

A focus on DRC's Economy: Main Sources of Growth and Vulnerabilities

Jonathan MUYA KUPA
Economic Science of Management Faculty
Kinshasa University
Kinshasa, DRC

Abstract:- The DRC is amid the poorest nations in the world. In 2022, approximately 62% of the country's population — or 60 million people — lived on less than \$ 2.15 a day (World Bank 2022). The DRC itself accounts for about fifty percent of people who live under the poverty line. That's despite the critical resources that the country has. The main threats that the country faces are the lack of basic infrastructures, corruption, long-lasting conflict, political instability, poor governance, etc. Other issue that should get an important attention is climate change—its spillovers. Those challenges require huge found that the country can't afford. Although, the country could take advantage of possibility that international community offers in terms of financing those issues. On the government side, good practices are condition of drawing more found. This research gives us the big picture of the main threats that could weigh on DRC economy growth over years. The economy hinges on the mining sector. This dependence makes him vulnerable to price downturn. That's been said, tackling that requires well-designed policies.

Keywords:- Growth; Main Drivers; Vulnerabilities, International Community, Long-lasting War, Corruption, Climate Change & Prices of minerals.

I. INTRODUCTION

The Democratic Republic of the Congo (DRC) is a rich country regarding underground and ground resources like cotton, cobalt which are critical for the world ecological transition—Seeing that today achieving the carbon neutrality and green energy is among the world's main concerns—Despite those riches the DRC is amid the poorest countries in the world. Its economy depends largely on exports revenues. In 2021 DRC's economy has recorded a high performance of economy growth, namely 6.2 percent. Well above the 4.5 percent on average in Sub-Saharan Africa Write Nolin, Toure and Zerbo (2022). According to the World Bank, investment and exports from the mining sector remain the main drivers of growth, supported by improving mineral prices and rising public investment. Moreover this rhythm of growth will continue for this ongoing year. The growth is expected to reach 6.1 percent with respect to International Monetary Fund, reported by Bloomberg. It should be noted that this forecasting growth was previously estimated at 6.4 percent. The IMF staff reviewed its prevision owing to the impact of

higher prices of essential imports and inflation linked to the ongoing war in Ukraine.

The highlighting of the main sources of the growth observed in DRC enabled us to open an issue about the main risks which can offset this performance for the forthcoming years. The factors that led the IMF staff to reassess its forecasting growth as showed above (from 6.4 percent to 6.1 percent for 2022) exhibit the first vulnerabilities attached to the growth in DRC.

This issue is important as DRC's economic history growth teaches us that after a 14-years of vigorous and sustained growth period, 6.39% on average from 2002 to 2015, primarily explained by the resumption of international monetary and financial cooperation with the main partners of DRC (IMF, WB...) which had caused the return of Foreign Direct Investment. And then the growth rate of the Congolese's economy has fallen to 2.4% in 2016 right after this previous flourishing period of growth. The foregoing allowed us to learn from the pass in order to help DRC's policymakers to understand the main vulnerabilities attached to growth in DRC also the ways and means to take measures about those vulnerabilities.

So, this paper aims at highlighting the main drivers of the growth in DRC and hence the vulnerabilities attached by putting an emphasis on the risks related to the ongoing situation, their impact on growth and how policymakers can act so as to tackle those vulnerabilities.

The remaining of this paper is organized as follows. The next section presents briefly the methodology used and the next one underlines the main results found and the last concludes.

II. METHODOLOGY

This essay uses an analytical technique based on DRC's official economic data published by the Central Bank of Congo. It also scrutinizes all information that could lead to different interpretation. This technique helps to circumvent the problem of having lots of information to arrive at robust conclusion as explained by Harding and Hersh (2018). The lack of relevant data could lead to poor conclusions. Basically, it consists of a thorough analysis of data compiled by the Central Bank of Congo and a reconsideration of them by interpreting them in a historical approach of the economy of

DRC. This method helps us to conduct this study without being obliged to use methods and techniques which required a huge amount of data which is difficult to find so far.

Moreover, this technique is often used by International institutions which have offices in DRC (IMF, WB) when it's not possible to compute data by themselves. Methods and techniques used definitely influence the result and hence political choices of policies to implement Yeates (2018). Therefore, the results found and proposals of policies to implement are based on this method used. So, this paper aligns with this specification and the results found are relevant and give a big picture of DRC's economy. However, in the upcoming study it'll be interested to conduct this study by using some others methods and techniques for comparing the results.

III. RESULTATS AND RECOMMENDATIONS

Be this section gives briefly the main results of our research and at the same each policy that the government should make for each point highlighted.

A. *The Mining Sector, the Main Driver of Growth in DRC: Double-Edged Sword*

The mining sector remains the main driver of growth in DRC. As shown above the growth observed since 2021 is mostly explained by the significant raising of mineral prices. That induced increasing of government export revenue which contribute about 10% to the public income.

In addition the government has used this increase of budgetary revenue drawn by rising of export revenue to heighten its investment. Which in turn boosted growth. This is the visible good side of this situation for the government. As long as the party goes on. So, we wonder if this situation will last!

A look at DRC's economic history shows us that the prices of minerals are frequently subject to frequent variation. They are not always favorable. We have periods of increasing and periods of decreasing. Thus, growth is vulnerable to the fluctuation of mineral prices. To underline, the prices of cobalt and copper which together represent more than 70% of export's revenue.

The cause of the slowdown observed in DRC in 2016 was the decreasing of mineral prices recorded in the previous year. That index dropped to 52% according to Central Bank of Congo's data. The decrease of DRC's main export prices was felt on the government's budget. Budget balance realized had reached -10.55% in 2016. It well to notice that since August 2021 DRC's mean export prices have been dropping gradually. This situation ought to aware DRC's policymakers. They should keep an eye on the fluctuation of minerals' prices. Thereby, if anything, react at the right time. Knowing the negative effects of delayed action.

The dependence of DRC's economic growth on mining sector makes it vulnerable to different exogenous shocks. Swing of prices and abrupt variation of demand which is

driven by the economic situation of the main partners of DRC and their need for supply. Accordingly the government should make ambitions reform that the contents from my best knowledge already existed. For the most part written with the help of International Monetary Fund and the World Bank. But I am not going to dwell on it. However the main goal of these reforms is to diversify economy by expanding the production of no-extractive sector. Hence this part in export in order to reduce its vulnerable to the swings of minerals prices.

Concerning the implementation of reforms. We learnt when prices are in the upward pace policymakers often do not find interest to diversify. It is only when the prices already recorded important drop that authorities awake and begin to be conscious of the necessity to reform. Moreover, under emotion sometimes they take hurried decisions to catch up their delay. For the most these decisions are right a gadget. It is what we observed between 2015 and 2016, the period of significant drop of principal minerals' prices. While the good way would be to create buffers during upward period for dampening socks in downward period and continuing to finance diversification. It is what DRC's government must do. About the topic, the IMF DRC's Resident Representative said on CNBCAFRICA both IMF and DRC have good reasons to diversify DRC's economy.

B. *Corruption: a Drag to the Implementation of a Sustainable Budgetary Policy*

Corruption is amongst challenges that faces DRC and threatens the economic growth outlook. This problem is well known by DRC's authorities and its main partners. For these reasons to reduce corruption is among requirements of the formal program concluded between DRC and IMF. Moreover we can notice how DRC's government put the fight against corruption is hobbyhorse.

Malata and Muya (unedited) arrived at a conclusion "Many projects for which money was spent and computed in the government's budget as an investment are not really carried out". Consequently the expected effects of this investments on growth will never take place. In the first evaluation of the Extended Credit Facility that DRC has been benefited related to the ongoing formal program the IMF staff highlighted on strengthening the management of extractive resources. Particularly by publishing all mining contracts. It is important as to draw money DRC has to bring safety guarantee and that guarantee must be accessed. It's impossible to do that without publishing the mining contracts that DRC rely on as guarantee in order to know exactly the state of the sector for adapting the loan according to the need. Not to publish mining contracts is a negative signal that has the effect of curbing the investment in this sector. Since we advocate for the continuation of publishing mining contracts, the state of GECAMINES and continue to struggle corruption in other fields.

To take a look at other corruption's field of battle, for example in the infrastructure sector sometimes the process of attribution of different markets do not respect the low of country about the subject and international agreements like the public procurement that was written under World Bank. This

sector is filled with much darkness. Many projects are given regarding certain incredible considerations. Moreover we do not have for instance updated data about the cost of one kilometer of asphalted road in different areas. Even the road's lifetime. To enlighten about the lifetime of the road. Just currently the Congolese government launched the project Kinshasa "zero trou". Indeed they covered many holes throughout the city. But what is tricky is in most cases these holes reappeared after a few time. It's worthwhile to care about.

To implement a sustainable budgetary policy, government should has a good tax administration otherwise it is impossible to achieve this aim. The DRCs tax system is attached to many irregularities. We observe overlap of many taxes tied to many public entities that levy taxes. It becomes difficult for enterprises to cope with. Some businesses that cannot support this environment close. Some other remain and become involved in corruption. This situation substantially reduces taxpayers, thus public revenue. The Congolese government should take this problem seriously.

As said above the toolkit to fight against corruption already existed. The government has just to implement it. Once again it can count on the support of its main partners—IMF, WB, etc—to improve its capacities to mitigate corruption and to enforce acceptable management of budgetary policy. As far as I know, it is the one way to reach sustainable budgetary policy able to overcome the challenges of DRC: the lack of basic infrastructures, weak development of human capital, poverty, vulnerability to external shocks, etc.

C. The Ongoing War in Ukraine: the Burden of Subsidies on DRC's Budgetary Stance

Since the invasion of Ukraine by Russia the prices of oil and food product have been increasing. Because of disruption in the supply chain and the blockage of exportations. As the Congolese government used to granting the prices of oil and the principal food product. The augmentation of their prices increased the burden on budgetary stance. The subsidies is a huge burden for the public treasury as said DRC's minister of finance especially oils subsidies. For food product we do not have relevant data about it.

This policy of subvention do not have only effect on annual budget but also in the medium term budgetary stance. According to the minister of finance the government spent about 500 millions of Americans Dollars in 2022 under subsidies. And he emphasized that this amount concern the previous year (2021). He added government has to pay a substantial amount of arrears for 2022.

We can well see that subsidies have affect in medium term budgetary stance indeed. As long as the ongoing war in Ukraine will last the burden of subsidies will be felt on DRC's budgetary position. In this context of restrained budgetary scale. Transparency is important in the process of granting subsidies. We have to be sure that the subsidies are well targeted and really reach the government's aim. Unfortunately, it is not always the case. The DRC's minister of finance highlighted that the lack of transparency which, in the past,

had characterized this government's subsidy towards importers of petroleum products. The Congolese government plans to reduce it progressively. In order to reduce the burden and use that money for other spending he said.

We suppose instead of spending much money on gas subsidy Congolese government should use that money for critical spending like education, health, infrastructures and targeted transfer to the most vulnerable people. The IMF staff in the latest assessment of DRC's program underlined the fact that DRC did not reach the targeted expenditure on education and health. In the same front line, the IMF team advocated for increasing health and education spending to reach acceptable proportion in budget. Also infrastructures and targeted social transfer to households that are most in need.

D. Health and Education: Priority Expenditures for Boosting Productivity and Growth Prospects

Both of economic science and history taught us people well educated and in good healthy are more productive. In DRC not all children have access to basic education and good health quality.

The World Bank (2022) argues that the Human Capital Index is 0.37, below the average of sub-Saharan African countries (0.40). This means that a Congolese child born today can only hope to realize 37% of its potential, compared to what would have been possible if they had full complementary and quality education, and optimal health conditions. Access to education has improved significantly over the last two decades, especially for early girls and ages. Between 2000 and 2017, the net enrollment rate in primary graduated increased by 26% from 52 to 78%. Still, the quality of education is extremely low: in terms of learning and success, the primary completion rate is only about 67%, and it is estimated that 86% of the 10-year-old children in DRC are in the situation of poverty of learning, that is to say they cannot read and understand a simple text.

Myself, I am a witness of the consequences of bad health on productivity. Like a workaholic and a bookworm I am used to working and studying the most part of all my days. But once suffering from malaria I often lose about 60% of my performance and about 40% during my recovery period. Sometimes if it is a high malaria the loss becomes more important. I remember I was unable to do some examinations that normally I do without too much efforts. Furthermore, I become nervous — like in a recent job interview. It's among things that had me not been hired. Such a pity! My situation illustrates the situation of many Congolese.

DRC's government already made some decisions to improve education and health system with its main partners (IMF and WB). The basic education has become for free. It is a good beginning but not enough. It should go further. Seeing that this decision has emerged new challenges. Some classes have too many pupils than the acceptable average. Some pupil do not have teacher or classroom and so on.

About health, the government plans to enforce free health care for some vulnerable people. We preconize to the

government to well assess exactly what will it require for the implementation of free health care and the continuation of ongoing basic education for free. Those are conditions to succeed both of these policies. Dörrie (2021), IMF (2019, 2020) point out the important of continuing to invest in these areas.

E. The Climbing of the War in the Eastern Part of DRC: the Costly Bill

Lately the scaling in the eastern part of DRC has taken significant importance. We compute numerous of dead, disability and displaced people. Thereby, we have good reasons to worry about this situation. A part from general effects of war that we know. Here I will focus on some economics effect, particularly in budgetary stance in a context of tight budget.

So, for both disability and displaced people the government has to give them support. Which will take form of building new classrooms, temporary houses and medical structures, health care support, food help and so forth. For bereaved family financial aid and burial of dead. It is not without consequences in budgetary position. In the DRC's context of strained budgetary stance it will be difficult for DRC to pay the bill. Indeed it will require much more money to meet all these needs.

In this manner I find good reasons to advice DRC to opt for measures that will reach rapidly in de-escalate. In the meanwhile DRC can rely on its different partners to share the burden of the bill. Namely, World Food Program, Food Agriculture Organization, International Organization for Migration, High Commissioner for Refugees, OXFAM and so on.

F. Adaptation to the Climate Change: One of Important Issue for Sustainable Growth

To date all of us are aware of the climate change, its effects and the necessity to adapt our economic system to the new challenges that climate change has brought. Torrential rains, tornadoes, river overflow, typhoons, are part of our daily life. And we've seen how badly these consequences of climate change are on our live, economy, etc. That gives all sense to make decision which can reduce or suppress on us these adverse effects of Climate Change.

For this reason, many countries across the world have been writing new codes to give them toolbox that can help them to update the management of country with these new challenges of climate change. The main contents of those agreements are: green and renewable energy, updating infrastructures, taxes on fuel energy, suppressing oil's subsidies and so forth. We are definitely convinced that those measures require finding. So, are not easy to implement for low-income country like DRC. Though as long as we delay the action, the bill becomes so expensive. The recent torrential rain that came down in Kinshasa and has made many troubles : the death of people, collapse of building, breakdown roads, serious flooding and many damages on other infrastructures show us how costly is the delayed action.

After this disaster the DRC's president said, "These damages could be avoided if it were applied the Climate Change Adaptation act", Africa news (2022) reported. He also asked the national and provincial governments to accelerate rainfall work drainage to prevent people from death due to torrential rains. Both this situation observed in Kinshasa and the reaction of DRC's president reveal the consequences of delayed action that might be avoid. And it must awake us about the importance to implement Climate Change Adaptation act. Still, to adapt to climate change requires much money.

However, congolese government can find the required finding to meet the need of adapting economy to climate change. Reliable sources already existed. TIn the lately released IMF's working paper Georgieva, Chamon, and Thakoor show that there are various IMF's Credit Instruments that can help country to mitigate effects of climate change. Such as the Resilience and Sustainability Trust which could support resilience-enhancing climate-related policy reforms with affordable long-term financing they said. Although the challenge remains the finding of this new credit facility.

I think congolese government can rely on the expertise of IMF staff for finding the adapted Credit's Instrument and measures they should take for mitigating the effects of climate change in order to improve medium-term growth prospects. Though, for the government having a roadmap with clear goals and showing the commitment to implementing these goals are the conditions of success. Also could draw some findings from donors.

G. The 2023's Electoral Process in DRC: A Prominent Index of Affairs Climate

The Business Climate is amidst momentous things that determine private investment and the disposition of the lenders to lend the government. During the electoral process, Sub-Saharan Africa Countries are often subject to contestation, troubles, non-necessary spending to persuade voting public that increase the deficit and so forth. While investors watch closely over this process and their future investments depend, for the big part, on how the process is going on. It is important to consolidate the business climate in the low-income countries like DRC, where the government is the exclusive borrower in international capital market. Other agents rely on the government to access to external capitol by assuring their default.

We noticed that Foreign Direct Investment, which are the main source of funding in the mining sector, drop during electoral year in DRC. In this way, investors find means to be guarded against uncertainties related to the unrolling of electoral process. For instance, in 2011, that was an electoral year, the incoming flow of Foreign Direct Investment fell by -42.61% compared with its level in the previous year and then rose by 96.34 in 2012 which was relatively a quiet post-electoral year. Afterwards, in the next electoral cycle, 2016, dropped by -20.01% compared to 2015 and timidly increased by 12.40% in 2017 after politicians agreed about the organization of elections.

What should I say in this point? We have learnt in DRC the unrolling of electoral process is a significant Index of Affairs Climate. The features observed: contestation, troubles, increase of non-necessary spending and so on discouraged investors. For this reason we noticed tremendous drop of Foreign Direct Investment during electoral year. To dwell a little on non-necessary expenditures, we found that during electoral year the government tend to raise what I call non necessary expenses which immediately has visible positive effects but negative effects in budgetary position. Because they do not have only effects on the budget of the year in progress but also in the following years. Therefore, I do advise the government to avoid contestation and troubles during the electoral process by opening it to whoever wants to participate. Moreover to be opened to any support which can be given by International Community. Especially financial that could reduce the burden for DRC. Finally to permit International Observer to do their job for more transparency. Doing so will help to have a peaceful post electoral period.

IV. CONCLUSION

The DRC is late enough about achieving Millennium Development Goals (MDG) which ranging from halving extreme poverty and reducing maternal mortality by three-quarters to achieving universal primary schooling and halting (and beginning to reverse) the spread of HIV/AIDS Chopra and Mason (2013), tackling gender inequality and implement sustainable development policies. Despite the natural richness of the country it remains among the poorest ones in the world. Those delays are mostly explained by the lack of good governance which leads to the failure of implementing or running many projects which are assigned according to political links rather than skills required to run those projects. That's the reason of the fail of a lot of projects.

Reaching those goals (MDG) required a change in the way of leading the country. The fight against corruption has to take a step forward. Also scheduled and appropriated policies in areas like diversifying economic in order to reduce its vulnerable toward mining sector, improving the quality of education and the rate of participation which is meant to beef up the global productivity of factors and hence the growth, reducing the lack of basic infrastructures and so forth.

Furthermore, the DRC is an international concern given its importance in main world challenges like the climate change. Accordingly the international community has to play its role in helping it to deal with those challenges. The international community is needed in areas like building and strengthening policymaking capacities, programs such as Development Capacity of IMF has proven its effectiveness which resulted in improvement of governance that led to the betterment of revenue and so on. Since DRC is still threatened by the Climbing of war at its eastern part, the international community could play a huge role in ceasefire agreements and playing a role of the moderator in different roundtable to put an end to this long-lasting war which has an enormous cost on Congolese. Also to organize the help needed.

Finally, the country can hinge on the IMF for financing critical projects which aim at building and strengthening capacity, helping people in need, building buffers by increasing the Central Bank Foreign Reserves—which dampens the consequences of the decreasing of minerals' prices (that account for more than 70% of the national budget). For that the IMF has new and updated tools customized for country like DRC—which is a Fragile and Conflict-Affected States (FCS)—such as Resilience and Sustainability Trust (RST) and the Poverty Reduction and Growth Facility (PRGF).

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