Development pathways for the DRC to 2050

Economy

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Growth and composition of GDP

The Congolese economy was particularly hard hit by the series of violent conflicts in the 1990s. For instance, over the period 1990–2003, the size of the economy shrank by about 40% while the GDP per capita declined to nearly 30% of its level at independence in 1960. The mining sector which was the mainstay of the economy collapsed.

Following the signing of an all-inclusive peace agreement in 2002, the transition government led by Joseph Kabila reengaged with international financial institutions leading to a resumption in support from the World Bank and the IMF, which had been suspended in the early 1990s. Several reforms and policies, such as the government's Economic Programme (PEG 2002–2005) and the First Strategy Paper for Growth and Poverty Reduction (GPRSP1 2006–2010) were implemented under the auspices of the Bretton Woods Institutions. These were aimed at creating an economic environment conducive to private investment and growth.

These reforms and policies, in conjunction with a rebound in post-war economic activity, served to control hyperinflation and revived economic growth. Indeed, the inflation rate, which stood at 513.9% in 2000, fell to 4% by 2004.[1] In 2002, after a recession that had lasted a decade, the country returned to growth. In July 2010, the DR Congo obtained debt relief of US$12.3 billion, the largest in the history of the Heavily Indebted Poor Countries (HIPC) initiative.[2] As of 2018, the stock of external public debt was 13.7% of GDP and 6.5% of GDP for domestic debt.[3]

The latest sustainability analysis by the World Bank indicates that the country's debt risk remains moderate. However, this is likely to deteriorate significantly amid the multiple shocks associated with the COVID-19 pandemic. For instance, the budget deficit in the first half of 2020 was 886 billion Congolese Franc against a deficit of 455 billion for the whole of the year 2019.[4]

Buoyed by rising commodity prices, the DR Congo recorded an average growth rate of 7.7% from 2010 to 2015 compared to an average of 4.3% for sub-Saharan Africa over the same period. However, the subsequent cyclical fluctuations in commodity prices have slowed growth dynamics to 4.1% from 2016 to 2019 and revealed the country's high exposure to commodity price shocks.

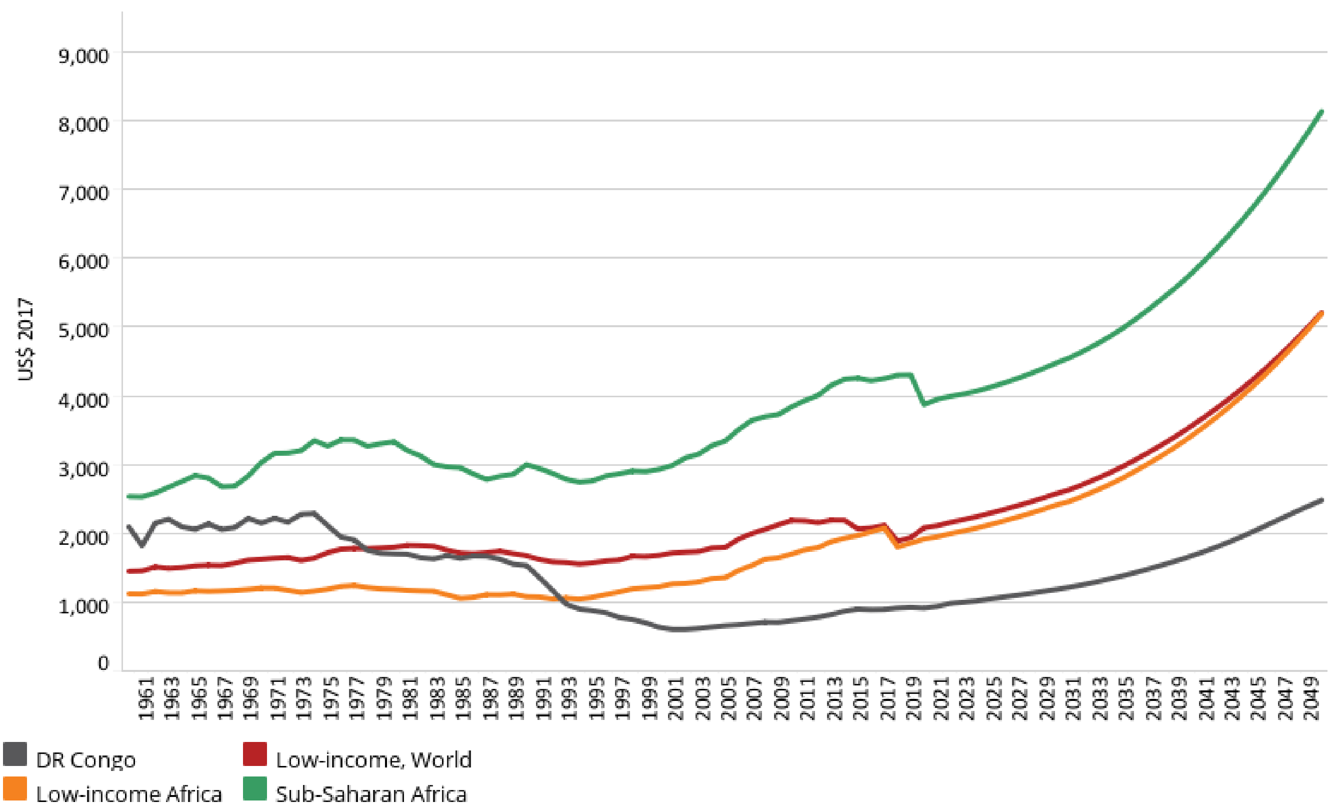
According to the IMF forecast released in October 2020, the GDP of the DR Congo will have shrunk by 2.2% in 2020 amid the COVID-19 pandemic — the first economic recession since 2002. To mitigate the negative effect of COVID-19 on the economy, the Central Bank lowered its interest rate from 9% to 7.5%. However, this monetary easing has resulted in excess liquidity in the economy, rising inflation and the depreciation of the Congolese Franc, which further weakens the purchasing power of consumers amid the COVID-19 pandemic.

To combat inflation and currency depreciation, the Central Bank has recently increased its interest rate from 7.5% to 18.5%.[5] Although necessary, this high interest rate is more likely to impact negatively on domestic investment and delay economic recovery once the pandemic abates.

After a sustained decline, the GDP of DR Congo has almost tripled as compared to its level in 2001. It was about US$13.4 billion in 2001 against US$39.5 billion in 2019. In 2019, the country had the 16th largest GDP in Africa. However, it ranked near the bottom in terms of GDP per capita at US$923 in 2019, which is about 40% of its level in 1960.

This is far below the average for sub-Saharan Africa and low-income countries (Chart 15). With this level of GDP per capita, the DR Congo ranks 51st of 54 countries in Africa. It is only ahead of the Central African Republic, Burundi and Somalia.

Chart 15: Trends in GDP per capita (PPP) for DRC and other groups



Source: Forecast in IFs version 7.54; historical data from the International Monetary Fund

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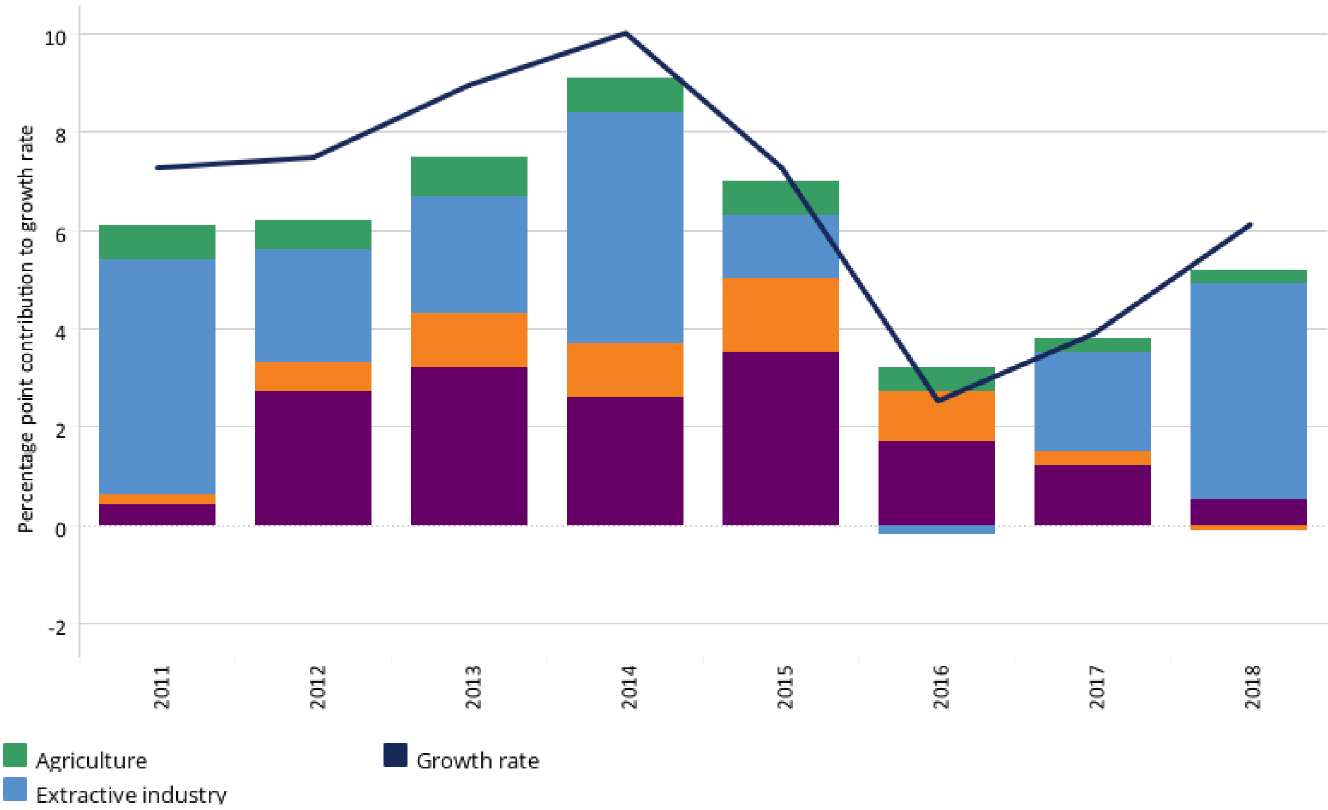
Instead of catching up, the DR Congo has seemed to be falling further behind its group peers since 1990. Before that year, the GDP per capita of DR Congo was well above the average for low-income Africa.

The persistent high population growth outpaces economic growth in the DR Congo and is constraining its GDP per capita growth, and thus undermining the efforts to improve the well-being of the population. On the Current Path, the GDP per capita (PPP) is projected to only come to US$1 184 in 2030, and US$2 478 in 2050, by then almost the same as its value in 1974 (US$2 284).

Whereas the mining sector accounted for 25% of GDP in the mid-1980s, it declined to 9% by 2003.[6] However, it rebounded after the war to become the second largest contributor to GDP since 2011. On average, the value added of the extractive industry increased by 19.6% over the period 2010–2014. According to the data from the Central Bank of Congo, the share of the extractive sector in GDP increased from 23.2% in 2011 to 28.7% in 2018.

On average, the contribution of the manufacturing industry was about 18% and agriculture about 20% over the period 2010–2018.[7] The share of the services sector to GDP was 37% in the mid-1980s and 43% in 2003 before dropping to around 35% in 2018. Looking at the structure of the country's GDP, it is clear that the growth rebound to 2014 largely occurred on the back of the contribution of the extractive sector to GDP (Chart 16).

Chart 16: Sectoral contribution to growth



Source: Annual Report (2018), Central Bank of Congo

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The current growth model of the DR Congo is fragile and holds little promise for improvements in livelihoods; without a significant structural transformation of the economy, economic growth will continue to be at the mercy of commodity price shocks.

The preponderance of the extractive sector in economic growth is one of the reasons why the growth elasticity of poverty is so low. For instance, in the DR Congo, 1% growth of GDP is associated with a 1.1% decline in the poverty rate, against 7.3% in the Republic of Congo or 4.6% in Uganda.[8]

Unlike artisanal and small-scale mining which are labour intensive, the large-scale mining operations are capital intensive and offer very few job opportunities. The agricultural sector continues to be the reservoir of jobs with 65% of total employment while the extractive industry accounts for only 11% of employment.[9] Investing in the agriculture and manufacturing sector would be a promising approach to offer future generations better living conditions.

Natural resources

The DR Congo has immense natural wealth. Virtually every kind of precious natural resource can be found in the country but this richness has brought only suffering and misery to the population as the exploitation of the resources is often associated with violent conflicts and human rights abuses.

The DR Congo has extensive forest resources. The country possesses about 60% of the Congo Basin rainforest making it the second largest tropical forested country globally with more than 100 million hectares. Its potential for timber exploitation is estimated at 10 million m^3/year. These forest resources are overall in good condition as the national deforestation rate remains relatively low, at 0.2%.[10]

The country also has large reserves of crude oil and gas which represent significant economic potential. The discovery of oil and gas in the eastern part of the DR Congo has put the country in the second position in terms of crude oil reserves in Central and Southern Africa after Angola.[11] However, the exploitation of these reserves is controversial as it would affect the Virunga National Park which is home to the mountain gorilla.

The find of oil has drawn the attention of numerous players in the sector and may factor in the future treatment of the DR Congo's request, made in 2019, to join the East African Community. It is already a member of the Southern African Development Community (SADC), the Economic Community of Central African States (ECCAS) and the Economic Community of the Great Lakes Countries (ECGLC).

The proven reserves of the country are 180 million barrels, but estimates put the total oil reserves above 5 billion barrels. Currently, oil production in the country is estimated at 25 000 barrels per day. In 2018, oil production increased by 11.4% to reach about 8.4 million barrels.[12]

In addition, the DR Congo could reasonably gain access to the rich off-shore oil and gas fields currently exploited by Angola. The United Nations Convention on the Law of the Sea (UNCLOS) governs which strips of sea belong to which countries. The oil fields are responsible for about half of Angola's production implying that the DR Congo could become one of Africa's largest oil producers overnight. Instead, because successive regimes have been beholden to Angola for their security in terms of the Joint Interest Zone (JIZ), the DR Congo has very limited access and rights to these fields.[13]

In addition to its oil reserves, the country may hold as much as 30 billion m^3 of methane and natural gas in its three main petroleum deposits. The Lake Kivu field has methane reserves estimated at 60 billion m^3 which are shared with Rwanda.[14]

Copper and cobalt production constitutes the major activities in the DR Congo's mining sector. The country is the world's largest producer of cobalt. In 2016, more than 50% of cobalt produced globally came from the DR Congo.[15] In 2018, the total production of copper and cobalt amounted respectively to 1.225 million and 109 000 tons.[16] The mining sector in the DR Congo is largely dominated by private corporations that operate either solely or in joint ventures with Gécamines, the state-owned enterprise in the sector.[17]

The contribution of mining activities to government revenue varies year to year depending on the sector's performance. In 2018, the contribution of the sector to government total revenue was 37% (US$1.6 billion).[18] The contribution of the extractive sector to government revenues is, however, below its potential.

Weaknesses continue to characterise domestic revenue mobilisation in the country and the DR Congo has one of the world's lowest domestic revenue to GDP ratios. Domestic revenue to GDP ratio is less than 12% while the average in sub-Saharan Africa is above 20%.[19] Government capacity is exceptionally low to the extent that the World Bank estimates the tax gap (the difference between taxes owed and paid) at 5.3% of GDP.

This weak domestic revenue mobilisation is due to many factors. These include weak administrative and institutional capacity, porous borders, widespread fiscal exemptions, a narrow tax base, poor governance, and corruption, among others.[13]

According to the 2017 Resource Governance Index (RGI), which assesses how resource-rich countries manage their oil, gas and mineral wealth, the DR Congo was ranked 75th out of 89 countries with poor scores of 25 and 33 out of 100 for the oil and gas, and mining sectors respectively.[20] Low revenues limit the government's capacity to finance urgent development and social needs such as infrastructure, health and education to improve the lives of the Congolese people.

Cognisant of the necessity to improve governance and boost domestic revenues, especially from the extractive industries, the government has taken several actions to increase transparency and revenue from the sector. For instance, the DR Congo is a signatory to the Extractive Industries Transparency Initiative (EITI) that promotes the open and accountable management of oil, gas and mineral resources.

In 2018, the DR Congo's 2002 Mining Code was replaced by a new Mining Code that increased the taxes on profits and royalty rates for 'strategic' minerals.[21] It contains several provisions relating to revenue traceability and transparency in the sector. To increase transparency in the sector, the online mining registry provides up-to-date licensing information. The Ministry of Mines has a portal with more than 140 contracts publicly available and provides links to licensing decisions.[22]

International trade

The external trade of the DR Congo is dominated by its mining sector and is therefore dependent on the fluctuations of the global commodities markets. Indeed, in 2018, mining and hydrocarbon accounted for 99.1% of the country's total exports of which the three main products are copper (46.6%), cobalt (39.8%), and gold (6.9%). The export value of mining and petroleum increased by 38.3% in 2018 after shrinking by -13.4% in 2016 as commodity prices fell. Despite its potential, agricultural products accounted for only 0.8% of total exports, up from its levels of 0.6% in 2017.[23]

Raw materials and semi-finished goods, capital goods and consumer goods accounted for 99.5% of total imports. The share of foodstuffs in total imports increased from 13.3% in 2016 to 15.2% in 2017 before declining to 12.8% in 2018.[24] This is dramatic and given its potential, one could arguably expect the country to be an exporter of foodstuffs.

The main trade partners of the DR Congo are China (its largest trading partner), South Africa and the European Union. In 2018, China accounted for 35% of the DR Congo's total exports, 20.1% were destined for South Africa, and 3% for the European Union. Imports come mainly from the European Union, China and South Africa with respective shares of 12.1%, 11.9%, and 10.8%.[25]

Like many African countries, the trade balance of the DR Congo is structurally in deficit. The total value of exports increased by 38.3% from its 2017 level to reach US$16 billion in 2018 while the value of imports reached US$15 billion in 2018, a 32% increase from the previous year. The trade deficit was 3.7% of GDP, and according to the IFs forecast, the trade balance will continue to record deficits for several decades into the future.

Aside from this formal trade, there is also a significant amount of informal trade between the DR Congo and some of its neighbours facilitated by the porosity of the borders. Low-cost consumer goods and foodstuffs from Angola, Rwanda, Uganda and Zambia, are frequently smuggled into the DR Congo. This has a considerable impact on the local manufacturing industry. The complicity of local customs officials, corruption, high energy prices and inefficient transport of raw materials (crops) over bad roads, which makes local production non-competitive with the imported goods, are some of the underlying factors of this informal trade.[26]

Similarly, valuable revenue-generating minerals, such as tin, tungsten, tantalum and gold, are also smuggled out. For instance, countries such as Uganda and Rwanda, despite having no gold reserves consistently record gold exports. According to the United Nations Group of Experts report, in 2019, gold smuggling cost the Congolese government about US$1.9 million in tax revenue.[27]

The DR Congo's exports are poorly diversified and almost exclusively consist of primary products. The unprecedented plunge of commodity prices amid the COVID-19 pandemic is a reminder of how vulnerable a country can be when it relies heavily on commodity exports and the importance of economic diversification.

Foreign direct investment and remittances

The conflicts of the 1990s effectively kept foreign investors away from the DR Congo. The government has recently implemented several policies and reforms to attract more foreign direct investment (FDI). An example is the revision of the mining code in 2002 which offered a more advantageous fiscal regime to foreign firms,[28] although it was significantly altered with the new 2018 mining code.

The end of the 1997–2002/03 war, re-engagement with the international community, reunification of the country together with government reforms set the stage for increased FDI flow to the country, generally in the extractive sector.

Indeed, FDI flows to the DR Congo increased from about US$188 million in 2002 to US$1.5 billion in 2018 (3.7% of GDP) while FDI stock rose from US$907 million in 2002 to US$24 billion in 2018 (59.8% of GDP).[29] Apart from the extractive sector, the top destination of FDI flows is in telecommunications. South Africa, Belgium, and China are the main foreign investors in the country.[30]

Resource-seeking FDI activities are believed to have few positive spillover effects on the recipient economy, and create fewer jobs, as they are highly capital intensive. However, attracting substantial FDI to other sectors, such as manufacturing, remains a challenge for the DR Congo, notably due to poor infrastructure and an unfavourable business climate. For instance, in the 2020 Doing Business report, the DR Congo ranked 183rd out of 190 countries, only ahead of the Central African Republic, South Sudan, Libya, Yemen, Venezuela, Eritrea and Somalia.[31]

The relative stabilisation of the political situation and the commitment of the new president to create a special unit to enhance the business climate could improve FDI flows once the COVID-19 crisis has abated.

The recurrent socio-political and economic crises in the DR Congo have pushed many Congolese to migrate, especially to more developed Western countries. As a result, remittances have become one of the main sources of external finance in the country, much of it flowing through the informal remittance market. Remittances inflows into the DR Congo have surpassed FDI flows. In 2018, the total recorded remittances inflows to the DR Congo amounted to US$1.8 billion (4.4% of GDP) while remittances outflows stood at US$914 million (1.9% of GDP).[32]

About 81% of the remittances flows pass through informal channels.[33] The relatively low prices charged in the informal remittance market is a key factor that motivates this choice. On average, 8.5% on transactions in the formal market against 5% in the informal market.[34]

FDI and remittances flows to the DR Congo are expected to decline in 2020 due to the measures taken to limit the spread of COVID-19 and the associated global economic crisis. According to the World Bank's projection, remittances into sub-Saharan Africa will have shrunk by about 9% in 2020.[35] The importance of remittances in reducing poverty in low- and middle-income countries is well documented. This decline in remittances flows is likely to push many more households into poverty.

Informal economy

There are several definitions of an informal economy but it is generally considered as a set of economic activities that are not subject to taxation and other regulations. The informality rate in the DR Congo is one of the highest in the world.

According to the World Bank, the share of the informal sector in total workers in the country is 81.5%. According to the Trade Union Confederation of the DR Congo (*La Confédération Syndicale du Congo*), only 2.5% of workers are employed in the formal sector. In other words, the informal sector accounts for 97.5% of all workers in the country, above the average for sub-Saharan Africa estimated at 89.2%.[36]

According to the IMF, the informal economy in the DR Congo accounts for about 55% of its GDP.[37] The modelled estimate in IFs is at about 42% of GDP in 2019 and is projected to decline to 32% of GDP in 2050.

This high level of informality is driven by several factors such as the rapid population growth and the chronic lack of jobs in the formal sector. Every year, tens of thousands of young men and women enter the labour market without finding a job. The World Bank estimates that at least two million jobs need to be created every year to significantly reduce the high unemployment rate and poverty in the country. The informal economy is a crucial lifeline for millions of Congolese. Policies aimed at significantly reducing poverty in the country cannot overlook this sector.

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