Democratic Republic of Congo

key figures
- Land area, thousands of km²  2,345
- Population, thousands (2007)  62,636
- GDP per capita, USD at constant 2000 prices (2007)  93
- Life expectancy (2007)  46.5
- Illiteracy rate (2007)  29.5
In 2007, the country recorded economic growth of 6.2 per cent, lower than the objective of 6.5 per cent but higher than the rate of 5.1 per cent rate posted in 2006. A faster growth rate is forecast for 2008 and 2009.

However, 2007 raised many expectations amongst the Congolese and not all have been satisfied. Institutions have been established and the decentralisation process has been laid out, but conflicts persisted in the eastern part of the country. The new government, installed in February 2007, has undertaken efforts to ensure the rigorous management of public finances. But macroeconomic stability did not materialise over the course of the entire year and continuing reforms have not made sufficient progress to address the problems weighing on the Congolese economy.

Poor macroeconomic performance, slow reforms and non-implementation of the Growth and Poverty Reduction Strategy Paper (GPRSP) prevented the DRC from reaching the completion point of the Enhanced HIPC (Heavily Indebted Poor Countries) Initiative at the end of 2007 as planned.

Social tensions grew in 2007. Many companies and government services were affected by strikes, and

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**Figure 1 - Real GDP Growth and Per Capita GDP**

(USD at constant 2000 prices)

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**Source:** IMF and national sources data; estimates (e) and projections (p) based on authors’ calculations.
the labour market has become increasingly tight; access to drinking water and electricity remains problematic; hunger is killing thousands of people; the number of people with HIV/AIDS continues to rise; and insecurity was still a factor in 2007, especially in the eastern part of the country.

In November 2007, the Congolese government and its bilateral and multilateral partners met in Paris to discuss the economic performance achieved by the country in recent years and its future prospects. The parties agreed to a new triennial programme (2008-10) with a budget of USD 4 billion. In December 2007, the World Bank decided to grant the DRC aid, as defined by its Country Assistance Strategy (CAS), for 2008-11. The strategy aims to expand the state’s authority, restore security in the east, end violence against women and children, promote good governance, fight HIV/AIDS and promote education.

**Recent Economic Developments**

Growth slowed in early 2007 because of macroeconomic instability and strong political tensions. The situation improved in the second half of the year after public finances were stabilised. Inflation declined and productive activity accelerated, with a growth rate of 6.2 per cent, mainly boosted by the mining and quarrying industries as well as by the wholesale and retail trade.

Some 70 per cent of the population are dependent on agriculture, which is the main activity in rural areas and represented 48 per cent of GDP in 2006. In 2007, the agricultural sector recorded a growth rate of 3.1 per cent, a decline from the previous year. This fall was the result of the decreased production of certain products, particularly palm oil (down 45.9 per cent), cacao (down 31.3 per cent) and rubber (down 14.6 per cent). The agricultural sector has considerable potential for large-scale farming operations, but the country’s conflicts have prevented it from regaining its vitality. The sector remains dominated by small farms that have had difficulty developing as a result of rundown transport infrastructures and the lack of bank credit.

Mining and quarrying industries (8.2 per cent of GDP in 2006) grew at a rapid pace. This performance primarily resulted from an economic upturn in Katanga province, an upswing in diamond production in the two Kasai provinces, and growing world demand for minerals. The increased global demand for non-ferrous metals led to a considerable price rise, which has benefited Congolese mining production. Copper production increased by 2.5 per cent, cobalt production by 3.5 per cent and zinc production by 8.1 per cent. Total diamond production rose by 7.5 per cent at the end of June 2007 because of an increase in small-scale production (19.1 per cent). Industrial diamond production declined as a consequence of a business downturn at MIBA (Minière de Bakwanga). MIBA is suffering from obsolete production equipment and a decline in the geological grade of industrial diamonds caused by the depletion of detrital deposits. Moreover, in the first half of the year, productivity declined at MIBA and its 6 500 employees demanded back pay and threatened to go on strike.

**Figure 2 - GDP by Sector in 2006 (percentage)**

![GDP by Sector in 2006](http://dx.doi.org/10.1787/317477377082)

**Source:** Authors’ estimates based on local authorities’ data.
While the price of oil increased significantly in 2007, Congolese production dropped by 4.2 per cent compared with 2006. This decline, which began in 2005, resulted from the temporary closing of certain wells, maintenance work on some machinery and strikes against the enterprise Perenco, which operates in the Muanda coastal area.

The construction sector recorded a growth rate of 5.6 per cent in 2007, significantly lower than the figure recorded in 2006. This downturn stemmed from an insufficient supply of cement due to a quasi-monopolistic situation and the country’s limited cement production capacity (less than 100,000 tonnes per month). Cement production did not meet construction needs, particularly for PMURR (Emergency Multi-Sector Programme for Rehabilitation and Reconstruction) projects. At the end of the first half-year, production by the country’s two largest cement manufacturers – CILU (Cimenterie de Lukalu) and CINAT (Cimenterie nationale) – totalled 249,839 tonnes compared with 252,372 tonnes the previous year. That figure represented a one per cent decline while demand grew by 2.6 per cent. The drop in production resulted from equipment breakdowns at CILU and cash flow problems at CINAT. Demand pressures led to a rise in cement prices.

Manufacturing production slightly increased in 2007. Several factors explain this loss of momentum: obsolete production equipment, a limited ability to use new technologies and the lack of competitiveness with foreign products. This situation also followed the April shutdown of Congotex, one of the country’s largest textile factories, which faltered due to foreign competition. The manufacturing sector’s poor performance was mitigated by the increased production of beverages. Between June 2006 and June 2007, the production of non-alcoholic and alcoholic beverages rose by 9.9 and 15.3 per cent respectively.

### Table 1 - Demand Composition

<table>
<thead>
<tr>
<th></th>
<th>Percentage of GDP (current prices)</th>
<th>Percentage changes, volume</th>
<th>Contribution to real GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2006</td>
<td>2007(e)</td>
</tr>
<tr>
<td><strong>Gross capital formation</strong></td>
<td>16.5</td>
<td>13.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Public</td>
<td>1.1</td>
<td>3.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Private</td>
<td>15.4</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Consumption</strong></td>
<td>77.4</td>
<td>97.0</td>
<td>6.6</td>
</tr>
<tr>
<td>Public</td>
<td>6.1</td>
<td>8.8</td>
<td>6.7</td>
</tr>
<tr>
<td>Private</td>
<td>71.3</td>
<td>88.2</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>External sector</strong></td>
<td>6.1</td>
<td>-10.3</td>
<td>-0.2</td>
</tr>
<tr>
<td>Exports</td>
<td>23.7</td>
<td>31.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Imports</td>
<td>-17.6</td>
<td>-42.0</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>GDP growth rate, volume</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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

The very important water and electricity production and distribution sector recorded a 0.8 per cent drop in 2007 because of its obsolete network and production equipment. The sector’s poor performance imposes enormous economic costs on other sectors and has a negative impact on household conditions as well.

The transport and communications sector (4.1 per cent of GDP in 2006) recorded actual growth of 8.6 per cent in 2007. This performance results from the increased demand for mobile phones. The number of subscribers reached 5 million. Over the past few years, the communications segment has experienced
strong growth: an average annual figure of approximately 67 per cent.

Faster growth beginning in the second half of 2007 also stemmed from the good performance of private consumption and gross fixed-capital formation, which recorded increases of 6.5 and 10 per cent respectively in 2006. The expansion of wholesale and retail trade was stimulated by the growth of private consumption.

The increase in the private investment rate reported in 2007 reflects the rise in the investor confidence index. The attractiveness of the mining sector, prospects for the country’s reconstruction and the strengthening of macroeconomic stability beginning in the second half of the year also explain this trend.

GDP growth should accelerate in 2008 (6.6 per cent) and 2009 (7.1 per cent), mainly thanks to the performance of the mining sector, the current structure of the world minerals market, and planned investment in the mining sector (USD 3 billion). These economic growth projections could be achieved in view of good private investment prospects related to the return of peace and the signing of several contracts for investment projects between 2007 and 2008.

**Macroeconomic Policies**

Public spending overruns recorded in late 2005 and early 2006, added to structural reforms, had led the International Monetary Fund (IMF) to freeze budget aid for the DRC during the sixth review of the Government Economic Programme (GEP) in March 2006. In compensation, the government put forward an economic programme called *Programme relais de consolidation* (PRC). Taking its lead from the GEP, the government aimed to continue implementing reforms that would support stabilisation efforts. The PRC was not conclusively implemented. The poor state of public finances again led to the failure of the stabilisation programme. As a result, it delayed progress toward completion point of the HIPC initiative. In order to maintain dialogue with external partners and strive to re-establish the conditions necessary for a resumption of formal relations with the IMF, the government set up an IMF Staff Monitored Programme (SMP). Within the framework of the SMP, it was agreed that government budgetary policy should focus on stabilising public finances and redirecting public spending to the poor while reducing non-priority expenses.

**Fiscal Policy**

In mid-October 2006, to restore macroeconomic stability, the government announced a number of measures designed to increase the collection rate of public revenues and to reschedule certain pending payments. Despite these efforts, the state’s financial operations posted a large deficit, which remained in place until February 2007. Monetary financing of the government deficit of over CDF 20 billion (Congolese francs) was envisaged, thereby leading to a monthly consumer price rise of 4 per cent and a monetary depreciation of 10 per cent in two months. This trend was subsequently reversed as a result of the strict management of public finances instituted by the new government. Beginning in July, however, certain spending overruns were noted, explained by the conflicts in the eastern part of the country and by the rise in payroll costs that accompanied the establishment of local and provincial institutions and the decentralisation process. The monthly remuneration for members of parliament rose from CDF 537.5 million to CDF 2 944.5 million, and payroll costs exceeded the ceiling agreed upon in the SMP (5.5 per cent of GDP).

Notwithstanding the delay in the implementation of fiscal reforms, coverage of public expenditures by domestic resources improved in 2007. The coverage rate rose from 58 per cent to 76 per cent. One reason was the performance of government financial institutions. General Tax Department (DGI) revenue increased from CDF 157.9 million in 2006 to CDF 256 million in 2007, while Customs and Duties Office (OFIDA) revenues rose from CDF 195.5 million to CDF 273.7 million. Estimated at CDF 526.8 billion for the first three quarters of 2007, actual revenues, including grants, came to CDF 571.6 billion, a realisation of 108.5 per cent. The under-utilisation of capital expenditures, however, is cause for concern.
This situation can be attributed, in part, to the low payment rate of external resources intended to cover them.

The soaring price of a barrel of crude oil (around USD 100 at the end of 2007) slightly contributed to inflationary pressures, and should lead to an increase in the country’s energy bill. Combined with the drop in oil production, the rise in crude oil prices should have had serious repercussions on public finances. Because world mineral prices had climbed since 2005, the DRC was able to make up the deficit in its energy balance through higher mineral export revenue.

The country’s fiscal balance improved in 2007 thanks to a budgetary surplus resulting from the strict management of public finances the government had put into effect in February 2007. Even though the government submitted a balanced budget in 2008, it could still experience overruns. The various social and wage pressures, as well as the decentralisation process, could contribute to a budget deficit.

**Monetary Policy**

The DRC has a largely dollar-based economy. Exchange rate trends between the American dollar and the Congolese franc greatly influence the country’s economic activity, conveying credible signs of the Congolese economy’s health. Therefore, one of the monetary policy’s objectives is to maintain the national currency’s stability while mitigating budget overruns with the aim of preserving macroeconomic stability.

The beginning of 2007 was marked by major fluctuations of the Congolese franc. These fluctuations led to a certain degree of unpredictability about its future value and, as a result, uncertainty and lack of confidence. This climate had a negative impact on the country’s economic growth and the effectiveness of its macroeconomic policies. The exchange rate depreciated by 10.5 per cent between January and February 2007 as a result, in part, to a widening of the government deficit, which was fully financed by the printing of money in the amount of CDF 28 billion.

The Central Bank of the Congo (BCC) subsequently conducted a prudent and restrictive policy, which led to a strong appreciation of the franc and a monetary surplus of up to CDF 76 billion. The bank was thus able to compensate for the damage caused by the restrictive budgetary policy, injecting the level of liquidity necessary for the smooth functioning of transactions. As a result, the exchange rate stabilised during the second half of 2007 before depreciating at the end of 2007 and the beginning of 2008.

Inflation and the exchange rate moved in tandem until August. During this period, the return of inflation stemmed from problems in the goods market and the

### Table 2 - Public Finances (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007(e)</th>
<th>2008(p)</th>
<th>2009(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue and grants</td>
<td>4.5</td>
<td>11.5</td>
<td>16.8</td>
<td>21.4</td>
<td>22.9</td>
<td>25.5</td>
<td>25.7</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>4.5</td>
<td>9.5</td>
<td>11.6</td>
<td>13.2</td>
<td>13.1</td>
<td>13.6</td>
<td>13.6</td>
</tr>
<tr>
<td>Oil revenue</td>
<td>0.0</td>
<td>2.0</td>
<td>5.2</td>
<td>8.2</td>
<td>9.9</td>
<td>11.9</td>
<td>12.1</td>
</tr>
<tr>
<td>Total expenditure and net lending</td>
<td>9.5</td>
<td>15.6</td>
<td>19.9</td>
<td>22.1</td>
<td>20.8</td>
<td>25.9</td>
<td>21.5</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>8.5</td>
<td>12.8</td>
<td>16.5</td>
<td>18.7</td>
<td>17.5</td>
<td>19.4</td>
<td>19.3</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>6.3</td>
<td>9.2</td>
<td>12.8</td>
<td>15.3</td>
<td>14.7</td>
<td>16.8</td>
<td>17.1</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>4.0</td>
<td>3.6</td>
<td>4.4</td>
<td>5.5</td>
<td>5.0</td>
<td>5.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Interest</td>
<td>2.2</td>
<td>3.6</td>
<td>3.7</td>
<td>3.5</td>
<td>2.7</td>
<td>2.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>1.1</td>
<td>2.8</td>
<td>3.4</td>
<td>3.4</td>
<td>3.3</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Primary balance</td>
<td>-2.9</td>
<td>-0.5</td>
<td>0.6</td>
<td>2.8</td>
<td>4.9</td>
<td>2.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-5.0</td>
<td>-4.1</td>
<td>-3.1</td>
<td>-0.7</td>
<td>2.2</td>
<td>-0.4</td>
<td>4.2</td>
</tr>
</tbody>
</table>

a. Only major items are reported.

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

StatLink &nbsp;&nbsp; http://dx.doi.org/10.1787/321615187433
implementation of certain fiscal measures. The government now imposes strict checks on goods bound for the DRC before they are loaded for shipping. This policy has lead to a rise in costs and in the price of certain imported products, such as foodstuffs. At year-end, inflation stood at nearly 11.4 per cent.

The country's banking sector remains small. Since the restructuring process began, certain banks have been liquidated and others are in the process of being liquidated. To expand banking services, the BCC has just approved the creation of a new bank, called Ecobank, and is in discussion with five other groups. The sector currently has 11 banks, and total assets, which amounted to USD 780 million in 2006 and USD 480 million in 2005, reached the USD 1 billion level in September 2007.

These assets mainly comprise cash reserves (more than half of the balance sheet). Outstanding debt is a relatively minor item, but its share has continued to grow over the past two years. With regard to liabilities, customer funds are the dominant item, largely composed of demand deposits in foreign currencies. This situation is characteristic of an underdeveloped financial sector.

In recent years, commercial banks have become much more open to small and medium-sized enterprises (SMEs) as a result of the establishment of microfinance institutions, notably Procredit Bank in 2005 and Afriland First Bank (operational in 2007). In 2008, the African Development Bank and other partners will finance the establishment of a new microfinance institution in the DRC.

External Position

Since 2005, the DRC has been involved in the Economic Partnership Agreement (EPA) negotiating process, which encompasses the central African region. This agreement includes the countries belonging to the Central African Monetary and Economic Community (CEMAC) as well as Sao Tome and Principe. In view of problems linked to the regional structure of negotiations and slow progress relating to development, the DRC was unable to sign an agreement as at 31 December 2007. In terms of international trade, the Congolese authorities decided to strengthen the agreement’s enforcement over the control of imported goods before shipping as of 1 January 2008. This procedure serves to fight fraud and counterfeiting and to increase the collection of customs duties.

Between 2006 and 2007, the trade balance deficit widened, rising from 7.5 to 7.9 per cent of GDP. This decline should be viewed in relation to the growth achieved in 2007: the economy imported the inputs necessary for production on the one hand and the consumer goods that entered the wholesale and retail trade on the other. During 2007, equipment and raw material imports grew by 29.9 and 44.5 per cent respectively.

Exports rose by 8.5 per cent as at the close of the first half of 2007. Despite soaring oil and metal prices on the world market, oil and diamond export revenues declined due to a drop in production. In June 2006, exported diamonds had brought in USD 624.7 million while only generating USD 395.97 million in June 2007, a reduction of nearly 40 per cent.

### Table 3 - Current Account (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007(e)</th>
<th>2008(p)</th>
<th>2009(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Balance</td>
<td>4.0</td>
<td>0.9</td>
<td>-5.7</td>
<td>-4.9</td>
<td>-0.8</td>
<td>-4.0</td>
<td>-4.1</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
<td>7.6</td>
<td>27.6</td>
<td>29.2</td>
<td>27.1</td>
<td>29.4</td>
<td>29.9</td>
<td>29.6</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
<td>3.6</td>
<td>26.7</td>
<td>34.8</td>
<td>32.1</td>
<td>30.2</td>
<td>33.9</td>
<td>33.7</td>
</tr>
<tr>
<td>Services</td>
<td>-2.0</td>
<td>-4.9</td>
<td>-6.0</td>
<td>-5.4</td>
<td>-5.4</td>
<td>-6.7</td>
<td>-6.7</td>
</tr>
<tr>
<td>Factor income</td>
<td>-3.1</td>
<td>-4.4</td>
<td>-5.8</td>
<td>-5.5</td>
<td>-6.7</td>
<td>-4.1</td>
<td>-3.7</td>
</tr>
<tr>
<td>Current transfers</td>
<td>0.1</td>
<td>6.0</td>
<td>6.9</td>
<td>8.3</td>
<td>5.0</td>
<td>4.4</td>
<td>4.9</td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td><strong>-0.9</strong></td>
<td><strong>-2.4</strong></td>
<td><strong>-10.6</strong></td>
<td><strong>-7.5</strong></td>
<td><strong>-7.9</strong></td>
<td><strong>-10.5</strong></td>
<td><strong>-9.6</strong></td>
</tr>
</tbody>
</table>

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

[StatLink](http://dx.doi.org/10.1787/32255842506)
As is common among sub-Saharan African countries, foreign direct investment (FDI) in the DRC is directed towards the mining industry. This trend stems, in part, from the growth of world demand for minerals. In 2007, FDI reached USD 576 million compared to USD 500 million in 2006 and USD 405 million in 2005. With regard to the behaviour of the world minerals market, an increase in FDI is expected in 2008 based on China’s investment plans and reconstruction prospects.

In September 2007, foreign reserves amounted to USD 215.4 million as against USD 177 million in August, moving the import coverage ratio to 3.5 weeks. The reserves were rebuilt to their December 2006 level of USD 53.2 million. They proved their value when the BCC had to intervene in the foreign exchange market to preserve the stability of the national currency and domestic prices.

While it has been admitted into the HIPC initiative and has already prepared the final version of its GPRSP, the DRC did not reach completion point in 2007 because of its poor economic performance at the beginning of the year and the slow pace of structural reforms. The final version of the GPRSP will have to be implemented and evaluated before the initiative’s completion point can be reached in 2008.

The debt service was not paid in full in 2007. The government only repaid debt services to multilateral institutions and the Kinshasa Club. At the end of September 2007, the external debt service totalled USD 70.1 million as against a projected service of USD 76.7 million. These payments dropped by 43.5 per cent over their 2006 level, mainly because of a suspension of commitments to the Paris Club since the second half of 2006. With regard to the London Club, the non-payment of the debt service resulted from the failure to reach a compromise concerning the actual stock of debt.

The IMF noted that the external debt would remain unsustainable in the absence of a stock transaction

![Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)](http://dx.doi.org/10.1787/318572435603)

Source: IMF.
under the HIPC and Multilateral Debt Relief Initiative (IADM). If completion point is reached in the first half of 2008, the maximum level of debt relief could be attained under these two initiatives, which should reduce the net present value to less than 150 per cent of exports.

The flow of aid experienced mixed results in 2007 because of the failure of the PRC and the poor allocation of HIPC resources. This trend was somewhat offset by the implementation of the SMP, and certain partners reconsidered their position in view of the return of macroeconomic stability in the second half of the year.

It should be noted that the DRC, in light of the agreements it entered into with China, will benefit from a significant level of development aid in the form of projects in 2008. Other Asian, European and Latin American countries are in the process of entering into similar agreements. However, there are no specific terms of reference defining the implementation of most of these projects. Furthermore, it should be recalled that the DRC and its partners adopted a common statement on development aid harmonisation and coordination during the meeting of the consultative body.

**Structural Issues**

**Recent Developments**

Growth prospects still fall short of the country’s potential, largely because of problems related to the institutional framework and business environment. The 2007 *Doing Business* report ranked the DRC as the world’s most difficult place to do business. In addition, the 2007 Transparency International report ranked the DRC 168th out of 180 countries, based on the level of corruption in the world of business. To expand the business sector, it will be necessary to further clean up business practices, fight corruption and instill good corporate governance.

In the second half of 2007, the government submitted four draft laws on: the transformation of public enterprises; the state’s disengagement; the organisation and management of the state’s portfolio; and general provisions applicable to public enterprises. The reform advocates the state’s withdrawal from certain business sectors, the liberalisation of certain sectors by abolishing state monopolies, the privatisation of certain enterprises with negative economic and financial rates of return, and the restructuring of enterprises that do not have the resources to make the necessary investments in support of growth.

The government has identified its decentralisation priorities and developed a draft decentralisation law. To ensure that all stakeholders and local decentralised entities embraced decentralisation, the minister of the interior set up a preparatory committee at the national decentralisation forum. The committee carried out its tasks in October 2007.

The Congolese transport sector functions very poorly and has been incapable of serving as a growth engine. The state has not yet honoured its commitment to repair roads and restructure the transport sector. Certain projects launched several months previously are not moving forward because of a half-hearted disbursement of funds. After seemingly forging ahead, other projects found themselves practically back at their point of departure as a result of the torrential rains that struck the country in 2007.

Technical, commercial and financial difficulties faced by Regidesco (water authority) and SNEL (national electric company) are still making access to electricity and potable water problematic. Only 46 per cent of the population use high-quality drinking water, a percentage that masks the great disparity between urban (84 per cent) and rural (29 per cent) areas. Because of these poor results, the government is planning to restructure the two public enterprises and decentralise both sectors.

Given the gaps between drinking-water and sanitation needs and the services offered, it was decided to revise the Millennium Development Goals (MDG) downward: 49 per cent for potable water and 45 per cent for sanitation. The total cost required for achieving these objectives has been estimated as USD 217 million.
In the rural environment, 60 per cent of waterworks are no longer operational through a lack of maintenance. In 2004, only 12 per cent of rural households had direct access to drinking water. Difficulty in accessing drinking water underlies a number of water-borne epidemics and diseases, such as cholera, typhoid and dysentery. In general, rural and suburban populations receive their drinking water from non-governmental organisations (NGOs) and religious congregations. At year-end 2007, the Fonds social de la république (FSR, government social fund) approved microprojects, including the provision of drinking water, submitted by the Kinshasa Development Agreement (CODEK) in the amount of USD 2.5 million.

The abolition of state monopolies, the repair of infrastructures, the development of an efficient intermodal transport system, and the state’s withdrawal from public enterprises are all priorities. Improving the business climate remains a major challenge for reviving economic activity in the DRC. In 2006, the Congo Business Federation (FEC) initiated a process to identify needs and analyse solutions per sector and region in order to expand the private sector throughout the country. Plans call for dialogue with the government for the purpose of discussing and implementing the private sector’s proposals in 2008.

In 2007, efforts to consolidate peace and security helped improve the business climate. Moreover, the Congolese authorities created a one-stop service to streamline the business creation process, improve customs clearance procedures, eliminate bureaucratic obstructions and contain the consequent fraud. A manual was distributed explaining customs clearance procedures as well as the decree establishing the one-stop service.

The audit and reform of business law, combined with the country’s new reconstruction framework, are preconditions for the promotion of private investment and the signing of public-private partnerships (PPP). The DRC has expressed its interest in joining OHADA (Organisation for the Harmonisation of Business Law in Africa), which will lead to a simplification of business legislation. Six commercial courts are to be established, two of which have been set up in Kinshasa and Lubumbashi. In addition, three legal reform projects have been initiated. The first addresses the creation of enterprises. The second concerns the Build, Operate and Transfer programme, with a view to facilitating private investment in the infrastructure sector. The third modifies the investment code to encourage long-term projects.

In 2007, the government also adopted a draft law that eased the tax burden to make the business climate more attractive and stimulate investment. Tax law reform took into account the government’s objective of introducing a value-added tax (VAT) in 2009.

Moreover, a committee was set up in June 2007 to identify mining contracts that are unfavourable to the country. This measure would enable the government to assess the impact of contracts signed in recent years on investment, growth and public revenues. It would also allow the government to explore wealth-creation opportunities that would result from other forms of state withdrawal; these projects would be conducted in full transparency. The mining sector investment and tax codes are currently being revised in order further to attract foreign capital and encourage the signing of new PPPs.

To improve the business climate and boost intermediary financing, the government, in partnership with the World Bank, has prepared studies on the country’s microfinance, leasing and security needs. The bank has also recommended expanding the national financial system to local banks. In March 2007, in order to develop a national policy for this sector and to provide it with a legal and regulatory framework, the government initiated a programme to support microfinance with the assistance of the United Nations Development Programme (UNDP).

The DRC has approximately 100 million hectares of dense tropical forest, of which 60 million hectares may be able to support sustainable forest exploitation. In 2007, the government drew up a priority reform agenda focused on the development and implementation of regulatory and legal foundations; establishment of zoning; nature conservation;
development of forest resources; the sector’s contribution to economic recovery and poverty reduction; strengthening of institutions; and management capacity building.

Global Witness was brought in to monitor illegal forest activities. The organisation began its pilot project in August 2007. In the second half of 2007, after the government decided to examine old forest contracts, it completed a review of documents and an assessment of 156 contracts for which a conversion request for new titles had been introduced. Approximately 20 irregular contracts representing nearly 3 million hectares were cancelled by order of the ministry of the environment in March 2007. A moratorium on the awarding of new concessions, issued in 2002, is still in force. From 2006 to 2007, eight additional implementing regulations of the forest code were signed. Six others were approved and are waiting to be signed.

**Development of Technical and Vocational Skills**

The underdevelopment of the DRC’s economy stems, in part, from its low savings rate and its ineffective management of human capital. This situation results from the poor organisation of its education system, which no longer addresses the country’s socioeconomic needs and problems. The government allocates meagre funds to education in general and to technical and vocational training in particular. Education spending as a proportion of the total budget dropped from 30 per cent in 1960 to 2 per cent in 2004, and this figure only represented payroll costs. The country has an insufficient number of technical and vocational schools, which only constitute 10 per cent of the number of general education schools.

In recent decades, the Congolese education system has operated on the dwindling financial resources devoted to the sector during a recessionary period. Enterprises, other employers and students show a lack of interest in technical and vocational education and training (TVET) because of this sector’s current weak performance nationwide. There is a discrepancy between the supply of qualified labour and the demand for skills on the job market. The education sector is poorly organised and lacks a strategic vision and consistent structure for implementing programmes.

TVET is not a priority for the Congolese government, evidenced by the fact that it is not addressed in the national education outline law and only receives a brief mention in the strategy paper (GPRSP). This sector, however, ought to have its place through two of the president’s major projects, namely education and employment. The low budgetary allocation to TVET supports this contention: 90 per cent of TVET costs are funded by families and students compared to 10 per cent by the state.

TVET institutions are organised and managed by several different bodies, such as the ministries of primary, secondary and vocational education; higher education; social affairs; youth; and public health as well as NGOs and the private sector. The management and coordination of this sector are therefore complex and inefficient.

The infrastructure is dilapidated and the educational tools and materials are obsolete. Most of the institutions the Congolese State created in past years to provide technical and vocational training are in a state of severe disrepair. The École nationale de l’administration (ENA: National school of administration) no longer exists, and the Institut national de préparation professionnelle (INPP: Vocational training institute) and Centre interdisciplinaire pour le développement de l’éducation permanente (CIDEP: Interdisciplinary continuing education centre) must operate on limited resources to fulfil their missions. Yet in the 1970s and early 1980s, these institutions were able to provide the country with skilled workers for specific occupations. This situation reflects the government’s inadequate investment in school reconstruction and rehabilitation, which has a negative impact on enrolment capacity and the provision of specialised training at secondary schools and institutions of higher learning.

Teaching quality has seriously eroded, particularly through an increase in the number of pupils. Teaching staff lack motivation, are largely underqualified and do
not meet the labour market’s changing needs. Because compulsory retirement no longer exists, old teachers retain their positions and neglect practical training in favour of theoretical, rote learning that ignores technological developments. The quality of curricula is declining because the subjects taught are out of date. Educational tools, equipment and textbooks are obsolete and in poor condition.

The growing indifference on the part of employers and students is evidenced by the lack of relations between the various schools and the institutions and enterprises that use them. Employers are increasingly less likely to attend school board meetings. Because the diplôme d’état (state diploma) is seen as possessing a legendary value, students scorn technical and vocational training, viewing it as intended for less important staff.

To meet training needs, some private enterprises provide job training through vocational schools or institutes of higher learning. Most of these schools teach their students how to practice a trade and earn a living. Subjects include mechanics, sewing, masonry/bricklaying, leatherwork, beauty care and hairdressing. The value of certificates granted by these vocational schools is a matter of subjective opinion.

Future prospects depend on the DRC giving serious consideration to technical and vocational training in its growth and development strategy. Several studies conducted by the department responsible for TVET noted the disastrous state of technical and vocational training and recommended solutions to revitalise this sector. Recommendations included: providing greater support to the teaching staff; easing admission requirements and improving career prospects for students; increasing financing for infrastructure, equipment and new technologies; strengthening curricula by adapting them to labour market realities; and establishing an institutional structure that encourages inter-school partnerships, public-private partnerships, dialogue and information sharing. A lasting and definitive solution depends on better management and coordination of TVET nationwide and, therefore, on implementation of the 2006 interministerial order on educational policy in the DRC. This order calls for placing the management and administration of all technical and vocational training scattered throughout the country under the authority of a single regulatory body.

**Political Context**

The free and democratic elections held in 2006 were a major political event for the DRC, establishing new institutional and structural foundations. The new institutions were set up in 2007 with Antoine Gizenga as head of government, Vital Kamerhe as leader of the national assembly and Léon Kengo wa Dondo as leader of the senate. In November 2007, the ministerial team was reduced in size from 60 to 44 members.

In 2007, this new exercise in democracy was put to the test when government institutions seemed, at times, to overstep their constitutional boundaries. On many occasions, the government was challenged by parliament about certain sensitive matters, such as an aeroplane crash, without demonstrating real concern. The state budget was reviewed by parliament before being adopted and implemented – the first such exercise in 40 years. The supreme court of justice invalidated the terms of office of certain national and provincial members of parliament convicted of fraud. The country nevertheless remains weak because of two factors: a difficult cohabitation between the current government and the opposition at all levels of government, and the inadequacy of the judicial system.

The fact that some opponents contested the outcome of the presidential elections is a good example. In March 2007, this controversy led to several days of tension in Kinshasa. The tension degenerated into confrontations between members of the personal bodyguard of Jean-Pierre Bemba, candidate in the second round of voting in the election, and elements of the regular army. After these events, the confidence index of enterprises and potential investors interested in operating in the DRC fell significantly.

The resurgence of armed conflict in the eastern part of the country between the regular army and
armed groups, such as the militia led by dissident General Laurent Nkunda, is fuelling insecurity throughout the country. In the third quarter of 2007, the first government of the Third Republic had raised the possibility of putting an end to the violence in the east through the use of force. On 9 November 2007, a joint communiqué was signed in Nairobi by the Congolese and Rwandan governments stating their respective commitments to take specific steps to manage the situation in the east.

Because of continuing conflict in this region, the president of the republic convened, in January 2008, a conference on the peace, security and development of the North Kivu and South Kivu provinces. The conference, which took place in Goma from 6 to 23 January 2008, brought together more than 1 000 people, including several key officials and all the belligerent parties. The meeting resulted in a peace agreement signed by all armed groups. The agreement’s provisions include a resolution demanding a ceasefire, the dismantlement of all armed groups, and the deployment of observers and UN forces. Welcomed by the population and the international community, the agreement put the country back on the path of security and peace on condition of an unequivocal and effective implementation.

Social Context and Human Resources Development

In spite of renewed growth since 2002, the DRC remains one of Africa’s poorest countries. About 80 per cent of Congolese live on less than USD 1 a day. In 2007, the DRC was ranked 168th out of 177 countries in the category of human development. The various programmes created over the past few years have not improved people’s safety, and inequalities have widened. The poverty rate in the DRC is very high, hovering at 70 per cent in 2006.

In respect of education, the school enrolment rate is declining. In 2000/01, according to national sources, the rate stood at 33 per cent for primary schools and no higher than 12 per cent for secondary schools. Only 29 per cent of children finish primary school and 4.7 million young children, including 2.5 million girls, receive no education at all. Since 2005, teachers have incessantly been demanding the salary increase agreed with the government in February 2004 (Mbudi agreement). This sets the monthly minimum wage at USD 208 whereas a teacher now only earns an average of USD 67. Teachers’ salary demands delayed the start of the 2007/08 school year. In November, teachers from universities and public institutes went on strike to demand their pay. To resolve the problem, the parliament decided to devote CDF 18 billion to teachers’ salaries in the 2008 budget.

To reform the educational system in line with MDG principles, the government considered various measures: renovation of 140 schools under the PMURR’s social plan; implementation of the quarterly programme for allocating funds to operate publicly administered primary and secondary schools in order gradually to reduce the school fees paid by parents; an increase in the proportion of the total budget devoted to education from 3 per cent to 12 per cent; and adoption of priority action plans by the education sector.

Over the past few years, Congolese women have increasingly taken on the role of head of household because men have either been unable to support their families or have died. About 90 per cent per cent of women engage in subsistence activities, such as working the land, running a small shop or prostitution. As a general rule, women’s rights are routinely ignored and there are major disparities concerning access to education, health care and resources. In the east of the country, women are assaulted, robbed and raped by armed men.

According to national sources, the prevalence of HIV/AIDS in the DRC hovers around 10 per cent, including 37 per cent among prostitutes in Kinshasa and 25 per cent among pregnant women in the east. These figures can be attributed, in part, to the presence of foreign troops from countries with a high prevalence of HIV/AIDS. These troops are operating amid a socially disorganised population victimised by frequent acts of violence, particularly of a sexual nature. The most
common modes of transmission are sexual (83 per cent of cases), mother-to-child (2 per cent) and by blood transfusion (2 per cent). Approximately 3 million people live with HIV in the DRC. The 20-49 age bracket is the most affected and women make up the majority of cases.

The poor access to safe drinking water and environmental hygienic conditions plays a significant role in the spread of disease in the country. The proportion of the population without access to water facilities is 78 per cent. Only 9 per cent of the population uses hygienic methods for wastewater disposal.

In the DRC, health coverage does not meet the standards set by the World Health Organisation (WHO). Access to health services is very poor: only 26 per cent of the population live less than five kilometres from a facility. Even if reports indicate one health centre per 10 218 inhabitants (standard: 1 per 10 000 inhabitants), one maternity clinic per 40 613 inhabitants and a major general hospital per 180 397 inhabitants (standard: 1 per 150 000), relative to the country's area and population distribution, these figures clearly demonstrate a shortage of health centres.

As a result, death rates are dramatically high, with estimated figures of 1 837 per 100 000 live births for maternal mortality, i.e. three times greater than the continent's average rate (640 per 100 000), and 113.5 per 1 100 for infant mortality, while the continent's average stands at 80 per 1 000. Infant mortality is largely caused by diseases that could have been prevented by vaccinations. Available data indicates that nearly one out of five children has never been vaccinated. Life expectancy at birth (46.5 years in 2007) is lower than the African average. Approximately 1 200 people, of whom half are thought to be children, die every day in the DRC through to violence, disease and hunger.

The national unemployment rate is estimated at 8.9 per cent and the underemployment rate at 81.7 per cent. In general, unemployment and underemployment affect men and women in equal numbers regardless of their level of education. With 28 per cent unemployment among the working population under 24 years of age, youth unemployment is a major concern.

The labour market is also characterised by an employment rate that is relatively low in comparison to the average rate in sub-Saharan Africa: 63.1 per cent (50.8 per cent in urban areas as against 68.1 per cent in rural areas). This situation mainly stems from a relatively late entry into the labour market due to more years of schooling. Women and men are equally involved in the labour market.