEs **–** including the tax and social/payroll arrears – increased by 40% from 2014 to 2017. The corresponding aggregate debt-to-equity ratio went from 22% to 33%. GECAMINES, SNCC and SCPT appear highly leveraged, with debt-to-equity ratios close to or over 50% (Figure 7). Additional concerns on the solvency of SOEs is raised by uncertainties regarding the long-term value of their fixed assets, which have low turnover ratios and returns. For instance, SNEL's turnover ratio (revenues over total assets) was 6% in 2017, well below industry average of 30%. The

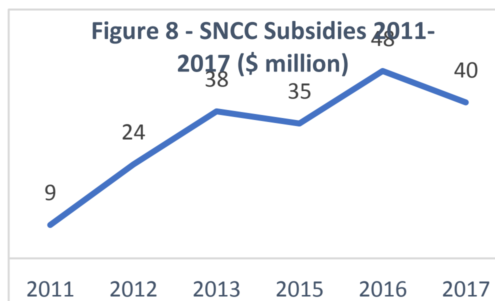
concern that the SOEs reported equity may be overstated has been flagged by external auditors in their reports on the financial statements of several of the SOEs (see Para. 42). Accordingly, some of the SOEs debt-to-equity ratios may be higher than reported and these SOEs may need some fresh capital injections.

15. **SNEL's current debt position puts it in a vulnerable situation.** Whereas it has performed much better than other SOEs, posting a profit in most of the years since 2011, SNEL's debt has steadily increased since 2014 and was close to $2 billion at the end of 2017. This debt burden led to a net interest expense (*résultat financier*) of $100 million in 2017, which almost wiped out the SOE operating profit for that year.

16. **The largest part of SOEs' financial debt (at least $1.1 bn) corresponds to borrowings from international financial institutions and bilateral agencies.** Information on the composition of the SOEs' financial debt is patchy, at best. For SNEL, the (unaudited) annual financial statements indicate that $1.1 bn. of borrowings as of December 2017 relates to international and bilateral partners but no information is provided on the creditor, rates and maturities. For GECAMINES, according the unaudited financial statements for 2017, the main components of financial debt are as follows: $219 million from affiliates (partners in joint ventures), $150 million from the Congolese bank Rawbank and $84 million from the China Overseas Engineering Group. Moreover, for GECAMINES, SNCC and SNEL, debt includes a provision for pension liabilities, for a total of $240 million.

17. **Many of the smaller SOEs are also incurring significant losses.** For instance, based on information contained in reports prepared by two local accountants as part of the Extractive Industries Transparency Initiative (EITI) requirements, the seven smaller extractive SOEs – including MIBA, SOKIMO and the gasoline distribution company SONAHYDROC – had combined losses of close to $50 million in 2016.[2]

18. **Due to their growing indebtedness and investment needs, SOEs represent a significant source of fiscal risk.** The Public Expenditure Management and Financial Accountability Report (PEMFAR), Volume 1 (2015) noted that SOEs had become a fiscal burden for the country. It assessed subsidies paid to SOEs in 2012 at $20 million. Over the recent years, SNCC has absorbed large and growing amounts of subsidies, reaching $48 million in 2016 (Figure 8).



Source: Multi-modal Transport project ICR. Data for 2014 not available

[2] The other four SOEs are COMINIERE, SAKIMA, SCMK-MN and SODIMICO (all fully owned).

III. Institutional Framework for SOE Corporate Governance

19. **This report on SOE governance in DRC focuses on the quality of the institutional framework (Box 1).** Some of these dimensions (especially the role of boards and performance management) were assessed primarily from a *de jure* perspective due to the very limited access to SOE management and boards and missing information. Performance management was assessed primarily in terms of the performance agreements between the State and the electricity and water utilities (see Para. 47 and 55).

Box 1 – Institutional Framework for SOE Governance (source World Bank 2014)[3]

Legal and Regulatory Framework. A sound legal and regulatory framework is the foundation for effective corporate governance. It ensures there is no gap in the legal requirements, obligations are clearly established and do not contradict each other; it also relies on local corporate governance codes and good practice and facilitates effective compliance and enforcement.

State Ownership Arrangements. The State has a distinct responsibility to act as an active and responsible shareholder. Its key ownership functions typically include: (a) appointing SOE board members and external auditors and advising on CEO appointments; (b) setting SOE mandates; (c) monitoring the SOE's performance (financial and otherwise); (d) preparing and disclosing portfolio-level reports; and (e) advising on divestment decisions. These functions must be assigned to an entity with appropriate powers and resources. In addition, the State must be accountable for the effective discharge of its ownership role.

Performance Management. As noted above, to be an informed and effective owner, the State needs to monitor the SOEs' performance and hold accountable their management teams and boards for results. To that effect it needs to put in place appropriate monitoring systems based on clearly defined mandates, strategies and return objectives. Moreover, the State can rely on well-designed performance agreements and it needs to ensure the SOEs have adopted modern performances management practices based on strategic planning, the use of current information technology and a relevant key performance indicators (KPI) and dashboards.

Financial and Fiscal Discipline.[4] Consistent with the general approach of keeping SOEs at arm's length and ensuring the SOEs operate autonomously and to promote a culture of efficiency within SOEs, the State sets hard budget constraints on SOEs, including by reducing preferential financing and limiting subsidies to cases where the SOEs fulfills a public-service obligation.

Boards of Directors. Boards are often considered the "keystone" in an enterprise, providing critical strategic advice to management and exercising oversight over key sensitive areas such as strategic planning, risk management, executive remuneration, conflicts of interest, external reporting, and auditing. Effective boards typically have clearly defined responsibilities, a merit-based and diverse membership, a limited number of specialized committees (e.g., on audit), an adequate remuneration framework, and a process in place for evaluating their effectiveness at regular intervals.

Transparency, Disclosure and Controls. Transparency, disclosure and controls are vital to holding SOEs accountable for their performance. It relies on relevant, timely and accurate reporting on financial performance and other activities, a strong control environment, and independent and competent external audits. In addition, the publication of portfolio-level information (common referred to as "aggregate reporting") enables Parliament and stakeholders to be informed about the performance and situation of the SOEs; it also helps ensure the government is accountable for fulfilling the State ownership role effectively.

[3] https://openknowledge.worldbank.org/handle/10986/20390?show=full.
[4] Financial performance and discipline are discussed in Chapter II above.

Legal and Regulatory Framework

20. **The legal framework for SOEs was reformed in 2008-2009 to enhance the institutional framework and the legal form of SOEs.** Prior to these reforms, there were 51 wholly-owned SOEs (*entreprises publiques*) and 42 companies of which the State held part of the shares, alongside private shareholders (*sociétés d'économie mixte* or SEM). Several laws and implementing decrees[5] were issued changing the legal form of SOEs (i.e., corporatization, other change in legal form, or liquidation) and also sought to enhance the institutional framework, especially with the creation of COPIREP (Para. 28).

21. **The 20 SOEs that carried out commercial activities were corporatized, with the State as sole shareholder.** These include the seven strategic SOEs which are now single-shareholder joint-stock companies (*société anonyme unipersonnelle,* or SAU). 25 SOEs were transformed into statutory bodies (*établissements publics*) and four into public service providers (*services publics*). Six other SOEs were liquidated. Despite the reforms, a state-owned bus company TRANSCO, was recently created as statutory body (*établissement public industriel et commercial* or EPIC). This goes against the spirit of the reform which emphasized the use of the corporate form for SOEs as part of an effort to make them emulate the way private-sector companies are managed.

22. **The legal status of some of the assets of corporatized SOEs is unclear**. The bylaws of all corporatized SOEs were published in the Official Gazette of December 2010, and all corporatized SOEs have been registered in the New Business Registry. The share capital of 11 corporatized SOEs has been established, and their opening financial statements drawn up, but an AGM has not yet been held to approve these financial statements. Until this is done, it will remain unclear whether the SOEs actually own all the assets reported on their balance sheet. In the case of SNEL, the 2012 performance agreement (see Para. 55) provides that this issue would be settled following a detailed inventory and a decision by the State to contribute or concession these assets. According to a report by Deloitte, the inventory has been finalized and a law is expected to settle this issue once and for all.

23. **Congolese SOEs are subject to the common company law framework for 17 Francophone African countries, but some areas of uncertainty remain.** The DRC joined the Organization of Business Law Harmonization in Africa (OHADA) in 2012. As a result, SOEs are subject to OHADA's Uniform Act for Business Law, as well as the *Système Comptable de l'OHADA* (SYSCOHADA), the accounting and financial reporting standard based on the French *plan comptable* (see Para. 37). OHADA law provides an exemption to companies that must follow specific laws—which could be the case of SOEs. Since the statutes in DRC have not been fully revised post-OHADA, it is not clear whether the OHADA exemptions are intended to apply to SOEs or not.[6]

[5] Law no. 08/007 of 7 July 2008 sets forth the rules on the transformation of public enterprises, and Decree no. 09/12 of 24 April 2009 specifies the new legal form of each former public enterprise. Parastatals and public service providers are not within the scope of this diagnostic.

[6] In its final provisions, the OHADA company law makes an exception for companies that are subject to a specific legal regime. Since SOEs are subject to several specific laws and regulations in DRC, the provisions of the SOE-related rules would take precedence over OHADA in case of conflict, or in those matters in which OHADA is silent. Further information on OHADA can be obtained at https://www.ohada.org/index.php/en/.

State Ownership Arrangements

24. **Within the State, SOE ownership responsibilities are relatively well identified but not transparently or effectively discharged, due in part to lack of institutional capacity.** Within the cabinet, a dedicated minister has been traditionally charged with managing the SOE portfolio. The Minister of SOEs (*Ministère du Portefeuille*) represents the State in the SOEs' annual general meeting of shareholders (AGM) and officially designates their statutory auditors (see Para. 40). Under this ministry, two agencies are responsible for supporting the exercise of the ownership functions and reform activities, as described below. The Ministry of Finance does not appear to play any role with regard to the monitoring of SOEs debt and fiscal risk.

25. **The High Council on SOEs (*Conseil Supérieur du Portefeuille* or CSP) is an advisory body to the Ministry of SOEs, performing activities ranging from financial analysis to performance reviews and internal audits.** Initially established in 1989, the CSP has since then been restructured and transformed into a state technical public portfolio management service, equipped with administrative and financial autonomy by Decree no. 13/036 of September 2013. The main activities of CSP focus on financial management and internal controls of SOEs, as well as preparing aggregate reports on the SOE portfolio (Para. 27).[7] Also, CSP represents the State as shareholder and keeps a database of executive personnel who may represent the State in the deliberative bodies of SOEs. CSP is headed by a President, assisted by a Vice-President, both appointed for a four-year term, renewable once. Despite having a relatively large staff (about 160 employees), CSP staff lacks some important skills necessary for the effective discharge of a modern ownership management role, including strategic planning, corporate finance, reporting and external auditing. Its budget for 2017 was $300,000, 85 percent of which was provided by a budget allocation through the Ministry of SOEs.

26. **Many countries in recent years have taken steps to strengthen their SOE ownership function by assigning it to a dedicated agency with adequate powers and resources.** As most have taken steps to commercialize and corporatize their SOEs, the way the ownership of the SOEs should be managed has emerged as a key policy issue. The SOE ownership function involves a range of decisions and activities (see Box 1), with significant implications for the corporate governance of the SOEs. To be an effective shareholder requires knowledge and experience about the way a large company is run. Many developing countries have established specialized SOE ownership entities either as a department of a ministry an autonomous agency, or a holding company. For instance, Morocco established the Department for Public Enterprises and Privatization (*Direction des Entreprises Publiques et de la Privatisation* or DEPP) within the ministry of finance. In Mozambique, the *Instituto de Gestão Participações do Estado* (IGEPE) was established in 2001 as a holding company to manage all State shareholding.

27. **The 2017 aggregate report prepared by CSP contains some useful information, but it has important gaps and it is not published, both of which limit its usefulness.** The report dated June 2018 refers to 2016 data. It has important gaps in coverage, as data are not presented for the full portfolio of SOEs, and important financial information is not provided. The report includes data on budget

[7] Specifically, CSP's activities in 2017 included: (a) ensuring executives (*mandataires publics de l'Etat*) in Kinshasa-based SOEs paid their personal income taxes, (b) ensuring the SOEs' bylaws were aligned with the OHADA company-law uniform act, (c) training CSP and staff of some SOEs on a range of topics (internal audit, accounting, management, etc.), (d) carrying out internal audits in SOEs, (e) preparing an aggregate report on the SOE portfolio.

execution, and information on revenues, expenditures, investments, and cash flows. It also presents the budget for 2017. Analysis and explanations for key variances are very limited. Information on assets and liabilities is not provided; the only balance sheet information in the report is the amount of equity (net book value) of 14 SOEs from 2014 to 2016. The report assesses the total "intrinsic value" of this group of SOEs at $16.5 billion, noting an increase of close to 1 billion from 2015. These amounts are purely based on the equity and therefore not representative of the long-term financial value of the portfolio – which is likely to be much lower given the longstanding loss-making position of these SOEs. Furthermore, the report has no information whatsoever on SNCC.

28. **COPIREP is responsible for designing, monitoring and supporting the implementation of SOE reforms, many of which center on corporate governance.**[8] It was set up as a statutory body in 2009 by a decree of the Prime Minister. Since then, it has been engaged in the implementation of reforms within most of the strategic SOEs, sometimes acting as project implementation unit (PIU) for operations financed by the Bank. COPIREP has a small staff of eight. To cover its costs, it derives significant revenues from its role as PIU coordinator.

Performance Management

29. **The main element of the SOE performance management framework is the systematic use of performance agreements for some of the strategic SOEs.** As discussed in Section IV, performance agreements between the State and the SOEs were implemented as part of the government's SOE reform strategy. These agreements were not published. The performance agreement with SNEL was signed in February 2012 for a five-year period. It features 84 commitments ("*engagements*"), including 63 by SNEL, 12 by the State, and 9 joint commitments, covering commercial, financial, legal and operational issues. 30 performance indicators were agreed (e.g., number of connections to the electricity grid, number of billed clients per employee, collection rate, days-of-sales outstanding ratio, and percentage of arrears cleared). As noted by Deloitte in their May 2018 report on the audit of the performance agreement, some of the indicators were not sufficiently well defined, or SNEL has been unable to calculate them. Nevertheless, the indicators have been very useful for assessing the success of the performance agreement.

30. **These performance agreements were only partially successful due to the lack of implementation monitoring.** Given the political cost for a government of meeting some of the commitments, non-compliance is inevitable in the absence of strong monitoring and enforcement arrangements. See also Para. 55.

31. **The CSP reviews the reports of the largest SOEs (see Para. 27).** While focusing on the largest entities is important, significant financial risks may lie in smaller entities. Reviewing the reports published by SOEs is an important step but it falls significantly short of the type of SOE performance monitoring an effective State ownership entity would typically conduct.

32. **Other key elements of a strong performance management framework are not in place at present**. These include (a) strategic planning, which reflect the mandates assigned by the State and any

[8] COPIREP has a broad mandate which covers a number of areas, including (a) all activities relating to the state's divestment in SOEs; managing the reform of the SOE sector (including sector-specific and company-focused reforms); (c) supporting relevant institutions in carrying out the SOE reform process; and (d) preparing plans for addressing staffing and related issues in SOEs (e.g., overstaffing, delayed salaries, etc.)

significant public-service obligation the SOE is expected to fulfill; (b) a well-defined process for setting realistic performance targets; (c) policies on enterprise resource planning (ERP) and harnessing new technologies; and (d) communication and public reporting on performance.

Boards of Directors

33. **As joint-stock companies (SA), the largest Congolese SOEs, including the seven strategic ones, have boards of directors whose chair is not the chief executive officer (CEO).** Boards are composed of three to twelve members whose terms are set in the bylaws and may not exceed six years. Independent board members are not required. While it is not mandatory under the OHADA framework, the separation between the CEO and the board chair is considered a best practice internationally and many countries require such separation.

34. **For wholly-owned SOEs, the President of the Republic appoints the chief executive, their deputy and all board members, including the chairperson.** The government proposes these appointments. The law sets forth some basic requirements (minimum age, Congolese nationality, not having a criminal record, not holding political office at the same time, etc.), but none focus on professional competence. In the case of board members, individuals may not serve as a member of more than one SOE board. The remuneration of all management is determined by the AGM, while board members are entitled to a sitting fee. The President has the authority for appointing the State's representative at the AGM of SOEs; the Minister of SOEs has been appointed to exercise this role. In the few other SOEs that are not 100 percent owned (e.g. MIBA), the President of the Republic appoints those board members that represent the State and other board members are appointed at the AGM.

35. **SOE boards include a high number of former Ministers, heads of government agencies or members of parliament.** Having politically-exposed persons on a board is not desirable insofar as it can lead to politicizing the role of the board, and it also undermines collegiality in board deliberations. The current general international trend toward professionalizing boards calls for appointing individuals whose professional experience is in business and have specific industry or corporate (technical) expertise. A recent interesting experience has been the appointment of an international industry expert as the chair of SNCC's board. Many countries around the world adopted this approach as one of the ways to enhance the contribution of their boards.

36. **The CEO-board chair separation has led to situations of "dual leadership" in some SOEs.** While in theory the board's role is focused on advising management and exercising oversight over key decisions and sensitive areas, and the chairperson's role is strictly internal, in practice the chairpersons of several SOEs have been acting as a concurring CEO. This is in part the result of the different role company law assigns to boards in Francophone and Roman law countries, compared to common-law jurisdictions. As a result, the chairperson and the CEO are in conflict in some of the strategic SOEs, which is not in the company's interest.

Transparency, Disclosure and Controls

37. **Congolese SOEs are required to prepare annual financial statements in accordance with the SYSCOHADA.** The financial statements comprise an income statement, a balance sheet, a statement on the source and application of funds (akin to a cash flow statement) and detailed tables and notes. It should be noted that the SYSCOHADA departs significantly from the International Financial Reporting

Standards (IFRS) and SYSCOHADA-based financial statements are much less the useful than a set of IFRS financial statements.

38. **The SOEs annual financial statements must be independently audited.** Pursuant to the OHADA legislation, as the SOEs are joint-stock companies (SA), the State as their sole shareholder must appoint one or several statutory auditor[s] (*commissaire[s] aux comptes*) to audit their annual financial statements. Historically, the State has appointed two firms acting as joint auditors for that purpose. In addition, SOEs who receive financing from the State fall within the scope of the supreme audit institution's (*Cour des Comptes*) mandate. The two latest reports from the *Cour des Comptes* (for the years 2010-14 and 2015 respectively) however do not include any discussion of the SOEs accounts and finances.

39. **The Board is required under the OHADA to prepare a directors' report (*rapport de gestion*) but such do not appear to exist for most SOEs in practice.** The directors report (equivalent to a management report or commentary) provides a summary of the company's situation, recent performance and prospects. It also highlights the company's forecasts in terms of activity and financing, which is particularly relevant in the case of Congolese SOEs. These reports represent a key aspect of the boards' accountability.

40. **The criteria for selecting statutory auditors are not transparent and the profile of some of the appointed audit firms raises some concerns as to their ability to audit large business entities.** While for some SOEs the firms appointed include one of the large audit firms with a proven track record of carrying out complex audits, it is not the case for GECAMINES, SNCC and SNEL at present. A recent joint World Bank-African Development Bank assessment of audit firms in DRC has concluded that, aside from the handful of large firms affiliated with prominent audit networks, local firms have very small audit portfolios and lack the capacity to perform audit in accordance with international standards.

41. **In recent years, the Bank has financed the external audits of several strategic SOEs financial statements through its IPF operations.** As part of the broader effort to improve the operational performance of several strategic SOEs (discussed in Section IV), it was determined that having the annual financial statements audited would help provide a clear view of the SOEs' situation. Such audits were commissioned for REGIDESO, RVA, SNCC and SNEL respectively through the urban water, multimodal transport and electricity sector IPFs.

42. **These audits provide clear evidence of serious weaknesses in the SOEs' management information systems (MIS) and internal controls and cast doubt on the reliability of their financial statements.** The key issues arising from these audits are as follows:

- ***For three SOEs, the audit report contains either a qualified opinion or a disclaimer of opinion (Table 3).*** Qualifications or disclaimers, while not uncommon for SOEs in developing countries, represent major red flags to the entities' boards and owners. REGIDESO stands out for receiving a "clean opinion" on its financial statements. For the other three SOEs, the auditors have raised several issues which point to problems with the SOEs' MIS, insufficient documentation or analysis of sensitive areas (e.g., provisions for doubtful receivables) or internal controls over expenditures.

Table 3 – Bank-funded Financial Audits of Strategic SOEs: Auditor Conclusions

SOE	Year of latest audit report	Audit firm	Type of audit opinion	Comments
REGIDESO	2017	EY	Clean	The audit reports for 2015 and 2016 also included a clean opinion
RVA	2017	Humanitas	Disclaimer	Auditor reports 10 issues, many involving weaknesses in the accounting processes
SNCC	2015	Humanitas	Qualified	Six qualifications, mostly about eligibility of expenditures
SNEL	2014	EY	Qualified	Three qualifications incl. on past-due accounts receivable for $110 million

- ***In most cases, the audit reports are produced with significant delays.*** In the case of SNEL, the audit of the 2015 financial statements was still pending as of the date of this report. The latest audits for SNCC is for the year 2015.
- ***The authorities do not appear to pay much attention to the issues the auditors raise.*** In response to issues flagged by the auditors in their reports, the board of directors and the ownership entity are normally expected to call on the company's management to address these issues promptly. It does not appear to be the case in DRC. Also, CSP does not mention the fact the information it includes in its report is based on financial statements that received a qualified audit opinion.
- ***The involvement of both an external auditor and two statutory auditors entails significant duplication.*** Even though the function of a *commissaire aux comptes* includes other duties, its core role is to attest to the fair presentation of the annual financial statements. Duplication leads to unnecessary costs and possible confusion if the two auditors reach different conclusions.

43. **The strategic SOEs file their annual financial statements with the public registry of financial statements, but filing is often delayed.** In DRC, the statutory annual financial statements of joint-stock companies must be filed with the *Conseil Permanent de la Comptabilité au Congo* (CPCC), where they are accessible to the public. Accessing to information filed with CPCC involves a tedious and cumbersome process, which is much less efficient than online access. In addition, the financial statements are often filed with delays, or without the report of the statutory auditors.

44. **In addition, none of the SOEs disclose information about their financial performance on their websites.** In the digital age, considering also the inconvenience of having to acquire copies of corporate reports from a public registry, publication on the internet is the only effective way to achieve transparency. Many SOEs around the world including in Africa publish an annual report on their corporate website. In many cases these feature the full set of financial statements with notes and their auditor's report. In other cases, the SOE publishes key figures. Most large SOEs in DRC do have a public website, although these often do not function well. Large SOEs like SCTP, SNCC, SOKIMO and SONAS do not have a functioning public website at present. Among those who do have a website, GECAMINES,

REGIDESO and SNEL publish the composition of their boards and some information on their procurement activities. SNEL publishes financial data for 2012 and 2013.[9]

45. **The State does not disclose any information on the performance and situation of the SOEs.** As noted above, the CSP's annual activity report is not published. Neither the Ministry of SOEs nor CSP have a public website. The Finance Ministry website has no information on the finances of the SOEs.

IV. SOE Reform and World Bank Support

46. **Over the last 15 years, the Congolese authorities have pursued several measures to improve the performance of SOEs.** COPIREP (Para.28) was set up to prepare the technical design of the SOE reform program and to monitor and support its implementation. The reform strategy contemplated a mix of measures including structural changes in the SOEs' corporate governance and one-off efforts (e.g., to implement new information systems). Initially, the measures concentrated on the institutional framework, including the passage of four laws (Para. 20) and accompanying decrees.

47. **At the level of each SOE, the reform strategy was articulated around three main phases**, as follows:

- ***Phase 1 – Corporatization of SOEs.*** By transforming the SOEs into S.A.s (Para. 21) in order to subject them to private company law and put them on equal same footing with the private sector. The separation of CEO and board chair, one of the tenets of good corporate governance, was meant to make the board more independent and therefore more effective in its oversight.
- ***Phase 2 – "Stabilization" of the strategic SOEs' operations, mainly by bringing international sectoral expertise through service contracts.*** The purpose was both to restore the SOEs to normal operating conditions and improve the quality of service delivery, and to improve their financial situation. Three main instruments were used to that effect:
    i. *Performance agreements with the State*. The Congolese State and the three SOEs mentioned above entered into a performance contract with (i) the enterprises committed to management improvements and (ii) the State committed mostly to settling its arrears and enabling the SOEs' to adjust their tariffs.
    ii. *Service (or "stabilization") contracts.* International firms who were hired by REGIDESO, SNCC and SNEL to perform core management roles and introduce improvements in the way the SOEs were operated.
    iii. *Audits.* Different consulting or accounting firms were hired to audit the service contracts, the performance agreements, and the opening balance sheets of the seven strategic SOEs and, subsequently, the annual financial statements of some of these SOEs (see Para. 41).
- ***Phase 3 – Restructuring.*** Several retrenchment plans were implemented in the strategic SOEs (Para. 51 and 53). According to COPIREP, restructuring referred mainly to engaging in public

[9] Good examples of publication of financial reports by an SOE include Angola's SONANGOL (http://www.sonangol.co.ao/English/AboutSonangolEP/AccountsAndReport/Documents/Relatorio_Contas_e_Gestao_Sonangol_2016_en.pdf) and Côte d'Ivoire's Compagnie Ivoirienne d'Electricité (http://www.cie.ci/ebook/rapport_annuel_CIE_2017/).

private partnerships (PPP) and carrying out retrenchment programs. Other restructuring activities (e.g., PPPs) have yet to be initiated due to delays in the stabilization phase, and the relatively poor results it has yielded so far.

48. **The bulk of the Bank's $1.9 billion IPF portfolio involving SOEs – approximately 90% – went to investments in "hard" infrastructure or to cover running costs of SOEs, the balance being used to finance reforms at the sector level or in the SOEs.** Since 2003, the Bank has initiated or completed nine IPF operations relating to the electricity, mining, telecommunications, transport and water sectors, i.e., sectors in which SOEs are prominent (Table 4). The total financing envelope of close to $2.2 billion only reflects IDA credits or grants and does not include contributions of other financiers (bilateral donors). Another credit for the electricity sector is not included in this analysis as it is too recent (effectiveness in February 2018).

Table 4 – Key World Bank IPF Operations in DRC Involving SOEs since 2003 ($ million)

Project Acronym and Name	Main Focus Area(s)	Period Covered	IDA Amount*	SOEs Involved
PCDSP – Private Sector Development and Competitiveness	Institutional SOE reforms and company-level stabilization efforts	2003-14	118	GECAMINES, REGIDESO, RVA, SCTP, SCPT SNCC, SNEL and 3 state-owned banks
PROMINES – Growth with Governance in the Mineral Sector	Strengthen national institutions (cadaster, etc.) and improve access to mineral resources and transparency on their use	2011-18	49	SOKIMO
SAPMP – Southern African Power Market	Infrastructure investment	2004-16	535	SNEL
PMEDE – Regional and Domestic Power Markets Development	Rehabilitation in generation, transmission and distribution equipment; capacity building and governance improvements	2008-18	537	SNEL
PEMU – Urban Water Supply	Improving and expanding water supply, and sector and governance reform	2008-19	231	REGIDESO
PTM – Multi-modal Transport	SNCC recovery plan and improving sector governance and operational performance	2011-18	386	CVM, RVA, RVF and SNCC
PASAG – Goma Airport Safety Improvement	Infrastructure investment	2015-20	15	RVA
CAB5 – Central African Backbone	Backbone infrastructure and improving sector regulation	2015-19	15	Société Congolaise de Fibre Optique (SOCOF)[10]
Total			**1,886**	

[10] SOCOF S.A. is the asset company created to finance, build, maintain and lease the fiber optics backbone in DRC.

*Amounts disbursed until May 2019 – excludes PCDSP component on Investment Climate Improvement and corresponding share of project management costs.

49. **Bank-funded reform activities are concentrated in four IPF operations: the multisector PCDSP and three large sector-specific ones (PEMU, PMEDE and PTM).** The largest operation, SAPMP, focused on infrastructure investment almost exclusively. The PCDSP which was started in 2003 represented the first generation of Bank-supported SOE reform implementation activities, consistent with the strategy as described in Para. 46-47. The subsequent paragraphs provide an overview of these activities.

50. **The PCDSP financed activities aimed both at strengthening the overall institutional framework and stabilization measures in selected strategic SOEs.** The PCDSP covered two separate policy areas: investment climate and SOEs. Only the latter activities are considered as part of this analysis.[11] The project's SOE-related activities including the following:

- ***Strengthening the institutional framework through legal reforms, SOE corporatization and improved sector regulation.*** Through the PCDSP, consultants were hired to draft the four SOE governance and divestment laws and corresponding decrees, prepare the opening balances sheets of the SOEs and develop a legal framework for debt resolution of SOEs (Decrees 12/031 of October 2012.
- ***Entity-level improvements focusing on retrenchment programs and "stabilization" of operations***, in several SOEs. Table 5 provides an overview of these activities.

51. **Besides large investment and SOE running costs, the PEMU, PMEDE and PTM supported SOE-levels reform primarily on three areas: (a) stabilization through service contracts, (b) retrenchment and (c) audits.** The following is a brief description of key activities and associated costs, based on the draft Implementation Completion and Results Reports (ICR) for PMEDE and PTM (both projects closed in 2018) and project documents for PEMU (due to close in June 2019):

- **PMEDE** had three main components dealing with construction and rehabilitation of power generation, transmission and distribution equipment. Its fourth component dealt with "Capacity Building and Governance", for an amount of $39 million.[12]
- **PTM** focused very heavily on SNCC, through its first component worth $357 million.[12] Overall, 74% of these costs represented equipment acquisition and 21% operational costs; the cost associated with hiring consultants was about $10 million.
- **PEMU** has two main components: (A) Improving and expanding water supply in targeted cities, representing $256 million of planned costs (basically rehabilitation and construction), and (B) Sector reform, capacity building, improved governance and project management, for $98 million. Component B covered nine different activities focusing on REGIDESO including: (i) the service contract with ERANOVE and its Senegalese subsidiary; (ii) a retrenchment program; (iii) a program for reducing water consumption by public bodies, to reduce the impact of REGIDESO's

[11] The project included three main components dealing respectively with (i) Improving the investment climate, (ii) Implementing parastatal reform, and (iii) Katanga region development, which was mainly about dealing with the social consequences of retrenchment at GECAMINES. The first component amounted to $64 million (before management costs).
[12] Actual costs, excluding project management.

recurring collection problems with these bodies (see Para. 13); (iv) audits; and (v) miscellaneous outreach, communication and coordination activities.

The key cross-cutting SOE-level reform activities which the IPF projects have supported are summarized in Table 5. They are further discussed in the next paragraphs.

Table 5 – SOE Service Contracts, Retrenchment and Audits Supported by Bank IPFs in DRC: Overview

Project	Service Contracts	Retrenchment	Audits
PCDSP	GECAMINES – Sofreco REGIDESO – Finagestion/SDE RVA – ADPI/KPMG SCTP – Progosa SNCC – Vecturis SNEL – specialized firm	Number of individuals who signed up to voluntary departure schemes: • GECAMINES: 10,654 • SCPT: 4,950 • SNCC: 3,866 • State-owned banks: 3,480	Due diligence and financial statement audits (2002-2005) in six strategic SOEs
PEMU	REGIDESO – SDE-ERANOVE	Staff Restructuring Plan	Audits of performance agreements, service contracts and SOE annual financial statements in the three SOEs, plus procurement audit at SNCC.
PMEDE	SNEL – MHI	Not applicable	
PTM	SNCC – Vecturis	1,675 voluntary retirees at SNCC	

Source: ICR and Additional Financing project paper.

52. **The service contracts essentially helped keep the SOEs afloat and, except at REGIDESO, their impact in terms of management and governance improvements was limited.** Regarding the three IPF projects which followed the PCDSP (PEMU, PMEDE and PTM), consideration had been given initially to bringing international experts through proper management contracts, with performance-based rewards or penalties. However, the condition of the SOEs at the time did not make it possible to attract credible international consulting firms other than through a simple service contract.[13] The impact of the services contracts can be summarized as follows:

- ***PCDSP-financed service contracts in seven SOEs*** – The first generation of service contracts financed through the PCDSP had the main effect of stopping the downward spiral the strategic SOEs had been caught into, stabilizing their activity and revenues. Some modest improvements were achieved in terms of the reliability of accounts and tighter financial controls. Nevertheless, the seven SOEs were still in a perilous state at the closure of the project.

- ***SNEL - MHI*** – The report by Deloitte on the audit of the service contract and performance agreement (dated May 2018) points to some improvements, especially in the technical and production areas. Overall, the auditor concludes that the MHI experts were fully immersed in day-to-day management at the expense of turnaround activities and lists a number of remaining weaknesses in financial management, procurement, HR management, information and communication technology (ICT), and marketing and sales. The ICR for PMEDE also notes that strategic activities such as the introduction of results-based management (RBM) were not implemented, nor were most of the management training and study trips envisaged.

[13] In the PTM's case, the ICR notes that Vecturis was "hired initially under a quasi-management contract [but] was reduced to a role of technical assistance" (Para. 66).

- ***REGIDESO - SDE-ERANOVE*** – The latest Audit-Memoire of the PEMU project notes that the project indicators are below target, providing evidence that REGIDESO's performance has not improved. It also notes that the results from the SDE-ERANOVE service contract are modest. Lahmeyer International has been hired to audit both the service contract and the performance agreement. Its latest report (September 2018) concludes as follows on the service contract: "the contractor fulfills its management tasks in a satisfactory manner. However, it is powerless in front of the financial constraints, which are due in large part to the insufficient payment of the State's water consumption". The report also points to "institutional, social and political obstacles" hampering the managers' authority and ability to fix organizational deficiencies and improve human resource management. The one brighter spot in this otherwise worrisome assessment has to do with financial management and accounting. REGIDESO has successfully implemented the finance module of its new ERP project, which is necessary to enable the management team to perform its role effectively. This achievement is consistent with the fact the SOE has been receiving a clean audit opinion on its financial statements for the last three years (see Table 3).

53. **The retrenchment programs led to significant headcount reduction in the strategic SOEs, but the SOEs still face significant HR management issues.** More than 22,000 employees signed up to the different voluntary scheme departures and as a result the number of active employees in all of the seven strategic SOEs has been significantly reduced (by more than half in the case of GECAMINEs). Implementation of the retrenchment programs faced serious problems (e.g., inspection panel complaints) and the real impact of these programs is not precisely known. Some of the HR-related issues facing the SOEs include aging personnel, lack of training, lack of RBM-type systems to incentivize employee performance, and existence of "passive" employees. For instance, at RVA, 1,000 former employees are still counted on the company's payroll due to its inability to pay the amounts owed to them upon separation under DRC labor laws. Furthermore, labor productivity remains a concern. For instance, SNEL's ratio of billed customer per employee was 93 at the end of 2016 against a target of 120-150 in the performance contract; for REGIDESO, the number of employees per connected customer (14 at the end of 2017) is considered too high.

54. **The technical, financial and procurement audits have provided valuable information on reform progress and on the SOEs' situation, but they can only be useful if the recommendations they contain are implemented.** The service contract audits have helped document the progress made and remaining challenges the SOEs face in their daily management and in implementing turnaround measures. The financial statement audits helped improve the reliability of the SOEs' financials and identify improvements in their internal controls and accounting processes (see Para. 42). The latest procurement audit at RVA (covering 2017) has raised concerns about the lack of competition and transparency in four investments including a large one (close to $7 million).

55. **These audits have also provided ample evidence that the performance agreements have not been successful, largely due to the State's failure to meet its commitments.** The consulting firms Deloitte and Lahmeyer audited the performance agreements of SNEL and REGIDESO respectively. Both conclude that, overwhelmingly, the State has failed to meet its obligations toward the respective SOEs. For SNEL, the audit report notes that the State met 3 out of 12 of the commitments it had made in the 2012 performance agreement, with no progress whatsoever regarding the other nine commitments. At

the same time, SNEL has met 43% of its commitments and implementation of another 37% was under way.

56. **The State has partly fulfilled its commitment to allow the SOEs to adjust their tariffs, but these are likely to require further adjustments in the near future.** For REGIDESO, new tariffs were established in 2015 and applied in 2016. For SNEL, the Deloitte report notes that the State facilitated the gradual adjustment in the price of electricity from 2013 to 2015, but according to SNEL's management preferential tariffs continue to be granted by the State for mining clients, which goes against its commitment of allowing SNEL strictly to apply its tariffs.

57. **The main area where the State fell short of its commitments is regarding the payment of invoices for electricity and water, making REGIDESO and SNEL even more financially vulnerable.** As noted above (Para. 14), the State still owes large amounts to the two SOEs, despite a commitment to settle new invoices promptly and settle cross-arrears. For REGIDESO, the latest report by Lahmeyer notes that the State continues to pay its water invoices "sporadically". For SNEL, collection rates for revenues from government customers and other SOEs are below 15%. In addition, the reconciliation of cross-arrears (amounts invoiced by SOEs to public bodies for electricity if water consumption v. taxes owed by the SOEs) was delayed and led to protracted discussions with disagreements on the application of penalties and interest on taxes owed by the SOEs. Moreover, according to Deloitte, the State has interfered in the negotiations between SNEL and some of its large customers including GECAMINES and other domestic mining and trading companies. Other commitments the State did not fulfill include clarifying the legal status of SOE property, plant and equipment (Para. 22) and reducing its consumption of electricity and water. Moreover, the State's monitoring of the implementation of the performance agreement and recovery measures has been deficient. In SNEL's case, the recovery plan steering committee was never set up.

58. **The overall reform program financed by the Bank has been both limited in value and, with few exceptions, did not lead to sustainable improvements in the governance of the strategic SOEs.** Implementing the service and performance contracts at REGIDESO and SNEL have proven very challenging. Some improvements have been achieved but the fundamental problems the SOEs face – insufficient revenues and productivity, major liquidity problems, outdated organization, etc. – are still present. In the transport sector, the ICR for PTM notes that "the Government did not take the opportunity offered by the project to undertake railway sector reforms […]", and it shows that SNCC operational performance has steadily deteriorated from 2011 to 2018, with financial losses in excess of $100 million every year during that period.

59. **Specifically on SOE governance, the reforms have yielded limited results due to several factors.** Project design tended to be very complex and ambitious; this is particularly true for a post-conflict country with very limited absorption capacity such as DRC. Timelines have likewise underestimated the difficulty of implementing reforms, and were most often much too short. Linked to the above, there was a lack of reliable diagnostics at entry, including a dearth of financial information on SOEs. This was in part due to the issue of ambitious timelines, which led to having some of the diagnostic work carried out as part of project implementation rather than during preparation. This had an impact on the setting of project objectives which were sometimes unrealistic. Finally, some key and foundational reforms were never carried out, namely an effective monitoring function was not established for SOEs. Monitoring SOE financial and operational performance is an essential responsibility

of the government as shareholder, as mentioned previously. The impact of not having such a monitoring function has been noted several times in this report, most notably when it comes to the severe shortcomings of performance agreements.

60. **Nevertheless, important lessons can be learned from the experience of the last 15 years in DRC on how IPF operations can be leveraged to support SOE reform.** These include but are not limited to the following:

- ***IPF operations can be a source of valuable support for SOE reform***, in a range of areas including legislative reform, SOEs ERP projects and implementing retrenchment programs. At the same time, technical assistance and capacity-building support provided through an IPF is unlikely to be sufficient to enable SOEs to overcome the governance challenge they face. A case in point is the issue of arrears. Resolving it requires a strong policy commitment by the government. A combination of Results-based Financing and Development Policy Financing instruments can be effective complements to achieve these results.

- ***Project activities aimed at tackling governance issues need to be carefully designed***, based on comprehensive country-wide diagnostic complemented by SOE-specific assessments.

- ***Service contracts present significant potential risks***, which need to be carefully assessed. One of these is that SOE's personnel may feel disempowered, resent the fact foreign experts are given important responsibilities and receive much higher compensation. Moreover, a firm hired to run the daily business for an SOE which faces major operational challenges may not be able to devote significant attention to change the way the company is being managed.

- ***State-SOE performance agreements should be developed with a clear understanding of each party's ability to meet its commitments***, and the associated risks. Effective monitoring is critical to mitigate these risks.

- ***Audits do not create capacity by themselves.*** Audits of SOE financial statements, while useful, do not help much to ensure the SOE will be able to prepare financial statements in a timely fashion. External auditors typically make recommendations to management following the conclusion of their audits on how to improve internal controls and the quality of reporting. One way to make the audits useful in creating sustainable in-house capacity for reporting and strengthening internal controls is to require the SOEs to draw up an action plan for implementing the auditors' recommendations, with a focus on the root causes of the observed deficiencies.

V. Options for Future Reforms

61. **Overall, some improvements were achieved as a result of the reform programs financed by the Bank, which could form a base for additional governance reforms going forward.** These include:

- *Corporatization.* All SOEs except one are now fully corporatized, with the benefit of subjecting them to the common framework of the Organization for the Harmonization of Company Law in Africa (OHADA), which groups 17 Francophone countries in Sub-Saharan Africa. In addition, board chairs were appointed who were not the SOE's chief executive officer.

- *Bringing international sectoral expertise,* through service contracts to "stabilize" the SOEs' operations and improve the way they were run.
- *Technical and financial audits.* For each of the seven strategic SOEs, the government commissioned audit of so-called opening balance sheets and, subsequently, annual financial statements from 2012 to 2017.
- *The preparation of aggregate reports on the SOE sector*, which present the financial situation of the overall portfolio and analyze the performance of the largest companies.

62. **The governance of SOEs in DRC still shows serious shortcomings which hinder their ability to improve their performance.** Key weaknesses are present throughout all key dimensions of the institutional framework. Regarding the statutory framework, the legal status of the SOEs' assets is undefined and the OHADA framework implemented mainly on paper. The State ownership function is fragmented and insufficiently resourced. The way CEOs, board members and statutory auditors are appointed is not transparent. With very few exceptions, board members are all civil servants whose appointment is not competency-based, and they lack industry expertise and private sector experience. Performance contracts have not produced compelling results largely due to the lack of enforcement mechanisms. By and large SOEs rely on outdated MIS and the production of accounting information involves very lengthy processes, with many manual operations and long delays. Qualified opinions in the auditor reports put the reliability of the SOEs' financial statements in doubt. Lastly, transparency on the SOEs' performance is very limited, and very little information is disclosed on their financial situation.

63. **Looking forward, authorities should reassess the rationale for State ownership of certain economic activities, in which the private sector may be better positioned to deliver public services.** The OECD, in its Guidelines on Corporate Governance of State-Owned Enterprises (2015), recommends that governments carefully evaluate (and disclose) the objectives that justify state ownership and subject these to a recurrent review. It is important, particularly in countries where SOEs have a longstanding presence, to take a step back and question not just how to improve the management and governance of SOEs, but also whether it makes sense for the State to continue to be involved in these companies. Indeed, a recent trend internationally has seen several governments – especially in Sub-Saharan Africa[14] – reconsider the justification for State control over certain economic activities and decide to privatize commercial assets. In this regard, it would be helpful to develop a typology of SOEs, and from there assess the rationale for State presence for each type. Such a typology can take into consideration factors such as the existence of a competitive market, whether the company delivers essential public services, and the attractiveness of the sector or industry for the private sector, among others. Table 6 proposes a typology of SOEs and sectors for which discontinuing State control could be considered.

Table 6 – Typology of SOEs and Approaches to State Ownership

	Service-delivery SOEs/Utilities		**Tradables**	**Financial services**
	Natural monopolies	**Liberalized markets**		
Sector	Transport (airports, ports, rail, river)	Electricity, ICT, water	Agriculture, mining, trading,	Insurance

[14] E.g., Angola, Cabo Verde, Ethiopia and Zimbabwe.

Possible approaches	Reform, develop PPPs	Reform, develop PPPs	Privatization, PPP	Reform, liberalize market
Key SOEs	SCTP, SNCC, RVA, RVF	REGIDESO, SCPT, SNEL	GECAMINES, MIBA, SOKIMO, SCMK-Mn	SONAS

64. **While all SOEs will benefit from governance improvements, the government should consider targeting its efforts on natural monopolies, as these will likely remain in State hands for the foreseeable future.** In many countries, the State has retained its presence in companies which are natural monopolies, as it may be considered more efficient to own such enterprises directly than to regulate privately-owned monopolies. Natural monopolies tend to exist in sectors in which there are very high fixed cost to enter and operate, such as railroads, ports and airports. Utilities are another area in which governments around the world have retained a marked presence, since they deliver essential public services such as electricity, water, sanitation, and communications. That said, it is possible to break up integrated, monopolistic utilities, and subjecting these to competition either from subnational SOEs or private companies. Finally, tradeable sectors are those in which competition tends to occur naturally and is easiest to introduce private sector participation.

65. **In the case of DRC, the State has been opening the tradable sectors, most notably mining, and utilities to private participation**. With more and more private mining companies operating in the country, the State has naturally reduced its presence in this sector and in tradeable sectors more generally. In the utilities sector as well, the government has been keen on introducing PPPs and greater subnational participation.

66. **Going forward, given the complex political economy of mining activities, decisions regarding the State's presence in the mining sector particularly will require a careful assessment and extensive stakeholder consultations.** While the 1990s and early part of the century saw a wave of divestment by the State, this trend has been interrupted since the beginning of the decade particularly in Africa, in the context of renewed "resource nationalism". As a result, the current international landscape offers a mixed picture in terms of State ownership. On the one hand, the State still controls a large portion of mining activities in Chile, DRC, Ghana, Mauritania, Mongolia, Morocco, Philippines, Tanzania, Zambia and Zimbabwe. On the other hand, many developing countries – e.g., Guinea, Peru, Russia and South Africa – have large the mining sectors with limited State ownership. Beyond the issue of ownership, countries are placing an increased emphasis on reforming their mining codes and adopting measures to make the use of mineral resources more transparent.

67. **Furthermore, SOE reform, which is inherently complex and challenging, should focus on foundational aspects and it will require stronger and more sustained government commitment.** The reform effort to date has been insufficiently focused and sustained. Like any large organization, SOEs are inherently hard to reform. Their relations with the State are complex and compound the problems private-sector enterprises face. For instance, the public-policy obligations imposed on them (explicitly or not) often conflict with their commercial objectives. SOEs operate in several highly strategic sectors, and depend on each other in their business relations, so the government can hardly choose to prioritize one strategic SOE over another. Similarly, as many of the operational, technical, HR and financial problems are interrelated, reform programs need to be relatively broad in scope.

68. **While part of the solution to DRC's SOE problems lies in greater participation of the private sector in the economy, resolving these problems will also require improving the governance of these SOEs.** Activities traditionally under monopoly like electricity or water supply have already been opened to competition, and the development of these sectors will rely significantly on the involvement of private sector actors, as is already the case in the ICT sector and in many other partner countries. Nonetheless, it is highly unlikely that the provision of essential services in DRC will rely entirely on the private sector. This means that, even though the results of past efforts have been insufficient, SOE reform is still needed in DRC. To create the conditions for its success, some key principles should guide future SOE reform, including the following:

- Timelines for reform implementation should be realistic;
- The State and the SOEs should each do their part by implementing the actions they commit to undertake;
- Efforts to building sustainable capacity within the SOEs, as opposed to one-off;
- Existing legal obligations should be enforced before creating new ones which might not be applied, and areas of legal uncertainty promptly resolved;
- Duplication should be avoided as much as possible (e.g., on external audits or regarding the role of CEOs and board chairs);
- Economies of scale and synergy should be sought across sectors. This could mean for instance organizing peer-to-peer learning activities on common governance challenges (e.g., implementing new MISs, introducing RBM, improving the reliability and timeliness of reporting, and strengthening internal control environment), or for SOE board members; and
- Expanded and better use of ICT is likely to play a key role in SOE reform. For instance, meters are essential to reduce commercial losses at REGIDESO or SNEL. Ensuring the SOEs can rely on modern ERP/MIS for running their business or to make strategic decisions will be equally critical.

69. **Increasing transparency is essential to create accountability and help build trust in the reforms.** A number of critical documents which already exist could be made public, such as the financial statements, audit reports and the performance contracts. The way CEOs and board members are appointed should also be more transparent, with a clear set of pre-established criteria. A simpler and improved version of the CSP's aggregate report should be published as is the case in a growing number of countries including in Africa (e.g., Ghana, Liberia, Morocco and Zimbabwe).

70. **The ownership function should be restructured and significantly strengthened so that the State can become an effective and responsible shareholder.** Given the size and importance of the SOE portfolio, the DRC needs an ownership entity in its own right, and with a strong technical staff. Many countries (e.g., Ethiopia and Poland) have done away with dedicated SOE ministries and others are considering abandoning it. One option would be to reestablish the CSP as dedicated SOE ownership department within the SOE Ministry or the Finance Ministry, possibly combining it with COPIREP, with clear power and a more focused mandate. Initially, the new CSP or equivalent should focus on:

a) ***Developing a framework for merit-based appointments***, for CEOs, board members and statutory auditors; and
b) ***Monitoring the performance of the strategic SOEs and other large ones*** (e.g., MIBA, SOKIMO, SONAHYDRO and SONAS). This includes: (i) reviewing the SOEs' financial reports and audit

reports, (ii) developing a database of SOE financial KPIs; interacting with the chief financial officers of the largest CEOs and (iii) summarizing the analysis of key financial data into a short report to inform the government. Over time, monitoring activities would be refined and expanded to cover issues such as compliance with OHADA, operational KPIs, strategic projects (e.g., ERP), and so on.

71. **Efforts should be made to professionalize and depoliticize the boards of SOEs.** The SNCC's experience of appointing an independent board chair could be extended or one or two pilot SOEs. If not the chair, an independent director (board member) could be appointed. The ownership entity could also develop a pool of potential professional board members for future appointment. It could also design training courses for directors and onboarding programs for newly-appointed ones.

72. **Other measures the authorities should consider for improving the governance of SOEs include:**

- Resolving the uncertainty regarding the ownership of the SOEs' assets;
- An inventory of all SOEs and equity stakes to ascertain the State's percentage of ownership; and
- Adopting a process for statutory auditor appointment aligned private sector practices, whereby the board of directors proposes the appointment to the AGM. Efforts should also be made to combine the external audits with the OHADA-mandated statutory audits (in connection with the establishment of eligibility criteria for being the auditor of an SOE, based on audit experience, the number of staff and industry expertise – see above).

73. **Sequencing and prioritization of reform activities is best done in collaboration with key stakeholders, and should take into consideration technical feasibility, political will and political economy factors, as well as the urgency of the specific reform.** Setting forth a clear and actionable path to reform, with sequenced and time-bound activities needs to be done together with the government and affected SOEs, to ensure ownership and increase the chances for successful reform. Table 7 provides an overview of key policy recommendations arising from this assessment with an indication of their feasibility and estimated time line (short or medium term). It is recommended to take a dual reform track that takes action on both: (a) straightforward technical reforms and (b) reforms that require political buy-in, or are more vulnerable to political economy considerations. Thus, when the political climate is favorable, both tracks can be pursued in unison. If for whatever reason political will is tempered, the straightforward technical reforms can continue to be pursued, keeping alive reform momentum and policy dialogue.

Table 7 – Policy Recommendations

	Recommendation	Technical Feasibility	Political Feasibility	Time Horizon (Term)
Legal Framework	Enforce OHADA requirements on corporatized SOEs	Low	Medium	Medium
	Clarify legal status of SOE assets and OHADA exemptions	Medium	High	Short
	Assign ownership function to a single dedicated agency	High	Low	Medium

State Ownership Function	Carry out a comprehensive inventory of SOE and State equity stakes, and develop a database of SOE data	Medium	High	Short
	Developing capacity for monitoring SOE reporting, external audits and implementation of recommendations arising from audits	Medium	High	Medium
Boards of directors	Establish criteria for merit-based appointments	High	Low	Short
Transparency, disclosure and controls	Require SOEs to publish their annual financial statements with audit reports on their website, or publish these on government's website	High	Medium	Short
	Ownership entity should publish annual aggregate report on SOE portfolio	Medium	High	Short
	Remove duplication between statutory and external audits	Medium	Medium	Medium

74. **The government will also need to develop a strategy for tackling the mounting SOE debt.** Urgent attention should be given to the transparency of SOEs debt accounts and borrowing practices, and to curtailing any new SOE debt on non-concessional terms. Governance improvements and key sectoral reforms will play a key role in stabilizing the level of debt. Beyond that, the very high levels of debt and quasi-debt in the form of arrears need to be addressed through some form of restructuring. This requires first a precise stock-taking and classification of existing debt based the category of creditor, type of instrument and maturity profiles. Some debt workout might be envisaged for commercial debt (a combination of restructuring and relief. The lack of a deep and liquid domestic capital market will be a significant constraint in DRC's case. Another key issue to be addressed as part of the strategy is the existence and potential value of non-core assets in SOEs (e.g., rural land, property and non-strategic businesses) to offset part of their debt. The DRC might benefit from the experience of countries which have restructured their debt (e.g., Indonesia and Jamaica).

75. **Additionally, clarifying and restoring discipline in the financial relations between SOEs and the State will be critical top solving the debt issue.** The State's failure to pay for the services it receives from SOEs is a key contributor to their financial problems. New legislation may be necessary to strengthen payment discipline by government agencies to SOEs, and also to trigger restructuring when arrears exceed certain levels. Debt workouts may also require the State absorbing some of the liabilities or public agencies toward the SOEs.

76. **As part of its Country Partnership Framework (CPF) for 2020-2023, the Bank should continue leveraging its portfolio to support SOE reform.** Even though the experience of implementing several IPF operations since 2003 have not yielded sufficient results, some significant improvements were achieved as pointed out above. These lessons can inform a renewed approach to Bank support to SOE reform that is more selective, based on results, and combines investment and policy instruments.

77. **Bank support to individual SOEs in DRC should be selective**. The Bank should engage only with SOEs that deliver services aligned with the CPF objectives and critical to achieving the twin goals. In these cases, the SOE policy objectives should be well defined and transparent. Likewise, the application

of maximizing finance for development (MFD) principles should apply, such as a clear rationale for State intervention and the adoption of measures to open space for sustainable private sector solutions. Finally, candid assessments of the SOE commitment to reform -building upon track record rather than intentions- and associated political economy factors should underpin selectivity.

78. **Following corporatization of State economic activities and the growing emphasis on holding SOE managers and directors accountable, effective SOE ownership should be supported as a key government function**. Fulfilling it requires strong institutional capacity, in the form of modern and effective tools, well-designed processes, and competent human resources. IPF-supported technical assistance activities can help equip ownership entities with improved resources. Many IPF operations across all regions have, for instance, helped SOEs improve their accounting processes, internal controls and reliance on ICT, or improve the relevance, timeliness and reliability of their financial reporting. Recent examples of such operations include the Ghana Economic Management Strengthening and Institutional Capacity Building Project for Uzbekistan.

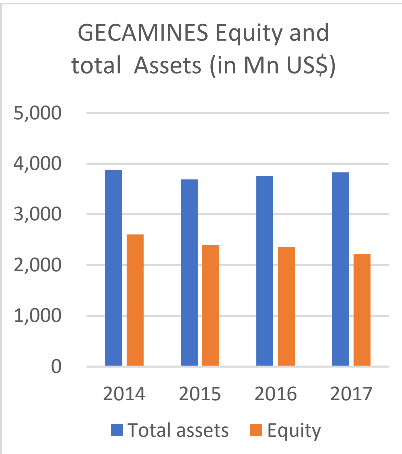
79. **Bank support to individual SOEs should be performance-based**. While technical assistance will be required to advance the areas for improvement cited above, these interventions should be tied to results-based financing mechanisms. The use of Disbursement-Linked Indicators (DLIs) should be encouraged to ensure that Bank funding of project and program inputs is directly connected to the achievement of concrete and relevant results.

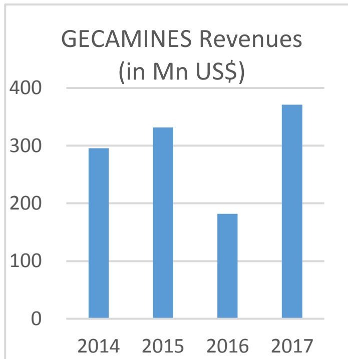
80. **If the authorizing environment allows for future Bank Development Policy Operations, these should support policy measures to increase transparency of SOE operations and tackle some of the issues standing in the way of the SOEs' recovery.** SOE reform is not only about building capacity at enterprise or State level. It also involves making difficult but much-needed policy decisions, such as paying off arrears to SOEs, or publishing available information on the SOEs' performance (with no associated cost) to provide transparency and facilitate accountability.

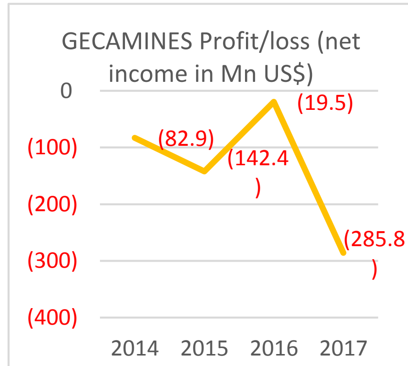
List of Annexes

Annex 1 – Strategic SOEs: Additional Information

Générale des Carrières et des Mines (GECAMINES -- www.gecamines.cd/) is the leading enterprise of DRC in the mining sector and the country's second largest SOE, with total assets close to $4 billion. Established in 1906, its main activity is mining and commodity trade. GECAMINES owns cobalt, copper and zinc mines. Over the recent years, the company has entered into contracts with international firms. Following the passage of a new mining code in 2017, GECAMINES' revenues have increased sharply. However, its financial losses also increased very significantly to exceed $(280) million. A report by the Natural Resource Governance Institute, which includes a case study on GECAMINES, places it in the bottom tier of extractive SOEs in terms of quality of governance.[15]

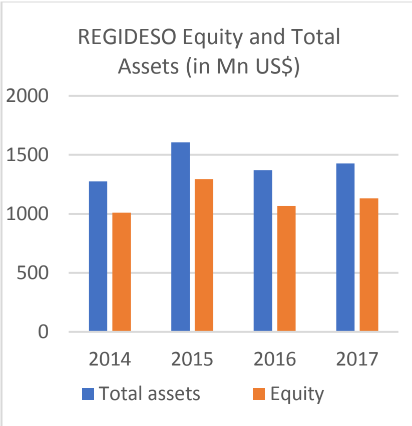


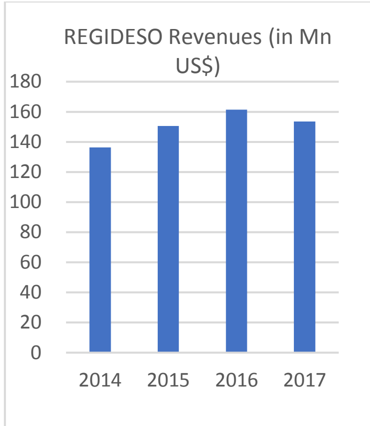


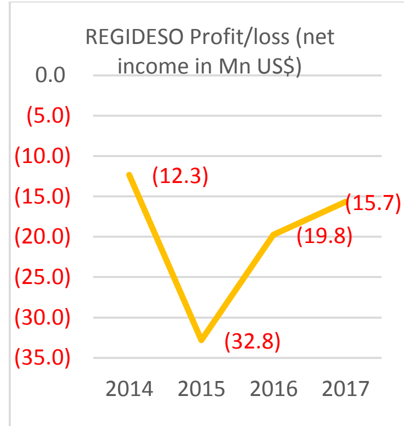


Régie de Distribution des Eaux (REGIDESO – web.regidesordc.com/) is the national water utility. REGIDESO is struggling to meet the needs of the growing population. Indeed, the rate of access to drinking water in urban areas is approximately 53%. It is 13.5% in rural areas and 5% in semi-urban areas. REGIDESO is also facing financial problems. Its revenues hardly cover current operating expenses, including all those related to the maintenance of water infrastructure. The insolvency of subscribers and the accumulation of unpaid bills, particularly those of the State, contribute to keeping many outlets inactive. Also, the staff costs are very high and increase faster than the turnover while the number of staff is decreasing. Premiums and allowances represent approximately 95% of staff costs. All these elements indicate a serious management problem within REGIDESO which deserves particular attention. The World Bank also supports the government in the rehabilitation and maintenance of the REGIDESO centers.

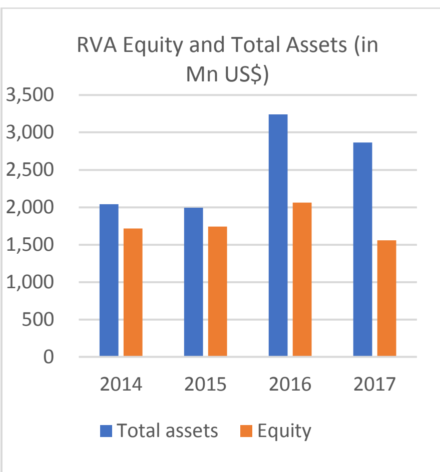
[15] https://resourcegovernance.org/sites/default/files/documents/nrgi_nmc_english.pdf.

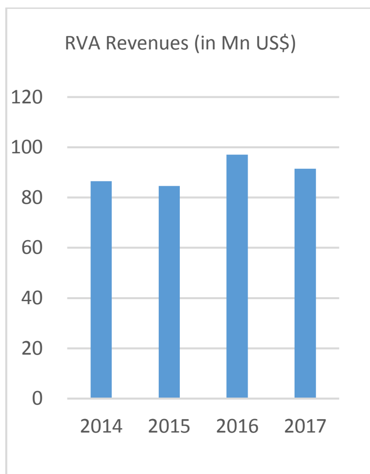


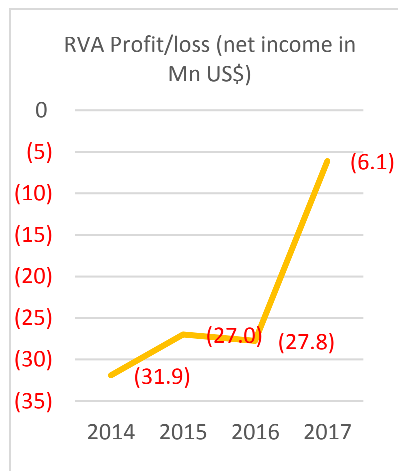




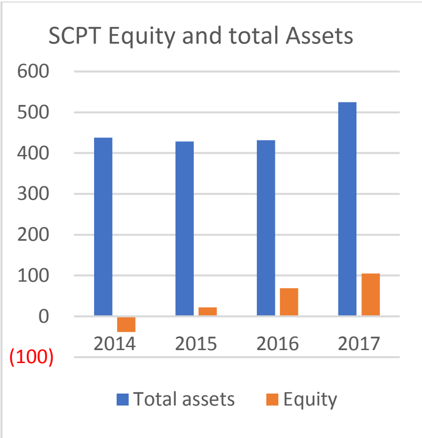
Régie des Voies Aériennes (RVA – www.rva.cd/) is the operators of the DRC's airports. Established in 1972, RVA is under the supervision of the Ministry of Transportation and the SOE Ministry. The main assignment of the RVA is the management of the airports of the country, including aerodromes and national and international airports. Through this project, RVA benefitted completion of procurement and financial audit. According to the most recent data available, its net annual loss has decreased 6.1 Mn US$ in 2017 compared to the preceding year due to a higher decrease in charges than in revenues.

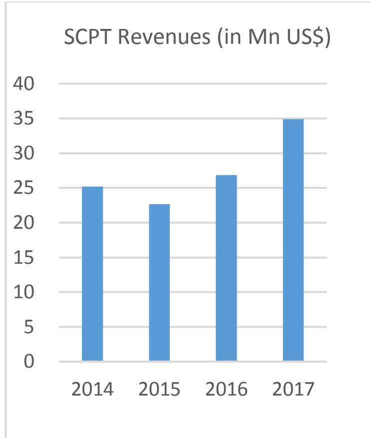


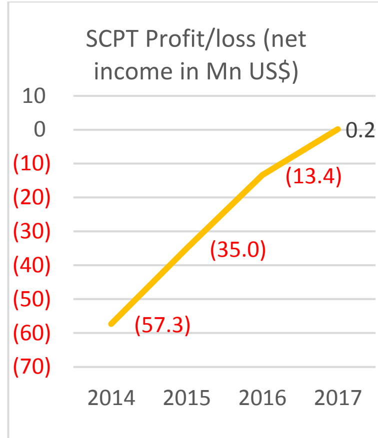




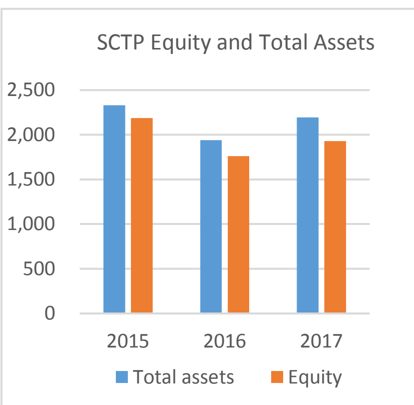
Société Congolaise des Postes et Télécommunications (SCPT – www.scpt.cd/web/) is the national postal and telecommunications company. It has been established in 1885 and is under the supervision of the Ministry of Posts and Telecommunications. Its main activities include traditional mail, express mailing, financial services, telecommunications and telecommunications via optical fiber. SCPT's revenues have been increasing during the recent years.

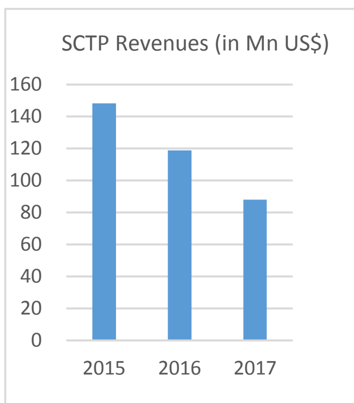


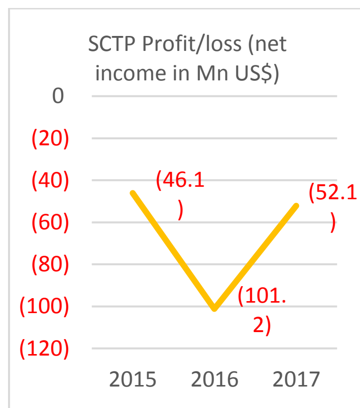




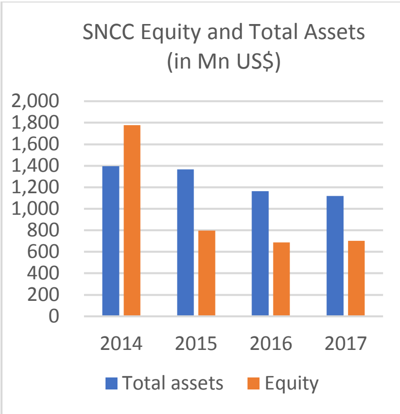
Société Commerciale des Transports et des Ports (SCTP), formerly *Office Nationale des Transports* (ONATRA) was established in 1935 to operate railroads, roads and ports in the West of the RDC, near Kinshasa. The road network of SCTP presently includes the railway linking the city of Matadi to Kinshasa, the lake and river networks from the city of Boma to Banama city and the ports of Matadi, Boma, Kinshasa, Mbandaka and Kisangani. SCTP has experienced a degradation of its services in recent years, leading to the reduction of its traffic.

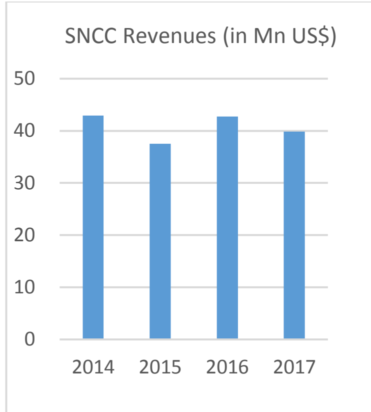


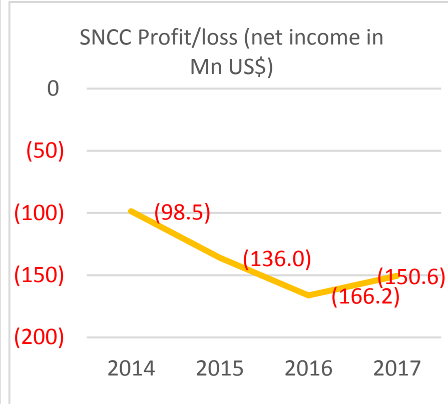




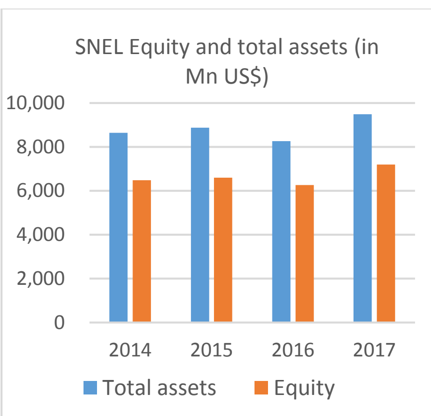
Société Nationale des Chemins de Fer du Congo (SNCC) was established in 1974 to operates all railways and road transportation services in the country except for Kinshasa-Matadi route operated by SCTP/ONATRA. The company is headquartered in Lubumbashi and a large portion of its revenues have historically been linked to transportation by rail of minerals produced in the Katanga province.

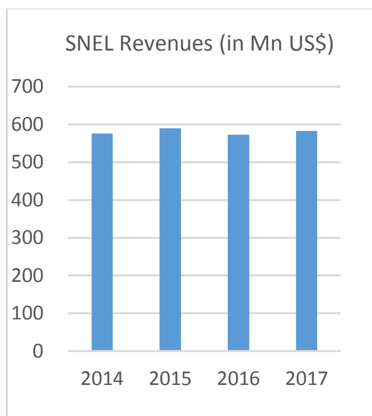


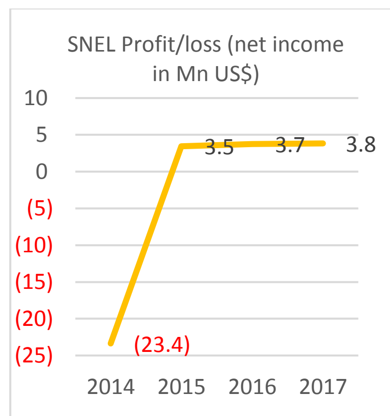




Société Nationale d'Electricité (SNEL – http://snel.cd/) was established in 1970 with a broad mandate of power generation, transportation, distribution and marketing in the DRC and abroad. SNEL currently faces cash flow problems resulting in insufficient and bad quality services. Its production equipment is fully depreciated and requires significant financial resources. Debts due to the accumulation of arrears to the public sector and rights holders, tariffs below cost recovery, etc. are holding back SNEL's activities. Thus, despite the enormous potential of electric power that abounds the DRC, it remains one of the countries with the lowest access to electricity in the world. The access rate is about 15.2% against 31% for Sub-Saharan Africa and 99% for the Maghreb. Final electricity consumption per capita is 110 KWh against 488 KWh in Sub-Saharan Africa and 3.1 MWh worldwide.







Annex 2 – Other SOEs and Equity Stakes in 2012

SOE Acronym	Sector	Legal Form	% Ownership
African Mineral Barbados	Mining	SEM	
AMI-CONGO	Trade and Services	SEM	
BCDC	Financial	SEM	26
CADECO	Financial	SARL	100
CFUF	Transport	SARL	100
CHANIMETAL	Industry	SEM	40
CILU	Industry	SEM	15
CINAT	Industry	SEM	
COBIL	Energy	SEM	99
Comigem	Industry	SEM	
COMINIERE	Mining	SEM	
Compagnie Sucrière de Kwilu-Ngongo	Industry	SEM	40
CVM	Transport	SARL	100
ENGEN	Energy	SEM	40
Fina Logistique	Industry	SEM	40
FRONTIER SPRL	Mining	SEM	
Grands Hotels of Congo (GHC)	Trade and Services	SEM	50
IPS-CONGO	Trade and Services	SEM	
JAPECO	Energy	SEM	20
KARAVIA	Trade and Services	SARL	100
KGL SOMITURI	Mining	SEM	
KINREX	Energy	SEM	15
L'INTERLACS	Mining	SEM	
La Cotonnière	Agriculture	SEM	
LAC	Transport	SARL	100
LMC	Transport	SARL	100
MASAL	Industry	SEM	
METALKOL	Mining	SEM	
MIBA	Mining	SEM	79
MIDEMA	Industry	SEM	40
PHC	Industry	SEM	24
PHL	Agriculture	SEM	18
SAKIMA	Mining	SEM	
SCIM	Mining	SEM	
SCMK-Mn	Mining	SARL	100
SEP-CONGO	Energy	SEM	37
SOCIDEX	Industry	SARL	100
SOCIR	Energy	SEM	50
SOCOF	Telecommunications	SA	100
SOCOPE	Agriculture	SEM	20
SOCOREP	Energy	SEM	15

SOE Acronym	Sector	Legal Form	% Ownership
SODIFOR	Mining	SEM	
SODIMICO	Mining	SARL	100
SOFIDE	Financial	SEM	20
SOKIMO	Mining	SARL	100
SOLICO	Energy	SEM	20
SOMIKIVU	Mining	SEM	
SONAHYDRO (ex-COHYDRO)	Energy	SARL	100
SONAL	Trade and Services	SEM	60
SONAS	Financial	SARL	100
SOREPLICO	Energy	SEM	20
SOSIDER	Industry	SARL	100
SOTEXKI	Industry	SEM	38
SUCKI	Industry	SEM	
TOTAL RDC	Energy	SEM	40
TourHôtels	Trade and Services	SEM	

Source: Shareholder Report 2012 and COPIREP

Annex 3 – DRC Institutions Met as Part of the SOE Governance Diagnostic

Institution	Position	Name
COPIREP	Acting Executive Secretary	Alex N'kusu
COPIREP	Deputy-Executive Secretary	Alexis Mangala
CSP	President	Maurice Mbayo
ERANOVE	REGIDESO Chief financial officer	Lamine Gaye
MHI	SNEL Chief financial officer	Monshe Mobambola
PEMU and PASAG project implementation unit	Director (*Coordonnateur*)	Barnabé Bemba
REGIDESO	Chief executive officer	Clément Mubayi
REGIDESO	Assistant to deputy-CEO	Pacome Lenga
SCPT	Chief executive officer	Patrick Umba Banza
SCTP	Chief executive officer	Daniel Mukoko
SNEL	Chief executive officer	Jean-Bosco Kayombo
SNEL	Chief of Staff	Sango Nabina
UCM (project implementation unit for Bank-funded electricity sector IPF)	Director (*Coordonnateur*)	Max Munya