



DEMOCRATIC REPUBLIC OF THE CONGO

SELECTED ISSUES

July 2024

This Selected Issues paper on the Democratic Republic of the Congo was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 21, 2024.

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Washington, D.C.



DEMOCRATIC REPUBLIC OF THE CONGO

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June 21, 2024

Approved By
**The African
Department**

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CONTENTS

DOMESTIC REVENUE MOBILIZATION IN THE DEMOCRATIC REPUBLIC OF THE CONGO _____ 3

- A. Domestic Revenue Mobilization in the DRC—Recent Dynamics and Developments 3
- B. Estimating DRC’s Tax Potential _____ 7
- C. Impediments to Effective Domestic Revenue Mobilization _____ 8
- D. Policy Recommendations _____ 10

FIGURES

- 1. Revenues to GDP Ratios for DRC and Peer Countries _____ 3
- 2. Tax Structure for DRC and Peer Countries _____ 4
- 3. Non-Renewable Resource Revenues _____ 5
- 4. Domestic Revenues and Copper Prices _____ 5
- 5. DRC Mining Sector Revenues _____ 6
- 6. Actual and Potential Tax-to-GDP Ratios for DRC _____ 7
- 7. Top 5 Sources of FDI Inflows to Extractive SSA Countries _____ 10

BOX

- 1. Estimating Tax Potential Using Stochastic Frontier Analysis _____ 11
- References _____ 12

STRENGTHENING PUBLIC SOCIAL SPENDING IN DRC _____ **13**

A. Context _____ 13

B. Some Progress in Social Spending Budgeting, Despite Resource Constraints _____ 14

C. Public Social Spending Credibility Challenges _____ 16

D. Strengthening the Credibility of Social Budgets _____ 18

FIGURES

1. Approved Budget : Social Spending and General Public Services _____ 15

2. Approved Budget : Social Spending by Major Function _____ 16

3. Approved Budget : Domestically-Financed Social Budgets _____ 17

4. Implemented Budget : Domestically-Financed Social Budgets _____ 17

5. Implemented Budget : Social Investments Domestically and Externally-Financed _____ 18

6. Selected Fragility Indicators in DRC _____ 20

TABLE

1. Approved and Implemented Budget in 2022 _____ 21

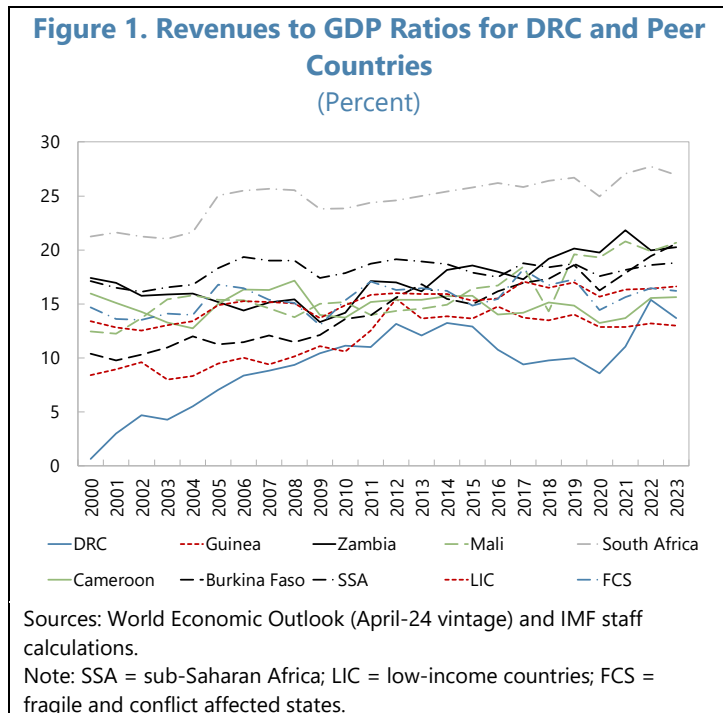
DOMESTIC REVENUE MOBILIZATION IN THE DEMOCRATIC REPUBLIC OF THE CONGO¹

This paper analyzes domestic revenue mobilization in the DRC and offers options to strengthen it. Domestic revenue mobilization (DRM) in the DRC has improved during the ECF program, standing at 13.7 percent over GDP in 2023, though it remains persistently low relative to peer countries. The recent improvements in revenue mobilization have been driven by stronger corporate income taxation (particularly stemming from the extractive sector). A comparison between DRC's and peer countries' tax structure points to significant room for boosting domestic revenues with stronger mobilization of personal income taxes, taxes on international trade and transactions and goods and services. In addition, the country's tax potential (estimated on the basis of its structural characteristics and a stochastic frontier model) points to significant scope for improving tax-to-GDP ratio, by about 10 percentage points under more efficient tax policy and tax collection. Finally, tax administration reforms based on recommendations from the recently published TADAT report can significantly contribute to boosting DRM, with particular focus on tax-avoidance in the mining sector.

A. Domestic Revenue Mobilization in the DRC—Recent Dynamics and Developments

1. Revenue to GDP ratio has increased in program years, starting from a very low level. Since the beginning of the current program, general government revenue (excluding grants) to GDP ratio has improved significantly, reaching its peak at 15.4 percent in 2022 (linked to the commodity price boom) and declining to 13.7 percent in 2023 (Figure 1). Prior to the program, revenue ratios were weaker, on average 11.3 percent during 2010-2019.

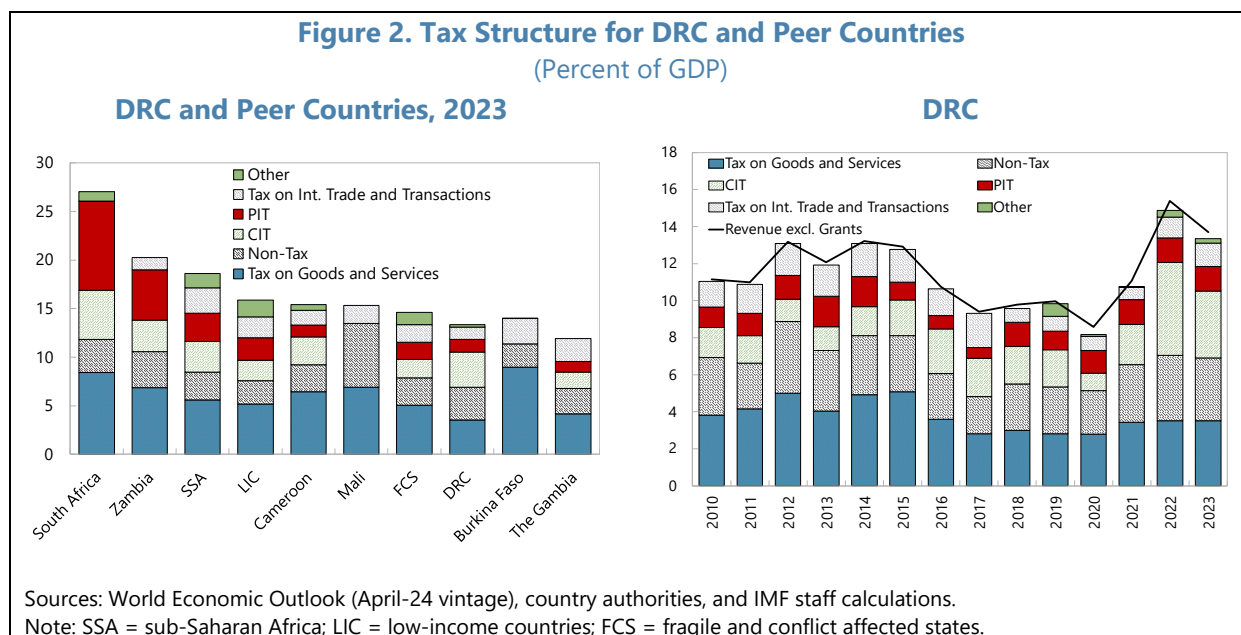
2. However, revenue to GDP remains consistently below that of peer countries. Despite the encouraging recent developments, revenue mobilization remains consistently below comparable countries. Revenue to GDP has been the lowest among peer countries (resource-rich, non-oil SSA countries) and significantly lower than



¹ Prepared by Laila Drissi Bourhanbour, Emmanuel Gbadi and Myrto Oikonomou

the Sub-Saharan Africa (SSA), low-income country (LIC) and fragile and conflict-afflicted states (FCS) averages (Figure 1). As an illustration, in 2023, the difference to SSA average was at 5.1 percentage points, while the 10-year average difference stood at 6.8 percentage points.

3. Revenue mobilization in recent years has been driven primarily by increases in corporate income taxes. In line with the growing significance of mining in government revenues, corporate income taxes have been the main contributor to the growth of revenue over GDP ratios during the program (Figure 2, right panel). In 2023, corporate income taxes stood at 3.6 percent of GDP followed by taxes on goods and services and non-tax revenues (at 3.5 and 3.4 percent respectively). Revenues from corporate income taxes remained substantial in 2023, despite the weak copper and cobalt market conditions, pointing to the structurally important role of mining in government revenues.

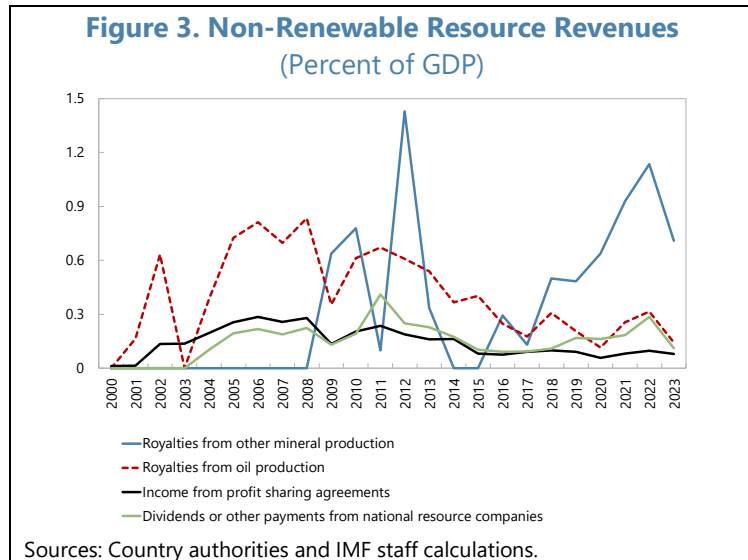


4. Comparison with peer countries points to personal income, VAT and international trade and transactions taxation as potential sources for boosting domestic revenue mobilization. DRC underperforms in terms of these three tax categories relative to peer countries: personal income taxes have stagnated at 1.3 percent of GDP in the past three years, while taxes on international trade and transactions stood at 1 percent of GDP, both reflecting marginal improvement from the pre-program three-year averages of 1.2 and 0.8 percent respectively. Comparatively, the SSA average for 2023 for these categories reached 2.9 and 2.6 percent respectively (Figure 2, left panel). Regarding goods and services taxes, they have been stable in DRC at about 3.5 percent of GDP, substantially lower than the SSA average which reached 5.6 percent in 2023. Given the ease of VAT enforcement relative to personal and corporate income taxation, and

evidence of its positive impact on reducing informality,² these international comparisons point to significant scope for improving domestic revenues via stepping up goods and services tax collection efforts. Significant reforms are required, including addressing the large degree of informality and tax administration capacity bottlenecks, to allow the DRC to converge to average SSA levels in these tax categories.

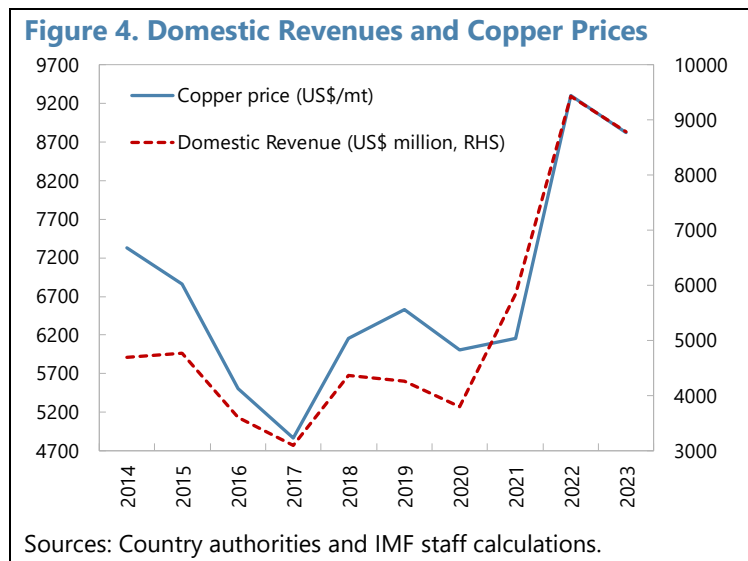
5. Beyond corporate income taxation, DRC’s extractive sector is also a source of non-tax revenues,

including royalties, dividends from national resource companies and income from profit sharing agreements. Royalties from mineral production have been on an upward trend in recent years, peaking at 1.1 percent of GDP in 2022 before subsiding to 0.7 percent in 2023, and are anticipated to become an increasingly important source of revenue with the recent Sicomines deal (Annex VI). Dividends and other income from profit-sharing agreements represent minor components of revenues, potentially linked to reporting and governance challenges of the Gecamines state-owned company.



6. Revenues from the mining sector account for roughly one-third of the government's domestic revenues.

They are mainly derived from corporate income tax (CIT), royalties and signing bonus instalments as well as import duties. These three revenues account for 67 percent of total revenues on average over the last five years. Revenues from the mining sector have increased significantly since the new Mining Code in 2018. This could be explained by increased production of the DRC’s main export mining products (copper and cobalt) and the government’s larger share of



² For instance, see De Paula and Scheinkman (2010) who show that higher enforcement of VAT collection via the credit method in the production stage increases formality downstream and upstream using Brazilian firm-level microdata.

mining companies' profits. Average revenues from the mining sector rose from USD 4,002 million to USD 5,541 million, respectively for the periods 2013-2017 and 2018-2022. However, there is an almost perfect correlation between domestic revenues and copper prices (Figure 4).

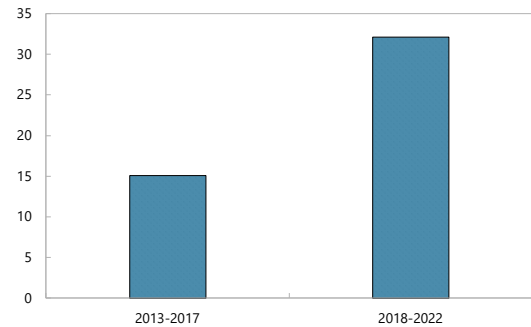
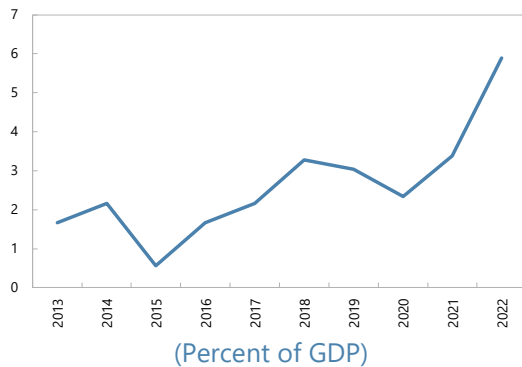
Figure 5. DRC Mining Sector Revenue

Mining revenues have increased significantly since the new mining code was established in 2018.

The sector's share of total domestic revenue more than doubled.

Mining Sector Revenue

Significance of Mining Sector Revenue
(Share of Total Revenue)



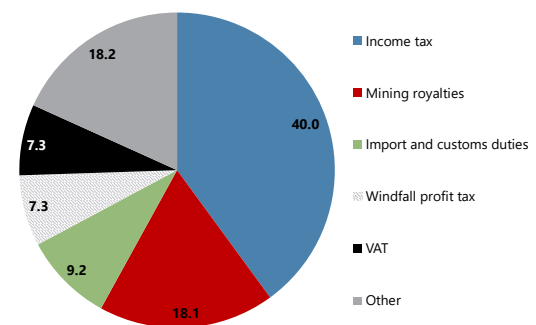
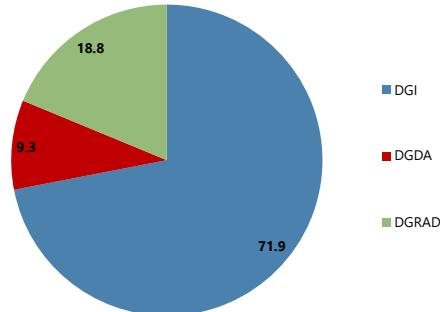
(Percent of GDP)

The Direction Générale des Impôts (DGI) remains the main contributor to revenue from the mining sector with higher contributions during 2018-2022...

...primarily due to corporate income tax collection.

DGI, DGDA, and DGRAD Significance¹
(Share of Mining Revenue, 2018-22)

Principal Components of Mining Revenue
(Share of Mining Revenue)



Sources: Congolese authorities and IMF staff calculations.

1/ DGI = Direction Générale des Impôts (Directorate General of Taxes); DGDA = Direction Générale des Douanes et Accises (Directorate General of Customs and Excises); DGRAD = Direction Générale des Recettes Administratives, Judiciaires, Domaniales et de Participations (Directorate General of Administrative, Judicial, State, and Participations Revenue).

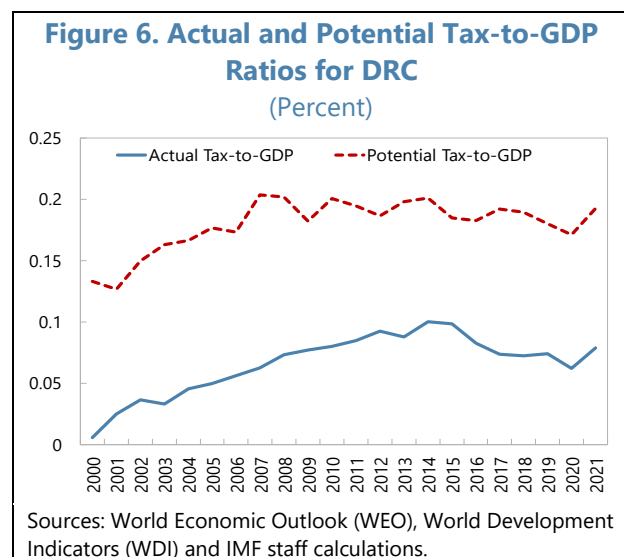
B. Estimating DRC's Tax Potential

7. DRC's tax potential depends on several structural, institutional and policy factors. The size and structure of the country's economy is critical for determining tax potential, as is the authorities' capacity to access different tax bases in an efficient and equitable manner. To assess DRC's tax revenue potential (or else tax frontier) we employ stochastic frontier model analysis (see Box I for technical details). This is a regression-based method that allows to estimate the highest level of tax revenue that DRC could achieve at its best performance, based on key underlying country characteristics and on an empirically determined benchmark observed in other peer countries. Within this framework, deviations from the tax frontier are driven by unobserved country heterogeneity which can be interpreted as unobserved tax policy and tax administration inefficiency (such as country-specific inefficiencies in tax codes, rates, exemptions and collection capacity and efforts).

8. To identify those characteristics, we first establish an econometric relationship between tax-to-GDP and relevant factors for this ratio in a sample of comparator countries.

The key explanatory variables, that have been found in previous literature to be significant predictors of tax ratios are: (i) GDP per capita which aims to capture the level of development and the size of potential tax base of the economy; (ii) the share of agriculture value added in GDP, which captures economic development and may be linked to higher degrees of informality for countries reliant on subsistence farming; (iii) openness to trade (measured as the sum of imports and exports

over GDP), as trade taxes are an important source of revenue and trade provides the opportunity to collect taxes relatively easily on clearly identified transit points (roads, ports airports); (iv) size of international aid, which may create a disincentive for stepping up tax efforts given the availability of external sources and is linked to lower level of development; (v) the rural population share, as rural population is associated with lower income levels and higher collection costs; and (vi) debt service to GNI, which captures government's need to raise domestic revenues in order to address binding constraints.³ Data used for the regression analysis is from the IMF's World Economic Outlook (WEO),



³ See Khwaja and Iyer (2014) for an overview of tax potential literature developments, as well as October 2017 SSA regional Economic Outlook "The Impact of Fiscal Consolidation on Growth in Sub-Saharan Africa", the April 2018 SSA Regional Economic Outlook "Domestic Revenue Mobilization in SSA: What Are the Possibilities?" and Benitez et al (2023) that follow a similar estimation approach.

and the World Bank's World Development Indicators (WDI); the panel covers more than 30 years (1990-2022) and almost all SSA countries (34 countries).⁴

9. The results of the stochastic tax frontier suggest that DRC's theoretical tax capacity is close to 19 percent of GDP, significantly above its current tax ratio. The estimated tax potential has remained steadily above 15 percent of GDP over the last two decades and has hovered around 19 percent of GDP in recent years (Figure 4). The gap between actual tax revenues to GDP the tax frontier has also remained stable and is estimated at 10.7 percentage points on average over the last decade, pointing to significant scope for improving tax policy and tax collection efficiency. For benchmarking these results, it is worth noting that FAD's 2023 SDN estimates - using similar methods and time horizon - that the tax potential of Low-Income Developing Countries (LIDCs) was 19.9 percent of GDP in 2020, comparable to DRC's estimates. However, their average tax effort, defined as the ratio of the observed level of tax collection over the tax frontier, was 0.67, substantially higher than DRC's tax effort, estimated at 0.36 in 2020.⁵

C. Impediments to Effective Domestic Revenue Mobilization

Tax Administrations and Governance Issues

10. Several factors negatively affect revenue performance:

- **Complexity and lack of transparency in the tax system.** The tax system is incredibly complex, with hundreds of tax categories managed by different levels of government⁶ (central, provincial, and decentralized territorial entities or ETDs), various revenue agencies (DGI, DGRAD, DGDA) and various special funds and entities having their own revenue sources. Moreover, the legal framework for taxation and revenue collection is fragmented and lacks accessibility, primarily due to the absence of a General Tax Code. This complexity not only hinders taxpayer compliance but also facilitates corruption by increasing interactions between civil servants and taxpayers.
- **Exemption and tax expenditure regimes characterized by their discretionary and even arbitrary nature.** This leads to a significant estimated loss of earnings—5.7 percent from exemptions and 22.3 percent from tax expenditures of the central government's revenue. Management of these regimes, especially for strategic partnerships, involves considerable discretion with negotiable benefits. Similarly, businesses holding permits under the Investment Code see their benefits managed by a commission, yet the discretion remains, contrasting with more standardized investment promotion mechanisms like tax credits or accelerated depreciation.

⁴ To avoid small sample bias, the sample includes resource rich as well as non-resource countries in SSA. Given that DRC is among the richest countries in the sample in terms of resource wealth (top copper producer in the region and top cobalt producer globally) we view these estimates as a lower bound of DRC's tax frontier.

⁵ See [Benitez et al \(2023\)](#).

⁶ There are up to 137 possible types of taxes/charges by the 26 provinces, as well as 38, 34 and 38 possible types of taxes/charges by cities, communes and chieftaincies, respectively.

- **Revenue management and collection inefficiencies.** The proliferation of revenue collection channels and the discretionary management of tax exemptions contribute to the dispersion and mismanagement of public funds. Relations between mining operators and revenue agencies are strained, with frequent disputes over tax assessments and collections. This situation is further complicated by poor information sharing and coordination among government ministries and agencies, affecting the accuracy of tax base estimations and revenue collection.

11. Revenue administrations in DRC are ranked weak in the last TADAT evaluation (2023), further highlighting the challenges from the country’s vulnerabilities. The tax administrations suffer from a multitude of weaknesses and blockages across a range of activities, with “weak” ratings (D scores) in 26 of the 32 dimensions. Compared to the 2016 evaluation, only three dimensions did improve and three other deteriorated further. Important room of improvements exist regarding the following:

- Insufficient efforts to identify new taxpayers—these have been even more deficient since the last TADAT evaluation (2016) and could be explained by a focus of the administration on collecting taxes from the traditional taxpayers, e.g. mining companies, underlining the reliance of revenue mobilization on the mining sector.
- The DGI lack of formal mechanism to detect frauds, errors, or omissions in taxpayer declaration—the audit capabilities are weak, and the use of third-party data is very limited. This lack of oversight can be easily exploited by taxpayers and especially mining companies with highly skilled tax experts.

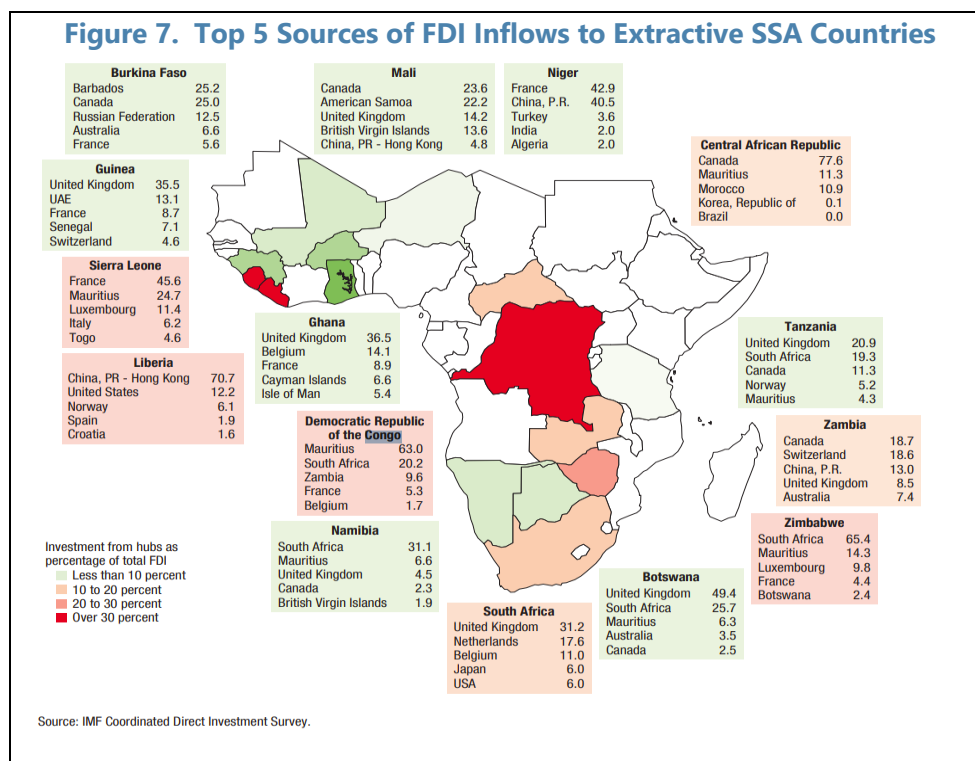
International Taxation Issues

12. Significant evidence suggest that tax evasion is substantial in DRC. The top ten Multinational Enterprises in terms of copper exports represent approximately 63 percent of total DRC exports in 2023, with their countries of origin including China, Canada, Switzerland, Kazakhstan and UK. The cobalt sector in DRC is significantly more concentrated, with only 9 firms accounting for approximately 80 percent of total exports, their origin being primarily in China, Switzerland and Kazakhstan. However, more than 60 percent of FDI inflows comes from Mauritius, an important investment “hub”⁷ with light taxation which is conducive to profit shifting. Mauritius is in the top-5 inbound investment source for seven of the 15 resource-intensive economies of SSA and its share on FDI investment in DRC is the highest in Africa (see Figure 2).

13. The DRC has initiated measures to mitigate profit-shifting risks in its mining sector. These tax measures limit the deductibility of interests on loans between a company in DRC and its foreign shareholders, recognize undue benefits to foreign entities as indirect profit distribution, and enforce stringent criteria for the deductibility of payment for service from abroad suppliers. The Finance Law 2015 requires firms with notable foreign connections to provide transfer pricing

⁷ Mauritius has an FDI to GDP ratio of about 2,000 percent.

documentation. Despite the absence of explicit thin capitalization rules, some guidelines are set by the Mining Code and the *Organisation de l'Harmonisation du Droit des Affaires* Treaty. However, the effectiveness of these initiatives is currently hampered by the tax administration's limited capacity to audit complex transactions, suggesting that bolstering audit capabilities is crucial for addressing transfer pricing and profit shifting comprehensively.



D. Policy Recommendations

- Short-term revenue mobilization efforts (and generally fiscal adjustment) must be implemented in parallel with structural reforms that aim to improve tax administration. Otherwise, in a context of challenged tax agencies, higher tax targets and/or a broadened tax base could lead to higher risk of tax harassment which would in turn impede firm entry/dynamism and deteriorate business climate.
- The tax system must be simplified by reducing the number of taxes and consolidating revenue collection under fewer agencies. Ongoing preparation of a comprehensive General Tax Code will provide clarity and accessibility and should speed up with the support of the World Bank and the IMF.
- Stronger governance frameworks to improve revenue management and reduce corruption are critical. This includes enhancing transparency in tax exemptions, improving the credibility of the budget process, and adopting clear, non-discretionary processes for tax collection.
- Inter-agency coordination should be enhanced, by improving information sharing and coordination among government ministries, revenue agencies, and other stakeholders. This

could facilitate more accurate tax base estimations and improve overall revenue collection efficiency.

- Increased public engagement and transparency about how tax revenues are used to improve public services and infrastructure will boost compliance. Demonstrating the benefits of tax compliance to taxpayers can encourage voluntary compliance and reduce tax avoidance and evasion.
- The introduction of exemptions of all kinds should be limited as much as possible as their effects are uncertain, and they may incur considerable cost in terms of tax revenue losses.

Box 1. Estimating Tax Potential Using Stochastic Frontier Analysis

The Stochastic Frontier Analysis (SFA) model is a regression-based estimation method that assumes a one-sided random error, differently to a traditional regression that assumes a two-sided normally distributed error term. The corollary of this assumption is that a country deviates from its highest observed level of tax revenue ratios only in one direction, namely only by underperforming relative to its frontier. Contrary to a traditional regression framework that minimizes both positive and negative residuals from observed values, thereby yielding estimates based on a country's average performance, within the SFA framework we estimate the maxima of the dependent variable at given values of explanatory variables. Deviations between observed values and these maxima (that represent the full potential of the country) are due to a combination of random shocks and technical inefficiencies. The stochastic tax frontier model can be represented as follows:

$$\ln(TR_{it}) = c + \sum \beta \ln(X_{it}) + v_{it} - u_{it}$$

where TR_{it} is the tax to GDP ratio in year t and country i , c is a constant, X_{it} is the set of explanatory variables (including GDP per capita in constant USD, the share of agriculture value added in GDP, openness to trade measured as the sum of imports and exports over GDP, the size of international aid measured as net official development assistance (ODA) received as a share of GNI, the rural population share, and debt service to GNI), β is the coefficient vector and there is a composite error term: $v_{it} - u_{it}$. The v_{it} is a zero-mean, symmetric error, due to which the frontier is stochastic, and it is independent of technical inefficiency. The non-negative error u_{it} represents unobserved inefficiency, and it reflects departures from the tax frontier which is the deterministic portion of the specification. If there are zero tax inefficiencies, then the country is collecting the maximum tax revenues possible for given values of the explanatory variables, namely it is at its tax frontier. We follow Benitez et al (2023) and assume a time-varying inefficiency SFA model for panel data, and we estimate the parameters of the stochastic frontier and the inefficiency simultaneously to avoid bias. All variables are in natural logarithms. The expected coefficient signs are the following: GDP per capita, a commonly used proxy for economic development and income levels, is expected to have a positive relationship with tax revenues to GDP; the share of agriculture value added to GDP, a proxy for informality and linked to a hard-to-tax sector is expected to have a negative relationship with tax ratios; the coefficient on trade openness is expected to be positive, as greater openness is associated with higher trade taxes and easier tax collection (given that trade occurs in specific locations); the size of international aid is expected to have a negative relationship with tax ratios as it is a proxy for lower economic development and may create disincentive for stepping up domestic revenue mobilization efforts; the coefficient on rural population share is expected to be negative, as rural population is associated with lower income levels and higher collection costs; and debt service to GNI is expected to be positively correlated with tax ratios as it reflects the need for higher revenue mobilization.

Estimates of tax potential are derived from the comparison of the observed experience of peer (SSA) countries from 1990 to 2021

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STRENGTHENING PUBLIC SOCIAL SPENDING IN DRC¹

The Democratic Republic of Congo (DRC), a country rich in natural resources, has a large population that is subject to significant social and economic disparities. Although progress has been made recently in terms of increased funding for social spending, efforts to reduce these inequalities remain insufficient and suffer from several challenges: domestic resources are limited; the quality and prioritization of spending remains poor; the credibility of social budgets remains concerning; and the persistent deficit in social infrastructure exacerbates the situation. This hampers the government's ability to provide essential services, including healthcare, education, and social protection. This context calls for the Government to step up its efforts in the social field.

A. Context

Despite a long period of growth, socio-economic conditions remain weak ...

1. DRC recorded over two decades of sustained economic growth since 2002, driven by mining activities. The economy declined sharply in the 1990s, with average economic growth of almost -7 percent, with an annual population growth of 3 percent. The DRC returned to a positive growth in 2002, with an average growth of 6.1 percent between 2002 and 2023, compared with a SSA average of 4.1 percent. Most of this growth was driven by the performance in the mining sector, which grew by 11.3 percent on average over the same period. However, by 2022, according to World Bank estimates, per capita income in the DRC has stagnated at a lower level than in Sub-Saharan Africa (SSA). This shows that growth is not inclusive in DRC, despite the large resource potential of the country.

2. Despite this continuous growth, the country remains the fifth poorest nation in the world. In 2023, nearly 64 percent² of its population lived in extreme poverty, compared to the average poverty rate is 34.9 percent in Sub-Saharan Africa (SSA) and 31.5 percent in fragile and conflict-affected countries (Figure 6). This overall rate masks major inequalities between provinces, as the poorest households live along the two most densely populated corridors: the East-West corridor between Haut Katanga and Central Congo, and the North-South corridor between Ituri and Tanganyika.

3. DRC has also been plagued by conflict for decades, exacerbating its fragility (Figure 6). The country faces one of the world's most complex and protracted security and socio-humanitarian crises. The persistent conflicts, particularly in the East of the country, have had a profound impact on the social, security and humanitarian fabric, aggravating socio-humanitarian needs and provoking massive population displacements. With almost 6.5 million internally displaced persons by the conflict as of end-December 2023, DRC has the highest number of internally displaced people on

¹ Prepared by Henock Katuala Muanza. Helpful guidance was provided by Gabriel Léost.

² Measured by the World Bank's international poverty line set at \$2.15 a day ([See data](#)).

the African continent. The conflicts have resulted in acute food insecurity and malnutrition, persistent epidemics, as well as civilian casualties.

4. Human capital in DRC remains among the lowest in SSA, although education enrollment rates are broadly comparable to peers. Latest data suggest an improvement in access to primary and secondary schools in DRC, about 66.1 and 33.0 percent of total school-aged population respectively, compared to the averages of 47.2 and 39.1 percent for SSA countries³. However, public spending in primary school remains low. DRC spends an average of just US\$7 per child in primary school, compared with US\$11 for SSA countries (Figure 6). In addition, access to essential public services remains a major problem, due to inadequate and virtually non-existent infrastructure (Figure 6). The country's Human Development Index ranks 164th out of 174 countries.

B. Some Progress in Social Spending Budgeting, Despite Resource Constraints

The share of social spending in the approved budget rose over the past six years, covering a broader scope than the indicative target (IT) on the three health programs under the ECF program ...

5. The indicative target on social spending covers only three health programs financed by the Congolese Government. As part of the Congolese Government's program supported by the IMF's Extended Credit Facility, the IT on social spending was designed to promote increased central government social spending (excluding salaries) on three health programs which were priorities for the government, but received virtually no financing from the budget: (i) expenditure on reproductive, maternal, neonatal, child and adolescent health (SRMNEA), and primary health care; (ii) disbursements for co-financing GAVI-supported vaccines and purchases of traditional vaccines; (iii) and disbursements for co-financing programs to combat malaria, tuberculosis and HIV/AIDS.

6. But the scope of social spending⁴ of the central administration is much wider than these three programs. In the DRC, social spending covers education, health, and social protection (including humanitarian aid). This expenditure is mainly spread over eight ministries: (i) education spending is handled by the Ministry of Primary, Secondary and Technical Education (EPST), the Ministry of Higher Education and Universities (ESU), the Ministry of Vocational Training, Arts and Crafts (FPAM) and the Ministry of Scientific Research and Technological Innovation (RSIT); (ii) health expenditure is covered by the Ministry of Public Health; (iii) social protection expenditure⁵ is covered by the Ministry of Social Welfare, the Ministry of Social Affairs and the Ministry of Humanitarian Action and National Solidarity.

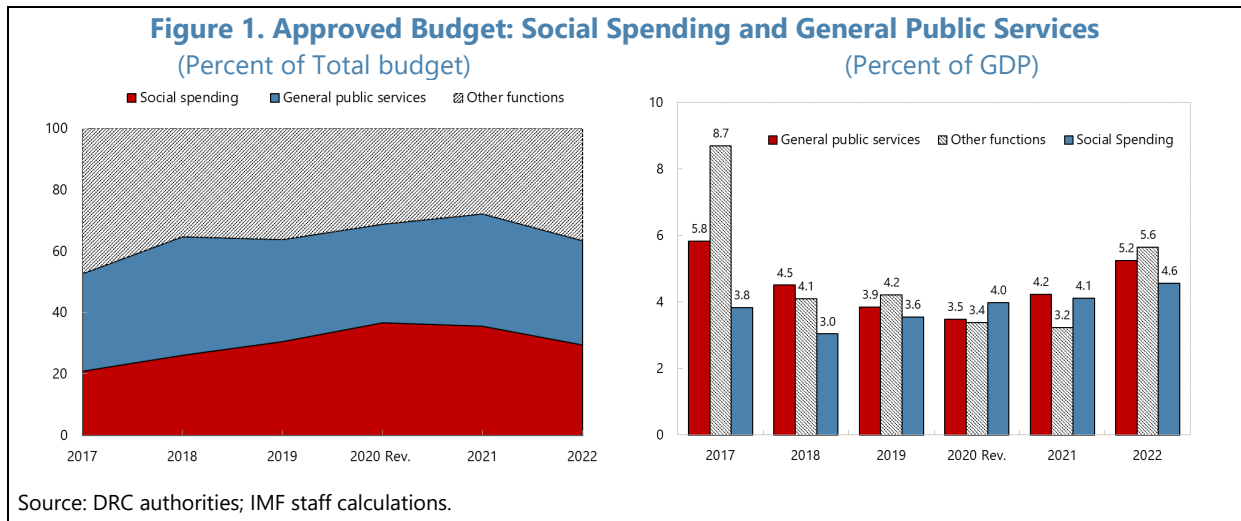
³ See [Ibrahim Index of African Governance](#).

⁴ In the absence of a nomenclature for tracking all social spending, regardless of the ministry from which the expenditure originates, this note focuses on spending by social ministries, as defined in this paragraph.

⁵ Other ministries also have budget lines for social protection, namely: (i) Gender, Family and Children; (ii) People Living with Disabilities; (iii) Employment, Labor, and Social Welfare.

7. Over the past six years, the authorities have gradually increased the share of the approved budget allocated to social spending.⁶ Taken as a whole, the share of public social spending (including salaries) in the total voted budget rose by almost 10 percent between 2017 and 2022, representing an increase of almost 0.8 percent of GDP. As a result, by 2022, social spending held the second largest share of the total voted budget, estimated at 29.5 percent (equivalent to 4.6 percent of GDP), while spending on public services came first with 33.9 percent (equivalent to 5.2 percent of GDP). However, salary payments account for nearly half of this improved social budget.

8. Priority is given to spending on education and health, at the expense of social protection spending. As an annual average, over 93 percent of central government social spending

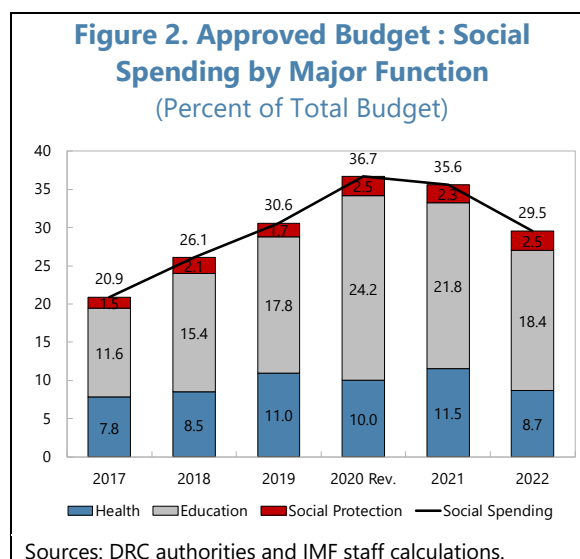


was allocated to the education (over 60 percent) and health (over 33 percent) sectors, compared with just 7 percent for social protection during the 2017-2022 period. The share of the budget allocated to the education sector has risen sharply, reaching 3.1 percent of GDP in 2022 (2017: 2.1), thanks to the implementation of the free primary education program effective since September 2019. In addition, resources allocated to the health sector have reached 1.5 percent of GDP in 2022 compared with an average of 1.1 percent of GDP during the 2017-2021 period. However, the government is putting less effort into social protection, as this budget function has not been allocated more than 0.5 percent of GDP for the past six years.

⁶ Social spending includes spending on education, health, and social protection, taken as budget great functions (According to the DRC’s legal frame of the budget nomenclature).

... *But domestic resources remain limited...*

9. Domestic revenue mobilization is weak in DRC (SIP I), preventing it from creating fiscal space for social spending. In 2022, total government revenues amounted to 16.6 percent of GDP, of which 11.5 percent was tax revenue. These levels are well below the averages achieved by SSA and low-income countries, which stand at 23 percent and 16 percent respectively. In 2022, public spending on education and health amounted to 3.0 percent and 1.7 percent of GDP respectively, compared with an average of 5.8 percent and 5.4 percent among SSA countries.



... *requiring external financing for the implementation of other social programs.*

10. The Congolese government has secured external financing for their largest ever local development program for its 145 territories. The 145 Territories Local Development Program (PDL-145T) is a public investment program designed to meet social infrastructure needs on a regional scale.

- **Use of SDR allocations:** With an estimated cost of US\$1.7 billion (2.7 percent of GDP), the PDL-145T is partly financed by the August 2021 SDR allocation. The authorities have opted to retain half of the SDR allocation to bolster international reserves, and to devote the other half (around US\$714 million) to partially finance the PDL-145T.
- **Development program goal:** PDL-145T is in line with the National Strategic Development Plan, particularly in terms of improving access to basic infrastructure and services in rural areas.
- **Implementing agencies:** Three bodies have been selected to implement this program: (i) the Central Coordination Office (BCeCo); (ii) the Fragile States Facility (CFEF); and (iii) the United Nations Development Program (UNDP).

C. Public Social Spending Credibility Challenges

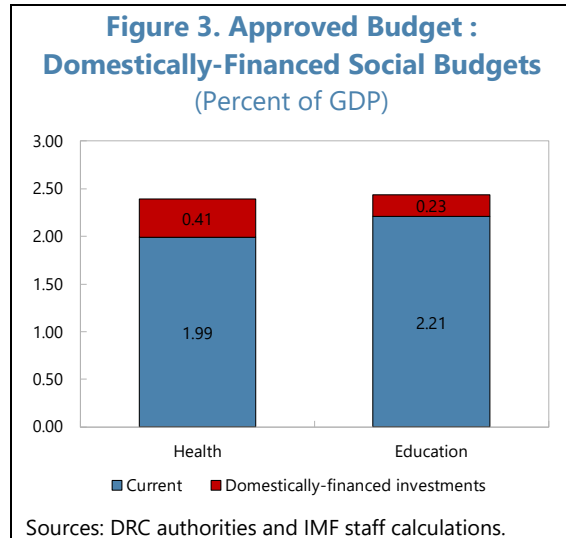
The budget planning and implementation process is weak, thereby negatively affecting the quality and prioritization of social spending necessary to achieve the SDGs ...

11. Social needs are high, but not prioritized in the budget despite some efforts being made. A recent IMF technical assistance report (March 2023) estimated at 43.9 percent of GDP in 2030 the additional spending (public and private) required to make substantial progress towards achieving the Sustainable Development Goals (SDGs) in the DRC in five key areas (health; education; electricity; water, sanitation, and hygiene; and road infrastructure). These considerable additional

needs partly reflect the current low level of public spending in these sectors, in addition to the expected demographic evolution.

12. A fundamental challenge is the primacy of current spending, mainly due to higher salary and operating budgets, over capital expenditure.

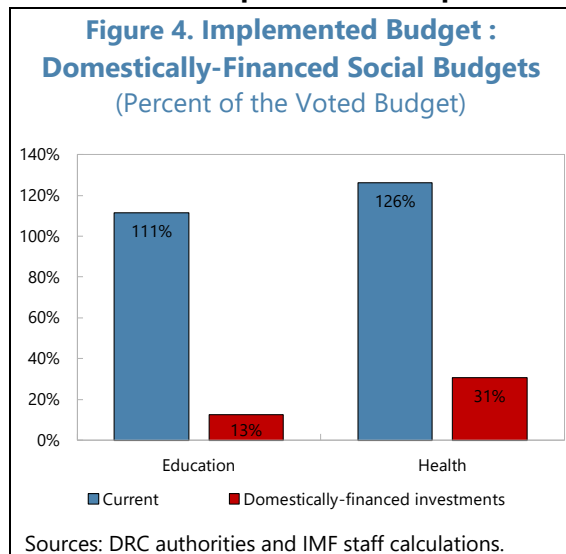
In 2022, only 9.5 percent of the forecast primary education budget (0.2 percent of GDP) was allocated to domestically-financed investments, compared with almost 90 percent for current expenditure (2.1 percent of GDP). The latter mainly comprised salary payments, representing nearly 67 percent of the primary education budget (1.6 percent of GDP), and ministry operating costs, estimated at 0.5 percent of GDP. The high wage bill is also explained by bonus payments, most of which are not predictable. Similarly, 79 percent of the public health budget was allocated to current expenditure, while only 21 percent was earmarked for investment from own resources.



The weak quality of execution of social budgets reinforces credibility concerns...

13. In 2022, the data show an over-execution of current social expenditure, compared with an under-execution of investments from own resources.

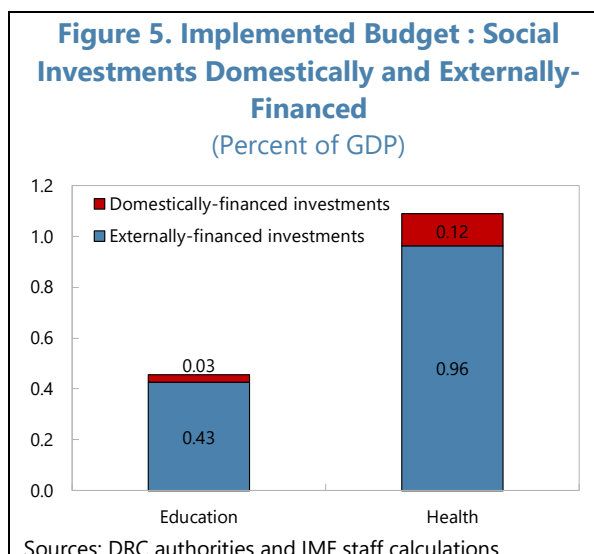
The Public Accountability Act 2022 states that only 13 percent of own-resources investments in the education sector (EPST and ESU) were implemented. This represents only 0.03 percent of GDP as implemented, compared with a budgeted 0.23 percent of GDP. On the other hand, 111 percent of current expenditure in the education sector was implemented. This over-execution is mainly due to budget overruns in salary payments and operating costs (Table 1). In the public health sector, current expenditure was implemented at 126 percent, equivalent to 2.5 percent of GDP, compared with 2.0 percent of GDP budgeted, while investments from own resources were only implemented at 31 percent.



... while excessive reliance on external financing exacerbates vulnerabilities

14. Social investments are mainly financed by external resources, increasing vulnerability to external shocks.

In the DRC, almost all social spending on vulnerable populations in the form of safety nets is provided by international development partners and is far from sufficient to meet needs. In 2022, investment financing in the education sector (EPST and ESU) amounted to 37 billion CDF (0.03 percent of GDP) from own resources, compared with 563.7 billion CDF (0.47 percent of GDP) from external resources, i.e. 94 percent of total investment in this sector (Table 1). The same applies to the health sector, where investments were financed by 165 billion CDF (0.12 percent of GDP) from own resources and 1,273.4 billion CDF (0.96 percent of GDP) from external resources.



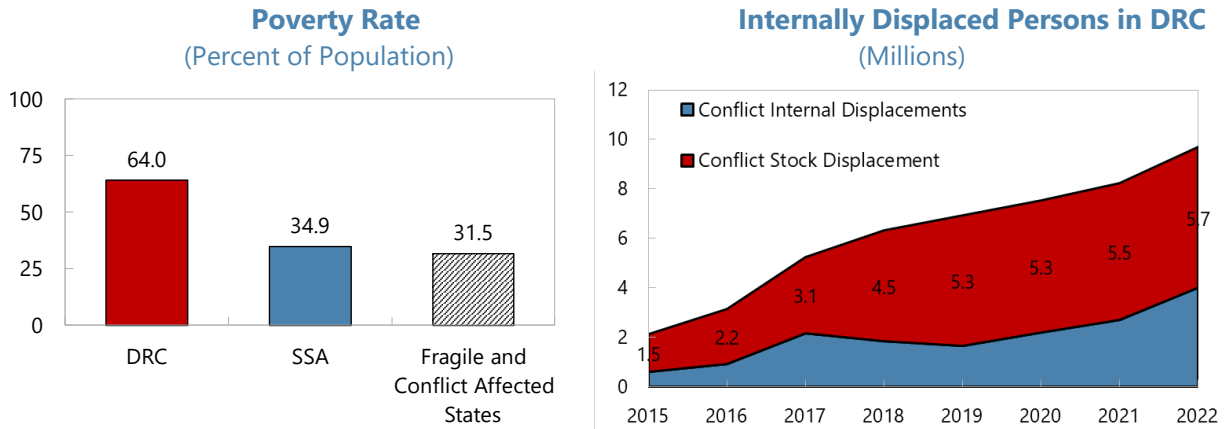
D. Strengthening the Credibility of Social Budgets

15. The government must take measures to improve the quality of social budgets to strengthen their credibility. Structural discrepancies between social expenditure forecasts and their execution can be attributed to shortcomings in the projection of budget aggregates due to a lack of information from line ministries; a lack of technical capacity to prepare good projections by these ministries; and/or weaknesses in revenue collection or budget execution. The authorities must remedy these shortcomings by building capacity and implementing integrated information systems. To strengthen budget credibility, the government must improve budget transparency through effective inter-institutional coordination and compliance. In this context, the DRC's authorities signed in October 2022 a decree on fiscal governance in line with the FAD technical assistance recommendations. Ongoing reforms include:

- 16. Preparation and validation of key legal texts:** The process for the preparation and validation of both the Policy and the National Strategy for the Social Protection of Vulnerable People and Groups is ongoing.
- **Supporting the UN Humanitarian Response Plan (HRP):** The Government approved, in February 2022, the UN Humanitarian Response Plan (HRP), estimated at US\$2.25 billion. The HRP aims to intervene to cover the humanitarian needs of the more than 6 million war-displaced people in eastern DRC.
 - **Financing access to basic social services:** Mainly financed by the central government and the ADB, this reform aims to strengthen the resource mobilization capacities of the National Social Security Fund. A law is currently being drafted to propose legal texts on para-fiscality, the organization of solidarity, the corporate and mining companies' social responsibility.

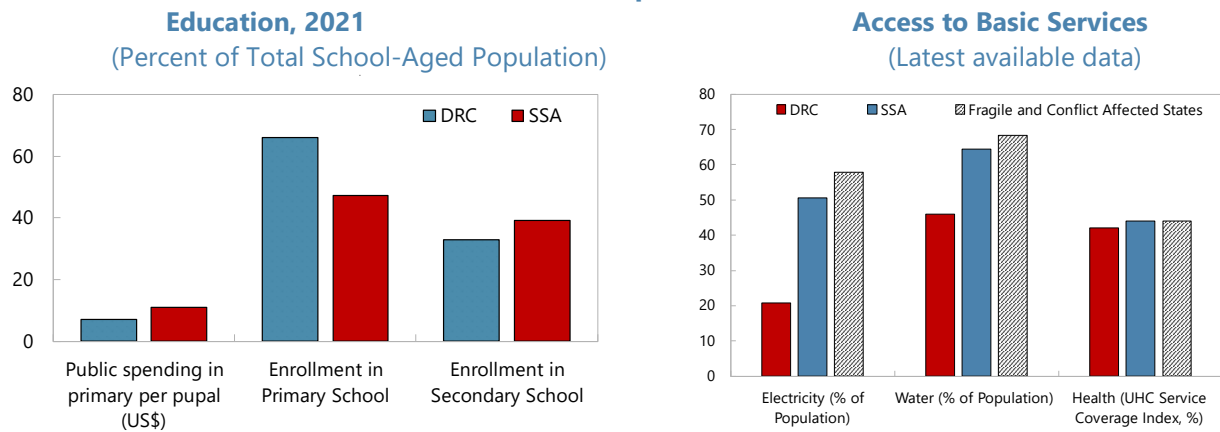
17. For improved monitoring, the government needs to strengthen the quality of social spending statistics, by clearly specifying their coverage and improving the publication frequency. The existing status of public finance statistics does not allow for infra-annual monitoring of public social spending. According to the budget nomenclature, these spendings (particularly education, health, and social protection) are clearly identified only in terms of the “budget by function”, included annually in the public finance law and the law on Public Accountability Act, and monthly in the budget monitoring statements (ESB). The latter, which only provide information on spending carried out in the expenditure chain, do not allow for better monitoring, given the high level of spending outside the chain. Therefore, the authorities must improve the quality and frequency of the publication of public social spending statistics, while clarifying the scope of their coverage.

Figure 6. Selected Fragility Indicators in DRC



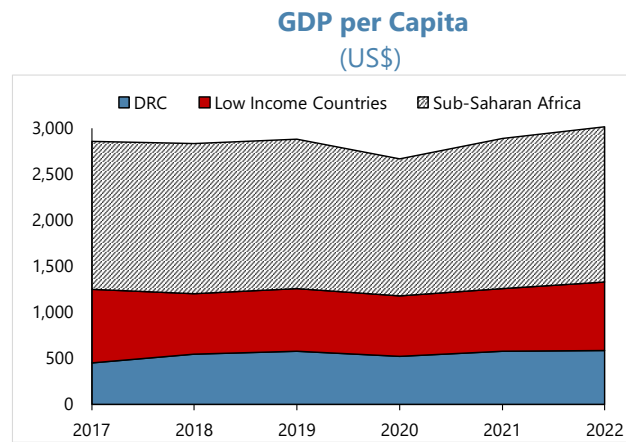
Source : World Bank & Internal Displacement Monitoring Center (IDMC).

Selected Human Development Indicators in DRC



Source : World Bank ; [Ibrahim Index of African Governance](#) & World Health Organization (WHO).

Resource Constraints in DRC



Source : World Bank; Congolese authorities; IMF staff calculations.

Table 1. Democratic Republic of the Congo: Approved and Implemented Budget in 2022

	Education ¹		Health		Execution rate (%)	
	Approved	Implemented	Approved	Implemented	Education	Health
	(In Billion CDF, unless otherwise indicated)					
Current	2922.1	3254.6	2625.6	3315.5	111%	126%
Salaries	2299.8	2359.0	649.1	689.6	103%	106%
Others current expenditures	622.3	895.6	1976.5	2625.9	144%	133%
Ministries	572.1	886.4	52.2	38.8	155%	74%
Economic, Social Interventions	38.4	39.2	14.9	39.5	102%	266%
Investments	647.4	601.3	369.2	106.8	93%	29%
Domestically-financed investments	297.4	37.6	536.3	165.0	13%	31%
Project Counterpart	2.0	0.0	369.2	106.8	0%	29%
Investments from internal resources	42.8	4.0	56.9	34.0	9%	60%
Investments transferred to Provinces	252.6	33.6	110.2	24.1	13%	22%
Externally-financed investments	350.0	563.7	633.6	1273.4	161%	201%
Total	3569.4	3855.9	2994.8	3422.4	108%	114%
	(In % of GDP, unless otherwise indicated)					
	Education ¹		Health			
	Approved	Implemented	Approved	Implemented		
Current	2.21	2.46	1.99	2.51		
Salaries	1.74	1.79	0.49	0.52		
Others current expenditures	0.47	0.68	1.50	1.99		
Ministries	0.43	0.67	0.04	0.03		
Economic, Social Interventions	0.03	0.03	0.01	0.03		
Investments	0.49	0.46	0.28	0.08		
Domestically-financed investments	0.23	0.03	0.41	0.12		
Project Counterpart	0.00	0.00	0.28	0.08		
Investments from internal resources	0.03	0.00	0.04	0.03		
Investments transferred to provinces	0.19	0.03	0.08	0.02		
Externally-financed investments	0.27	0.43	0.48	0.96		
Total	2.70	2.92	2.27	2.59		

Sources: IMF Staff calculations based on the 2022 Public Accountability Act.

1/ Sum of EPST and ESU, two significant Education budgets.