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THE REPUBLIC OF CONGO

**Policy Priorities for Ending Extreme Poverty and Boosting Shared Prosperity
in a Non-Diversified and Fragile Country**

Diversification Within and Away from Natural Resources Sectors

SYSTEMATIC COUNTRY DIAGNOSTIC

July 13, 2018

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ABBREVIATIONS AND ACRONYMS

ANS	Adjusted net savings
BEAC	Bank of Central African State (<i>Banque des États de l'Afrique Centrale</i>)
CCSA	Crosscutting solutions area
CPIA	Country and Policy Institution Assessment
DB	Doing business
DHS	Demographic and Health Survey
ECOM	Congolese Households' Survey (<i>The Enquête Congolaise Auprès des Ménages</i>)
EITI	International Board of Extractive Industries Transparency Initiative
FSC	Forest Stewardship Council
GDP	Gross domestic product
GII	Gender Inequality Index
GNI	Gross national income
GP	Global practice
HDI	The Human Development Index
HIV	Human immunodeficiency virus
IBRD	International Bank for Reconstruction and Development
ICT	Information and communications technology
IDA	International Development Association
IDP	Internally displaced person
IFC	International Finance Corporation
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
LMI	Lower middle-income country
LUCF	Land-use change and forestry
MIC	Middle-income country
MICS	Multiple Indicator Cluster Survey
MtCO2e	Metric tons of carbon dioxide equivalent
NDP	National development plan
NOGDP	Non-oil gross domestic product

NOPB	Non-oil primary balance
NPL	Non-performing loan
PBF	Performance-based financing
PFM	Public financial management
PIT	Personal income tax
PPF	Production possibility frontier
PPP	Purchasing power parity
REDD	Reducing emissions from deforestation and forest degradation
SCD	Systematic Country Diagnostic
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
STEM	Science, technology, engineering, and mathematics
TFP	Total factor productivity
TVET	Technical and vocational education and training
UNESCO	United Nations Educational, Scientific and Cultural Organization
US\$	United States Dollars

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Executive Summary

Even though the Republic of Congo, or Congo, is a country endowed with numerous geographic and natural assets, it has not been able to transform this potential into strong and sustainable developmental outcomes.

1. **Congo is a highly urbanized and sparsely populated country with a small open developing economy that is highly endowed with natural resources.** It is one of the most urbanized countries in the world with an urbanization rate of about 64 percent. More than half of Congo's population lives in Brazzaville and Pointe-Noire, its two largest cities, and the country's proportion of urban population is almost 25 percentage points higher than in Sub-Saharan Africa (SSA). Available figures also indicate that the number of urban dwellers in Congo is expected to almost double and reach about 5 million in 2030, which will propel new demand for infrastructure, housing, and other physical capital and amenities. However, the country is also sparsely populated and ranks among the least dense in Africa, with about 4.4 million inhabitants living on a total surface area of 342,000 km². This adds up to a population density of 12.8/km², which is among the lowest in the world. The country is largely covered by tropical forests with high and stable rainfall and abundant cultivable land, equivalent to about 31 percent of its total surface area, resulting in high potential for agriculture, livestock, and fisheries. Most importantly, the country is endowed with significant hydrocarbon reserves with an estimated proven 1.6 billion barrels of oil reserves and 90 billion m³ of natural gas reserves. The country has the 4th largest proven oil reserves and the 5th largest proven natural gas reserves in SSA. In addition, Congo is significantly endowed in mining ores, such as iron, potash, and magnesium.

2. **However, the country has not been able to leverage its natural resources to achieve robust socio-economic outcomes.** Congo's key social indicators, notably health and education outcomes, as well as service delivery in these sectors, do not match those in countries that are similarly endowed with natural resources, indicating a low performance in transforming this great potential into benefits and opportunities for its citizens. The country's standard of living deteriorated sharply over 1985-1999, and its US\$1,377 (2005 US\$) per capita gross domestic product (GDP) in 1999 was roughly the same as in 1975. Between 2000 and 2014, the standard of living steadily improved with a 35 percent increase in GDP per capita, from US\$1,529 (2005 US\$) in 2000 to US\$2,066 (2005 US\$) in 2014. This was driven by fairly strong economic growth due to high oil prices, government investments in infrastructure and the social sector, and the return of socio-political stability. However, the country's growth performance is still low compared to countries with similar levels of natural resources.

3. **Despite recent substantial poverty reduction efforts, results commensurate with its level of natural resource endowment have yet to be achieved.** Since 2005, the poverty rate in Congo has declined substantially. The share of the extreme poor (measured as below US\$1.90 purchasing power parity (PPP) a day) declined from 50.2 percent in 2005 to 37 percent in 2011, and it is expected to have declined further to 35 percent in 2016. However, the level of poverty in Congo is still much higher than in other comparable middle-income countries (MIC). Inequality levels also remain high by global comparison and are driven by location, education, and sector of activity. Additionally, there is a striking duality in terms of living standards, especially between the two largest cities of Brazzaville and Pointe-Noire and the poorer rural areas. However, pockets of poverty also persist in the two main cities.

4. **Moreover, growth was not pro-poor and poverty reduction has led to an increase in vulnerability.** Many of the households that moved out of poverty remain close to the poverty line and are therefore vulnerable to shocks and underinvestment in human capital. Growth incidence curves suggest that growth was not pro-poor throughout the country. According to consumption-based measures, the poorest experienced a deterioration in their standards of living, whereas those in the middle of the distribution and a small share of the wealthiest households experienced a large increase in their welfare.

5. **Furthermore, the lack of inclusiveness in growth contributes to high inequality.** With a Gini coefficient of 0.46, inequality is high in Congo. The Gini coefficient has remained practically unchanged despite sustained growth during 2000-2014. Moreover, poverty increased in rural areas while it decreased in urban areas, and the elite benefitted more from growth than the rest of the population. This has generally resulted in more inequality in urban areas and between female- and male-headed households in urban areas. Thus, recent growth in Congo has not been inclusive. After decades of neglect, recent government investments in education and health to improve outcomes have not been enough. Also, women, youth, indigenous peoples, and those who lack political connections remain economically marginalized.

6. **Congo is currently in a new economic period characterized by low GDP growth and the deterioration of public finances and the external financial position.** In 2015 and 2016, the government posted substantial twin deficits; about 16 percent each year for fiscal deficit and on average about 35 percent yearly during this period for current accounts deficit, because of a sharp drop in oil prices since mid-2014. This resulted in a fall in government revenue while public spending and imports failed to decline in similar proportion. In 2016, the government was unable to pay its dues to local contractors, and many companies related to the oil business experienced strong liquidity constraints. As a result, overall activity among Congolese enterprises slowed down, which led to low economic growth of 2.6 percent in 2015, and it contracted by 2.8 percent in 2016. Moreover, the GDP growth outlook for the next 3 years appears stagnant. This new economic period has the potential to hamper recent improvements in social indicators and put Congo's fiscal sustainability at risk.

7. **The possibility of resource depletion is threatening the sustainability of economic growth.** Congolese economic growth is underpinned by the hydrocarbon sector. As a result, the volatility in oil prices and production and the imminent depletion of oil reserves represent two important sustainability challenges for the government. Furthermore, there are environmental challenges related to the release of carbon dioxide from oil extraction and the unsustainable exploitation of forests. Congo emitted an estimated 29.34 metric tons of carbon dioxide equivalent (MtCO₂e) of greenhouse gases in 2012,¹ with 74 percent of this stemming from land use change and forests. Despite efforts to structure growth sustainably by reducing emissions from deforestation and forest degradation (REDD+), weaknesses in the implementation of forest management continue to undermine sustainability.

Two mutually reinforcing and overarching constraints are at the root of Congo's failure to achieve the full potential of its natural, physical, and human capital: i) socio-political instability and ii) inadequate macroeconomic policies to mitigate the impact of oil shocks.

¹ Authors' calculations based on 1) non-land use change and forestry emissions from CAIT (2015) and 2) the deforestation and forest degradation data from République du Congo (2016a).

8. **Congo's history is marked by a cyclical pattern of conflict and socio-political violence.** After independence in 1960, the country has known a succession of socialist military regimes that mostly acceded to power through coups. These regimes increased political competition, drawing the country into cycles of political violence and two civil wars from 1992 to 1994 and 1997 to 1999. Socio-political violence severely damaged the social fabric of the country, with an important part of the population still recovering from the trauma of the wars. Socio-political conflict also prevented the completion of the peaceful democratic transition of the early 1990s. Moreover, decades-long politicization of ethnicities and territorial cleavages have severely damaged social cohesion within and between regions.

9. **A political settlement based on oil rent-seeking and an incomplete democratic transition have contributed to socio-political instability in the country.** Historically, Congo has managed to address conflict by buying peace: distributing the country's wealth among different factions through the redistribution of the country's oil wealth through state institutions, (World Bank 2016 c). Poor governance practices and a lack of effective accountability mechanisms create a favorable context for corrupt practices to persist and where violence is perceived as the ultimate mean to maintain power. The political settlement based on rent-seeking may have contributed to contain conflict in the short run but has proven to diminish democratic outcomes and undermine the democratic transition. Emerging democracies are more likely to consolidate if they have a performing economy, and the economic downturn in the 1990s help explain why Congo has not fully consolidated its democracy.²

10. **The volatility of oil prices and production constrains short-run economic growth.** It also hinders effective budget planning, engendering inefficiencies in management of public investments. The unpredictability of the Congolese budget resulting from this volatility has been a major constraint on economic development. Unlike many other African countries, Congo has never completed the implementation of a national development plan (NDP). The 1973-1976 plan failed due to low oil production, the second plan (1982-1986) was not successful due to the negative price shock of 1986, and the 2012-2016 plan has already failed due to the persistent fall in oil prices. This impedes economic development, as important infrastructure projects remain unfinished or severely delayed.

11. **Congo's sensitivity to oil price shocks is mainly due to inadequate public management of oil revenue.** Congolese fiscal frameworks have lacked a fiscal anchor to help the country accumulate reserves during periods of high oil prices. Moreover, they have been deficient in generating substantial non-oil income and have generally not complied with budgetary rules and procedures. Specifically, pro-cyclical fiscal policy coupled with the absence of a fiscal anchor have resulted in insufficient savings for the Congolese government to implement stabilization policies and achieve intergenerational equity. The failure to adopt the non-oil primary balance (NOPB) as a fiscal anchor with a convenient benchmark has led to huge fluctuations in the Congolese government's NOPB. The government also suffers from difficulties in fully complying with budgetary rules and processes and poor planning and execution of capital expenditures.

Weak productivity and slow job creation constrain economic growth and inclusiveness – particularly for women – in the Congolese economic system.

² World Bank. 2016c. "The Republic of Congo -- Risk and Resilience Assessment", Fragility, Conflict, and Violence (CCSA), Dec 2016.

12. **Weak productivity is the main constraint on long-run economic growth in Congo.** Specifically, the Dutch disease, weak governance, an inefficient business environment, and an underdeveloped financial system all impede Congolese productivity. Moreover, low skills and poor quality of education and health lower the quality of human capital, limiting the productivity of the workforce. Finally, low quality of public infrastructure hampers the country's ability to take full advantage of its natural resources as well as its geographical position to accelerate growth.

13. **The country suffers from a lack of economic inclusion because of slow growth in job creation, weak service delivery in rural areas, gender gaps, large households, and financial exclusion.** Jobs in the formal sector, the main driver of inclusiveness, are growing at a too slow of a rate considering the number of Congolese entering the workforce and the growth rate of the economy. This is partly because the capital-intensive offshore oil sector has been the engine of growth and there has been a bias against home investments by Congo's elite. Furthermore, it is difficult for the poor to enter the labor market and find productive jobs due to their limited access to basics social services, such as education and health. Women are also less likely than men to be employed in the higher earning formal sector, and women who do work in the formal sector are almost exclusively in the public sector, suggesting a private sector bias toward men. Moreover, limited education opportunities for women and the large size of households, which weigh heavily on women's ability to join the formal labor market, contribute to the exclusion of women in the economy. Women are also underrepresented in national legislative bodies, with only 7.4 and 19.4 percent of National Assembly and Senate seats held by women, respectively.³ Finally, low access to finance for the rural and poor population keep them from establishing profitable businesses and contribute to the formal economy.

Breaking away from an economic growth trajectory largely driven by the price of oil remains the main challenge for policymakers in Congo. Hence, human capital, infrastructure and service delivery, non-oil sectors with a strategic advantage, and the hydrocarbon and mining sectors are four key areas where policy actions could promote growth, resilience, and prosperity in the coming years.

14. **There is a need to reform Congo's health care system if the country is to improve its human capital.** Specifically, authorities should address the gaps to achieve universal health coverage, strengthen maternal and child health, improve family planning services, and ensure access of the poorest to basic health services. Additional reforms are necessary to enhance the effects of its performance-based financing (PBF) programs. Finally, the policy dialogue to support and sustain health reforms should be accelerated, and a multi-sectoral approach is needed to address the country's slow demographic transition.

15. **An improvement in human capital also requires a better education and skills development system to meet job market demands.** Congo needs to increase education spending and consolidate gains made in primary and secondary education. For instance, it should address the gaps in rural areas and among vulnerable groups by lowering costs as well as improving access, primary completion rates, and transition to secondary education, particularly for adolescent girls who fall behind their male counterparts. Also, it is critical for the government to improve learning outcomes for children, youth, and especially the poor. The government should improve access to quality pre-school and basic education while reducing out-of-pocket expenses for these services.

³ Inter-Parliamentary Union Database: <http://www.ipu.org/wmn-e/classif.htm>.

Furthermore, to improve the relevance and efficiency of formal technical and vocational education and training (TVET), Congo needs to build resilience by creating short-term skills development programs for the youth, especially young women, in the informal labor market. It should also prioritize implementing TVET programs in urban areas and creating jobs for the largely unskilled labor force in rural and semi-urban areas by expanding the main productive sectors (i.e., agriculture, fisheries, livestock, and timber).

16. **Finally, it will be critical to build a better social protection system in Congo to achieve greater quality of human capital.** This will require a multi-sectoral approach to evaluate a cash-transfer system that can lift the greatest number of poor people out of poverty and increase resilience. Targeted cash transfers can be designed to promote investments in human capital, such as linking benefits to educational and health outcomes.

17. **The country should leverage urbanization to improve infrastructure and service delivery in urban and rural areas.** The high concentration of the population in urban areas is an advantage, as it provides an opportunity to deliver quality services and infrastructure to more people at a lower cost. If well managed, urbanization could be a key driver for Congo's economic growth and structural economic transformation. In urban areas, the focus should be on improving access to social services and infrastructures to the poor. Considering the gap between urban and rural areas and the low population density of rural areas, Congo should consider: i) providing incentives for populations to regroup in more viable communities and villages and ii) relying on new technology to provide alternative and more cost-effective solutions to rural populations. In resources-rich countries, information and communications technology (ICT) offers potential avenues for citizens to participate in decision-making activities, monitor public service delivery, and have a voice in the governance process shaping service delivery.

18. **Congo can diversify its economy by promoting non-oil sectors in which it has some strategic advantage, such as agriculture, food processing, forestry and wood production, and ICT.** First, the country has a comparative advantage in some food production and frontier efficiency in many areas of food processing. This sector can be promoted by securing land rights, improving the business climate to boost private investments, and removing import controls on inputs for locally manufactured food. Second, the country can enhance its forestry and wood processing production as well as nature-based tourism services while protecting the environment. REDD+ represents an opportunity to create forest-smart development while contributing significantly toward climate mitigation goals. However, authorities need to improve forest governance to promote sustainable growth in the sector and strengthen benefit sharing to provide incentives for sustainable local management. Land use-planning can also increase the efficiency of the Congolese economy and reduce conflict between competing interests. Third, ICT represents an opportunity for Congo to leapfrog by enabling new ways of communicating, sharing and storing information, delivering services, and conducting business. For instance, it be leveraged to lower costs and improve access to financial services, especially for women, youth, and other vulnerable groups. The government can promote this sector by implementing key reforms identified in the recently developed financial sector development strategy.

19. **The country can achieve the full potential of its hydrocarbon and mining sectors while controlling for environmental pollution.** This can be done by improving the management of oil revenue, updating the hydrocarbon code and the overall legal framework, improving transparency, and working toward macroeconomic and fiscal sustainability. Furthermore, Congo can achieve

greater diversification of assets by building efficient economic institutions and strong human and physical capital.

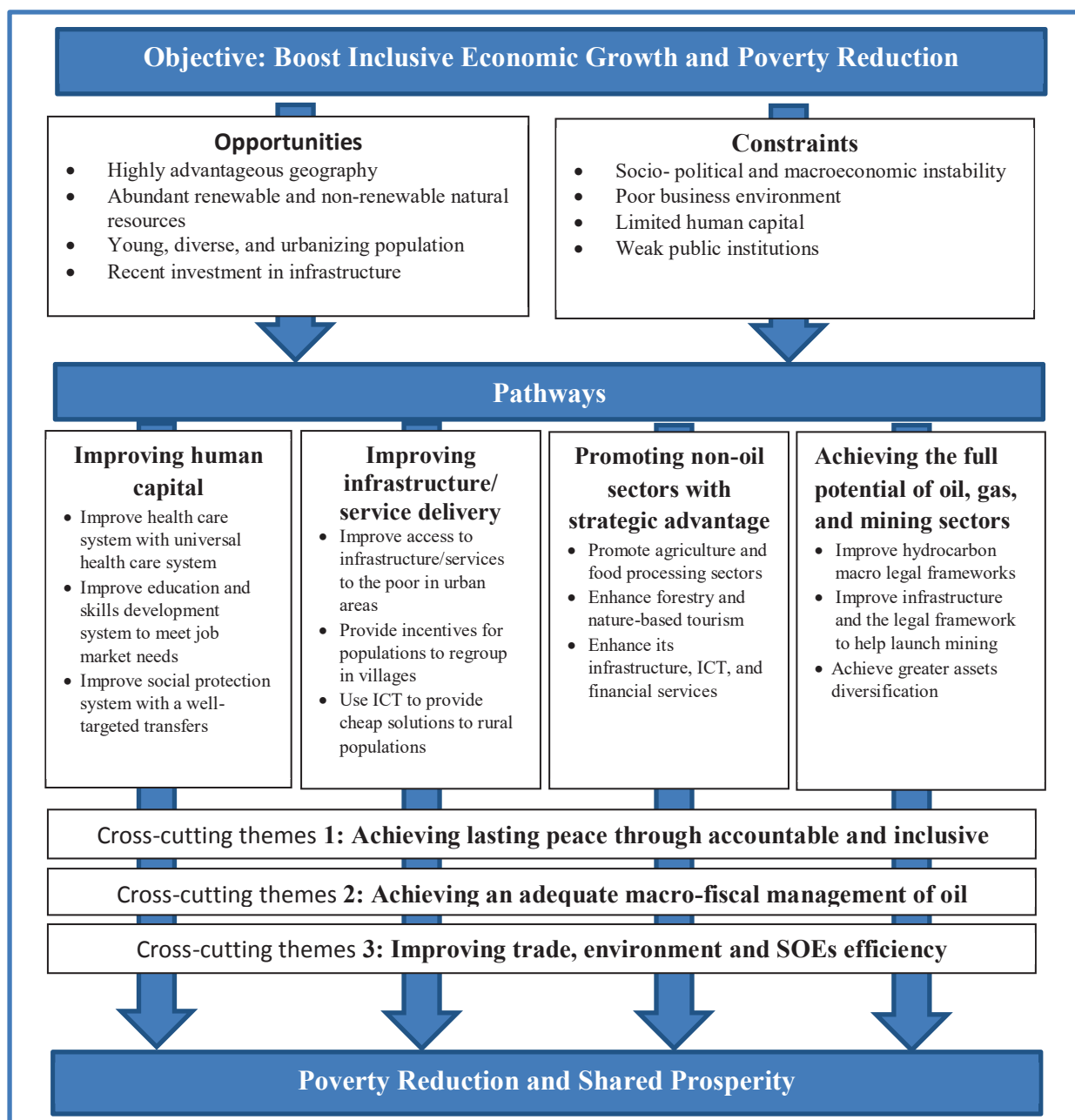
Congo will need to meet the following Cross-cutting themes to increase its level of development: i) sustain a lasting peace through inclusive and accountable institutions; ii) achieve an adequate macro-fiscal management of oil revenues, and iii) facilitate interregional trade and improve the business environment and the efficiency of state-owned enterprises (SOEs).

20. **If the country is to achieve its full potential, it needs to establish inclusive and accountable institutions to consolidate socio-political stability and prevent instability.** First, it is critical that the government continues to improve efficiency and accountability of public institutions and SOEs by pursuing public administration reforms. Moreover, the country should promote meritocracy and promote gender balance in the workplace to enhance the quality of public administration. This will also reduce corruption and incompetence, which are both costly for growth and prosperity. Second, the authorities should strengthen civil society and enable it to play a bigger role in the country's development and articulate citizens' voices. In the short-term, the country should create adequate mechanisms to reduce hardship on internally displaced persons (IDPs) and foster inclusiveness of public institutions. Third, improving the quality of service delivery by capitalizing on past successes will strengthen social cohesion and leverage the country's human capital. These actions would address the country's fragility drivers and prevent new episodes of violence by offering youth more opportunities and strengthening the democratic transition.⁴

21. **The country will benefit from strengthening its capacity for adequate macroeconomic and fiscal management and implementing fiscal consolidation.** Congo should create well-designed fiscal institutions to develop and maintain sound fiscal policies while guaranteeing transparency within independent forecasting bodies. This will ensure prudent planning and utilization of resource revenues. Since the country is preparing for fiscal consolidation, any short-term fiscal reform program should cover the public expenditure and procurement systems. Additionally, the government should fully implement the updated budgeting process and reduce the use of exceptional procedures in budget execution.

22. **The success of Congo's economic diversification agenda will depend on facilitating interregional trade and improving the business environment and the efficiency of SOEs.** The authorities have identified 26 reforms to improve its business environment, such as reduce the time to register a new business, streamline and reduce tax payment processing, and facilitate trading across borders by opening a one-stop shop. According to Congolese business owners, there is a need for more favorable procurement and tax codes as well as more supportive customs and financial institutions. Specifically, Congo should develop modern and efficient logistics to reduce costs for both exporters and importers and promote the country as a regional hub. The country also needs to improve the operational efficiency of freight movement to meet the growing demand for freight transportation and enhance its economic vitality and regional connectivity. Furthermore, improving the efficiency and productivity of SOEs, such as utility companies, will be critical for greater economic diversification. Congolese authorities could adopt a general management framework that focuses on: i) providing autonomy and authority to SOEs in the management of their operations and ii) improving the state oversight of SOEs by formulating performance objectives.

⁴ World Bank, 2016c.



Introduction

1. **One of the key objectives of this first SCD of the Republic of Congo is to serve as an essential input to the Country Partnership Framework.** The SCD is not intended to carry out substantial new analytical work, but rather to draw upon and synthesize the existing evidence. A substantial amount of analytical work on Congo has been carried out in recent years, covering a wide range of subjects. These reports and studies conducted by the World Bank were supplemented by studies prepared by the government and other development partners and formed a solid basis for the analysis presented in the chapters to follow.
2. **The first step in developing the SCD was to review previous studies and collect and systematize already identified critical opportunities and constraints.** This effort concentrated on issues that were likely to have the biggest impact on improving the welfare of the bottom 40 percent in Congo. To this end, a fragility assessment report was prepared to identify fragility drivers and constraints.
3. **This SCD was drafted in close consultation with local stakeholders.** Since it will form the basis of Congo's new NDP for 2018-2021, the team coordinated with the Ministry of Planning to find lessons learned from the implementation of the country's current NDP for 2012-2017. Besides, the team consulted with youth, women and elder's associations as well as with academia, private sector and non-governmental associations. Finally, the team consulted other key development partners in the country, such as the United Nations Development Programme, the International Monetary Fund (IMF), and the African Development Bank.
4. **The report is divided into two main parts.** The first part presents the growth drivers and constraints for achieving the twin goals of eliminating extreme poverty in Congo by 2030 and promoting shared prosperity. The second part categorizes the constraints, prioritizes them according to the impact they have on the twin goals, identifies areas for improvement, and provides recommendations for leveraging the country's opportunities and achieving sustainable and equitable growth. Part I has four chapters. Chapter 1 covers the country context, highlighting Congo's low social indicators despite its immense natural resource wealth and assessing the sustainability of the Congolese socio-economic system. Chapter 2 discusses key drivers and constraints to economic growth, focusing on structural and current issues. Chapter 3 explains patterns and trends in poverty and shared prosperity, and Chapter 4 identifies the key factors that determine growth inclusiveness in the country. The three additional chapters of part II present priority areas that have high potential to accelerate progress toward the twin goals in Congo. Specifically, Chapter 5 presents key opportunities and priorities for poverty reduction and growth sustainability, Chapter 6 deals with the requirements and Cross-cutting themes to seize these opportunities, and Chapter 7 identifies the knowledge gaps that exist in the country.

Part I. Pursuing the Twin Goals in Congo

Chapter I: Country Context – Underperformance Despite Immense Natural Resource Wealth

Congo is a small open developing economy that is highly endowed with natural resources. The country ranks among the least densely populated in Africa, is covered by green tropical forests with high and stable rainfall, and has abundant arable land, equivalent to about one-third of its total surface area. It is also richly endowed with oil and mining ores, such as iron, potash, and magnesium. However, the country's key social indicators, notably in health and education, do not match those of countries with similar levels of natural resources. This suggests that the country has not managed to transform this great potential into opportunities for its citizens. Two key factors that have contributed to this are: i) the recurrent socio-political instability and past civil wars and ii) the severity of economic shocks, driven mainly by the oil price and production volatility. Finally, the current growth model underpinned by natural resources faces two important sustainability challenges: oil price and production volatility and the imminent depletion of oil reserves.

1.1. A Country Richly Endowed with Numerous Natural Assets

5. **Congo has a youthful and urbanized population, which presents an opportunity for economic growth.** In 2015, the country had an estimated population of about 4.4 million inhabitants, spread over a territory of about 342,000 km². This makes it one of the least densely populated countries in Africa. Moreover, a clear majority of the population lives in the country's two major cities, Brazzaville and Pointe-Noire, making it also one of the most urbanized countries in Africa. According to the 2014 United Nations World Urbanization Prospects, Congo had an estimated urbanization rate of 64 percent. Demographic growth has slowed, from a total fertility rate of 6.3 lifetime births per woman in 1990 to 4.4 in 2015. However, the median age of 19 and the country's total dependency ratio of 85 dependents per 100 people of working-age constitute a significant constraint on economic growth, as the productive population must cater to and support a larger number of dependents. Nonetheless, there is great potential for higher economic growth and more quality jobs if the fertility rate continues to decline and the youth acquires more education and skills.

6. **The country is privileged with a strategic geographic location.** Its coast line extends for about 169 km along the Atlantic Ocean, with several important ports, and it controls a marine area extending 200 nautical miles into the ocean. Congo is the gateway to the sea for several landlocked nations in Central Africa, such as the Central African Republic and Chad. This access to the sea confers an important geostrategic point of entry and exit for goods in the Central African region.

7. **Congo's vast tropical forests and abundant arable land separate it from many of its regional neighbors.** Its natural forests, which cover about 61 percent of the country's surface, or about 22 million hectares, represent Africa's third largest forest area and constitute an important carbon stock. The country has historically been a major producer of tropical hardwoods. Its main products include logs, but it also exports a limited amount of sawn wood and wood-based panels.⁵ Forest production also encompasses firewood, charcoal, non-timber forest products, food, and

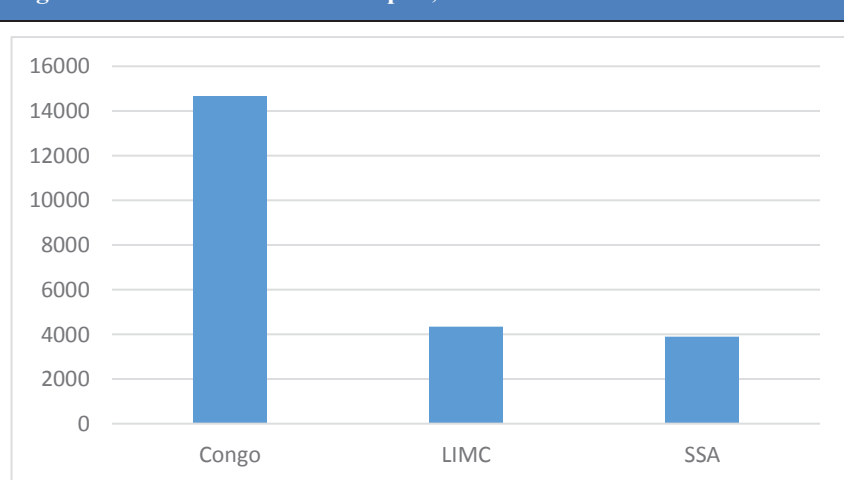
⁵ Commonly exported species include sapelli, sipo, okoumé, limba, wengé, padouk, and iroko.

medicines. Furthermore, Congo has about 10 million hectares of arable land that is equivalent to 31 percent of the country's land area, 90 percent of which is unexploited. It also has a highly developed hydrographic network, a climate conducive to agriculture, a biodiversity of global importance, and mineral resources. Thus, food and cash crops represent a high growth potential for Congo. This availability of land is also in sharp contrast with the conditions found in many SSA countries, where population pressures and agricultural development cause severe land constraints.⁶

8. **Its great diversity of natural resources represents a tremendous potential for economic development.** Petroleum, timber, potash, magnesium, natural gas, hydropower, and iron ore are

some of the natural resources Congo can rely on for its economic development. The country's stock of natural wealth was estimated at US\$14,679 per capita in 2005, which would make it larger than the average in SSA (US\$3,900 per capita) and for lower MICs (LMIs) (US\$4,357 per capita) (Figure 1). Additionally, its natural wealth endowment is more than twice the size of Cameroon's and around seven times larger than that of Ghana, Zambia, and Kenya. Congo is also richer than these countries in terms of oil, timber, and non-timber forest resources as well as subsoil assets.

Figure 1: Natural Wealth Per Capita, 2005



Source: Authors' calculation based on "The Changing Wealth of Nations", World Bank (2011).

9. **Congo holds sizeable oil reserves, although estimates vary.** According to the U.S. Energy Information Administration, Congo's proven oil reserves are estimated at 1.6 billion barrels, the fourth largest in SSA.⁷ A reserves assessment and certification commissioned by Congo in 2012 provided a more conservative estimate of 0.5 billion barrels of proven reserves, plus an additional 0.7 billion barrels of probable reserves and 1.3 billion barrels of possible reserves (this included the recently developed Moho and Marine XII licenses). The country is also believed to hold significant oil sands resources (petroleum deposits of bitumen, also known as tar sands) in the coastal Kouilou region. In 2008, ENI, an oil company, signed a deal with the government to explore and develop oil sands deposits in Tchikatanga, covering a total of 1,790 km². If the project is undertaken, it would be the first tar sands project in Africa.⁸ Preliminary studies estimate that the area contains up to 2.5 billion barrels of unexploited bitumen

⁶ This is especially so among countries with high population density, notably Rwanda, Burundi, and Ghana.

⁷ United States Energy Information Administration, 2014.

⁸ United States Energy Information Administration, 2014.

10. **In addition to crude petroleum, the country has proven natural gas reserves.** However, development is hindered by the lack of infrastructure. According to the 2013 U.S. Energy Information Administration report, Congo has the 5th largest proven natural gas reserves in Africa, trailing only Nigeria, Angola, Cameroon, and Mozambique. Also, the latest estimates from the Oil & Gas Journal released in January 2015 show that, the country holds 91 billion standard cubic meters of proven natural gas. Nonetheless, this has not been developed due to the absence of a sufficient market for gas, an appropriate legal, regulatory, and upstream contractual structure, and a supporting transportation infrastructure.

11. **There is also a significant mining potential in Congo, but the sector is currently underdeveloped.**⁹ The country possesses some of West and Central Africa's largest deposits of iron ore, and discoveries in Gabon and Cameroon could make the country a new worldwide hub for iron ore.¹⁰ The development of these resources could help Congo diversify its petroleum-based economy.¹¹ However, mining production constituted only 0.04 percent of the country's GDP in 2013. Its mining industry also includes cement, potash, diamonds, and gold.

1.2. Transforming This Potential into Opportunities Has Been Challenging

12. **Despite Congo's rich endowment in natural resources, the country underperforms in many social indicators.** For instance, the country is plagued by child malnutrition,¹² with the rate of chronic malnutrition averaging 24 percent for children under the age of five and as high as 38 percent in some areas, and 31 percent of the population lack access to adequate sanitation facilities.¹³ Despite investments in education, Congolese primary school children perform worse than those of many other countries considerably poorer than Congo. Furthermore, only 46 percent of children under two years old are fully vaccinated,¹⁴ and maternal mortality rates persist at high levels even though most births are attended by medically trained personnel.¹⁵

13. **Malnutrition is the underlying cause for half of the deaths among under-five-olds.** 25 percent of Congo's children suffer from stunted growth because of chronic malnutrition during the most critical periods of development – during the first 1000 days from conception to a child's second birthday.¹⁶ Low access to health services, restrictive gender norms, unsafe water, low levels of education for women, a poorly diversified and micronutrient-poor diet, poor sanitation

⁹ Mobbs, 2013.

¹⁰ Republic of Congo Mining Fact File, available at: <http://ciemcongo.com/info-links/republic-of-congo-mining-fact-file/>

¹¹ EITI, 2013.

¹² According to MICS5, 25 percent of children are stunted (low height for age), 8 percent wasted (low weight for height) and 12 percent are moderately to severely underweight. The same survey shows that the use of improved sanitation facilities is below 24 percent.

¹³ We are Water Foundation, "Drinking water, sanitation and hygiene to eliminate the cholera in rural Democratic Republic of the Congo," http://www.wearewater.org/en/drinking-water-sanitation-and-hygiene-to-eliminate-the-cholera-in-rural-democratic-republic-of-the-congo_253220

¹⁴ Full vaccination for children under two years old is at about 46 percent according to 2013 DHS and 17 percent (MICS5 2014-2015).

¹⁵ This is not specific to Congo. The recent study "Mines to Minds" (World Bank, 2015e) shows that in Africa, natural resource wealth is not associated with better education and health.

¹⁶ UNICEF, "Undernutrition contributes to nearly half of all deaths in children under 5 and is widespread in Asia and Africa," <https://data.unicef.org/topic/nutrition/malnutrition/>

and hygiene, and inappropriate child feeding practices all contribute to the country's high rates of stunting. Child stunting rates are disproportionately high in rural areas and affect the poorest quintiles at levels four times higher than the richest quintile (35 and 9 percent for the poorest and richest quintile, respectively).¹⁷

14. **Maternal malnutrition levels are high in Congo.** Fifty-four percent of Congolese women are anemic and 14 percent have a low body mass index.¹⁸ This reflects an important gender issue since the rates do not vary considerably between rural and urban areas or by level of education. However, women are twice as likely to have low body mass index if they live in the poorest households (17 percent) versus the richest (8 percent). Women suffering from malnutrition have a higher chance of giving birth to low-birthweight babies, perpetuating the intergenerational cycle of malnutrition. Also, more educated mothers are less likely to have malnourished children, highlighting the importance of encouraging girls to stay in school.

15. **Childhood malnutrition, sometimes in combination with too little stimulation, results in irreversible losses in human capital and lower economic productivity.** Low birthweight, child stunting, and iodine deficiency are associated with a drop in the intelligence quotient by 5, 5 to 11, and 10 to 15 points, respectively. Well-nourished children complete 1.2 more years of schooling, show speedier grade progression, and receive higher scores on reading comprehension tests and nonverbal cognitive tests.¹⁹ Malnourished children and adults are more likely to become sick, be hospitalized, and stay longer in hospitals.²⁰ This leads to lost schooling or employment among children, adults, or caregivers. Malnutrition also leads to higher mortality rates, more widespread illness, and longer-term effects on cognitive abilities and education outcomes, further exacerbating inequality.

16. **Even though Congo invested 2.3 percent on average of its GDP in education, the quality of its educational outcomes remains low.** In 2015, the adjusted net attendance rate for primary education was 96.5 percent, bringing Congo close to the sustainable development goal of universal primary education. However, only 29 percent of primary school students achieved a sufficient level of math competence and only 40.6 percent had adequate scores on their French competency tests. Congo's results are comparable with Cote d'Ivoire, Chad, and Togo, which are significantly poorer countries. Only one in three primary school students has at least one book at home, and there are considerable disparities between the attendance rates of rural and urban areas (2).

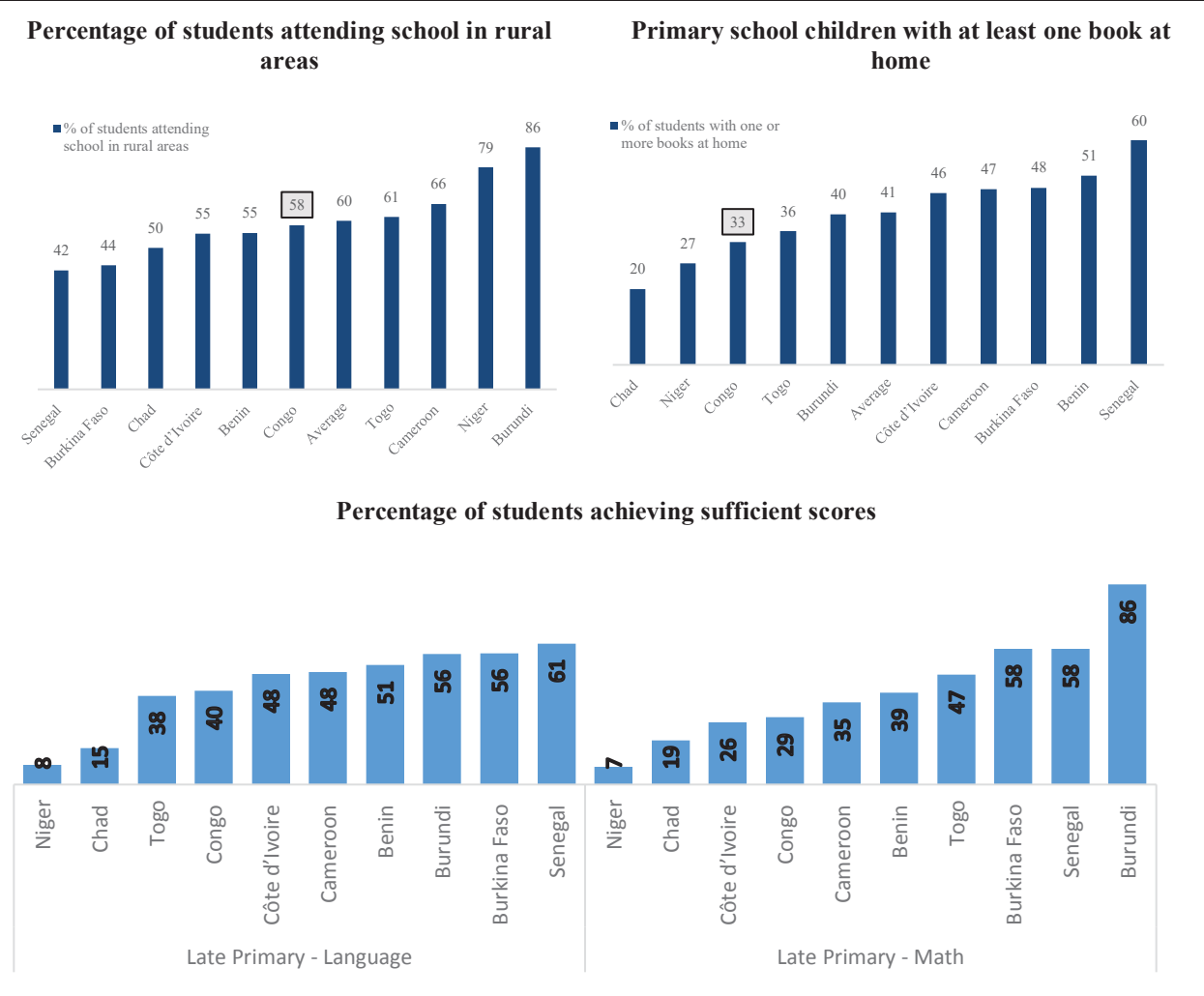
¹⁷ DHS, 2011.

¹⁸ DHS, 2011.

¹⁹ Maluccio, Jahn A. et al. 2009, "The Impact of Improving Nutrition during Early Childhood on Education among Guatemalan Adults." *Economic Journal* 119 (537): 734–63.

²⁰ The Global Burden of Disease analysis shows that underweight in young children is the number one risk factor in the burden of disease among adults and children in East, West, and Central Africa and the fourth most important factor in South Asia. See: Murray, Christopher J. L., et al. 2012, "GBD 2010: A Multi-investigator Collaboration for Global Comparative Descriptive Epidemiology." *Lancet* 380 (9859): 2055–58.

Figure 2: Select Countries – Select Education Indicators, 2014



Source: PASEC, 2014

17. **There are noticeable gender disparities in education and employment outcomes in the country.** While school participation rates are now similar for girls and boys for primary education completion, there are large disparities at the subsequent levels of schooling and in the labor market. According to 2013-2014 Demographic and Health Survey (DHS), 6 percent of women aged 15-49 had received no formal education compared to 3 percent of their male counterparts within the same age group.²¹ Moreover, 37 percent of the male population had completed secondary education or higher, while only 21 percent of their female counterparts attained the same education level. As access to higher paying formal sector jobs is correlated with higher levels of education, women are at a disadvantage compared to men. In terms of labor market participation, 76 percent of women in the 15-49 age group had held a job within the last 12 months, while 97 percent of men in the

²¹ DHS.

same age category indicated having held a job during the last year.²² For those who had a job, 78 percent of women were remunerated monetarily compared to 88 percent of men, while 7 percent of women and 5 percent of men did not receive any kind of compensation for their labor.

Box 1: Definition of Country Assets

A country's domestic assets can be classified into four categories: natural resources, physical capital, human capital, and national institutions.

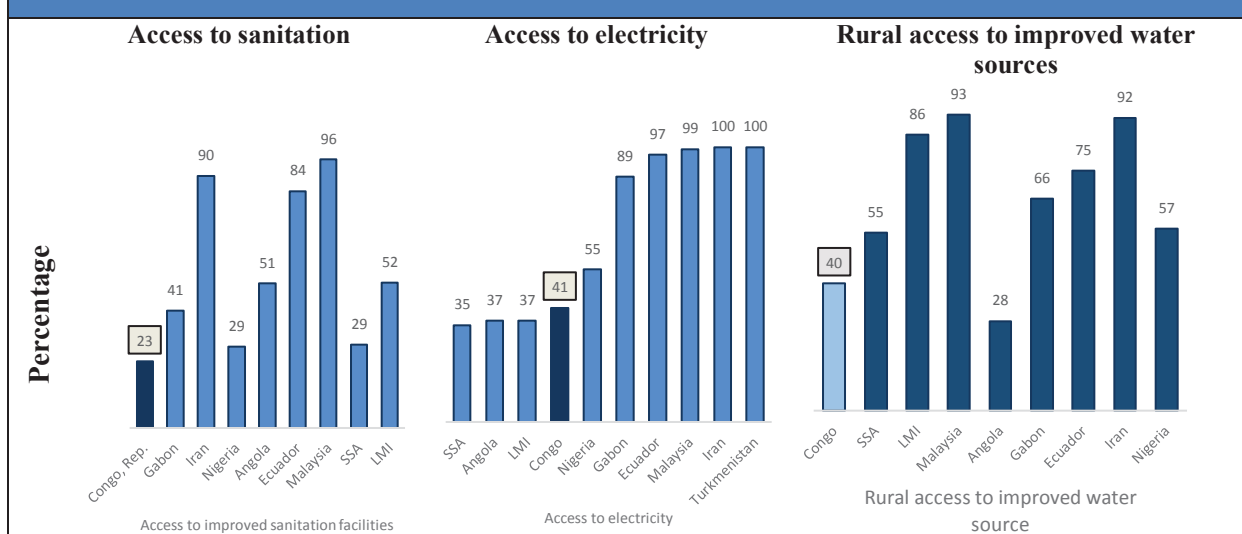
Natural resources – in the form of minerals, arable land, and forests are endowments, but technological progress and better management can radically alter their economic value.

Produced capital – consists of both physical and human capital in the form of adequate infrastructure and a healthy and skilled labor force; this asset can be measured for any country, though with more difficulty and less precision than natural resources.

Intangible assets or national institutions – the regulations and mechanisms that a country has put into place to manage resource rents and deliver public services, such as roads, security, health care, and education. These assets are the most poorly measured and possibly the most important for a country.

Source: Gill et al. (2014)

Figure 3: Select Countries – Access to Key Services



Source: Sustainable Energy for All, World Bank 2012; WDI 2015; MICS5, 2014-2015

18. Rural areas are more likely to be poor and lack access to high quality public services. Poverty is to a large extent a rural problem in Congo. The country has one of the highest rates of urbanization in SSA, with around 64 percent of the population living in urban centers. In terms of public service delivery, Congo is performing worse than that of comparator oil-producing countries, which contributes to its poor performance in health and socio-economic rankings. Despite the country's rich energy resources, its electrification rate is low, mainly because of a lack

²² EDSC-II, INS of Congo.

of infrastructure. Only 41.6 percent of the population has access to electricity, leaving more than 2.5 million people in the dark. In rural areas, only 12 percent of households have access to electricity. Furthermore, with only 15 and 76 percent of the population having access to improved toilets and potable water, respectively, Congo lags far behind other countries in its income group. The situation is even worse in rural areas where only 40 percent of households have access to improved water sources. The lack of access to water is especially a burden for women and children who spend a large part of their days collecting water (Figure 3).

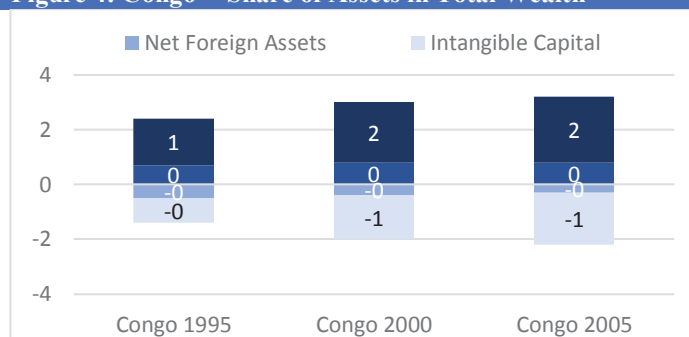
1.3. Dependence on Oil Revenue and Weak Asset Diversification Have Contributed to Poor Economic Performance

19. **Congo's physical capital per capita is not as large as its natural assets.**²³ In 2005, Congo ranked 96th in the world and 10th in SSA in terms of physical capital per capita, which was less impressive than its rank of 27th in the world and 2nd in SSA for natural assets. However, the country's stock of physical capital is higher than the average of both LMIs and SSA, indicating that the country is doing relatively well among its peers. A substantial part of this physical capital is offshore infrastructure related to oil production.

20. **Congo's human capital indicators lags most of its comparators.** The country has only made modest improvements in health and education on the Human Development Index (HDI)²⁴ despite its recent increase in income per capita. For example, Congo's 6.1 years of average schooling is low considering its income level. The Congolese situation is somewhat characteristic of other oil-rich countries in SSA. According to World Bank, oil-rich countries in SSA have consistently lower rankings on the HDI than other SSA and non-SSA countries.²⁵ Similarly, Congo's ranking on the Gender Inequality Index (GII), which combines measurement of reproductive health, empowerment, and labor market participation,²⁶ was 135th out of 188 countries in 2015, which was hardly an improvement since 2000.²⁷

21. **Institutions, or intangible assets, have contributed negatively to wealth in the country.** Between 1996-2012, the quality of Congo's institutions worsened in all aspects (Figure 4). Intangible assets per capita decreased by 40 percent between 1995 and 2000 and by 6 percent between 2000 and 2005.²⁸

Figure 4: Congo -- Share of Assets in Total Wealth



Source: The Changing Wealth of Nations (World Bank 2011)

²³ See Box 1 for definition of each type of assets.

²⁴ A composite statistic, which combines national income, life expectancy, education attainment, and school participation.

²⁵ World Bank, 2015e.

²⁶ The GII's reproductive health index is based on two indicators: the maternal mortality ratio and the adolescent fertility rate. The empowerment index is measured on two indicators: share of parliamentary seats held by women and women's attainment in secondary education and above. The labor market participation dimension accounts for paid work, unpaid work, and actively looking for work.

²⁷ UNDP, Human Development Reports.

²⁸ World Bank, 2016b.

The political conflict which resulted in a civil war in 1997 was mainly to blame for the sharp decrease between 1995 and 2000. Furthermore, the government has made limited progress in building institutions conducive to a market economy. Inconsistent enforcement of laws and regulations are typical symptoms of weak governance, and Congo is far behind comparator countries in all elements of governance and transparency. The World Bank's Worldwide Governance Indicators indicate that rule of law, corruption, regulatory quality, and accountability remain problematic in the country, ultimately undermining the effectiveness of government policy. Although private ownership is enshrined in legislation, these weaknesses may translate into a major deterrent for firms to invest and innovate, including by constraining financial development. From an international point of view, the business environment in Congo is very challenging.

1.4. Heavy Reliance on the Oil Sector Has Complicated Economic Planning

22. **Congo's growth narrative is characterized by oscillation between good times (when oil prices are high and/or there is relative socio-political stability) and bad times (when oil prices decline or there is civil war).** Since attaining independence in 1960, Congo's growth performance has gone through at least four distinct phases (1960-1972, 1973-1984, 1984-1999 and 2000-2014), reflecting in part fluctuations in oil price and production and in part the effects of socio-political instability.²⁹ A brief description of these phases is provided below.

- **1960-1972: Pre-oil phase** – A relatively diversified economy significantly disturbed by the intense power struggles, underlining ethnic cleavages, and ideological alignments during the Cold War.
- **1973-1984: First oil-boom phase** – An economy characterized by significant oil production, price volatility, and prolonged political instability, succeeded by relative stability.
- **1985-1999: Low commodity price cycle phase** – An economy characterized by low economic growth, deep socio-political instability, and a declining standard of living.
- **2000-2014: Second oil boom phase** – A liberalized economy dominated by oil and characterized by fairly strong growth, strong public investment in infrastructure, political stability, and a gradual improvement in the standard of living.

23. **Since the beginning of major oil production, the country has not been able to fully implement a NDP.** The 1973-1976 plan was stopped in 1975 due to disappointing oil production. The 1982-1986 plan was stopped in 1985 due to low government revenues resulting from a sharp decline in oil prices. Finally, the 2012-2016 NDP (République du Congo, 2012) has not been followed since the adoption of the revised budget in May 2015. Deficiencies in planning resulted in inefficiency and waste, as projects were started but not finished.

24. **The discovery of oil caused a major sectoral shift away from the tradable to the non-tradable goods sector.** During 1973-1984, the oil sector accounted for about 30 percent of GDP, up from less than 2 percent during 1960-1972. Similar to the experience of other economies dominated by oil, the oil sector had a more detrimental impact on the tradable sector than on the non-tradable sector. Specifically, the share of agriculture in the economy fell by about 9 percentage points (43 percent of its share of GDP), forestry lost 4 percentage points (65 percent of its GDP

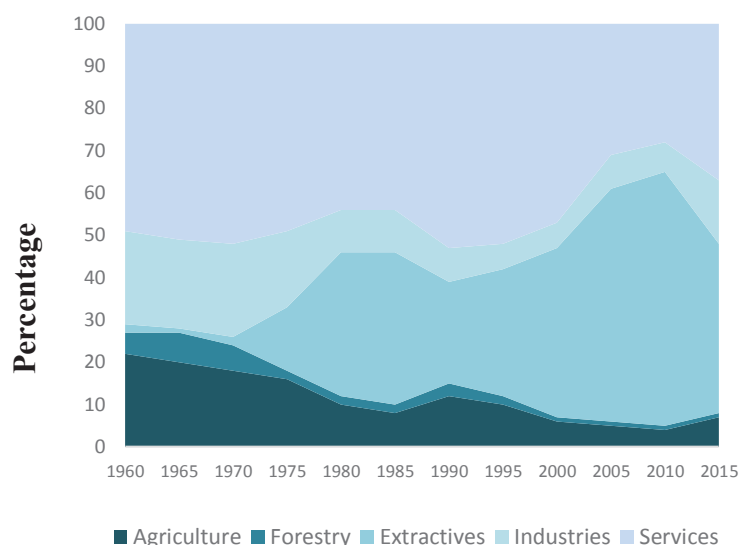
²⁹ In the final SCD report, the causality of the link between oil revenues and political cycles will be further assessed.

share), while industries lost 9 percentage points (40 percent of its share), and services lost a proportionally smaller 5 percentage points (10 percent of its share) (Figure 5).

25. The government's efforts to use oil revenue to develop the country and reform state institutions have fallen short.

In 1975, the government embarked on an ambitious socio-economic development plan: the 1975-1977 Triennial Plan. The main objectives of this plan were to: i) enhance economic independence; ii) open-up rural areas; and iii) reduce social inequality. However, the government failed to consolidate its economic achievements during these periods. During oil booms, the government failed to undertake appropriate actions to save adequately for lean years. Moreover, the government was not able to adopt and implement reforms to achieve a business-friendly environment and to clean up public financial management (PFM). This resulted in inefficient and costly investment ventures.³⁰

Figure 5: Congo – Evolution of Sectoral Shares of GDP



Source: World Development Indicators

26. Drastic falls in oil prices and the poor performance of SOEs led to significant macroeconomic imbalances and indebtedness. The oil boom ended in the second half of the 1980s following a drastic fall in oil prices, from about US\$33 per barrel during 1980-1984 to about US\$18 during 1985-1989. As a result, fiscal deficits increased during 1985-1989. These economic and financial imbalances were compounded by the weak performance of several SOEs. These benefitted from substantial transfers and state exemptions and, consequently, continued to record substantial losses that needed to be written off by the central government, further increasing the national debt. In response to difficulties caused by the 1986 oil price decline, the government adopted a structural adjustment plan that squeezed the development of SOEs and hampered the potential of the non-oil sector to take the lead from the oil sector in the economy. Since 2014, this situation is recurring in the current low price cycle for oil.

1.5. A political settlement based on oil rent-seeking and an Unstable Political System Have Led to Missed Opportunities

27. Congo's history has been marked by a cyclical pattern of conflict and socio-political violence. Since independence, the country has been driven by a struggle for power at the top level, with leaders resulting to violence to settle political disputes and relying on their constituencies'

³⁰ World Bank, 2015c.

ethnic and territorial affiliations to access and consolidate power. During the first phase of the country's economic development (1960-1972), Congo experienced significant instability and civil and military unrest, which resulted in two regime changes. These regime changes led to the realignment of the country away from the Western ideological bloc to the Eastern/communist bloc. During 1975-1977, the country witnessed political chaos, which was enhanced by ethnic division and political patronage sponsored by a monolithic party-state.

28. **After a short period of relative peace, the return to political instability in 1991 was characterized by multiple periods of civilian unrest and two civil wars (Figure 7).** A few men who emerged from the elite during the democratic transition in the 1990s have dominated the Congolese political scene. The political rivalries that have ensued have led to political violence, culminating in civil conflicts and war. Increased arms circulation and a culture of violence promulgated by the politicization of militias and ethnicity by political figures feeds these cycles. Not only has it had significant economic costs as evidenced by lost GDP, political violence has also severely damaged the social fabric of the country, including using sexual violence as a weapon of war, and many are still trying to recover from the trauma of the wars. Moreover, people have remained strongly divided along territorial and ethnic lines, allowing for the 'politicization' of ethnicity and the creation of militias. Many Congolese believe that political violence prevented the completion of the peaceful democratic transition that was initiated in the early 1990s.

29. **Historically, conflict in Congo has been settled through the redistribution of the country's wealth by buying peace rather than adjudicating through a legal process or at least through a truth and reconciliation like process,** State institutions, SOEs and the public administration have been used to reward winners as a recognition of their contribution to the conflict, hiring people not on a merit base, without an accountability measure/mechanism. This culminated to exceptional magnitude with the increase in oil revenue during the past decade. Poor governance practices and a lack of effective accountability mechanisms create a favorable context for corrupt practices to persist and become anchored in the governance system over time, see World Bank. 2016c. "The Republic of Congo -- Risk and Resilience Assessment", Fragility, Conflict, and Violence (CCSA), Dec 2016.

30. **Following the end of the most recent civil war, the country adopted a new constitution that inaugurated a new cycle of relative political stability.** A coalition agreement between the ruling party and the main opposition challengers in the 2002 and 2009 presidential elections inaugurated a period of socio-political stability. In 2015, a series of institutional/constitutional changes were introduced removing the term limits for the incumbent, appointing a Prime Minister with a coordinating role and establishing a more balanced power sharing with the executive branch. That constitutional change was contested by a significant segment of the Congolese population and political parties, and given the legacy of past triggers of civil wars in Congo, there are significant risks that some actors might resort to socio-political unrest.

31. **Since April 2016, Congo has been experiencing strong socio-political tensions and a refugee crisis.** Currently, prominent political leaders are under trial and remain in prison, and an armed conflict led by Pastor Ntumi with its Ninja militia is taking place in the Pool region. Clashes between this group and the army have already led to deaths, population displacement, as well as the destruction of infrastructure in the Pool region. Consequently, there is a growing crisis of

refugees, mainly IDPs fleeing the conflict zone. A recent joint World Bank-UNHCR report³¹ and the Government pointed out that Congo is home to about 83,000 IDPs, essentially the result of violence and insecurity in the Pool region. Most IDPs live either near their place of origin or in Brazzaville. With no access to land or other economic opportunities, they are among the poorest and most vulnerable of the Congolese. Congo is also host to sizeable refugee populations from Rwanda, the Democratic Republic of Congo (DRC), and the Central African Republic. The country has been hosting refugees since the 1970s, and with over 55,000 refugees and asylum-seekers, Congo is the 18th largest host country in terms of refugees per 1,000 inhabitants. Refugees currently account for over 1 percent of the population and more than half of them are below the age of 18. Both refugees and host communities have significant unmet needs in terms of nutrition and access to basic services (i.e., health, education, water, and sanitation).

Figure 6: Congo's Political and Economic History since Independence

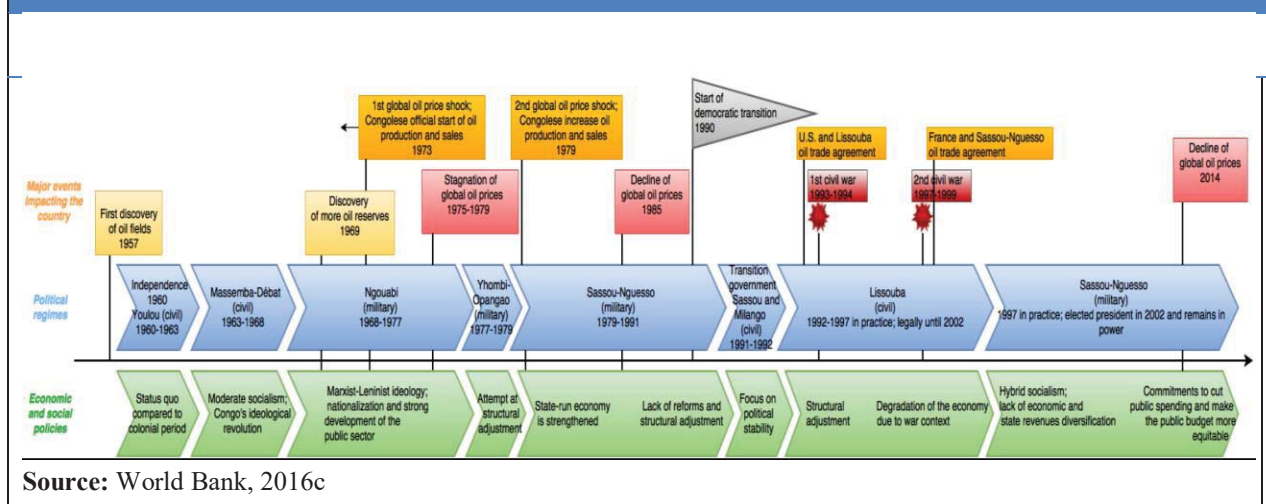
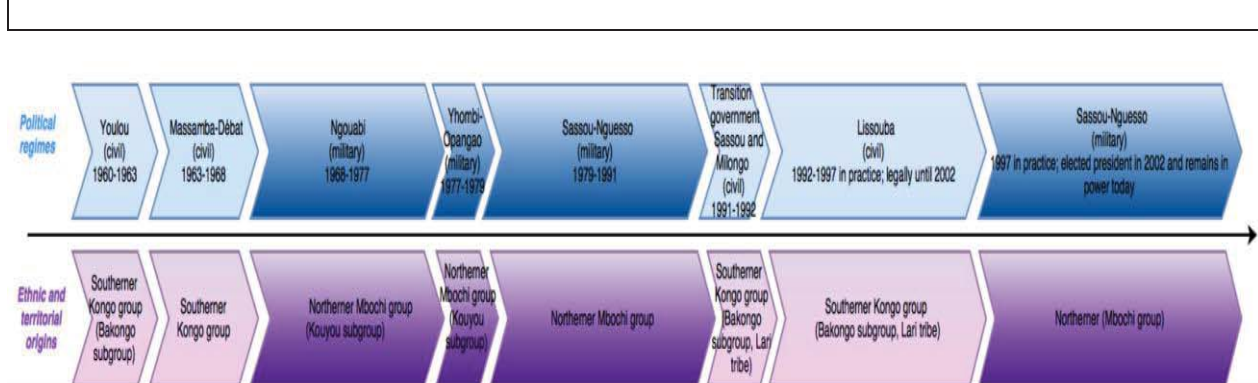


Figure 7: Ethno-Political History of Congo since Independence 7



Source: World Bank, 2016c

³¹ Republic of Congo Forced Displacement Strategy Note, May 2017.

32. **In addition to severely damaging the social fabric, violence and wars have hampered capital accumulation and fueled a bias against investing in the country.** In the 1990s, civil war led to massive destruction of assets in Congo. For example, the main buildings in the center of Brazzaville, both public and private, were destroyed, the railway between Brazzaville and Pointe-Noire experienced major damages between 1999 and 2002, and houses of private citizens were destroyed or burned. This reduced the volume of production factors in the economy and thus limited the capacity of the country to develop its non-oil sector and push for greater economic diversification. Moreover, this reinforced an already existing bias against home investments, with the elite prioritizing investments abroad as a way to secure an exit strategy if violence and conflict reoccur. However, the long period of peace and a campaign in the West against allowing investment in Europe by African political elites seem to have dampened this negative bias in recent years.

1.6. The Macroeconomic Outlook is Challenging

33. **Congo is currently facing two significant socio-economic hurdles: i) the decline in oil prices and ii) the heightened state of security.** Oil accounts for about one-third of the country's GDP, two-thirds of its fiscal revenues, and more than 80 percent of its exports of goods. The sharp decline in oil prices since 2014 represented a severe terms-of-trade loss, which reduced production in both the oil and non-oil sectors. In 2014, the adverse oil price shock hit Congo amidst a massive pro-cyclical scaling up of public investment and an increase in public sector wages after decades of stagnation. Also, persistent security issues since the presidential election disrupted the movement of goods, contributing to increased costs of doing business (DB) and leading to public fund reallocations to address security concerns.

34. **Economic activity contracted and inflation rose in 2016.** Despite a high level of public investment spending, economic growth slowed to 2.6 percent of GDP in 2015, and it eventually contracted for the first time since 2008 by 2.8 percent in 2016 amid uncertainty surrounding the presidential election and the continued low oil prices. Moreover, inflation rose to 4.5 percent year-on-year in 2016, and the price inflation of non-exported products climbed to 12.1 percent. The rise in inflation appears to be the result of bottlenecks caused by the disruption in freight transport due to the increased level of insecurity.

35. **The overall budget deficit has widened considerably despite a sharp downturn in spending and the public debt-to-GDP ratio has soared.** The overall budget deficit amounted to 18.8 percent of GDP in 2015, almost 10 percentage points higher than in 2014, mainly due to lower oil revenues. The sharp deterioration in the terms of trade - which reduced nominal GDP - and exchange rate developments contributed to bringing the total public debt up to 83.4 percent of GDP by the end of 2016 and could exceed 110 percent in 2017 after taking into account all debts contracted since 2014, including the i) debt in dispute with Commisimpex and ii) domestic arrears due to private sector. This constituted a failure to meet the Central African Economic and Monetary Community convergence criterion, which sets a threshold of 70 percent of GDP for public debt. The government has used offshore deposits to finance the budget deficit, leading to sharp fall in official reserves and a narrowing of the liquidity position in foreign currencies in 2016. Additionally, international reserves at the Bank of Central African States (BEAC) have shrunk dramatically, covering less than three months of imports at the end 2016.

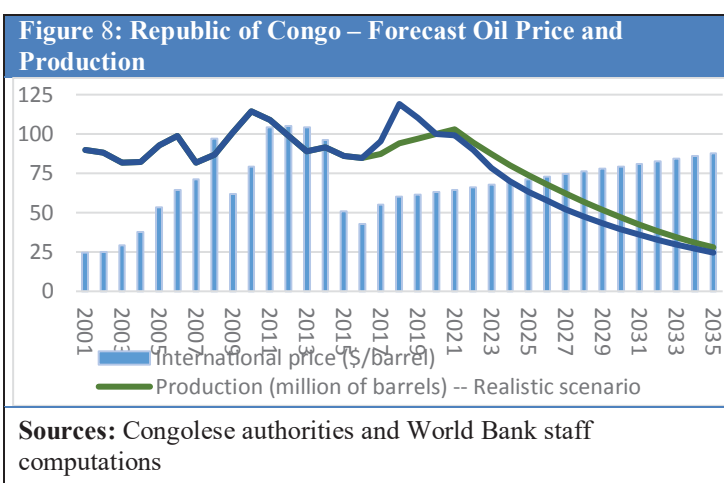
36. **External and domestic arrears are on the rise, raising concerns about over-indebtedness.** External arrears are due to the non-payment of Eurobonds in June 2016 and payment delays in 2017 to the Paris Club creditors, China, and other external creditors due to liquidity problems. Furthermore, there were payment delays in 2015 and 2016 to suppliers and contractors under the public investment program. This was in addition to an already audited stock of XAF 379 billion or 8 percent of GDP. As a result, the 2016 Debt Sustainability Analysis of the International Monetary Fund (IMF) and the World Bank reveals an increase in Congo's risk profile of over-indebtedness from moderate to high and an increased risk of overall debt pressure.

37. **The current oil price shocks threaten past achievements in poverty alleviation.** The fall in oil prices led to a slowdown in economic activity and lower oil revenues, increasing the overall budget deficit. This revenue shortfall negatively affects public investment, which will hurt the poor and vulnerable if social spending is not protected. Specifically, the country only spent 2.8 percent of GDP on education in 2012, and its 8.7 percent of public spending on health fell short of the Abuja Declaration commitment of 15 percent. Thus, public spending on health and education is low in Congo and further reductions will be harmful.

38. **The short- and medium-term outlook will depend on the commitment of the authorities to budgetary adjustment.** Economic growth is expected to be lower in the coming years, reaching an expected average of 2.6 percent per annum between 2017 and 2021. While growth in the oil sector is expected to be sustained by the start-up of two new oil fields over the period 2017-2021, non-oil growth is only expected to recover by about 1.7 percent on average. Non-oil growth is well below its recent trend, reflecting the anticipated reduction in public investment spending and the persistent slowdown in economic activity due to transport disruptions and arrears.

39. **The current decline in oil prices is likely to last for at least five years, and oil production in Congo is expected to steadily decline between 2017 and 2035.** In fact, production by 2034 could well be less than 30 percent of the 2015 level of production. Prior to the discovery of the Marine 12 oil field, oil production in Congo was set to decrease at an annual rate of 5 percent. The beginning of oil production at this field could bring annual production from about 92 million barrels (252 kilo b/day) in 2014 to 120 million barrels (330 kilo b/day) in 2018. Nonetheless, production will ultimately decrease if no new oil fields are discovered, leading to an annual production of about 30 million barrels by 2034 (Figure).

40. **Congo's economic growth between 2017 and 2035 will depend on oil price dynamics.** A negative oil price dynamic might increase the declining rate of oil production, resulting in lower economic growth. The country's growth rate could stand at about 3.5 percent if the non-oil sector grows at an average rate of about 5 percent. If the non-oil sector grows by an average of 4 percent,



economic growth will be lower, approximately 2.8 percent. However, the quality of the government's economic reforms and whether peace and stability persist will determine if Congo's non-oil sectors can become more important for the economy than oil.

1.7. Sustainability of the Congolese Socio-Economic System

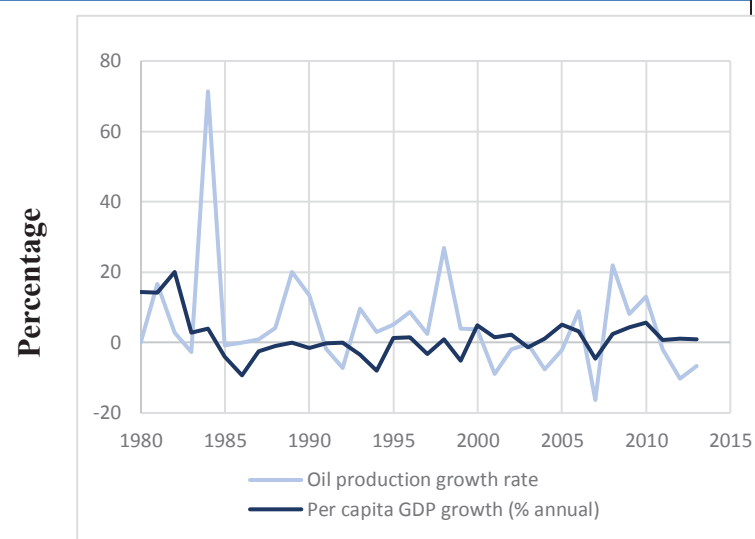
41. **The current growth model underpinned by natural resources faces two important sustainability challenges: oil price and production volatility and the imminent depletion of oil reserves.** The lack of fiscal space due to insufficient savings during periods of high oil prices is a big challenge to fiscal sustainability in the coming years. Moreover, environmental sustainability faces three main challenges: i) Congo's greenhouse gas emissions will rise substantially if no mitigating measures are implemented; ii) weaknesses in the implementation of forest management will continue to undermine sustainability; and iii) climate change is likely to negatively impact many vulnerable sectors in the economy. Finally, the current political system presents a moderate to substantial risk of socio-political instability, while high demographic growth puts pressure on the social protection system to deliver services to an ever-growing and young population, with relatively few working-age adults to finance the costs.

1.7.1. The Current Growth Model Presents Challenges to Economic Sustainability

42. **Congo's oil-dependent growth faces important sustainability challenges involving price, production, and the imminent depletion of reserves.** International oil prices have characteristically been unpredictable, and oil production has been volatile in Congo since the first oil boom in 1973 (Figure). The pattern of per capita GDP growth has typically followed the volatility in oil production. Furthermore, the Congolese growth trajectory has historically been largely determined by movements in international oil prices. Experts suggest that, in the absence of new discoveries, Congolese oil reserves will be substantially depleted by 2034, which would further jeopardize economic growth.

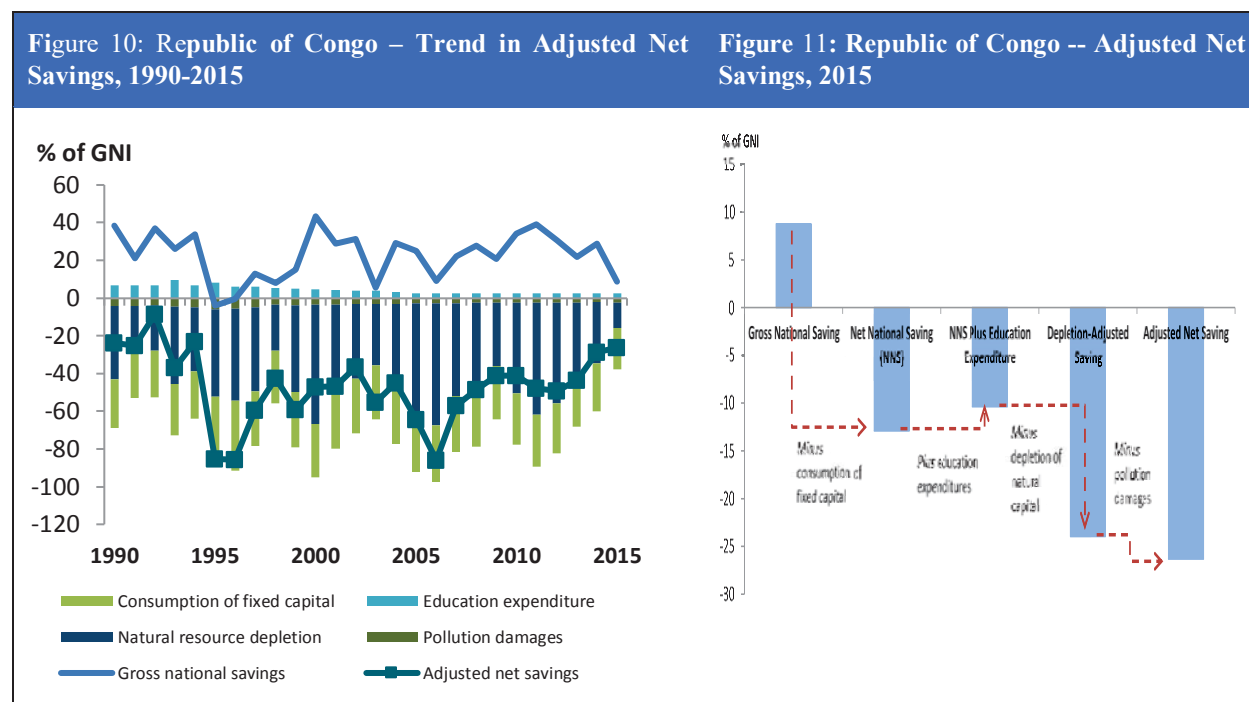
43. **In a context of moderate oil prices, the sustainability of Congolese growth is in question.** Oil prices are projected to rise only slightly in the medium to long term, and the World Bank does not expect prices to increase above US\$70/b before 2020. In this context of a moderate growth in oil prices, economic growth projections for Congo are expected to remain modest, as both public and new private investments in the oil sector would be significantly constrained. Breaking away from an economic growth trajectory largely driven by the price of oil remains the main challenge for policymakers in Congo.

Figure 9: Congo -- Evolution of Oil Production and Per Capita GDP Growth



Source: WDI and Congolese authorities

44. Moreover, trends in adjusted net savings (ANS) indicate that the country is on an **unsustainable growth path**. The ANS of a country incorporate measures of the consumption of fixed capital, the positive contribution of education expenditures, depletion of natural resource assets (including energy, mineral, and net forest depletion), and pollution damages. Although the gross national savings as a percentage of GNI was 8.8 percent in Congo in 2015, high depreciation and natural resource assets depletion rates led to ANS of -26.3 percent (Figure).³²



Source: World Development Indicators, 2017

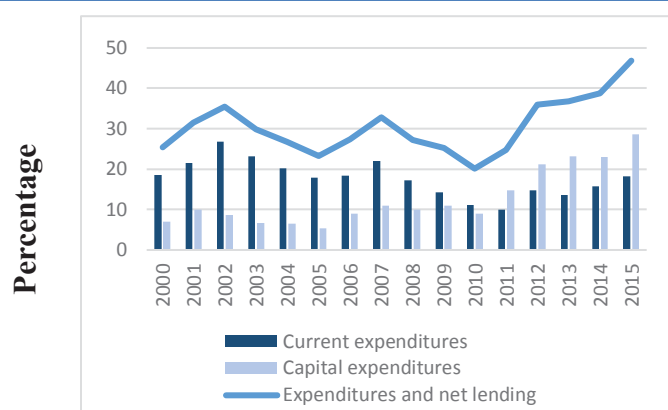
³² World Bank Indicators, 2017.

45. **Congo's ANS have been consistently negative during the last 25 years.** A positive ANS rate indicates an investment in the future – that a nation is accumulating assets needed to increase its wealth and ensure its economic growth over the longer term. However, Congo's history of negative savings suggests that the country is running down its capital stock and on an unsustainable growth path (Figure). Furthermore, the recent uptick in ANS has not been driven by an increase in gross national savings, but rather by a slow-down in oil production. Since education expenditures have declined as a share of GNI, the country is likely far from turning a corner in its wealth creation.

1.7.2. Recent Trends in Fiscal Management Are Not Sustainable

46. **Congo's fiscal framework faces several significant challenges.** These include: i) a lack of fiscal space due to insufficient savings set aside during periods of high oil prices and the absence of a fiscal anchor; ii) a complex system of taxation coupled with a high effective tax rate and a deficient public capacity in generating substantial non-oil income; iii) the non-compliance with budgetary rules and procedures; iv) substantial delays in the country's procurement system; and v) stalled reforms in PFM coupled with poor computerization.³³

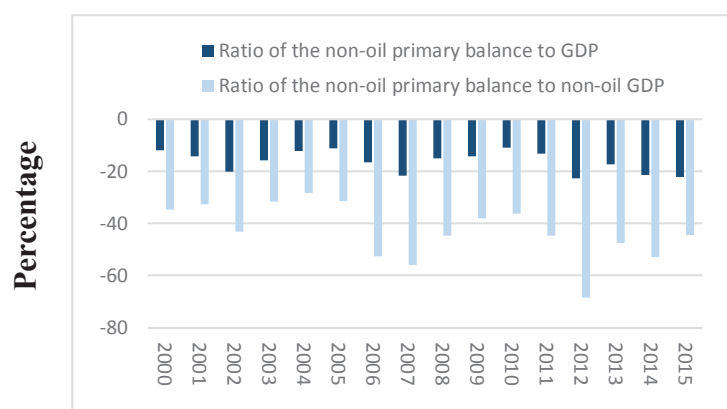
Figure 12: Congolese Government Expenditures, 2005-2014 (% of GDP)



Source: Congolese authorities

47. **The lack of fiscal space is a big challenge to fiscal sustainability in the coming years.** Congo is no longer benefiting from the high level of oil windfall revenue it did between 2008 and 2013. Oil royalties during this period were by far the main source of public revenue (71.9 percent in 2014). The country's fiscal policy stance has largely been procyclical, with public investment spending peaking at an average annual rate of 32.8 percent during 2000-2012, undoubtedly in response to favorable oil prices (Figure). Procyclicality coupled with the absence of a fiscal anchor have resulted in insufficient public savings for policies aimed at stabilizing the economy and achieving intergenerational equity. The failure to adopt the NOPB as a fiscal anchor

Figure 13: Congo's NOPB, 2000-2014 (percent of GDP)



Source: Congolese authorities

³³ World Bank, 2015a.

has led to huge fluctuations in the government's NOPB between -68.4 and -28.2 percent during 2000-2014 (Figure).

48. **Non-compliance with budgetary best practices also present risks to the sustainability of the fiscal framework.** The government suffers from difficulties in fully complying with budgetary rules and processes and poor planning and execution of capital expenditures. Moreover, capital spending financed from external resources lack coordination and planning. Between 2008 and 2013, the mobilization of external resources was weak and averaged only 7.8 percent of total government revenue. External projects are also not implemented by government institutions and their management often suffers from weak organizational and technical capacity.

1.7.3. Achieving Environmental Sustainability is Challenging

Congo's Greenhouse Gas Emissions Will Rise Substantially if No Mitigating Measures are Taken

49. **Congo emitted an estimated 29.34 MtCO₂e of greenhouse gases in 2012, and this is expected to rise in the future.**³⁴ The country's non-LUCF (land use change and forest) emissions rose 206 percent between 1990 and 2012, which was primarily driven by higher emissions from energy production and to a lesser degree by agriculture and transportation.³⁵ However, despite Congo's deforestation rate (0.052 percent per year during 2000-2012³⁶) being among the lowest in Central Africa, 74 percent of Congo's emissions stem from LUCF. As a result, Congo lost 145,356 hectares of forest cover to other land uses, or about 12,113 ha per year, between 2000 and 2012. Current trajectories and development plans indicate that the country's LUCF emissions will rise substantially in the future without mitigating measures.

50. **Even though the country has made significant commitments to cut its greenhouse gas emissions, their implementation is uncertain.** At the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change, Congo submitted an ambitious Intended Nationally Determined Contribution (INDC) that commits it to lowering its greenhouse gas emissions by 54 percent by 2035. However, these commitments are subject to the mobilization of significant additional aid flows, and Congo proposes to self-finance only 20 percent of its promises. Thus, even though the INDC covers numerous sectors, it is uncertain how much it will affect the climate-friendly nature of Congo's development. The uncoordinated nature of the construction of the INDC also casts doubts on its overall reliability as a planning instrument, and downward revisions of the level of contribution are still possible.

51. **Congo has made several efforts to manage its forest resources sustainably.** Since 2000, the country has been pursuing sustainable forest management and has extended its protected area network to cover 13.2 percent of its land area. Due in part to the geographical isolation of its northern forest tract, Congo has among the lowest annual net deforestation rates in Africa. Moreover, it has developed a national policy for the conservation and sustainable management of its forests. While the application of this policy is highly uneven across operators in the forest industry in Congo, it contributed to the Forest Stewardship Council (FSC) certification of forest

³⁴ Authors' calculations based on 1) non-land use change and forestry emissions from CAIT (2015), and 2) the deforestation and forest degradation data from République du Congo (2016).

³⁵ CAIT (2015).

³⁶ République du Congo (2016a).

concessions totaling 2.5 million hectares, accounting for nearly half of all FSC-certified forests in the Congo Basin. This also provides improved access for Congolese forest products to Western markets. Additionally, Congo is developing a REDD+ program to address major drivers of deforestation. This program is intended to provide economic incentives to change practices that affect the forest stock and has the potential to attract significant external funding.

Weaknesses in Forest Management Undermine Sustainability

52. The sustainability of forest production in Congo remains imperfect. The implementation of forest laws and good management practices varies widely among forestry companies, and government oversight capacity is weak. There is a general pattern of higher deforestation and forest degradation in the south of the country than in the north. The allocation of concessions has been particularly problematic and suffers from the fact that many firms lack concession management capacity, revenue collection lacks transparency, and allocation is incomplete and exhibits significant irregularities. In addition, underdeveloped revenue sharing arrangements and unclear property rights provide ineffective incentives for local communities to manage resources sustainably. A bias towards large operators in the legal and regulatory frameworks and the expansion of infrastructure have progressively increased illegal logging and adverse impacts on forests due to unregulated overexploitation. Informal production currently represents between 20 and 30 percent of all timber production. The combination of infrastructure development in previously remote areas, a lack of oversight capacity, weak enforcement of environmental laws, a lack of transparency, an absence of land-use planning, and overall weakness in policy coordination mean that the pressure on forests and their ecosystems is likely to remain significant.

53. The country's biodiversity resources are being rapidly depleted. Congo's natural capital, which could form the basis of a thriving tourism industry, is being exhausted by poaching (e.g., hunting elephants for ivory), the bushmeat trade (e.g., killing monkeys for meat), and habitat degradation (e.g., removing rainforest). This has been made easier by the expansion of infrastructure, which has increased accessibility to previously isolated areas. Furthermore, a lack of control is contributing to the rapid extinction of the country's fauna, which has negative impacts on livelihoods in rural areas.

54. Congo's indigenous people depend almost exclusively on natural resources found in forests for their livelihood. Concentrated in the north of the country, the indigenous population is mostly nomadic and relies on hunting and other non-timber forest products. Therefore, the poaching crisis has especially impacted this community, and preserving access to non-timber forest products is key for their survival and culture. Indigenous people are also marginalized in terms of land claims, access to education, and health services. They also occasionally provide day labor to the Bantu populations but frequently on unfavorable terms.

55. A lack of environmental planning and inter-ministerial coordination result in rival land-use claims. This can lead to conflict over land claims and insufficient evaluations of the tradeoffs between leveraging land for economic activity and protecting areas deemed environmentally sensitive. Additionally, public development policies have limited impact if the government is unable to evaluate their effect on sustainability. While a legal framework for environmental impact assessments exists, the government lacks the manuals, guides, and standards

needed to evaluate and regulate environmental impacts. Furthermore, there is little capacity to monitor impacts on the environment or enforce environmental management plans. There is also no framework for conducting strategic environmental assessments or audits.

Climate Change is Likely to Negatively Impact Congo's Vulnerable Sectors

56. The first and second National Communications of the Congo (2001 and 2009) to the United Nations Framework Convention on Climate Change identified the following sectors as the most vulnerable to the adverse effects of climate change: i) water resources; ii) coastal zones; iii) agriculture; iv) forestry; v) health and human settlements; and vi) energy. For example, observed changes in Congo's climate have already affected the country's main agricultural zone. The poor are the most affected by such shocks, as agriculture is their main source of income. Women are also often affected, as they have the poorest quality land and less resources and access to technology to adapt to climate change impacts. As temperatures continue to rise, increased rates of evapotranspiration are expected to impact certain crops more than others, including nuts.

57. **Our understanding of the Central African climate and the impacts of climate change in the region is weaker compared to other areas of the world.** It is urgent to rebuild the climate monitoring network in Africa, linking weather stations to global reporting networks and integrating with satellite observations. Similarly, modernizing and rebuilding the hydro-meteorological network would help us understand the implications of coming changes in weather and river flows.

1.7.4. Social Systems Framework Sustainability

58. **The government needs to strengthen the management of the country's social sectors, which are under pressure to deliver services to an ever-growing and young population.** In the education sector, this is compounded by increasing rates of access to all levels of the education system. The social sectors are thus faced with the challenge of accommodating more students and patients, straining government capacities and physical, human, and financial resources. Since the population already contributes out-of-pocket and oil revenues are waning, new financing needs can be met by prioritizing social sectors in public investments, improve service quality, reduce the dependency ratio, and achieve a demographic dividend. In the health sector, refining spending allocations and the management of the health system can improve efficiency in health spending. In the education sector, spending focused on extending free, quality basic education should be prioritized since it is more likely to be used by the poor. Efficiency gains can also be achieved through better personnel management, including reviewing the administrative staff ratios. Furthermore, Congo's social protection system is in its nascent stages and needs additional resources to scale up coverage. The cost of including all poor households in the system is estimated at 1-1.5 percent of GDP. In sum, considering the country's social needs and the current fiscal environment, the government should strengthen the management of the social sectors. It should start by creating credible sector plans that are not wasteful and strike the right balance between the need to consolidate gains in coverage, improve service delivery, and achieve sustainability.

Chapter II: Key Drivers and Constraints to Economic Growth

The main drivers of the Congolese economy are natural resources, especially oil and forestry. In addition to the overarching challenge of ensuring socio-political stability, the main constraints to economic growth are: i) the volatility of oil prices and production; ii) weak productivity due to Dutch disease; iii) a feeble financial environment, iv) weak governance and business environment; v) the wasted potential of human capital; and vi) the low quality of infrastructure. All these factors reduce the ability of Congo to achieve the full potential of its natural, physical, and human capital. These findings are based on the analytical framework defined in Box 2.

Box 2: Analytical Framework

In the short run, economic growth performance is driven by both demand and supply-side factors, but supply-side factors are more important for growth in the long run. Demand-side factors include commodity prices, government spending, and monetary and fiscal policy measures, such as interest and exchange rates that stimulate private consumption, investments, and exports. Supply-side factors include institutions and government policies that encourage investment and production over consumption and diversion (e.g. social infrastructure) as well as policies that encourage physical infrastructure, human capital, and technology development. All these factors determine the production possibility frontier (PPF) of an economy.

In the pursuit of economic growth, a country's specific economic context often determines the right mix of demand management policies versus supply-side incentives. While accumulation of production factors in response to demand-side stimulants may spur economic growth in the short run, shifts in the PPF are essential for sustained, long-run growth. Sustained economic growth is therefore feasible only through shifts in the PPF, which entail improvements in productivity. While developed countries have invested heavily in supply-side drivers to maintain their competitive edge, Congo continue to rely on factor accumulation in response to aggregate demand increases, jeopardizing future competitiveness.

Many developing countries, including Congo, have recorded several episodes of strong growth and current account surpluses driven by favorable commodity prices. The excess aggregate demand created by such huge windfalls has generally led to Dutch disease. This can lead not only to lack of diversification of the economy or lack of substantial investment in domestic supply-side drivers of economic growth, but it can also jeopardize the real exchange rate and future competitiveness. A vicious circle of strong growth, excess aggregate demand, loss in competitiveness, and slow growth thus sets in.

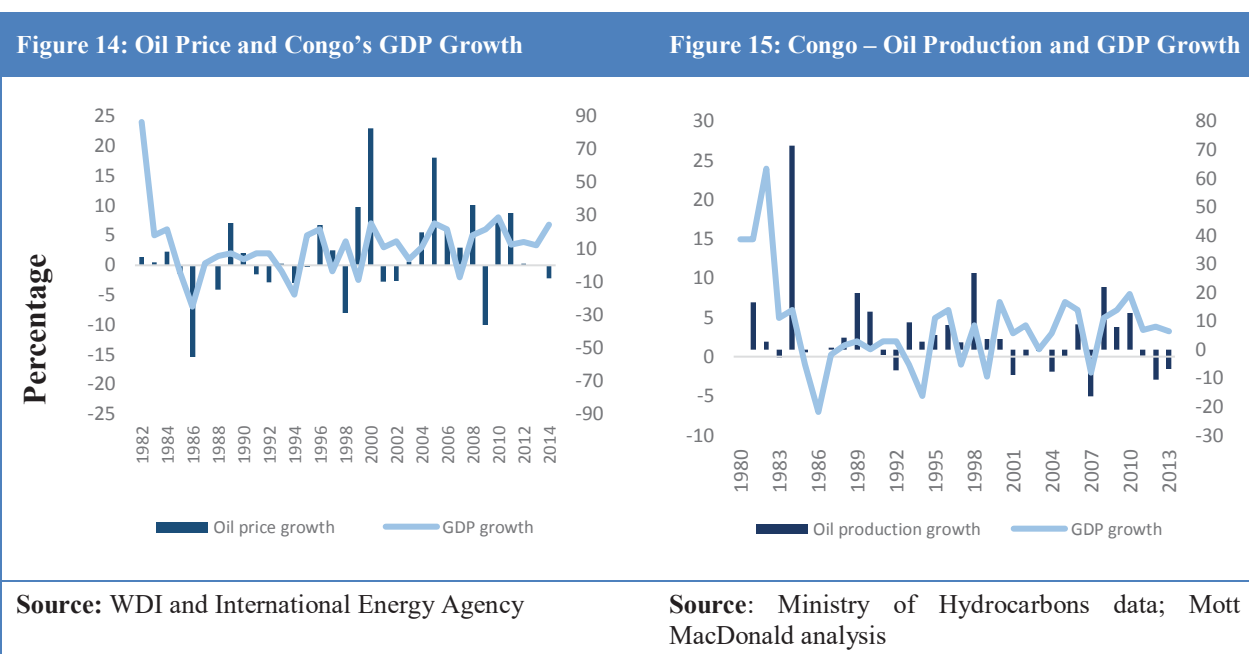
Source: Authors

2.1. Key Drivers of Economic Growth in Congo

2.1.1. Oil Prices and Production Have Been the Main Drivers of Short-Run Growth

59. Oil prices have been the biggest determinant of short-run economic growth in Congo since 1973. Historically, high oil prices have had significant positive impacts on growth in the country. Since the Emeraude oil-field started producing in 1973, high oil prices have been associated with periods of strong economic growth, while episodes of low oil prices have accompanied low growth and recessions. After the first oil shock in 1973, which was during the time when the oil sector came to dominate the Congolese economy, the economy grew at more than 7 percent on average until 1984. The economy then slipped into a recession following the negative

oil price shock of 1985 (Figure and Figure). Similarly, the last episode of Congolese economic growth, during 2002-2014, was associated with the recent oil boom. During this period, oil prices rose from, on average, about US\$20/b in 2002 to US\$100/b in 2014. Finally, following the steep decline in oil prices from US\$96/b in 2014 to US\$50/b in 2015, Congolese economic growth slowed remarkably and even contracted in 2016.



60. **Driven by high oil prices, government revenue grew substantially during the last fifteen years.** As a result, the government adopted a spending policy that consisted of: i) investing in public infrastructure; ii) improving social sector indicators; and iii) raising the living standards of civil servants. The recent period of high oil prices has induced strong domestic demand through: i) high household income for those working in activities related to the oil sector; ii) high government revenues collected from the oil sector; and iii) an incentive to invest in the oil sector to increase production and reap more profit.

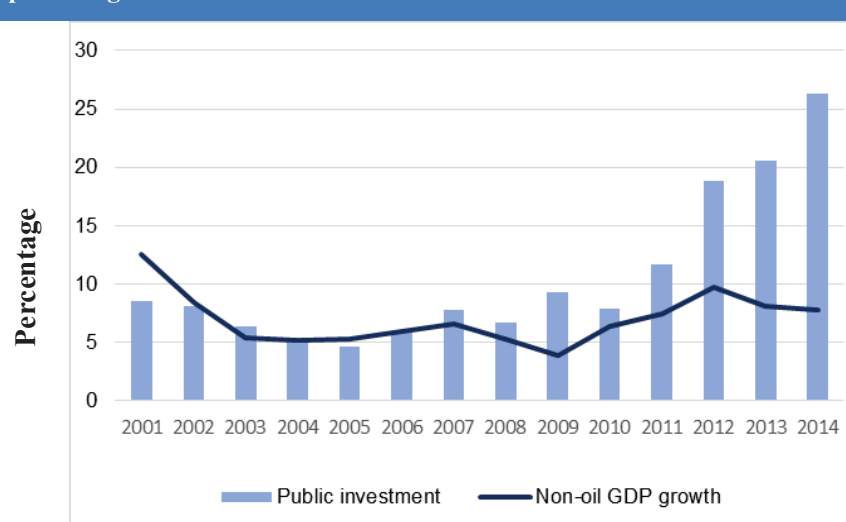
61. **The creation of new oil wells has been the key short-run supply-side driver of economic growth in the country.** With the development of the onshore Pointe Indienne oil field, Congo was among the first countries in Africa to start oil production in the 1960s. In the 1970s, the offshore Emeraude field came online, further boosting production and making Congo a significant oil producer on the continent. Production expanded considerably during the 1990s, but output fell during the 2000s, as oil fields matured. Although new projects by international oil companies are considered a significant turnaround for the industry, the increase in production is not expected to last. Oil production should stabilize in the coming years, reaching a peak during 2017-2020, but it is expected to decline relatively rapidly in the following years.³⁷ Given the important position of the oil industry in the Congolese economy, this decline in production will weigh on headline economic growth.

³⁷ New discoveries may change this forecast, but it would take years for any newly found well to enter into production.

2.1.2. Public and Private Investments are Key Long-Run Demand Side Drivers

62. **In the last decade, public investment in infrastructure has driven long-term growth in Congo.** After two decades of almost no investment, the government launched a major public infrastructure investment program in 2006.³⁸ From 2002 to 2014, public investment expanded on average by 25 percent of GDP annually, and it had a threefold increase between 2011 and 2014 (Figure). Propelled by public investment, non-oil sector activity has increasingly driven GDP growth. In fact, the non-oil sector experienced an annual average growth rate of more than 7 percent between 2005 and 2015, while oil sector production has been volatile during the same period. In the coming years, investment in public infrastructure will continue to be the key driver of long-term growth.

Figure 16: Congo – Non-oil GDP growth and public investment as percentage of GDP



Source: Congolese authorities and World Bank

63. **Private investment in the oil sector has also been a major source of long-term growth.** Private sector investments in oil wells have been critical for Congo to take advantage of the boom in oil prices. In the medium term, foreign investment in the oil sector consistently led to an increase in oil production. Between 2000 and 2010, private investment in the oil sector represented about 20 percent of GDP on average, which led to an increase in oil production by about 40 percent, to 115 million barrels in 2010. The increase in oil production leads to an increase in income for those employed in the oil sector, which raises public revenue and domestic demand.

2.1.3. Oil Reserves, Forestry, and Arable Land are Key Long-Run Supply Side Drivers

64. **Congo's oil reserves contribute to its natural capital, which is a key factor of production.** The country holds sizeable oil reserves in two natural oil basins, and its proven crude oil reserves amount to 1.6 billion barrels. Congo is also thought to hold significant oil sand resources in the coastal Kouilou region.

65. **Congo has enormous untapped potential in agriculture, livestock, and fisheries.** Since the country has almost 10 million hectares of arable land of which only about 10 percent is being

³⁸ The main component of this program was the 'municipalisation accélérée' which is an infrastructure investment program aimed at stimulating local economies and improving living conditions. This program has already been implemented in nine of twelve departments (first administrative subdivision). In 2012, the latest year with available data, more than XAF 500 billion (about US\$1 billion) of the investment budget was devoted to financing restoration or construction of large-scale urban infrastructure and access to basic services.

used, the agriculture and livestock sectors are likely to be key drivers of growth in the coming years. There is great potential for Congo to leverage its food and cash crops, but this will require sufficient public and private investments. Also, there are huge natural areas conducive to raising sheep and goats, and there are opportunities to expand the small livestock and poultry industry, which is currently most developed in rural areas. Moreover, the country's 170 km coastline and dense hydrographic network with the Congo and Kouilou-Niari rivers are rich in fishery resources. Even though Congo catches about 100,000 tons of freshwater fish and 80,000 tons of marine fish each year, marine fisheries have been declining.

66. **Forestry has historically played an important role in Congo's economy.** Forest exploitation represented the main source of foreign reserves up until 1974. Between 2005 and 2008, the sector made up 13 percent of exports on average and more than 60 percent of non-oil export earnings. The annual value of Congolese timber and timber-derived products has doubled since 2000 to approximately US\$343 million. The industry grew more rapidly than in many comparator countries and continues to play an important role in Congo's national economy and rural livelihoods. An estimated 575,000 Congolese live in forest areas, and forests represent a means of subsistence for these often remote and vulnerable populations. The sector accounts for 11,000 and 5,000 direct and indirect jobs, respectively, and its informal labor force is estimated at over 140,000, making it one of the country's largest private sector employers.

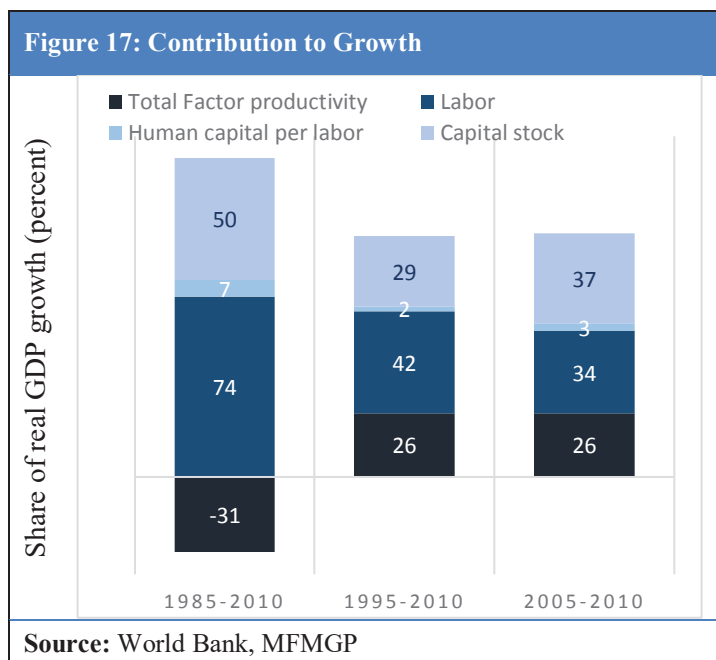
2.2. Key Factors Constraining Growth in Congo

2.2.1. *The Volatility of Oil Prices and Production*

67. **The volatility of oil prices and production constrains short-run economic growth.** It hinders effective budget planning, engendering inefficiencies in the management of public investments. Oil prices have witnessed at least four major negative shocks (1986, 1998, 2009, and 2015) and seven positive shocks (1973, 1979, 1989, 1996, 2005, 2008, and 2010). The unpredictability of the Congolese budget resulting from this volatility has been a major constraint on economic development. Unlike many other African countries, Congo has never completed the implementation of a NDP. The 1973-1976 plan failed due to low oil production, the second plan (1982-1986) was unsuccessful due to the negative price shock of 1986, and the 2012-2016 plan has already failed due to the persistent fall in oil prices. This leaves important infrastructure projects unfinished or severely delayed. For example, the construction of the CORAF refinery began during the 1973 NDP, was halted in 1976, and was not completed until 1982. Another example is the construction of the new Brazzaville University that was launched in 2012 but has been stalled since August 2014.

2.2.2. Weak Productivity is the Main Constraint to Long-Run Growth

68. **Weak productivity has been a drag on economic growth over the last 30 years, although there have been improvements in recent years.** A growth accounting analysis shows that even though the contribution of total factor productivity (TFP) to growth was -31 percent between 1985 and 2010, it contributed positively between 1995 and 2010. However, Congo's labor and capital stock have been the main contributors to economic growth, accounting for more than 70 percent of recorded growth in the short, medium, and long run (Figure). TFP accounts for 26 percent of growth and its share has been improving. Nonetheless, this remains low by international standards, where worldwide TFP accounts for about 60 percent of GDP growth.³⁹



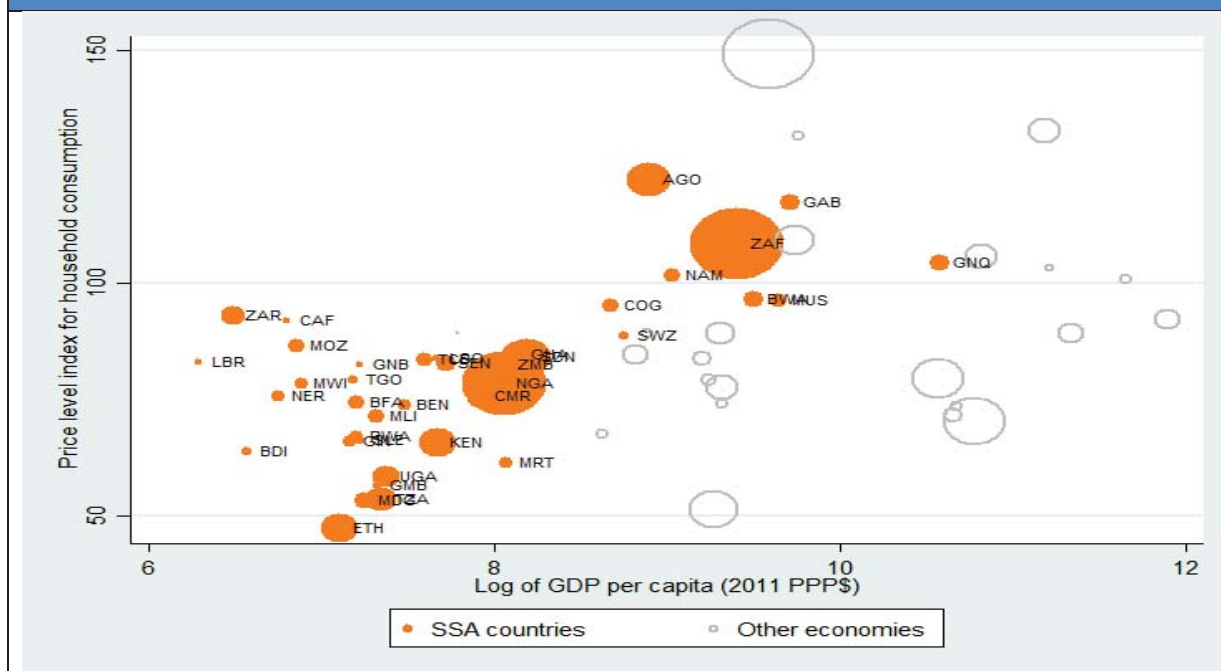
2.2.3. Dutch Disease and an Underdeveloped Financial System are Major Constraints on Productivity

69. **Oil production mismanagement has led to the Dutch disease phenomenon in Congo.** Since the beginning of oil production, all tradable goods sectors in the country have underperformed, an effect referred to as the Dutch disease. Agriculture and related sectors have declined, while manufacturing has collapsed. Specifically, the share of agriculture and industries in the economy fell by about 9 percentage points each and services lost 5 percentage points, demonstrating the importance for Congo to diversify both its economy and public sources of income.

70. **The high price level for goods is one of the main channels by which the Dutch disease impacts the economy.** Although inflation stability has been the main objective of the BEAC, Congo's price levels remain high. To maintain the stability of the official exchange rate, the BEAC sets external reserves in line with the guidelines of the French Treasury. Even though the BEAC aims to stabilize inflation in the region, it does not focus on improving the competitiveness of the Congolese or the sub-regional economy. As a result, the Consumer Price Index in Congo has been low by developing countries' standards. However, the country's price level remains high compared to most African countries. For example, the price level in Congo is double that of Ethiopia's and two-thirds of the level in Kenya, Cameroon, Nigeria, Benin, and Senegal (Figure). This negatively impacts the competitiveness of Congolese non-oil products since the sub-region is their main potential international market.

³⁹ Klenow and Rodriguez-Clare, 1997.

Figure 18: Adjusted Price Level Index of Household Consumption in Selected Economies, 2011



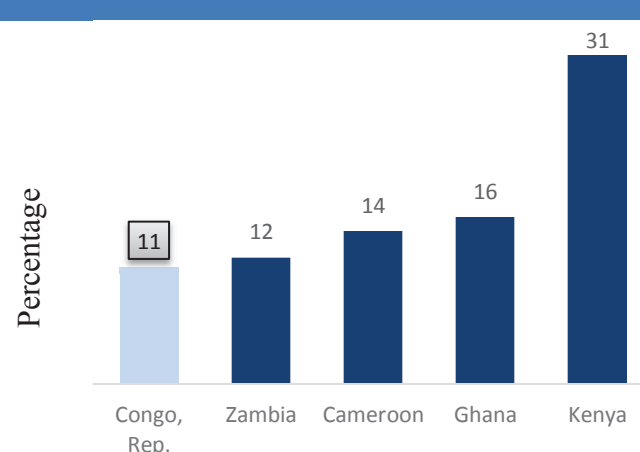
Source: Nakamura et al. (2016) based on the 2011 ICP data.

Note: Adjusted price level index (PLI) for household consumption except for housing rent. PLIs are standardized so that the geometric mean equals 100. The size of a circle is proportional to its GDP (2011 PPP terms).

71. **Moreover, the Congolese currency has been overvalued in recent years.** Congo belongs to a monetary union with its currency, the XAF, pegged to the euro. From 1999 until 2015, the strong euro coincided with high commodity prices, which led to an overvaluation of the XAF. Using the EBA-lite approach, the IMF found that Congo's real effective exchange rate was overvalued by 25 percent in December 2016.⁴⁰

72. **An underdeveloped financial system unable to finance small and medium-sized enterprises (SMEs) is also hampering productivity.** The financial sector in Congo remains significantly underdeveloped. Between 2003 and 2012, credit to the private sector increased almost nine-fold in nominal terms, with annual growth rates exceeding 40 percent in each of

Figure 19: Select SSA Countries – Domestic Credit to Private Sector by Banks (% of GDP)



Source: World Development Indicators

⁴⁰ IMF, 2017.

the last three years. During the same period, deposits of firms and households rose by a factor of twelve, bringing the deposits-to-GDP ratio from 6.8 percent in 2003 to 24 percent at end of 2012. However, standard indicators of financial depth and breadth suggest that Congo lags comparable countries (). During the last decade, banks did not invest enough in the Congolese economy despite access to abundant liquidity. Banks are holding excessive reserves in the Central Bank – about 25 percent of total deposits by end 2012. Over the last decade, the banks’ loan-to-credit ratio was about 19 percent. According to the IMF, high reserves resulted from serious limitations in the array of investment instruments available to banks due to capital controls, and the near non-existence of the domestic securities market did not make it easy for banks to effectively deploy resources.⁴¹ In addition, a lack of understanding of the risk associated with SMEs explains why banks are not including them in their lending activities.⁴² Although the microfinance sector is growing and is small compared to the banking sector, it lends more to the economy.

73. Government reform efforts include stabilizing the financial sector and encouraging economic activity. In 2017, the authorities adopted a new financial sector development strategy for the next five years to strengthen the stability of the sector, increase access to financial services, and mitigate the short-term impact of the oil crisis on banks’ financial structure. The decrease in deposits (19 percent between July 2015 and July 2016) and the sharp increase in non-performing loans could jeopardize the stability of the sector. Facing new challenges, the banking sector is looking for new business opportunities outside the oil industry, resulting in decreasing deposits, increasing non-performing loans, and tighter liquidity.

2.2.4. Weak Governance and Business Environment Contribute to Low Productivity

74. Congo continues to exhibit weak expenditure management, control of corruption, and rule of law. Together with development partners, the government has tried to rebuild the country’s overall public finance and governance system after a decade-long period of violent conflicts. Although the government has created institutions and commissions to control and monitor reforms and improve public finance and governance systems, these remain weak. However, there has been progress in reforming the oil and mining sectors, and the country became International Board of Extractive Industries Transparency Initiative (EITI) compliant in 2013. The government also established an anti-corruption commission with the mandate to formulate, coordinate, and implement the government’s anti-corruption strategy. At the same time, an independent anti-corruption observatory was established by law to monitor and evaluate the implementation of the anti-corruption strategy. Despite these efforts, Congo still lags other countries and face significant challenges regarding the establishment of a stable and effective governance environment.

75. The country performs poorly in governance assessments. The country’s governance indicators are weak even by regional standards (, and). Congo ranked 42nd out of 54 countries on the 2016 Ibrahim Index of African Governance,⁴³ and it underperformed on the 2015 Country and Policy Institution Assessment (CPIA) in the areas of budgetary management, efficiency of revenue mobilization, quality of public administration, and corruption in the public

⁴¹ IMF, 2013.

⁴² World Bank, 2015a.

⁴³ Ibrahim African Governance Index, 2016, Republic of Congo, data from 2015.

sector. For example, it scored below the SSA average in the CPIA category of public sector management and institutions.⁴⁴

Table 1: Congo Rep -- Ibrahim Index of African Governance, 2006-2015

	Sub-Saharan Africa	Congo	
	2015	2015	2006-2015 Trend
Rule of Law	53.3	37.9	0.1
Accountability	35	19	3
Public Management	42	35	-3.4
Business Environment	39.8	26.5	-2.6

Source: MO Ibrahim Foundation.

Figure 20: Governance Indicators – Congo, 2015



Source: World Governance Indicators

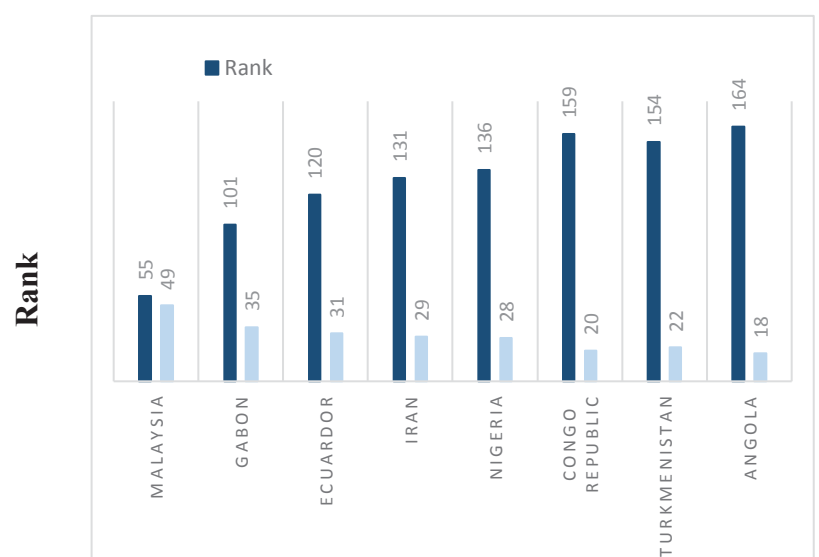
76. Poor public budget management and investment planning reinforces Congo's fragility trap. Inadequate governance performance, insufficient public policy coordination, and a lack of institutional and technical capacity in investment planning have had damaging consequences for

⁴⁴ Republic of Congo—2.5; sub-Saharan countries' average—3 (CPIA, 2015).

state revenue management.⁴⁵ A rise in public spending, combined with a decrease in oil prices, led to an increase in the non-oil primary deficit from 61.2 percent of GDP in 2013 to 74.5 percent in 2014, and the balance of payment deficit to increase from 4.7 percent in 2013 to 6.3 percent in 2014.⁴⁶ The announced cut in public expenditures by 12 percent in July 2015, in conformity with the Finance Law of 2014 and to mitigate the fall in oil prices, could help balance public spending and the national debt. However, it would significantly diminish public efforts to diversify the economy.⁴⁷ With the current rules, efforts to invest in economic diversification to stabilize the economy will increase deficits, which will require cutting public expenditures. This will ultimately maintain the single-commodity growth model that is negatively impacting the country's economy. Furthermore, tax evasion and the embezzlement of oil revenues further diminish state revenues and prevent the adoption of an effective taxation policy that could diversify state income sources.

77. Weak governance hampers economic development and reduces efficiency in public investments. Poor PFM has led to inefficiency in public investment and has sometimes rendered important spending in the energy sector completely inefficient. For example, even though more than US\$2 billion was invested in a dam in Imboulou and a power plant in Pointe Noire, the average access to electricity did not improve. Also, investments in extractive industries tend to favor certain segments of the society, resulting in less inclusive governance and rent-seeking behavior, which create uncertainty and risk in the investment environment.

Figure 21: Select Oil Producing Countries – Corruption Perceptions Index



Source: Transparency International, 2016

Rank: a lower rank means corruption perception.

78. A weak regulatory framework and inadequate governance of SOEs impede private investment. According to the World Bank's

DB data released in the last ten years, Congo's regulatory environment is among the worst in the world, with 28.7 percent of firms identifying the process for obtaining business licenses and permits as a major constraint.⁴⁸ Regulatory quality worsened until 2010 and recovered slightly in 2015 (). Fundamental problems in the governance of SOEs are hampering their ability to provide basic infrastructure services to underpin economic growth. SOEs are run like governmental

⁴⁵ World Bank. 2015c.

⁴⁶ African Development Bank, 2015.

⁴⁷ The 2014 Finance Law planned a 15 percent cut in public spending (African Development Bank, 2015; EIU 2015a, 2015b).

⁴⁸ Enterprise Survey, 2009.

departments rather than as modern, autonomous, and professionally run companies.⁴⁹ They face several governance problems that affect their performance and ability to compete, including: i) multiple and often conflicting objectives; ii) lack of a proper regulatory and institutional framework for effective state oversight; iii) weak boards and management and political interference in day-to-day decision-making; and iv) low levels of transparency and disclosure. Together, these weaknesses result in both a lack of autonomy for SOEs in operational matters as well as a lack of accountability and transparency in the use of scarce public assets.

79. The weak business climate is also a major challenge to develop the country's private sector. The World Bank's DB report ranked Congo 177th out of 190 countries in 2017. In addition to poor access to electricity and finance, investors and entrepreneurs face several regulatory and administrative barriers. The major issues cited by businesses include political instability, corruption, and customs and trade regulations. Bribery incidence and depth is also prominent⁵⁰, and the customs clearance process is cumbersome and characterized by irregularities. This is especially burdensome for SMEs, which drive economic diversification, job creation, and poverty reduction. Many point to the incoherent or lack of implementation of regulations as a major challenge to DB (Appendix 3). Many businesses also do not receive the full benefits of the government's investment efforts in transportation, energy, and telecommunications infrastructure.

Box 3: SOEs in Congo

Congo has a long tradition of state ownership from its previous socialist regimes. At the beginning of the privatization program in 1994, the state portfolio consisted of more than 100 enterprises. However, the country has privatized a large proportion of the assets in the SOE portfolio over the past 20 years.

As of November 2016, there were 49 SOEs and they were largely concentrated in the critical sectors of the economy, such as: i) transport: an air transport company (ECAIR) and a railway company (**Chemin de Fer du Congo**); ii) energy and infrastructure: a water facility company (**Société Nationale de Distribution d'Eau**), an electricity utility company (**Société Nationale d'Électricité**), and a hydrocarbon management company (**Société Nationale de Pétrole du Congo**); iii) finance and insurance: a commercial bank (**Banque Postale du Congo**) and an insurance company (**Assurance et Réassurance du Congo**); and iv) telecommunications: Congo Telecom.

The portfolio includes 22 companies with majority state ownership of 100 percent, a further 6 companies where the state owns more than 50 percent, and a minority stake in 21 companies.

Source: World Bank country team

⁴⁹ See a list of SOEs in Box 3.

⁵⁰ Out of the 151 enterprises surveyed, 37.5 percent of firms experienced at least one bribe payment request; 30.9 percent reported public transactions where a gift or informal payment was requested; 37.1 percent of firms expected to give gifts in meetings with tax officials; 75.2 percent of firms expected to give gifts to secure government contract and 81.8 percent of firms expected to give gifts to public officials to advance certain agendas. Source: 2009 Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank.

2.2.5. *Demographic Growth and Low Skills Prevent Higher Growth*

80. **Low skills** – exacerbated for women who drop out of school early – and poor quality of education and health lower the quality of human capital, limit the ability of the economy to take full advantage of its labor force.

81. **Sustained demographic growth hinders the achievement of a potential demographic dividend.** At 4.4 children on average per woman, Congo's fertility rate remains high and above the average for countries with similar income levels. The country is currently in an 'early dividend' stage, which is characterized by a young population with a high dependency ratio. However, if it cannot reduce its fertility rate, Congo will maintain its dependency ratio and miss out on the opportunity to achieve a demographic dividend, i.e., an increase in economic activity from a fall in birth and death rates. This youth bulge also puts disenfranchised youth at risk of violence, considering many lack economic opportunities and became accustomed to using violence to express political dissatisfaction after the civil war. The country's youth unemployment rate is approximately 42.2 percent,⁵¹ and a majority are employed in the informal sector with low wages and little opportunities to develop their skills.⁵² A 2011 study on urban employment in Brazzaville and Pointe-Noire⁵³ found that young women aged 18-21 were more likely to be working than young men. This is likely because young men are more likely to be in school, thereby increasing their earning potential relative to women. However, among 25 to 30 year old, at which point most people are out of school, 22.3 percent of young men versus 37.3 percent of young women have not entered the labor force.

82. **Human capital contributes little to growth in Congo mainly due to the lack of relevant skills in an oil-driven economy.** Over the last fifteen years, human capital contributed only 2 percent to total growth (Figure).⁵⁴ Congo's economy lacks the skills needed to spur the development of promising businesses, which rely on foreign doctors and nurses to cover health care needs and foreign engineers to carry out major infrastructure work.⁵⁵ Moreover, there is not enough skilled labor to improve the quality of the public sector. For example, Congolese ministries involved in the hydrocarbon and mining sectors do not have enough civil servants with technical capacity to oversee extractive industry operations or forecast oil revenues. This hinders sound planning of resource use.⁵⁶ Furthermore, the country's labor market lacks important skills in vocational training due to the low capacity and relevance of TVET. Workers in the informal sector also lack basic skills related to their business as well as communication or inter-personal skills.

⁵¹ United Nations Development Programme, 2015.

⁵² It is reported that about 70 percent of the youth are either self-employed or contributing to family work.

⁵³ Employment and Growth study (2010) based on data collected in 2009 for a survey on urban employment conducted in Brazzaville and Pointe-Noire (EESIC 2009).

⁵⁴ Human capital is different from labor, which here means the years of schooling of the work force.

⁵⁵ Most of the participants in the private sector consultation acknowledged the limited local employment supply due to a lack of know-how and technical skills, especially in engineering. This has been identified particularly in the oil industry which acknowledged that low private sector capacity was a constraint, resulting in outsourcing or building backward-forward linkages locally. The need for training capacity (training institutions and skills building frameworks) is rising for the youth and local enterprises.

⁵⁶ World Bank, 2015c.

83. **Congo is suffering from an uneducated workforce because of low investment in education and political patronage and violence.**⁵⁷ First, two decades of low investment in education weakened learning outcomes. During the first two decades following independence, the government invested in education, resulting in a relatively well-developed education system. This explains the comparatively high level of educational attainment of people now in their 40s. Specifically, 25 to 29-year-olds have a median 8.2 years of education whereas 45 to 49-year-olds have 8.5 years.⁵⁸ With structural adjustments in 1985, the government stopped recruiting civil servants, including in the education sector, and the civil wars in the 1990s led to further reductions in education spending as well as the destruction of infrastructure. As a result, Congo currently has an education system of low quality, and where most students leave primary school without sufficient skills in literacy and numeracy. Second, following Congo's economic liberalization in 1985, the private sector failed to effectively replace the state as the major employer. This was partly due to the oil sector dominating the economy and partly due to decades of political instability, resulting in patronage in business regulation and employment. This reduced the perceived benefit from investing in skills, which led to lower education spending and a brain drain of those who were not politically connected.⁵⁹

2.2.6. Low Quality of Public Infrastructure Limits Development

84. **The lack of reliable energy is one of the main constraints to the development of the private sector.** More than 30 percent of private firms in the 2015 World Bank's Enterprise Indicator Survey consider the lack of electricity the main obstacle to private sector development in Congo (Figu), followed by access to finance and socio-political instability. This was confirmed by the participants at the private sector consultations for this SCD (Appendix 3).

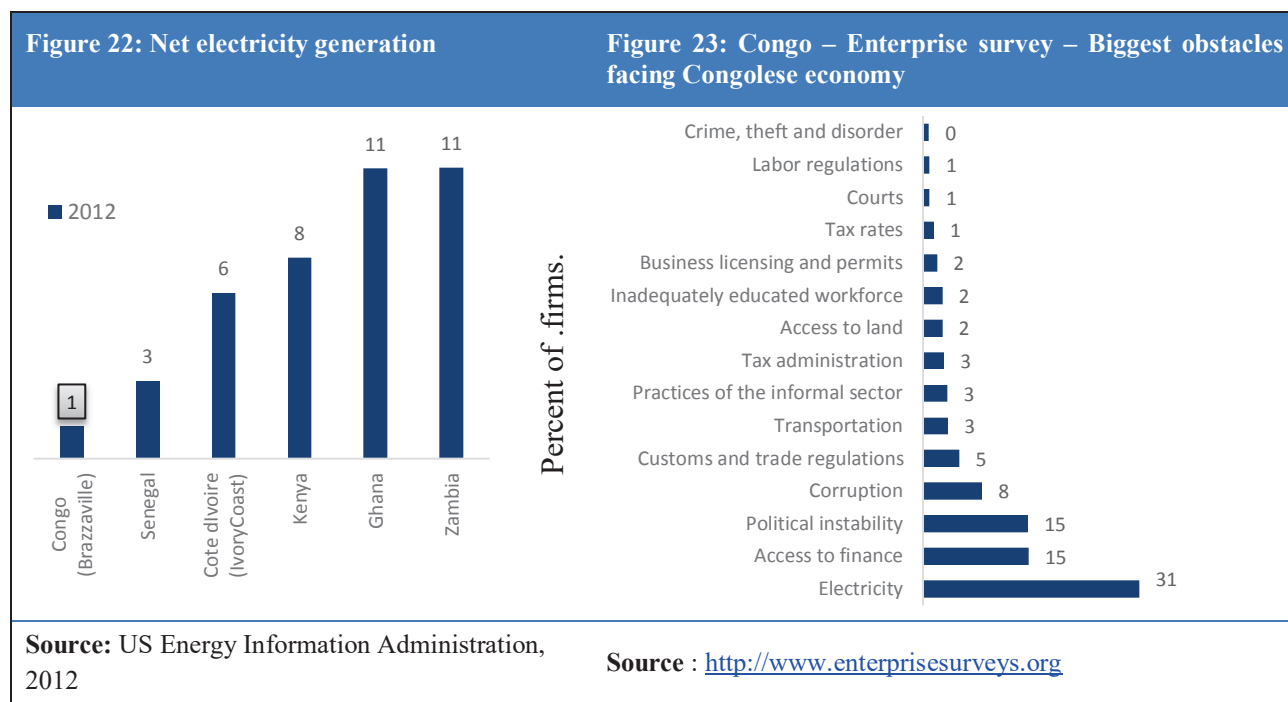
85. **Despite government efforts to improve the power supply, almost 60 percent of the population lack access to electricity.** After two decades of neglect, the government has made significant investments in the power sector since 2003. This includes the construction of the 120 MW Imboulou hydropower plant located 260 km from Brazzaville and a 30 MW thermal power plant to further secure the supply of electricity in the city. Additionally, the government, in partnership with ENI, commissioned two 150 MW turbine gas power plants in 2010 and 2011, respectively. However, these large investments in generation, transmission, and distribution have not translated into a significant improvement in access to energy in the country. Electricity generation remains low and the country ranks far behind its peers (Figur). Only 41 percent of the population has access to electricity, and the electrification rate in rural areas is even lower at less than 12 percent. Furthermore, poor households are less likely to be connected to the electricity network. Only 18 percent of the poor have electricity at home, compared to 60 percent for the more well-off. Moreover, according to a recent study by IFC report on the Sounda dam project, in the absence of new mining projects, Congo's peak electricity demand would increase from 459 MW in

⁵⁷ There is a direct answer from the households: cost/affordability is the main issue. Also, trade-offs that might be related to the patronage are affecting perceived returns to education.

⁵⁸ DHS, 2011.

⁵⁹ To achieve the skill levels that Congo requires to take full advantage of its young labor force, it is essential to ensure that children are protected from the devastating effects of malnutrition and infectious diseases. Investments in social protection will also enable the creation of demand for health and education services and help target the most vulnerable and poorest households. This will bolster their ability to develop their human capital potential to become more effective contributors to Congo's economic growth.

2016 to 649 MW in 2030, and the expected residual demand of 474 MW, based on a merit order, could be met by the Sounda dam. If mining projects are developed, the peak demand would increase to 1,090 MW in 2030 - in this case, the proposed installed capacity at Sounda would not meet the expected residual demand of 915 MW, and other sources of energy generation would need to be considered.



86. **The poor quality of Congo’s ICT sector prevents the country from developing a modern economy and improving government services.** As is the case of many African countries, Congo performs well in terms of mobile cellular network penetration: four out of five households have cell phones. However, there is a substantial gap between households based on income level. In 2011, 88 percent of non-poor households had a cell phone, whereas the corresponding figure for poor households was only 65 percent. Furthermore, the country’s ICT infrastructure suffers from decades of lack of investment and the substantial destruction of infrastructure that took place during the civil wars. Despite government investments in recent years, including the ambitious telecom infrastructure projects Central Africa Backbone 3 and Projet de Couverture Nationale, the country cannot offer broadband services to a large segment of the population, hindering the development of communities outside of big urban areas. In particular, the Pointe-Noire – Brazzaville corridor suffers from poor coverage. The two major issues that obstruct the development of the ICT sector in Congo are: 1) the lack of backbone infrastructure and 2) the absence of leadership (and associated governance issues) in the implementation of public-private partnership mechanisms. This also affects the modernization of public administration and the deployment of communications infrastructure between government institutions, hampering the decentralization of administrative services.

87. **Poor railway infrastructure and services remain a significant bottleneck to the country’s economic development.** The 1997-2000 civil war significantly damaged Congo’s

railways infrastructure. As a result, its railway network is currently one of the least developed and perhaps one of the worst in Africa in terms of service quality and safety. Tariffs are also among the highest in Africa. The number of accidents per km traveled is 0.05 percent as opposed to 0.001 percent and 0.03 percent in Cameroon and the DRC, respectively. Poor railway infrastructure and services also hinder investment and trade.

88. **The country is also performing below expectations in terms of the road network.** In 2014, the country had barely 5 km of road per 100 km² of land, which is far below expectations. This is likely due the concentration of the population in the two main cities of Brazzaville and Pointe-Noire. The low density of roadways causes significant economic inefficiencies, such as high transport costs and difficulties in accessing markets for agricultural goods.

Chapter III: Current Trends and Patterns in Poverty and Shared Prosperity

The proportion of households living under the national poverty line declined from 50.7 percent in 2005 to 40.9 percent in 2011. The share of the extremely poor, defined as living below US\$1.90 PPP a day, also declined from 50.2 percent in 2005 to 37 percent in 2011, but the poverty level in Congo is still much higher than in other comparable MICs. Striking disparities in living standards remain between the two main cities of Brazzaville and Pointe-Noire and the rest of the country. Inequality levels remain high and are driven by location, education, and sector of activity. Microsimulation results suggest that poverty reduction was sustained between 2011 and 2016. However, vulnerability remains a serious concern. Many of the households that exited poverty may remain close to the poverty line. A better educated and skilled population will be able to escape poverty and transition from low to higher productivity jobs. Over the last decade, there has been significant improvement in the standard of living in part due to windfalls from oil revenues, political stability, and government investments in infrastructure and the social sector.

3.1. Poverty Dynamic

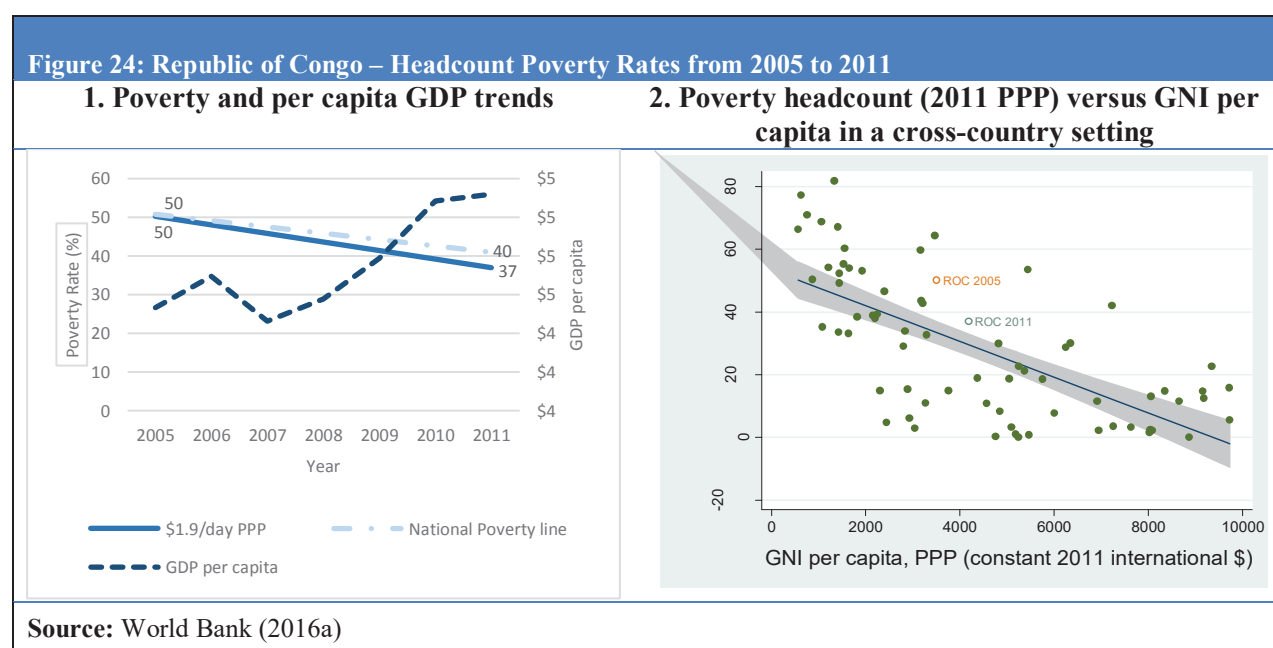
89. **Over the last decade, windfalls from oil revenue, political stability, and government investments resulted in a substantially improved living standard.** The second oil boom during 2000-2014 led to strong macroeconomic performance. Congo's growth rate stood at 4.6 percent on average during this period. High oil prices translated into higher revenues for both the government and the oil-related private sector. Thus, the sharp rise in oil prices, political stability, and the debt reduction brought about by the process for heavily indebted poor countries all contributed to substantial fiscal space. The government subsequently adopted an expansionary spending policy which led to a significant improvement in the standard of living.

90. **Congo's living standard improved significantly between 2000 and 2014.** The country's capita gross national income (GNI) rose from less than US\$600 in 2000 to more than US\$2,500 in 2014, and GDP per capita rose from about US\$1,770 in 2000 to about US\$3,415 in 2014. Moreover, unemployment dropped for those with high levels of education, as the skills of the workforce improved. Congo also made improvements in many other dimensions of wellbeing, including primary school enrollment and completion and access to improved water and electricity. Despite

these improvements, the country still performs below expectations based on its level of GDP per capita.

3.1.1. Poverty Has Declined Substantially, but its Eradication by 2030 Remains in Doubt

91. **Improvement in the per capita GNI resulted in a substantial reduction of poverty.** The proportion of the population living in poverty fell substantially between 2005 and 2011, from 50.7 percent of people living under the national poverty line in 2005 to 40.9 percent in 2011.⁶⁰ This constituted a 9.8 percentage point decrease, which is in line with the GDP growth rate observed during this period (**Figure 24: Republic of Congo – Headcount Poverty Rates from 2005 to 2011**). Overall, around 143,000 people exited poverty, and changes in the poverty gap and squared poverty gap followed similar patterns to those observed for the poverty headcount. Nationally, despite population growth, the number of poor decreased from 1,801,000 in 2005 to 1,658,000 in 2011. However, the number of poor increased in rural areas during the same period from 795,000 to 951,000.



⁶⁰ The national poverty line in 2011 was XAF 274,113 per adult equivalent per year.

Box 4: Poverty Estimates in Congo are Based on 2005 and 2011 Data

The *Enquête Congolaise Auprès des Ménages* (ECOM) survey is used to estimate official poverty figures in Congo. The survey was conducted in 2005 and again in 2011,⁶¹ and is a nationally representative survey collected by the National Institute of Statistics. ECOM employs a two-stage sampling framework and covered approximately 5,000 and 10,400 households in 2005 and 2011, respectively. In 2005, the sample design allowed for estimation of up to 5 strata: Brazzaville, Pointe-Noire, other towns, semi-urban areas, and rural areas. In 2011, the sample size was increased substantially, allowing for disaggregated estimates in all 12 of Congo's departments. The aim of the ECOM survey is to provide up-to-date information on household incomes and expenditures, determine households' sources of income, and provide information on households' demographic characteristics. The survey has a modular structure, collecting information on individual demographic characteristics, economic activity, education, health, and incomes. At the household level, the survey collects information on sources of income, all types of expenditures, possession of durable goods, and access to basic services. The 2005 and 2011 ECOM surveys served as the basis for the analysis of this SCD.

Source: Authors

92. Extreme poverty has declined substantially in Congo, but it is still much higher than in comparable MICs. Since national poverty measures are used for analyzing poverty levels and deriving policies for poverty eradication within countries, they are generally not comparable across countries. With the most commonly used international poverty line of US\$1.90 expressed in 2011 PPP US dollars for country comparison, Congo share of extremely poor declined from 50.2 percent in 2005 to 37 percent in 2011 (**Figure 24: Republic of Congo – Headcount Poverty Rates from 2005 to 2011**). Moreover, initial projections suggest an additional decline to 35 percent in 2016. However, the level of poverty in Congo is still much higher than in comparable MICs.

Table 2: Population Shares by Poverty, Vulnerability, and Middle Class Groups (%)

	Brazzaville	Pointe-Noire	Other Municipalities	Semi-urban	Rural	National
2011						
Poor	21.6	20.3	52.8	59.7	69.4	40.9
Insecure non-poor	39.3	41.9	33.3	23.2	21.7	32.8
Middle class	39.1	37.8	13.9	17.0	8.8	26.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
2005						
Poor	42.3	33.5	58.4	67.4	64.8	50.7
Insecure non-poor	31.2	34.7	29.3	24.9	23.2	28.7
Middle class	26.5	31.9	12.3	7.7	12.1	20.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Congo Poverty Assessment using 2005 and 2011 ECOM surveys.

⁶¹ The ECOM surveys were supposed to be conducted every five years, but this has not materialized due to limited funding of the statistical apparatus. Statistical capacity in Congo is weak for a MIC. In 2015, Congo's overall Statistical Capacity Index score was 50, which is well below the global, SSA and IBRD countries' average scores of 66, 59, and 74, respectively (WDI, 2016).

93. **Despite progress in poverty alleviation, a substantial portion of Congo's population remains vulnerable.** Many of the households that exited poverty between 2005 and 2011 live close to the poverty line. These households remain vulnerable to falling back into poverty if faced with a negative shock. One way to analyze vulnerability is to classify the population into three groups: the poor (consumption below the poverty line), the insecure non-poor or vulnerable (consumption above but less than twice the poverty line), and the middle class (consumption twice above the poverty line). The middle class includes some households in the 5th quintile (wealthiest). As poverty receded, both the insecure non-poor/vulnerable and middle class groups expanded, with the latter expanding faster (Table 2). While only 20.6 percent of the population had consumption of more than twice the poverty line in 2005, this increased to 26.3 percent by 2011. However, this also means that almost 28 percent of the population, while technically 'non-poor,' consumed at a level below an average of XAF 550,000 per year (2011 nominal XAF) per adult equivalent. Given that a large share of the vulnerable rely on either agriculture or informal activities, which are susceptible to significant output volatility, many remain at serious risk of falling back under the poverty line, at least on a temporary basis.

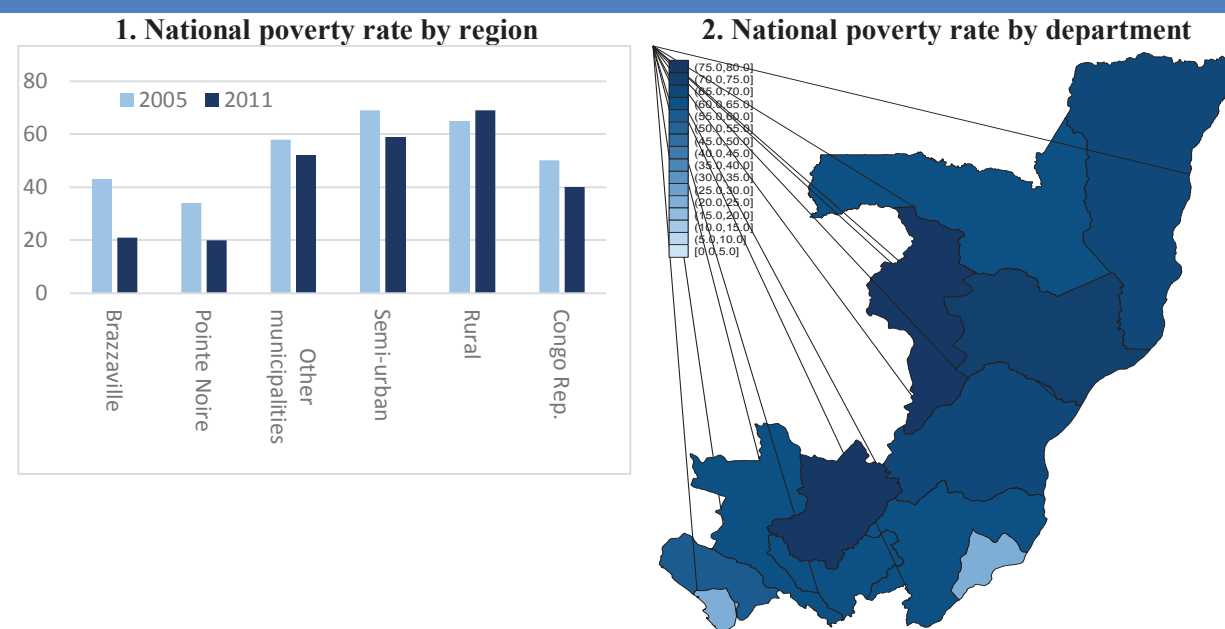
94. **It will be difficult for the country to reach the goal of eradicating extreme poverty by 2030.** World Bank projections show that it will be difficult, though not impossible, for the country to reach its goals of eradicating extreme poverty by 2030 unless economic performance improves and inequality declines substantially. Under an optimistic scenario where the country is assumed to achieve a 10 percent annual growth rate between 2021 and 2030, the US\$1.90 PPP per day poverty rate will be 3.6 percent in 2030. Under a more realistic scenario, the poverty rate will still be around 15 percent in 2030.

3.1.2. Striking Disparities Remain Between the Two Main Cities and the Rest of the Country

95. **Poverty reduction has been concentrated in urban areas, while the depth and severity of poverty has increased in rural areas.** Estimates suggest that most of the reduction in poverty was observed in the country's two largest cities of Brazzaville and Pointe-Noire (**Figure**). In Brazzaville, the poverty headcount rate fell by 20 percentage points, from 42.3 percent in 2005 to 21.6 percent in 2011. Moreover, Pointe-Noire experienced a sharp 13 percentage point decrease in poverty, from 33.5 percent in 2005 to 20.3 percent in 2011. By contrast, the poverty headcount increased by 4.6 percentage points in rural areas, from 64.8 percent in 2005 to 69.4 percent in 2011. The depth and severity of poverty also increased in rural areas, i.e., the rural poor have become poorer. Thus, there exists a dual economy in Congo with larger urban areas experiencing more rapidly decreasing poverty rates than smaller rural areas. Rural areas also account for a lower share of the population but a larger share of the poor.

96. **Congo's departments can be divided into two groups based on poverty levels: the two main cities of Brazzaville and Pointe-Noire and the rest of the country.** Among the 12 departments in Congo, Pointe-Noire and Brazzaville have by far the lowest rates of poverty in the country with poverty headcounts of 20.3 and 21.6 percent, respectively (**Figure**). Cuvette-Ouest is the poorest department with 79.1 percent of the population living below the poverty line, followed by Lékoumou and Cuvette with 76.1 and 70.2 percent of individuals under the poverty line, respectively. The poverty rates are also quite high in the remaining departments, ranging between 62 and 69 percent in Plateaux, Likouala, Bouenza, Sangha, Pool, and Niari. Even the department of Kouilou's poverty rate of 56.9 percent is much higher than Congo's two main cities.

Figure 25: Republic of Congo – Headcount Poverty Rates from 2005 to 2011 by Urban/Rural Regions and Departments



Source: World Bank (2016a)

97. While poverty remains higher in rural areas, urban living conditions can be precarious and Congolese cities are far from inclusive. The population living in unplanned neighborhoods is estimated at approximately 1.5 million between the two main cities of Brazzaville and Pointe-Noire. This translates into unplanned settlements in these two cities accounting for around 60 percent of the land area. Furthermore, access to basic services remains limited in urban areas.

Table 3: Share of the Population in Poverty, Non-Monetary Dimensions, 2005-2011 (%)

	Subjective poverty		Assets-based poverty	
	2005	2011	2005	2011
Brazzaville	42.6	31.2	50.5	21.3
Pointe-Noire	29.6	23.0	43.1	20.2
Other municipalities	41.0	35.0	71.6	52.7
Semi-urban	54.3	34.7	82.4	59.4
Rural	50.2	37.6	80.3	69.1
Total	42.9	32.2	62.5	40.7

Source: Authors' calculation using the 2005 and 2011 ECOM surveys.

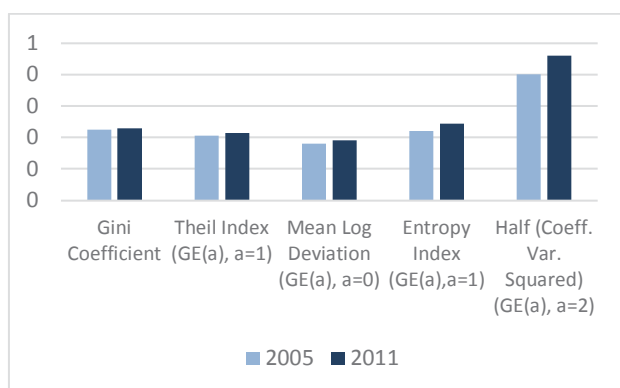
3.1.3. Non-Monetary Dimensions of Well-Being Have Improved Substantially

98. Subjective as well as assets-based poverty decreased substantially between 2005 and 2011. During this period, there was a 10-percentage point decline in the share of households struggling to satisfy their food needs, which is a proxy definition of subjective poverty (Table 3). The ownership of modern assets increased, while the ownership of traditional assets waned. Specifically, there was a notable upsurge in the proportion of households that owned a mobile

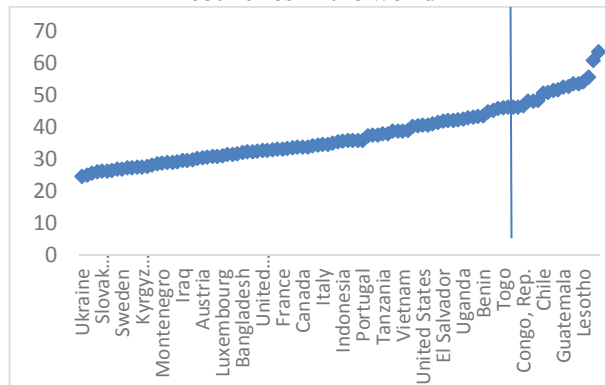
phone, a TV, a modern chair, or an iron. The decline in the share of the population considered assets-poor was observed in both urban and rural areas.⁶²

Figure 26: Republic of Congo – Inequality, 2005-2011

1. Trend in inequality



2. Gini inequality index for Congo and other countries in the world



Source: Authors' calculation using WDI data and the 2005 and 2011 ECOM surveys.

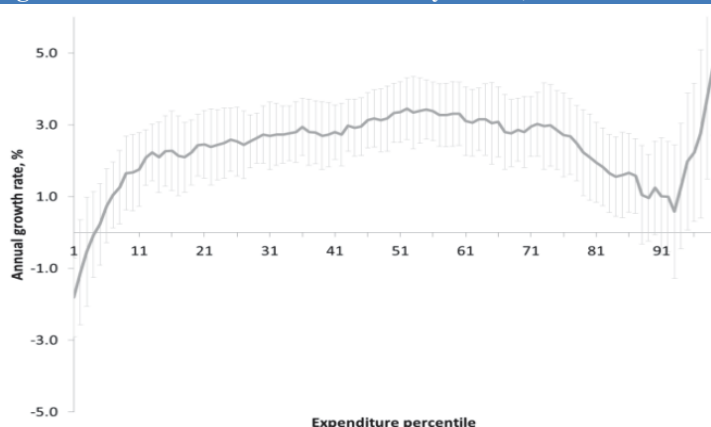
3.2. Inequality and Shared Prosperity Dynamics

99. **The level of inequality in Congo is high and has changed little between 2005 and 2011 (Figure).** Its Gini coefficient of 0.460 in 2005 and 0.465 in 2011 suggest a slight increase in inequality. This seems consistent with the fact that poverty decreased more in the largest cities than in other urban and rural areas. Also, consumption per equivalent adult among the richest 10 percent of households in Congo was 17.2 times that of the poorest in 2005 and 20 times in 2011. Cross-country comparisons based on the World Bank's World Development Indicators (WDI) show that Congo ranks among the most unequal societies in the world. Specifically, its Gini coefficient places it at 90th out of 105 countries.

⁶² A factorial analysis is conducted for possible assets, and the poverty line is set to be as close as possible to the 2011 monetary estimate. Projecting this to 2005 allowed exploration of the trend.

100. **Growth in Congo has not been pro-poor, as the poor benefitted less from the past strong macroeconomic performance.** As reflected by higher inequalities, prosperity was not fairly shared between 2005 and 2011. Another way to measure growth and changes in the distribution of welfare is by using growth incidence curves, which plot growth rates in consumption at various levels of welfare.⁶³ As demonstrated by the growth incidence curves between 2005 and 2011, growth was not pro-poor nationally in Congo ().⁶⁴ On the contrary, the poorest segment of the population experienced a deterioration in their living standards according to consumption-based measures of poverty. However, those in the middle of the distribution and a small share of the wealthiest households experienced large improvements in their living standards.

Figure 27: Growth Incidence Curves by Strata, 2005-2011



Source: Congo Poverty Assessment using 2005 and 2011 ECOM surveys.

3.3. Drivers of Recent Poverty Trends

3.3.1. Sustained Economic Growth

101. **Poverty reduction is due to the growth in mean expenditures and redistribution.** Specifically, changes in poverty over time can be attributed to the impact of growth, i.e., a change in the mean of household consumption per equivalent adult, and changes in inequality, i.e., a change in the distribution of household consumption (Table 4).⁶⁵

Table 4: Impact of Growth and Change in Inequality on Poverty

	Brazzaville	Pointe-Noire	Other municipalities	Semi-urban	Rural	National
Headcount in 2005	42.3	33.5	58.4	67.4	64.8	50.7
Headcount in 2011	21.6	20.3	52.8	59.7	69.4	40.9
Change in headcount	-20.7	-13.2	-5.6	-7.7	4.7	-9.8
Growth component	-10.4	-9.7	-3.2	-15.9	1.4	-8.6
Redistribution component	-10.2	-3.5	-2.3	8.2	3.3	-1.3

Source: Congo Poverty Assessment using 2005 and 2011 ECOM surveys.

102. **Growth contributed the most to the overall poverty reduction observed between 2005 and 2011.** However, the effects were not the same in all the areas of the country. In the two main

⁶³ Ravallion and Chen, 2003.

⁶⁴ Growth is pro-poor if the incomes of poor people grow faster than those of the population as a whole.

⁶⁵ Datt and Ravallion (1992) and others including Kolenikov and Shorrocks (2005).

cities of Brazzaville and Pointe-Noire and in other municipalities, growth and changes in inequality both contributed to poverty reduction. For example, a reduction in inequality accounted for half of the observed poverty reduction in Brazzaville. In contrast, there was an increase in inequality in semi-urban and rural areas, resulting in increased poverty. Additionally, growth in mean consumption declined in rural areas, leading to an increase in poverty.

103. Changes in inequality contributed less to poverty alleviation. This reflects the difficulties women, the youth, disabled persons, as well as the poor and vulnerable have in accessing quality jobs and the limited use of fiscal policy to directly support them. Congo's only important social safety net program is the Lisungi,⁶⁶ which is still at a pilot phase.⁶⁷ The government's focus in the coming years is to consolidate Lisungi and expand the program nationally and use it as a vehicle to implement a bundle of interventions and specific, productive, incentive-based, and income-generating activities.

3.3.2. Household Size, Education Level, and Labor Market Dynamics

104. Migration accounted for 5.6 percent of the decline in poverty. The population shift was generally toward Brazzaville. Between 2005 and 2011, the share of those living in the city increased by 8 percentage points, while the share of those living elsewhere decreased. However, migration itself is not enough to improve living conditions. Other intrinsic factors, including skills and education, are also important for migration to be successful. Yet those moving from rural to urban areas often lack such endowments, limiting the impact of migration on poverty reduction.

105. There was a positive shift of the labor force toward more productive sectors, which accounted for 11.2 percent of poverty alleviation. Although the share of people living in a household headed by someone who is unemployed or inactive remained stable at about 18 percent between 2005 and 2011, there was a positive shift toward more productive sectors, especially in Brazzaville and Pointe-Noire. However, a growing share of households was still relying on agriculture and informal services for their livelihood. Even though there was a positive shift toward more productive sectors in the main cities, there was an adverse shift in rural areas. In the main cities, labor shifted out of agriculture and manufacturing and into services. In rural areas, labor shifted out of manufacturing/processing and back into agriculture, which is less productive. Richer datasets and further investigations are needed to understand the challenges facing rural areas.

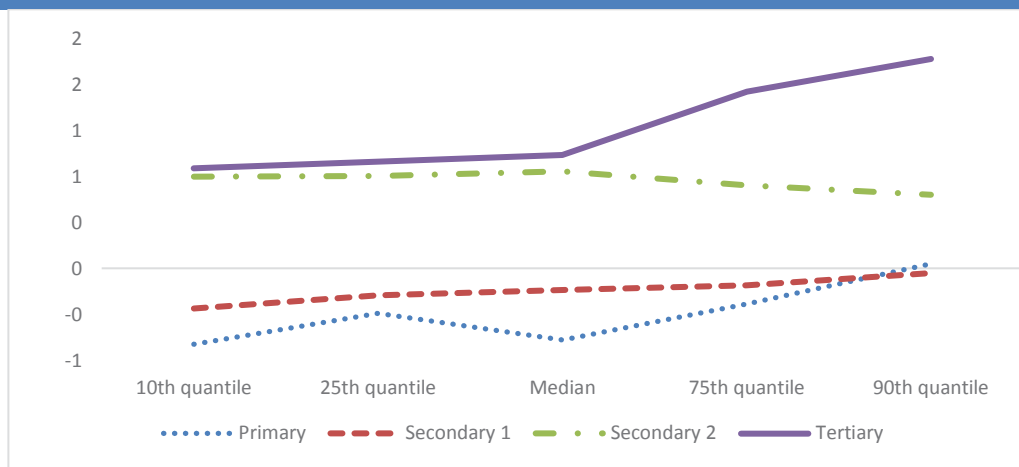
106. Gains in education accounted for 14 percent of the observed poverty reduction. This is a larger share than for both location and sector of occupation. Brazzaville and Pointe-Noire experienced the biggest improvements in the attainment of skills. Here, the share of households headed by someone with primary or no education declined, while the corresponding figures for secondary and tertiary education increased. Meanwhile, the share of people in rural households headed by someone with no or primary education increased from 46 to 53 percent. Thus, interventions toward curbing rural poverty should include a focus on skills and education beyond primary education.

⁶⁶ Lisungi means help or assistance in Lingala.

⁶⁷ Lisungi's overall objective is to support the government to move from short-term palliative policies to a set of coordinated policies under an effective system, bringing social policies into the poverty reduction agenda of the country to ensure that social policies have a greater impact on the livelihoods of poor and vulnerable populations.

107. **However, education makes a significant difference only when one reaches upper secondary or tertiary levels.** Generally, an educated population can access more productive jobs and increase productivity in self-employment activities. Nevertheless, higher levels of education do not automatically lead to improvements in living standards. When analyzing educational attainment and consumption growth, the slight increase in

Figure 28: Educational Attainment is Associated with Consumption Growth Only for Upper Secondary and Post-secondary Levels



Source: Authors' estimations using the 2005 and 2011 ECOM surveys

the share of households headed by someone with upper secondary or tertiary education emerges as a significant driver of consumption growth (**Figure**). The strong positive correlation between tertiary education and consumption growth is particularly important for poor households. On the contrary, primary and lower secondary education have been correlated to a deterioration in welfare.

108. **The reduction in the size of households accounted for 38.2 percent of poverty reduction.** Although fertility remains high, Congo has started its demographic transition. Household size declined by close to one person, from 5.12 in 2005 to 4.28 in 2011.⁶⁸ However, the country's growing number of children is still holding the dependency ratio at high levels, especially in rural areas.

109. **Gender has an indirect impact on poverty, as women achieve lower levels of education, which leads to more limited employment opportunities.** Women face challenges that affect their ability to acquire skills and thus tend to be excluded from productive jobs. Early marriage and childbirth as well as an expectation to be responsible for domestic work lead to higher drop-out rates at secondary school levels and lower enrollment in TVET and higher education. As a result, women have less time to devote to income-generating activities and their need for flexible working hours tends to push them into lower earning informal sector work.

110. **There are little opportunities for persons with disabilities, and they suffer from isolation and stigmatization.** Many disabled children do not go to school or have a chance to develop their skills. This coupled with discrimination results in high levels of unemployment and poverty for this segment of the population. Many of the country's homeless and street beggars are persons with disabilities, and they often suffer from abuse.

⁶⁸ These estimates are very close to the DHS findings.

111. Even though there are no recent data for the relationship between ethnicity, education, and employment, Congo's indigenous peoples should be considered a disadvantaged group. They suffer from widespread discrimination, have limited opportunities to access higher levels of education, and often end up in menial and precarious work situations. As a result, they have significantly higher poverty rates relative to the general population.

3.4. Agricultural Productivity, Education, Jobs, Gender Equality, and Social Protection are Key in Reducing Inequality and Eliminating Extreme Poverty

112. Most of Congo's poor are either unemployed or rely on agriculture and the informal sector. Women are also more likely than men to be trapped in the informal sector, resulting in lower earnings for this segment of the population. Achieving the twin goals will involve helping the poor where they are, or providing them with the necessary skills and tools to migrate and access quality jobs and be more productive. About 27 percent of the population lives in a household with the head of household working in agriculture. This is also the group with the highest poverty rate, followed by households with unemployed or inactive members. The trade and services sectors are also important, as they employ about 20 percent of the population.

113. Increasing agricultural productivity will be critical for alleviating rural poverty, and the private sector will play a key role in providing quality jobs in the sector. The rural population relies heavily on agriculture as a main source income. Women also rely on agricultural income more heavily than men: 40.9 percent of women aged 15-30 compared to 27.8 percent of men – a common phenomenon in SSA known as the feminization of agriculture. Nevertheless, their productivity is also generally lower than that of men's. Despite this reliance on agriculture, the evidence suggests that the country relies on imports to fully satisfy food needs. However, the availability of arable land and opportunities in fishing and livestock constitute a huge potential for the country to achieve food sovereignty. Hence, Congolese policymakers should investigate the supply and demand constraints of agriculture so they can increase the sector's productivity and generate more jobs. This will likely include improving the business environment and supporting private sector initiatives.

114. Education and skills are Cross-cutting themes for success in the job market, but the government needs to adopt a comprehensive approach to reduce poverty. Econometric results suggest that education did not make a big difference in poverty alleviation below the upper secondary level.⁶⁹ Therefore, the fight against poverty should focus on lowering the dropout rates, transitioning students into secondary education, and resolving student gender disparities. Furthermore, unemployment, agriculture, and education should all be at the top of the poverty alleviation agenda. Specifically, it will be essential to diversify the economy away from oil and toward agriculture and services, such as ICT and tourism. However, the government must adopt a comprehensive approach for this to be successful and, more importantly, inclusive. There needs to be appropriate mechanisms in place to make sure that the poor are not left behind.

⁶⁹ World Bank, 2016a.

Chapter IV: Key Factors Determining Growth Inclusiveness

The Congolese economy shows a substantial level of inequality with a Gini coefficient of 0.46. This has not changed in recent years despite sustained growth from 2000 to 2014. While poverty did decrease in urban areas, it increased in rural areas. Thus, Congo's recent growth has not been inclusive, with some segments of the population benefiting from an increase in economic opportunities more than others. This lack of inclusiveness is the result of an economy driven by offshore oil production and ruled by an elite with a negative bias for home investment. Furthermore, this is accentuated by the establishment of patronage networks through a non-transparent job market and compounded by weak health, education, and social protection service delivery. Thus, disadvantaged groups such as women, the youth, indigenous people, and the politically disconnected are not fully included in the economy.

115. Rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth.⁷⁰ Economic growth needs to be broad-based and include large parts of the country's labor force to be sustainable and contribute to poverty alleviation in the long run. Inclusive growth refers to both the pace and pattern of growth, which are critical for achieving high and sustainable growth levels as well as poverty reduction.

Box 5: The Inclusiveness Concept

Inclusiveness is a concept that encompasses equity through equality of opportunity and protection in both market and employment transactions. It is an essential ingredient of any successful growth strategy. The main instrument for sustainable and inclusive growth is assumed to be productive employment. Employment growth generates new jobs and income for the individual – from wages in all types of firms, or from self-employment, usually in micro firms – while productivity growth has the potential to lift the wages of those who are already employed and the returns to the self-employed. The ability of individuals to be productively employed depends on the opportunities to make full use of available resources as the economy evolves over time.

The analysis in this section looks at ways to strengthen the productive resources and capacity of the individual on the labor supply side as well as ways to create new opportunities for productive employment on the labor demand side. Since this inclusive growth approach takes a long-term perspective, it is important to recognize the time lag between reforms and outcomes. The inclusive growth approach is about policies that should be implemented to achieve sustainable and inclusive growth in the long term.

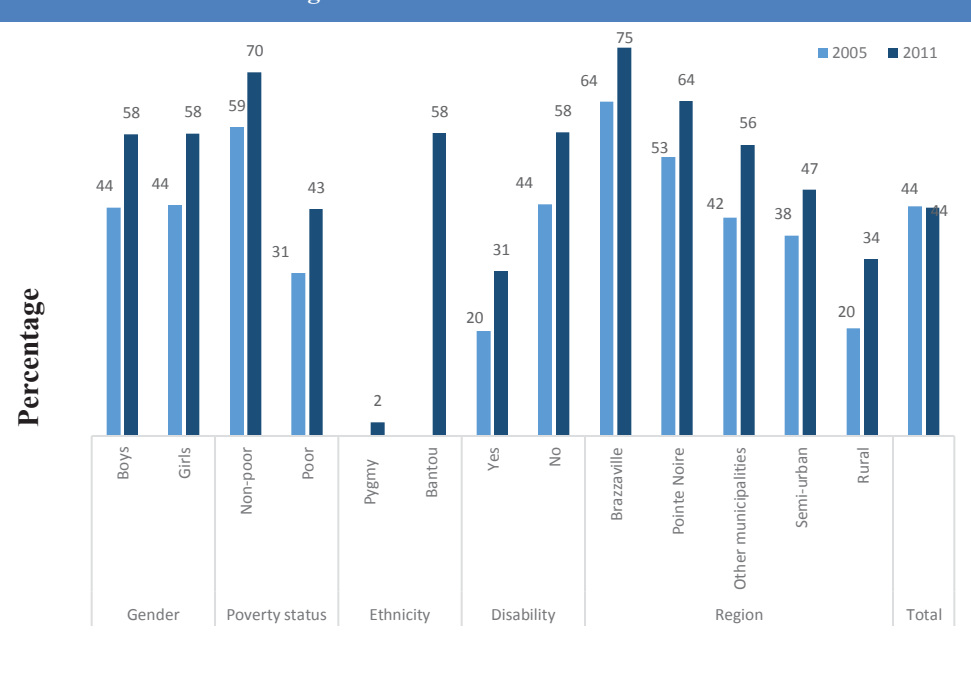
Source: Authors

⁷⁰ Ianchovichina and Lundstrom (2009).

116. **Many segments of the Congolese population did not benefit from the last decade of economic performance.** Poverty rates increased in rural areas between 2005 and 2011 in part due to low productivity and low investment in rural livelihoods or services.

Furthermore, participation in secondary schooling – a strong predictor of future employment patterns – is strongly correlated with ethnicity, gender, region or urban/rural location, disability, and poverty status (Figure). Similarly, a regression analysis of a welfare indicator using ECOM 2011 data finds that welfare

Figure 29: Disparities in Secondary School Net Enrollment Rates, by Multiple Dimensions of Disadvantage



Source: Congo Poverty Assessment using 2005 and 2011 ECOM surveys

in Congo is closely linked with: i) where you live (rural are associated with the lowest welfare); ii) your level of education and that of your spouse (no education is associated with the lowest welfare); iii) the sector of employment (agriculture, livestock, fisheries, forestry, and construction are associated with the lowest welfare); and, minority status (belonging to a Pygmy group is associated with lower welfare).⁷¹ This illustrates that a concerted effort is needed to ensure that rural populations and other disadvantaged groups are able to benefit much more from Congo's overall growth and development.⁷²

4.1. Weak Job Creation Leads to Inequality

117. **Job creation is the leading factor in achieving economic inclusion in Congo.** The close relationship between work and welfare is clearly recognized in the country, but finding productive employment is not easy. Lack of employment was the most cited reason for poverty in the 2011 ECOM survey (Figure). In addition, households consistently cited job creation as the most important

⁷¹ After controlling for other factors, variables such as female head of household or disability of head of household had no significant relation with welfare.

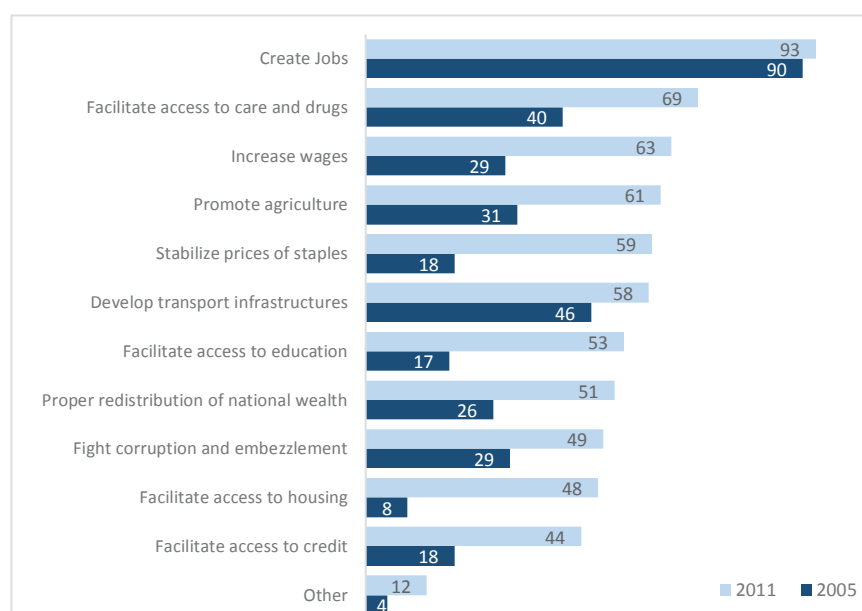
⁷² During the consultations in Brazzaville in December 2015, NGOs confirmed that indigenous people are not sufficiently included in the economic and social fabric of the country, and this must be fixed. Additionally, participants at these consultations confirmed that women were not adequately included in the higher levels of the administration (see Appendix 2).

government policy in fighting poverty. This was also the case during the SCD consultations in December 2015.⁷³

118. **However, the country lacks a vibrant formal private sector.** Although there are signs that Congo's labor market is improving,⁷⁴ the country's formal labor market is small and dominated by the public sector and SOEs. There were around 125,000 formal sector jobs in 2007 but three-quarters of them were in the public sector. Moreover, formal sector employment grows at a slow pace in an undiversified economy.

There are also little formal domestic job opportunities in the oil sector despite representing 60 percent of GDP in 2014.⁷⁵

Figure 30: Actions that the Government Should Take to Fight Poverty



Sources: Congo Poverty Assessment using 2005 and 2011 ECOM surveys

119. **The informal sector improves the inclusiveness of Congo's labor market.** About three-quarters of the Congolese work force is employed in the unproductive informal sector, often in household enterprises with little or no social security. In the current labor market, the informal sector employs those unable to find a job in the formal sector, including most of the youth transitioning from school into the labor market. In addition, many women choose lower earning informal work because they need the flexibility to balance their heavy domestic responsibilities.

120. **Many of those working in the informal sector are underemployed.** A 2009 informal sector survey⁷⁶ estimated the average informal sector earnings at US\$157/month in Brazzaville and US\$167/month in Pointe-Noire, or about 60 percent of typical public sector earnings. Earnings were lower for youth aged 15-29 and women. In order to improve the livelihoods for a large number of Congolese that depend on the informal sector, the government should focus on reforms to raise the productivity in the informal sector, such as improving access to finance and skills development and transitioning workers into the formal economy.

⁷³ World Bank (2015b). Further consultations with government officials and members of parliament suggest that job creation is the main concern and priority for policymakers in Congo. In September 2016, the government developed a national employment policy with a focus on both demand and supply side issues.

⁷⁴ The poverty assessment found that discouraged workers returned to the labor market between 2005 and 2011, a sign of a more active labor market.

⁷⁵ African Development Bank (2015).

⁷⁶ Enquête sur l'Emploi et le Secteur Informel au Congo.

Low connectivity, weak access to services, and low financial inclusion hamper job creation and ultimately lead to less economic inclusion.

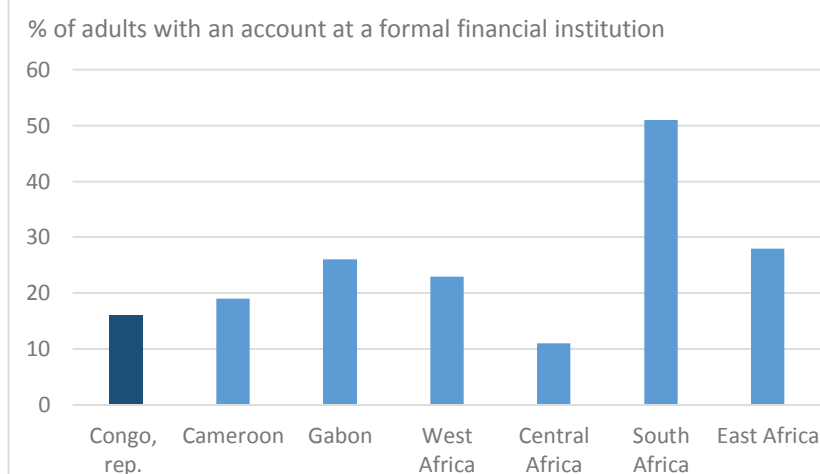
121. **Inclusive growth in rural areas requires improving the livelihoods of small-scale farmers and fishermen.** The highest prevalence of poverty is found in rural areas, where the poorest people earn a livelihood in the informal sector as small-scale farmers and fishermen. The pressure imposed by poverty makes employment necessary for survival in these areas, although unemployment and inactivity rates are low here compared to the rest of the country. However, rural poverty increased between 2005 and 2011. Moreover, inequality in rural areas is rising and currently exceeds that of urban areas. Even though rural land is abundant, women are at a significant disadvantage due to men's legal control over household assets and their weak inheritance rights under both customary and official law.

122. **Remoteness was cited by two-thirds of the poorest as an important factor leading to poverty.**⁷⁷ This reflects difficulties accessing markets, finance, and support services, and leads to low agricultural productivity and lower earnings compared to other areas of the country. Specifically, the World Bank found that rural incomes were one-third lower than among people with similar backgrounds living in Brazzaville.⁷⁸ Ethnicity also affects earnings, with individuals belonging to a Pygmy group earning less compared to the Bantu peoples. Many of the rural poor are also women who are the primary agricultural producers and processors.⁷⁹

123. **A low level of financial inclusion constrains inclusive growth and hinders job creation.**

In Congo, only 16 percent of the adult population (15 years and over) and less than 5 percent of the rural population have access to formal financial institutions, including mobile money accounts (Figur). Without access to financial services, entrepreneurs are unable to attract the relevant capital to improve their productivity. Many Congolese still receive wages and public payments in cash, which translates into higher costs for both the government and large enterprises. Congo's proportion

Figure 31: Select African Countries – Bank Account Penetration



Source: Demirguc-Kunt and Klapper (2012) and Soumaré et al. (2016)

of adults with access to financial services is low compared to other countries and regions in Africa, such as South Africa (51 percent), East Africa (28 percent), and even SSA (34 percent). Key factors that explain the country's low financial inclusion include: i) weak financial and ICT infrastructure combined with low population density; ii) an unfavorable legal and regulatory framework (e.g.,

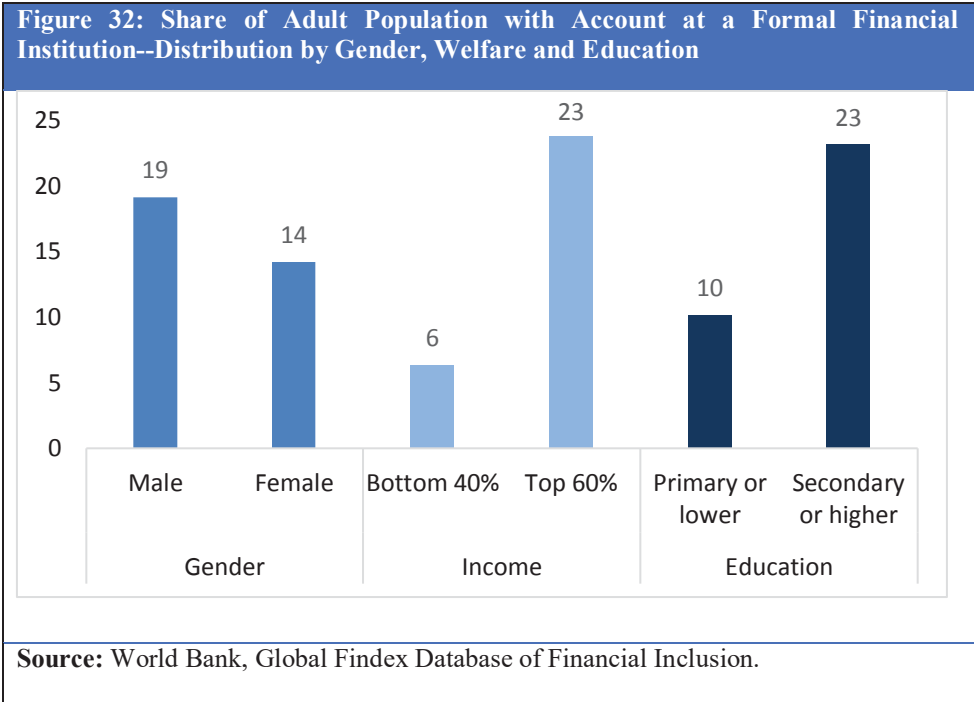
⁷⁷ ECOM, 2011.

⁷⁸ World Bank, 2016a.

⁷⁹ IFAD, <http://www.ruralpovertyportal.org/country/home/tags/congo>.

lack of a specific regime for banking agencies, financial consumer protection framework, and an adequate framework for mobile money); and iii) limited product appropriateness (e.g., existing products are not tailored to low income consumers, farmers, etc.) as well as institutional diversification (both the microfinance and mobile money sectors are underdeveloped and there is limited competition with and within the banking sector).

124. **There are also significant differences in financial inclusion based on gender, income, and education (Figur).** Specifically, only 14.2 percent of women (compared to 19.2 percent of men) and 6.3 percent of those in the bottom 40 percent income bracket (compared to 23.8 percent of those in the top 60 percent income bracket) have access to formal financial institutions. These low levels of financial inclusion limit the options for poorer households to smooth income shocks. Furthermore, only 10.2 percent of individuals with a primary or lower secondary education (compared to 23.1 percent of those with



secondary or higher education) have a formal bank account. This further exacerbates the challenges faced by the poor who are more likely to be less educated. Thus, Congo’s low financial inclusion levels are one of the main reasons for the low access to credit, which has been identified as a priority area of government reform to reduce poverty.

Table 5: Coverage of Select Basic Health Care Services, Congo and Comparator Countries

	Congo Rep.	SSA	LMI	UMC	HIC	Angola	Gabon	Nigeria	Ecuador	Malaysia
Child immunization (three rounds of DTP)	66 ^a	76	81	93	96	64	80	56	78	99
Completeness of birth registration (percent)	96	46	64	n.a.	100	n.a.	90	30	92	n.a.
Percent of pregnant women receiving prenatal care	93	78	78	96	n.a.	n.a.	95	61	n.a.	98
Births attended by skilled health staff (percent of total)	94	50	58	98	n.a.	n.a.	87	38	94	99
Percent of children under two receiving full immunization	17 ^b	60 ^c	68 ^d	71 ^e	n.a.	n.a.	32	25	n.a.	n.a.

Source: WDI. Unless otherwise indicated, data are latest available data from 2011-15; for full immunization, DHS indicator is used (latest data available).

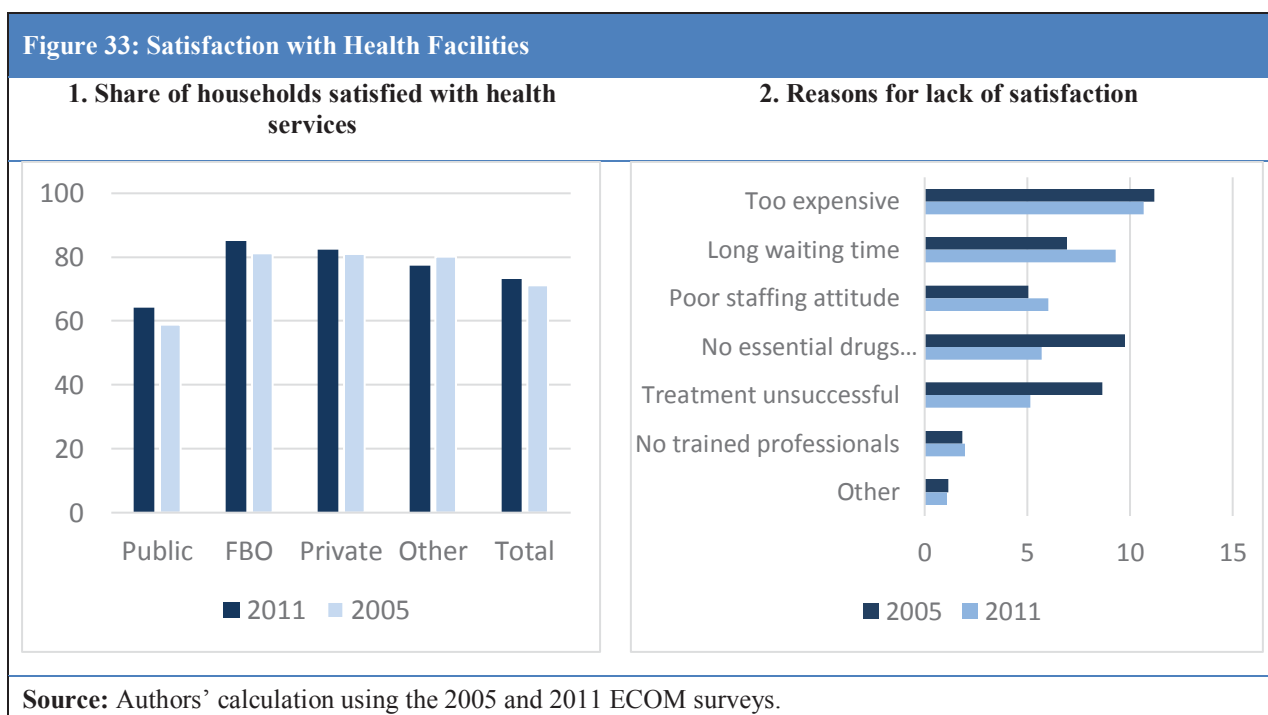
- a. Source is MICS5 from 2014-15 (latest available survey data). The corresponding figure from WDI is 80 percent for Congo.
- b. Source is MICS5 from 2014-15 (latest available survey data). The corresponding figure from WDI is 46 percent for Congo.
- c. Average includes: Burkina Faso, Benin, Burundi, Congo Democratic Republic, Congo, Cote d'Ivoire, Cameroon, Eritrea, Ethiopia, Gabon, Ghana, Gambia, Guinea, Kenya, Comoros, Liberia, Lesotho, Madagascar, Mali, Malawi, Mozambique, Nigeria, Niger, Namibia, Rwanda, Sierra Leone, Senegal, Sao Tome and Principe, Chad, Togo, Tanzania, Uganda, Zambia, Zimbabwe.
- d. Average includes: Armenia, Bangladesh, Bolivia, Congo, Cote d'Ivoire, Cameroon, Egypt, Ghana, Honduras, India, Indonesia, Kenya, Cambodia, Kyrgyz Republic, Lesotho, Morocco, Moldova, Mauritania, Nicaragua, Nigeria, Philippines, Pakistan, Sao Tome and Principe, Swaziland, Tajikistan, Timor-Leste, Vietnam, Yemen, Zambia.
- e. Average includes: Albania, Azerbaijan, Colombia, Dominican Republic, Gabon, Guyana, Jordan, Kazakhstan, Maldives, Namibia, Peru, Turkmenistan.

125. Increasing inclusive urban growth requires improving skills, expanding access to financial markets, and creating a stronger private sector for formal job creation. Given the difficulties in accessing quality jobs in the formal sector, most people living in urban areas resort to informal sector activities. Most of them are self-employed or employed in low productivity jobs in the services, trade, transport, or construction sectors. The main constraints to improving the informal sector include inadequate access to credit, limited access to relevant tools, and lack of adequate skills. Resolving these issues will be important to ultimately transition firms from the informal to the formal sector. Women face more challenges in relation to all these constraints than men. One option to increase women's willingness to take on loans is through micro-credit groups, which have more relaxed collateral rules since women do not have control over household assets. Furthermore, the Congolese population has cited the limited availability of vocational training as the main reason for the skills gap. In addition, they pointed to the lack of trust as the main reason

why small informal firms do not join together to take advantage of economies of scale. While it will be important to increase productivity in the informal sector as an intermediary strategy, the expansion of a strong formal private sector will be key in creating quality and secure jobs for the urban population.

4.2. Limited Access to Health, Education, and Social Protection Hampers Economic Inclusion

126. Congo performs moderately on the rate of access to basic health services. The picture is mixed regarding reproductive health and disease prevention services. Child immunization coverage (children having received three rounds of DTP vaccine before the age of 2) is moderately low at 66 percent in the recent Multiple Indicator Cluster Survey (MICS), while other rates of coverage are comparatively higher: 91 percent for birth registration, 93 percent of pregnant women receiving prenatal care, and 93 percent of births attended by skilled health staff (Figure). However, the percentage of children that have received full immunization is an extremely low at 17 percent, which compares poorly to the SSA average. Congo's performance is not consistently at par with that of other LMIs in or outside SSA (Table 5). Child and maternal mortality are often used as a measure of the effectiveness of the health sector. Between 2005 and 2012, under-five mortality⁸⁰ dropped from 95.3 to 52.6 per 1000 births.⁸¹ As a result, the country is now performing in line with its GNI level. However, the country still performs worse than its peers on maternal health, even though its maternal mortality rate declined from 781 to 426 deaths per 100,000 live births between 2005 and 2012, respectively. People in the poorest quintile only access health care when it is desperately needed because the cost or distance to health facilities is too great. Also, indigenous populations have generally poor effective access to health services. The Congolese population has



⁸⁰ Under-5 mortality measures the probability of children dying between birth and their fifth birthday.

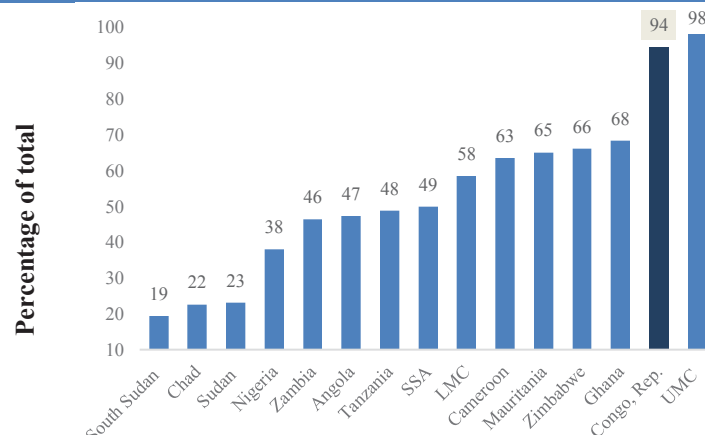
⁸¹ *Enquête par grappes à indicateurs multiples (MICS5 CONGO 2014-2015).*

cited the need to facilitate access to health care and drugs as the second-most important government priority to reduce poverty (with job creation being the first).⁸²

127. Moreover, user satisfaction is low for public health facilities.

Approximately 73 percent of the population is satisfied with the services received in health facilities, which, while not high, is still above the rate in the education sector. Satisfaction seems to be lower for households in the poorest quintile. This is a clear indication that service quality is low, especially in poorer areas. The main reasons people are not satisfied are cost (10.7 percent of those who have obtained care), long waiting times (9.3 percent), poor staff attitude (6 percent), lack of available of drugs (5.7 percent), and unsuccessful treatment (5.2 percent). Issues with long waiting times are more prevalent in public urban facilities (**Figur**).

Figure 34: Births attended by skilled health staff



Source: WDI.

128. Congo has historically had a reasonably well-developed education system, resulting in a relatively high adult literacy rate of almost 80 percent. Literacy is slightly higher for men than for women (86 compared to 73 percent in 2011). However, the country witnessed a drop in its school participation in the 1980s and 1990s due to the economic crises and civil conflict affecting a generation or more. Since around 2000, school attainment has been steadily improving with growing access to all levels of education. According to a 2011 household survey, primary school is available throughout the country. Furthermore, only 3 percent of children have no access to formal schooling, 4 percent of primary school-age children are not attending school,⁸³ and 87 percent of students that complete primary school continue to lower secondary education, although girls transition at a lower rate than boys.⁸⁴

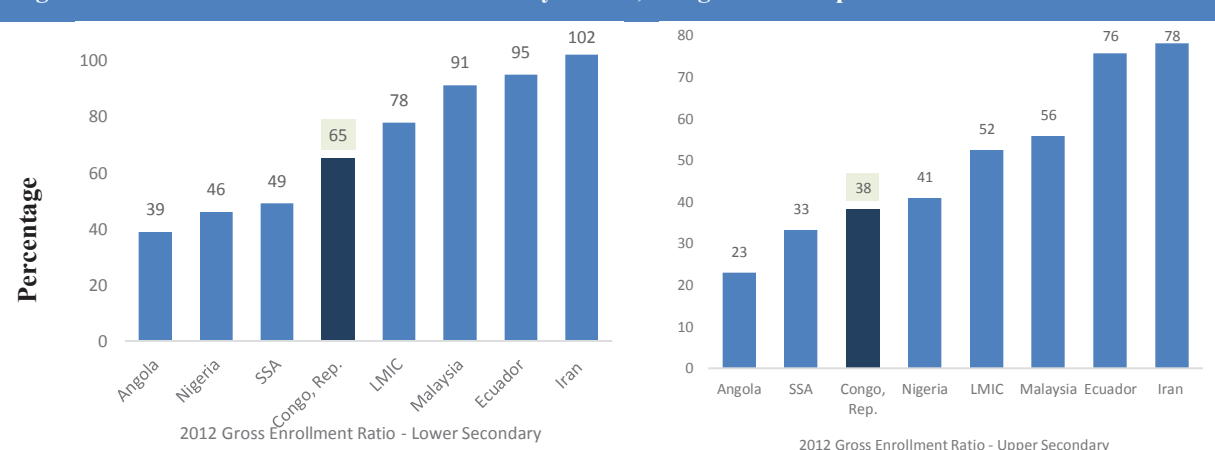
129. However, there is extensive repetition and a high rate of dropouts in both lower and upper secondary education. Low household wealth and residence in rural areas are correlated with low completion rates, high repetition rates, and large gender gaps. Completion rates for the two secondary education levels of college and lycée were a modest 31 and 15 percent in 2011, respectively, and these were both lower for girls. Girls who manage to stay in school were less likely to repeat grades than boys. With an 81 percent completion rate in 2011, the country performs better at the primary education level. Nevertheless, considering that compulsory education is 10 years and includes both primary and lower secondary schooling, the coverage of Congo's lower secondary education is inadequate and below that of Ecuador, Iran, and Malaysia (**Figur**).

⁸² ECOM, 2011.

⁸³ 96.5 percent net primary school enrollment rate in MICS5 2014-2015.

⁸⁴ MICS5 2014-2015. DHS data are from www.education-inequalities.org and UNESCO (2012).

Figure 35: Gross Enrollment Rate in Secondary School, Congo and Comparator Countries

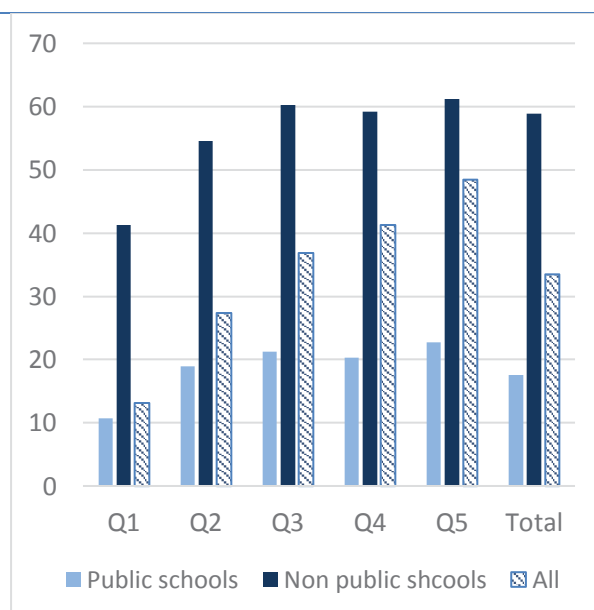


Source: UNESCO Institute for Statistics (2011-2012)

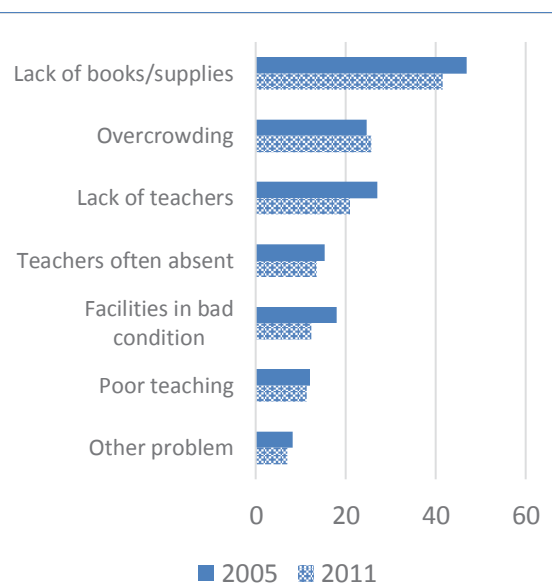
130. Parent satisfaction is low for public schools. Congo's satisfaction with schools, as measured by parent complaints, is less than 20 percent for public schools and to close to 60 percent for private schools. Parents of children from lower socio-economic backgrounds, as measured by the quintile of wellbeing of the household, are much less likely to be satisfied than parents from higher quintiles. The lack of books and supplies and the absence of teachers are the predominant complaints from parents from lower socio-economic backgrounds, while overcrowding is cited more often by more well-off households (Figur). Furthermore, the lack of access to safe and clean sanitary facilities contribute significantly to adolescent girls' higher dropout rates.

Figure 36: Satisfaction with Schools

1. Share of households satisfied with schools



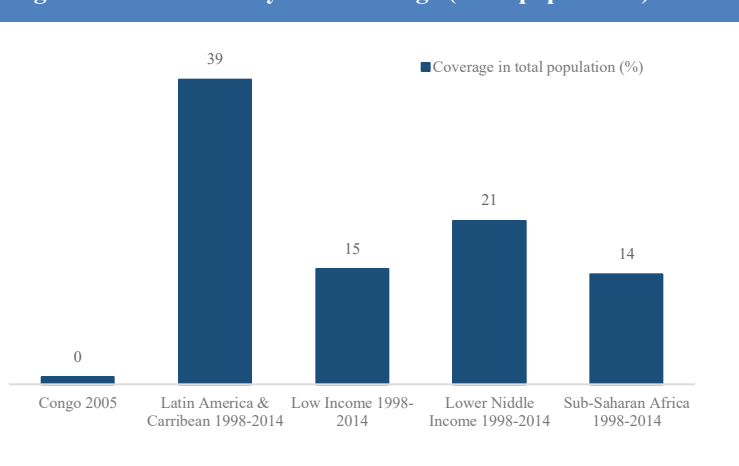
2. Reasons for lack of satisfaction



Source: Authors' calculation using the 2005 and 2011 ECOM surveys.

131. **The lack of a comprehensive social safety net in Congo is likely impeding economic inclusion.** Its social protection system for the poor, which is still under development, only covered 0.9 percent of the population in 2005 (Figur). This is low compared to the average of 14.3 percent in SSA and 21.3 percent average for LMIs over the 1998-2014 period. Most of the country's safety net programs are managed by the Ministry of Social Affairs, Humanitarian Action, and Solidarity and are targeted to the indigent and specific vulnerable groups, such as the elderly, the disabled, and orphans.

Figure 37: Social Safety Net Coverage (% of population)



Source: The World Bank ASPIRE

However, its small coverage rate and inadequate funding makes it inconsequential and ineffective in reducing poverty and helping the poor to access services and increase their productivity.

4.3. Recent Efforts to Improve Inclusiveness

132. **In the last five years, the government has increased its public spending in health, education, and social protection to improve inclusiveness.** Public health expenditures slowly increased from 1.3 percent of GDP in 2010 to 4.2 percent in 2014. This is the same for Education and social protection.

133. **Congo's public health spending remains in line with comparator countries, but it falls short of meeting the country's Abuja Declaration commitment.** In the last five years, the government increased its public spending on health from 1.3 percent of GDP in 2010 to 4.2 percent in 2014. This is similar to most of the comparator oil-producing countries in and outside the region, where public health spending varied between 0.9 percent of GDP in Nigeria and 4.5 percent in Ecuador in 2014.⁸⁵ However, Congo's 8.7 percent of government expenditures allocated to health falls short of the Abuja Declaration commitment of 15 percent.⁸⁶ Moreover, this level of spending is not only insufficient to cover the costs of running the public health system,⁸⁷ it is also inadequate to provide quality public health care for all Congolese. Congo's private health system encompasses private providers, church-affiliated services, and traditional healers and delivers about one-third of all health services and half of all ambulatory care in the country. Out-of-pocket expenses for both public and private health services constitute a barrier for the poor to access adequate health services, leading to lower utilization rates and thus lower effective coverage. As a result, the poorest 40

⁸⁵ Data from WDI database 2014.

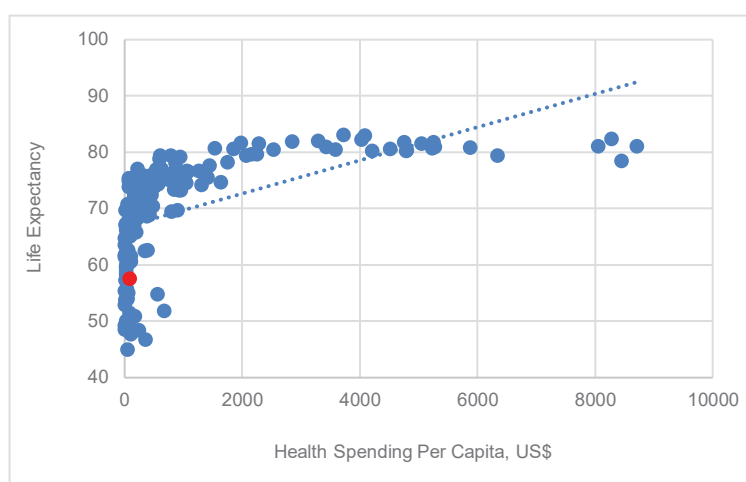
⁸⁶ WHO, 2011.

⁸⁷ Which relies in part on user fees for medicine and other operational costs as per the ministry's cost-recovery policy.

percent in Congo are much more likely to access a church-affiliated service or a traditional healer than a private or public hospital.

134. The country is falling behind in terms of health care efficiency. The average life expectancy (a proxy for health care quality) in Congo was about 58 years at birth during the 2008-2013 period. This was worse than that of many countries with lower per capita health expenditures. Furthermore, according to an efficiency frontier analysis over the same period, Congo's life expectancy should be closer to 67 years at birth at its current level of health care spending (Figur).

Figure 38: Efficiency Frontier in Health, 2008-2013



Source: PEMFAR 2015

Note: Congo is represented by the red point

135. Congo relies heavily on private education providers. Public education spending

represented only 2.8 percent of GDP in 2012 and has benefited from a general increase in government expenditures due to rising oil revenues. The education sector is affected by some of the same issues as the health sector, such as private providers filling in the gaps in public service coverage. Private non-religious schooling accounts for as much as 40 percent of enrollments at the primary level according to a recent ministry survey in June 2015. At the pre-primary level, the rate is 66 percent. In a country where almost half of the population is poor, this high share of private provision is an indication that the government is not ensuring effective access and high quality education for the poor. Even though the government is the main provider of education, parents are still required to pay public 'volunteer teachers' or *bénévoles* out of their own pockets, which can constitute a hardship for poor households.⁸⁸

136. The current safety net program has few of the desired features and an overhaul is needed with an adequate level of funding. The overall Ministry of Social Affairs, Humanitarian Action, and Solidarity budget was only 0.51 percent of the 2012 revised national budget, or about 0.2 percent of GDP. This is low compared with the median of 1.2 percent of GDP across developing and emerging countries.⁸⁹ Congo's social protection system is evolving and is playing an increasing role in protecting families from poverty and promoting their productivity. Furthermore, Congo's social insurance (pensions) coverage is limited to mostly those in the public sector. Labor market programs, including severance pay, unemployment benefits, and public employment services are nonexistent. Most of Congo's safety net is also not specifically targeted toward the poor. Cash

⁸⁸ According to SCD consultations participants in December 2015 in Brazzaville, these volunteer teachers are generally not well trained. However, there are many trained teachers who are not teaching because they have not been recruited by the government (see Appendix 2).

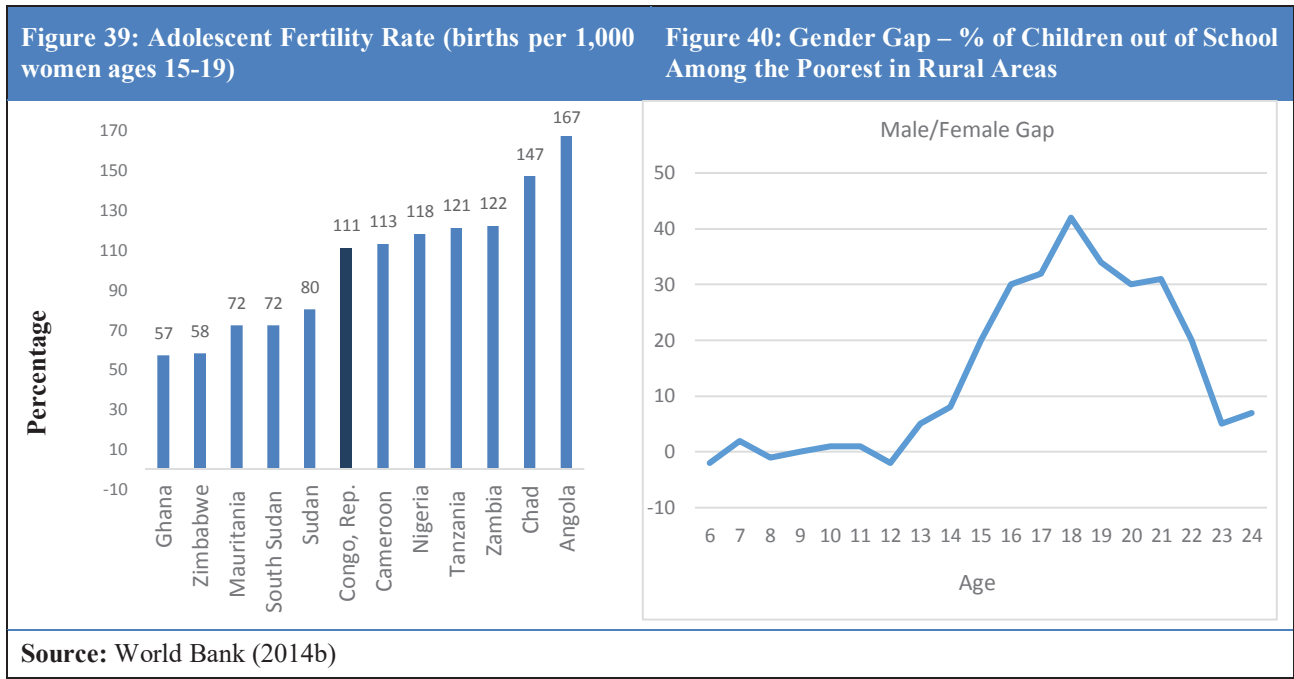
⁸⁹ World Bank, 2014a.

transfers and labor intensive public works programs are implemented only on a limited scale, while asset transfers programs are not even considered. An overhaul of the transfer program is needed given the potential of a well-designed safety net program to directly reduce poverty through transfers and indirectly by increasing household productivity,

4.4. Gender Gaps Demonstrate Inequalities between Women and Men

4.4.1. Gender Gaps Appear in Education and Carry Over into the Labor Market

137. **There is still a significant gender gap in the Congolese education system, especially in secondary schools and rural areas.** While national-level data show that the gender gap has been closed in primary education, the situation becomes more nuanced when considering dimensions such as location and income. In secondary education, the ratio of female to male secondary enrollment is only around 87 percent nationally. Furthermore, 65 percent of girls drop out by the age of 18 in rural areas compared to about 30 percent of boys (Figur). Early childbearing and poverty are some of the factors that appear to affect girls’ secondary school participation rates.



138. **Congo’s adolescent fertility rate is higher than several resource-rich comparator countries (Figur).** Specifically, its rate of 111 births per 1,000 women ages 15-19 is more than that of Mauritania (77), South Sudan (72), and Sudan (80). Data from the latest MICS show that over 26 percent of Congolese women currently aged 25-49 gave birth to their first child by the age of 18. Moreover, the difference in school participation among adolescent girls and boys is much greater among the poorest in rural areas than for the population as a whole, demonstrating that girls from poor families in rural areas are more vulnerable. These also constitute the cohort most at risk of early marriage, which usually means earlier initiation of their childbearing years, which in turn leads to an increase in school dropout rates and higher numbers of children. Furthermore, fertility

rates for adolescents (15-19) and young women (20-34) have slightly increased over the last 15 years – the opposite trend which is needed to reap Congo’s demographic dividend.

139. The use of family planning needs to increase for the country to reap its demographic dividend. The recent DHS found that while 44 percent of women reported using some form of contraception, only 22 percent use a modern and more reliable method. This percentage increases with levels of education, demonstrating another reason to encourage adolescents and young women to continue their studies. The potential total demand for family planning (proportion of women with unmet needs added with those whose needs are met) is estimated at 63 percent, suggesting that efforts to increase the provision as well as demand for family planning, particularly among adolescents, will be important to reduce the national fertility rate.

140. Women are at a disadvantage in the labor market. Their labor force participation rate is lower than that of men’s, and women have less access to formal sector or wage jobs than men. As a result, women hold more than half of informal sector jobs, where they are mostly involved in trade. Given the lack of formal sector opportunities for women in Congo, there is a need to support transitioning young females from school to work and promote higher educational attainment for girls. Diversification of the economy and the labor market is also a gender issue, as many of the current growth sectors in Congo tend to be male dominated. Moreover, women’s wages are often lower than men’s. Using the 2011 ECOM survey data, a recent country gender assessment found that the lower participation of women in the formal sector is due to a lack of opportunities for women rather than a lack of interest, which is linked with women’s education levels.⁹⁰

4.4.2. Gender Gaps in Education and Employment are Compounded by Barriers to Women’s Agency in Congolese Society

141. Women and men in Congo do not enjoy the same level of agency. The World Development Report 2012 on gender equality and development defines agency as, “the process through which women and men use their endowments and take advantage of economic opportunities to achieve desired outcomes.” Across all countries, women and men differ in their ability to make effective choices in a range of areas, with women typically at a disadvantage. Economic growth can promote women’s agency but generally has limited impact. On the other hand, increasing women’s agency has demonstrable positive effects on growth and poverty reduction as well as on intergenerational HDI outcomes. However, this requires narrowing the gender gaps in educational and asset endowments. For instance, women have less access to and control over productive inputs, such as land, credit, and labor, that would increase their productivity and earning potential. There are also socio-cultural and legal constraints to increasing the agency of women. These include husbands’ restrictions on their wives’ mobility and paternalistic labor laws originally designed to protect women from dangerous or exploitative work but which effectively discriminates against them and limit their employment opportunities.

142. This SCD considers two important phenomena that constrain women’s agency in Congo: i) the high levels of violence against women and ii) discrimination in formal and traditional legal systems. These do not only directly impinge on women’s dignity, integrity, and well-being, they also have important economic costs from women’s reduced productivity.

⁹⁰ World Bank, 2014b.

Globally, conservative estimates of productivity loss from domestic violence range from 1.2 percent of GDP in Brazil and Tanzania to 2 percent of GDP in Chile.⁹¹ Women's full participation in the economy will be essential if Congo is to achieve its full development potential.

143. Violence against women in Congo is linked to the legacy of armed conflict and impunity for war crimes and the high acceptance of domestic violence. The 2012-2013 DHS found that 61 percent of women and a slightly smaller percentage of men believed it was acceptable for a man to beat his wife or partner for one of the following reasons: infidelity, disrespecting him or his family, going out or spending money without his permission, neglecting the children or domestic tasks, or refusing sexual relations. Even though women's education attainment and labor market participation is increasing, two factors generally thought to increase women's autonomy and empowerment, there has been an increase in the acceptance of these views by both young men and women, suggesting that other cultural factors may be at play. Thus, an integrated database needs to be established in Congo to better understand the scope, trends, rates, and forms of violence against women in the country. This would help to monitor the problem and inform the design of programs aimed at reducing this type of gender-based violence.

144. More than half of all women ages 15 to 49 have experienced physical or sexual violence at some point since the age of 15. In three-quarters of these cases, the perpetrator was a current or ex-husband, partner, or boyfriend. Half of all respondents indicated they had been assaulted during the previous year, suggesting it is a recurring ordeal, and half of these did not seek any form of justice. Furthermore, young girls continue to be subject to the trauma of female genital mutilation, which can lead to lifelong detrimental psychological and gynecological health effects (e.g., fistulas, incontinence, and childbirth complications) and social isolation, reducing school attendance and labor market participation.⁹² To design effective policies, more research is needed to understand the reasons for the continued violence against women, such as a lack of effective services, stigmatisation of victims, and pressure from parents for young girls to marry their aggressors.

145. There is a link between violence and harassment of women and poor educational attainment. 2012-2013 DHS data show that 8.6 percent of respondents have been assaulted by a teacher. According to the Congolese Minister for the Promotion of Women and Women's Integration into Development, 61 percent of young girls have been victims of sexual harassment, 37 percent have had forced sexual relations, and 3 percent have been raped in Congo's institutions of higher learning, which led 29 percent of victims to abandon their education.⁹³ This situation points to the need for concerted efforts to create safe zones free of sexual violence and harassment in schools, TVET, and institutions of higher learning. This is essential not only to protect girls from harm and lifelong trauma, but also to increase school retention rates and skills training of adolescents, which is key for increasing young women's productivity. Left unaddressed, violence

⁹¹<http://www.worldbank.org/en/news/press-release/2013/11/25/violence-against-women-exacts-high-economic-price-world-bank-says>.

⁹² United States (US). 27 February 2014. Department of State. "Republic of the Congo." Country Reports on Human Rights Practices for 2013.

⁹³ Speech given by the Congolese Minister for the Promotion of Women and Women's Integration into Development before the United Nations Commission on the Status of Women in March 2013.

and harassment of adolescents and young women in school block an important pathway to economic growth.

146. **While the Congolese constitution establishes the equality of men and women and guarantees freedom of circulation for all citizens, these principles are not fully respected under national and customary law.**⁹⁴ In 2012, the United Nations Committee on the Elimination of Discrimination Against Women expressed concern over the absence of provisions criminalizing sexual harassment and conjugal rape and weak sanctions for domestic violence in Congo. Furthermore, the family code establishes men as heads of households with authority over other members (art. 168) with the right to decide their place of residence (art. 171), restricting women's mobility. All assets are by default considered joint property (art. 214), but their management is the prerogative of the head of household (art.217). The minimum age of marriage is less for women (18 years) than men (21 years). Young girls are also at risk of legally sanctioned 'pre-marriage,' consisting of co-habitation with the promise of future marriage for which there is no minimum age, effectively sanctioning child marriage. Moreover, it is harder for women to divorce due to abusive relationships or other reasons, as there is an enforced 'waiting period' of almost one year that does not apply to men. Adultery also carries stricter penalty for women and more social sanction, and polygamy is legal. Taken together, these criminal code and family law provisions make women vulnerable to abuse and reinforce their submission to male authority, hampering their autonomy and full economic integration and general empowerment. Men's decision-making power over women is also an important factor that needs to be considered when designing interventions to improve maternal and child health. The DHS found that in 59 percent of cases, decisions regarding women's health are taken solely by men. Thus, addressing women's lack of autonomy will be key to the success of any program aimed at increasing the demand for maternal and child health services.

Part II. Prioritization of Key Sectors with High Potential to Accelerate Progress Toward the Twin Goals in Congo

147. **Congo's challenging environment offers opportunities for policymakers to change the course of the country's current underdevelopment and turn it into a sustainable path of growth and long-term human development.** The current tense macroeconomic outlook and challenging socio-political environment are burdens on Congo's development prospects. The government should leverage its country's competitive advantage. There are major emerging opportunities and priority areas where policy actions can provide quick wins and build cumulative and virtuous cycles to sustain growth and foster resilience and prosperity in Congo in the coming years (Appendix 1). Specifically, policymakers can: 1) leverage its young population and the last decade of investment to improve human capital; 2) take advantage of the country's level of urbanization to improve infrastructure and service delivery; 3) promote non-oil sectors to gain a strategic advantage; and 4) implement adequate policy to achieve the full potential of the oil, gas, and mining sectors.

⁹⁴ Information on provision of the Criminal Code and Family Law are taken from the Agence Française de Développement's Gender Profile for Congo-Brazzaville (updated 12/12/16) at http://www.afd.fr/webdav/shared/PORTAILS/SECTEURS/GENRE/pdf/Congo_ProfilGenre.pdf.

148. **However, the country will not be able to take full advantage of these opportunities if there is no lasting peace, adequate macro-fiscal management, and pro-business agenda.** Specifically, the government needs to meet the following key Cross-cutting themes: i) achieve a lasting peace by improving overall political and economic governance; ii) create adequate macro-fiscal management of oil and other extractive resources to free up fiscal space for social spending; and iii) facilitate interregional trade and the business environment to unleash the potential of the private sector and improve the efficiency and productivity of SOEs.

Chapter V. Key Drivers for Achieving the Twin Goals in Congo

Congo must seize the following four opportunities to achieve the twin goals. First, the country should leverage its young population and the last decade of public investment to improve human capital by enhancing its: i) health; ii) education; iii) skills development; and iv) social protection systems. Second, it should take advantage of its level of urbanization to improve infrastructure and service delivery in urban and rural areas. Third, Congo should promote its non-oil sectors and gain a strategic advantage by enhancing: i) agriculture and food processing production; ii) forestry and wood processing production and nature-based tourism services while protecting the environment; and iii) infrastructure, ICT, and financial services. Finally, the country should implement relevant macroeconomic policies to achieve the full potential of its hydrocarbon and mining sectors.

5.1. Improving Human Capital in Congo

149. Building strong human capital is key to enable all Congolese, including women and girls, to benefit from economic growth and participate in the economy. This is particularly important for the youth whose successful integration into the labor market is essential to enable Congo to reap a demographic dividend and reduce the risk of conflict. In the long term, investment in human capital will help to build a more efficient and resilient economy. Good health and education are mutually reinforcing and enhancing individual and societal economic opportunity, acting as a barrier against poverty.

5.1.1. Creating a Better Health Care System

150. The strategic focus should be on strengthening the health system, addressing gaps to achieve universal health coverage, strengthening maternal, child health, and family planning services, and ensuring access of the poorest to basic health services. Furthermore, there are urgent needs caused by the phasing out of significant donor funding from the Global Fund and the Global Alliance for Vaccines and Immunization due to Congo's graduation to MIC status. This has led to immediate problems in financing vertical programs for malaria, tuberculosis, HIV, and immunizations.

151. The Congolese health sector is in transition, but additional reforms are necessary to enhance the effects of the PBF programs and achieve universal health coverage. A health sector reform program encompassing PBF has been initiated and needs to be evaluated. However, additional reforms are needed to reach universal health coverage. To inform the policy dialogue, there is a need for more information on the pharmaceutical sector and the cost of service delivery as well as a fiscal space analysis. Reforms are also needed in human resources, the health information system, the pharmaceutical sector, and indigent exemption mechanisms. Information from a fiscal space analysis, national health accounts, detailed costing studies, and allocation efficiency studies in combination with existing public expenditure reviews will constitute the foundation of a well-informed dialogue.

152. The policy dialogue to support and sustain health reforms needs to be continued and accelerated. It also needs to include the Ministry of Finance and the Presidency in addition to the

Ministry of Health. Focus areas should include the fiscal space for health, allocation efficiency of existing and new finances for health, human resources for health reforms, and pharmaceutical market reforms. It will also be important to further enhance health facility autonomy, strengthen public-private partnerships, and reinforce governance of the health sector.

153. Congo's high rates of childhood stunting require a long-term multisector strategy for growth. Good nutrition, health, and hygiene for both pregnant women and children as well as adequate psychosocial stimulation for children in their early years build a foundation for the healthy development of children's brains and their lifetime cognitive skills. Human capital investments in early childhood development are among the interventions with the highest returns, but they require a multisector response and a strong focus on gender dynamics. To be sustainable, investments need to be matched with behavior change efforts to redress women's secondary status within the household, which negatively affects their capacity to make informed decision about their own and their children's health and nutrition. Since these are long-term investments, they should be part of the foundation for Congo's long-term strategy for sustained growth. However, more research may be needed to design an effective multisector response that addresses all determinants of stunting.

154. The country's slow demographic transition also requires a structured and multi-sectoral approach. A stronger focus on keeping adolescent girls in school and facilitating their transition into the labor market, as well as reducing fertility rates through women's empowerment, could help accelerate the demographic transition in Congo. This in turn would enable families to invest more in the health and education of their children, thereby contributing to sustaining economic growth for the next generation.

155. Implementing 10 nutrition-specific interventions in all regions of the country which are proven to be cost-effective are an important priority. Most of these interventions are typically delivered through the health system and are currently provided at levels below what is expected for a country of Congo's income level. Salt iodization is a notable exception, with 99 percent of the country having access to iodized salt.⁹⁵ Agricultural reforms also need to be nutrition sensitive by, inter alia, ensuring that micronutrient-rich foods are produced, that income is generated for women and not just men, that micronutrient-rich fertilizers are used, and that new technologies for agricultural production are introduced to reduce women's energy expenditure. Improving access to safe water and sanitation facilities will also have a positive impact. Furthermore, measures to reduce the school dropout rate for girls will have a significant positive impact on their future children's nutritional status. The LISUNGI safety net transfer platform could be used to ensure that the poorest families have access to health and education services – both of which will improve nutrition – and that they receive information related to good uses of the cash transfers for nutritional improvement. Several other actions could be taken in the education sector, such as including nutrition in the school curriculum and organizing extracurricular activities to enable teachers and children to become agents of change.

5.1.2. Building a Better Education and Skills Development System to Meet Job Market Needs

156. There is a strong need for Congo to invest more, and more efficiently, in education. While not being far from achieving universal primary education, Congo needs to consolidate gains

⁹⁵ DHS, 2011.

in primary education, address gaps in rural areas and among vulnerable groups in terms of lowering the cost, improve access and completion rates, especially for girls, and improve student learning outcomes for all children and youth, not least of which the poor. These recommendations also extend to lower secondary education, in line with the country's policy of universal basic education. A quality, equitable basic education system is the foundation for a better education and skills development system, as youth with stronger basic skills are more trainable and more likely to be successful at higher levels of education and in the labor market. The priorities in basic education revolve around improving education outcomes for rural areas, adolescent girls, ethnic minorities, and other vulnerable groups. Also, it involves improving the management of resources – especially teachers and quality inputs – while improving the 'software' of education to strengthen learning outcomes. Access to upper secondary education should be expanded at a rate that is feasible and with a focus on keeping girls in school longer. At the same time, there is a need to efficiently rebalance the distribution of the public education budget across sub-sectors. The current composition of government education spending benefits to a large extent richer households in the form of, for example, student scholarships.

157. Refocusing the education system on quality can potentially raise future GDP growth rates. Weak learning outcomes most likely reflect problems such as (i) low time on task due to widespread double-shift; (ii) low quality of teachers who are poorly trained and lack motivation; (iii) lack of learning materials and outdated curriculum; and (iv) poor physical infrastructure and overcrowded classrooms. These critical issues need to be tackled quickly. There are also critical human resource management issues in the education sector. Personnel costs within the system consume more than 80 percent of the budget and have the potential to deliver or hamper the attainment of education sector objectives. Despite being the largest government employer, data on personnel are inconsistent and outdated. Overlapping responsibilities among several central directorates and an ill-equipped human resources team have contributed to the ad hoc management of teacher recruitment, deployment, professional development, promotion, skills development, and exit or retirement from the system. Given the systemic issues affecting service delivery in the sector, refocusing the system on quality will require strong leadership.

158. Furthermore, building a skilled workforce is a key element of Congo's economic policy of diversifying its economy. There is a need to produce more graduates and teachers in science, technology, engineering, and mathematics (STEM) at all relevant education levels. Graduates from these areas will be key for the country's diversification efforts. To achieve this goal, teacher training institutions need to undergo deep reforms. The new government education strategy appropriately emphasizes increasing the number of science and technology graduates as well as more broadly increasing the output from higher education. It also recognizes the need to build a skilled work force for Congo's growth sectors, such as mining, oil, finance, banking, agro-industry, construction, communication, and tourism. This is consistent with global evidence showing that education yields its greatest benefits in countries undergoing rapid technological and economic change because it can give workers the ability to continue acquiring skills throughout life as well as the capacity to adapt to new technology.

159. To improve education outcomes and meet job market demands, the country needs to prioritize early childhood development, education equity and quality, skills training, youth productivity, and higher education. Specifically, it needs to: i) invest in early childhood services targeted at the poor and vulnerable population as well as girls; ii) improve equity and quality in

basic and general upper secondary education; iii) improve the relevance and efficiency of formal TVET to meet market demands and reduce gender segmentation and wage gaps in priority sectors, such as STEM; iv) build resilience by improving youth productivity in the labor market – including in the informal labor market – through skills development; and v) develop a quality higher education system with an equitable financing structure.

Box 6: Sectoral Strategies for Skills Development

Congo's areas of comparative advantage are concentrated in timber, wood-related light manufacturing, mineral fuels, and the agriculture-related products sectors.⁹⁶ However, there is no coherent and integrated strategy for skills development in sectoral policies.⁹⁷ A review of the various sectoral guidance policy documents reveals that the development of skills required to achieve sector objectives is not sufficiently considered. Not only are the skills needs not identified, the strategies to be implemented to achieve industry growth objectives are not defined. Thus, it is important that sectoral policy documents identify training needs to meet their demand, which will allow training institutions to better align their programs. While the mining sector has prepared such a strategy, comprehensive policy documents are still needed in the agriculture, wood, construction, tourism, and digital economy sectors.

Source: The authors

160. **In addition, Congo needs to build economic resilience by improving the short-term skills of youth and women in the informal labor market.** Vocational and entrepreneurial skills development that target youth and women has consistently been highlighted as a key criterion to address risks and improve resilience in the country's economy. Support to job insertion, internships, and skills development programs that supply the soft skills that are also needed in the labor market are all important to empower both the youth and women and support their entry into an evolving labor market.

161. **For the bottom 40 percent, it will be important to improve access to quality pre-school and basic education while reducing out-of-pocket expenses.** Improving the health of students (e.g., with feeding programs) can be delivered through schools as a social protection measure and act as a motivation for school attendance, especially for children from poor households and minority ethnic groups. Conditional cash transfer programs, such as the Lisungi Safety Nets Project, can have a similar effect. At post-basic levels of education, a combination of lowering out-of-pocket costs and offering remedial education can increase graduation rates of the poor. Skills development programs that target vulnerable youth that have dropped out of the formal education system can improve their productivity and earnings and provide a pathway out of poverty.

162. **The demand for acquiring formal qualifications will grow over time, but training needs must be defined in partnership with the private sector.** The Congolese government seems to favor formalizing labor in the agriculture and agri-business, wood processing, and construction sectors. Nonetheless, tourism and the digital economy also constitute a real potential in terms of a larger formal labor market. Skills development is especially relevant for informal operators who will be solicited by companies operating in the formal sectors.

⁹⁶ World Bank, 2016b.

⁹⁷ World Bank, 2017a.

163. Vocational programs in urban areas should be prioritized to promote future growth.⁹⁸ These programs should be geared toward urban service requests and new businesses to diversify the economy and leverage the emergence of new systems associated with the introduction of new technologies. This is important since the largest number of new jobs comes from urban activities and requires a significant amount of skilled labor. Despite the country's agricultural potential, job creation in the sector is still weak due to unsuitable incentives for job creation activities. Moreover, only 0.7 percent of young people want to work in agriculture, indicating low incentives in the sector.⁹⁹

164. Congolese authorities should focus on strengthening skills development and redefining TVET. Specifically, the government can strengthen skills development programs by: i) developing a policy framework; ii) improving public and private training providers; and iii) increasing the involvement of the private sector. It is also necessary to redefine the development programs for TVET to ensure that the necessary remedial actions are taken. These programs should emphasize: i) the diversification of the training provision with more specializations; ii) the ability to update training content; iii) the training of trainers, mentorship programs (particularly for young women), and job placement services (including incentives to businesses that hire young graduates); and (iv) a review of the economic funding model to ensure that it is compatible with the reality of TVET (including the CEFA model).

165. There are a range of reform priorities for the government to consider. These include: i) strengthen the autonomy, flexibility, and governance of public institutions; ii) encourage training centers to set up an occupational integration system, including a seed fund to accompany new graduates; iii) develop a public-private partnership; iv) improve the relevance and quality of a private TVET system; v) proceed with the rehabilitation and equipping of existing institutions and the expansion of their capacity in selected areas; vi) diversify the path for skills acquisition and re-orient the existing diplomas to cover a wider range of occupations, with a special focus on the strategic sectors for growth and diversification; vii) prioritize teacher training and restore the training centers to reduce the deficit of teachers without initial training, raise their level of competencies, and expose them to the professional and academic environment; and viii) create and maintain a labor market information system to address the issue of information failure. The labor market information system should include information on industry trends, training opportunities, job openings, wages, income, and unemployment rates. By consolidating information from diverse sources, this tool would serve as a valuable resource for employers, students, and job seekers.

166. Finally, creating jobs for the largely unskilled labor force is a strategic development priority for Congo. Any expansion of the production sectors (i.e., fisheries, agriculture, and livestock) will require large numbers of laborers of varying skill levels. In agriculture, Congo has an abundance of youth labor, and growing urban centers imply greater demand for dairy, produce, and fish. Markets are also in place and expanding at the sub-regional and local levels. The expansion of these productive sectors has the potential to allow Congo to exploit its comparative advantage in its bio-climatic zones (Box 6).

⁹⁸ World Bank, 2017a.

⁹⁹ Enquête sur la transition des jeunes vers la vie active (Youth in Transition Survey).

5.1.3. Building a Better Social Protection System

167. Well-targeted transfers can lift poor people out of poverty and increase resilience, but they require a multi-sectoral approach. Direct conditional and non-conditional transfers and productive safety nets, such as public works programs, increase resilience by offering access to income that smooth consumption during ‘lean seasons’ and help households deal with shocks. Transfers to women tend to empower them within the household and ensure that the money is spent in productive ways (e.g., on food, education, and health). Additionally, improving community infrastructure that fosters productivity (e.g., rural road maintenance, irrigation schemes, producer groups, etc.) leads to poverty reduction and increased household resilience. In addition, safety nets can also help poor households that find themselves in a poverty trap maintain and build their productive asset base and ultimately escape chronic poverty. For instance, many poor households stay poor because they are unable to produce the money needed to acquire productive assets, such as a pair of oxen. Once in a poverty trap and faced with exclusion from financial markets, the only remaining option to avoid chronic poverty is an autarkic savings strategy (i.e. reduce consumption). In such instances, a safety net can provide the needed resources to escape poverty.

168. Targeted cash transfers are also used to promote investments in human capital, especially that of children, and empower women. Cash transfers have demonstrated positive impacts on child health and education by encouraging the adoption of good practices related to nutrition, early childhood development, hygiene, education, health care, among others. They can stimulate the use of specific basic services by encouraging (or requiring) health care visits, growth monitoring sessions, or school attendance. Furthermore, transferring the cash directly to women has been shown to increase their bargaining power within the household. In the long term, they even reduce rates of domestic violence by providing women a measure of economic independence, facilitating exit from abusive relationships without leading to destitution.

169. Furthermore, building a better social protection system will be critical to improve the quality of human capital in Congo. The government has started to improve its social protection system through the Lisungi program. The focus for the coming years is to consolidate and expand the program to national coverage. Moreover, the government wants to use it as a vehicle to deliver a bundle of interventions as well as implement specific productive, incentive-based, and income-generating activities. Developing stronger linkages between the national social safety net and other government programs can be an effective way to address some of the more persistent development gaps, such as rural poverty, rural access to education and health care, the food deficit, and malnutrition. Key public priorities to build a better social protection system in Congo include: i) increase coverage of cash transfer programs; ii) institutionalize the social registry as an entry point for social policies; iii) build linkages with other sectors for the provision of a bundle of services for the poor population; iv) increase resilience by improving the productivity of beneficiary households of social policies; and v) create a platform for the delivery of emergency assistance (in cash or in kind) in response to shocks, such as famine or natural disasters.

170. The financial cost for a hypothetical cash transfer system could be quite high, but it will result in important medium- and long-term benefits for the country. The financial cost for a hypothetical cash transfer system in Congo could be about XAF 171.2 billion in 2011 prices, representing about 10 percent of the public budget. In 2005 prices, the national poverty line is estimated at XAF 274,113 per year per equivalent adult. On average, the distance of the poor from

the national poverty line is 15.4 percent. This indicates that if it was possible to perfectly target the poor, it would take an average annual payment of XAF 103,260 to eliminate poverty in the country (Table 6).¹⁰⁰ Overall, the budget for such a cash transfer program is estimated at XAF 171.2 billion in 2011 prices. This represents slightly less than 15 percent of the recurrent public spending in 2015, about 25 percent of the annual oil revenues for 2015, and only 9 percent of the 2014 oil revenue. Most of the poor live in rural areas where the distance to the poverty line is higher. Consequently, two-thirds of cash transfers to the poor should go to those living in rural areas. Despite the high cost, such a program, if linked to some conditionality, could represent investment in human capital that would result in important medium- and long-term benefits for the country. In the case of a conditional cash transfer system, the likelihood of a household using the windfall to build human capital will be higher, particularly if transferred to women. Granted all other conditions are in place, such as high quality of service delivery, this will result in a better educated, well nourished, and healthier population.

Table 6: Cost of a Hypothetical Perfectly Targeted Cash Transfer Program that Will Eliminate Poverty						
	Population	Population share (%)	Poverty gap	Transfer per poor	Total transfer (billions XAF)	Share of total transfer (%)
Region						
Brazzaville	1,502,793	37.1	6.2	78,858	25.6	15.0
Pointe-Noire	777,740	19.2	4.8	65,006	10.2	6.0
Other municipalities	232,633	5.7	18.1	94,066	11.6	6.7
Semi-urban	169,814	4.2	22.5	103,485	10.5	6.1
Rural	1,370,266	33.8	30.2	119,114	113.3	66.2
Total	4,052,841	100.0	15.4	103,260	171.2	100.0
Source: World Bank staff using 2011 ECOM survey. Note: amount in 2011 XAF prices.						

5.2. Leveraging Urbanization for Better Infrastructure and Service Delivery

171. **The high concentration of Congo's population in urban centers provides an opportunity to deliver quality services and infrastructure at a lower cost.** Congo is highly urbanized, with 64 percent of the population living in urban areas. This concentration reduces the cost of providing social services to a large share of the population, which lowers the cost of achieving the twin goals at the national level. The government could seize this opportunity by identifying the pressing needs and creating specific interventions for each pocket of poverty in urban areas.

172. **If well managed, urbanization could be a key driver for economic growth and structural economic transformation.** International evidence shows that economic activities are concentrated in urban areas. In Congo, lack of economic concentration is one of the main challenges confronting the country. Specifically, economic activity is spatially fragmented in the two main places where two-thirds of the population live: the capital city Brazzaville (36 percent of the population) and Pointe-Noire (23 percent). For the country to reap the benefits of urbanization, Congolese cities must become more productive. They will need to encourage firms to cluster and allow agglomeration economies in a spatially inclusive territory. As countries urbanize, workers

¹⁰⁰ This is just a hypothetical assumption since, there are many other factors at play, including education and the likelihood of some beneficiaries spending their allowance on useless items, such as alcohol and tobacco.

move from rural to urban areas in search of better-paying and more productive jobs. Hence, close spatial proximity has many benefits: firms located near each other can share suppliers, lowering input costs; thick labor markets reduce search costs, giving firms a larger pool of workers to choose from; and spatial proximity makes it easier for workers to share information and learn from best practices.

Box 7: Geographic Disparities in Infrastructure and Services Delivery

The poor and vulnerable often live in neighborhoods with limited amenities. Beyond monetary poverty, Congo exhibits huge regional differences in term of access to basics infrastructure and services. The poor are concentrated in rural areas or in urban slums with very little access to basic social services and infrastructure. In urban areas, the availability of quality service is often correlated with house rental prices. The poor are therefore excluded from neighborhoods with access to quality services because of their limited purchasing power.

The poor and those living in rural areas struggle to send their kids to schools because of financial and physical constraints. Enrollment rates are lower in rural than in urban areas. In 2011, the net primary enrollment rate was 90 percent in urban areas, compared to 86 percent in rural areas. The poor quality of rural schools is an important barrier. Parents in rural areas complain that their schools do not have enough books and supplies, classrooms are overcrowded, and the number of qualified teachers is limited. These factors contribute to reducing the gains made in education and impact the tradeoff between child labor and education, resulting in high dropout rates in rural areas. Compared to their urban counterparts, children in rural areas must travel longer distances to reach their schools. In 2001, an average rural household was located 3.3 km from a lower secondary school, while the corresponding figure for urban households was 1.5 km. Increasing access in rural areas will require building new schools and classrooms and improving transportation infrastructure.

It is more difficult for rural households to access health facilities. On average, an individual living in rural areas must travel 5.3 km to reach a health facility, whereas a person living in urban areas only have to travel 1.5 km. This is an important constraint for rural households seeking health care.

The electricity network is almost nonexistent in rural areas. Only 1 out of 20 rural households have a connection to the electricity network, compared to as high as 15 out of 20 households in Brazzaville. In addition to lighting, access to electricity enables households to adopt timesaving technologies that have positive impacts on reducing women's time poverty and increasing family welfare (e.g., children can study in the evenings, food can be refrigerated, and digital inclusion is facilitated). In rural areas, many households live in neighborhoods with no access to the electricity network. Consequently, even better off households who can afford paying for a connection are unable to because service is not available. Given the low density in rural areas, alternative options, such as solar energy, should be considered to improve access to electricity.

Source: Authors

173. **In urban areas, the focus should be on improving access to social services and infrastructure by the poor.** This will imply the densification of existing infrastructure. For example, the electricity network may be available in some poor areas, but the average distance between households and utility poles remains high, with a prohibitive effect on connection by the poor. Similar observation can be made for other important infrastructure, such as roads, piped water networks, schools, sanitation, and health centers. In addition, promotion of effective public transport, as well as sanitation services in urban areas, will be critical to improve the access and usage by the poor.

174. **Congo’s rural areas have less access to quality social services and infrastructure than**

Box 8: ICT as a Governance Game Changer in Services Delivery – Examples from Resource-Rich Countries.

In 2009, the ICT4GOV Program was introduced in South Kivu in the DRC to facilitate the decentralization of governance and service delivery. ICT4GOV uses mobile technology to enhance the participatory budgeting approach to service delivery in a variety of ways. Preliminary findings from an external evaluation found a positive impact on tax revenues; citizens are more likely to pay their taxes because they are now more likely to associate tax payment with improvements in services. In some jurisdictions, tax collection has risen twentyfold since the project began. Communities now have investment budgets and are devoting up to 40 percent to investments. In Luhinja, 54 classrooms were constructed; in Bagira, a new health center was built and the sewage system is being repaired; and water fountains and public toilets were installed at local markets in Ibanda.

The Check My School Program in the Philippines uses open data to promote citizens’ monitoring of public school performance. The program combines on-the ground community monitoring with ICT-enabled mechanisms, such as an online platform to access information on the provision of education services. Data from the Department of Education are presented in a user-friendly format on a website, and the data are validated from visits to schools by “infomediaries” (community leaders and other socially active individuals). An analysis of the pilot phase noted that motivated, well-organized civil society groups; “champions” within government agencies; endorsement by the Department of Education; and access to information proved to be the conditions that enabled the launch of the program

Stop Stockouts is a regional campaign in Kenya, Madagascar, Malawi, South Africa, Uganda, Zambia, and Zimbabwe to ensure that all public health facilities are stocked with essential medicines. Stop Stockouts uses SMS from visiting researchers to monitor medicines’ availability in public health facilities – so called “pill checks.” Impact evaluation is under way for this campaign.

In Pakistan, a mobile base application to monitor performance of field-based public officials drastically improved immunization rates and teacher attendance. Immunization of children under 20 months rose from 62 percent in 2014 to 82 percent in 2016, and disparities in immunization rates between urban and rural areas and between girls and boys have almost disappeared. The rate of healthcare facilities inspected every month increased from 40 percent in 2014 to over 80 percent in 2017. During the 2014-16 period, the annual average rate of teacher presence and student attendance rose to 92 percent for teachers and 95.5 percent for students.

Sources: Gigler and Bailur (2014), World Bank (2017b).

urban centers (Box 7). The government should consider two types of interventions to improve the lives of the country’s rural population: i) encourage migration to form viable communities and villages and ii) provide the population with alternative services and infrastructures based on new technologies and public works programs.

175. **The government should consider providing incentives for people in rural areas to regroup in more viable communities.** Given the low population density, the per capita cost of providing services in rural areas can be very high. However, costs can be reduced if the right mechanisms are put in place to encourage migration to communities and villages. Land reform is one area that the government could consider to achieve this goal. There is also a need for the Ministry of Interior and other ministries involved in territorial planning to study this in depth to find the right incentives. Importantly, the government should not force populations to relocate. However, the government could pass regulations and provide incentives for people to regroup, such as free land, construction of hospitals, schools, markets, and availability of roads and electricity.

176. **The government should also consider relying on new technologies to provide more affordable and accessible services to rural populations.** The promotion of solar energy could prove to be the most efficient alternative to improve rural electrification. Similarly, public works type programs can help build rural feeder roads, schools, water points, and other critical infrastructure. Also, ICT offers potential avenues for citizens to be active in decision-making processes and service delivery monitoring (Box 8). Furthermore, the Internet provides the possibility of utilizing mobile banking to increase financial inclusion.

5.3. Promoting Non-Oil Sectors with a Strategic Advantage

177. Congo can diversify its economy by promoting non-oil sectors where it has some strategic advantage, such as: i) agriculture and food processing and ii) forestry and wood processing. It could also strengthen its services sector.

5.3.1. *Enhancing Agriculture and Food Processing Production*

178. **Agriculture and food processing have growth potential in Congo.** There are some important agricultural assets in the country that are still largely unexploited. For example, it has more than 10 million hectares of arable land, although more than 90 percent remains uncultivated, and its geographic location is conducive to year-round farming, which is not only rare in Africa but even worldwide. In 2010, it was estimated that the agricultural sector provided 35 percent of national employment. However, the contribution of the sector to the national economy remains modest, at only 6 percent in 2014. This is because agricultural productivity is low, particularly for women farmers, and it may remain so for some time given the lack of sustained investment in the sector. Congo's agriculture is also primarily based on smallholder farmers whose productivity is low compared to both international and SSA standards. The government is determined to improve agricultural productivity and value chains, including in agribusiness and agro-industrial sectors, and turn it into one of the drivers of economic diversification. However, the country is highly dependent on food imports, with a negative trade balance in the sector. Food imports increased from US\$197 million in 2007 to a record US\$353 million in 2011, before settling at US\$240 million in 2013.

Box 9: Gender in Agriculture

Congo's Gender Inequality Index is 137 out of 157 countries. Gender and disability have an indirect impact on poverty, as women and disabled persons exhibit lower levels of education and employment opportunities. Women earn less than men and are more likely to be self-employed, as they do not have equal opportunities for accessing secondary education and paid employment. 70 percent of the country's agricultural workforce are women. There is a clear gender gap with respect to access to services and ownership and control of economic assets by women. Labor market analyses show that gender employment gaps result from unequal access to education and skills. Cultural norms determine and define women's societal role, which is to focus on subsistence farming, family, and child-rearing activities (the average woman bears five children, and the fertility rate is high at 3.8 percent), while men are encouraged to gain skills and become economically active.

It is estimated that women farmers are half as productive as men, largely because (a) Congolese women face additional barriers compared to men in accessing land, credit, and inputs and (b) an unequal share of their time is devoted to child rearing and household tasks. The economic contribution of women at the household level is also not recognized, and as a result, their ownership and control of productive assets, particularly of land, and their participation in decision making are limited. Even though the family code protects women against racial, ethnic, and sexual discrimination, women remain underrepresented in decision-making forums and leadership positions at local levels, including in producer organizations and cooperatives, politics, and higher levels of government. Transformation of the agriculture sector in Congo would require concentrated efforts to ensure women access: (i) agriculture education and skills training (particularly young women); (ii) agriculture technology, improved seed, agriculture advice, and entrepreneurship training; and (iii) laws that allow for ownership and control of economic assets by women.

Source: The authors

179. **Moreover, the country has a revealed comparative advantage in some food production and is at the frontier of efficiency in many areas of food processing.**¹⁰¹ To pursue these opportunities, many of the fundamental constraints would need to be addressed, such as: i) limited land access, particularly for women who suffer from inequality under formal and customary law, and territorial land-use planning; ii) low quality of governance in agricultural and food processing sectors; iii) low quality of service delivery in the agricultural and food processing sectors; iv) low attraction of private sector investment in the agricultural sector; v) low quality of agricultural research; vi) weak quality of the agricultural value chain, including weak transport and connectivity; vii) weak organization of the sector, e.g. the legal status of cooperatives is weak; viii) high cost of agricultural inputs, such as seeds; ix) weak linkages with end markets; x) absence of storage capacity in rural areas; xi) poor road and communication networks with production zones; xii) absence of national food safety policy and guidelines; and xiii) lack of statistical data.

180. **The government should consider adopting an agricultural development plan and introducing policy reforms to ensure sustainability of investments in agriculture.** For example, the government could adopt the agricultural development plan that is currently under consideration. This plan would help in: i) improving agricultural services and statistics; ii) creating an enabling environment to attract private sector investment in the agriculture sector; iii) rehabilitating agricultural research; and iv) promoting investment in the development of agricultural value chains. In the medium term, the government should introduce policy reforms that will enhance the

¹⁰¹ World Bank, 2016b.

sustainability of the investments made in the short run and create an enabling environment for agriculture and the wider food system. This would include enacting: (i) an agriculture law detailing the governance framework of the sector (e.g. taxes, crop quality norms, crop production standards, and farmer registration); (ii) seed law, policy, and regulations; (iii) a new rural land code that will improve land access and territorial land-use planning to optimize the allocation of land; (iv) environmental norms and standards; and (v) a rural road network maintenance policy. In turn, this would: i) facilitate private sector investments in key input markets, such as hybrid seeds and fertilizers; ii) facilitate access to rural land for strategic investors in agricultural plantations through an inclusive and transparent process; iii) provide technical assistance to smallholders to connect with strategic investors; iv) facilitate access to finance; v) develop a reliable network of agricultural roads; and (v) encourage joint titling for women in household (this not only increases women's access to land – a major constraint to their agricultural productivity – but constitutes collateral needed to secure loans); and vi) promote investment in agricultural value chains. Ultimately, the government should explore the introduction of market and trade policies and wider tax reforms that will create the necessary incentives to sustain the investments made in the medium term and improve competitiveness of the sector to create jobs.

181. Nutrition and food security remains a key government priority for the agricultural sector. At 32 percent, Congo's malnutrition rate is high, with a total of 1.4 million people estimated as malnourished and 31 percent of children stunted. Micronutrient deficiencies, such as vitamin A deficiency and anemia, among young women and girls are also high. The agriculture drivers of food and nutrition insecurity are multi-dimensional in Congo and are caused by: (a) inadequate access to quality food, (b) high-priced imports; (c) inadequate local production; (d) poor hygiene practices and lack of awareness of food and nutrition requirements, and (e) unsafe food due to the absence of a regulatory framework for food safety. A number of inter-related interventions in the agriculture sector are required to improve overall nutrition outcomes of the country, including: (i) increasing the availability of locally produced food by reducing crop loss; (ii) introducing food fortification policies with food processors to ensure that poor urban and rural consumers receive minimum quantities of micro-nutrients; (iii) creating food safety policies and regulations to control aflatoxins and other risks; and (iv) educating consumers on micronutrients and healthy food choices through social marketing.

182. To promote the food processing sector, the government should remove import controls on inputs for locally manufactured food. Currently, the government has import controls on sugar to promote its last state-owned industrial farm Société Agricole de Raffinage Industriel du Sucre du Congo. The country is equally promoting its domestic palm oil production with import related restrictions. Instead, the government should consider creating an investment program to improve the competitiveness of these sectors and transition to value added supply chains and agroindustry while removing import and price controls. The emergence of a market-based agro-food sector would allow Congo to be more competitive in domestic, regional, and international markets. Analysis suggests cassava, horticulture, groundnuts, fruits, bananas, palm oil, poultry, bovine ranching, and fisheries and aquaculture all have potential for growth. However, for the country to tap into this opportunity and improve its competitiveness it would need to complement price and trade liberalization policies with a transition plan that (i) facilitates farm/enterprise restructuring to support productivity growth and (ii) introduces a series of institutional reforms that would reduce transaction costs for private operators. Institutional reforms include: (i) land access and

governance; (ii) reduction of import procedures and tax waivers for modern machinery, agri-inputs, etc.; (iii) access to agri-services (agri-finance, logistics, market information, vocational training, etc.); and (iv) improvements in commercial law that protect property and enforce contracts.

5.3.2. Enhancing Forestry and Wood Processing Production and Nature-Based Tourism Services while Protecting the Environment

183. REDD+ represents an opportunity to create forest-smart development while contributing significantly toward climate mitigation goals. A cross-sectoral approach to address the multiple drivers that contribute to deforestation offers the government the opportunity to simultaneously address the challenges of climate change, poverty reduction, natural resource management, and biodiversity protection by mobilizing significant foreign financial resources. Ensuring the success of the Sangha-Likouala Emissions Reductions Program would provide a proof-of-concept for such large-scale initiatives. However, this requires strong intra-governmental coordination and policy coherence.

184. Forest-friendly agriculture on degraded forest lands provides sustained growth and rural poverty reduction. Perennial agroforestry crops, such as cocoa, coffee, rubber, fruits, and village oil palm, can be an alternative to slash-and-burn agriculture and reduce small-scale agriculture's footprint on the forest. Together with intensified subsistence agriculture and payments for environmental services, this can be achieved through simplified local management planning, clarified tenure rights, and investments in value chains.

185. Congo can grow its timber based economy without intensifying or expanding production.¹⁰² While the forest code stipulates that 85 percent of exported timber must be processed domestically, this law has proved difficult to enforce due in part to the difficulty of operating profitable processing plants in the country. As a result, 75 percent of the timber is currently exported in the form of logs.¹⁰³ To address this, the government could implement several reforms, including i) reviewing the incentives for and obstacles to local value addition; ii) reducing the cost of DB, including by providing stable electricity and transport infrastructure; iii) easing import and export procedures; iv) providing technical training in forest management, production, and processing; v) and promoting the use of locally manufactured wood products, for example by including provisions for local content in public procurement policies.

186. However, sustainable growth of the forestry sector cannot be achieved without substantial improvements in governance. Before expanding production, the government should ensure better management and control of current production through i) improving transparency of concession administration, revenue collection, and forest production; ii) improving concession management, including through forest certification; iii) ensuring the legality of forest production, including through the implementation of a timber tracking and legality verification system, which is currently being pursued with assistance from the European Union and the French development

¹⁰² So as not to endanger a resource base that renews itself slowly, any growth in the sector should occur through more consistent application of good forestry practices across all concessions and enforcement of current governance provisions, rather than by expanding or intensifying production.

¹⁰³ COMIFAC (2014).

agency; iv) addressing the artisanal sector, which is currently unregulated; and v) improving human resources and performance management in the relevant line ministry.

187. Strengthening benefit sharing provides incentives for local communities to sustainably manage their forest resources. The revised forest code should include a provision for community forestry. This represents an opportunity to enhance the control local communities have over the land and forests they inhabit as well as the benefits they derive from forest resources. Furthermore, the functioning of local development funds needs to be improved to ensure a reliable flow of returns from forestry activities. Non-timber uses of forests should also be developed to further diversify the contribution of forests to the national economy. This includes increasing the efficiency of energy wood production, transformation, and consumption, and developing value chains for non-timber forest products. It also includes the development of agroforestry approaches to provide alternatives to slash-and-burn agriculture, both inside and outside forest areas.

188. Land-use planning can increase the efficiency of the Congolese economy and reduce conflict between competing interests. Law No.43-2014 on implementing land-use planning is of interest to the forestry sector, as forest concessions in 2011 occupied 44 percent of the national land area and 72.8 percent of the Permanent Forest Estate. Optimizing land allocation and avoiding overlapping land claims by various sectors (e.g., forests, agriculture, mining, energy, infrastructure) can increase the quality and efficiency of economic planning and investment decisions across the country. However, this needs to be carried out more rapidly and with a longer-term vision than currently exists in the different sectoral plans.

189. Forests are also the backbone of a nascent nature-based tourism sector, which has significant growth potential. 13.2 percent of Congo's land area is protected, including four national parks, one of which (Nouabal-Ndoki National Park) is part of a United Nations Educational, Scientific and Cultural Organization World Heritage Site. The country is home to numerous species (including forest elephants, gorillas, and chimpanzees) that lend themselves to tourist visitation. However, tourism and travel only contributed 3.9 percent of GDP in 2014, placing Congo 170th in the world in terms of the relative contribution of the sector to the economy. To drive growth in this sector, the country must safeguard biodiversity resources, make investments in tourism products, simplify access – including creating visa regimes and enhancing infrastructure, and improve marketing.

5.3.3. Enhancing Infrastructure, ICT, and Financial Services

190. The services sector has the potential to grow and diversify Congo's economy. A significant share of services is in the non-tradable sector. Since this sector is safe from the Dutch disease, which has been a threat to the development of the tradable sector, it constitutes a significant growth opportunity for the country. Specifically, some services, such as in transport, ICT, and trade, are likely to benefit from recent investments in infrastructure.

191. ICT provides leap-frogging opportunities to increase the speed of economic development. Specifically, it enables new ways of communicating, sharing and storing information, delivering services, and conducting business. Additionally, the sector itself can be an important source of job creation. Following the successful implementation of the Central Africa Backbone 3 project and the ongoing investments in fiber optic networks launched by neighboring

countries (Gabon, the DRC, and Cameroon), Congo should continue to enhance and modernize ICT to reap its benefits and diversify the economy. One of the most pressing challenges is the lack of access to broadband service along the Pointe-Noire – Brazzaville corridor.

192. Greater financial inclusion could be achieved by addressing several key challenges identified in the recent financial sector development strategy. These include: i) poor infrastructure (both ICT and financial), leading to a limited number of access points, particularly in remote and rural areas; ii) limited development of the microfinance sector; iii) lack of adequate financial consumer regulation, which leads to low levels of trust in the formal financial sector; iv) limited financial capacity of less educated and poor households; and v) a gender gap in financial inclusion.

193. Financial access points are limited in Congo but can be expanded by leveraging existing networks. Over 80 percent of the country's bank branches are concentrated in Brazzaville and Pointe-Noire, and the Postal Bank mainly serves government officials and does not appeal to the broader public, even though its network could help create a greater number of access points in rural areas. Furthermore, while microfinance institutions have a broad network, there is limited client segmentation and product offering. Financial inclusion could be expanded by reforming the existing regulatory framework involving bank intermediaries, investing in agent networks, as well as strengthening and expanding the microfinance sector by providing incentives to expand in rural areas and develop adequate products and services for the clientele it serves.

194. The adoption of electronic payments should be promoted to lower costs and improve financial inclusion. While there are two mobile network operators that offer mobile money services, the current legal regime is insufficient because it only permits them to operate as bank intermediaries. Thus, the legal and regulatory framework should be reviewed to allow for innovation while protecting customers' funds. Furthermore, this should be followed by expanding access points and promoting the overall ecosystem (i.e., not only offering cash deposit and withdrawal services). Similarly, while the administration has digitized several government payments streams (mainly wages), more of these should be digitalized and the process should be sped up.

195. Congolese authorities should ease access to finance for women, youth, and other vulnerable groups. The government can promote the benefits of using formal financial services in schools and local communities and associations. For example, authorities can encourage youth, women, and other excluded groups to open accounts at formal banks by depositing their bursary into their bank accounts. It also needs be easier to open accounts for these groups, which can be achieved by simplifying the documentation requirements and reducing the financial services fees. One effective strategy has been the establishment of village savings and loans associations for women, which reduces their risk-aversion, thereby increasing loan amounts that could be turned into investments with higher rates of return. Research show that the main barriers to accessing formal financial services in Congo are: i) not enough money; ii) lack of necessary documentation; iii) high costs of financial services; iv) distance to formal financial institutions; and v) lack of confidence in financial institutions.¹⁰⁴ Moreover, financial inclusion in the country is positively influenced by the following individual characteristics: secondary or higher education level,

¹⁰⁴ Soumaré et al. (2016).

working age group, high income quintiles, urban resident, full-time employed, married, smaller household size, and trust in the financial institutions.¹⁰⁵ Finally, gender is a strong determinant of access to finance.

196. Lastly, the government should adopt measures to increase confidence in the formal financial sector. According to the Global Findex 2014, over 600,000 out of the 2.2 million Congolese adults without accounts state that they do not use financial services because it is either too expensive or they have no confidence in the formal financial sector. The government could adopt financial consumer protection measures (e.g., the publication of fees or charges in a comparative fashion) or create an office of the Ombudsman to lower prices, ensure consumers are protected, and increase confidence in the system. Additionally, targeted financial education campaigns can encourage the increased adoption and usage of formal financial services.

5.4. Achieving the Full Potential of the Oil, Gas, and Mining Sectors while Controlling for Environmental Pollution

197. Improved revenue management can help Congo reach its potential in the oil and gas sectors. Resource-rich countries such as Congo that rely heavily on oil revenue need to address risks to macroeconomic and fiscal stability, improve governance and institutions for the effective and transparent use of resources, and explore how a favorable legal, regulatory, and fiscal framework can encourage further exploration. Specifically, Congo can improve revenue management by updating its hydrocarbon code, pursuing macroeconomic and fiscal sustainability, and improving transparency.¹⁰⁶ By taking these measures, the country's oil sector may reach its potential and contribute to reducing poverty, building human capital, and addressing environmental challenges.¹⁰⁷

198. Improvements in public infrastructure and a strengthened legal framework can help launch the mining industry. Even though Congo has a sizeable potential in mining, a lack of relevant infrastructure has prevented explorations in the sector. Sustainable development of the mining sector could contribute to the diversification of the Congolese economy. However, this must be based on strong fundamentals that are likely to promote investment and exploration, which will require renewed efforts from the government. The dynamism of the sector is further complicated by the difficulty in raising funds in international markets when the price of metals is low.¹⁰⁸ Furthermore, an updated legal framework should incorporate regulation to reduce water and soil pollution.

¹⁰⁵ Soumaré et al, 2016; Samba and Balamona, 2015.

¹⁰⁶ EITI, 2013.

¹⁰⁷ The new hydrocarbon code that is being drafted addresses some of the most pressing gaps in upstream gas legislation.

¹⁰⁸ The mining sector is in crisis internationally with falling prices of most metals; Congo should redouble efforts to promote mining exploration and the establishment of frameworks for sustainable development in the sector, in view of its desire to diversify its economy, which is highly dependent on oil.

199. **The government can achieve sustainable development by building efficient economic institutions and strong human and physical capital.**¹⁰⁹ Building efficient institutions is a key determinant for long-term sustainable development. Reforms should aim to achieve more efficient provision of public services, better management of macroeconomic volatility, efficient regulation of private enterprise, better government effectiveness, greater voice and accountability, and control of corruption. The government should also consider reforms to improve political stability, eliminate political violence, improve its regulatory quality, and achieve the rule of law. Furthermore, improving education, skills development, and health systems would strengthen human capital, which is a prerequisite for diversified and sustainable development. Reforms in these areas should aim to achieve better education quality, a stronger health care system with universal health coverage, and increased access for the poorest. Finally, efficiency improvements in public investment will be critical to build strong physical capital, which can be achieved by developing a targeted infrastructure investment plan, focusing on the electricity sector and the transportation network.

¹⁰⁹ According to Gill et al. (2014), greater asset portfolio diversification has the potential to yield better economic performance in the long term for resource rich-countries.

Chapter VI. Cross-cutting themes for Achieving the Twin Goals in Congo

Congo will only be able to leverage its key drivers for achieving the twin goals if it can meet three critical underlying Cross-cutting themes. First, the country needs to achieve lasting peace by improving overall political and economic governance through inclusive and accountable institutions. Second, the country needs to achieve an adequate macro-fiscal management of oil and other extractive resources to freeze fiscal space for social spending by enhancing revenue mobilization, implementing fiscal consolidation, and improving the management of oil resources. Third, the country needs to facilitate interregional trade and improve the business environment to unleash the potential of the private sector and leverage its strategic geographical position as well as improve the efficiency of SOEs to enhance their productivity and achieve greater economic diversification.

6.1. Achieving Lasting Peace in Congo

6.1.1. Improving Political and Economic Governance Through Inclusive and Accountable Institutions

200. Creating inclusive and accountable institutions is essential if the country is to achieve its full potential. The impact of socio-political instability has been devastating both for Congo's overall economic performance and the living standards of ordinary Congolese. Civil wars and coups have often resulted in the massive destruction of human and physical capital, thus pushing the country further behind on its development trajectory. Hence, efforts to create more effective, transparent, and accountable public institutions as well as strengthen citizen participation and rule of law are key to consolidate peace in a sustainable manner.

201. In the short term, the country should develop adequate mechanisms to reduce hardship on IDPs. Specifically, the government should help the forcibly displaced deal with their experiences and take advantage of economic and social opportunities that may be available where they live. It should also support host communities pursue their poverty reduction efforts in an environment that has been transformed by an inflow of IDPs.

202. Strengthening civil society to enable it to play a bigger role in Congo's development as well as improving the freedom of the press are both key to enhancing checks and balances. Congolese non-governmental organizations are generally weak and politically influenced, and the lack of available public information on government activities and programs hampers the effectiveness of civil society organizations. They often lack technical and financial capacities, and efforts to involve civil society in monitoring projects have often not borne the expected results. Issues of financing and technical capacity are the principal reasons that drive all civil society toward excessive proximity with political factions. This can lead civil society organizations to find themselves in a conflict of interest. Finally, non-governmental organizations are still uncoordinated and unable to be involved in public debate, reflecting the general environment of the country classified by Freedom House as 'not free' based on their assessment that there are generally no political rights and only minimal civil rights in Congo. Despite existing legislation that seems to

reaffirm free access of the media to information, Congo ranks relatively low on the media freedom international ranking by Reporters Without Borders (115th out of 180 in 2017).

6.1.2. *Improving Governance by Reducing Corruption, Strengthening the Rule of Law, and Enhancing the Quality of Civil Servant Administration*

Table 7: Scores of CPIA Public Sector Management and Institutions Cluster Average in Select Countries, 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
Angola	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.4
Congo Rep.	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.6
Nigeria	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.8	2.9
Resource rich SSA countries	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.9	2.9	2.9
Tajikistan	2.6	2.6	2.6	2.6	2.7	2.8	2.9	3.0	3.0	3.0	2.8
Uzbekistan	2.4	2.4	2.5	2.7	2.8	2.8	2.9	2.9	2.9	3.0	2.7

Source: World Bank, CPIA database

203. Congo performs poorly on the CPIA governance indicators, and it ranks among the worst performing resource-rich countries. The country's performance on public sector management and institutions was on average 2.6 between 2005 and 2014, which is below the 2.9 average for resource-rich SSA countries (Table 7). Improving governance in all its forms, but especially in economic management, is imperative for modernizing Congolese society and transforming the country's economy. Congo can greatly improve the efficiency of public sector management if it addresses the following governance indicators where it underperforms: (i) property rights and rule-based governance; (ii) quality of budgetary and financial management; (iii) efficiency of revenue mobilization; (iv) quality of public administration; and (v) transparency, accountability, and corruption in the public sector.¹¹⁰

204. There is a need for a more effective anti-corruption strategy. The challenge presented by public corruption is largely unmet, as current anti-corruption efforts have produced unsatisfactory results. Congo has created an anti-corruption commission in its anti-corruption fight, which likely accounts for the less than satisfactory results. In a survey among leaders and government practitioners from 63 developing countries, only 37 percent identified anti-corruption commissions as an effective tool in the fight against corruption. Leadership was identified by 83 percent, 75 percent pointed to deregulation, 67 percent to public sector reforms, and 66 percent to the increased voice of civil society as the most effective tool. Reducing opportunities for corruption through deregulation, combined with a strong zero-tolerance message from the highest levels of the government, and a strong role of civil society in monitoring public practices and procedures, seem to present a more effective path to controlling corruption. This requires strong enforcement

¹¹⁰ World Bank, 2015c.

and prosecution mechanisms that are non-partisan and credible. It also requires access to information, sufficient capacity on the part of civil society and non-state actors to understand and analyze information, an open atmosphere that permits the articulation and broadcast of independent analysis, and the ability to negotiate effectively with public sector actors. Moreover, it requires transparency in budget and procurement processes, feedback data from service users, and a process of active engagement between governmental and non-governmental actors to facilitate independent monitoring citizen oversight as well as the appropriate responses from government actors.

Box 10: Legal Framework of the Public Administration

The Congolese public administration was created after independence in 1960 based on the structure of the colonial administration. Currently, it is regulated by Law No. 021/89 of 14 November 1989, amending the general status of the civil service that defines terms of employment, the administrations staffing levels, human resources management, as well as ages to serve as a public servant.

The government faces several administrative issues, including: i) poor management of human resources; ii) poor organization; iii) cumbersome and opaque proceedings; iv) politicization; v) unmotivated civil servants; vi) lack of incentives; vii) corruption and fraud; viii) low circulation of information; ix) poor record keeping; and x) lack of statistics.

Furthermore, the civil service is confronted with: i) misinterpretation of the texts; ii) an opaque recruitment system;¹¹¹ iii) lack of reliable data on the exact number of civil servants;¹¹² iv) lack of predictive job management tools and skills; v) poor management of the career system – i.e., absence of objective parameters;¹¹³ vi) absence of a genuine computerized system for the management of state employees; vii) insufficient resources for training and staff development and lack of training needs planning; viii) uncontrollable mobility of agents, geographically and intradepartmentally; and ix) non-computerized public administration, leading to inefficiencies in service delivery.

Several decrees were promulgated by the president in 2011 and 2012 to address the organization and functioning of the High Council of the Public Service for controlling civil servants' selection and hiring processes and for resolving disputes between employees and the administration without significant impact.

The revised policy management system, put in place in 2009 and consolidated in 2010, has demonstrated some improvements, but it does not yet reliably ensure that employees focus their work on government set objectives. The result of the Rapid Result Impact program financed by the World Bank governance project was not conclusive. In addition, the country's adoption of a results-based approach led by the General Secretary of the President's Office is facing both technical difficulties and a lack of support from ministers. The local use of ad hoc project coordination units in government offices continues for cross-cutting issues with development partners, but the transfers of capacity and good practices have not been forthcoming. According to the most recent 2014 Worldwide Governance Indicators, Congo remains significantly below the SSA average in the category of government effectiveness with a score of -1.15. This was a slight improvement from -1.22 in the 2013 report.

Source: World Bank country team

¹¹¹ For example, there is no civil service strategy for career management and recruitment, which leads to a disconnect between the needs and actual recruitment. As a result, there is a ten-year lag between recruitment and graduation from government public administration schools.

¹¹² Congo is estimated to have around 80,000 civil servants. However, this number is not reliable as there has never been a civil service census and there is no civil service database.

¹¹³ The advancement procedures are neither regular nor supported by a system of evaluation with performance- and merit-based criteria.

205. Strengthening the rule of law is a prerequisite to facilitate sustainable development. Property and contract rights are protected by law, but the rule of law is still compromised by a weak judiciary system affected by corruption and lack of capacity. Residents, regardless of nationality, have the right to establish a business. Local and foreign investors have the right to own and establish business enterprises and all forms of remunerative activity. Notwithstanding, contract enforcement through formal mechanisms is costly and unreliable. It takes 560 days, costs 53.2 percent of the value of the claim, and the quality of legal proceeding scores 5 points out of 18, whereas the average for SSA is 653.1 days, 44.9 percent, and 6.4, respectively. The DB 2016 indicator for enforcing contracts ranks Congo 158th out of 189 countries, which is the same level as the previous year. However, Congo's 2016 DB rank for registering property improved 8 positions to 166th out of 189 countries. Finally, impunity for crimes, including violence against women, further erodes the social fabric and capital necessary for sustainable development.

206. Promoting meritocracy is critical to enhancing the quality of public administration and reducing corruption and incompetence. Congo's core public administration demonstrates weak internal management capacity in relation to major personnel actions, such as recruitment, selection, and promotions, while dismissals generally do not reflect merit and performance. The recruitment process is cumbersome and unclear. Terms of employment and pay are not sufficiently attractive to ensure that the government can compete effectively for the skill sets it requires. The public sector pay regime was generally unable to motivate effort within the public service until the freeze on professional progress, which came into effect as part of the structural adjustment program in the 1990s, ultimately came to an end.

207. The country should prioritize critical governance reforms. Specifically, the government needs to: i) review the public master plan, including performance indicators to be achieved at the sectoral and spatial levels; ii) systematize the results-based approach from the central administration level down to local authorities, learning from best practices in the health sector; iii) update Law No. 021/89 of November 14, 1989 by including new provisions necessary for using result-oriented terms of reference and managing recruitment, selection, promotions, and dismissals in line with merit and performance; iv) align performances and promotions of staff with the salary scale; v) develop a strong capacity building program for technical or highly specialized staff and for in-service continuing skills development; and (vi) reform the labor law's provisions preventing women from working at night (art. 108) and restricting the type of work that pregnant women can perform (art. 112), which both are discriminatory.

6.2. Achieving an Adequate Macro-Fiscal Management of Extractive Resources to Freeze Fiscal Space for Social Spending

6.2.1. Enhancing Revenue Mobilization to Improve the Fiscal Space

208. The government will benefit from reforms that can help it achieve greater transparency and efficiency of oil revenue mobilization, given that oil proceeds will remain the main source of government revenue in the foreseeable future.

209. The government should consider reworking and solidifying its oil production sharing framework. Currently, this framework is implicit, which results in government negotiators facing enormous pressure from oil companies to not share revenue. This is illustrated by the recent oil

production sharing agreements which are not favorable to public finances and will lead to structurally low revenue mobilization from the oil sector (compared to 2006-2014 when the production sharing agreement was more favorable) in the coming years, even in the case of a significant rise in the oil price.

210. Moreover, the government could increase its oil revenue by adopting explicit rules regarding public agents responsible for selling oil cargo. Currently, there is no law governing the sale of oil cargo by these agents. Consequently, they might make decisions not in the public interest regarding the timing of a sale to take advantage of arbitrage opportunities with exchange rates when repatriating the revenue received from sales. A law providing clear guidelines to government agents with respect to the repatriation of oil revenue would likely be helpful.

211. Congo will benefit from more competition in its oil exploration and production markets. Oil licenses and oil exploitation agreements are often subject to sole-source contracting and bonus upon signature.¹¹⁴ Although being a quick and easy way for the government to gather revenues, the practice of signature bonuses is generally not considered a good fiscal tool, as it may lead to less public revenue when the oil company seeks to recoup its investment.

212. Greater transparency and public involvement in oil revenue management could improve accountability and reduce political capture. Becoming a part of EITI in 2004 was a first step for Congo toward improving transparency of extractive sector revenues. It became compliant with EITI rules in early 2012 during the implementation of the 2011-2013 action plan. Since 2013, EITI has provided the government with recommendations for how to improve the transparency of oil management, but these have yet to be implemented. Thus, the government will benefit from reviewing and applying these measures.

213. The implementation of EITI recommendations will have to account for the elite capture that has marked the sector. Management of oil revenue has been a reserved domain of the highest level of government. Successive presidents seem to have been the ultimate decision makers on how production agreement were drafted. This reduced the transparency of the framework for production sharing agreements. Moreover, it appears that agreements signed prior to the recent constitutional change favored oil companies, a reminiscent of the fact that the control of oil fields by foreign oil companies was a key driver of the war and political violence between 1993 and 1997.

214. The country could mobilize more non-oil revenue by improving the personal income tax (PIT) and the property tax system. Since the PIT represents less than 3 percent of government revenues, there is room to increase this line of taxation in Congo.¹¹⁵ Analysis suggests that strengthening the PIT yield can raise the tax ratio while strengthening progressivity.¹¹⁶ Implementing a zero-tax bracket for the lowest incomes would both simplify revenue administration and enhance tax progressivity. Rationalizing tax deductions is also needed, as they accrue disproportionately to the rich and lead to significant revenue losses.

¹¹⁴ The contract for the development of the ENI oil field did not go through open bidding but involved political negotiations at the highest level between Congo and Italy.

¹¹⁵ World Bank. 2015c.

¹¹⁶ IMF, 2014.

215. **Congo should consider the full implementation of the property tax and evaluate other types of taxation.** The property tax, which was introduced in the 2015 budget, is a major source of income for both the local and central government that has remained uncollected. If fully implemented, the tax will have a significant redistributive impact. To make it progressive, the tax could exclude the permanent residence below a certain threshold to prevent the taxation of low-income households. Property taxes could be implemented gradually, as it requires a reliable land registry as well as the administrative capacity to manage it. However, the property tax and the PIT will not be enough to diversify the source of government financing. Thus, it is critical for the government to carry out an overhaul of its taxation system to increase revenue mobilization. In this reform program, the government should conduct a study to identify relevant taxes that it may adopt to diversify its taxation.

6.2.2. Achieving Sustainable PFM by Implementing Fiscal Consolidation

216. **As Congo is preparing for fiscal consolidation, any fiscal reform program should cover the public expenditure and procurement systems.** Substantial reforms of the public expenditure system, including planning, budgeting, and actual spending, should be undertaken. Specifically, the government should consider it a priority to: i) strengthen the budget planning process and establish a link between planning and budgeting; ii) improve its budget presentation to ease analysis by distinguishing between directly and indirectly productive sectors; iii) strengthen the human resources of some line ministries on public finance issues; iv) and reduce the tendency to use special procedures in budget execution.

217. **Substantial reforms of the public investment system are needed, including in planning, budgeting, and implementation.** Specifically, the government should consider: i) adopting and implementing a transparent and objective process of selecting investment projects within public agencies, institutions, and line ministries; ii) planning and coordinating investment decisions with all institutions relevant for the investment; iii) decelerating the pace of public investment to allow for expanded supply side potential to build up in the construction industry; and iv) targeting the allocations of public resources and providing a geographic coverage of the budget by department or rural versus urban areas. Efficiency in public investment spending deteriorated in recent years.¹¹⁷ Poor investment planning has rendered important and otherwise productive investment in the energy sector completely inefficient. For instance, more than US\$2 billion have been invested in constructing a dam and power plant, but electricity accessibility did not improve. Additionally, poor selection of investment projects has led to white elephants, or projects that cost more to maintain than they are worth. Moreover, the high cost of building infrastructure in Congo has reduced the efficiency of public investment. In fact, the construction cost of roads in the country is among the highest for developing countries.

218. **The Congolese budget suffers from poor planning and budgeting, and its budget execution faces challenges.** Between 2008 and 2013, the planning and budgeting for capital and recurrent spending was poor because of non-programmatic or unprepared spending pressures.¹¹⁸ In recent years, the use of medium-term expenditure frameworks have also been limited. Budget execution with normal procedures has been difficult to implement because the process is marked

¹¹⁷ World Bank, 2015c.

¹¹⁸ World Bank, 2015c.

by multiple and complex steps, leading to the excessive use of exceptional procedures. The execution of the budget includes several actors, steps, and procedures, and the budget is hardly enforceable with normal procedures on January 1 of each year due to codification procedures. Moreover, the risk related to cash management remained substantial in the Congolese Treasury system since its management has not been able to systematically produce the required documents in support of its cash operation.

219. The government should fully implement the budgeting process and reduce the use of exceptional procedures in budget execution. Specifically, it should: i) fully implement its budgeting process by reviewing and ensuring that the approved budget preparation calendar is realistic; ii) update and use the medium-term expenditure frameworks effectively in budget preparation; iii) systematize intra-sectoral trade-offs by forming an ad hoc committee in each sector to prepare the “Budget d’Affectation Special” and define the procedures for its inclusion in the national budget; iv) reduce the use of exceptional procedures in budget execution by codifying the budget prior to January and enforcing the deadline of budget execution to any approval authority;¹¹⁹ and v) establish an effective cash management system.¹²⁰

220. The government should also consider putting in place the new Treasury structure and strengthening human resources in PFM in government agencies. Congo has been reviewing and modernizing its legal framework governing the management of public finances. However, lack of budget coordination and a dysfunctional accounting and monitoring information system have led to issues of budget credibility. The Congolese government should address these weaknesses by short-term as well as medium-term actions.¹²¹ In the short term, the government should: i) institute the new Treasury structure; ii) reduce the gap between budgeted and actual domestic revenues; iii) undertake at least on a monthly basis the reconciliation of accounting entries and bank statements, systematically clear suspense accounts and regularize them in the general accounting of the government; and iv) undertake a comprehensive monthly reconciliation of the operations of revenue administrations and the Treasury. In the medium term, the government should i) strengthen human resources in PFM, revenue collection, and compliance with tax and customs rules; ii) develop a program-based allocation mechanism for government transfers to territorial communities; iii) strengthen the supervision of autonomous public agencies and public enterprises; iv) extend the timeline for line ministries to prepare their budget proposals; and v) involve the line ministries in the process of simultaneous preparation of current and investment budget estimates.

¹¹⁹ For example, by rendering an approval non-mandatory when the maximum delay has expired without the authority formally acting on.

¹²⁰ This can be done by applying relevant procedures of the accounting instruction of 2001 on a cash basis before the adoption of new general regulations on public accounting and implementing strict internal control mechanisms, which by periodic statements of reconciliation will eliminate the risk of accumulation of arrears of revenue collection.

¹²¹ World Bank, 2015c.

221. **The public procurement system is poorly integrated into the public sector governance system and is seriously undermined by noncompliance with deadlines.** The system improved substantially from completely unsatisfactory in 2006 to moderately satisfactory in 2014. In 2014, it was rated at 53 percent on the Organisation for Economic Co-operation for Development's rating scale, compared to 16 percent in 2006. This improvement was in part due to the introduction of a new procurement code, which is modern and state-of-the-art. Specifically, the legislative and regulatory framework of the procurement system is strong and in accordance with international standards. However, the system is poorly integrated and incorporated into the public sector governance system, as a result of weak capacity and inadequate human resources management in Congolese PFM in general. In addition, procurement plans are undermined by delays in budget preparation, launching tenders and evaluation, issuing non-objection by the Directeur Général de la Direction Générale du Contrôle des Marchés Publics, and approving and signing of contracts (Box 11).

222. Congo will benefit from implementing and fully complying with procurement code regulations. In order to address the challenges facing the procurement system, the Congolese government should: i) adopt any of the identified implementing provisions that are currently missing from the public procurement code and extend the scope of the legal framework for public-private partnership, defense, and national security procurements; ii) explore ways and means to support the Autorité de Régulation des Marché Publics to facilitate the implementation of the strategic plan for capacity building; iii) adopt legislation to impose specific requirements to ensure budget availability before the launch of the tender and enforce respect of the timeline by approving authorities; and iv) provide financial and technical support to the Agence de Régulation des

Marchés Publics in order to enable it to carry out regular and exhaustive annual audits of public procurement.

6.2.3. Achieving Adequate Management of Oil Revenues

223. The management of oil resource revenue is complex and presents numerous challenges.¹²² The sustainable management of oil revenue and public spending is important due to the non-renewable nature of extractive resources and the volatility in oil prices. To ensure the efficient management of resource revenue, the government should create a fiscal framework comprised of (i) budget tracking indicators; (ii) fiscal rules that ensure sound management of the volatility of short-term prices; (iii) fiscal sustainability criteria; and (iv) rules on the accumulation and management of monetary reserves.

224. The government should consider using the NOPB as the key budget tracking indicator. It should use the NOPB as a fiscal anchor for two reasons. First, if Congo were to smooth the overall balance rather than the NOPB, it would need to adjust spending abruptly when oil revenues decline or are exhausted, which will have disruptive effects on economic activity and the provision of public services. Second, spending sustainability issues will arise if the NOPB is not used as the fiscal anchor.¹²³¹²⁴ The Congolese government has not tracked the NOPB over the past 15 years. Going forward, the government should set a maximum ratio in absolute terms that shall not be exceeded.¹²⁵ Based on historical data, a simple rule of establishing an NOPB deficit of 30 percent of non-oil GDP (NOGDP) is easy to apply. Had such a rule been in effect, the government would have accumulated more than XAF 12,200 billion over the past fifteen years, or XAF 6,700 billion more than it actually accumulated. If the rule had been set at -35 percent of NOGDP, the government would have accumulated XAF 11,000 billion, or an additional XAF 5,500 billion.

225. An eight-year moving average of oil prices is an appropriate rule for forecasting budgeted oil revenues. An assessment of the impact of the various methods for smoothing oil prices over the past 30 years shows that moving averages exceeding eight years are not responsive to short-term trend reversals. Therefore, the authorities should set an oil price rule using an eight-year moving average. This moving average would use six historical years and two years of forward projection.¹²⁶ This formula gives greater weight to historical values due to the difficulty in predicting oil prices. Its application in Congo during the 2001-2014 period would have reduced the volatility of oil revenues by more than one-third. Moreover, with this average price, the country would have been able to increase the contribution of oil revenues to the budget by an average of 7 percent over the period, with a peak of 14 percent in 2007 and a trough of -2 percent in 2014.¹²⁷

¹²² World Bank, 2015a.

¹²³ IMF, 2012.

¹²⁴ The NOPB is the key indicator to assess the fiscal stance. It measures the macroeconomic and fiscal position and identifies the impact of government operations on domestic demand, since oil revenues typically originate from abroad. A high NOPB deficit would indicate an expansionary fiscal stance. Setting fiscal policy on the basis of this indicator can help to delink fiscal policy from the volatility of oil revenues and facilitates an explicit link to the development framework.

¹²⁵ World Bank, 2015a.

¹²⁶ IMF 2012a suggests an 8-year moving average with 5 historical years and 3 years of forward projection.

¹²⁷ According to the World Bank (2015a), if the Government adopted such a rule, it would need to evaluate it over time to ensure that it is generating an appropriate level of financial savings. A price formula based on a moving average

226. **In the Congolese context, expenditure rules should be based on the NOPB deficit.** For example, expenditures could grow such that the NOPB/NOGDP ratio is no larger than -30 percent.¹²⁸ This rate would allow for the accumulation of sufficient funds for stabilization purposes. It should be adjusted downward (in absolute terms) as the share of oil in GDP declines. To achieve this ratio, the government could consider four options: (i) maintain the rate of growth of the main expenditure items while satisfying the NOPB constraint; (ii) allow current expenditures to increase at the real GDP or inflation growth rate and set capital spending as a residual to respect the NOPB ratio; (iii) allow all expenditure items to change at the GDP or inflation growth rate and set spending on goods and service as a residual; or (iv) allow all expenditure items to adjust at the GDP or inflation growth rate and set personnel expenditures as a residual. The rates establishing the constraints on current expenditures produce a greater short-term impact than the constraints on capital spending.

227. **During economic upturns, the government should maintain fiscal balances in a stabilization fund to ensure the availability of sufficient financial resources in the event of a negative oil price shock.** It could also design and implement a trajectory for the accumulation of reserves to build a stabilization buffer and avoid an abrupt adjustment in government spending. Finally, it could establish clear rules for drawdowns of the stabilization fund and strictly eliminate ad hoc payments and withdrawals.

228. **Congo should develop an equity buffer of up to XAF 27,000 billion (135 percent of 2035 GDP) by 2035.**¹²⁹ Assuming that the country does not discover new reserves

Figure 41: Congolese Equity Fund Principal in 2035, Billions XAF



Source: World Bank (2015a)

and oil will be depleted by 2034, government expenditures are maintained at present levels, and the return on investment will be 3.5 percent, the government will need a fund with a principal of around XAF 12,000 billion in 2035 to be sufficient to cover its current budget (Figur). Considering the government's current strategic plan and its expenditure commitments, current spending should grow by 5 percent annually through 2034, while capital spending should fall by XAF 1,000 billion by 2020 and increase subsequently by 3 percent annually. Also, assuming that the government maintains the rate of growth of tax revenues at 7.5 percent and mining will bring in XAF 300 billion per year, a financing gap of about XAF 650 billion will appear by 2035. Using the permanent

may better smooth expenditures but at the cost of possibly large discrepancies between projected and actual revenues. For a given public expenditure path, such forecasting errors will either generate excessive savings when prices are rising fast or will need to be absorbed by financial buffers when prices decline unexpectedly.

¹²⁸ Given the many uncertainties surrounding this type of exercise, this rate could be set between -21 percent and -35 percent.

¹²⁹ The size of the buffer depends on the resource horizon, the share of oil resources in the government operating expenditure, and the return on investments.

income hypothesis with a 5-percent rate of return gives the result indicated, i.e. a XAF 12,000 billion fund. If the government is not successful in exploiting the mining sector, it would need an additional XAF 950 billion and a principal of XAF 19,000 billion. The principal of the fund will vary depending on the rate of return on investments.

229. To ensure prudent planning and utilization of resource revenues, the country should equip itself with well-designed fiscal institutions to develop and maintain sound fiscal policies while guaranteeing transparency within independent forecasting bodies. Specifically, its PFM system should be sufficiently robust to: (i) provide reasonable forecasts for natural resource prices, production, and fiscal revenues, and to analyze related risks; (ii) carry out medium-term budget planning; (iii) facilitate investment project appraisal, selection, and implementation to ensure that resource revenues are used to support long-term economic development; (iv) integrate cash management and minimize financing costs to ensure a single account between the budget and any natural resource fund; and (v) ensure transparency in the collection and utilization of natural resource revenues and other available resources through appropriate fiscal accounting, reporting, and auditing. When creating fiscal institutions, the government should consider giving prominence to fiscal transparency and good governance. Additionally, the government could establish a single fund covering the stabilization and savings portfolios to serve as an integrated approach to the management of the government's financial assets. Finally, the country should ensure a good return on the infrastructure investment resulting from oil resources.

230. In the long term, Congo should reassess its monetary policy framework to promote economic development. Specifically, the government should consider a monetary policy that reduces the likelihood of exchange rate misalignments and helps smooth the level of fiscal adjustment while at the same time does not lead to higher appreciation of the currency during commodity price boom periods.

6.3. Facilitating Interregional Trade and Improving the Business Environment and SOE Efficiency to Achieve Economic Diversification

6.3.1. Adopting and Implementing DB Reforms to Unleash the Potential of the Private Sector

231. Congolese authorities have identified 26 reforms to improve the competitiveness of the private sector. For instance, it wants to reduce the time it takes to register a new business, streamline and reduce tax payments, and facilitate trading across borders by opening a one-stop shop. A maritime import and export one-stop shop is currently operational. The government has also voted into law an action plan to improve the business climate that incorporates a public-private dialog platform. Despite recent steps to improve the investment climate, with 6 reforms adopted out of the 26, Congo ranked 176th out of 189 in the 2017 DB survey. On average, entrepreneurs can expect to go through a process of 11 steps to launch a business, which takes 53 days, and costs the equivalent of 52.3 percent of GNI per capita. The country could gain considerably from fully implementing the OHADA Uniform Acts at the national level. Indeed, a score of 41.9 in the World Bank's DB 2016 means that Congo was 58.1 percentage points away from the frontier constructed from the best performances across all economies and across time (Table 8).

232. **The government needs to improve its internal activities and prioritize its reform agenda to succeed in enhancing the country’s business environment.** There are at least three ministries involved in preparing and implementing business reforms in Congo, and there is little coordination between them, complicating the reform process. Thus, authorities should consider creating an inter-ministerial coordination committee at the highest level of the government with a schedule to deliver on reforms. However, many of the planned reforms imply deregulating activities that are currently controlled by vested interests, which are resisting reform efforts. Understanding these interests and creating win-win situations will therefore be essential to reduce resistance to change and successfully improve the environment for Congo’s private sector.

Table 8: Select Countries – Trend of Distance to Frontier of the Doing Business Reports, over 2004-2015								
	DB 2010	DB 2011	DB 2012	DB 2013	DB 2014	DB 2015	DB 2016	Average
Angola	37.7	37.6	40.6	42.9	45.7	37.5	39.6	40.2
Botswana	64.9	65.3	66.5	67.0	68.4	64.4	65.0	66.0
Congo Rep.	36.8	34.4	37.4	38.6	40.2	41.5	41.9	38.7
Gabon	47.6	48.4	50.8	50.3	51.4	46.6	46.0	48.7
Malaysia	74.1	75.9	79.3	79.5	81.2	79.1	79.1	78.3
Mauritius	73.4	74.0	74.0	76.5	77.3	74.4	75.1	75.0
Namibia	63.2	63.2	63.3	63.8	63.6	59.7	60.2	62.4
South Africa	68.1	68.5	69.6	70.6	70.8	64.9	64.9	68.2
Thailand	74.6	74.0	73.8	74.0	74.4	71.3	71.4	73.4
Turkey	65.3	65.3	66.1	66.9	68.5	69.9	69.2	67.4

Source: World Bank, Doing Business database

233. **Business owners have expressed a need for more favorable procurement and tax codes, improved governance, as well as more supportive financial institutions.** Specifically, the government needs to improve economic governance, curb the number of taxes and procedures, as well as mitigate corruption and para-taxation. It also needs to support entrepreneurship, SMEs, and innovation to strengthen value chains. Furthermore, a sharper strategic public vision to promote a strong private sector and leverage Congo’s territorial assets is needed. Better methods from financial intermediaries are required and these could be accompanied by policy reforms to set up an investment code and strengthen statistical capacities. During the SCD consultation, private sector participants requested the creation of investment banks as well as a sovereign fund to bolster local content and transformational activities. Finally, the rules governing the public-private dialogue need to be updated.

6.3.2. *Facilitating Interregional Trade to Gain More from a Strategic Geographical Position*

234. **Congo has a unique opportunity to become the regional trade hub in Central Africa, but this will require a range of mutually-reinforcing and well-designed policy interventions.**

These include reducing the number of checkpoints, creating a more modern and efficient customs environment, and improving coordination and cooperation between government agencies. Specifically, the government needs to develop and implement a comprehensive customs regulatory framework, which should be aligned with international standards and clearance norms.¹³⁰ It also needs to establish more effective management of its borders and checkpoints, including measures to protect against the widespread phenomenon of abuse and exploitation of female traders and prevent human trafficking. Moreover, Congo could harmonize and streamline procedures at border crossings with its neighboring countries, such as synchronizing and extending customs operating hours at the borders and ports of Brazzaville and Pointe-Noire. Furthermore, building a long overdue bridge between Brazzaville and Kinshasa would likely increase economic activity.

235. The country is increasingly becoming a land bridge for goods and people moving between Cameroon and the DRC and between other parts of the world and Angola. The development of modern and efficient logistics would reduce costs for exporters and importers and help to promote the country as a regional hub. To take advantage of its strategic location, Congo also needs to improve its logistics infrastructure and services. This can be done by creating a comprehensive transport data system.¹³¹

236. Congo needs to improve the operational efficiency of freight movement to meet the growing transportation demands and enhance economic vitality and regional connectivity. The government should establish a freight management bureau to facilitate the secure and efficient movement of freight between Congo and its neighbors. The country should also develop ICT-based infrastructure to facilitate more optimal freight movements and enhance the efficiency of the system. Furthermore, the Port of Brazzaville needs to address several interrelated challenges to improve its performance. Therefore, the government should consider adopting and implementing the Brazzaville Port Master Plan, which has been prepared with the support of the World Bank.

6.3.3. Improving the Efficiency of SOEs to Enhance Productivity and Achieve Greater Economic diversification

237. As in many developing countries, SOEs in Congo suffer from weaknesses in management and service delivery. For example, the poor commercial performance of the country's national electricity company, Société Nationale d'Électricité, is a major impediment to reforming the electricity sector and meeting the growing needs of the population. Furthermore, public service delivery in most, if not all sectors in Congo (e.g., water, electricity, oil, education, and health) are inefficient and ineffective and continue to be limited by lack of transparency, capacity, and accountability. Even the better-performing utilities in Africa are far from achieving global benchmarks.

238. Congolese authorities can make SOEs more efficient by adopting a general management framework to increase autonomy and improve oversight. This includes granting SOEs authority and autonomy in managing their own operations by adopting regulations that give boards control over their CEOs. Authorities should also develop an ownership policy that regulates how the government nominates board members and establishes expectations for board

¹³⁰ World Bank, 2015d.

¹³¹ World Bank, 2015d.

composition. Moreover, the government should improve its oversight of SOEs by setting performance goals for each enterprise and reviewing their track record at set periods. Each board should also set performance goals for the CEO in line with the available resources and developmental objectives of the SOE.

Chapter VII. Knowledge Gaps

239. **The country lacks up-to-date data on poverty, the national accounts, and the national census, and some critical financial data are of poor quality.** Consequently, this SCD as well as any development plan under preparation in Congo are based on old data, which present a substantial risk of inaccuracy. Since, the latest ECOM household survey took place in 2011, efforts should be made to conduct a new household survey followed by a poverty assessment in 2018. Moreover, the statistical office has not produced a complete set of national accounts since 2009. As a result, national account statistics from recent years have been the result of projections of the non-oil sector and realisation of the oil sector. Also, the most recent conclusive census was held in Congo more than 20 years ago, and the results of the census from 10 years ago have not been fully released. Finally, the quality of financial statistics should be improved to render it more reliable at a time where the country is likely to adopt a macroeconomic reform action plan.

240. **A better understanding of the underlying governance dynamics is critical for identifying potential pathways for supporting the country's peaceful and stable socio-political development.** Unlike many fragile countries, the literature on the political economy and stakeholder dynamics that are behind the drivers of conflict in Congo is very limited. In fact, neither the World Bank nor its development partners have undertaken studies to improve the understanding of these critical issues in the country. It is essential that this knowledge gap is filled in the short term since the Congolese authorities are working with the IMF and the World Bank to improve the country's macroeconomic sustainability.

241. **There is limited evidence of the specific reasons for functional failures in service delivery.** Anecdotal evidence point to leakages, misuse of funds, and elite capture at various points of the delivery chains, accounting for a range of failures, including medicines not reaching health posts and citizens paying extensive out-of-pocket expenses for health services with poor outcomes. Detailed knowledge of the weak points along delivery chains, relevant incentives, institutional capabilities, and possible entry points for increased accountability is critical to designing effective support that can functionally improve outcomes.

242. **There is also limited evidence on the drivers of productivity in Congo.** Macroeconomic analysis points to the TFP as not having contributed substantially to growth over the last three decades. However, there are no firm level data or analysis to substantiate these findings. There are also no microeconomic studies of the determinants of productivity in Congo. These studies are needed, as they could help in extending the production frontier in the country and be critical in achieving the twin goals.

243. **Finally, there is a need for more sex-disaggregated and gender-specific data and analysis across multiple sectors.** For example, data that differentiate the performance and needs of male- and female-owned SMEs would be useful in designing business development strategies. Specifically, gender budgeting could motivate increased investments in women and girls, and national data on rates of violence against women could assist in monitoring incidence in different regions and designing effective violence reduction strategies.

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Appendix 1. Prioritization Criteria and Process for Identifying Constraints and Opportunities

The Congo's SCD prioritization process has four phases. In the first phase, a rigorous review of the analytical section presented in the SCD was undertaken. The team summarized the constraints to the twin goals in the diagnostic sections of the SCD. In the second phase, the core country team conducted four meetings, during which the team refined and honed the list of binding constraints. This second phase comprised of consultations within the core team. During the four discussion meetings, the team brainstormed and synthesized the list of the constraints that were identified during the previous step. In the third phase, the entire country team met at the SCD Country Retreat to discuss and solidify the prioritization findings. In the fourth phase, a formal, in-country consultation with stakeholders took place, during which feedback on the core binding constraints was obtained and the prioritization was further honed. Finally, a gender lens was applied to ensure barriers resulting in gender gaps in endowments and opportunities were addressed.

The following criteria were used to assess the relevance of identified solutions to key binding constraints: i) their contribution to poverty reduction and shared prosperity, ii) their economic feasibility, and iii) their impact horizon. With the contribution to the twin goal as the main criterion.

- *Impact on the twin goals:* It assesses potential impacts toward eliminating extreme poverty, reducing inequality, and ensuring a sustainable increase in the welfare of the less well-off.
- *Economic feasibility:* It assesses Congo's economic and institutional issues that would impact the ability to address the identified constraint. It considers the risks created by fragility, conflict, and violence issues in the country and by regional dynamics. In fact, in times of fiscal crunch, trade-offs need to be found, as not all worthwhile projects will necessarily be affordable. Mobilizing private investments and public-private partnerships will be essential, especially for large infrastructure projects. Congo may need to focus its limited public resources on areas with highest impacts and with alternative funding.
- *Time horizon of impacts:* It looks at the timeframe under which the impact can be expected to be realized, and would seek to balance short- and longer-term impacts.

At the end of the analysis and consultations in the prioritization process, the country team produced a list of main constraints and solution proposals, from which the prioritization was carried out. The country team ranked the proposed solutions to the constraints using the three aforementioned criteria. For the first and second criterion, the score goes from 1 to 4; the lower the score assigned to a solution, the higher priority the team has allocated to it; while for the third criterion the score assigned goes from 1 (short term) to 3 (long term). Finally, the team attributed a greater weight to the impact toward achieving the twin goals than on economic feasibility. Also, more weight is given to economic feasibility than to the timing of its impact.

Scores definition			
Scores	Impact on twin goals	Economic feasibility	Timing of the impact
1	Critical	Very likely	Short term
2	Very substantial	Likely	Medium term
3	Moderately substantial	Moderate likely	Long term
4	Significant	Unlikely	
Source: World Bank country team			

Appendix 2: SCD Consultations in Brazzaville

Objectives of the SCD Consultations

The consultations were undertaken to complement the quantitative evidence, and to go beyond “*what is happening*” to understand the “*why these things are happening*.” Combining the qualitative with the quantitative will guide the identification of key constraints and challenges that must be dealt with to achieve the twin goals of ending extreme poverty by 2030 and increasing shared prosperity. More specifically, the consultations process aimed to achieve the following objectives:

- a) Inform the various stakeholders that the World Bank is carrying out a SCD, and how the findings of this exercise will inform various development engagements.
- b) Share preliminary results with the stakeholders, which suggests a paradox between the high level of the country's resources (MIC since 2006) and weak social indicators (poverty, inequality, education, health, electricity, jobs, etc.). Also, the idea of soliciting feedback on the reliability of findings and possibly explanations for this paradox resonated with stakeholders.
- c) Understand from the stakeholders how the paradox can be solved going forward, and which actions are critical to help the country achieve the twin goals.

The World Bank engaged in consultations with a large and diverse group of stakeholders during the month of December 2015.¹³²

A guideline for the consultations was conceived with the main topics to be covered. The main questions were related to constraints to growth, living conditions, poverty, youth unemployment, service delivery, and the way forward.

Approach of the Consultations

Given time and budget constraints, the consultation took place in Brazzaville. The various stakeholders can be classified into two groups: (a) the leaders; and (b) the communities.

- a) The leaders: In this group, we have government officials (at the central government), members of parliament, private sector, civil society, and donors. Participants were organized in a total of six groups depending of their background, and to have similar expertise in each meeting. A total of six consultations meetings were held with these leaders: (i) government officials from the Ministry of Finance and Planning; (ii) government officials from the ministries of health, education, and social services, and NGOs focusing on human development issues; (iii) government officials from the ministries of trade, transport, industrial development, the private sector, and the chamber of commerce; (iv) government officials from the ministries of agriculture, fishing, forestry, and environment, and NGOs focusing on agricultural and environmental issues; (v) government officials from the ministries of public service, labor, and social security, and union representatives; and (vi) donors and think tanks.

¹³² The stakeholders included government officials (both at the central government and LG levels), private sector, civil society, communities at the grassroots, donors and think tanks.

- b) The communities: Two of the poorest districts of Brazzaville were selected for focus group discussions. These are Talangaï and Madibou. In these districts, local government leaders were consulted on the same issues and they also helped creating the focus group discussions. A total of four focus group discussions were conducted. One focus group was conducted in Talangai with 11 youth. Two focus groups were conducted in Madibou, including a specific group with 8 women only and a specific group with both genders (4 men and 2 women). Division by gender and age group, as well as the limited number of participants, was expected to allow for the candid expression of opinions.

At the end, a recapitulation and validation meeting was organized with all the stakeholders together.

Findings

A) Consultation with the Leaders

Human development sectors

According to participants, the main challenges faced by the sector are:

- The government budget is not aligned with the human development goals that the country has set itself, especially in education and health;
- Governance/elite capture;
- Lack of staff in schools/health facilities;
- Limited number of primary and secondary schools;
- Lack of schools that cater to disable children;
- Low quality of education, especially at private post-secondary;

Economic diversification sectors

According to participants, the main challenges faced by the sector are:

- The government budget is not aligned with the diversification objective, including low investment in infrastructures and their maintenance, low investment in logistics, and low investment in the implementation of the PNT;
- Lack of coordination in the implementation of the national industrial development plan;
- Very weak and unattractive business environment.

Production sectors

According to participants, the main challenges faced by the sector are:

- The increase of poverty in rural areas is mainly because the economy is driven by the oil sector, which has limited linkages with rural activities;
- Agriculture, animal husbandry, and tourism are areas where the country has a comparative advantage. Poor governance, limited extension and advisory services, and limited investment are constraints to the expansion of these sectors;
- The labor market seems to discriminate against women;
- The current development model is not sustainable, as it is driven by natural resources exploitation which is non-renewable.

Development partners and think tanks

According to participants:

- There has been some progress on the social front since 2005, even if these are not yet satisfactory;
- Peace and social stability have been key factors for progress in recent years;
- The youth are an asset that the country should leverage to build the future;
- Corruption, especially in procurement of public investment has been a serious factor contributing to underperformance. There have been many instances where the bid has been given and paid for, yet the projects are never implemented;
- Indigenous people are clearly excluded from the economic market. Therefore, they contribute and benefit little from economic growth.

B) Consultation with the Communities

Perception of poverty

From the populations' point of view, poverty is a state where someone is not able to satisfy his/her basics needs, especially regarding food. Poverty is also a state where someone does not have access to basic services and infrastructure, such as education, health, transport, electricity, safe water, safe sanitation (including garbage collection), the financial market, and leisure centers. A poor person is someone who is always relying on financial assistance from others to survive. In a situation of poverty, young adults, despite reaching adult age, will still be living with and rely on their parents. Lack of jobs and proliferation of informal activities in a neighborhood were also cited as signs of poverty. For the focus group, an adult who is not employed in the formal sector (public services or formal private) is poor.

For the various community groups, the perception is that performance in terms of living conditions has been mixed over the last five years. There have been improvements in some areas (e.g., better quality of electricity and more roads to access the neighborhood), but other areas saw serious degradation (e.g., flooding, overcrowding of classrooms, quality of education, insecurity, piped water reliability, and sanitation in their neighborhood). In these cases, issues related to poor planning given demographic growth, lack of maintenance of the infrastructure, and lack of political/elite leadership and will were cited as the main causes for the deterioration of the conditions.

Perception of what it means to be unemployed

For the population, a person is considered as being employed if that person is a wage earner in the formal sector (public services or formal private). Thus, clearly, the informal sector is just a refuge for those who failed to get a wage job in the formal sector.

Main challenges related to youth employment

Issues related to youth employment are at the forefront of the development challenge in Congo. From the focus groups' point of view, the main reason behind high unemployment of the youth are: i) lack of skills; as one of the participant pointed out, "*You must be trained and equipped with specific skills if you want to become an electrician for example*"; ii) limited availability and poor quality of vocational training centers were cited as one of the main reasons for skills limitations;

(iii) low access to and quality of electricity was also cited as causing youth employment; electricity is seen as an important input for the development of private formal and informal activities; iv) lack of tools was cited as another important cause for youth unemployment; *“If you are a carpenter for example, you need to have certain tools to perform your job”*; v) affordability of existing vocational training programs and lack of information on the availability of such programs were also cited; vi) others also mentioned laziness as part of the problem of youth unemployment, whereas some youth are aiming for white collar positions in the government, and others are drinking and smoking all day instead of focusing on looking for jobs; vii) issues related to trust were also cited as one of the reasons for youth unemployment; in some cases, youth could organize themselves as a group and create a business opportunity that would help all of them, but this is not happening because of lack of trust.

Main challenges faced by the people living in the neighborhoods in accessing social services

The population reported that they face numerous challenges accessing social services. These challenges can be classified into: limited availability of the services, poor quality of the services when they exist, and affordability of services.

On availability of the service, current primary and secondary schools are insufficient for the growing population and the expansion of the city. Similar complaints were made about the health sector. There is also limited coverage of electricity and piped water coverage. Technical challenges and poor planning, reflecting the low capacity of the service provider were cited as reasons for low coverage of ITC services.

On the quality of services, when they exist, there are many factors that negatively affect the quality of the services, including overcrowding, unreliability of electricity and piped water networks, and issues related to maintenance. It was also reported that certain behaviors of the population often negatively impact the quality of service.

The cost to access the various services were deemed prohibitive and inaccessible to the poor.

Way Forward Toward Achieving the Twin Goals

A) Consultation with the Leaders

- Align budget with development priorities, that is: *“i.e., to match commitments with funded and properly controlled implementation”*;
- Improve governance and eliminate elite capture;
- Improve service delivery by ensuring that the supply and quality keep pace with population growth;
- Improve the business environment;
- The quality of a logistics chain is determined by its weakest spot and thus the importance of always considering the entire logistics chain while ensuring that weakest links are attended to;
- Implement in a coordinated manner the national industrial plan for economic diversification in order to reduce dependency on oil;

- Provide safety nets to make sure that marginalized groups (youth, women, disabled, and indigenous people) can contribute to and benefit from economic growth;
- Maintain peace and social stability.

B) Consultation with the Communities

The following recommendations were made by the focus groups as ways for the country to get back on track toward achieving the twin goals:

- Involvement of local governments in designing, implementing, and maintaining social services and infrastructures;
- Increase supply and quality of education and health services, and critical infrastructure (electricity, water, sanitation, road, transport, etc.), considering population growth;
- Find a way to bring the unemployed youth to work together, provide them with the relevant skills through vocational training, improve access to tools, and improve access to credit;
- Fiscal incentives should be considered to address the issue of youth unemployment.

Appendix 3: SCD Consultations with the Private Sector

Consultations for the SCD of the Republic of the Congo were jointly held by the International Finance Corporation and the World Bank, including the Trade and Competitiveness Global Practice on February 10th and 11th, 2016 in Brazzaville and Pointe-Noire. Local and international private sector actors alongside various Congolese business organizations participated in these meetings at the World Bank Office in Brazzaville and the Pointe-Noire Chamber of Commerce. The consultations were structured around three main points: i) the constraints affecting the private sector; ii) the private sector views on economic development in Congo; and iii) priority interventions to be undertaken as identified by the private sector. The consultations concluded, in a nutshell, that past economic growth did not benefit the local private sector and that lack of capacity and support alongside with administrative hardships are preventing private sector growth.

Constraints Hampering Private Sector Growth

Business regulations and investment climate. Participants acknowledged that appraising Congo's investment climate is challenging. According to them, regulations are easily established but their application is uneven. Among the 30 laws approved to improve the private sector conditions, only 10 decrees have been undertaken. When the necessary decrees are issued, the regulations are subject to differences in interpretation often differing from the purpose of the regulations, leaving the private sector to cope with the discretionary practices of ministers and civil servants. Participants to the consultations also outlined a gap between regulations and implementation as well as legislative inflation. Taxation practices as well as business registration and licensing are also deemed not conducive to private sector growth. The private sector does not feel considered by the government. The private sector is skeptical about the government's willingness to set up an honest and constructive public-private dialogue platform.

Influence of the public sector on the economy. Participants stressed that the overall institutional framework as well as its application by the Congolese administration were particularly harmful for the private sector. Participants considered that the political culture and the lack of long-term vision for the private sector from the government were at the root of this harmful administrative hindrance. The strong lack of coordination and clear communication of governmental actions creates an institutional vacuum and hence an anarchical competition among administrations. For instance, a January 2016 law has been implemented, requiring firms to pay their taxes through a wire transfer to a government bank account. However, two bank account numbers have been communicated, one by the General Directorate for Taxation and another one, a few days later by the State Minister of Finance. As a result, taxpayers are being exposed to tax payment default with its constraining consequences. In addition to being subject to a heavy taxation system, Congolese firms must often cope with *para-taxation* with limited ways to control whether the taxes, duties, or fees they are required to pay are lawful. The prevalence and persistence of corruption has been pointed to as a particularly harmful constraint. Participants also complained about public procurement regulations and practices. For the local private sector, obtaining public contracts seems to be challenging and the rules are not respected. Participants declared that even when they obtain a public contract, funds are not disbursed and the government has accumulated substantial arrears to the private sector as a result.

Financial inclusion and access to credit. Members of the private sector expressed their uneasiness with the commercial practices of banks. They are required to provide a variety of guarantees and collateral. Also, fund disbursement takes a long time. Interest rates average between 17-25 percent for SMEs, affecting their willingness to request external financing. Access to credit for SMEs is very low: besides banks' commercial practices, the lack of reliable economic information makes it a challenge to set up a business plan. Overall, participants complained that the support they receive from the financial sector is insufficient. They stressed that a relationship of trust did not exist and that the absence of investment or development banks was prejudicial.

Quality and access to infrastructure. Participants first recognized that some progress had been made, before stating that they came too slowly and that much remains to be done. Investments have been undertaken in power and roads. Nevertheless, energy access remains unreliable and major road axes are not completed (for example, the road from Pointe-Noire to Brazzaville). Urban infrastructure has also been identified as a constraint (limited and poorly maintained). Connectivity (i.e., rail, maritime, internet, and phone) is insufficiently developed. The lack of vehicles exacerbates this connectivity issue. As a result, commodity transportation is problematic. The newly completed container terminal is a plus, but the new tax applied to containers offsets the advantage for Congolese users and makes the ports less attractive, Pointe-Noire in particular.

External trade. Congo's wood and agribusiness potential is not converted into a trade asset as these sectors lack adequate support. Furthermore, customs and tax regimes are not considered as supportive of external trade. Despite Congo's Central African Economic and Monetary Community¹³³ membership, its challenging relationships with its direct neighbors hinder additional trade opportunities. Bilateral negotiations and regional harmonization should be encouraged, for regional and cross-borders trade.

Informal sector. Participants insisted on the distinction between the *real informal* sector, which is still the backbone of African economies, and the formal sector disguised as informal, which is criminal in nature. The *real informal* sector supports employment and receives extremely low support, although it includes the most vulnerable population, including women. The formal sector disguised as informal sustains an unfair competition with the rest of the formal sector. Participants asserted that the administration was effectively causing firms to remain informal. Neither support to formalize nor deterrence for the informal firms seem to exist. The lack of support to the private sector, alongside the absence of fiscal predictability and a financial sector that is not conducive to private sector expansion, contribute to the formal private sector's narrow base.

Skills. Most of the participants acknowledged the limited local employment proposition due to a lack of know-how and technical skills, especially in engineering. This has been particularly identified by the oil industry which confessed that low private sector capacities were a constraint toward outsourcing or building backward-forward linkages locally. More capacity is needed to train the youth, as is the case for local enterprises in general.

Domestic debt arrears. Participants pointed out that in recent years, the government disbursement system has been under pressure with many SMEs experiencing difficulties in getting paid after the contract was executed. The build-up of internal debt by SMEs hampers their development and renders them ineffective.

¹³³ Central African Economic and Monetary Community.

Lack of entrepreneurship, culture, and vision: This is an internal issue for local entrepreneurs. Participants recognized that they lack long-term and innovative visions for the future growth of their firms.

Private Sector Views on Congo's Development Challenges

Private sector development. Participants complained that the local private sector has been neglected compared to international investors. Still recovering from the civil war, the private sector does not receive enough support, and administrative practices and regulation are hampering its growth. Thus, value chains are insufficiently integrated and the local private sector is not enjoying positive spillovers from the boom in the oil economy and public investments. Participants raised concerns about an overall lack of willingness and vision for a strong private sector in Congo. Some strong institutions conducive to raising Congo's competitiveness are required.

Economic development. Participants recognized that lack of inclusiveness for youth and women are particularly detrimental for Congo. Women are indeed not accepted by microfinance institutions, nor are most youth, – even the skilled are employed in the informal sector. Participants stated that a strong private sector would create jobs and therefore help eradicate poverty. This necessitates a strong political will, deeper financial inclusion, and an identification of potential growth sectors to create sustainable economic opportunities in Congo and raise the country's competitiveness.

Priority Interventions Identified by the Private Sector

Improvement of the business-enabling environment. The participants emphasized that an enabling environment will be a decisive precondition. In particular, they outlined the need for more favorable procurement and tax codes as well as more supportive customs and financial institutions. Improving economic governance, curbing the number of taxes and procedures as well as mitigating corruption and *para-taxation* are necessary. Support for entrepreneurship, SMEs, and innovation should be instrumental to strengthen value chains. Participants also requested a sharper strategic vision from the government to promote a strong private sector and leverage Congo's territorial assets.

Access to finance. Better methods from financial intermediaries are requested. This should be accompanied by policy reforms to set up an investment code and the strengthening of statistical capacities. Private sector participants also demanded the creation of investment banks as well as a private sector development bank in the form of a sovereign fund, as to bolster local content and transformational activities.

Improving public-private dialogue. Participants claimed that the rules of the public-private dialogue forum –set up with the help of the World Bank– are not respected. Private sector participants complained that private sector independence is not respected in this dialogue. The agenda of the public-private dialogue is also not respected and lacks visibility. This dialogue, when it exists, is not frank. The president, who is required to chair this forum, does not participate. It is important to improve efforts for a productive dialogue.

Performance of commercial agriculture and private sector outside of oil (economic diversification). The investment climate ought to be improved. Promoting business norms and standards is also required. Interveners also recognized that despite tremendous agricultural potential, Congo's lands are currently exploited by government officials and militias.

Stronger public and fiscal governance. Participants requested the application of the existing law in full. They also advocated promoting more accessible economic information and intensifying the fight against corruption and *para-taxation*. Regulations and the institutional framework also ought to be clarified. Public and financial sectors' support are required to strengthen local capacities, value chains, and economic diversification. Improving skills, both specialized and/or technical, will be instrumental.

Solving domestic debt arrears issue. Participants specifically requested to the World Bank to pay the domestic debt at a preferential rate, as it did few years ago, to enable SMEs to access new funding and relaunch their businesses.