I. ECONOMIC ENVIRONMENT

(1) MAIN FEATURES OF THE ECONOMY

1. The Democratic Republic of the Congo (DRC) is the second-largest country in sub-Saharan Africa, occupying an area of 2,345,000 km^2. It shares borders with nine countries: Angola, the Republic of Congo, the Central African Republic, Sudan, Uganda, Rwanda, Burundi, Tanzania and Zambia. It had a population of around 70 million in 2009, of whom about 30 per cent live in cities - Kinshasa (the capital), Lubumbashi and Kisangani being the largest urban areas with over a million inhabitants each.[1] The urbanization trend gathered pace in the 1990s as part of a rural exodus triggered by armed conflicts, the cities having been spared by the successive wars. With an average infant mortality rate of 154 per 1,000 live births in 2009 and an illiteracy rate of around 30 per cent, the DRC also has one of the African continent's lowest life expectancies at 49 years (Table I.1).

Table I.1
Basic social data, 1990, 2000, and 2005-2009

Indicators	1990	2000	2005	2006	2007	2008	2009
Population (million)	37.9	50.7	58.7	60.6	62.4	64.2	69.2
Urban population (%)	27.8	29.8	32.1	32.7	33.3	34.0	37.0
Demographic growth rate (%)	3.1	2.9	1.5	0.3	0.3	0.3	0.3
Infant mortality rate (per 1,000 live births)	200.4	178.6	165.6	163.5	161.4	158.1	154.0
Life expectancy (years)	46.3	44	45.8	46.1	46.4	47.2	49.0
Public health expenditure (% of GDP)	n.a.	n.a.	1.2	1.3	0.9	1.1	1.2
Public education expenditure (% of GDP)	n.a.	n.a.	n.a.	n.a.	2.5	2.4	2.3
Illiteracy (% of the population)	28.2	n.a.	n.a.	n.a.	32.8	30.1	30.0
Human development index (HDI)	0.262	0.353	0.37	0.371	0.389	n.a.	n.a.

n.a. Not available.

Source: World Bank, various publications; United Nations Development Programme, Human Development Report, various years.

2. The DRC is one of the world's least developed countries, with a gross national product (GDP) per capita of US$182 in 2008.[2] This average figure conceals major differences, however, and does not take sufficient account of the country's very large informal sector. The DRC has many advantages, such as its vast territory; its geographic situation, including borders with nine countries; the size of its population; a very extensive network of navigable waterways; favourable conditions for agriculture; huge mining and forestry resources; and substantial fishery stocks. The DRC's subsoil is very rich in natural resources, holding abundant copper, gold, diamond, cobalt, uranium, manganese, zinc and other ferrous, nonferrous and energy resources. As the (mostly informal) mining sector provides a large fraction of real GDP and merchandise export earnings, fluctuations in commodity prices have a major influence on the trend and sector distribution of GDP.

3. Agriculture (encompassing subsistence farming, livestock breeding, hunting, fishing, and forestry activities) plays a key role in the economy, occupying just over 75 per cent of the economically active population and producing more than 40 per cent of GDP in 2009. The country's rudimentary manufacturing sector accounts for about 5 per cent of GDP and mainly serves the domestic market. The services sector (around 30 per cent of GDP) has displayed burgeoning growth since 2000, particularly in the cellular telephony segment. The DRC relies heavily on the external sector, and the value of its foreign trade in goods and services is approaching 130 per cent of GDP. It has had a balance of payments deficit since 2000, which grew from US$271 million in 2007 to US$493 million in 2008 (Chart I.1).

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[1] Economist Intelligence Unit (EIU) (2009).
[2] World Bank (2009).

4. Formal jobs are shared equally between the public and private sectors. The high rate of unemployment (estimated at 40 per cent) is one of the main reasons for the size of the informal sector[3], which, according to the authorities, represented 20-25 per cent of GDP in 2008, and accounted for 80 per cent of non-agricultural jobs.[4] The informal sector in the DRC is characterized firstly by a wide variety of participants and activities, and secondly by its great capacity to adapt to the trend of the national economic situation. Handicrafts and trade, the most buoyant components of the informal sector, play an important role in the economy, by allowing for lower-cost job creation, providing practical training for young people and helping to conserve cultural heritage, while serving the population's needs.

5. The DRC is emerging from over 15 years of war, civil unrest, and economic crises that fuelled high rates of inflation.[5] The dramatic consequences of this long war are visible in all sectors of the country's social, cultural, political and economic life. To serve an area comparable to that of the whole of Western Europe, the DRC has a network of just 2,500 km. of paved roads, most of which are in a bad state of repair. The infrastructure deficit, particularly in the transport sector, hampers the development of many sectors, particularly agriculture and mining. Only about 5 per cent of the population has access to electricity. The *Doing Business 2009* report estimates that, out of 182 countries, the DRC offers the least favourable climate for economic and commercial activity; while the 2009 UNDP human development index (HDI) ranks the DRC 176th out of 182 countries.

(2) RECENT ECONOMIC DEVELOPMENTS

6. Following a long decade of economic stagnation in the 1990s, GDP expanded from -7 to 6 per cent per year in the period 2000-2008, outpacing population growth (around 3 per cent) and thus providing the means to alleviate poverty (Tables I.1 and I.2). These positive results stem from a combination of reforms implemented in 2001 and favourable commodity-price trends. Since then, however, economic performance over the last two years has been weakened by the world financial and economic crisis.

7. One of the main impediments to faster economic growth and higher productivity in the DRC is the shortage of infrastructure. The authorities have taken several steps to overcome this problem, including entering into contracts with Chinese firms to modernize its transport infrastructure (roads, ports and maritime transport installations), and continuing to implement reforms to make the energy and telecommunications sectors more efficient. Public-private partnerships have also been encouraged as a way to increase investment, including foreign direct investment (FDI), in infrastructure-related sectors. Financial-sector reforms, based on consolidating the banking sector, aim to close down insolvent institutions and foster the creation of new more viable and credible banks that can finance the country's economic development.

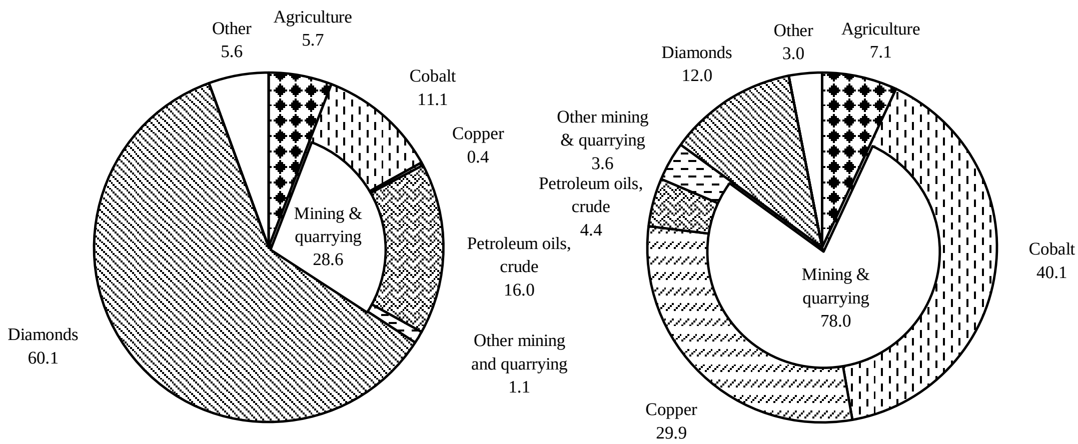
[3] Central Bank of the Congo (2007). The unemployment rate should be interpreted with caution owing to the size of the informal sector.
[4] AfriEcoCom, 12 August 2010, estimates informal-sector employment in the DRC at 70 per cent.
[5] Some five million people are thought to have died as a result of violence, famine and diseases during the multiple wars that the DRC suffered during the period 1996-2009. *Source*: CIA Factbook.

Chart I.1
Structure of merchandise trade, 2000 and 2008

Percentages

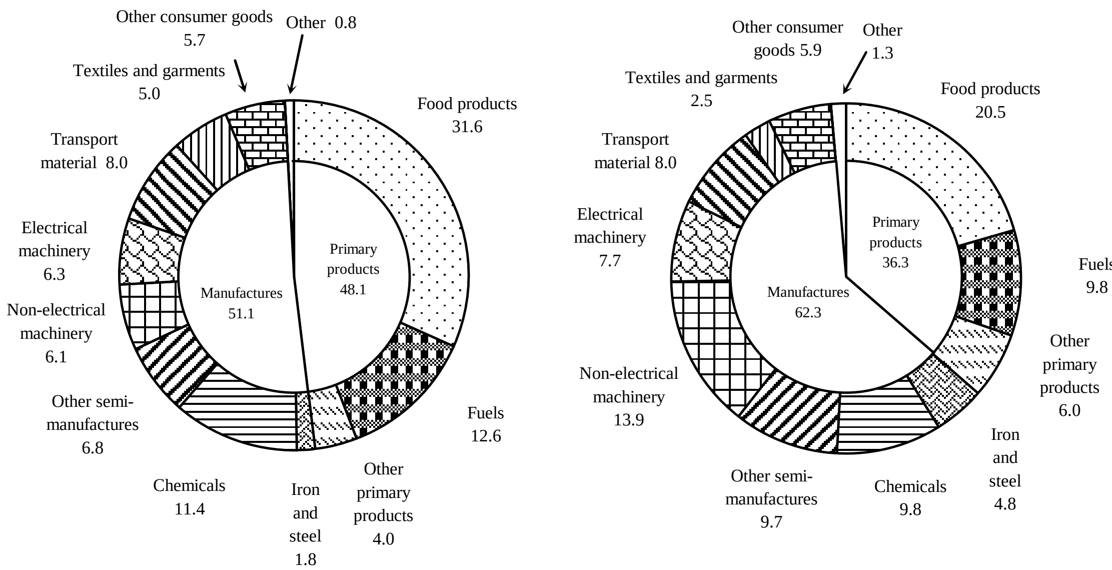
2000 **2008**

(a) Exports



Total: US$1,212.9 million **Total: US$3,728.4 million**

(b) Imports



Total: US$655.0 million **Total: US$3,772.5 million**

***Source*: WTO Secretariat estimates, using mirror statistics based on the UNSD Comtrade database (SITC, Rev.3).**

Table I.2
Basic economic indicators, 1996 and 2000-2009

	1996	2000	2001	2002	2003	2004	2005	2006	2007	2008[a]	2009[b]
GDP growth rate	-1.11	-6.89	-2.10	3.47	5.79	6.64	7.80	5.58	6.26	6.16	2.74
Consumer prices (% variation)	n.a.	511.2	135.1	15.8	4.4	9.2	21.3	18.2	10.0	27.6	46.3[c]
Exchange rate (CDF/US$)	0.5	21.8	206.7	346.7	405.4	399.5	473.9	468.3	516.8	559.3	809.8
Real effective exchange rate (base 1990 = 100)[d]	161.7	339.1	263.9	124.2	107.9	101.8	100.0	111.7	108.3	107.2	111.2
Money supply (% variation in M2)	n.a.	501.7	227.5	28.1	31.7	70.8	24.7	57.7	50.8	58.5	n.a.
End-period interest (discount) rate (%)	238.0	120.0	140.0	24.0	8.0	14.0	29.0	40.0	22.5	40.0	70.0
Total external debt (% of GDP)	n.a.	93.6	199.4	186.0	189.1	171.8	139.5	121.2	108.3	110.2	n.a.
Gross official reserves (in import months, goods and services)	n.a.	0.7	0.2	0.6	0.6	0.7	0.4	0.5	0.3	0.1	n.a.
Sectoral distribution of GDP											
Agriculture, hunting, forestry and fishing	33.3	49.4	58.7	50.0	48.0	49.0	47.2	46.3	43.8	41.1	41.1
Industry	32.4	20.1	19.8	22.5	22.4	20.8	22.0	21.9	22.1	21.9	21.9
Mining	8.0	10.3	7.3	8.6	9.2	8.5	9.0	8.6	8.4	8.9	8.9
Manufacturing	8.8	4.8	4.8	5.3	4.9	5.2	5.3	5.1	5.2	5.1	5.1
Services	33.5	29.4	19.8	25.6	27.4	27.6	27.9	28.8	30.4	32.1	32.1
Import duties and taxes	0.9	1.2	1.7	1.9	2.2	2.6	2.8	3.0	3.7	4.9	4.9
Use of GDP (% of GDP)											
Final consumption	77.5	89.2	93.1	87.8	93.4	83.1	78.1	83.3	85.5	85.0	85.0
Household consumption	71.3	81.7	88.2	82.6	81.4	67.0	56.8	61.6	67.3	72.8	72.8
Public consumption	6.2	7.5	4.9	5.2	12.0	16.1	21.3	21.7	18.2	12.2	12.2
Gross fixed capital formation	15.5	10.5	7.6	8.6	12.5	18.5	20.0	20.7	19.2	19.8	19.8
Variation in inventories	-1.2	0.6	0.5	0.7	1.2	1.2	1.2	1.1	1.0	1.0	1.0
Exports of goods and services	30.9	6.5	14.2	24.4	26.8	35.1	34.6	36.2	45.1	45.4	45.4
Imports of goods and services	22.7	6.7	15.4	21.5	33.9	38.0	33.9	41.3	50.7	51.3	51.3
National accounts Government accounts (% of GDP)											
Total income	n.a.	6.4	10.7	15.7	19.5	22.6	33.5	30.1	29.8	18.1	n.a.
Revenue	n.a.	3.7	4.7	7.7	9.6	11.8	14.6	16.7	15.8	18.1	n.a.
Tax revenue	n.a.	3.5	4.4	6.7	6.4	8.7	9.9	11.4	11.6	14.2	n.a.
Non-tax revenue	n.a.	0.3	0.4	1.0	3.3	3.0	4.7	5.3	4.3	3.9	n.a.
Grants	n.a.	2.1	5.8	7.8	9.7	8.9	19.0	13.5	13.9	0.0	n.a.
Current grants	n.a.	1.4	4.3	5.2	2.6	5.9	7.1	6.9	5.3	0.0	n.a.
Capital grants	n.a.	0.7	1.5	2.6	7.2	3.0	11.8	6.5	8.7	0.0	n.a.
Statistical adjustment	n.a.	0.5	0.1	0.3	0.1	1.9	0.0	0.0	0.0	0.0	
Public expenditure	n.a.	9.9	10.6	14.5	19.9	21.8	34.8	30.8	30.2	18.6	n.a.
Current expenditure	n.a.	9.0	9.0	11.7	12.1	18.0	22.2	23.4	21.0	17.3	n.a.
Capital expenditure	n.a.	0.9	1.6	2.8	7.8	3.8	12.7	7.3	9.1	1.3	n.a.
Deficit (-) or surplus (+)	n.a.	-3.5	0.1	1.2	-0.4	0.8	-1.3	-0.6	-0.4	-0.4	n.a.

	1996	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**[a]	**2009**[b]
Balance of payments (% of GDP)											
Trade balance	n.a.	0.9	1.3	0.9	-2.1	-2.1	-4.0	-2.2	8.8	1.4	n.a.
Current account balance (excluding public grants)	n.a.	-2.5	-3.3	0.0	-1.1	-5.1	-5.9	-4.6	-1.3	-8.8	n.a.

n.a. Not available.

a Estimates.
b Projections.
c October 2009.
d An increase represents depreciation.

Source: Central Bank of the Congo, *Rapport annuel 2007*; IMF, IFS, CD-ROM; and IMF Country Reports Nos. 07/329 and 10/11; World Bank, *World Development Indicators*. Viewed at: http://ddp-ext.worldbank.org/ext/DDPQQ/showReport.do?method=showReport.

8. In July 2010, the DRC became the 30th country to attain the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative, which afforded it debt relief totalling some US$12.3 billion - US$11.1 billion under the Enhanced HIPC Initiative, and US$1.2 billion under the Multilateral Debt Relief Initiative (MDRI). According to the authorities, the funds thus released would be invested in socioeconomic activities aimed at reducing poverty.

9. Progress has been made on budgetary issues, and total public income has grown substantially since 2000, expanding from 10.7 per cent of GDP in 2001 to 30.2 per cent in 2007, before falling back to 18.9 per cent in 2008, mainly as a result of the difficult economic situation and the absence of new grants in that year, which had represented 13.9 per cent of GDP in 2007 (Table I.3). Fiscal revenue rose gradually from 3.5 per cent of GDP in 2001 to 14.2 per cent in 2008, boosted by a near-tenfold increase in public-sector earnings from foreign trade. Output growth and steps taken by the Government to improve tax collection have contributed to this result. The implementation of an integrated budgetary management system in January 2001, involving automation of the expenditure chain, has improved the monitoring of expenditure execution and enhanced transparency in public finances. Nonetheless, the structure of the DRC's budget still contains a very large proportion of current expenses in relation to capital expenditure. Annual average current expenditure accounted for some 75 per cent of total public spending throughout 2000-2008 (Tables I.2 and I.3). A globally prudent budgetary policy made it possible to contain the deficit (Table I.2) despite the major shocks that have buffeted the economy, particularly the collapse of commodity prices and an increase in the defence budget to deal with the unrest in the eastern provinces.

10. Monetary policy is in the hands of the Central Bank of the Congo (BCC)[6], whose key objective is to ensure price stability and stability in the national currency. Apart from this main mission, the BCC has the following additional responsibilities: management of the country's official reserves; regulation of foreign-currency transactions; participation in the negotiation of international agreements on payment modalities; regulation and control of lending establishments and financial intermediaries; and promotion of the proper functioning of money and capital markets. Its intervention tools are the refinancing rate, treasury bill auctioning and required reserves. The implementation of these instruments is decided on by the Monetary Policy Committee.[7]

11. Inflation in the DRC is essentially of monetary origin, fuelled by BCC financing of the public-sector deficit; but it also has structural elements, caused, among other factors, by the lack of

[6] Created on 30 July 1951 by Royal Decree.
[7] Law No. 005/2002, of 7 May 2002, concerning the establishment, organization and functioning of the Central Bank of the Congo.

integrated transport infrastructure. The combination of prudent monetary and budgetary policies, implemented following reforms supported by the International Monetary Fund (IMF) and the World Bank since 2001, made it possible to reduce the cumulative inflation rate from 511.2 per cent in December 2000 to 53.4 per cent in the same month in 2009. In 2008, the BCC changed its main refinancing rate four times (24 per cent, 30 per cent, 28 per cent and 40 per cent); and in January 2009, the rate was raised twice (to 55 per cent and 65 per cent). The required reserves ratio remained unchanged throughout 2008 at 5 per cent, but was increased to 7 per cent in January 2009. Required reserves totalled CDF 26.4 billion at 14 January 2009, compared to CDF 38.6 billion at 12 December 2009.

12. The national currency, the Congolese Franc (CDF), has been subject to a floating exchange rate since 2001. The persistence, and even aggravation of domestic and external imbalances, was one of the features of the country's economy until restrictive monetary and budgetary policies were introduced in June 2001. Domestically, excessive public-sector deficits caused a deterioration of the Government's net position with the BCC. Externally, the imbalances are related to high current and financial account deficits.

13. The obvious consequences of this situation, particularly in relation to the exchange rate, have led to a significant and continuous depreciation of the national currency. On 26 May 2001, the DRC devalued its currency by 84 per cent - the largest devaluation in the country's history since independence in June 1960. This was immediately followed by a return to the floating exchange-rate regime. As of June 2001, the DRC implemented its Enhanced Interim Programme (PIR) with IMF support. The PIR has since been replaced successively as follows: (i) in late March 2002 by the Government Economic Programme (PEG), financed since June 2002 by the Poverty Reduction and Growth Facility (PRGF); (ii) in 2006 by a variety of programmes carried out with IMF support; and (iii) in December 2009, by the second PEG, which attained the HIPC completion point at its first review. These programmes have helped restore a degree of stability in the national currency.

14. From 2001 to 2005, the trend of the exchange rate (US$/CDF) responded globally to the supply and demand for currency on the foreign exchange market (Table I.3). Nonetheless, from 2006 to 2009, this trend was essentially governed by non-economic factors, particularly economic agents' expectations of a future depreciation of the CDF against foreign currencies. These expectations were based on the electoral climate prevailing in 2006 and 2007, and the effects of the international financial crisis in 2008 and 2009.[8]

Table I.3
Supply of and demand for foreign currency and implications for the exchange rate, 2001-2009

	Demand for foreign exchange	Supply of foreign exchange	Balance	Exchange rate variation (US$/CDF) (%)	
				Official	Parallel
2001	91.9	89.3	-2.6	-1.1	-2.4
2002	174.2	170.1	-4.2	-18.5	-19.4
2003	188.8	247.1	58.3	2.6	4.3
2004	245.5	319.4	73.9	-16.1	-17.8
2005	247.4	313.9	66.5	2.9	4.3
2006	332.53	392.71	60.19	-14.3	-15.8
2007	615.99	587.08	-28.91	0.1	2.2
2008	926.45	984.02	57.57	-20.5	-23.2
2009	862.75	997.78	135.03	-29.9	-28.1

Source: BCC/Economic Analysis Department.

[8] BCC (2010).

(3) TRADE AND INVESTMENT PERFORMANCE

(i) Trade in goods and services

(a) Merchandise trade

15. The structure of the DRC's trade has not changed significantly since 2000 (Tables AI.1 and AI.2, and Chart I.1). Nonetheless, the share of goods and services imports in GDP rose from 6.7 per cent in 2000 to 50.7 per cent in 2007, while the corresponding exports expanded from 6.5 per cent to 45.1 per cent of GDP over the same period. Trade in goods and services recorded a deficit averaging 2.3 per cent of GDP in the period, except in 2002 and 2005 when there were surpluses of 2.9 per cent and 0.7 per cent, respectively.

16. Total merchandise exports in the DRC were estimated at US$3,728.4 million in 2008, compared to US$1,212.9 million in 2000, reflecting higher prices of raw materials on world markets (mining commodities in particular), and their increased production in the DRC. Despite this threefold increase in export values, however, the country posted a substantial trade deficit averaging US$732.9 million per year between 2006 and 2008, compared to surpluses averaging US$447.2 million between 2000 and 2005 (Chart I.2).

17. The country's main imports include food products, fuels, transport machinery and materials, and non-electrical machinery. The surge in the prices of most of these products on international markets between 2006 and 2008 caused their share in total import value to increase.

18. Purchases from the European Union (EU) accounted for 43.5 per cent of total imports in 2000, compared to 28.9 per cent in 2008 (Tables AI.3 and AI.4). This fall made South Africa the leading source of the DRC's merchandise imports, followed by the EU, Zambia and China (Chart I.2).

19. The DRC's exports remain poorly diversified although the range of products exported has become much wider over the last five years. Nevertheless, diversification is still confined to mining products, chiefly cobalt, copper, diamonds, and petroleum. Mining alone generated an average of 64 per cent of exports in 2006 and 2008, compared to 47.6 per cent in 2000. Exports of certain products, such as cobalt and copper, grew, respectively, from 0.4 per cent and 11.1 per cent in 2000 to 29.9 per cent and 40.1 per cent in 2008. In contrast, exports of diamonds and oil collapsed from 60.1 per cent and 16 per cent in 2000 to 12 per cent and 4.4 per cent in 2008, in that order (Chart I.1). The obsolescence of production units in Miba, the leading diamond-producing company, largely explains the slump in diamond exports. Similarly, the departure of Mobil and Texaco could explain the collapse of oil exports. Other export products, such as timber, have remained below their 2006 levels, prior to the surge in prices.

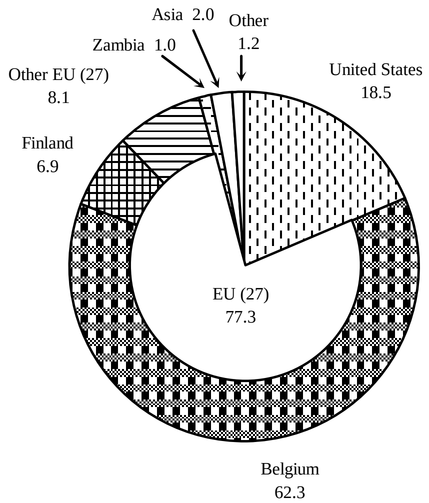
20. The DRC's main export markets are the EU (particularly Belgium), China, Zambia and the United States. China has gained first place owing to its strong presence in mining activities; Belgium's share of total exports shrank from 62.3 per cent in 2000 to 13.17 per cent in 2008, while China's share grew from 2 per cent to 42.5 per cent over the same period. Apart from Zambia, official exports to other African countries are negligible, despite the existence of preferential trading arrangements such as the Economic Community of Central African States (ECCAS), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), of which the DRC is a signatory (Chapter II(3)(ii)).

Chart I.2
Direction of merchandise trade, 2000 and 2008

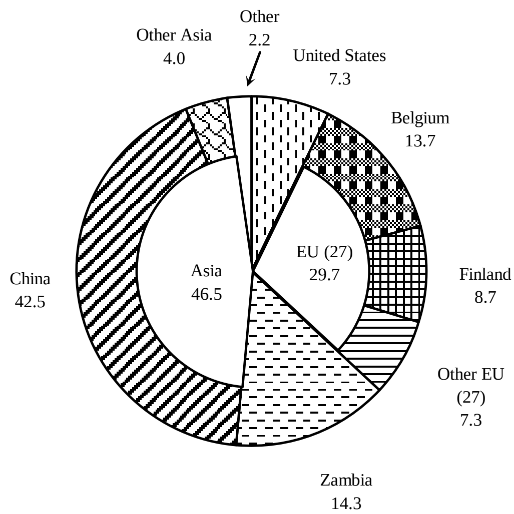
Percentages

2000 | **2008**

(a) Exports

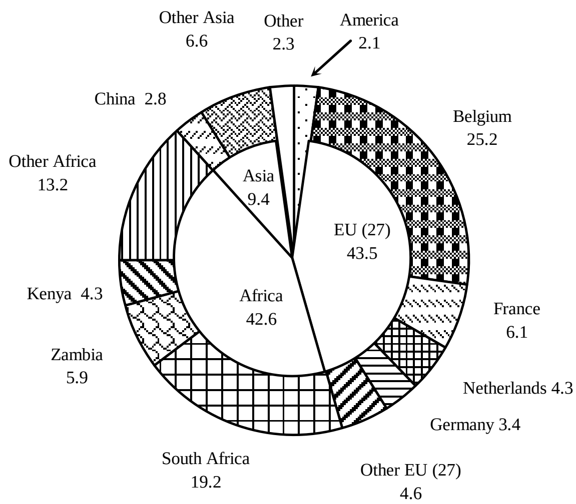


Total: US$1,212.9 million

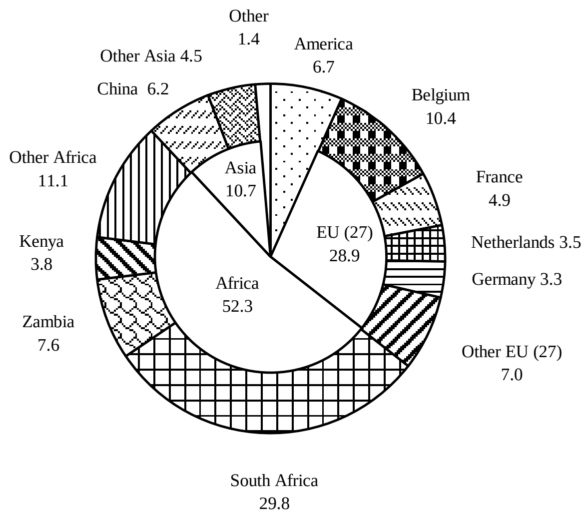


Total: US$3,728.4 million

(b) Imports



Total: US$655.0 million



Total: US$3,772.5 million

Source : **WTO Secretariat estimates, using mirror statistics based data obtained from the UNSD Comtrade database (SITC Rev.3).**

(b) Trade in services

21. The DRC is a net importer of services. Its services sector is dominated by transport and telecommunications. Imports of tradable services rose from under US$550 million prior to 2004 to over US$2 billion in 2008. Services exports have also grown substantially, albeit by less than imports. Prospects for an expansion of trade in services in the DRC are good. For example, banking services in countries neighbouring the DRC are widely used by planters in the eastern part of the country because of the shortcomings of the DRC's banking system (Table I.4).

Table I.4
Balance-of-payments developments, 2000-2008
(US$ million and per cent)

	2000	2001	2002	2003	2004	2005	2006	2007	2008[a]
Current accounts	-337.6	-226.1	1.9	-59.6	-332.5	-420.9	-395.3	-134.1	-1047.5
Merchandise trade	123.8	90.9	51.6	-116.9	-134.2	-287.6	-186.9	890.7	166
Exports f.o.b.	806.6	880.4	1132.1	1377.7	1917.2	2402.8	2704.7	6147.9	6891.5
Imports f.o.b.	682.8	789.5	1080.5	1494.6	2051.4	2690.4	2891.6	5257.2	6725.5
Services	-150.7	-175.1	-213.9	-283.3	-374.5	-826.1	-472.9	-1225.2	-1275.5
Income	66.9	79.3	130.9	144.6	402.2	343.1	432.9	392.5	828.1
Transport	1.3	1.4	5	2.5	8	11.5	2.7	21.8	37
Travel	0.6	0.7	1.3	5.6	3	3.2	3.1	0.7	0.7
Other services	65	77.2	124.6	136.5	391.2	328.4	427.1	370	790.4
Expenditure	217.6	254.4	344.8	427.9	776.7	1169.2	905.8	1617.7	2103.6
Transport	82.5	58.7	100	146.2	299.8	824.6	357	734.5	997
Travel	29.6	62.7	40.4	51.9	49.4	53.5	92.7	108.7	126.7
Other services	105.5	133	204.4	229.8	427.5	291.1	456.1	774.5	979.9
Income	-393.5	-403.8	-312.6	-179	-284.9	-55	-456.9	-661.5	-917.8
Income	15.8	19.6	5.9	66.5	20.5	9.5	17.6	26	17.7
Expenditure	409.3	423.4	318.5	245.5	305.4	64.5	474.5	687.5	674.8
Current transfers	82.9	261.9	476.8	519.6	461.2	747.9	721.4	861.8	979.7
Credit	210.3	381	629.5	767.8	695.1	943.7	1203.1	1484.4	n.a.
Debit	127.4	119.1	152.7	248.2	233.9	195.8	481.7	622.6	n.a.
Capital and financial accounts	-502.2	-313.7	35.8	-109.1	72.3	244.2	13.2	-56.6	208.1
Capital account	-122	0	0	0	-34.1	-91.3	81.7	-1.5	110.5
Financial account	-380.2	-313.7	35.8	-109.1	106.4	335.5	-68.5	-55.1	97.6
Direct investment	72	80.3	124.6	367.9	401.4	-13.4	237.7	1793.7	1672.8
Portfolio investment	-44.7	-1.71	-119.3	-146.5	-505.6	-13.4	-413.3	-1833.6	-1637.5
Other investment	-407.5	-392.3	30.6	-330.5	210.6	362.4	107	-15.2	62.3
Errors and omissions	120.37	-180.79	-80.51	-145.3	15.98	0	-42.7	-80.76	346.3
Overall balance	-719.5	-720.6	-42.8	-314.2	-244.3	-176.6	-424.8	-272.4	-493

n.a. Not available.

a Estimates.

Source: BCC, *Principaux indicateurs économiques*. Viewed at: http://www.bcc.cd/downloads/stat/indeco/indi_comesa.pdf.

(ii) Direct investment

22. Despite its legislative efforts (Chapter II(4)), the DRC still finds it hard to attract FDI, inflows of which amounted to US$132 million in 2003, representing 23.6 per cent of the country's gross fixed capital formation. FDI flows then rose to US$500 million in 2006, compared to US$405 million in 2005, and totalled US$1,808 million, US$1,727 million and US$951 million in 2007, 2008 and 2009 respectively.[9] Mining and telecommunications, along with energy and banking, attracted most investment, particularly from abroad, following reform and deregulation of the respective sectors.

[9] UNCTAD (2010).

23. In 2002-2004, UNCTAD classified the DRC in the category of underperforming countries, i.e. those with low FDI potential[10] and poor FDI performance.[11] In general, the investment climate is not favourable to the private sector. Deterrents include a strong perception of corruption and continued infrastructure problems. Furthermore, the regulatory framework is inadequate because the regulations and how they are applied remain unpredictable, the judicial system is not fully effective, and taxation is relatively high and not always appropriately enforced. There are also difficulties relating to loan access and cost.[12]

24. Because of the poor ranking of the DRC in the World Bank's *Doing Business 2010* report in terms of obstacles to starting a business (Chapter II(4)), the Government has set itself the goal of improving its ranking by ten places and has adopted a number of measures to improve the business climate. A *Doing Business* steering committee has been set up to implement the priority measures proposed by the Federation of Congolese Enterprises (FEC), which aim mainly at rationalizing taxation and reducing administrative bureaucracy. The liberalization process embarked upon in early 2001 is being continued, and the Government, in collaboration with the IMF and the World Bank, has implemented reforms and issued a number of regulations to make the country's business climate attractive.

(4) PROSPECTS

25. The DRC's short and medium-term economic prospects are encouraging, subject to full pacification of the country, which is a *sine qua non* for its sustained economic growth. The injection of additional resources into the economy, following external debt relief delivery, is intended to boost economic activities, particularly those targeting social needs, such as poverty reduction. Achieving this requires the implementation of satisfactory measures to increase the State's absorption capacity and to strengthen good governance. The start-up of labour-intensive projects such as road and railway building would help reduce unemployment and restimulate the economy.

26. With the recovery of the world economy, implementation of the Chinese-Congolese agreement (award of mining concessions in return for infrastructure construction), and debt relief under the HIPC and MDRI which occurred in July 2010, the Government is hoping to achieve real growth rates of 6.5 per cent in 2010, 8.8 per cent in 2011, and around 10 per cent in the ensuing years up to 2015. Exports are expected to play a key role in boosting economic growth, with consumption and heavy investment in infrastructure as contributing factors.[13]

27. The Government intends to maintain appropriate macroeconomic policies, particularly in terms of the budget, including through its ongoing structural reforms. The reforms aim, *inter alia*, to reduce the DRC's reliance on customs duties as a source of fiscal revenue; expand the tax base; and remedy the infrastructure shortage (particularly roads, electricity, transport and telecommunications),

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[10] The Inward FDI Potential Index captures several factors (apart from market size) that are expected to affect an economy's attractiveness to foreign investors. It is an average of the values (normalized to yield a score between zero, for the lowest scoring country, to one, for the highest) of 12 variables (no weights are attached in the absence of a priori reasons to select particular weights). For the methodology, see UNCTAD (undated).

[11] The Inward FDI Performance Index ranks countries by the FDI they receive relative to their economic size, calculating the ratio of a country's share in global FDI inflows to its share in global GDP. For the methodology, see UNCTAD (undated). See also UNCTAD (2006).

[12] FEC (2007).

[13] Growth and poverty reduction strategy paper (GPRSP) and information letter from the Congolese Government to the Director-General of the IMF.

capital market rigidities, restrictive regulations and administrative burdens, and multiple parafiscal requirements and other obstacles to competition. All of these elements add to the costs of commercial transactions in the DRC, impede productivity improvement, hamper exports and discourage FDI.[14] Private domestic and foreign investment is currently encouraged by public-private partnerships for infrastructure development and the easing of restrictions on FDI, together with multiple tax incentives.[15]

[14] FEC (2007).
[15] Law No. 004/2002 of 21 of February 2002, containing the Investment Code.