

Democratic Republic of the Congo (DRC) Inclusive Growth Diagnostic (IGD) Screening Profile¹

Economic Overview

The Democratic Republic of the Congo (DRC) is a low income country of 65.7 million people, 88 percent of whom live in extreme poverty (below \$1.25/day). Its average per capita income (PPP GNI) was \$340 in 2011, having grown by an average of 2.5% annually over the previous 5 years. The CIA World Factbook estimated its real GDP growth rate as increasing to an average of 6.7% in 2012 and 2013. Its Gini index, at 44.4, indicates a more skewed distribution of income than in many countries. The adult labor force participation rate in 2011 was 71.8%, a little higher than the average for Sub-Saharan Africa (69.6%) but lower than the average for low income countries (75.1%). The adult female labor force participation rate of 70.2% is higher than the average for both Sub-Saharan Africa (63.1%) and Low Income countries (67.7%). This is typical of very poor countries where most adults must either work or starve. The ratio of female to male labor participation rate is very high at 96.8%, compared with the 84% and 83.5% Sub-Sahara African and Low Income Country averages, respectively. [World Bank World Development Indicators (WB WDI)]

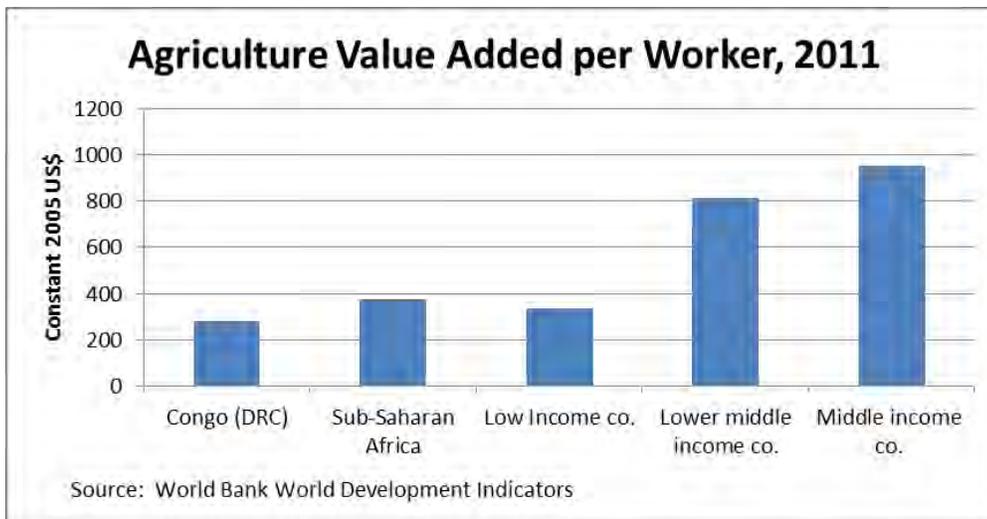
WB WDI reported DRC's consumer price inflation as 85.1% in 2010 (latest figure available), down from 728.7% in 2009. The CIA World Factbook estimates DRC inflation as declining to 9.5% in 2012 and 7.1% in 2013. The country had an estimated budget deficit of -3.5% in 2013. The same Factbook estimated the sector contributions to 2013 GDP as 44.3% from agriculture, 21.7% from industry and 34% from services.

Based on the readily available indicators discussed below, the DRC has great, untapped potential in both smallholder agriculture and rural incomes and in non-farm activities for increasing productive employment and incomes. In agriculture, value added per worker and cereal yields per hectare are very low by comparison with other countries; and there is much room for improvement by public investments in rural infrastructure and agriculture extension efforts. The non-farm sector appears to be hamstrung by public policies negatively affecting the investment climate, a lack of investment in electric power, road and port infrastructure, ineffective and corrupt governance, high cost and lack of credit to the private sector, and highly inefficient financial intermediation by the banking sector. In addition, available health indicators paint a discouraging picture of public health in the DRC, which might affect the ability of large segments of the workforce to engage effectively in more productive economic activities. As the DRC gradually recovers from many years of conflict much needs to be done. Which of these factors, or possibly other factors as well, are the more binding constraints to more inclusive economic growth at this point in time should be the subject of more in-depth IGD analysis.

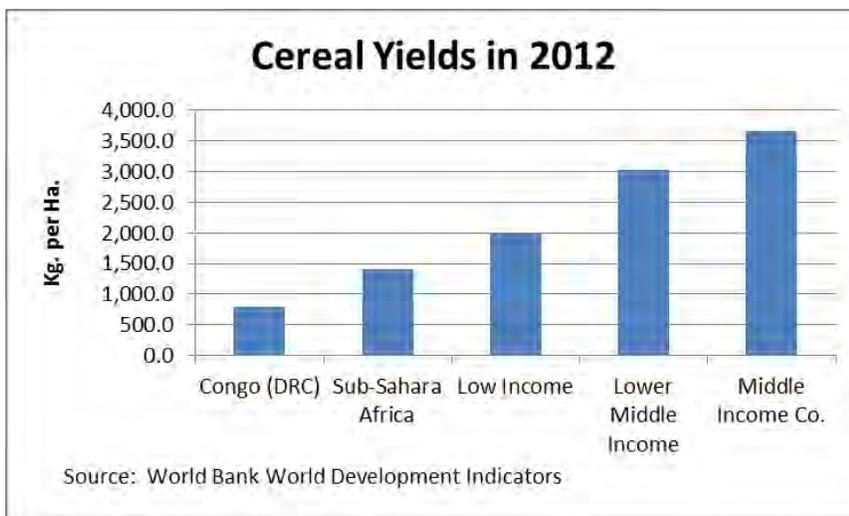
Potential for higher smallholder agricultural production and rural incomes

The DRC is predominantly rural, with 66% of the population living in rural areas, and nearly all of these people depend on agriculture for their livelihood, primarily through very small-scale subsistence production. However, since agriculture contributes only 44.3% to GDP, this indicates much lower productivity per worker than in the non-agricultural sectors. Total agricultural value added per worker in the DRC was equal to only US\$281 in 2011 (in constant 2005 US\$), far below the \$375 average for Sub-Saharan Africa developing countries and the \$336 average for low income countries, not to mention that achieved in lower middle income countries. The rural population growth rate is around 2.0%. (WB WDI)

¹ This country profile presents indicators available online that are relevant to the IGD analytical nodes of the "Analytic Guide for an Inclusive Growth Diagnostic (the productive employment model)," which is available from <https://dec.usaid.gov/dec>



Average cereal yield in the DRC was 798.8 kg. per hectare in 2012, much lower than the averages for Sub-Sahara Africa (1,417 kg.) and low income countries worldwide (1,982 kg.), as well as much, much lower than that for lower middle income (3029 kg.) and middle income countries (3653 kg.). Total crop production remained stagnant between 2000 2010, but increased by 10% in 2011, and livestock production followed the same pattern, stagnant from 2000 to 2009, and then increased by around 12% in 2010 and maintained that slightly higher level in 2011. Neither agricultural nor arable land² increased in significant amounts. Cereal yields increase 3.5% in 2012, but were at a level only 1.5% higher than they were in 2000 and 2001. Total agricultural value added increased 21% in constant price terms between 2000 and 2011, at about the same rate of growth of the rural population. (WB WDI)



² Agricultural land refers to the share of land area that is arable, under permanent crops, and under permanent pastures. Arable land includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded. Land under permanent crops is land cultivated with crops that occupy the land for long periods and need not be replanted after each harvest, such as cocoa, coffee, and rubber. This category includes land under flowering shrubs, fruit trees, nut trees, and vines, but excludes land under trees grown for wood or timber. Permanent pasture is land used for five or more years for forage, including natural and cultivated crops. -- <http://data.worldbank.org/indicator/AG.LND.AGRI.K2>

1A&B) On-farm productivity & Processing and marketing of farm products

1Aa) Agricultural research & extension services

1Ab) Access to credit for farm inputs & capital improvements

1Ac) Rural infrastructure for irrigation and farm-to-market roads

1Ad) Land tenure and land markets

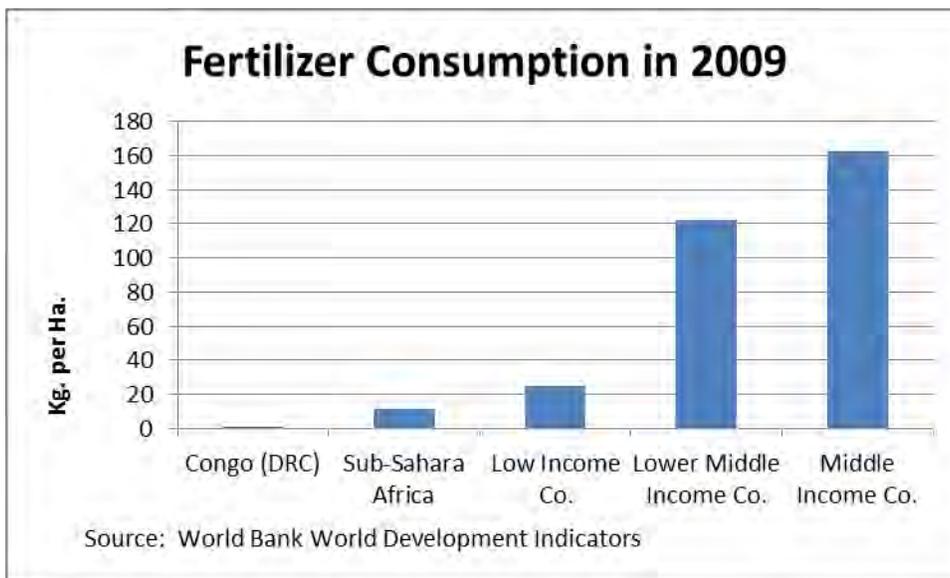
1Ba) Market and pricing policies

1Bb) Availability of information about and contacts with higher value markets

1Bc) Rural infrastructure for transport, electric power, storage, markets, communication

1Bd) Access to rural credit for agriculture product processing, storage, marketing, etc.

The EIU Global Food Security Index (GFI) indicates the DRC spends 2% of the agricultural contribution to GDP on agricultural research and development, placing it in the third quintile of the 105 countries covered and above most developing countries. The same index rated the DRC in the bottom 7 countries in access to finance for farmers and in the bottom 4 in agricultural infrastructure, with a score of zero out of 100 in both cases. It was scored zero in all three components of the latter index: the existence of adequate crop storage facilities, road infrastructure and port infrastructure. Fertilizer consumption in the DRC was an almost non-existent 0.5 kg. per hectare of arable land in 2009, compared with the Sub-Sahara country average of 11.4 kg. and the low income country average of 25 kg. The lower middle income average was 122 kg. and the middle income countries averaged 162 kg. per ha. (WB WDI). In 2013 the MCC scored the DRC as better than only 25% of a comparable group of 81 developing countries in land rights and access. The World Bank Doing Business Indicators 2014 gave the DRC a poor score, ranking 133 out of 189, for registering property.



1) Potential for more productive, higher wage non-farm employment.

As noted above, adult labor force participation rates in the DRC are fairly very high and about two thirds of the population lives in rural areas, leaving one third in urban areas. (WB WDI) The urban, non-farm sector is hampered by a poor business climate, as the DRC ranked a very low 183 out of 189 in the 2014 World Bank Ease of Doing Business (DB) Index. The DRC received a mediocre mark for dealing with construction permits, ranking 90, but it got very low scores and rankings for everything else. Its worst scores were in starting a business,

enforcing contracts, paying taxes, trading across borders, and resolving insolvency, ranking 185, 177, 176, 171 and 167, respectively, out of 189; but it was also ranked very low for getting credit, protecting investors, and getting electricity, ranking between 142 and 159 in these three areas.

CONGO, DEM. REP.		Sub-Saharan Africa	GNI per capita (US\$)		
Ease of doing business (rank)	183	Low income	Population (m)	220	
Starting a business (rank)	185	Registering property (rank)	133	Trading across borders (rank)	171
Procedures (number)	11	Procedures (number)	7	Documents to export (number)	8
Time (days)	31	Time (days)	49	Time to export (days)	44
Cost (% of income per capita)	200.1	Cost (% of property value)	6.6	Cost to export (US\$ per container)	3,155
Minimum capital (% of income per capita)	909.1			Documents to import (number)	9
		Getting credit (rank)	159	Time to import (days)	63
Dealing with construction permits (rank)	90	Strength of legal rights index (0–10)	6	Cost to import (US\$ per container)	3,890
Procedures (number)	11	Depth of credit information index (0–6)	0		
Time (days)	117	Public registry coverage (% of adults)	0.0	Enforcing contracts (rank)	177
Cost (% of income per capita)	1,366.9	Private bureau coverage (% of adults)	0.0	Procedures (number)	43
				Time (days)	610
Getting electricity (rank)	142	Protecting investors (rank)	147	Cost (% of claim)	147.6
Procedures (number)	6	Extent of disclosure index (0–10)	6		
Time (days)	58	Extent of director liability index (0–10)	1	Resolving insolvency (rank)	167
Cost (% of income per capita)	23,025.1	Ease of shareholder suits index (0–10)	4	Time (years)	5.2
		Strength of investor protection index (0–10)	3.7	Cost (% of estate)	29
				Recovery rate (cents on the dollar)	4.5
		Paying taxes (rank)	176		
		Payments (number per year)	32		
		Time (hours per year)	348		
		Total tax rate (% of profit)	118.1		

From World Bank/IFC, 2014 Doing Business Report, p. 185

2A) Private Sector Demand for More Productive Employment

2Aa) Level of Private Investment (HRV Constraints Analysis)

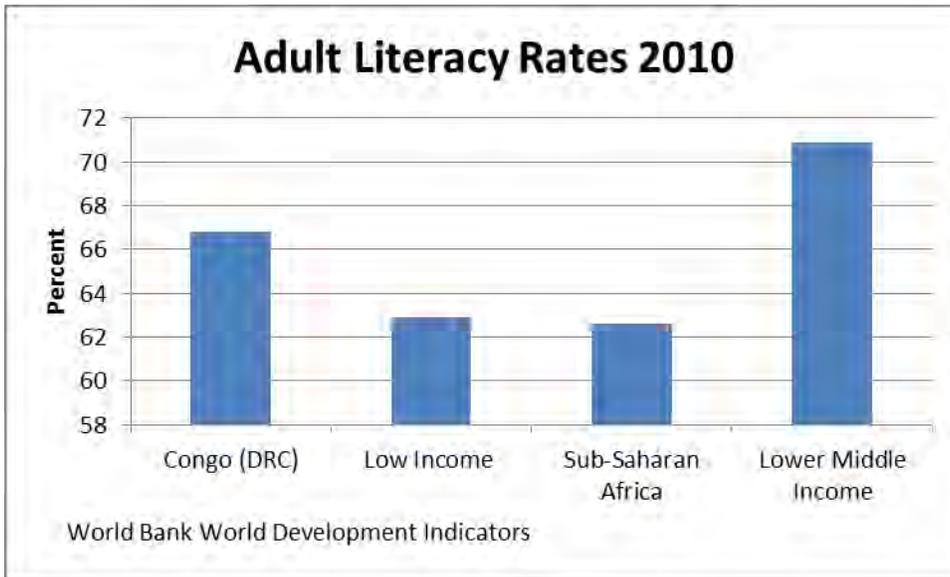
2Aai) Private returns to economic activity

Gross capital formation in the DRC rose from only 3.4% of GDP in 2000 to 23.6% in 2010 and 20.5% in 2011. That compares favorably with the average of 21.3% for Sub-Saharan Africa and the 24.8% average for low income countries (WB WDI). Net foreign direct investment was equal to only 1.7% of GDP in 2000, but averaged 12.1% over the last 5 years (2007-2011). This is higher than the 5-year averages of 3.3% for all Sub-Saharan and low income countries. According to the IMF World Economic Outlook, total investment in the DRC reached 27.4% of GDP in 2012. The DRC was the 40th highest in 2012 among 173 countries for this indicator. One bright spot about investment in the DRC is its apparent productivity and lack of wasteful investment spending. Rough incremental capital/output ratio (ICOR) calculations, based on 5-year averages of gross fixed capital formation and subsequent GDP growth rates, indicate a relatively low ICOR, at 3.6 from 2005 to 2010. This represents a worsening from an even lower ICOR of 2.1 from 2000 to 2005, but still indicates a productive use of capital investment.

2Aai1) Evidence of low social returns

Is there inadequate human capital to run a business successfully?

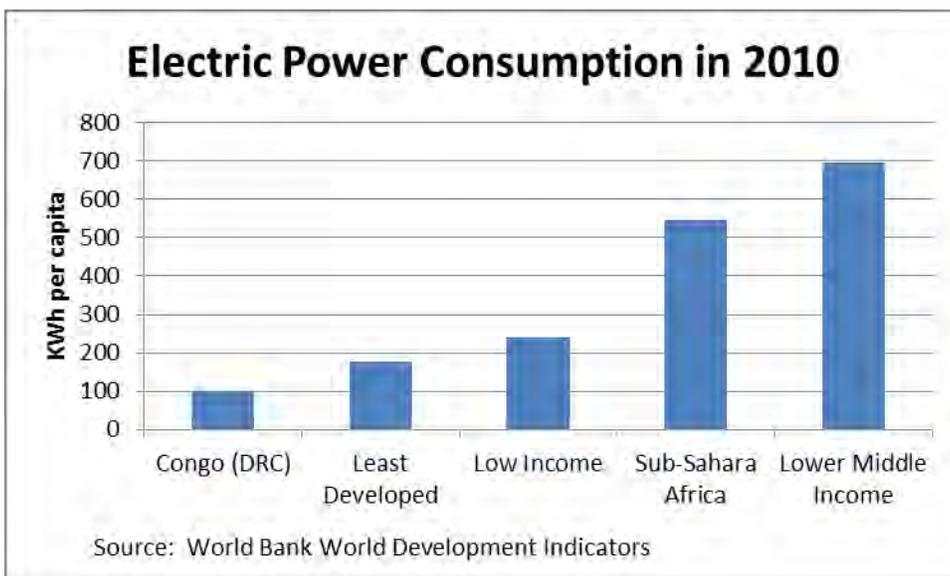
Almost 67% of the DRC adult population was recorded as literate in 2010, compared with a 63% average in low income countries and in Sub-Sahara Africa and 71% in lower middle income countries (WB WDI). The mean years of schooling achieved by DRC adults was 3.5 in 2012, putting the country in a 3-way tie for 165th place out of 187 countries.



Is there a lack of or poor condition of productive infrastructure?

As reported above, the 2014 World Bank Doing Business Report ranked the DRC very low at 142nd out of 189 for getting electricity, as it costs an average 23,025% of income per capita to do so. According to the UNDP Human Development Report only 11.1% of the DRC population had access to electricity in 2009, which placed the country third from the very bottom of a list of 126 countries for this indicator. Electric power consumption in 2010 was only 101 kWh per capita, compared with 178 in least developed countries, 240 in low income countries, 546 in Sub-Saharan Africa countries and 695 in lower middle income countries. Private firms reported an average of 20 power outages per month in 2010 (WB WDI). In 2010 52% of firms identified electricity as a major constraint, although this was down from 70% who said so in 2006. (African Development Bank)

The WB WDI reports that only 1.8% of total DRC roads were paved in 2004 (latest data available), compared with an 18.7% average for Sub-Saharan African countries and 14.1% for low income countries in 2005.



2Aai2) Private appropriability

Government failure/poor governance

As noted above, the DRC ranked a very low 183 out of 189 in the 2014 World Bank Ease of Doing Business (DB) Index. The 2014 Heritage Foundation/Wall Street Journal Business Freedom Index gave the DRC the lowest score (30.0, with 100.0 being the best) of all 178 countries ranked, a decline of -8.7 points from the year before. It ranked 172 out of 178 countries in the overall Economic Freedom Index. In addition to Business Freedom, its lowest rankings were in Monetary Freedom, Freedom from Corruption, Property Rights, Investment Freedom and Financial Freedom, ranking 163rd and below in all of these. In Trade Freedom it was ranked 150th.

The Canadian Fraser Institute, in its annual Economic Freedom of the World Report for 2013, ranked the DRC 117th out of 152 countries in its overall index. The lowest Fraser Institute scores and rankings were in the Regulation and Legal System and Property Rights categories, where it was ranked 122 and 121, respectively.

The DRC scored -1.66 in the 2011 Government Effectiveness Estimate of the World Bank Governance Indicators, out of a -2.5 to +2.5 range, ranking 208th in a list of 212 countries. It scored -1.60 in the WB Rule of Law Estimate, in 110th place out of 214.

The DRC scored 21 out of 100 possible points in the Transparency International Corruption Perceptions Index in 2012 and tied with 2 other countries for 160th place among 176 countries scored. The World Bank Governance Matters Control of Corruption estimate of 2011 scored the DRC -1.37 in the -2.5 to +2.5 range, ranking a low 205th out of 212 countries. The 2014 Heritage Foundation/Wall Street Journal Freedom from Corruption index ranked the DRC 171st out of 178 countries, with its numerical score of 17.6 actually a decline of -2.4 points from the year before.

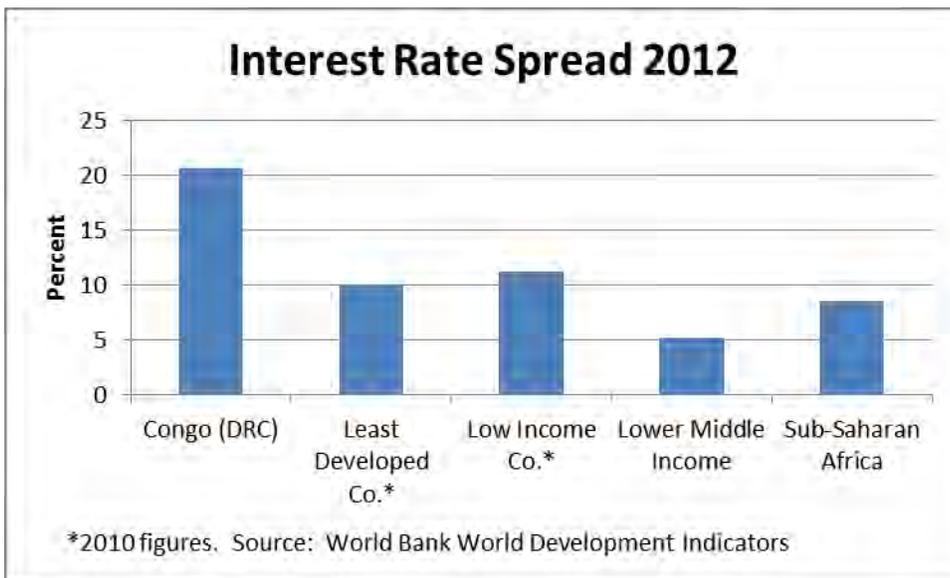
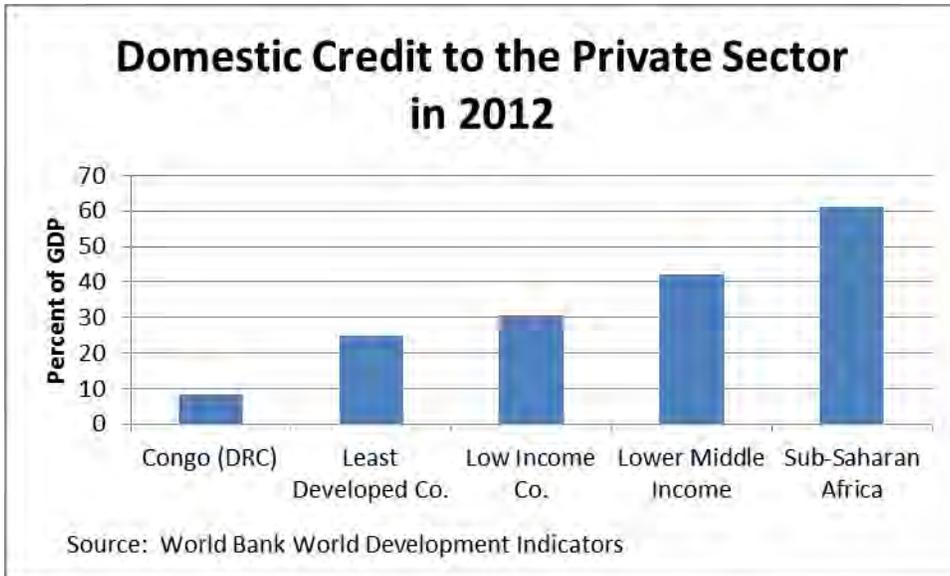
Market failures in the availability of information for innovation and “coordination”

Unfortunately, the 2013-14 World Economic Forum Global Competitiveness Report and Index does not include the DRC, which would have given us a little insight into this area of concern as well as more information about several other areas.

2Aaii) Cost of finance

Domestic credit to the DRC private sector was only 8.2% of GDP in 2012 (WB WDI). While a slight improvement from 6.6% in 2011, this compares unfavorably with the least developed country average of 24.7% and the Sub-Saharan African country average of 61.3% of GDP. The low income country average was 30.7% and the lower middle income country average was 42.3%. The MCC ranked the DRC as scoring higher than only 10% of its “peer” group of 85 developing countries in providing access to credit in 2013; and in the World Bank 2014 Doing Business Indicators the country was ranked a low 159 out of 189 for getting credit. It has no credit registry or credit bureau coverage at all. Its real interest rate has been very high, averaging 25% from 2006 to 2012, while the lending interest rate averaged 47.2% over the same period. The interest rate spread in the DRC is also very high, 20.7% in 2012, down from 49.3% in 2009 and 30.4% in 2011, but still a sign of inefficient financial intermediation by the banking sector. The least developed country average is 10.0%, and that for Sub-Saharan countries is 8.6%. (WB WDI)

The Heritage Foundation/Wall Street Journal Investment Freedom Index scored the DRC a low 20.0 out of 100 possible points in 2014, indicating very strong government influence over the financial sector.



2Ab) Growth of the Formal Sector

The World Bank Doing Business Report for 2014 ranked the DRC near the bottom at 183 out of 189 countries in business climate indicators. As noted above, the country is ranked extremely low in starting a business (185 out of 189), which will seriously retard the growth of new formal sector enterprises and the conversion of informal activities to more productive formal sector activities. It costs an entrepreneur 200% of income per capita to start a business and the minimum capital requirement is 9 times per capita income.

2Ac) Labor Intensity of Production

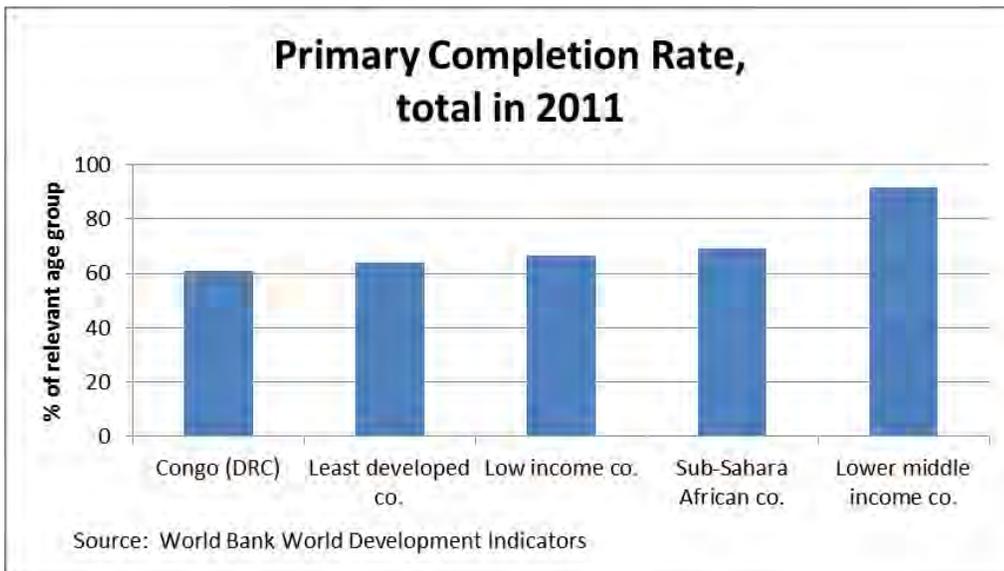
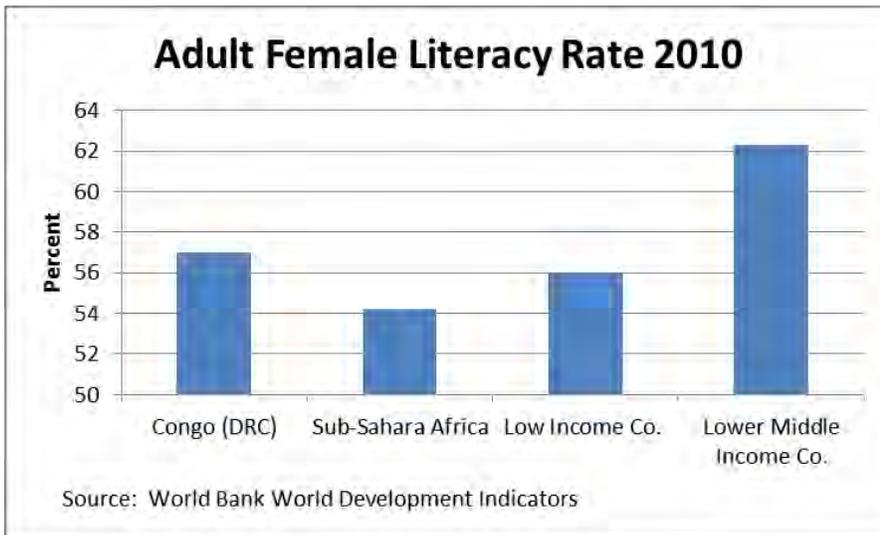
The DRC's trade with the outside world totaled 122.8% of GDP in 2012, comparing favorably with a 70% average for developing Sub-Sahara African countries and 67% average for low income countries. (WB WDI). However, the difficulties and time-consuming requirements to import and export result in the low ranking it received in the 2014 Doing Business Indicators for Trading Across Borders (171 out of 189), as noted above. An enhanced

ability to trade would favor a latent comparative advantage in more labor-intensive activities for both export and import-substitution goods and services.

The World Bank Country Policy and Institutional Assessment (CPIA) score for the DRC for policies for social inclusion-equity cluster was 2.8 in 2012, lower than the 3.2 score for low income and Sub-Saharan African countries. The CPIA score for gender equality was 2.5 in 2012, compared again with 3.2 for low income and Sub-Saharan African countries.

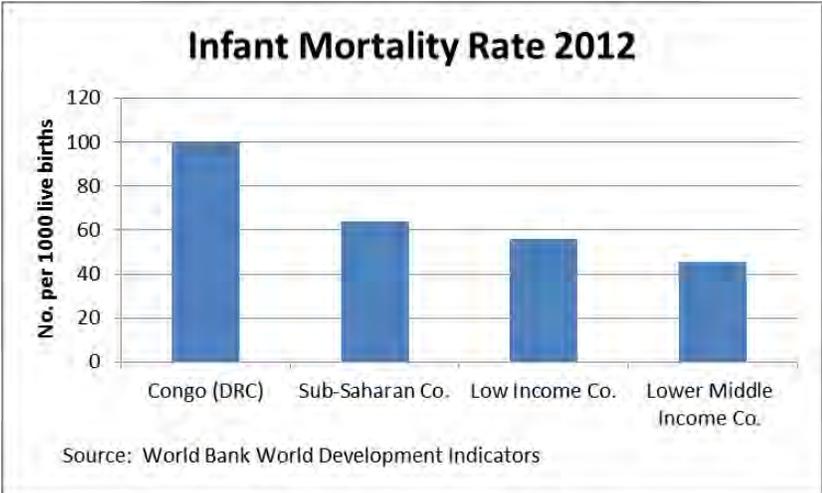
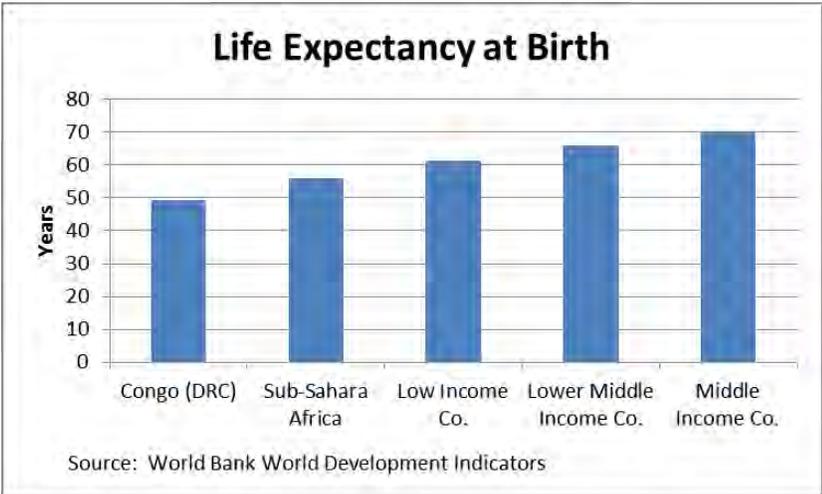
2B) Employability of the Workforce:

Almost 67% of the adult population was recorded as literate in 2010, compared with a 63% average in low income countries and in Sub-Saharan Africa and 71% in lower middle income countries (WB WDI). Some 57.0% of the DRC women were literate in 2010, better than the 54.1% for developing Sub-Saharan African countries and 56.0% for low income countries, but below the average for lower middle income countries (62.3%). The DRC primary school completion rate in 2011 was 60.9% of the relevant age group, compared with a 66.5% average in low income countries and 69.2% in Sub-Saharan African countries. The average for lower middle income countries was 91.4%.

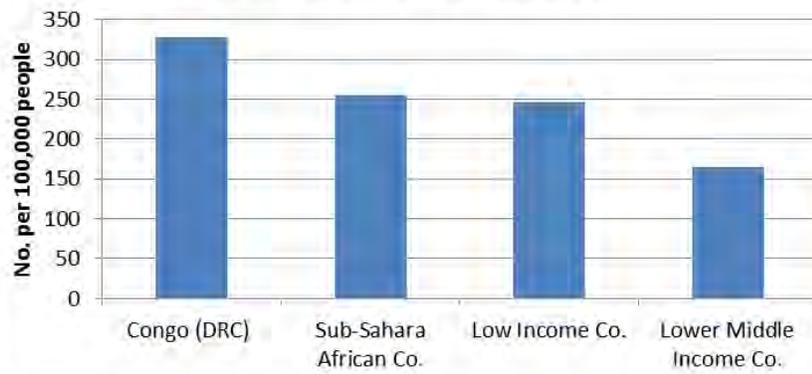


Even more worrying from an employability standpoint, however, is the poor health of the workforce. A WB WDI table lists the DRC's life expectancy in 2011 as 49.3 years, less than the Sub-Sahara average of 55.9 and the low income country average of 61.1 years. The infant mortality rate is very high, 99.9 per 1000 live births in 2012 (that's 10%, one out of every 10 live births!), compared with a 63.9 average for Sub-Sahara African countries, 55.8 for low income countries and 45.5 for lower middle income countries. The incidence of tuberculosis is 327 per 100,000 people, much higher than the 255 average for Sub-Sahara African countries, 246 for low income countries and 165 for lower middle income countries. The prevalence of HIV in the adult population is less than in comparator countries: 1.1% for the DRC, 2.27% for low income countries, and 4.64% for Sub-Sahara African countries (but it is only 0.63% for lower middle income countries). The African Development Bank African Development Indicators (ADB ADI) reported 23,748 deaths from malaria in the DRC in 2011, far more than reported for any other Sub-Sahara African country and 25.8% of the total for that region.

The DRC's population growth rate is 2.7% per year. (WB WDI) This is the same as the average for Sub-Sahara African countries of 2.7%, but higher than the 2.3% average for low income countries and the 1.5% average for lower middle income countries. This makes it more difficult for the country to improve its health and education services fast enough to keep up with the increasing need for them.

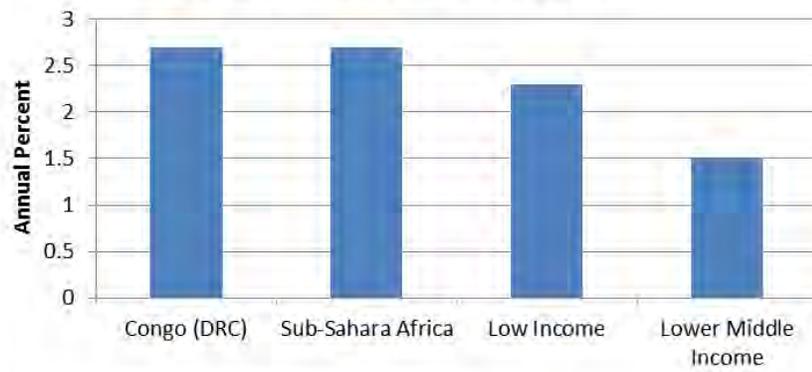


Incidence of TB in 2012



Source: World Bank World Development Indicators

Population Growth Rate



Source: World Bank World Development Indicators