

Global Financial Crisis Discussion Series

Paper 15: Democratic Republic of Congo Phase 2

François Kabuya Kalala with Danny Cassimon

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Acronyms

AfDB	African Development Bank
AMCK	Anvil Mining Company Kinsevere
BCC	Central Bank of Congo DRC
cif	Cost, Insurance and Freight
CPI	Consumer Price Index
CRONGD	National Council of Development NGOs
DRC	Democratic Republic of the Congo
EC	European Commission
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IDA	International Development Agency
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
KMT	Kingamyambo Mining Tailings
MDRI	Multilateral Debt Relief Initiative
MIBA	Bakwanga Mining
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RAID	Rights & Accountability in Development
SADC	Southern African Development Community
SARW	Southern Africa Resource Watch
TFM	Tenke Fungurume Mining
UK	United Kingdom
US	United States

Abstract

The impact of the global financial crisis on the economy of the Democratic Republic of Congo economy was more severe in 2009 than in 2008. Real gross domestic product (GDP) reached a growth rate of 2.7%, which is 3.5 percentage points below the rate of growth realised in 2008. With the exception of official aid – which increased from \$1019 billion in 2008 to \$1499 billion in 2009 – most of the potential transmission mechanisms were affected. Trade fell from \$125 million in 2008 to \$-1467 million in 2009; foreign direct investment (FDI) from \$1713 billion to \$626 million; and remittances from \$212 million to \$135 million. Altogether, the impact of the global financial crisis on the overall balance of payments amounted to \$-574 million in 2008 and \$-413 million in 2009.

Debt relief allowed the DRC to cover its financial needs before assistance of \$-416 million in 2008 and \$-444 million in 2009. In addition to donor support, more debt relief will be needed to alleviate the DRC's financial situation. On 11 December 2009, the International Monetary Fund (IMF) Executive Board approved a \$551 million Poverty Reduction and Growth Facility (PRGF) arrangement and additional interim assistance of about \$72.68 million under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Thus, the country will be embarking on a three-year programme to strive to meet the enhanced HIPC Initiative requirements and triggers and to reach the completion point, giving way to debt relief under the Multilateral Debt Relief Initiative (MDRI) as soon as possible.

Signs of recovery from the global financial crisis are manifest, particularly in the mining sector, through which the DRC's economy was hit in the first place. Mining activity is certainly responding favourably to the new buoyancy in world commodity prices, but there is an urgent need for an enabling environment, strengthened supervisory institutions and good governance to attract more private investment in the sector.

1. Introduction

Given that it is less integrated into international financial markets and highly dependent on the export of minerals, the economy of the Democratic Republic of Congo (DRC) has been hit by the global financial crisis mainly through the trade channel. Its high degree of dollarisation and the existence of a sizeable informal sector have played a key role in the extent of the reaction to the crisis (Cassimon et al., 2009). At the time when the global crisis erupted, the country was facing armed conflict in North Kivu province, which led to a humanitarian crisis, with the displacement of a civilian population of more than 1 million throughout the region. A combination of the two shocks exacerbated the country's macroeconomic management problems (IMF, 2009; World Bank, 2009).

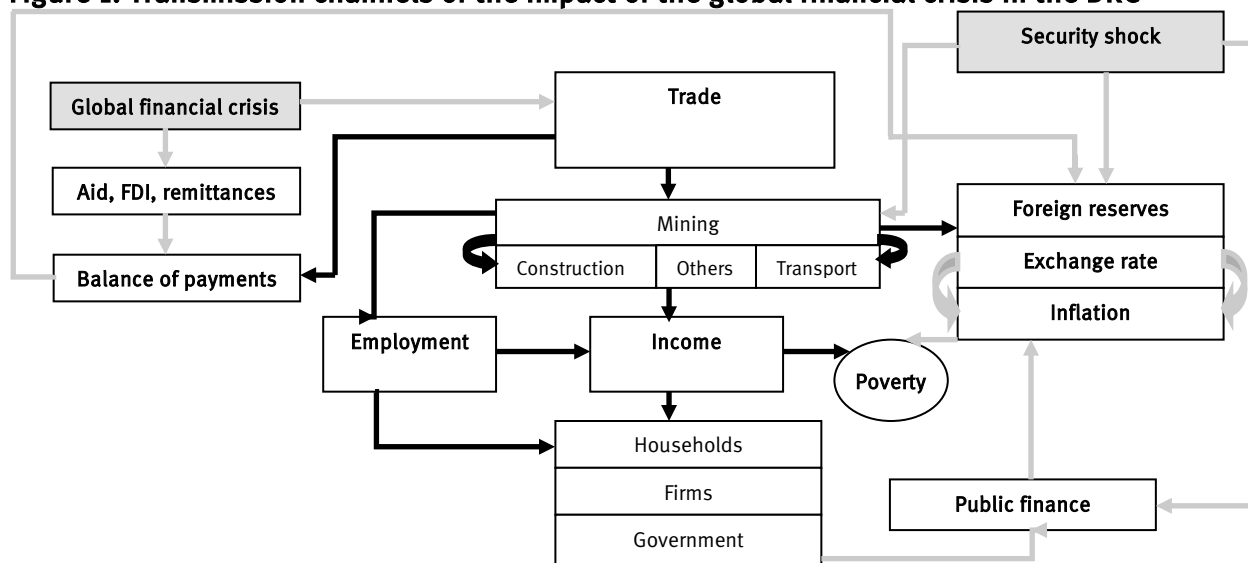
This paper aims to examine the impact of the global financial crisis on the DRC's economy. The mining sector in particular is surveyed because of the role it has played historically in fuelling economic growth (see Annex 1) and because it has been central to the transmission of the global economic downturn in the DRC. However, scantiness of data and irregularity in the publication of statistical bulletins have prevented a very thorough analysis of the impact of the crisis in the DRC.

This report is structured as follows: Section 2 clarifies the key transmission channels of the impact of the crisis on the DRC's economy and provides some data for corroboration. Section 3 deals with the growth and development effects of the crisis. Section 4 discusses policy responses to the crisis and Section 5 presents some concluding remarks.

2. Effects on the DRC: Key transmission channels

The global financial crisis and economic slowdown have resulted in a sharp decline in world commodity prices, including those of copper, cobalt and diamonds, which account for no less than 80% of the DRC's export earnings. As a consequence of deteriorated terms of trade, exports have contracted. The reduction in trade, coupled with that of foreign direct investment (FDI) and remittances, has contributed to a worsening of the balance of payments position. Meanwhile, the slowdown in the mining sector has led to output reduction in sectors that depend on it, such as construction and transportation. Jobs have been curtailed in both formal and informal sectors. Enterprises, households and the government have suffered loss of revenue as a result of the overall downturn. Figure 1 shows the transmission mechanisms, with links associated with trade represented by shaded arrows.

Figure 1: Transmission channels of the impact of the global financial crisis in the DRC



Source: Adapted from Cassimon et al. (2009).

In this extrovert economy, unabated demand for imports in the face of dwindling official gross reserves has inevitably exerted strong pressures on the exchange rate. In addition, steep military spending related to the pacification of the eastern provinces has led to a widening fiscal deficit, financed mostly by government borrowing from the Central Bank of Congo DRC (BCC). The insecurity in that part of the country has also discouraged any significant mining activity in the formal sector in the region. Thus, by inducing exchange rate depreciations and fuelling inflation, both external and internal shocks have impoverished those segments of the population unable to devise efficient mechanisms to protect their purchasing power.

2.1 Financial flows

2.1.1 Financial sector

The number of banks functioning in the DRC amounts to 20. All but one are foreign owned. Up until the third quarter of 2008, they operated in a relatively satisfactory environment, characterised by steady economic growth and some stability in prices and the exchange rate of the US dollar. Banks working in the DRC have not subscribed to sophisticated or toxic financial instruments. However, they maintain foreign deposits abroad for the purposes of servicing their clients.

In the aftermath of the global crisis, the overall balance sheet of the commercial banks changed slightly, as indicated in Table 1. On the assets side, treasury and interbank transactions moved from 51% of the total in 2007 to 35% in June 2009. This development owes to the drop in assets that local

banks maintain with their foreign correspondents and to the increased demand for foreign currency needed to cover clients' imports. On the liabilities side, the relative share of deposits increased slightly, from 68% in December 2007 to 69% in December 2008, before decreasing to 60% in June 2009. In the meantime, loans' share of total assets moved from 32% in December 2007 to 46% in December 2008, then dropped to 45% in June 2009. There is no indication as to how the balance sheet has evolved since then.

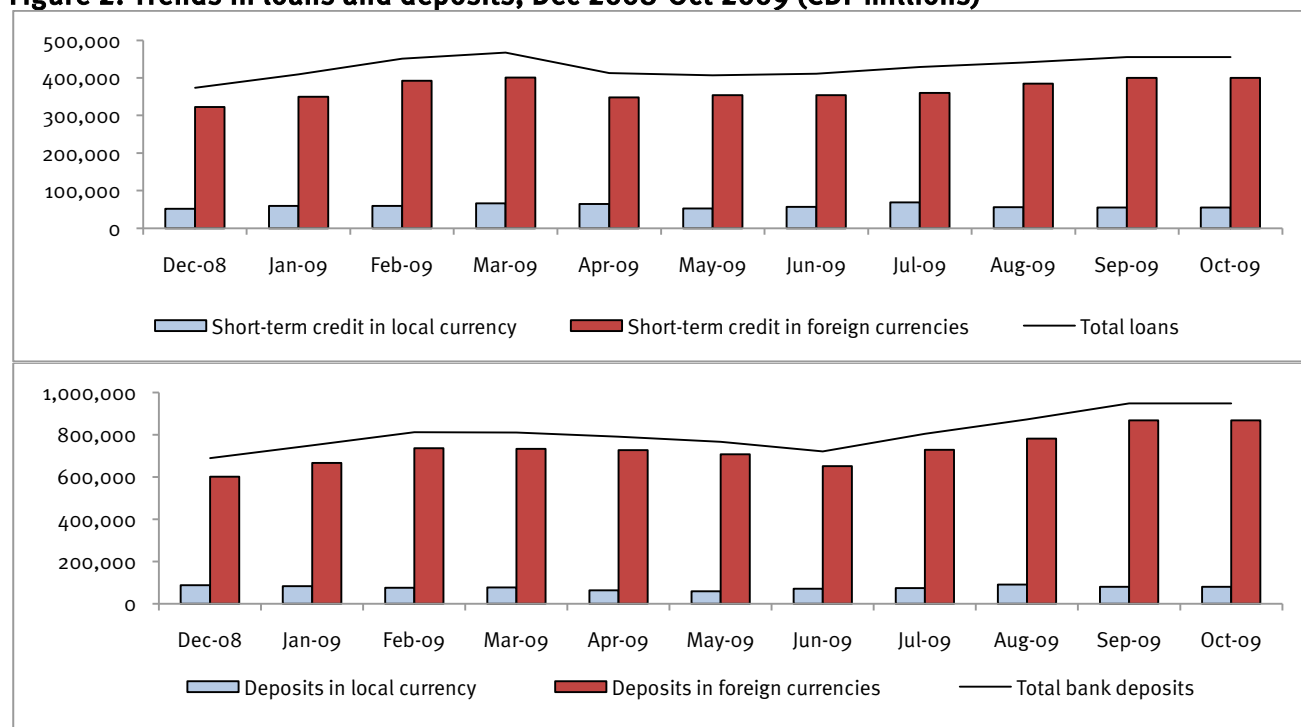
Nevertheless, the commercial banks have experienced a ratio of portfolio deterioration amounting to 3% in June 2009, compared with one of 1.3% in December 2008 and 1.2% in December 2007. The ratio of loans provision increased from 50% in December 2007 to 89% in June 2009. Local loans denominated in foreign currencies amounted to a monthly average of 67.2% of total loans in 2009, whereas deposits in foreign currencies accounted for 90.5%. Both aggregates declined in April/June 2009 in the face of a significant deterioration of the exchange rate (Figure 2).

Table 1: Global balance sheet trend of commercial banks in the DRC, end-2007-end-Jun 2009

	End-2007		End-2008		End-Jun-2009	
	US\$m	%	US\$m	%	US\$m	%
Assets	1225.31	100	1664.47	100	1612.10	100
Treasury and interbank operations	629.7	51	560.79	34	566.6	35
Loans	397.04	32	759.08	46	725.29	45
Other operations	136.71	11	242.28	15	216.06	13
Buildings and equipment	61.86	5	102.32	6	113.15	7
Liabilities	1225.31	100	1664.47	100	1621.10	100
Treasury and interbank operations	74.34	6	110.44	7	155.29	10
Clients' deposits	837.3	68	1142.9	69	965.77	60
Other operations	182.09	15	218.76	13	299.03	18
Own capital	131.58	11	192.37	12	202.01	12
Ratio of bank portfolio deterioration		1.2		1.3		3.0
Provision ratio		50		60		89

Source: BCC (2009a).

Figure 2: Trends in loans and deposits, Dec 2008-Oct 2009 (CDF millions)



Source: BCC (2009c).

Table 2: Net asset positions of commercial banks, end-2007-end-Jun 2009 (US\$ millions)

	End-2008	End-2008	End-Jun 2009
Net foreign currency position	31.08	-11.74	60.83
Net interbank position	471.41	450.35	412.7

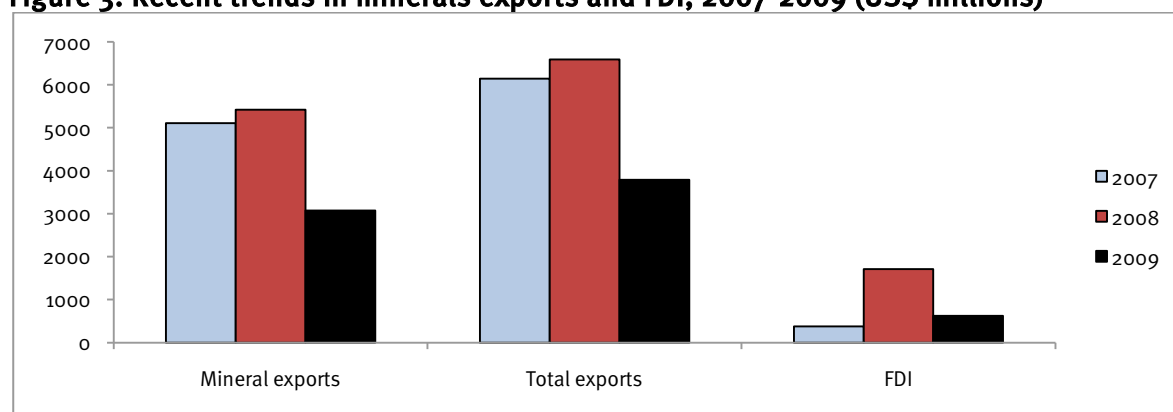
Source: BCC (2009a).

A sector with a large negative foreign currency position is vulnerable to exchange rate depreciation (Masha, 2009). In the DRC, commercial banks held a net positive foreign currency position of \$60.83 million at end-June 2009, with their position at \$-11.74 million at end-December 2008. This may be an indication that the banks wanted to be able to meet depositors' demand for foreign currency, as often happens when a loss of confidence in the domestic currency triggers such a demand in the face of a pronounced exchange rate depreciation. Indeed, the exchange rate depreciated considerably in the first quarter of 2009, by about 22.4%, then appreciated by 9% during the second quarter. The trend reversed to a depreciation of 12.1% in the third quarter and went on as far as October and November 2009. Finally, the trend of appreciation resumed in December as the BCC moved in to stabilise the exchange market.

2.1.2 Foreign direct investment

Minerals account for the vast majority of the DRC's exports and represent the single largest source for FDI. As shown in Figure 3, FDI jumped to \$1713 million in 2008. Attracted by favourable commodity prices, some major foreign investments took place in the mining sector before the current global financial and economic crisis. When the crisis hit, the share price of mining companies collapsed in huge proportions (late 2008) (Ministry of Mines, 2008): Anvil Mining -91%; Boss Mining -93.9%; First Quantum -80%; Katanga Mining -93.3%; Meteorex -83.9%; and Teal Metal -95.8%.

The collapse of share prices made it difficult for some mining companies to finance investment with rights issues; at the same time, banking finance has all but dried up (SARW, 2009). Only companies with their own cash reserves were in a position to move forward with their plans. Some international companies operating in the DRC suspended some of their operations' borrowing costs for a while. Available data indicate that FDI amounted to \$626 million in 2007, then went up to \$1713 in 2008 and dropped to \$374 million in 2009.

Figure 3: Recent trends in minerals exports and FDI, 2007-2009 (US\$ millions)

Source: IMF and BCC (2009).

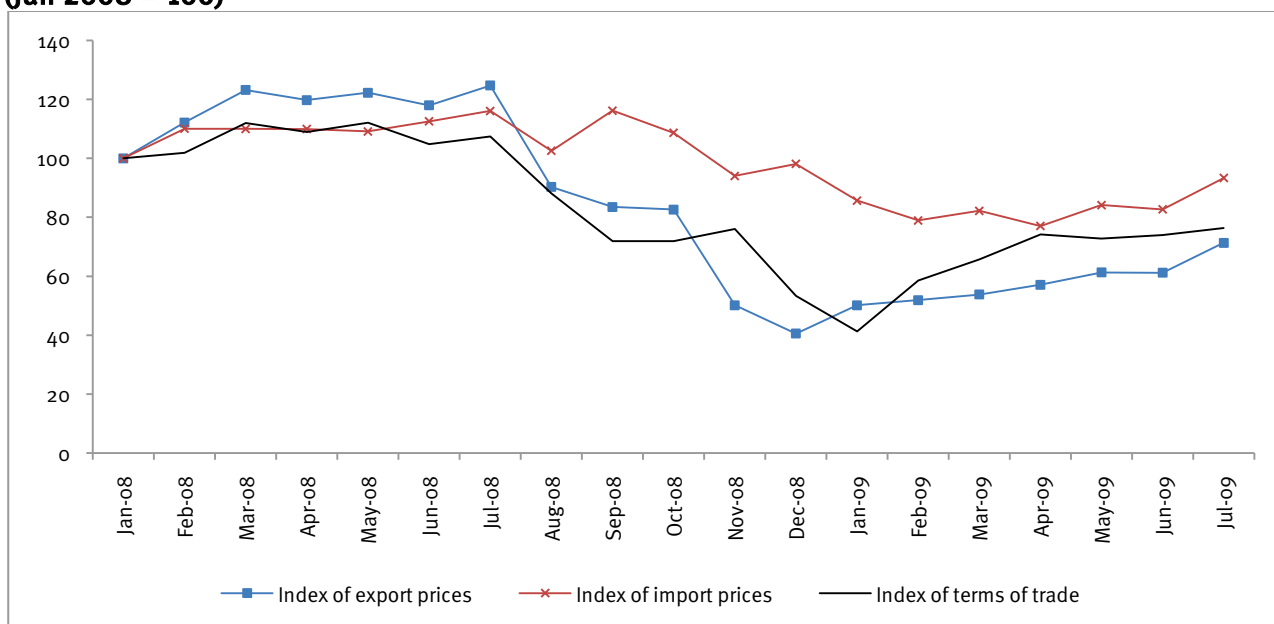
2.2 Trade

2.2.1 Terms of trade

Judging from data covering the 2000-2006 period, the DRC's trade structure is dominated on the exports side by minerals (73.6%), oil (19.7%) and agricultural products (2.3%). On the imports side are mostly food products (22.3%), manufactured products (15.2%) and raw materials (5.3%). Having collapsed in the fourth quarter of 2008, world commodity prices are now rising, whereas prices of

imported food products have fallen. Together, these developments contributed to the improvement of the DRC's terms of trade in 2009. Considering January 2008 as the basis, the index of the terms of trade went up from 41.34 in December 2008 to 76.41 in July 2009.

Figure 4: Indices of export prices, import prices and terms of trade, Jan 2008-Jul 2009 (Jan 2008 = 100)

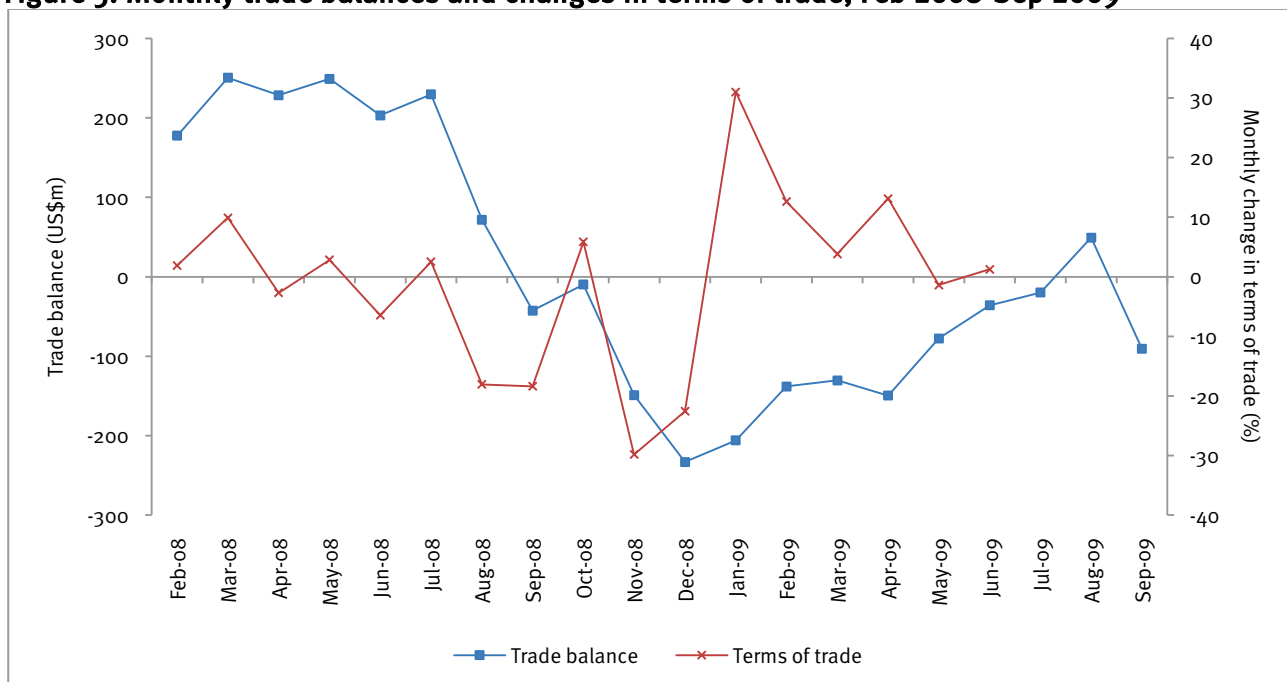


Source: BCC (2009b).

2.2.2 Trade balance

As can be seen in Figure 5, negative trade balances corresponded with negative monthly changes in the terms of trade in 2008 and 2009. Inversely, positive trade balances coincided with positive monthly changes in the terms of trade. Thus, as a result of the collapse of world commodity prices in the fourth quarter of 2008, the sudden and severe drop in the country's terms of trade has had adverse effects on the DRC's trade balance.

Figure 5: Monthly trade balances and changes in terms of trade, Feb 2008-Sep 2009



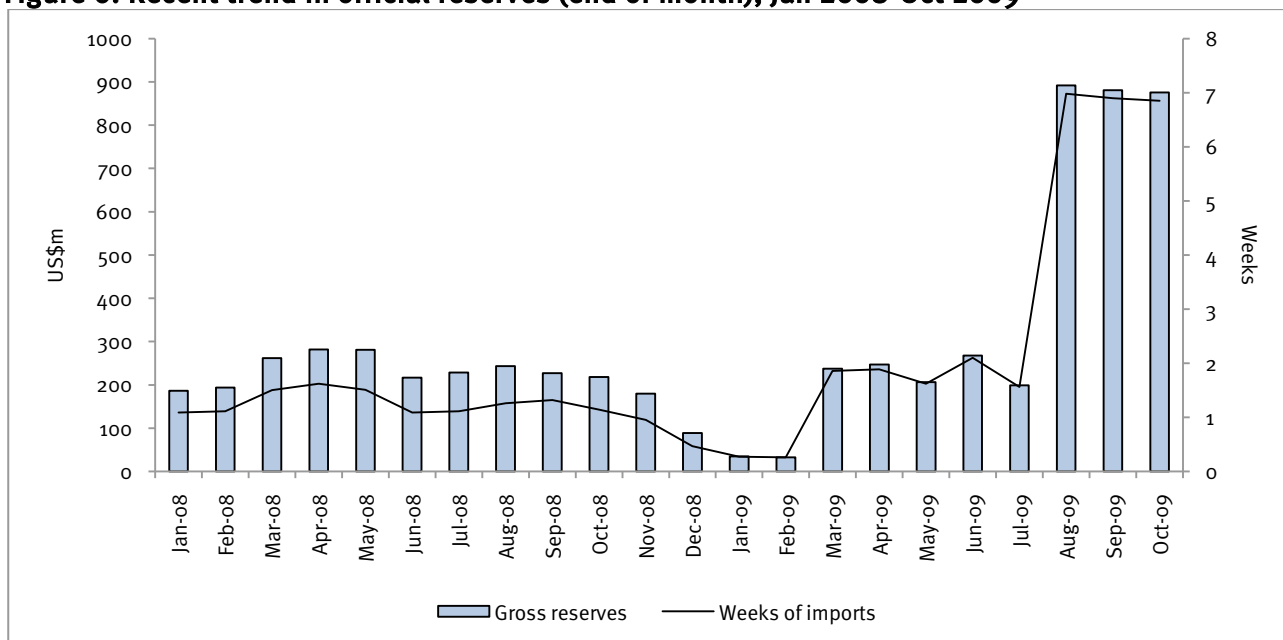
Source: BCC (2009b).

Three periods stand out in 2009 with regard to the behaviour of the trade balance. In the first quarter, deterioration of the terms of trade – brought about by the fall in world commodity prices – worsened the trade balance significantly, by \$-474.4 million. In the second quarter, when world commodity prices started to improve, the deficit in trade was reduced to \$-263 million. In the third quarter, the improvement in the trade balance was even greater than before, with a deficit of \$-61.3 million. However, this was not enough to absorb all the negative impact of the early degradation of the terms of trade. Thus, the overall trade balance turned out to be \$-1467 million in 2009, from a mere \$-125 million in 2008.

2.2.3 Gross official reserves

The level of international reserves has been structurally low in DRC, stabilising at around 1 week of imports before the crisis. Figure 6 provides an overview of the most recent evolution. In 2008, the level of official reserves was low, despite the boom in export earnings during the first months of that year. Foreign exchange reserves held by the BCC started to decline rapidly in September 2008 owing to increased government spending in foreign currencies. By end-February 2009, gross official reserves had plunged to the lower level of \$32.87 million, the equivalent of less than 1 day of imports.

Figure 6: Recent trend in official reserves (end of month), Jan 2008-Oct 2009



Source: DRC (2009).

In March 2009, thanks to the \$195 million granted to the DRC by the Board of the International Monetary Fund (IMF) under the Rapid Access Component of the Exogenous Shocks Facility, the level of gross official reserves jumped to \$237.29 million, the equivalent of 1.86 week of imports. By the end of October 2009, the level of official reserves stood at \$875.39 million, the equivalent of almost 7 weeks of imports, the DRC having benefited from donors’ disbursements in addition to traditional export earnings.

2.3 Remittances

Remittances are regarded by those who receive them as an additional source of revenue or a substitute when ordinary income tends to be rather volatile. Studies have shown that most migrants remit money to satisfy the basic needs of family members – e.g. food and clothing – and to a lesser extent education and health care. A small percentage of the total amount of remittances seems to be sent for specific economic investments (de Bruyn and Wets, 2006). Congolese migrants are in significant number in Belgium and in countries such as France, the UK, Switzerland, the US and Canada. South Africa is

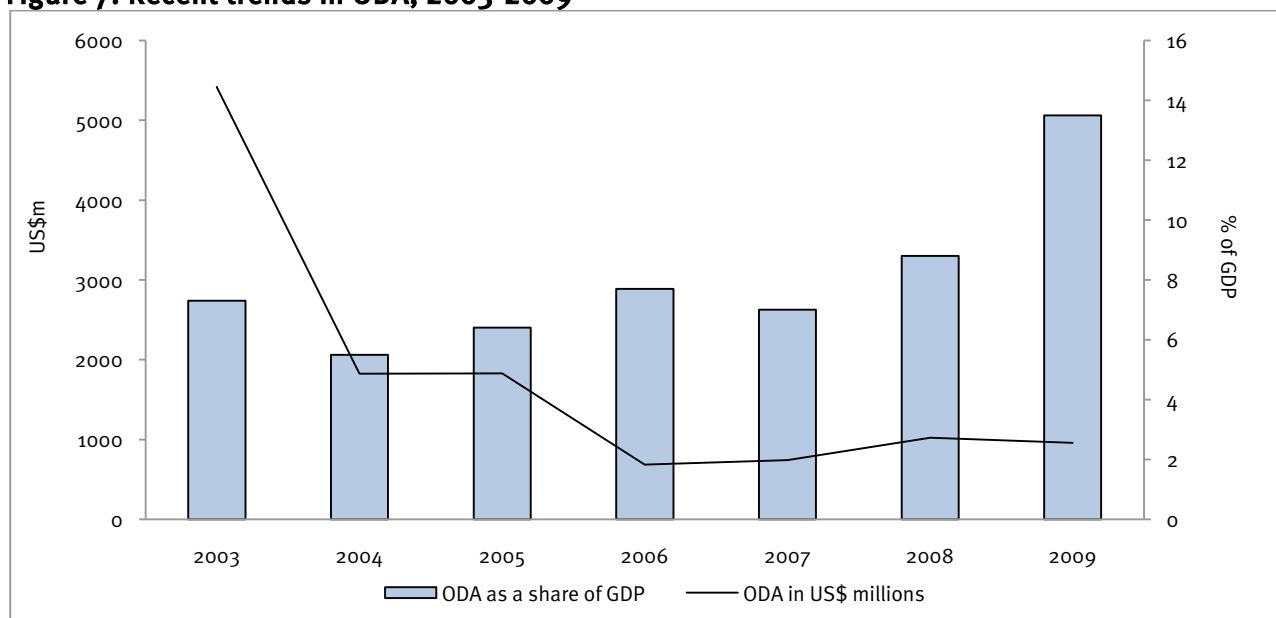
another major country of destination for Congolese migrants, although in the past few years it has become a stepping stone to Europe and North America (Sumata, 2002).

No exact figures are available on remittances, since informal methods as well as formal channels are used by migrants to transfer money to family members. Recorded remittances in the balance of payments increased from \$81 million in 2007 to \$212 million in 2008, and are estimated at \$135 million in 2009 (IMF and BCC, 2009).

2.4 Aid

Two periods can be distinguished in the recent evolution of aid to the DRC. During the 1990s, structural aid was suspended and only humanitarian assistance remained. Humanitarian programmes are currently still underway, although to a lower extent, mainly in conflict-affected parts of the country. Structural relations between the DRC government and the international community of donors resumed in 2002. In 2003-2007, official development assistance (ODA) amounted to some 6.7% of gross domestic product (GDP). In 2007, it stood at \$740 million, or 7% of GDP. The DRC received \$1010 million in ODA in 2008 (8.8% of GDP) and \$1499 million in 2009 (13.5% of GDP). ODA has gone up in the past two years as a result of better coordination among donors and a timely response to the crisis.

Figure 7: Recent trends in ODA, 2003-2009



Sources: IMF (2009b); IMF and BCC (2009); www.oecd.org/dataoecd/18/31/1901167.gif.

The bilateral share of total aid has always constituted the major part, 65% on average for the period 2005-2007. The largest bilateral donors were the US, Belgium and the UK. As a result of low performance of the public financial system, nearly all aid to the country is given in the form of non-system-aligned projects or programmes. The Ministry of Planning organised in June 2009 an Aid Effectiveness Forum, which assessed aid mobilisation and allocation schemes to the DRC and agreed on a number of ways to improvement coordination between donors and the government.

2.5 Summary: Balance of payments effects

The impact of the global financial crisis on the balance of payments has been significant, with an overall balance of \$-574 million in 2008 and \$-413 million in 2009. The trade balance contributed most to the worsening of the current account balance in 2009. Table 3 indicates a high financing need before exceptional assistance in the DRC, taken care of through debt relief. As a result of the impact of the crisis on trade, gross official reserves represented the equivalent of 1 week of non-aid-related imports

of goods and services. The allocation by the IMF of \$195.5 million to the DRC under the Rapid Access Component of the Exogenous Shocks Facility, along with central bank purchases of foreign exchange (mainly from mining companies), improved the level of gross official reserves in 2009.

Table 3: Balance of payments summary in the DRC, 2007-2009 (est.) (US\$ millions, except where otherwise stated)

	2007	2008 (prelim.)	2009 (est.)
Current account	-153	-1840	-1760
Merchandise trade	886	-125	-1467
Exports	6143	6585	3787
Of which mining products	5108	5422	3076
Imports	-5257	-6711	-5376
Of which aid-related products	-739	-1109	-1538
Services	-1225	-1624	-1169
Income	-635	-1321	-745
Current transfers	821	1231	1621
Of which official aid	740	1019	1499
Capital and financial account	66	1266	1347
Of which FDI	374	1713	626
Balance before errors and omissions	-87	-574	-413
Errors and omissions	-262	0	0
Overall balance	-349	-574	-413
Financing	-99	1858	-31
Net change in non-Fund credit arrears	163	171	197
Net banking sector reserves (increase = -)	-262	-13	-228
Central bank	-199	-52	-244
Of which net Fund credit	-62	-137	51
Commercial banks	-63	39	16
Financing need before exceptional assistance	-448	-416	-444
Exceptional financing	448	416	368
Consolidation of arrears	0	0	0
Debt relief	448	416	368
Residual financing need (over-financing = +)	0	0	-76
(In % of GDP)			
Current account balance, incl. transfers	-1.5	-15.9	-16.4
Current account balance, excl. transfers	-9.0	-24.7	-30.4
Current account balance, incl. transfers, after debt relief	3.0	-12.3	-13.0
Gross official reserves (weeks of imports)	1.5	1.0	9.9
GDP (CDF.b)	5148	6526	8729

Sources: IMF (2009a); IMF (2009c); IMF and BCC (2009).

3. Growth and development effects

3.1 National-level growth

3.1.1 Quarterly developments

As a consequence of the global economic downturn, the DRC's economy entered into recession in the third quarter of 2008, with a greater output contraction in the extractive industries (-11%) than in manufacturing industries (-3%), electricity and water (-2.4%) and construction (-1.4%). In fact, most of these sectors were already experiencing some activity slowdown, owing to recurrent problems such as the existence of obsolete equipment, frequent electricity outages and so on. Output contraction went on in the extractive industries at a diminishing rate until the second quarter of 2009. By the fourth quarter, overall economic growth stood at 2% – an early signal that the economy might be recovering from recession.

Table 4: Recent trends in global and sector indices of activity, 2008Q1-2009Q3 (%)

	Overall growth		Sector growth				
	Quarterly growth	Cumulative	Extractive industries	Manufacturing industries	Construction	Power and water	Other
2008Q1	2.5	2.5	18.3	0.1	10.8	3.2	14.5
2008Q2	6.7	9.4	3.2	5.5	8.4	-9.6	-5.4
2008Q3	-1.8	7.5	0.7	-6.6	-4.7	2.4	18.1
2008Q4	-1.1	6.2	-11.0	-3.0	-1.4	-2.4	0.3
2009Q1	-4.6	-4.6	-6.7	-1.2	2.3	-0.3	1.8
2009Q2	-1.3	-5.8	-3.7	1.7	3.1	0.2	1.9
2009Q3	2.0	-4.0	7.6	5.8	1.3	-0.4	0.5

Source: BCC (2009d).

The recovery seems to involve the same transmission channels, in the opposite direction. After a slump in 2008, world commodity prices were rising again in 2009. Extractive industries responded favourably to this in the DRC, with a growth rate of 7.6% in the third quarter of 2009. At the same time, manufacturing industries and the construction sector have consolidated their growth rate, with 5.6% and 1.3%, respectively. However, the pace of recovery has been uneven in the extractive industries. Based on the data available, copper and diamonds did not reach in August/September 2009 the levels of production realised in the corresponding periods of 2008. Cobalt, zinc, gold and crude oil were far above their precedent levels of production, however.

Table 5: Comparison of rates of effective production in the extractive industries, 2009 vs. 2008

	Period of reference	Cumulative monthly production		Effective production (c) = (b)/(a)
		2008 (a)	2009 (b)	
Copper (tonnes)	Sep	249,738	164,726	66.0%
Cobalt (tonnes)	Sep	32,706	36,163	110.6%
Zinc (tonnes)	Sep	10,506	15,097	143.7%
Diamonds (1000 carats)	Aug	16,006	10,628	66.4%
Gold (kg)	Aug	104	125	120.2%
Crude oil (barrels)	Aug	5,541,932	6,322,392	114.1%

Source: Constructed from BCC (2009e).

3.1.2 Annual developments

Altogether, the global economic crisis has exerted a profound impact on the DRC's economy by taking it off abruptly from the steady growth path on which it embarked in 2002. Prior to the crisis, a growth rate of 10% was expected in 2008. Actually, GDP grew at 6.2% in 2008, 3.8 percentage points below the target. The growth rate was even lower in 2009, estimated at 2.7%.

Figure 8: Trend in real GDP growth rate, 2000-2009 (%)



Source: BCC (2009e); IMF (2009b).

3.1.3 Sector growth and contribution to GDP

It is interesting to note that both sector growth rates and sectors' shares of GDP have been affected by the crisis. Although the extractive industries saw an exceptionally high growth rate in 2008 (11.4%), this turned volatile in 2009 (-12.5%). Still, the extractive industries' share of GDP averaged 12% of GDP in 2007-2009. Growth was maintained in trade and commerce, in agriculture and in the transportation and telecommunications sector, in spite of the crisis. At the same time, agriculture and manufacturing industries kept their share of GDP, at around 37% and 4%, respectively. Trade and commerce have grown in importance, from 19.6% of GDP in 2007 to 22.2% in 2009. Meanwhile, the GDP share of transportation and telecommunications has reduced dramatically, from 19.6% to 6%. From these developments, one could infer that trade and commerce have served promptly as natural shields for some crisis-hit people, as informal activities are easily conducted in this category. Meanwhile, transportation and telecommunications have been somewhat affected by curtailment of activity in the extractive industries. More data are needed to further this hypothesis.

Table 6: Real GDP growth by sector, 2007-2009 (prelim.) (%)

	2007			2008 (prelim.)			2009 (prelim.)		
	Sector growth	Share of GDP growth	Share of GDP	Sector growth	Share of GDP growth	Share of GDP	Sector growth	Share of GDP growth	Share of GDP
Agriculture, forestry, livestock, hunting and fishing	3.3	0.6	38.5	3.0	18.8	37.4	3.0	41.1	37.5
Extractive industries	2.5	5.4	12.8	11.4	23.7	13.4	-12.5	-61.1	12.1
Manufacturing industries	5.1	3.4	4.1	2.7	1.8	4.0	0.8	1.2	4.1
Electricity and water	1.8	0.2	0.7	-4.9	-0.6	0.6	0.0	0.0	0.6
Construction and public works	5.4	7.1	8.2	3.8	5.0	8.0	4.3	12.5	8.1
Trade and commerce	13.1	38.8	19.6	12.3	39.5	20.9	9.0	68.7	22.2
Transportation and telecommunications	10.9	9.8	19.6	8.4	8.0	6.0	9.0	19.7	6.0
Market services	6.9	6.7	6.0	4.8	4.7	6.0	4.4	9.6	5.9
Non-market services	6.2	1.9	2.0	4.2	1.3	1.9	3.2	2.2	1.5
GDP growth rate	6.3			6.2			2.7		

Source: Constructed from World Bank (2009).

3.2 Investment and employment

Mining stands out in the DRC as the activity most affected by the global financial crisis in terms of curtailment of both investment and employment. Reactions to the crisis were not the same for the different types of minerals.

3.2.1 Cobalt and copper

With the eruption of the global financial crisis, share prices of some mining companies operating in the DRC collapsed (as we have seen), making it impossible for them and other mining companies to finance investment with rights issues. At the same time, banking finance has all but dried up (SARW, 2009). Only companies with their own cash reserves have been in a position to move forward with their plans. Some international mining companies have suspended their operations to reduce borrowing costs. For example, Anvil Mining suspended work at its Mutoshi mine near Kolwezi and stopped the construction of a minerals processing unit at Kinsevere. BHP Billiton abandoned exploration activities in Katanga in January 2009. First Quantum placed key assets on 'care and maintenance' for a while. AngloGold Ashanti scaled back exploration activities. Central African Mining & Exploration Company temporarily laid off some 5000 workers. And Katanga Mining stopped exploitation at its Tilwezembe mine and processing minerals in Kolwezi.

Table 7: Impact of the crisis on mining companies in Katanga, Jan 2009 and Mar 2009

6 January 2009	Mining sites	Closed	Scaled down	Open	Total
	Lubumbashi	22	9	5	36
	Likasi	16	7	5	28
	Kambove	5	1	0	6
	Kolwezi	2	2	0	4
	Territoire Kipushi	1	0	0	1
	Total	46	19	10	75
30 March 2009	Mining sites	Closed	Scaled down	Open	Total
	Lubumbashi	20	6	10	36
	Likasi	16	4	8	28
	Kambove	5	1	0	6
	Kolwezi	2	0	2	4
	Territoire Kipushi	1	0	0	1
	Total	44	11	21	76

Source: Provincial Ministry of Mines, Katanga (2009).

In November 2008, 75 mining companies were operating in Katanga. As summarised in Table 7, by January 2009 46 mining companies (63%) had closed as a result of the drop in mineral prices, 19 (25.3%) had scaled down their operations and 10 (13.3%) were maintaining their activities. By March 2009, with commodity prices on the rise again, the number of companies that had scaled down their operations had dropped from 19 to 11, and two companies decided to resume their activities.

Another casualty of the lower commodity prices was the artisanal mining sector – dominated by Chinese small-scale enterprises – where massive job losses occurred (RAID, 2009). According to a survey (Muteba, 2009), there were some 24,446 artisanal miners, or 'diggers', on identified sites in December 2008. Only 6460 artisanal miners kept their jobs. The proportion of job losses amounted to 73.5%.

Table 8: Impact of the crisis on artisanal miners, Dec 2008 and Apr 2008

Mining site	No. of job holders, Dec 2008	No. of job holders, Apr 2008	Proportion of job losses
Lubumbashi	867	269	68.9%
Likasi	12,617	2434	80.7%
Kolwezi	10,962	3757	65.72%
Total	24,446	6460	73.5%

Source: Muteba (2009).

In the copper/cobalt sub-sector, small mining companies were hit the most severely, since they were first attracted by the prospects of higher and quick profits. Their activities were concentrated in the less demanding segment – in terms of investment – such as buying houses of raw minerals brought by artisanal diggers (RAID, 2009) or small-scale smelting units. Unfortunately, there is no information on the proportion of these companies resuming activities since the upsurge in world commodity prices.

On the other hand, big companies are engaged in long-term activities (exploration, mining development and processing). Therefore, having invested in new technologies of production aimed at reducing costs and expanding output, they are keen to pursue their undertakings. For example (see Commission Mutamba Dabwe, 2009):

- Tenke Fungurume Mining (TFM) started constructing a plant in Katanga in 2006 – costing up to \$1.75 billion in the last stage – to produce 115,000 tonnes of copper and 8000 tonnes of cobalt annually. The project includes development of mining, processing and general infrastructure, and delivered its first copper in June 2009. It involves a multiyear \$140 million loan to the state electricity enterprise (SNEL) to rebuild hydropower generation and transmission capability.
- Kingamiambo Musonoi Teilings (KMT) has been considering expanding its production capacity in 2010 up to 100,000 tonnes of copper annually.
- Anvil Mining Company Kinsevere (AMCK) is also committed to a factory, with an annual capacity of production of 50,000 tonnes of copper.

The problem is on the government side. As heralded in the press (Reuters, 2009), ‘Congo’s high-risk but potentially lucrative metals sector is once more attracting the interest of major investors looking to pick up bargains ahead of an anticipated global economic recovery and a rebound in demand’. But a much-delayed government review of 61 mining contracts concluded with mining companies has created confusion and insecurity in this sector. At First Quantum’s KMT project of \$550 million, the management initially opted for the continuation of work, although the contract has been annulled by the government. Pending court arbitration, KMT has finally decided to put on leave some 2000 workers. Freeport-McMoRan’s giant TFM copper mine also failed to clear the review. So the major concern for these companies is holding on to the properties they have.

3.2.2 Diamonds

About 90% of diamond output in the DRC is of industrial quality, not suitable for use in jewellery but requiring heavy equipment. This branch has been left traditionally to a public enterprise – Bakwanga Mining (MIBA) in the province of Kasai Oriental. Owing to long-lasting mismanagement, the company is now stuck in unending technical and financial problems. At the onset of the global financial crisis, MIBA’s activities were already sporadic, because of obsolete equipment. Its diamonds output fell from 2.6 million carats in 2006 to 589,000 carats in 2007 (it produced around 10 million carats annually in the 1990s). Prior to the crisis, MIBA’s 6000 workers were literally unemployed and unpaid for many months (CRONGD et al., 2009).

On the other hand, production of gem quality diamonds is less demanding in terms of investment. It attracts many artisanal diggers, whose number is estimated at some 500,000 persons in the two provinces of Kasai (Ministry of Mines, 2008). As a result of the global crisis, the market value of diamonds dropped by 30% to 40% for the jewellery type and by up to 60% for the industrial type. Calculations based on the information contained in Table 9 indicate that the monthly loss to the DRC economy amounted to 11% in terms of carats and 36.76% in terms of value per carat. Subsequently, the loss in volume increased up to 21.66% and in value up to 51.23% (ibid). Thus, most small-scale and artisanal mining had to be curtailed by the providers of the funding to avoid unnecessary losses. Some of the diggers are reported to have returned to agriculture to make a living.

Table 9: Impact of the crisis on the diamond sector, 2008

	Monthly average exports (carats)	Total value (US\$)	Value per carat (US\$)
Jan-Jul 2008	2,011,275.31	56,412,770	28.05
Aug-Oct 2008	1,785,163.00	35,677,478	19.99

Source: Ministry of Mining (2008).

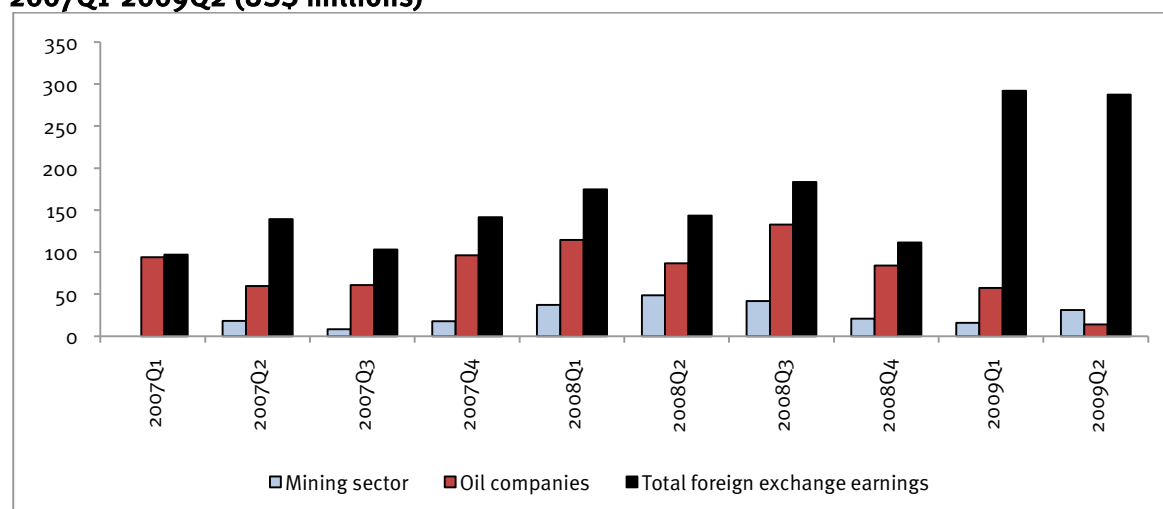
3.2.3 Wolframite, coltan, cassiterite and gold

These minerals are exploited in the big Kivu region, which has been the location of many of the DRC's armed conflicts. The production of wolframite significantly declined in 2008 and afterwards, in favour of coltan, cassiterite and gold, whose market prices have been higher. Production takes place using small-scale methods under the control of various funding patrons and armed predators (Geenen and Kamundala Byemba, 2009; Ndungu and Kilosho Buraye, 2009). But formal exports of coltan are quite poor, since production is conducted mostly in rebel-controlled territories. Formal gold production has ceased for many years.

3.3 Fiscal effects

Although fiscal revenue from the mining sector is not apparent in data published by the Ministry of Finance, it can be inferred from repurchases by the BCC of the export sector's fiscal payments.⁴ As shown in Figure 9, there was a declining trend in fiscal payments of the mining sector from the third quarter of 2008 to the first quarter of 2009. The big jumps in total foreign exchange earnings in the first quarter and the second quarter of 2009 owed, respectively, to an IMF allocation of \$200 million and \$125 million 'pas de porte' from Chinese investors in the mining sector.

Figure 9: Recent trends in central bank repurchases of the export sector's fiscal payments, 2007Q1-2009Q2 (US\$ millions)



Source: BCC (2009e).

The DRC's fiscal situation is characterised by structural weaknesses and great vulnerability. In general, revenue mobilisation is weak, biased towards formal business and the external sector. On expenditure, revenues are used predominantly for wages and salaries, goods and services, interest on public debt and transfers and subsidies. Very often, this leaves little fiscal space for a proactive fiscal policy and public investment, except for that created by donor projects that are included into the budget.

⁴ Government revenue from the mining sector comprises: 1) income tax (30%); 2) various administrative fees; 3) turnover tax (3% to 5% on interior services and products); 4) customs duties on all imports (2% to 5% of cif value) and customs duties on exports of diamonds; and 5) royalties (ranging from 0.5% to 4%, depending on the type of mineral commodities). Since all tax payments to the Treasury must be done in local currency, BCC repurchases fiscal payments such as customs duties and royalties that come in foreign currencies. These transactions (and all other operations that involve foreign money) are recorded in the foreign currency budget (see Figure 9).

In 2008 and 2009, treasury operations were conducted in a difficult environment, dominated by the impact of the global crisis and the military and civilian consequences of the armed conflict in North Kivu province. Both revenue mobilisation and expenditure allocation were affected. On the revenue side, the share of customs duties in total revenues regressed from 36% in 2007 to 34.6% in 2009, and that of oil revenue from 20.3% to 6.1% – an indirect effect of the crisis through the fall in the volume of trade and terms of trade worsening. Interestingly enough, direct and indirect taxes as well as public estate and portfolio revenue have gained in importance – which is an indication that households, firms and some public enterprises bore the cost of the adjustment to the external and internal crisis.

Table 10: Relative shares of revenues and expenditures, 2007-2009 (first three quarters)

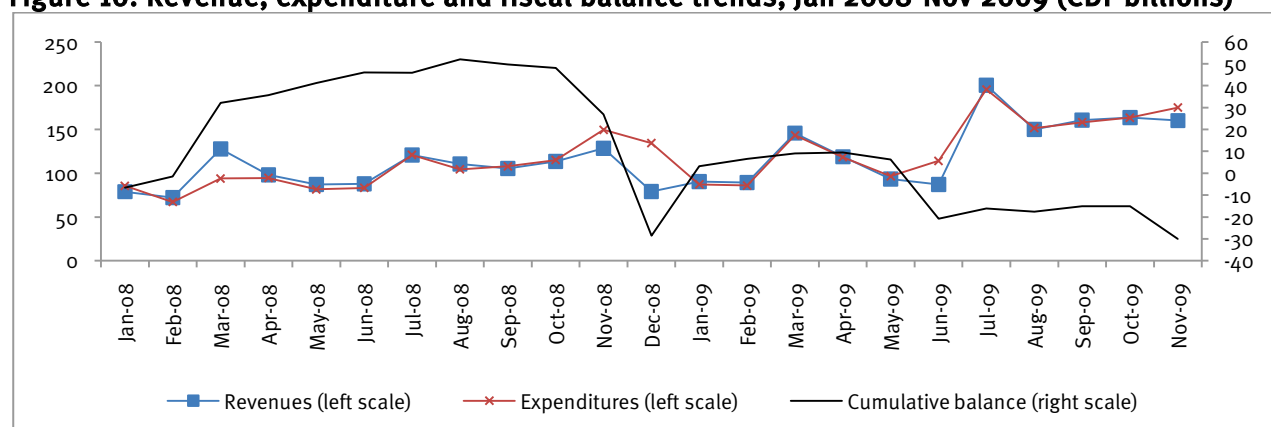
	2007		2008		2009*	
	CDF.b	%	CDF.b	%	CDF.b	%
Revenues	772.8	100.0	1209.9	100.0	981.8	100.0
Customs duties	277.9	36.0	423.9	35.0	339.5	34.6
Direct and indirect taxes	261.8	33.9	433.6	35.8	354.4	36.1
Oil revenues	157.1	20.3	224.7	18.6	59.8	6.1
Public estate and portfolio revenue	75.6	9.8	125.9	10.4	115.2	11.7
Other	0.4	0.1	1.7	0.1	112.8	11.5
Expenditures	786	100.0	1238.5	100.0	1019.4	100.0
Wages and salaries	304.4	38.7	469.4	37.9	353.3	34.7
Goods and services	235.9	30.0	200.8	16.2	216.2	21.2
Public debt service	69.9	8.9	79.4	6.4	67.9	6.7
Transfers and subsidies	74.4	9.5	200.8	16.2	160.3	15.7
Capital expenditures	14.7	1.9	86.8	7.0	74.2	7.3
Other	86.7	11.0	201.3	16.3	147.5	14.5

Note: * = First three quarters of 2009.

Source: Constructed from BCC (2009e).

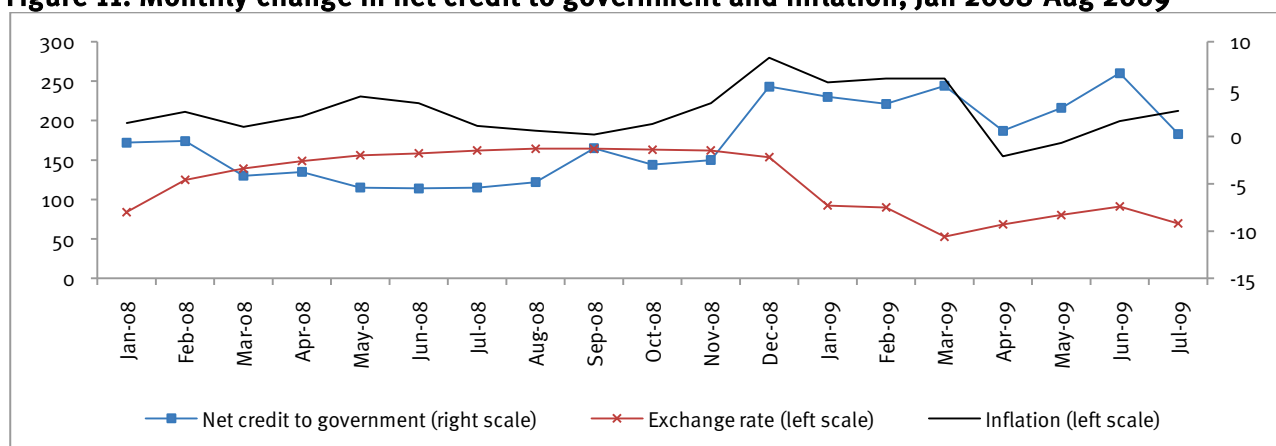
The armed conflict in Kivu has prevented the free movement of people and has made it impossible for the private sector to conduct regular business and for the government to collect needed taxes. At the same time, on the expenditure side, the government has had to increase spending on pacifying the territory, integrating rebel forces into the regular army and rehabilitating infrastructure. This has been done at the expense of wages and salaries, as well as goods and services. Expenditure categories such as transfers and subsidies, capital goods and other expenses have increased their share of total expenditures. Figure 10 provides an overview of the evolution of the fiscal situation in 2008 and 2009.

Figure 10: Revenue, expenditure and fiscal balance trends, Jan 2008-Nov 2009 (CDF billions)



Sources: Constructed from BCC (2009d; 2009e).

Figure 11: Monthly change in net credit to government and inflation, Jan 2008-Aug 2009



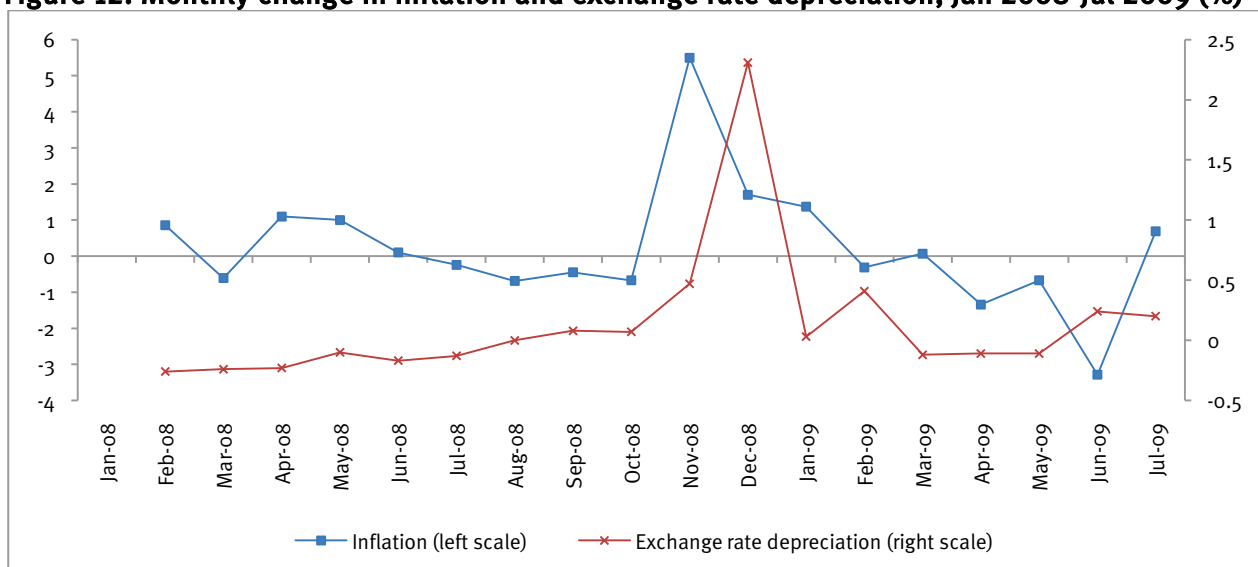
Sources: Constructed from CBC (2009d; 2009e).

In 2008, the fiscal situation was under control during the first half of the year, with a significant surplus building up through August 2008. The robust revenue performance offset higher security spending. After that, revenues dwindled rapidly as the global crisis reduced revenues from the mining sector and oil producers, while the security and humanitarian problems in Kivu continued to exert pressure on public spending. The situation became worse as the fiscal deficit grew rapidly from CDF-2.4 billion in September to CDF-55.4 billion in December 2008. In 2009 the global recession had not ceased to exert negative effects on the fiscal situation, as a reduction in government revenue showed up in the first two months of the year. In an attempt to gain control of the situation, the government, after revising the budget and its expenditure and treasury plans, stuck for a while to cash-based budget management, then lapsed into deficits from June-August 2008, and durably from January-April 2009. The recurrent deficits in 2008 and 2009 were financed largely by borrowing from the BCC. Change in net credit to the government had two peaks, of CDF35 million and CDF62 million in September and December 2008, respectively. Another peak occurred in June 2009. While inflation appeared to evolve in tandem with changes in net credit to the government, it eased from June-October 2008, then in April and May 2009, when the BCC tried to mop up excess liquidity in the economy (see Section 4.2).

3.4 Poverty and distributional effects

Diminishing purchasing power can be a permanent source of poverty, as distributional effects are also attached to inflation. In the DRC, the easing of fiscal policy has been identified as the main reason for the surge in money growth and inflation (Beaugrand, 1997; Nachege, 2005) and, more recently, as a result of increased military expenditure associated with the situation in the eastern provinces (IMF, 2009a). Together, the surge in security spending and the steep drop in export earnings have weakened the fiscal position of the government – thus paving the way for exchange rate depreciation and inflation. Figure 12 shows a close relationship between higher inflation and a fast rising exchange rate, implying a pass-through effect of the exchange rate (IMF, 2005).

Figure 12: Monthly change in inflation and exchange rate depreciation, Jan 2008-Jul 2009 (%)



Sources: Constructed from CBC (2009d; 2009e).

In the highly dollarised economy of the DRC, many local currency-denominated prices respond as soon as there is a rise in the exchange rate. Such behaviour would imply from a structuralist point of view that individuals act to preserve their purchasing power by adjusting – as quickly as they can – the price of goods or assets that they control. In so doing, they contribute to the inflationary movement itself (Mubake Mumeme, 1996). Thus, looking at price changes of the items that enter in the Consumer Price Index (CPI) calculation might give some idea on the proportion to which different groups of actors (merchants, transporters, landlords, butchers, bakers, etc) adjust the price of goods or services they offer. In inflationary situations, the losers are those who cannot protect their purchasing power, for example, by the indexation of nominal wages and salaries or by holding foreign currency – which is a widely spread practice in the DRC.

The artisanal mining sector offers a good case for simulating poverty welfare effects of both exchange rate depreciation and inflation. The minimum wage in the DRC has been set at CDF550 (about \$1 a day if calculated at the exchange rate of CDF559.65 = \$1 in August 2008). In Katanga, since March 2007, as a result of the intervention of Governor Moïse Katumbi, the average take-home pay of workers has been set at \$100 a month, much higher than in other parts of the country. ‘US\$100 is only about a fifth of what an average worker needs to maintain a family and cover household expenditure like school fees’ (RAID, 2009). Not all Chinese companies were willing to pay the amount of \$100 to their informal workers.

Table 11 provides the result of the welfare loss simulation on the grounds of the minimum wage set in Katanga. In March 2007, such a wage represented CDF55,000. With the exchange rate depreciation trend, the equivalent take-home pay would amount to items in column (d). With the surge in inflation (row a), the real wage would be that registered in row (e). At each stage in time, the welfare loss appears in column (f). This simple example indicates that someone enjoying a pay of \$100 would have lost 85.2% of his or her purchasing power between January and September 2009, given historical exchange rate depreciation and inflation. Of course, things looked much worse with the outbreak of the global crisis, since not all laid-off informal workers in the mining sector have had a chance to compensate elsewhere for the loss of the nominal wage of \$100.

Table 11: Simulation of welfare loss from inflation

	Inflation (%) (a)	Exchange rate (CDF/\$1) (b)	Conversion rate (c)	Take-home pay (d)	Purchasing power (CDF) (e)	Welfare loss (CDF) (f)
Mar-07		550.00	0.00181818	55,000		
Aug-08		559.65	0.00178683	55,965		
Jan-09	8.33	715.69	0.00139725	71,569	5961.7	-65,607.3
Feb-09	5.68	788.00	0.00126904	78,800	4475.8	-74,324.2
Mar-09	6.05	831.50	0.00120265	83,150	5030.6	-78,119.4
Apr-09	6.1	785.00	0.00127389	78,500	4788.5	-73,711.5
May-09	-2.1	785.00	0.00127389	78,500	80,148.5	1648.5
Jun-09	-0.69	767.50	0.00130293	76,750	-529.6	-77,279.6
Jul-09	1.64	767.50	0.00130293	76,750	1258.7	-75,491.3
Aug-09	2.68	804.50	0.00124301	80,450	2156.1	-78,293.9
Sep-09	1.88	837.50	0.00119403	83,750	1574.5	-82,175.5
Total for the period Jan-Sep 2009				708,219	104,864.8	-603,354.2
End situation (% of total take-home pay)					14.8%	-85.2%

4. Policy responses: A critical review

4.1 Macroeconomic policies to manage the impact of the crisis

Because of the severity of the crisis, the government has set up an inter-ministerial commission to monitor the impact of the crisis on the country and the formulation of appropriate policy responses for the short, medium and long term, aimed at getting the economy back on track. In March 2009, the government initiated a rescue plan to tackle the effects of the global crisis. It has put high on its agenda the stabilisation of the macroeconomic framework and the lifting of obstacles to the conclusion of a Poverty Reduction and Growth Facility (PRGF) programme with the IMF. Has the government taken the necessary measures – both fiscal and monetary – to curb inflation and stabilise the exchange rate? Table 12 summarises the different stages of the economy in 2009 and the outcome in terms of three parameters: inflation, exchange rate depreciation (-) or appreciation (+) and economic growth.

Table 12: Stages of the economy, 2008Q4-2009Q3 (%)

	2008Q4	2009Q1	2009Q2	2009Q3
Inflation	345	21.4	3.2	7.4
Exchange rate	12.44	19.6	-8.9	8.3
Growth rate	1.1	-4.6	-1.3	2

Source: BCC (2009f).

At the closing of the year 2008, the Congolese franc was trading at around CDF661.50/\$1. For the entire fourth quarter of 2008, the currency had plunged by 12.11%, whereas the quarterly real growth rate had settled at 1.1%. In the first quarter of 2009, the currency weakened further (19.6%), inflation soared from 3.45% to 21.4% and the quarterly real growth rate turned out to be negative. Such a picture implies a combination of a negative supply shock (the continuing effects of the global financial crisis on the DRC's economy) and a positive demand shock (stemmed from the monetisation of the fiscal deficit (CDF60 billion) in the last quarter of 2008). Instead of easing its monetary policy, the BCC should have tightened it to counter inflation and used budgetary resources to sustain the economy. Unfortunately, the authorities could not afford this, being confronted already with severe limits on the available fiscal space (see Section 3.3). Timely donor financing would have helped.

The second quarter of 2009 witnessed some improvement in the economic situation (from -4.6% to -1.3%). Inflation decelerated (from 21.4% to 3.2%) and the Congolese franc rose in value. This favourable picture was a result of an exogenous factor – the rise in world commodity prices – and had nothing to do with a proactive macro policy. Instead, the BCC tightened up its monetary policy by raising the interest rate, increasing reserve requirements and, above all, intervening in the foreign exchange market to sustain the Congolese franc with \$57.7 million. This policy proved to be worthless, since new pressures occurred during the third quarter of 2009, with the franc depreciating and inflation going up again as a result of a recurrent fiscal deficit.

These three episodes are quite instructive with regard to the limits of monetary policy in the DRC if no serious effort is made to refrain from fiscal dominance. In this particular case, the monetary authorities have been acting as if the exchange rate can be stabilised durably in a floating exchange regime. Instead, frequent interventions in the foreign exchange market – with no long-lasting positive effects – undermine its credibility, as the level of official foreign exchange has been quite low. In view of the limited fiscal space, increased donor assistance will be needed to help safeguard the economy from the effects of the shock.

4.2 Social policies to respond to the impact of the crisis

Rapid deterioration of the external financial position and rising world prices in 2008 threatened the DRC's ability to import basic goods (food, oil, construction materials, etc). Meanwhile, because of its tight fiscal situation, the government could not face urgent expenditures on a regular basis unless assisted by the donor community, such as wages and salaries and public sector water and electricity bills.

In May 2009, the government set up an emergency programme to address the impact of the financial crisis under a grant from the International Development Agency (IDA) (see below). In addition, the BCC has intervened in the exchange market by way of adjudication, thanks to a special fund from the IMF.

4.3 Economy-wide and sectoral structural policies for getting the country out of the crisis

The long-term development strategy of the DRC is formulated in a poverty reduction strategy paper (PRSP), adopted by the transitional government in July 2006. The new government endorsed it in March 2007, after the elections. The strategy was finalised three years after the adoption of an interim version and aims to contribute to political stability within the country. Based on the PRSP, the government formulates medium-term programmes, of which the first ended in December 2008 and a second is being finalised. The government envisages the formulation of a new PRSP by 2010.

To avoid the limited alignment with the annual government budget seen in the first PRSP, the new strategy should be more prioritised and linked clearly to medium-term expenditure frameworks (MTEFs), which are translated annually into budgets. 15 Thematic Groups will serve as an interface between government bodies and the different development partners (both bilateral and multilateral) but also civil society, non-governmental organisations (NGOs), syndicates and private sector representatives. To accelerate growth, most stakeholders have agreed to focus the new strategy on large-scale investment in agriculture and improvements in the overall business environment.

4.4 Multilateral and bilateral donor responses in the DRC

The way the DRC has been hit by the global financial crisis has brought about a number of reactions from the donor community, summarised in Table 13.

Table 13: Donor response to the crisis in favour of the DRC

Donor	Budget (US\$m)	Instrument	Programme
IDA (World Bank)	100	Budget aid	Financial Crisis Response Fast Track Facility
IMF	100	Balance of payments support	Rapid-Access Component of the Exogenous Shocks Facility
African Development Bank (AfDB)	100	Budget aid	
European Commission (EC)	48	Food security	

In March 2009, the Executive Board of the IMF approved the disbursement of \$195 million under the Rapid Access Component of the Exogenous Shocks Facility. This balance of payments support, already fully disbursed by the end of March, aimed at rebuilding a minimal level of foreign reserves at the disposal of the BCC.

At the end of February 2009, the DRC benefitted from \$100 million from the World Bank's IDA Financial Crisis Response Fast Track Facility. Three components are concerned:

- \$58 million reserved to ensure the availability of critical imported goods (foodstuffs, construction materials, telecommunications equipment and oil products).
- \$16 million to finance one month of wages for primary and secondary school teachers. In a first phase, up to 70% of teacher's salaries have been reimbursed under retroactive financing. The balance will be released on a conclusive audit of the eligibility of salaries paid by government.
- \$26 million aimed at preventing the deterioration of the financial situation of basic utility services by financing state water and electricity bills.

The AfDB has set up a project of \$95 million, similar to that of the World Bank but with different components, assisting the country with a mix of balance of payments support for the import of essential goods and budgetary support to ensure essential services.

In reaction to the food crisis, and to promote food security, the EC has established a special credit line from which the DRC has received €48 million. After the receipt of a comfort letter from the IMF and based on an audit of expenditures related to food security in the government budget, the EC is prepared to refinance these expenditures. As such, this is a form of disguised, exceptional budget support. Furthermore, in a specific response to the international financial crisis and its impact on developing countries, the EC launched a new initiative on 8 April 2009, announcing its intention to set aside €500 million to be disbursed in budgetary support to those countries hit most by the crisis. Taking into account the criteria used by the EC to assess the vulnerability of countries (dependence on export revenues, capacity to react and dependence on external financial flows), the DRC will likely be one of the recipients (EC, 2009). It is thought that the DRC may benefit from this new budget line to the amount of about €45 million.

5. Conclusions

5.1 The impact of the crisis: An update

The impact of the global economic crisis on the DRC's economy was more severe in 2009 than in 2008. Real GDP reached a growth rate of 2.7%, 3.5 percentage points below the 2008 growth rate. Official aid increased but trade, FDI and remittances were affected negatively, as shown in Table 14.

Table 14: Impact of the crisis on trade, aid, remittances and FDI, 2007-2009 (US\$ millions)

	2007	2008	2009
Trade	886	-125	-1,467
ODA	740	1019	1499
FDI	374	1713	626
Remittances	81	212	135

Source: IMF and BCC (2009).

Signs of recovery from the crisis are evident in the mining sector, through which the DRC's economy was hit in the first place. Indeed, the extractive industries seem to be benefitting again – albeit slowly – from rising world commodity prices. This still leaves the country open to vulnerability if macroeconomic management is not improved to increase fiscal space or facilitate additional donor funds.

On 11 December 2009, the IMF Executive Board approved a \$551 million PRGF arrangement and additional interim assistance of about \$72.68 million under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to reduce the DRC's debt service payments to the IMF. Under the new three-year programme, the DRC will initiate a poverty reduction and growth strategy, accelerate structural reforms, implement prudent and credible fiscal policies and focus its monetary policy on reducing inflation. Structural reforms will be addressed at improving domestic revenue mobilisation, strengthening public financial management, reforming the central bank, restructuring public enterprises, improving governance of natural resources and streamlining the business regulatory environment (IMF, 2009c). The aim is to meet enhanced HIPC Initiative requirements and triggers and to reach completion point, giving way to debt relief under the Multilateral Debt Relief Initiative (MDRI) as early as possible.

5.2 Looking ahead: How well is the country positioned to gain from future recovery and grow sustainably?

It is an established fact that minerals – and to some extent agriculture – have historically been the driver of economic growth in the DRC. This feature, inherited from the colonial strategy of development based on the exploitation of primary commodities, has not only shaped the rest of the economy but also made it vulnerable to changes in external conditions, as is still the case today with the fallout from the global financial crisis.

Nevertheless, the mining sector can produce substantial benefit streams, which can be used to stimulate economic growth and improve the wellbeing of the population. For this to happen, three conditions in the sector are required: an enabling environment to attract private sector investment, strengthened supervisory institutions and good governance (World Bank, 2008). A Senate Special Commission on the mining sector confirmed in a recent report that these issues are today the most critical with respect to growth of the sector and its eventual contribution to economic development (Commission Mutamba Dibwe, 2009). These issues need to be addressed urgently. It is important to improve governance, not only in the moral sense but also in terms of ensuring an efficient, well-functioning and internationally competitive mining industry. One area that needs substantial investment is the rehabilitation and/or construction of transport and power infrastructure in mineral-producing areas. Finally, keeping in mind the risks of an eventual 'natural resource curse', the DRC should rely on its mining revenue to step up the diversification of its economy.

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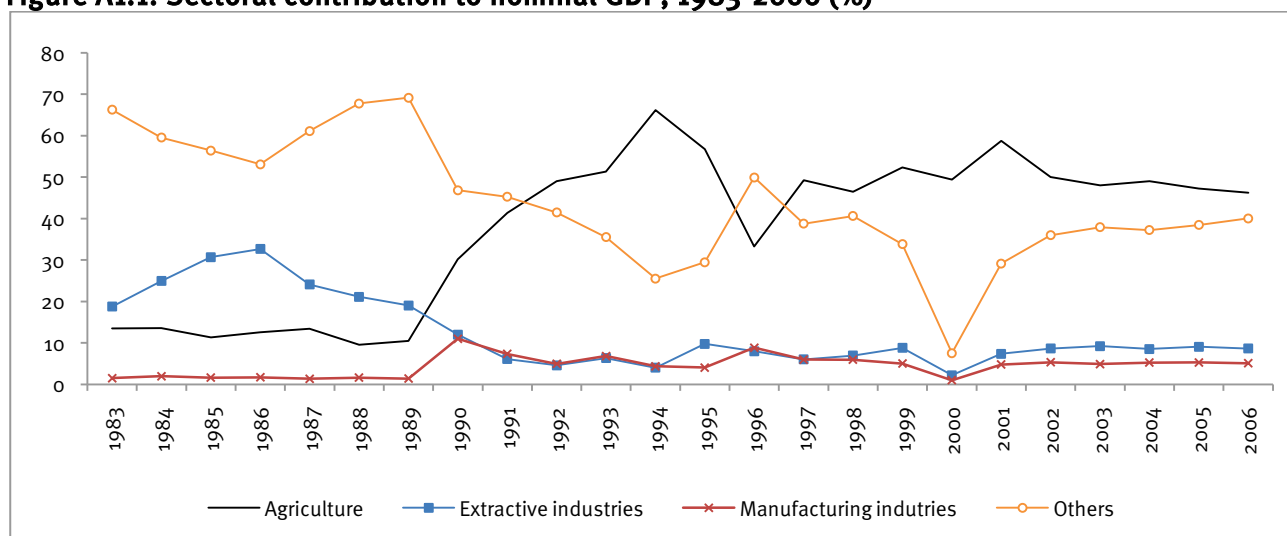
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Annex 1: The mining sector in the DRC economy

Before the crisis

The mining sector has been the key sector of the DRC's economy since colonial times, contributing between 70% and 80% of export earnings and around 8% of GDP. Copper alone has contributed the most to the government's revenues, peaking at 42.9% in 1988. In the mid 1980-1990s, the services sector prevailed over mining and agriculture in terms of contribution to nominal GDP. From then on, agriculture's share increased while services and mining declined in importance. The manufacturing sector's share in nominal GDP has never been higher than 10%, in 1983-2006.

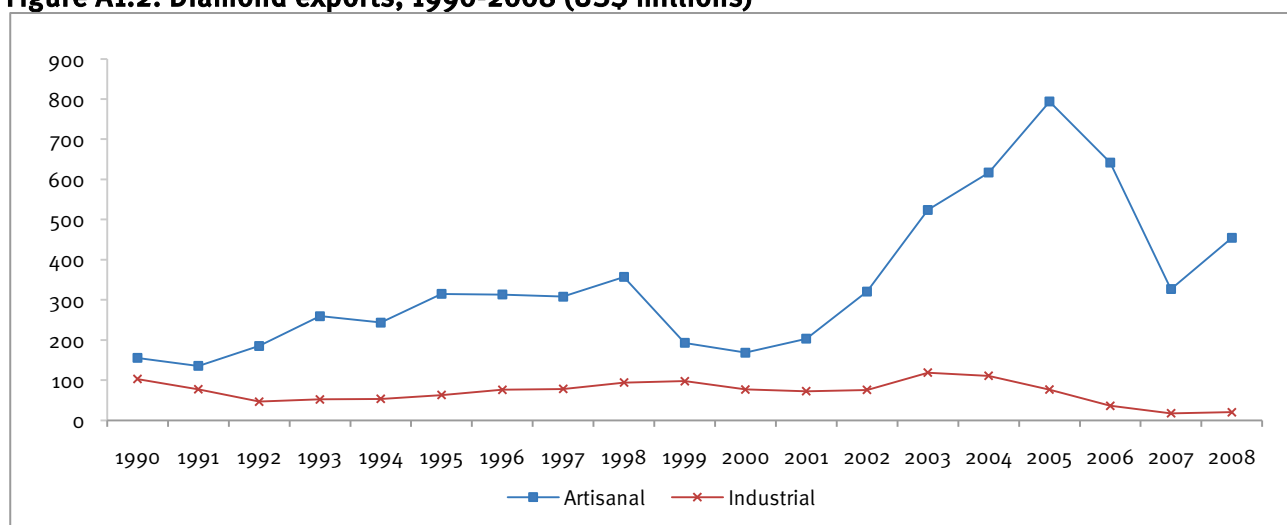
Figure A1.1: Sectoral contribution to nominal GDP, 1983-2006 (%)



Source: Constructed from BCC database.

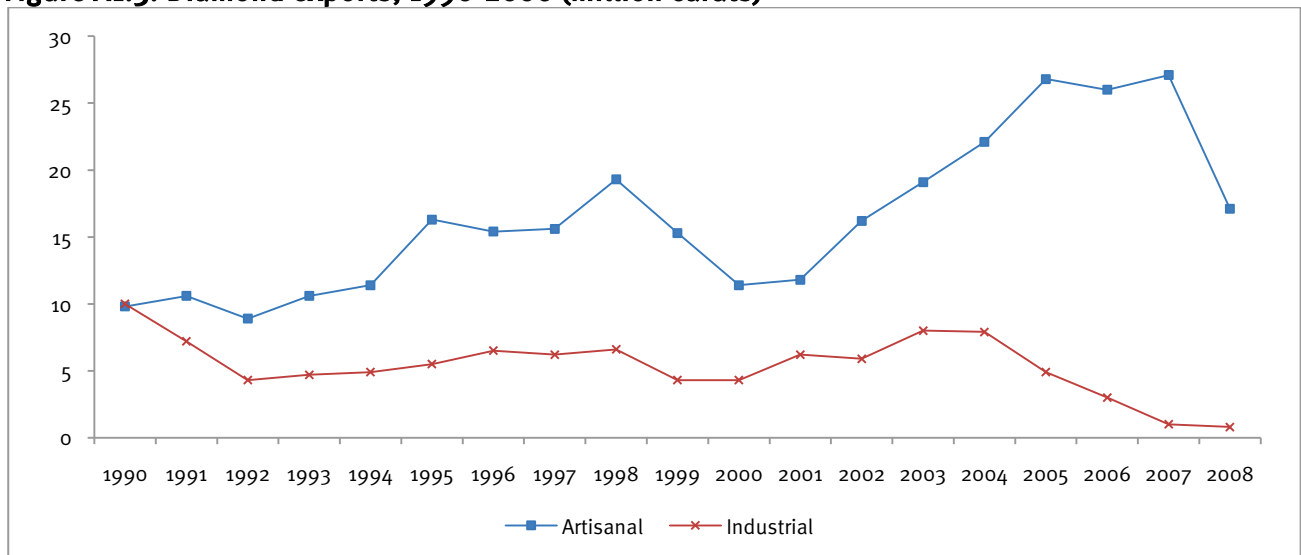
Since the collapse in the 1990s of Gécamines, the leading producer of copper, the government has relied increasingly on export revenues from diamonds. As the DRC's industrial sector has declined the artisanal mining sector has expanded, as seen with heterogenite, diamonds and colombo-tantalite (or 'coltan'). Owing to armed conflict in the Kivu region, illegal production of cassiterite and coltan increased to such extent that all formal production has virtually stopped since 2000.

Figure A1.2: Diamond exports, 1990-2008 (US\$ millions)



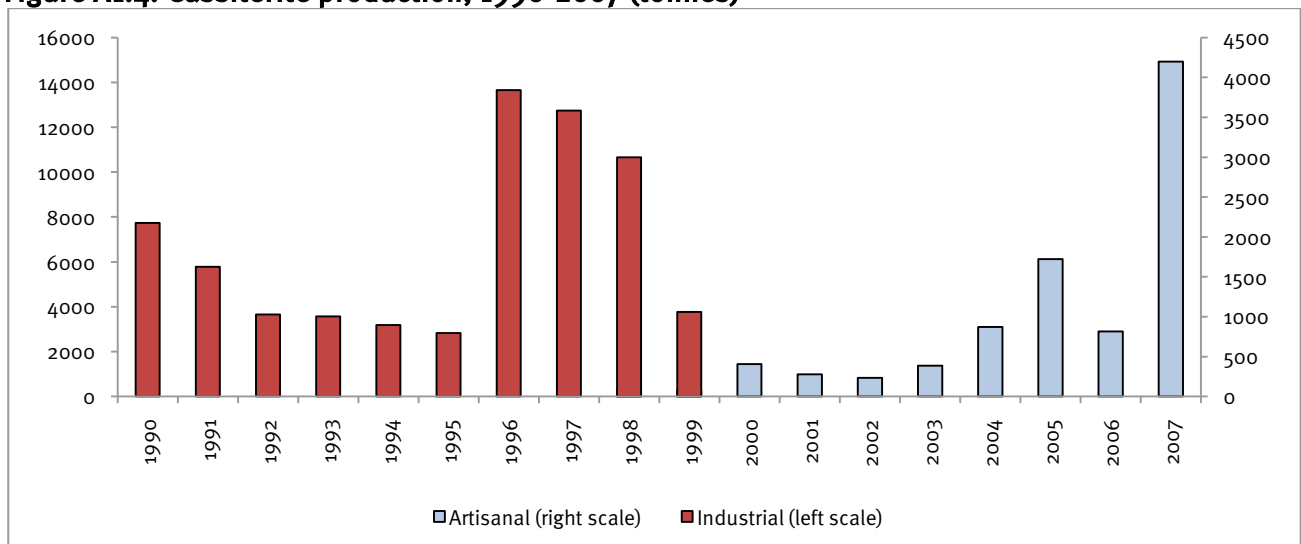
Source: SAESSCAM data.

Figure A1.3: Diamond exports, 1990-2006 (million carats)



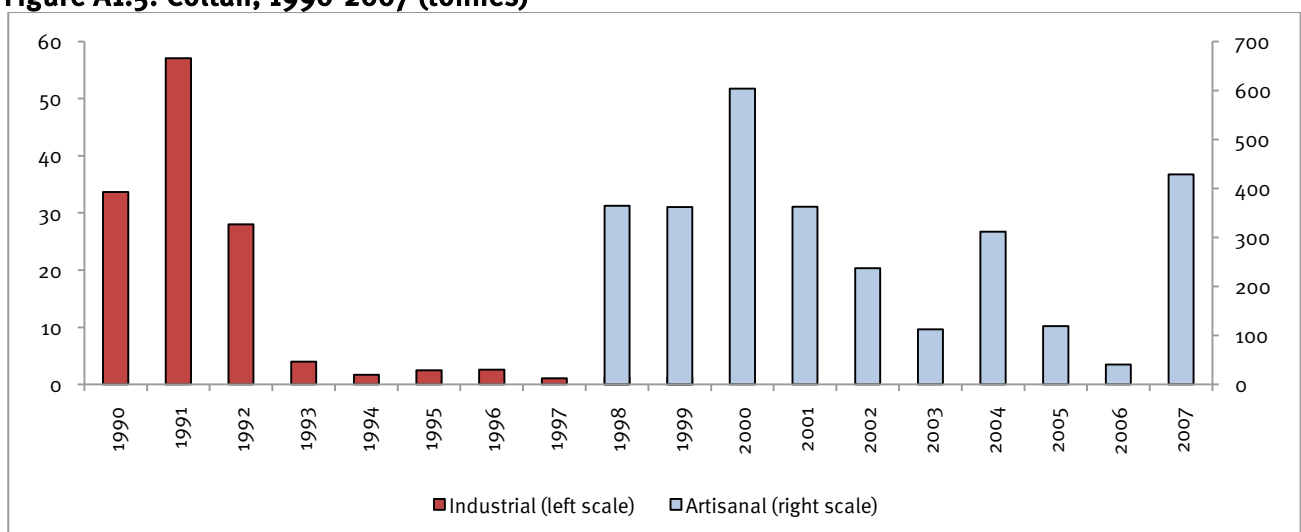
Source: SAESSCAM data.

Figure A1.4: Cassiterite production, 1990-2007 (tonnes)



Source: SAESSCAM data.

Figure A1.5: Coltan, 1990-2007 (tonnes)



Source: SAESSCAM data.

Artisanal production and small-scale mining is the most important segment of the mining sector, in terms not only of production but also of people depending on it. Estimates vary, but as many as 10 million Congolese depend directly or indirectly on mining for their livelihood (World Bank, 2008). Children comprise 40% of artisanal miners or members of families of people present in the mining sites and women represent 20%.

Diggers, or *creseurs*, are sometimes day workers, especially in the heterogenite artisanal mines of Katanga province. They are employed mostly by Chinese companies, very often in violation of labour laws. In the diamond and coltan sectors, diggers are financed (risk capital) by various brokers or buyers known as *négociants*. As compensation for their funding, *négociants* in the diamond sector typically require in-kind payment of 50% of production. They also fix the buying price for the rest of the diggers' share of diamonds. In the heterogenite sector, the merchandise is offered to local buying houses or owners of small foundries, and a big portion of the products is exported through Zambia to destinations such as South Africa, China, India and Malaysia.

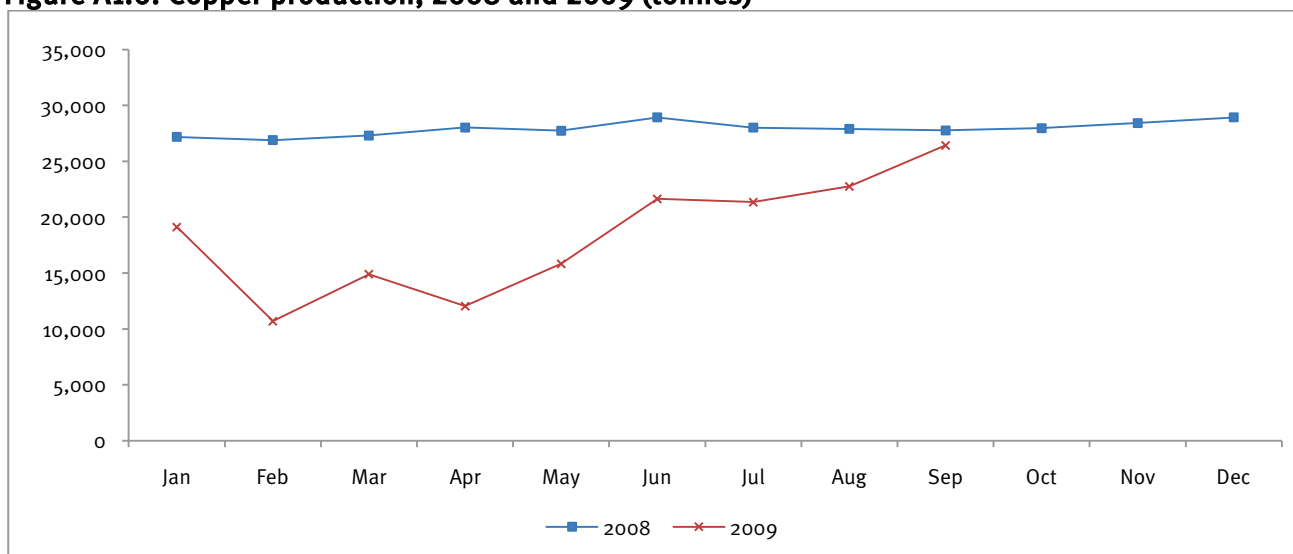
Mining was dominated for years by large state enterprises and artisanal mining was illegal up to 1983. In the mid-1990s, the government authorised state-owned companies to enter into partnership with private sector investors in the development of mineral activities. The new Mining Code authorises exploration, production on both industrial and small-scale levels and transformation of tailings.

Two factors underlie the big 'rush' in the mining sector of Katanga province: the new liberal Mining Code and the upsurge in world mineral prices to such extent that, in March 2008, 1635 titles were granted to companies or individuals for mining activities, of which 337 were for prospecting (82%); 175 were permanent titles to mineral concessions (11%); 84 were titles for mineral production (5%); 10 titles were for small-scale mining (1%); and four were titles for tailings transformation. At that time, about 70% of enterprises were in the prospecting phase.

In response to rising world commodity prices

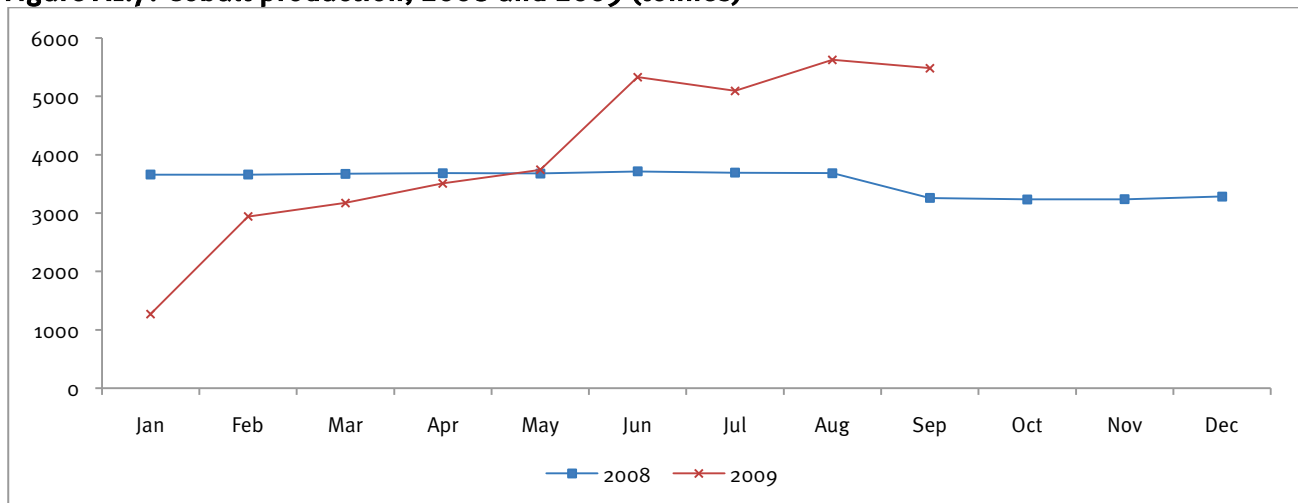
The recovery seems to involve the same transmission channels as the crisis, but in the opposite direction. After a slump in 2008, world commodity prices were rising again in 2009. The DRC's extractive industries responded favourably to this, although the pace of recovery has been uneven in the mining sector, as shown in the charts below.

Figure A1.6: Copper production, 2008 and 2009 (tonnes)



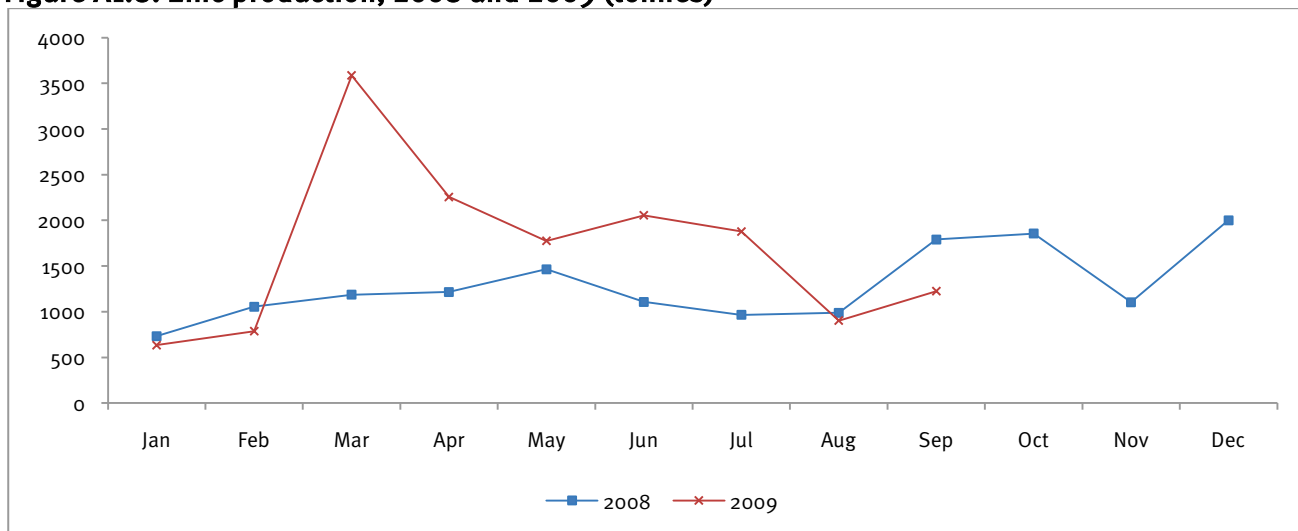
Source: SAESSCAM data.

Figure A1.7: Cobalt production, 2008 and 2009 (tonnes)



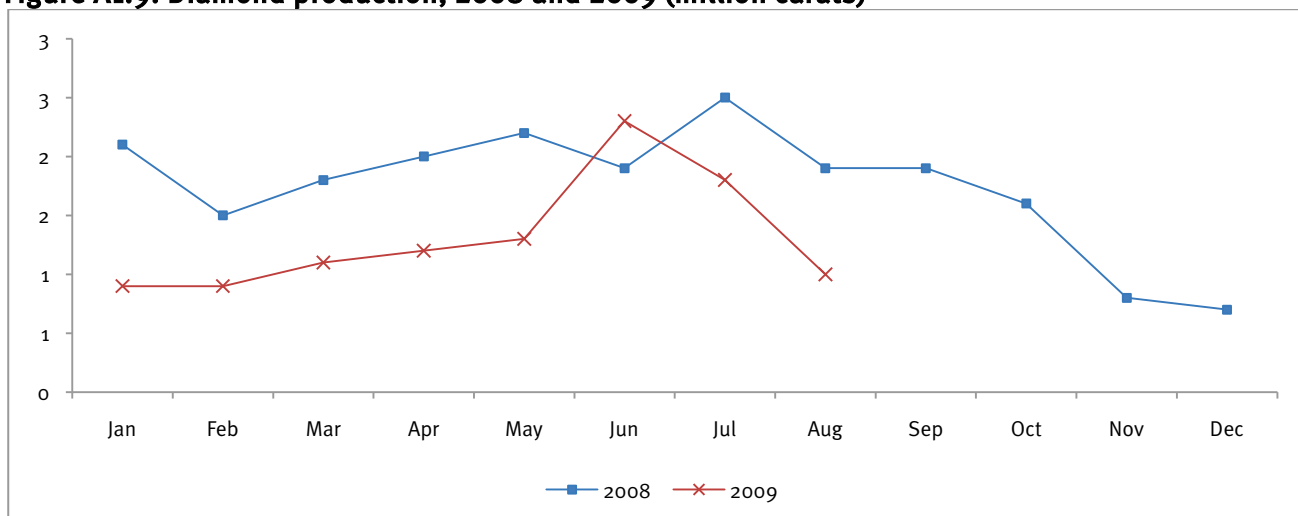
Source: SAESSCAM data.

Figure A1.8: Zinc production, 2008 and 2009 (tonnes)



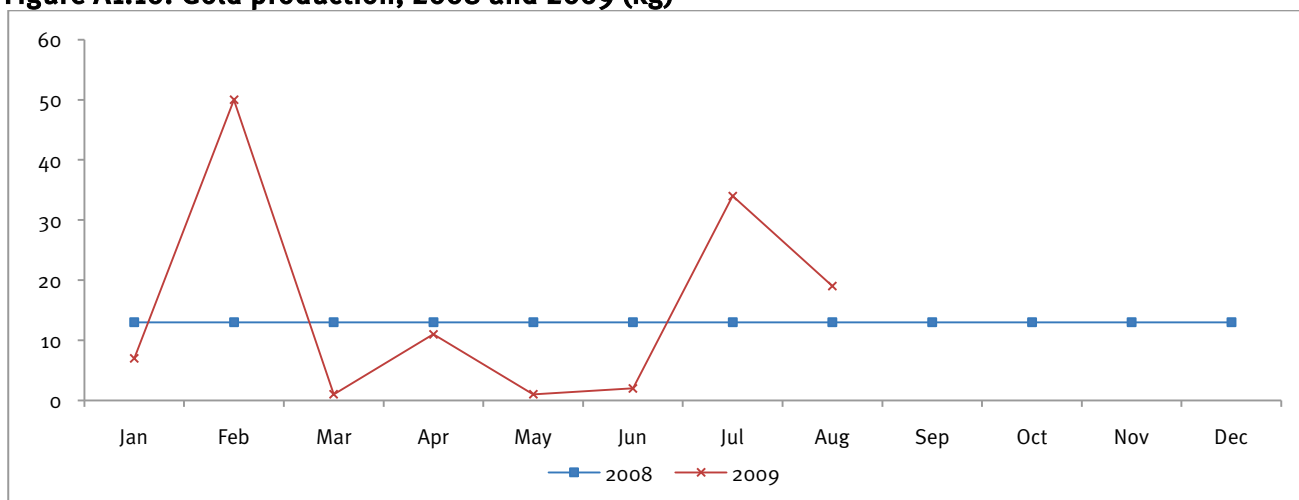
Source: SAESSCAM data.

Figure A1.9: Diamond production, 2008 and 2009 (million carats)



Source: SAESSCAM data.

Figure A1.10: Gold production, 2008 and 2009 (kg)



Source: SAESSCAM data.

The mining sector in the Southern African Development Community region

In the SADC region, Angola, South Africa and Botswana were the main contributors towards regional mining output in 2008. While producing a low percentage of regional mining output, the DRC made the largest contribution towards regional mining employment of almost 80%, revealing the labour-intensive artisanal nature of its mining industry.

Table A1.1: Regional distribution of mining output, employment and population, 2008 (%)

	Angola	Botswana	DRC	Malawi	Namibia	South Africa	Zambia	Zimbabwe
Regional population	10.1	1.1	37.0	7.6	1.2	28.1	7.4	7.9
Mining output (GDP)	69.9	6.1	1.8	0.1	0.9	19.5	1.5	0.2
Mining employment	2.8	0.4	77.5	0.4	0.2	15.5	2.0	1.1

Notes: Regional population = 173 million. GDP = \$12.3 billion. Employment = 3.2 million

Source: SARW (2009).

It is anticipated that the next two years until 2010 will prove extremely difficult for the global economy and the mining industry. For SADC countries, mining output is forecast to decrease 23% over the next years (2009-2010) before increasing again by 16% (2010-2015) and 14% (2015-2020), gradually working away the effects of the crisis within the next 10 years. However, in half of the countries (Zambia, Zimbabwe, DRC and South Africa), the effects of the crisis on the mining sector will still not be neutralised in 2020 (SARW, 2009). Table A1.2 summarises the potential impact of the decline in the mining sector in the SADC region within the years 2009-2010.

Table A1.2: Potential impact of the decline in mining in the SADC region within 2009-2010 (%)

Impact indicator	Angola	Botswana	DRC	Malawi	Namibia	South Africa	Zambia	Zimbabwe	Total
Increased job losses (% decrease in mining employment)	-24.4	-28.6	-13.6	-9.2	-25.0	-24.4	-40;6	-33.3	-16.4
Reduced government revenues and reserves (% decline in government revenues)	-16.7	-33.3	-15.0	-5.0	-6.7	-5.2	-22.2	-17.3	-12.3
Decreased social spending (decline as % of GDP)	-0.340	-0.001	-0.004	-0.001	-0.002	-0.013	-0.005	-0.001	-0.085
Increased poverty levels (% of total population affected by decline in mining production)	-15.4	-2.5	-7.2	-0.3	-0.9	-1.7	-5.1	-4.6	-5.5

Source: SARW (2009).



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