CONGO CHALLENGE
THE MONTHLY BULLETIN

EVOLUTION OF THE ECONOMIC AND POLITICAL SITUATION IN THE DEMOCRATIC REPUBLIC OF CONGO

Issue **73** | May **2023**

A deteriorating macroeconomic framework, heightened political tensions, insecurity in the east of the country and worsening living conditions for the population : what is the outlook for the Congolese economy ?

Kinshasa, DRC

CONGOCHALLENGE

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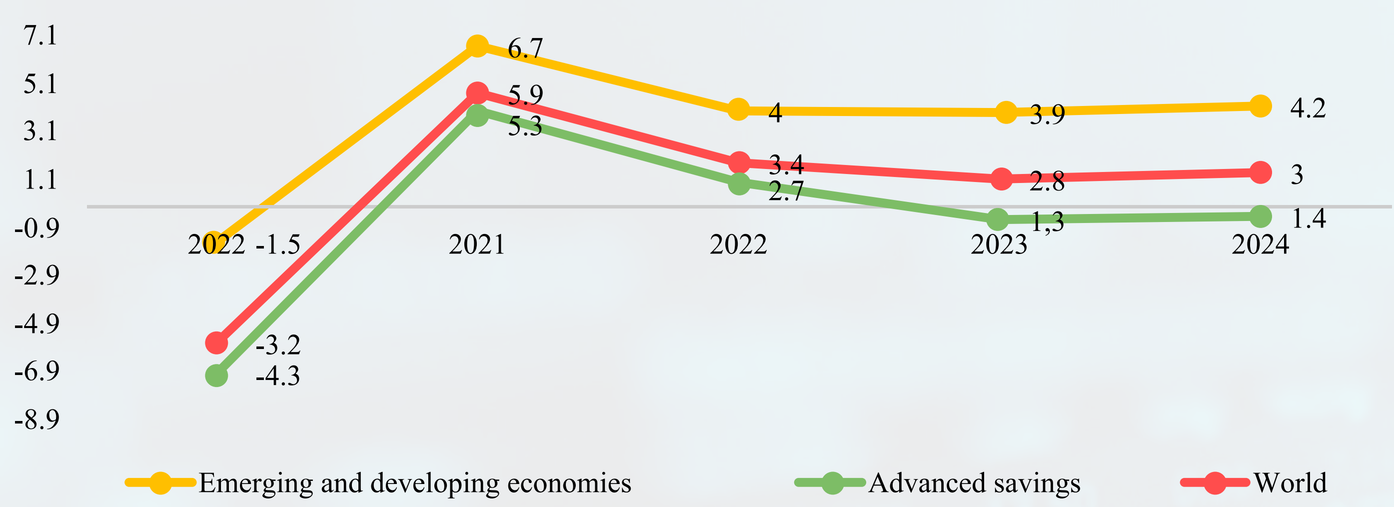
This monthly bulletin was translated by Congo Challenge staff. The original version is in French. Thus, the translated version may contain some shortcomings without altering the content of the original one.

Kinshasa, DRC

World Economic Growth Projections



Summary

Matata Ponyo Mapon

What I think

Are the demons of dictatorship back ?

What I think is that the current political leadership continues to systematically violate the rights of expression and freedom of citizens, despite the fact that these rights are guaranteed by the Constitution of the Republic, in particular article 26. On Saturday 20 May, the national police imposed themselves on Avenue Kianza in the commune of Ngaba to ban the opposition march that had been announced more than three weeks previously. It was on 27 April that a letter was sent to the governor of Kinshasa to inform him of the march that the four major opposition leaders (Moise Katumbi, Martin Fayulu, Delly Sesanga and myself) intended to organise to demonstrate against the high cost of living, the misery of the people, the lack of security in the country and the chaotic electoral process in the run-up to the legislative and presidential elections scheduled for December 2023. In accordance with the law, the holding of such a march is subject to an informative regime; in other words, those organising it are not required to obtain prior authorisation from the administrative or political authorities. It is up to the latter, once they have been informed, to take the necessary steps to guarantee the safety of the demonstrators and the surrounding area. These provisions had been conceived and crystallised by the Law mainly to put an end to the old practices attributing the power to a political authority to accept or refuse the organisation of a march by citizens. Curiously, when the matter was referred to the city's governor, he refused to allow the march to take place on the date of Saturday 13 May as proposed by the organisers, citing non-obvious security reasons. He suggested that the march be held on Thursday 18 May instead. In addition, he refused to allow the march to take place on the main route proposed by the organisers, sending them back to a secondary route through less populated neighbourhoods. The underlying strategy was to disrupt the organisation of the march and prevent a massive influx of demonstrators. The underlying strategy was to disrupt the organisation of the march and prevent a massive influx of demonstrators. In addition, the governor, in conjunction with the ruling party, had planned a march on a route that crossed the one requested by the opposition. To thwart this strategy, the four opposition leaders postponed their march until Saturday 20 May and, against the governor's wishes, kept it on the main route. Unfortunately, the police turned up to stifle the march.

What I think is that the way in which the march was suppressed by the forces of law and order is disproportionate and unacceptable. Opposition leaders were pushed around in a barbaric manner; a police vehicle ploughed into the crowd to clear a path at the risk of crushing the demonstrators, including the four leaders; live ammunition was fired with a direct impact on the vehicles of some of the leaders. Tear gas canisters were thrown, sometimes seriously injuring several demonstrators; blows were administered to peaceful citizens, including a minor who was severely beaten; two members of parliament, one national and the other provincial, were manhandled like ordinary citizens. Vigorous exchanges ensued for nearly an hour between the police and the four major leaders. For the latter, the march absolutely had to go ahead; for the police, there was no question of it. While the major leaders were being blocked and manhandled, another march by the ruling party was proceeding with ease on University Avenue, to the great displeasure of opposition demonstrators. How could the city's governor authorise the ruling party to organise a march on the same day on a route that crossed the opposition's? Less than a week later, on 25 May, the reaction of the authorities remained unchanged

when the four above-mentioned leaders and their demonstrators tried to stage a sit-in in front of the offices of the Independent Electoral Commission (CENI). They were violently dispersed by the police, injuring several demonstrators and one of the opposition leaders. In the same context of restrictions on freedom of movement, Moise Katumbi, a candidate in the December 2023 presidential election, was banned from travelling to the province of Kongo Central for political activities on Monday 22 May. I myself was banned by the provincial governor from organising a conference on 26 May in the town of Kenge, the capital of Kwango province. On the same day, the mayor of the town of Kikwit asked me not to enter this town, the capital of Kwilu province. In accordance with the Constitution, I refused to carry out a clearly illegal instruction. I therefore returned to the town of Kikwit the same day. This did not prevent the mayor from banning the meeting I was due to organise on the following day, 27 May, only to authorise it a few hours before it was due to take place.

What I think is that dictatorship has returned to the DRC despite the significant progress made by the previous political regime in re-establishing the rule of law. The President of the Republic is once again the sole decision-maker on everything that happens in the country, especially in the political sphere. No provincial governor, city mayor or territorial administrator can take a decision within his or her remit without the prior authorisation of the President of the Republic, his or her delegate or representative. The same applies to judicial institutions, which are supposed to be independent, where the decisions taken by judges must comply with the wishes of the Head of State and the members of his regime. Even the presiding judges of the Constitutional Court and the Court of Cassation obey the orders of the Head of State, despite the sacrosanct principle of the separation of powers. Who would have believed it in a country where political power claims to be re-establishing the rule of law? It is reminiscent of the infamous political regime of Marshal Mobutu, whose dictatorship was opposed by the main opposition party at the time, which is now in power. Indeed, the practices denounced today by the opposition are carbon copies of those denounced in the past by the UDPS. In other words, dictatorship is finally back. It has been brought back by the same party that fought against it for nearly 37 years. **This is democratically cruel !**

Kikwit, May, 28, 2023.

Executive summary

The economic situation

- **At international level,** the International Monetary Fund's International Economic Outlook forecasts a deceleration in the growth of global economic activity to 2.8% in 2023, compared with an initial forecast of 3.4%. This decline is mainly due to the adoption of stricter macroeconomic policies aimed at regulating the global economic situation by controlling high inflation. Given this situation, the recovery of the global economy will depend on the effective coordination of economic policies, the maintenance of well-anchored inflation expectations and the preservation of the resilience of financial systems.
- As far as inflation is concerned, forecasts from the Organisation for Economic Co-operation and Development (OECD) point to a moderation to 6.6% in 2023, but this is still above the inflation targets set by central banks.
- In May 2023, stock markets were on a downward trend. This fall in stock market indices is explained by the continuing monetary tightening policies pursued by central banks to curb price rises resulting from the Russian-Ukrainian conflict, and by the appreciation of the US dollar.
- On the international foreign exchange market, the US dollar rose sharply against the euro and sterling, due to the Federal Reserve's intention to continue its restrictive monetary policy in May 2023. In Asia, the Japanese yen and Chinese yuan also depreciated against the US dollar.
- With regard to international trade, the outlook from the United Nations Conference on Trade and Development (UNCTAD) points to a return to growth in world trade in the second half of the year. However, the resurgence of the pandemic and trade tensions between the major economies could jeopardise this recovery. It is therefore crucial that nations continue to work together to ensure global economic stability and growth.
- In terms of commodities, copper prices trended downwards in May 2023, stabilising around an average of $3,676 per metric tonne, due to concerns over the global economic slowdown. Similarly, gold prices trended downwards in response to the appreciation of the US dollar. On the crude oil market, prices fell as a result of tighter financial conditions, exacerbated by the continuing restrictive monetary policies pursued by the monetary authorities.
- **At national level,** the macroeconomic framework deteriorated further. The national currency depreciated by 3.27% on the interbank market and by 0.69% on the foreign exchange market. During May 2023, the national economy recorded changes in inflation rates compared with the previous month. Weekly inflation fell by 54.47% to 0.17% in the fourth week of May 2023, compared with 0.38% a month earlier. Cumulative inflation rose by 12.49% to 7.63% in the fourth week of May 2023 from 6.78% the previous month. Overall, year-on-year inflation and annualised inflation fell by 1.77% and 10.16% respectively between April and May 2023.
- As regards public finances, the Treasury recorded a surplus of CDF 243,731.00 million in the fourth week of May 2023. This surplus was the result of expenditure of CDF 1,306,564.00 million (of which 23.98% was salary expenditure and 13.93% capital expenditure) and revenue of CDF 1,550,295.00 million (of which 90.01% was tax revenue).
- Finally, the economic news of May 2023 was marked by several notable events. These included: (i) the publication of the ODEP report on state public spending over the last three years; (ii) the Congolese government's adoption of the draft decree allowing the Single Treasury Account (CUT) to be set up; and (iii) the review of the Chinese contract between the DRC and China.

Political situation

The month of May 2023 was very eventful, with a great deal of tension between stakeholders around the following key issues: (i) the thorny question of the distribution of seats for a peaceful electoral process and (ii) the problem of the exercise of civil liberties in the light of the elections.

The Independent National Electoral Commission (CENI), which unveiled the various dates for the receipt and processing of candidatures ahead of the December elections, expressed its satisfaction at having completed the operation to clean up the register that had just been compiled following the identification and enrolment of voters carried out between December 2022 and April 2023.

This file was therefore audited by international and national experts, external to the electoral centre, but unfortunately it was the subject of sharp criticism from opposition players who accused the Chairman of the CENI of preparing electoral fraud upstream, in favour of the ruling power, through the bill on the distribution of seats currently under discussion in the National Assembly.

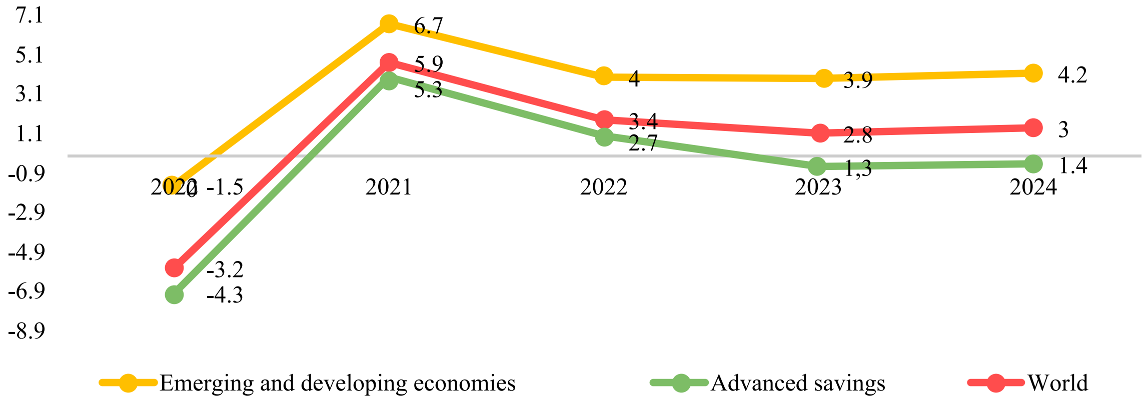
A number of voices have also been raised, questioning the feasibility of a peaceful and fair electoral process, especially as the exercise of public freedoms, such as the rights of assembly, demonstration and freedom of opinion, is being undermined. The violent police crackdown on the march organised on 20 May 2023 by four opposition leaders, all candidates in the December 2023 presidential election, was violently repressed by the forces of law and order, who used excessive force against the demonstrators, and the wave of condemnations that followed.

1. International context

I.1. Economic growth

According to the International Monetary Fund's baseline forecast, global economic growth is set to slow from 3.4% in 2022 to 2.8% in 2023, before rebounding to 3% in 2024. This slowdown is mainly due to the adoption of stricter macroeconomic policies aimed at regulating the global economic situation and controlling high inflation. These policies, which have the effect of reducing aggregate demand, explain the decline in economic activity, particularly in the advanced economies, where the growth rate is expected to fall from 2.7% in 2022 to 1.3% in 2023.

Figure 1 ›› World Economic Growth Projections



Source : International Monetary Fund.

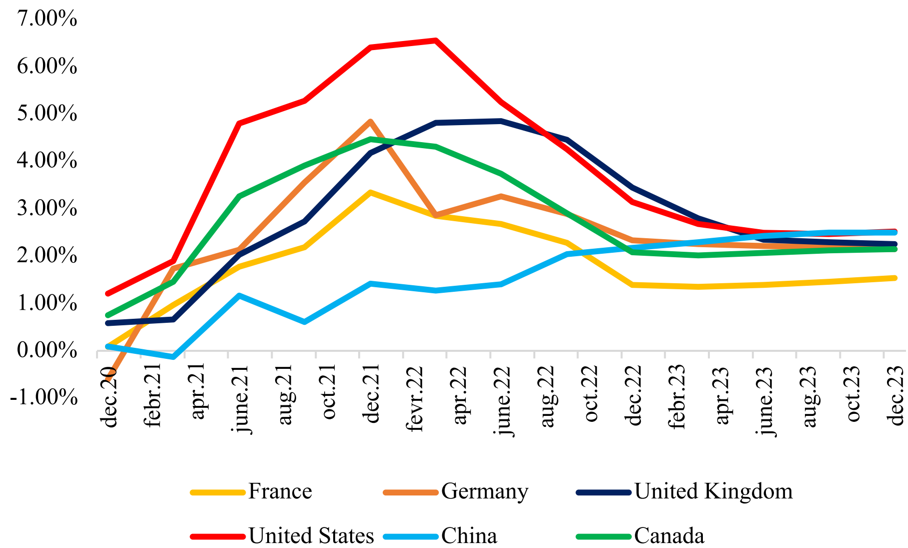
Figure 1 shows that growth in the advanced economies is expected to slow to 1.3% in 2023, while emerging and developing economies are forecast to contract to 3.9%, due to the risk of monetary policy tightening in the face of high inflation, currency devaluations, the continuing conflict in Ukraine, as well as growth prospects in China.

This situation highlights the challenges facing different regions of the world, with advanced economies slowing further and emerging and developing economies also feeling the effects of inflationary pressures and geopolitical uncertainties. International coordination of economic policies is therefore becoming essential to promote a sustainable economic recovery and mitigate potential risks.

I.2. Inflation

Tout au long de l'année 2023, la dynamique haussière de l'inflation observée l'année précédente devrait s'atténuer pour atteindre 6,6 %, puis 4,3 % en 2024. Ces niveaux restent nettement supérieurs aux cibles d'inflation fixées par les banques centrales. Plusieurs facteurs peuvent expliquer ce processus de désinflation, tels que l'anticipation d'une diminution de la demande de produits manufacturés, le resserrement des politiques macroéconomiques et les efforts visant à améliorer les chaînes d'approvisionnement mondiales.

Figure 2 ›› Prévision du taux d'inflation dans le monde



Source : OECD.

With regard to the upward trends observed between 2021 and 2022, Figure 2 shows that these pressures on prices should ease from 2023 onwards, although remaining well above central bank targets. Ceteris paribus, monetary tightening policies will continue to increase the cost of borrowing for businesses and affect the financial resources of households. With this in mind, it is necessary for monetary policy to continue to aim for stability in the general price level, while fiscal policy must focus on relieving the pressures on the cost of living that are weighing on the most vulnerable populations, who are experiencing an erosion of purchasing power.

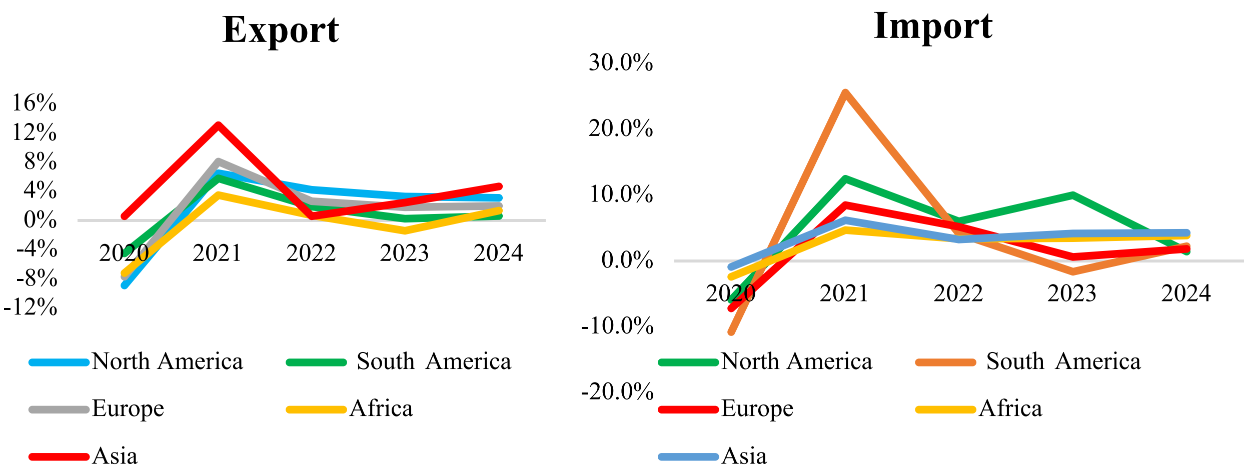
It is therefore crucial to strike a balance between the need to control inflation and the impact on businesses and households. Appropriate measures must be put in place to mitigate the negative effects of inflation on the population, by promoting access to essential goods and services at reasonable prices, while preserving overall

financial stability. This requires close coordination between monetary and fiscal policies, as well as particular attention to structural reforms aimed at improving the efficiency and competitiveness of the economy as a whole.

I.3. International trade

According to the latest projections by WTO economists, prospects for world trade growth are likely to remain weak in 2023, despite a slight recent improvement in GDP projections. Several factors are hampering this growth, including the effects of the war in Ukraine, persistent inflation, tighter monetary policy and uncertainty in the financial markets. It is estimated that the volume of world merchandise trade will increase by just 1.7% this year, after growing by 2.7% in 2022. This lower-than-expected increase is partly explained by the fall recorded in the fourth quarter of the previous year. However, according to UNCTAD, world trade growth is expected to pick up in the second half of this year.

Figure 3 ›› Growth in trade in goods



Source : WTO.

Figure 3 shows that the slowdown in the major economies will reduce demand for imports. In Europe, higher energy prices linked to the Russian-Ukrainian conflict will lead to a squeeze on household spending and higher costs in the manufacturing sector. In North America, the tightening of monetary policy will have an impact on interest rate-related spending, particularly in the housing, automotive and fixed capital investment sectors. In Asia, the easing of measures linked to the COVID-19 pandemic, particularly in China, should stimulate consumer demand built up in the country and thus support international trade. Finally, rising food import bills in Africa and Latin America could lead to food insecurity and over-indebtedness in these developing economies. If these inhibiting factors persist throughout 2023, the WTO's pessimistic forecasts could be subject to a further mid-term downward revision, due to uncertainty about monetary policy developments in advanced economies, as well as Russia's unpredictable actions in the conflict with Ukraine.

Against this backdrop, it is essential to implement measures to stimulate growth in world trade. We need to foster economic and financial stability, promote open markets, improve trade infrastructures and strengthen international cooperation. Governments and economic players must work together to reduce trade barriers, facilitate trade and promote a favourable business environment. A coordinated approach at global level is needed to overcome the current challenges and boost the growth of international trade.

I.4. Financial market

During May 2023, the stock markets showed a downward trend after a period of rising prices in April. On Wall Street, the Dow Jones, the S&P-500 and the Nasdaq reached levels of 32,799 points, 4,205 points and 12,720 points respectively in the last week of the month. On the Paris stock market, the CAC-40 recorded a contraction of 3%, falling from 7,491 points in April to 7,229 points at the end of May. In Germany,

the DAX-40 index depreciated even more sharply, reaching 15,793 points at the end of May. In contrast, the Tokyo Stock Exchange was characterised by an upward trend, rising from 28,856 points in April 2023 to 30,916 points at the end of May 2023.

The fall in stock market indices is explained by the continuing monetary tightening policies pursued by central banks to curb the rise in prices resulting from the Russian-Ukrainian conflict. The subsequent appreciation of the US dollar slowed demand for stock market assets and led to a fall in their prices. So, to restore financial confidence, it is essential to establish economic conditions conducive to post-war growth, which will discourage central banks from pursuing quantitative tightening policies aimed at fighting inflation.

It should be noted that stock markets are influenced by many factors, such as monetary policies, geopolitical conflicts, economic performance and investor expectations. Fluctuations in stock market indices can have repercussions on the real economy, particularly by influencing business investment decisions and consumer confidence. Investors and analysts watch these movements closely to assess financial health and economic prospects.

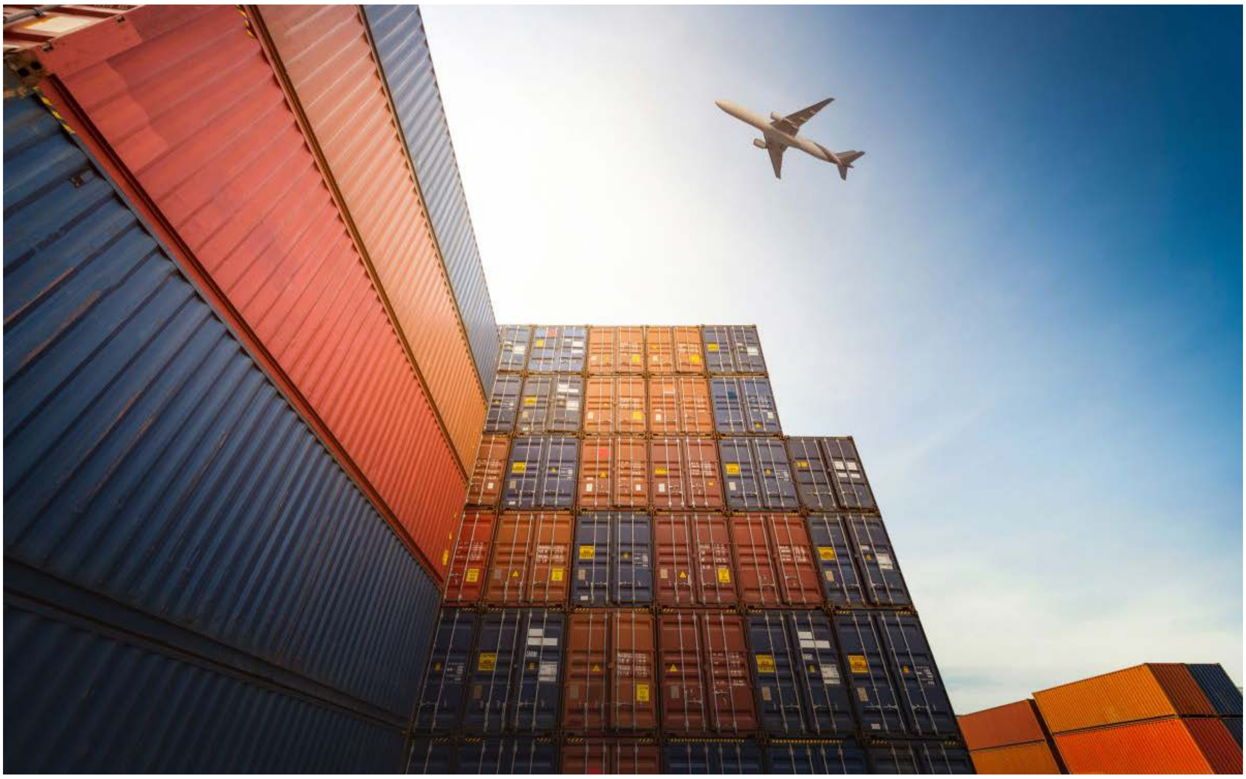
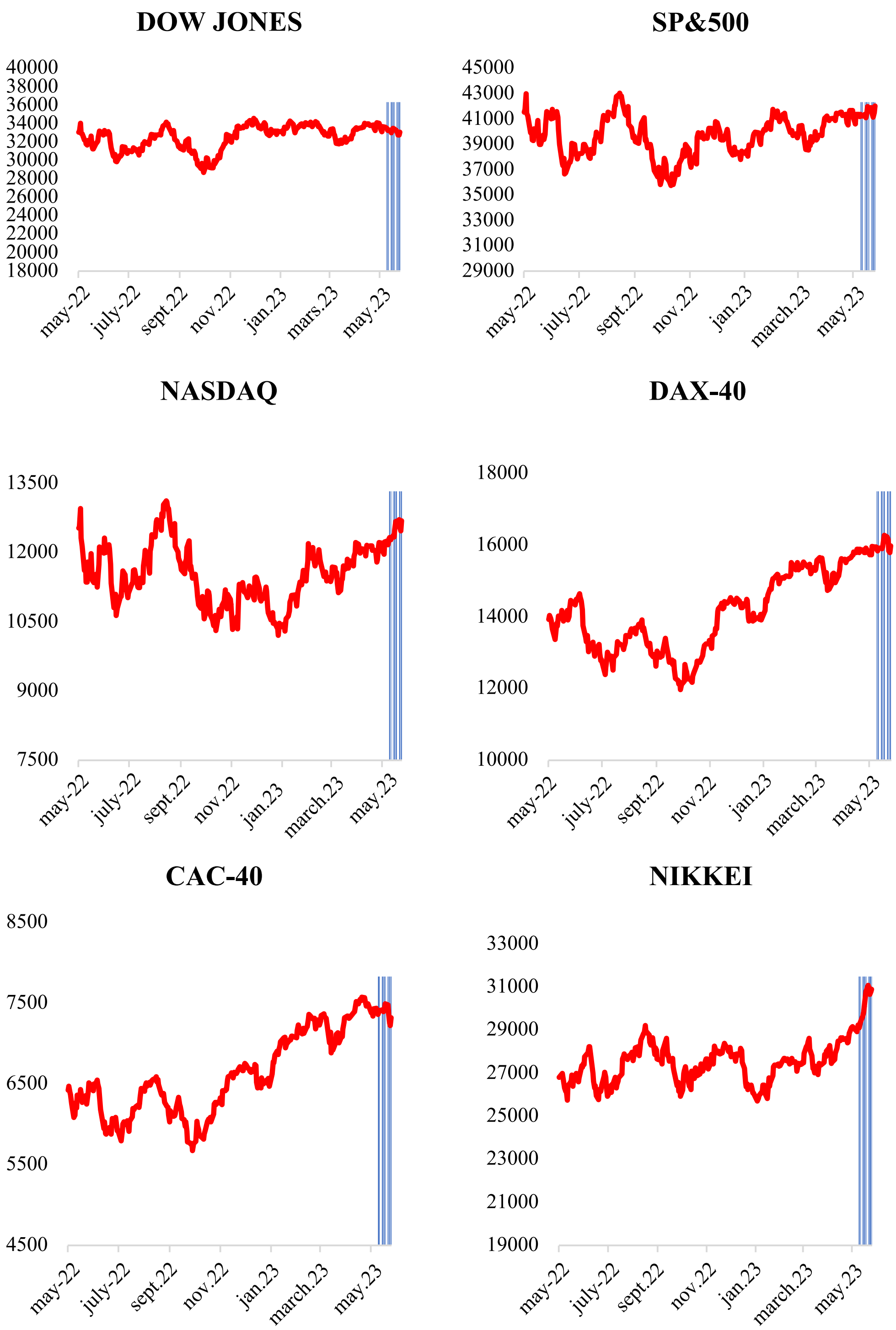


Figure 4 ›› Daily trends in the main stock market indices



Source : Macrotrends.

Box 1. Performance of microfinance institutions in the macroeconomic context: where does microfinance thrive ?

1. Introduction

For several years now, microfinance has been experiencing significant momentum and its impact is spreading worldwide. It is reported that over 100 million clients worldwide borrow small loans from around 10,000 microfinance institutions (MFIs). As such, microfinance has received considerable attention and funding from the European Union. Microfinance institutions (MFIs) have become major players in the development community over the last few decades. However, levels of success vary from one MFI to another. Some fail, while others grow to reach millions of borrowers, covering their costs. In this context, evaluating MFIs is a critical exercise. Indeed, a growing body of literature seeks to discover the ingredients of MFI success. This literature rightly focuses on the practices and techniques specific to the institution - contract design, management techniques and organisational structure. The question of whether and how the success of an MFI depends on the macroeconomic and institutional structure and performance of the country in which it is located is much less studied. Is the relationship between an MFI and its host economy characterised by interdependence, rivalry or dualistic independence? Is it more difficult to break even in a poor or low-growth economy, so that a longer period of start-up subsidy is reasonable? Does the wider institutional environment have an impact on MFI performance, beyond its impact on growth? It is on these points that this box focuses.

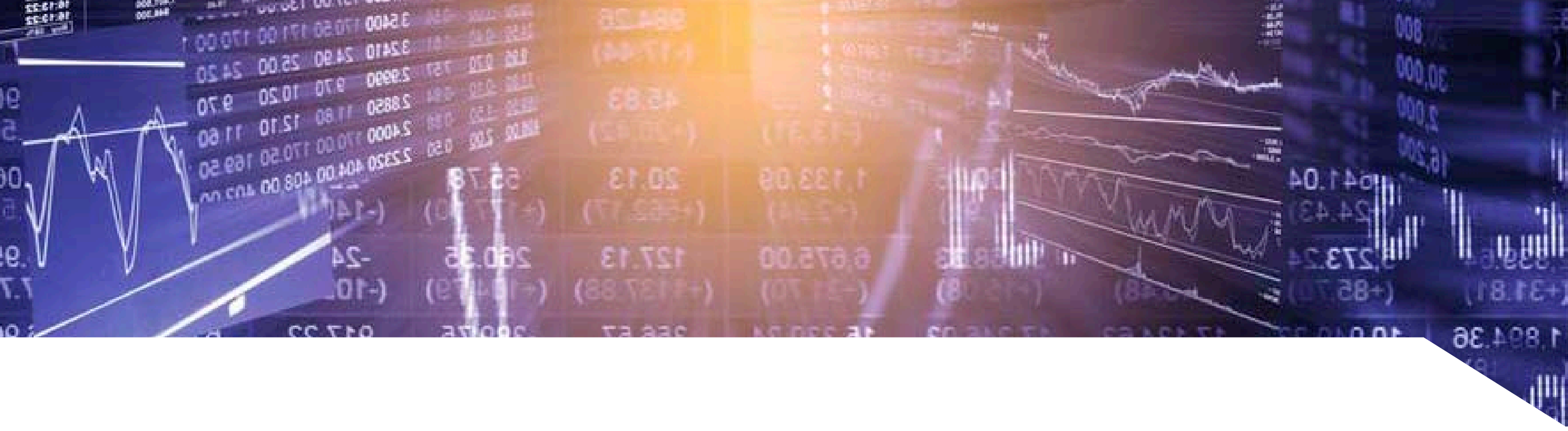
The questions raised above are important for several reasons. Firstly, MFIs are often assessed and compared for evaluation, funding and replication purposes. But any comparison that does not take into account the macroeconomic and macro-institutional environment, if that is the MFI's environment, can be difficult to achieve. Taking the context into account gives a clearer picture of the success and failure of institutions. Let's take the example of two MFIs that have been widely studied and imitated: Bank Rakyat Indonesia (BRI) and Bangladesh's Grameen Bank. The macroeconomic context in which these institutions have evolved for most of their history is often overlooked: Indonesia experienced average real GDP per capita growth of 5% between 1980 and 1997, compared with 1.7% for Bangladesh. . To what extent is the success and financial viability of the BIS during this period due to practices specific to the institution and to what extent is it due to the simple fact that the economy was booming? Conversely, could the Grameen Bank have achieved greater financial viability if it had operated in a more dynamic macroeconomic context ?

Let's also take the example of a major global economic slowdown. Would we expect it to lead to a boom and/or rapid growth in MFIs? Or should donors be more inclined to subsidise MFIs given the economic headwinds? Or perhaps MFIs will tend to sail along unaffected. Understanding the macroeconomic impact on MFIs can also help a growing number of investment funds that are targeting their dollars at MFIs, sometimes with the dual aim of achieving returns for investors and social impact. Because they value financial returns, these funds cannot afford to ignore the key determinants of MFI financial success - although for dual-purpose investors, the return implications should be balanced against social impact considerations. Beyond improving the assessment of MFIs, answers to the question of where MFIs thrive can provide indirect evidence of how microcredit works and how it fits into the development process. For example, does it compete with or complement a development path based on industrialisation, manufacturing, foreign trade and investment? Does it work best in the context of well-developed institutions, or do good institutions tend to crowd it out, perhaps prematurely ?

These are general questions for which there are no unequivocal answers in economic theory. Let's take the example of income growth. Strong growth can increase demand and create new niches for micro-enterprises to fill, as well as profitable expansion opportunities for existing businesses. A growing economy can also increase current or future household incomes to the extent that households are prepared to take greater risks by investing capital in a business. The ingredients of growth - increased physical and human capital, improved institutions, technological advances - can also make micro-entrepreneurship more profitable.

On the other hand, microfinance may depend on a poor economy to survive. It may thrive where the informal economy is vibrant, a situation that tends to become rarer as the economy and its institutions develop. In the same vein, it seems plausible that the increasing abundance of wage opportunities that often accompanies growth may

1. Il s'agit d'une étude menée par les chercheurs Christian Ahlin, Jocelyn Lin et Michael Maio.



turn current and potential clients away from MFIs. Defaults may also be higher, as increased economic opportunities may weaken borrowers' incentives to maintain their relationships with MFIs. A slowdown in growth may also increase demand for products produced by micro-enterprises, as consumers turn away from imports or higher quality products. As an intermediate option, it may be that most microcredit clients operate in small, segmented local markets that are not very sensitive to changes in interest rates and macroeconomic conditions. In short, the relationship between growth and MFI performance does not appear to be determined at all by a priori considerations, which underlines the need for empirical evidence.

Let's also consider an institutional outcome such as corruption. High levels of corruption may tax the activities of microenterprises and create barriers to their expansion, thereby reducing the demand for and quality of microloans. On the other hand, corruption may make it easier for microenterprises to avoid regulation, or it may push potential entrepreneurs out of the formal economy and the formal credit market and into the informal microenterprises that apply for microloans.

This box comments on the empirical evidence on the issue of MFI dependence in a broader context. Although the study in question does not provide definitive answers to all the questions raised above, it has made it possible to present a set of stylised facts on the nature and extent of MFIs' dependence on the national context. At the end of the analyses carried out, the results arrived at by the researchers are presented below.

2. The results

Researchers have identified important macroeconomic factors that predict the performance of microfinance institutions (MFIs) and indicate a complementary relationship. Higher economic growth is associated with a better ability of MFIs to cover their costs, mainly due to lower default rates and operating costs. In addition, greater financial depth is associated with lower default and operating costs, resulting in lower interest rates for borrowers. MFI lending is also growing faster in countries with more developed manufacturing industries, greater foreign direct investment and higher labour force participation.

However, some data also suggest a rival relationship between microfinance and other modes of development. For example, labour force participation and the share of manufacturing industry are negative predictors of MFI growth. The structure of the economy is also important, with a larger service sector favouring MFI growth and a larger rural population or agricultural sector leading to lower default rates, operating costs and interest rates. Institutional variables such as corruption also have an impact on MFI performance. In conclusion, it is essential to assess MFIs in their macroeconomic and institutional context in order to understand their performance.

Overall, the results show that MFI performance is significantly influenced by the macroeconomic and institutional environment. Consequently, an MFI must be judged in its context. More explicitly, the main results are presented below :

A. Growth

Growth has a positive impact on an MFI's ability to cover its costs and achieve self-sufficiency. One additional percentage point of growth is associated with a revenue/cost ratio that is 1.38 percentage points higher. So while the macroeconomy is certainly not an MFI's destiny, it does seem to play a significant role in the growth of an MFI's business. The financial success of an MFI depends on it. Examining the components of self-sufficiency sheds further light.

i. Growth could lead to higher returns for micro-enterprises and allow MFIs to charge higher interest rates. But the impact of growth on the average interest rate is negative and generally insignificant. Growth often goes hand in hand with a lower cost of funds, perhaps partly because the supply of grants and/or loans is pro-cyclical; but the net effect on the interest margin is not significant.

ii. Growth clearly appears to support financial viability by reducing defaults, measured by both the loan loss rate and the portfolio at risk over 30 days (PAR-30). One additional percentage point of growth is associated with a 0.07 percentage point fall in the loan loss rate and a 0.12 percentage point fall in the PAR-30. The interquartile range (IQR) of growth is associated with decreases in the loan loss rate and PAR-30 equal to 11% and 10%, respectively, of the IQR of these variables. This result is consistent with the idea that higher growth brings greater creditworthiness to the projects for which micro-banks lend, and seems to disprove a strict dualism between micro-financed projects and the wider economy.

iii. Growth also has a detectable negative relationship with an MFI's operating costs. One additional percentage point of growth reduces costs per borrower by $7 and costs per dollar lent by 18 basis points, the latter result not being entirely significant. An increase in growth equal to the IQR is associated with decreases in costs per dollar lent and per borrower equal to 4% and 9% of the respective IQRs. The cost per dollar lent can be reduced by lowering the cost per borrower and/or increasing the average loan size. But growth predicts smaller rather than larger loans (in level), an effect induced by the variation in growth between MFIs. Thus, growth appears to reduce costs despite being associated with smaller loans. In fact, controlling for loan size, the negative effect of growth on the cost per dollar lent is highly significant and quantitatively stronger. It therefore seems very plausible that the effect of growth on cost reduction comes mainly from monitoring and recovery costs.

B. Labour Force Participation, Manufacturing Industry

These two factors have been grouped together as they both appear to be strongly associated with the extent of opportunities offered by the formal labour market. Both variables are associated with slower growth in MFI borrowers but faster growth in the size of MFI loans. One percentage point of labour force participation (manufacturing sector) is associated with an extensive growth rate (growth proportional to the increase in production factors, essentially labour and capital) that is 0.17 (0.23) percentage points lower, but with an intensive growth rate (growth linked to the increase in productivity and/or capital) that is 0.21 (0.36) percentage points higher. From a quantitative point of view, the IQR of labour force participation (manufacturing industry) explains 7% (5%) of the IQR of extensive growth and 10% (10%) of the IQR of intensive growth. The results are moderately robust across specifications and techniques, and for labour participation are clearly driven by variation between MFIs, which is not surprising given the relative lack of variation within MFIs. There is little significant relationship between either variable and MFI portfolio growth, suggesting that the two growth effects roughly offset each other. One possible interpretation is that growth in MFI outreach is more difficult to achieve when more people are economically active and manufacturing jobs are more plentiful. Of course, the need for financial services - at least for the promotion of self-employment - may be lower precisely in these contexts. In any case, it seems that microfinance acts to some extent as a substitute for more formal wage opportunities. On the other hand, these contexts also seem conducive to growth in loan size. More widespread wage employment can create more and deeper niche markets for micro-entrepreneurs, enabling more robust growth of micro-enterprises. This is a picture of complementarity between salaried employment and microfinance, through demand spillovers. To sum up, the results are consistent with the idea that generalised salaried employment replaces microfinance at the extensive level. The intensive growth margin, which consists of improving clients' growth prospects, is complementary to the negative growth margin, which consists of limiting the client base.

C. Private credit

The results do not clearly indicate that the size and development of the financial sector has an impact on an MFI's self-sufficiency. This masks interesting correlations with each of the individual components of ability to cover costs. Private credit is negatively and significantly associated with both forms of default. Its IQR (20 percentage points) represents 12% and 8% of the respective IQRs of the loan loss rate and PAR-30. This result does not support the idea that credit competition generally increases default rates in the microfinance sector by inducing lender switching. One possible explanation is that a well-developed financial sector complements microfinance by providing incentives to maintain a good credit history and by opening channels for businesses to progress beyond microcredit. Another explanation is that a strong financial sector simply reflects the presence of well-functioning credit market institutions that benefit bank recovery rates at all levels. However, this second interpretation is cast into doubt by the robustness of the relationship between private credit and default measures when direct measures of credit market institutions are controlled for.

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Private credit is also significantly associated with lower operating costs, both per dollar lent and per borrower. Its IQR represents 17% and 6% of the respective interquartile ranges of cost per dollar lent and cost per borrower. Again, this could reflect credit market institutions that improve efficiency and are associated with better financial development; but again, the inclusion of direct measures of credit market institutions does not affect the results. Rather, it may be that future financial prospects beyond microfinance affect the incentives of micro-borrowers and reduce the need for the MFI to screen and/or monitor. There may also be a link with competition: greater financial competition lowers delivery costs through selection or incentive effects at the MFI level.

E. Income level

The country's (lagged) income level is also significantly related to self-sufficiency, in the form of an inverted U, with an inflection point at $5580. Around 28% of observations lie above the inflection point, many from Latin America, Eastern Europe and Central Asia. The income IQ explains 14% of the self-sufficiency IQ. However, the values of the estimators become smaller and insignificant when controls for MFI size are included; follow-up regressions show that this is due to controls for average loan size and, in particular, the share of non-loan assets. These results suggest that it is easier to break even in wealthier countries, partly because loans can be larger, and perhaps also because of better infrastructure (which reduces the overheads required for the lending operation). However, if this is true, it is only up to a point - it seems harder to break even in countries that are too wealthy, perhaps in part because of the greater difficulty of operating creditworthy microfinance.

E. Other macroeconomic determinants

Remittances are positively related to the self-sufficiency of microfinance institutions (MFIs) and to lower default rates. They are also associated with larger loans. This suggests a synergy between remittances and microfinance, offering better income and growth opportunities for micro-enterprises. The share of GDP in services is also associated with greater self-sufficiency, but with higher interest rates. In contrast, the share of industry and foreign direct investment predict slower borrower growth, although this may boost loan size. The results suggest that microcredit works differently in rural-agricultural and urban contexts, with stronger performance in rural areas. Inflation has an impact on interest rates and MFI costs, while inequality is associated with higher costs. In conclusion, the economic environment, inflation, inequality and economic structure play an important role in the performance of MFIs.

F. Institutional determinants

Microfinance is influenced by institutional factors such as corruption and the rule of law. High levels of corruption can hinder micro-enterprises, while low levels of corruption encourage their growth. The rule of law can provide a stable environment for borrowers, but can also make it difficult for micro-enterprises to

evade regulations and taxes. Among governance indicators, political stability and absence of violence are linked to faster intensive growth of MFIs, while lower corruption is associated with faster extensive growth. Certain governance measures are also linked to higher operating costs for MFIs, including political stability, voice and accountability, and regulatory quality. However, despite these higher costs, there is no significant relationship between governance and MFI self-sufficiency. High interest rates in these contexts can offset the higher costs and maintain self-sufficiency. In summary, institutional factors such as corruption, the rule of law and political stability have an impact on the performance of MFIs in terms of growth and costs, but not necessarily on their self-sufficiency.

3. Conclusion

This study places microfinance institutions in their national context by examining the national determinants of success for 373 MFIs worldwide. There is evidence of complementarity between overall economic performance and MFI performance. Growth appears to improve MFI financial performance, partly through its effect on default. Breaking even seems easier to achieve in wealthier countries - at least up to a point. In addition, a deeper financial sector is associated with lower operating costs, defaults and interest rates, suggesting that broad financial competition benefits micro-borrowers. But there are also signs of rivalry between microfinance and industry-led growth. Labour force participation and manufacturing's share of GDP predict slower growth in the reach of MFIs. Furthermore, MFIs do not always do better, and sometimes appear to do significantly worse, where institutions are more advanced.

The general conclusion that emerges is that the success of MFIs - at least in terms of financial viability and its components, and extensive and intensive growth - is strongly influenced by the macroeconomic and macro-institutional environment in which the MFI is located. While the national context does not explain everything, its effects are not negligible and are sufficiently systematic to be taken into account in a rigorous evaluation of MFIs. The assessment of MFIs must take account of the national environment.

I.5. Foreign exchange market

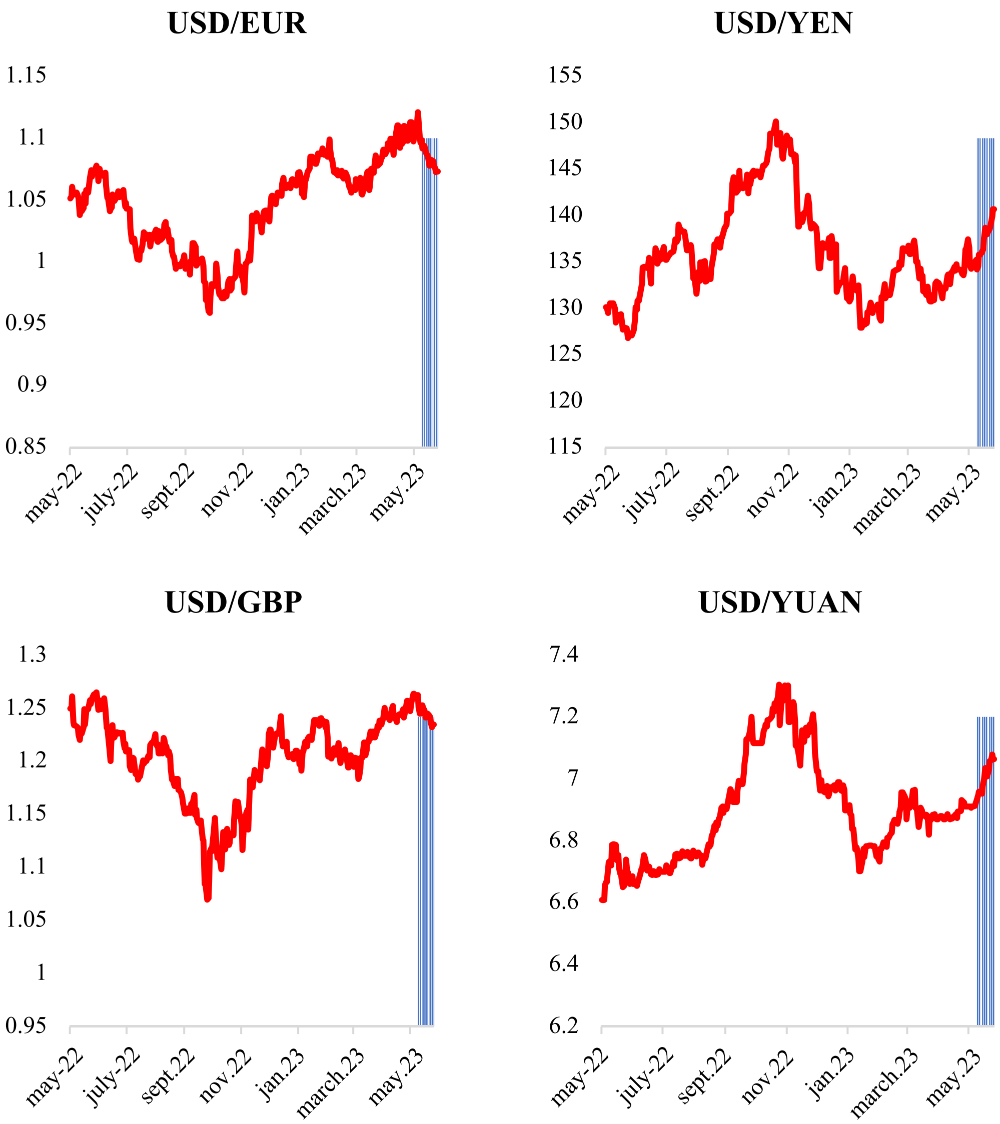
During the month of May 2023, stock markets experienced a collapse in asset gains, mainly due to the Federal Reserve's (Fed) desire to pursue a restrictive monetary policy. This prospect led to increased demand for liquidity and reinforced the safe-haven status of the US dollar. As a result, the US currency appreciated sharply against the euro and sterling. At the monthly close, the euro depreciated to 1.0731 USD/EUR, while sterling fell to 1.2325 USD/GBP.

In Asia, the Japanese yen trended upwards against the US dollar throughout the month, reflecting the depreciation of the Japanese currency due in particular to the rise in US bond yields. Similarly, the Chinese currency came under downward pressure from the US dollar. This downturn in the Chinese yuan could be exacerbated by the slowdown in the global economy, which poses a threat to Chinese exports and could reduce manufacturing activity in China.

It is important to stress that the Fed's monetary policy has a significant impact on the value of the US dollar, and this has repercussions for emerging and developing economies. Countries that rely heavily on exports of raw materials or manufactured goods to the US can be particularly vulnerable to fluctuations in the dollar. These fluctuations can influence the economic performance, export revenues and competitiveness of the countries concerned.

Exchange rate movements have implications for various aspects of the economy, including import and export costs, capital flows and foreign investment, and can affect inflation, economic growth and the balance of trade. Governments and companies keep a close eye on currency fluctuations to adapt their commercial and financial strategies accordingly.

Figure 5 ›› **Daily trends in the main exchange rates**



Source : Macrotrends.

I.6. Market for strategic products

- Gold

After rising steadily over the previous two months, gold prices fell during May 2023. At the end of the month, the price of gold was around USD 1,940 per ounce. This fall can be attributed to upward pressure on the US bond markets, which reduced gold's appeal as a safe-haven asset. Indeed, the appreciation of the US dollar has made gold less attractive due to the negative correlation between the US currency and the yellow metal. This situation is likely to persist as long as the Federal Reserve (Fed) maintains its determination to fight inflation caused by rising food and energy prices. It is essential to stress that the Fed's monetary policy decisions have a significant impact on gold prices. Expansionary measures, such as interest rate cuts, can increase the value of gold by reducing the opportunity cost of holding it relative to other financial assets. On the other hand, a restrictive monetary policy, characterised by a rise in interest rates, can lead to a fall in gold prices as a result of reduced demand for assets considered to be safe havens.

Gold is often seen as a safe asset in times of economic and financial uncertainty. Investors turn to gold to protect their capital and diversify their portfolios. However, the price of gold depends on many factors, such as interest rates, inflation, currency fluctuations, investor confidence and overall macroeconomic conditions. Investors and market specialists keep a close eye on these factors to assess the outlook for gold and make informed investment decisions.

Figure 6 ›› Daily gold price trend (in USD per ounce)

Source : Macrotrends.

- Copper

Copper prices continued their downward trend during May 2023, following a slight fall in the previous month. In the last week of the month, prices for the red metal reached a low of USD 3,676 per metric tonne. This development can be attributed to concerns about the economic recession, as well as the announcement by the Chinese company CATL (Contemporary Amperex Technology), a world leader in the production of electric car batteries, that it intends to develop sodium batteries to replace lithium, cobalt and copper.

Copper is considered a reliable measure of global economic health because of its essential use in many sectors such as construction, transport and the manufacture of electric batteries. As an industrial raw material, demand for copper is closely linked to global economic activity. So a fall in copper prices may indicate more general economic weakness.

However, it should be noted that copper prices are also influenced by geopolitical factors and central bank monetary policy decisions. For example, trade disputes between countries can disrupt trade flows and impact copper demand. In addition, changes in monetary policy, such as increases in interest rates, can have a negative impact on demand for copper in end-user industries, leading to a fall in prices.

It is therefore important to keep a close eye on economic, geopolitical and monetary developments to assess the outlook for the copper market. Changes in copper prices can have a significant impact on companies, producing countries and investors, and are an important indicator of global economic activity.

Figure 7 ›› DAILY CHANGE IN COPPER PRICES (IN THOUSANDS OF USD PER TONNE)

Source : Macrotrends.

- Oil prices

In contrast to the previous month, May 2023 saw a fall in crude oil prices on both the US (WTI) and European (Brent) markets. At the close of the month, Brent stood at USD 75.77 a barrel, while WTI reached USD 73.61 a barrel. This trend can be attributed to a number of factors.

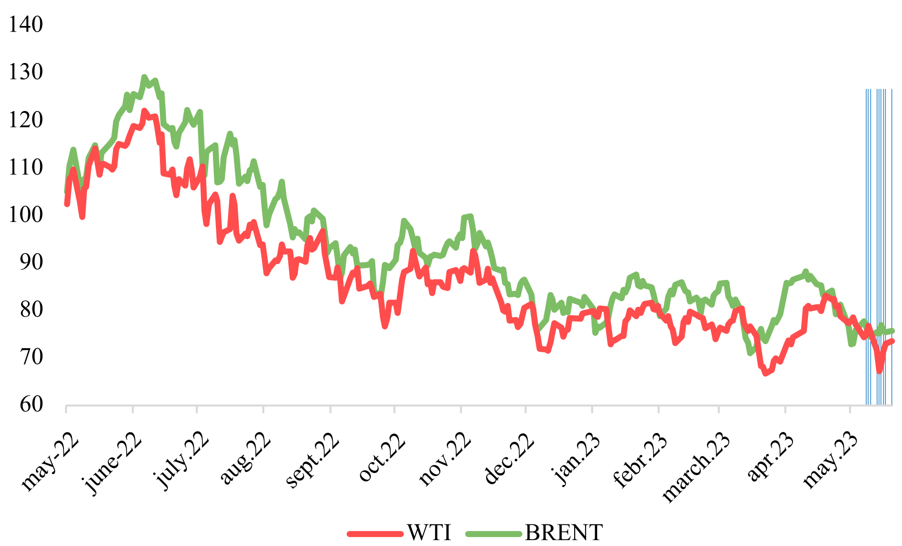
Firstly, the tightening of financial conditions, exacerbated by the restrictive monetary policies of central banks in the United States and Europe, raised fears of an economic recession. These concerns have clouded the outlook for fuel demand, particularly in advanced economies. When the outlook for economic growth is uncertain, demand for crude oil tends to fall, putting downward pressure on prices.

The global geopolitical situation can also influence oil market trends. Geopolitical tensions, such as regional conflicts or economic sanctions, can disrupt oil supplies and lead to price fluctuations. Investors are therefore keeping a close eye on geopolitical developments to assess the potential risks to oil supply.

As far as the future of the oil market is concerned, the economic stimulus measures implemented by governments may play a significant role. Stimulus policies, such as public spending or tax cuts, can stimulate demand for fuel and support oil prices. Consequently, the extent and effectiveness of economic stimulus measures will be key elements to monitor in assessing the medium-term outlook for the oil market.

In summary, the fall in crude oil prices in May 2023 is due to tighter financial conditions and fears of an economic recession, as well as geopolitical uncertainties. The economic stimulus measures implemented by governments could play a decisive role in the future development of the oil market.

Figure 8 ›› **Daily oil price trend (in USD per barrel)**



Source : Macrotrends.

2. National context

II.1. Evolution of the national economy

The economic news of May 2023 was marked by several notable events. These were (i) the publication of the ODEP report on public spending by the State over the last three years; (ii) the adoption by the Congolese government of the draft decree allowing the introduction of the Single Treasury Account (CUT); and (iii) the review of the Chinese contract between the DRC and China.

More explicitly, these facts are set out below :

1. **Publication of the ODEP report on public spending over the last three years**

In its report published on 1 May 2023 in Kinshasa, the Observatoire de la dépense publique (ODEP), a non-governmental organisation, highlights the problems of governance of public finances in the Democratic Republic of Congo (DRC) over the last three years. According to ODEP, despite the strong mobilisation of internal revenue (CDF 5,237,044.00 million between January and April 2022), the quality of spending remains a major problem, with funds predominantly allocated to political institutions to the detriment of social sectors.

ODEP stresses the need to improve the governance of public finances in the DRC. Budget overruns and mismanagement persist without being punished, which is a source of surprise for the NGO. Although internal revenue has increased over the last three years, mainly thanks to the mining sector, ODEP points out that this 1% surplus represents a drop in the ocean compared with the persistent problems of mismanagement of public funds.

One alarming result of this mismanagement is the impact on social sectors, such as health, which have seen their appropriations largely consumed by political institutions. For example, spending on health amounted to just over 1 billion dollars over three years, whereas the initial budgets provided for spending of over 2 billion dollars. This situation compromises the effectiveness of universal primary healthcare coverage, a major programme of President Félix Tshisekedi.

Social sectors such as social affairs, production and infrastructure have also been neglected, with amounts allocated well below forecasts. ODEP argues that no factor can justify a lack of budgetary discipline, even when the government invokes colossal security spending. The NGO concludes that there is a clear lack of political will to help the most vulnerable and calls for greater national solidarity.

In short, the ODEP report highlights persistent shortcomings in the governance of public finances in the DRC, characterised by inappropriate spending and insufficient allocation to social sectors. The NGO is calling for greater budgetary discipline, penalties for mismanagement and greater political will to help the country's most vulnerable populations.

2. **Adoption by the Congolese government of the draft decree setting up the Single Treasury Account (CUT)**

The Congolese government has adopted a draft decree setting out the scope, structure and operation of the Compte Unique du Trésor (CUT) as part of its drive to improve the management and control of available funds.

According to the Deputy Minister of Finance, the creation of the CUT is one of the priorities of the reform of public finances. This draft decree establishes a unified structure for the State's bank accounts, with a view to providing central government, the provinces and decentralised territorial entities with full and timely information on their liquid bank assets.

"This initiative is part of the application of the provisions of the current Public Finance Act, which requires all government departments and public services to deposit all their cash in a single account at the Central Bank of Congo", explained O'Neige N'sele.

The government believes that setting up the Treasury's Single Account has become an imperative, since no public body could henceforth have a bank account that escaped the Treasury's control. Hence the need for a legal framework that clearly sets out the responsibilities of the parties involved in the safekeeping and use of public funds.

The national executive pointed out that this draft decree follows on from the creation in December 2022 of the General Directorate of the Treasury and Public Accounting and the signing in March 2023 of the decree setting out the organisation and operation of the national network of public accountants, corroborating the desire to ensure the seamless application of the principle of cash unity.

It should be noted that the establishment of the Compte Unique du Trésor (CUT) in the DRC is a commendable initiative in the context of public finance reform. However, it is essential to carefully analyse the implications of this measure and to identify the potential challenges that could arise during its implementation.

Firstly, the CUT aims to centralise the State's bank accounts in order to provide the various levels of government with a complete, real-time view of their liquidity. This is in line with the provisions of the current Public Finance Act, which requires all government departments and public services to deposit their cash balances in a single account at the Central Bank of Congo. The objective of improving the transparency and control of public funds is laudable and necessary to strengthen sound financial management.

However, the implementation of the CUT raises several challenges. Firstly, it will be essential to ensure that procedures for depositing and withdrawing funds are well defined and strictly followed. This will require close coordination between the various government entities and adequate awareness-raising among those responsible for public finance. Strong internal and external control mechanisms will need to be put in place to prevent abuse and misappropriation of funds.

In addition, the success of the CUT will depend on the capacity of the Central Bank of Congo to manage this single account effectively and transparently. It will be essential to build the capacity of Central Bank staff and to put in place robust technological systems to ensure the efficient management of funds and the accurate generation of financial reports.

Finally, it should be noted that the establishment of the CUT alone will not solve the problems of financial mismanagement and corruption. It is essential that the Congolese government continues to implement comprehensive reforms, such as transparency in public procurement, accountability of government actors and the fight against corruption, to ensure sound and transparent financial management.

With this in mind, here are some relevant recommendations :

- ***Capacity-building :*** Invest in training and capacity-building for the staff of the Central Bank of Congo responsible for managing the LUC, as well as for those responsible for public finance in the various government entities.

- ***Transparency and accountability :*** Establish strong internal and external control mechanisms to ensure transparency and accountability in the management of public funds. This may include regular audits, detailed financial reporting and appropriate sanctions in cases of mismanagement or corruption.

- ***wareness-raising and communication :*** Conduct an awareness-raising campaign to inform all stakeholders to ensure their buy-in and ownership..

- ***Inter-institutional cooperation :*** Ensure effective coordination between the Central Bank of Congo, the various government bodies and other institutions involved in public finance management. This will promote a holistic approach and transparent collaboration to ensure the success of the LUC.

- ***Information systems security :*** Implementing robust security measures to protect sensitive financial data and prevent cyber attacks. Implementing appropriate security protocols will increase confidence in the LUC system and reduce the risk of manipulation or theft of funds.

- ***Strengthening debt recovery mechanisms : In*** parallel with the implementation of the CUT, it is essential to strengthen the State's debt recovery procedures. This will help to reduce arrears and maintain financial discipline, ensuring that expected revenues are actually collected.

- ***Ongoing monitoring and evaluation :*** Establish a mechanism for regular monitoring and evaluation of the implementation of the LUC. This will make it possible to identify gaps and potential challenges, and to make the necessary adjustments and improvements to ensure the effectiveness and efficiency of the system.

In conclusion, the introduction of the Single Treasury Account in the DRC is an important step in the reform of public finances. However, its success will depend on the implementation of complementary measures such as capacity building, transparency, accountability, security of information systems, debt recovery and ongoing monitoring. By adopting a comprehensive approach and implementing these recommendations, the Congolese government will be able to strengthen financial management and promote transparency and accountability in the use of public funds, thereby contributing to the country's economic and social development.

3. Revisiting the Chinese contract between the DRC and China

The revision of the Chinese contract between the Democratic Republic of Congo (DRC) and China was discussed at recent meetings in Beijing between the Congolese and Chinese delegations. This revision is deemed necessary to adapt the terms of the contract to the DRC's current development needs and requirements. However, it is important to adopt a critical perspective by examining the results of the initial contract and the challenges it has faced.

The audit carried out by the Inspectorate General of Finance (IGF) revealed that the initial contract did not deliver on its infrastructure promises. Although the agreement provided for approximately USD 6 billion in funding from the Groupement d'entreprises chinoises (GEC), very little was actually delivered. For example, of the 32 hospitals planned, only one has been built. The Kavumu and Goma airports have not been rehabilitated, and only 380 km of roads have been built or rehabilitated out of the 7,088 km planned. Not a single kilometre of railway has been built out of the 380 km planned. The Katende hydroelectric dam in the Kasai region, which is also part of the contract, has encountered difficulties in being completed.

These disappointing results highlight the need for a thorough review of the terms and conditions of the Chinese contract. The DRC must ensure that the new terms of the contract guarantee better execution of the projects and a fair distribution of the benefits between the two parties. It is crucial to establish a monitoring and accountability framework to ensure that the

commitments made by the Chinese companies are respected and that the infrastructure projects really do meet the country's priority needs.

It is also essential for the Congolese government to play an active role in proposing and selecting infrastructure projects. The list of projects should not be seen as a simple list of commitments, but rather as a basis for projects that the Congolese government plans to carry out in collaboration with Chinese companies. This will ensure better coordination and more transparent decision-making.

With regard to the new areas of cooperation mentioned during the discussions, such as diplomacy, the environment, finance, infrastructure, mining and digital technology, it is essential to establish clear objectives and ensure that the partnerships are mutually beneficial. Monitoring and evaluation mechanisms must also be built in to measure the real impact of these initiatives.

In conclusion, revisiting the China contract between the Democratic Republic of Congo (DRC) and China represents a key opportunity to improve economic cooperation and maximise the benefits for the country's development. However, it is crucial that the DRC takes a critical and proactive approach to revising the terms of the contract in order to ensure effective delivery of infrastructure projects and equitable distribution of benefits.

The disappointing results of the original contract, such as the limited delivery of planned infrastructure, underline the need for a thorough review of the terms of the contract. The Congolese government must ensure that the new terms of the contract establish a framework for monitoring, accountability and transparency for the Chinese companies involved. In addition, it is essential that the government plays an active role in proposing and selecting infrastructure projects, ensuring that they meet the country's priority needs.

II.1.2. Economic activity

In its press release of 03 May, the International Monetary Fund (IMF) announced that it had reached an agreement with the Congolese government on the fourth review of the economic reform programme supported by the Extended Credit Facility (ECF) arrangement. The review was carried out during the IMF mission from 19 April to 03 May 2023. The agreement will be submitted to IMF management for approval and examined by the Executive Board in June. The agreement will provide the Democratic Republic of Congo (DRC) with financial support of SDR 152.3 million (around $200 million) to strengthen its balance of payments.

With regard to the country's macroeconomic situation, the GDP growth rate has been set at 6.6% in 2022 and should reach 8.% in 2023. This growth is underpinned by mining production, which remains a major driver of the Congolese economy. Higher-than-expected tax revenues have enabled current expenditure to increase, in particular exceptional expenditure linked to security and the repayment of arrears. In 2022, the domestic budget deficit widened to 1.3% of GDP. Spending accelerated towards the end of the year, leading to excess liquidity and contributing to inflationary pressures and exchange rate instability.

At 22 April 2023, the parallel exchange rate of the Congolese franc had recorded an annual depreciation of 13% against the US dollar, while inflation had reached 17%. Strong import growth weakened the external position in 2022, leading to a current account deficit estimated at 5.7% of GDP. However, thanks to significant financial inflows, the Central Bank of Congo (BCC) was able to accumulate international reserves equivalent to around two months of imports at the end of 2022.

The IMF stressed that the medium-term outlook for the DRC remains positive, mainly due to increased mining production. However, this outlook depends on proactive reform measures. The country's economic context is marked by high uncertainty, notably due to the ongoing armed conflict in the east of the country, the upcoming elections and the external risks associated with the deteriorating global economic outlook and volatile commodity prices. In addition, the prolonged war in Ukraine is also having an impact on the global economic outlook.

Against this backdrop, the Congolese government is justified in implementing prudent economic policies for the remainder of 2023. This could include measures to maintain macroeconomic stability, reduce inflation, strengthen public financial management and foster an investment-friendly environment.

It is important that the government continues to engage in structural reforms to improve governance, strengthen the business climate and promote economic diversification. This would help to reduce the Congolese economy's excessive dependence on the mining sector and promote more balanced and sustainable growth.

The security situation remains a major challenge for the DRC, particularly in the east of the country. It is crucial that the government step up its efforts to resolve conflicts and promote regional stability. Lasting peace would encourage investment, stimulate economic growth and improve living conditions for the population.

In conclusion, the agreement between the IMF and the Congolese government for the fourth review of the economic reform programme is a positive step towards supporting macroeconomic stability and promoting development in the DRC. However, challenges remain, particularly in terms of security, economic diversification and public finance management. Rigorous implementation of reforms and continued attention to economic and social challenges will help the DRC realise its potential and achieve sustainable economic results for the benefit of its people.

Fiscal policy needs to be carefully managed to meet the need for additional spending on security, humanitarian aid and election preparations, given the deteriorating situation in the east of the country. It is crucial to prioritise expenditure and reduce spending on goods and services, while maintaining the planned wage bill, in order to support investment spending while limiting inflationary pressures.

To strengthen fiscal policy, it is essential to improve revenue mobilisation and implement public finance management reforms. This involves efforts to improve tax administration, rationalise parafiscal taxes and strengthen the Directorate General of the Treasury and Public Accounting (DGTCP), as well as expenditure control and cash management procedures. Setting up a single Treasury account, strengthening the public procurement system and improving the management of public investments and budget execution reports are also necessary to improve the efficiency and transparency of spending.

In terms of monetary policy, the Central Bank of Congo (BCC) could consider tightening monetary policy to control inflationary pressures, while continuing to build up reserves to cope with external shocks. Stronger communication is also important to anchor inflation expectations, and maintaining the role of the exchange rate as a shock absorber is essential to preserve reserves. Reforms to the monetary policy framework and central bank governance are needed to improve liquidity management and the effectiveness of monetary policy, as well as to strengthen the resilience of the banking sector and promote financial inclusion.

To promote economic diversification and stimulate private sector-led growth, it is essential to improve the business climate. This involves implementing anti-

corruption measures, streamlining the tax system, improving transparency in the mining sector and publishing information on the beneficial ownership of public procurement contracts. Major reforms are needed to implement the Anti-Money Laundering and Combating the Financing of Terrorism Act, which will be adopted in December 2022, and to exit the Financial Action Task Force (FATF) grey list.

Climate-related reform plans must also be drawn up in order to access the IMF's Resilience and Sustainability Facility. These reforms aim to build resilience to climate risks, meet nationally determined contribution targets, promote green and resilient investments, improve governance in the forestry sector and reform fuel subsidies. Consultations with the World Bank, the African Development Bank, the Central African Forest Initiative and other partners have been beneficial in this process. The IMF teams and the authorities will continue to work together in the coming weeks to implement these reforms in a constructive manner.

The Fraser Institute recently published its annual survey of mining companies, providing a better understanding of their perceptions of the attractiveness of the mining jurisdictions in which they operate. While many legislative reforms have been undertaken in Africa over the past year, it is interesting to obtain the opinion of foreign investors on the evolution of the business environment in the ten main African mining countries.

The ranking is based on responses from 291 industry players, mainly mining company executives, on the factors influencing their investment decisions. Factors taken into account include government regulations, the legal system, the tax system, infrastructure, political stability and labour laws.

Only ten African countries obtained the minimum number of responses to be included in the ranking, out of the 83 countries surveyed worldwide. As a result, major mining countries such as Angola, Côte d'Ivoire, Guinea, Morocco, Mauritania and Senegal were excluded due to insufficient responses.

According to the report, Africa is the second least attractive region for mining investment. Botswana is the highest-ranked African country (32nd), followed by South Africa (43rd) and Zambia (45th). The lowest-ranked African countries include Ethiopia (77th worldwide), Ghana (68th) and the Democratic Republic of Congo (67th). A vice-president of an exploration company quoted by the Fraser Institute said that "Botswana's tax regime continues to be exemplary compared to other African jurisdictions and encourages investment in exploration".

Unfortunately, the Democratic Republic of Congo is the lowest-ranked African country on the Mining Policy Perception Index (82nd), trailing only Venezuela globally. One executive is concerned that "the recent unilateral increase in royalties in the DRC is discouraging investment", while another refers to the "lack of clarity on the limits of exploration mining concessions and cases of corruption".

In Mali, investors were increasingly concerned about regulations and labour contracts, the legal system and the availability of labour and skills. Taking the mineral potential index alone, the DRC (24th) is the most attractive African country for exploration investment, followed by South Africa (30th) and Mali (38th).

The Democratic Republic of Congo's unfavourable position in the Fraser Institute's rankings highlights the persistent challenges facing the country in terms of mining governance. Unilateral increases in royalties, lack of clarity over mining concessions and problems of corruption are all factors discouraging foreign investment in the Congolese mining sector. To improve its attractiveness, it is crucial that the DRC works to create a stable, transparent and investment-friendly regulatory environment, while ensuring responsible management of natural resources and the fight against corruption.

Legislative reforms, transparency in the granting of mining concessions, simplification of administrative procedures and the fight against corruption are all important measures to attract foreign investors to the African mining sector. By fostering a favourable business climate, these countries could stimulate investment, encourage economic growth and promote sustainable development.

Cooperation between the DRC and China in the field of natural resources offers major opportunities for the country's economic development. Local development of natural resources, particularly in the new energy battery sector, could enable the DRC to benefit more from the global value chain and create local jobs.

However, it is essential that the new agreements concluded between the DRC and China are balanced and beneficial to both parties. It is essential to ensure that the interests of the DRC are protected, and that the revenues generated by the exploitation of natural resources benefit the development of the country and the improvement of living conditions for its people.

At the same time, it is important for the DRC to strengthen its capacity for governance and supervision in the mining sector, in order to ensure responsible exploitation of resources and prevent abuses and corruption. Greater transparency in transactions and the management of mining contracts is also necessary to guarantee investor confidence and foster a mutually beneficial partnership.

The DRC should also diversify its economy and promote other sectors such as agriculture, tourism and infrastructure, in order to reduce its dependence on natural resources and stimulate more resilient and inclusive economic growth.

The renegotiation of mining contracts between the DRC and China offers an important opportunity to review the terms and conditions of existing agreements and to foster a more balanced and beneficial partnership. However, it is crucial that the DRC ensures the protection of its interests, transparency in the management of natural resources and the diversification of its economy to ensure long-term sustainable development.

II.1.3. Price dynamics

During May 2023, although prices remained at high levels, overall they moved downwards compared with March 2023. As table 1 shows, apart from cumulative inflation, the rate of price change slowed in May 2023 compared with the previous month. However, this deceleration does not indicate price control by the public authorities. Prices for everyday consumer goods remained high, and the continuing Russian invasion of Ukraine and the ineffectiveness of government policies could exacerbate the price slippage.

As for the weekly inflation rate, it stood at 0.17% in the fourth week of May 2023, down 54.47% on the April 2023 closing rate of 0.38%.

The cumulative inflation rate stood at 7.63% in the fourth week of May 2023, compared with 6.78% a month earlier, a positive change of 12.49%.

Year-on-year inflation stood at 16.57% in the fourth week of May 2023, compared with 16.87% a month earlier, a fall of 1.77%. At this rate, inflation is expected to reach 19.96% by the end of 2023, compared with 13.13% a year earlier (2022).

The table below shows inflation in May 2023.

Table 1 ›› INFLATION TREND (MAY 2023)

	Weekly inflation	Cumulative inflatio	Year-on-year inflation	Annualized inflation
Week 1	0.21	7.01	19.90	21.61
Week 2	0.20	7.22	16.87	21.02
Week 3	0.20	7.44	16.77	20.51
Week 4	0.17	7.63	16.57	19.96

Source : BCC, May 2023.

II.1.3 Exchange rate and foreign exchange reserves

During May 2023, the exchange rate deteriorated on the interbank market where it stood at 2 305.55 in the fourth week of May 2023 compared with 2 230.64 at the end of April 2023, i.e. a depreciation of 3.27%.

The same applies to the parallel market, where the exchange rate stood at 2 354.75 in the fourth week of May 2023 compared with 2 338.50 a month earlier, a depreciation of 0.69%.

Table 2 ›› EXCHANGE RATE TRENDS

	Clossing april 2022	May 2023				Variation april-may 2023
		Week 1	Week 2	Week 3	Week 4	
Interbank market	2 230.64	2 273.93	2 288.79	2 317.59	2 303.55	3.27%
Parallel market	2 338.50	2 339.38	2 351.25	2 352.13	2 354.75	0.69%

Source : BCC.

S'agissant des réserves de change, elles n'ont connu aucun changement significatif comparativement à avril 2023. En effet, les réserves de change se sont situées à 4,10 milliards d'USD à la quatrième semaine de mai 2023, soit un niveau identique à celui d'avril 2023. Rapporté en nombre de mois d'importations, il s'établit que l'économie congolaise a connu une hausse non significative de sa capacité de fin avril 2023. La couverture des importations par les réserves de changes est passée de 2,22 mois à 2,25 mois entre fin avril 2023 et la quatrième semaine de mai 2023, soit une baisse de 1,8%.

Table 3 ›› **Changes in foreign exchange reserves**

	Clossing april 2022	May 2023				Variation april - may 2023
		Week 1	Week 2	Week 3	Week 4	
In billions of USD	4.10	4.20	4.10	4.10	4.10	0.00%
In months of imports	2.22	2.25	2.25	2.26	2.25	1,.35%

Source : BCC.

II.1.4 Public finances

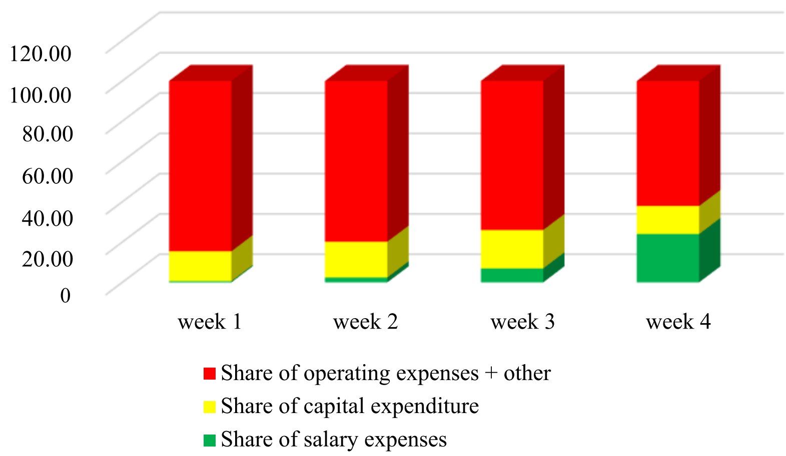
In May 2023, the operating account showed a surplus. Public revenue amounted to CDF 1 550 295 million, while expenditure was estimated at CDF 1 306 564 million.

Figure 9 ›› **Public revenue and expenditure in May 2023 (in millions of CDF)**

Source : Ministry of Finance, CTR.

Government spending in May 2023 was relatively low compared with the previous month, at CDF 1,306,564 million compared with CDF 1,643,018 million. Government spending continued to focus on operating costs and the payment of civil servants' salaries, with the remainder going on capital investment.

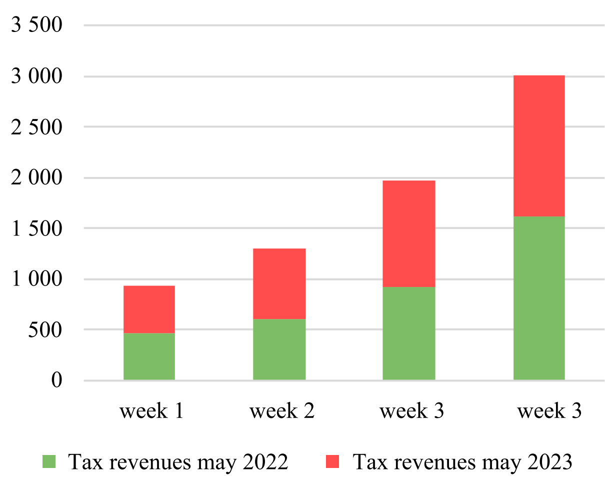
Figure 10 ›› Change in the breakdown of public spending (%)



Source : Ministry of Finance, CTR.

It should be pointed out that the largest share of public expenditure was devoted to the running costs of the State. This could justify the government's efforts to restore peace at a time of aggression by the M-23 rebels with the support of the Rwandan army. Despite this, the government is not allocating sufficient resources to improve the living conditions of the population through basic infrastructure.

Figure 11 ›› Evolution of tax revenues (in millions of CDF)



Source : Ministry of Finance, CTR.

Revenue mobilisation in May 2023 was relatively low compared with the previous month and May 2022. Tax revenue in May 2023 amounted to CDF 1,395,483 million, compared with CDF 1,552,108 million in April of the same year and CDF 1,612,018 million in May 2022.

The government's efforts should focus on mobilising public revenue in order to meet the needs of the Congolese population.

II.2 Political developments

The month of May 2023 was very eventful with much tension between stakeholders around the following highlights :

1. Electoral process

1.1. Audit of the electoral register

The report on the external audit of the electoral register carried out by the Independent National Electoral Commission (CENI) between 15 and 20 May 2023 was published on Monday 22 May in Kinshasa. Conducted by five national and international experts (Janet Love from South Africa, Muhabi Lufu Chisi from Malawi, Joseph Topangu, Kabata Kobata Kabamba and Vianney Nzanzu, all three from the ROC), recruited by CENI, this external audit delivered its conclusions.

The report shows that over 3,300,000 voters out of a total of 47 million were removed from the register. This brings the total number of people registered to 43,955,181. Of these, more than 2,235,798 were duplicates and 976,506 were minors.

It should be noted that a few days earlier, the OIF, currently headed by the Rwandan Louise MISHIKWABO, had abandoned the external audit of the electoral register in the CAR, after opponents had exerted pressure to castigate Rwandan involvement in the aggression in the eastern part of the country.

It was against this backdrop that the Independent National Electoral Commission (CENI) published a call for candidates on 8 May, which led to the recruitment of the five experts mentioned above.

Reacting to the audit report, Stéphanie Kitume, a senior official and communicator for Moïse Katumbi's political party Ensemble pour la République, reiterated her party's demand for an external audit of the electoral roll on Wednesday 10 May in Kinshasa. "We must be on the streets on Saturday to say no to the chaotic electoral process. We demand an external audit of the electoral register in order to have a credible electoral register".

The Secretary General of the Ensemble pour la République party, Dieudonné Bolengetenge, said that the opposition was maintaining its demonstrations every Thursday to denounce the electoral process, which they consider to be chaotic. During a briefing on Saturday 27 May at the party's headquarters in Kinshasa, he criticised a two-speed justice system and the tribalistic comments of certain politicians.

National MP Bolengetenge said that the audit of the electoral roll was a farce. He therefore felt it was important for the political players to find a consensus for good elections. For him, "the experts selected for the audit have come for a walk. They pocketed their kitty. They signed a report produced by CENI. They call it an 'audit'".)

For its part, in its observation report published on 15 May 2023, the CENCO-ECC electoral observation mission once again drew the attention of the Independent National Electoral Commission to the need to entrust the external audit of the electoral

register to a body capable of assuring the various stakeholders in the current electoral process. The two religious denominations revealed that CENI could also extend the deadline set for the audit, as was the case with the identification and enrolment of voters in the various operational areas. They also recommended that CENI stick to the principle of an external audit of the electoral register by an independent international body, with the obligation for the latter to involve a number of national experts, within a suitable timeframe, by making adjustments to the electoral timetable, as was the case with the various catch-up periods granted to candidate voters. This should promote consensus around the electoral register.

For Monsignor Donatien N'Shole, one of the spokespersons for this mission, there is a need for a truly external audit conducted by an independent and experienced body in order to reassure all stakeholders and promote consensus around the electoral register.

What has been done so far by CENI, he maintains, does not resemble an external audit but rather the work of a sub-committee of this electoral institution, which can be described as anything but an external audit because it was CENI that invited and recruited the individuals, it was CENI that organised them, and it was CENI that determined the methodology and approved the report.

The mission then recommended holding a consultation meeting where the various stakeholders would be asked to discuss the issues that were causing concern. For "there are challenges in relation to the electoral timetable, and the need for a framework for consultation, because CENI is indeed required to respect the law and the Constitution.

Reacting to the criticisms made in the summary report of the CENCO-ECC electoral observation mission on the identification and voter registration operations, Mr Toto Mabiku, Executive Secretary of CENI, said that he had the impression that the external audit was being confused with the international audit.

For him, external audit does not necessarily mean international audit. It is possible to have recourse to national or international expertise, or to independent bodies such as CENCO and the ECC, or to personalities with a profile that can help move things forward. Finally, he pointed out that it is first of all the Independent National Electoral Commission that carries out its own internal audit, and once this has been completed, the audit is submitted to an external eye that can help to detect weaknesses and flaws.

1.2. *The controversy surrounding the draft law on the distribution of seats*

On Wednesday 31 May 2023, the national deputies declared admissible the bill on the distribution of seats by electoral constituency for the legislative, national, provincial, municipal and local elections presented by the Deputy Prime Minister and Minister of the Interior, Peter Kazadi.

The concerns raised by the elected representatives centred on the discrepancy between the number of registered voters and the number of seats allocated to each electoral district across the country. Many elected representatives are claiming lost seats.

In his response to these concerns, the Deputy Prime Minister explained that the number of seats to be filled by each constituency is obtained by dividing the total number of registered voters in that constituency by the number of seats to be filled in the provincial assembly. One seat is allocated to any constituency that has a number less than the electoral quotient.

"If the total number of seats thus allocated is less than the number of seats for the province, an additional seat is allocated to each constituency that has the

highest decimal place with regard to the number of seats obtained until the total number of seats for the province is obtained. For both the national and provincial deputations, it follows from the above that the number of seats in constituencies that do not belong to the same province cannot be compared", he explained in his reply.

As for the territories plagued by insecurity, 16 seats have been reserved: 2 for Kwamouth, 7 for Masisi and 7 for Rutshuru. The government hopes that before the elections scheduled for the end of December, the security conditions will be met so that voters can be registered in the three territories mentioned above.

On Monday 29 May, the deputies of the Front commun pour le Congo (FCC) decided to boycott the examination of the bill on the distribution of seats in order, they said, not to support "a chaotic electoral process".

In a statement read out at the People's Palace, the FCC MPs said they held the current government responsible for all the consequences of this chaotic electoral process.

Reiterating their desire to take part in the elections, this political grouping set out a number of conditions, in particular the need for a consensual CENI, comprising deputies duly appointed by their constituents.

François Nzekuye, chairman of the PPRD parliamentary group, denounced irregularities in the composition of the Constitutional Court, which demonstrated the unreliability of the process likely to plan electoral fraud in the country. FCC MPs continue to call for an independent Constitutional Court and an inclusive electoral law that guarantees transparency and equal opportunities for all competitors.

For their part, the four declared presidential candidates, Matata Ponyo Mapon, Moise Katumbi, Delly Sesanga and Martin Fayulu, returned to the need to re-check the electoral rolls. In a joint statement, they spoke of "programmed chaos" and demanded an audit by an international firm with proven expertise and independence in the field.

As far as CENI is concerned, it is satisfaction with the work carried out that should encourage it not to back down, promising moreover to convene the electorate for the national deputation from this month of June with the launch of the operation for filing and processing candidacy files.

2. Reactions to the repression of the demonstration by opposition parties

With six months to go before the elections, tensions rose in May with the repression of a demonstration by opposition parties led by four leaders, all declared candidates in the December 2023 presidential election.

The grouping of opposition leaders, made up of Martin Fayulu's Ecidé, Moise Katumbi's Ensemble pour la République, Matata Ponyo Mapon's LGD and Sessanga's Envol, had planned to organise a march of its activists on Saturday 20 May 2023, with the aim of denouncing the high cost of living, the lack of security in several parts of the country, particularly Kinshasa, and the planned electoral fraud.

At the end of a meeting convened at Kinshasa City Hall, the march by the opposition (LGD, ECIDÉ, Ensemble pour la République and Envol) was confirmed to take place on 20 May 2023, with an obligation on the part of the city authorities to respect an itinerary that the above-mentioned parties deemed atypical.

During the meeting, the city authority, through the provincial Minister for Security, called for discipline and responsibility from each of the political organisations. He urged each of the leaders to supervise their activists so that public order was preserved and acts of vandalism avoided.

Curiously, it was at the same time that the Governor authorised a meeting of his own political party to be held at the Masina municipal stadium, as well as another meeting that the UDPS had planned in front of the Saint Raphaël parish, where the Youth League of the UDPS, the presidential party, was to march to condemn Rwanda's aggression against the ROC under the banner of M23 and give its support to the Head of State, Félix Tshisekedi.

When the opposition first announced that it was planning to march on 13 May, a member of the "forces of progress" posted a video on social networks announcing that his organisation was going to infiltrate the opposition march in order to attack Moïse Katumbi.

The authorisation by the Governor of Kinshasa to hold political demonstrations by the opposition and the government on the same day, Saturday 20 May, was the subject of various analyses and comments on Friday 19 May in Kinshasa. These two actions were bound to cause sparks to fly, with a clear risk of seeing the various supporters clash on the ground.

It was against this backdrop that members of the opposition had contacted the offices of the International Criminal Court and the United Nations Organisation Mission for the Stabilisation of the DRC (MONUSCO) in anticipation of the event, asking them to supervise their activists and to record any police blunders during this democratic activity.

Led by the four opposition leaders (Moïse Katumbi, Delly Sesanga, Martin Fayulu and Matata Ponyo), opposition activists took to the streets in various neighbourhoods to demonstrate peacefully.

No sooner had the march begun than it was dispersed by the police, who accused the organisers of failing to follow the itinerary recommended to them by the city's governor. Opposition activists were molested and dispersed with tear gas.

In addition to the numerous arrests, there was extreme violence perpetrated by the forces of law and order, who made excessive and disproportionate use of weapons, resulting in serious injuries.

This repression was condemned both nationally and internationally. Condemnations and reactions have come from opposition parties, the Congolese episcopate, the UN, the United States, the European Union, civic figures and human rights organisations.

On the government side, the Congolese Minister for Human Rights deplored the acts committed by the forces of law and order, while his colleague in charge of communication and spokesman condemned the organisers, whom he accused of using minors in their march.

The Congolese bishops denounced the repression, describing it as "despicable and savage by the forces of law and order". The National Episcopal Conference of Congo (Cenco) has called for a serious investigation to be launched and for those responsible to be held accountable.

For his part, the Head of State, Tshisekedi, praised the police chief following the events, saying: "Well done for the work you have done, zero deaths (...). The thugs have been brought under control, that's very good".

Following this statement by the Head of State, the NGO Human Rights Watch expressed concern about excessive use of force during future political demonstrations. The NGO said it feared "excessive use of force" by the police during future political demonstrations in the Democratic Republic of Congo.

In a press release issued by Carine Kaneza Nantulya, Deputy Director of HRW's Africa Division, the NGO said that "the brutality of the Congolese police against demonstrators is an attempt to silence dissent and deter future demonstrations". Also, "with preparations for elections due at the end of 2023, the government should take all necessary measures to ensure that everyone can peacefully express their opinions without fear of arrest or beatings by the security forces".

Expressing their concern about the "disproportionate use of force", the American authorities, through their embassy in Kinshasa, referred in particular to the case of the minor child who had been hospitalised since Saturday 20 May after being roughed up by the police. More generally, the United States reiterated its commitment "to the right of assembly, freedom of expression and freedom of the press".

The European Union also condemned the repression and hopes that the independent judicial enquiry requested by the Congolese Minister for Human Rights will shed light on the circumstances and establish responsibility for the violations.

The United Nations, through MONUSCO, has condemned the disproportionate use of force by the police during the Congolese opposition demonstrations on Saturday 20 May. It also called for an investigation to establish who was responsible.

The United Kingdom expressed its deep concern at the images of police violence, but also welcomed the government's action (to hold to account the members of the forces of law and order responsible).

Finally, shocked by the images of brutality, including against defenceless children, Dr Dénis Mukwege, Nobel Peace Prize laureate and long-time defender of human rights in the Democratic Republic of Congo (DRC), expressed his indignation at the police violence that occurred during the opposition march in Kinshasa on 20 May. He also warned against the climate of repression threatening the country on the eve of the general elections. "A state that denies its citizens their fundamental freedoms on the eve of general elections risks a drift towards dictatorship", he warned in a statement.

3. Political and economic perspectives

On the political front

With approximately 44 million people registered for the 500 seats of national deputies, that is 88,000 voters per seat. However, the results of the first quantitative analyses carried out by independent experts after the publication of the draft law show an arbitrary and fanciful distribution of seats.

According to the first results released, CENI allocated 32 seats to Haut-Katanga instead of 33, 15 seats to Haut-Lomami instead of 16 and 11 seats to Haut-Uele instead of 12.

Ilturi also fell victim to the arbitrary decision of CENI, with 28 seats instead of 29, as did Kasai, with 19 seats instead of 20. The same is true of Kinshasa, which should have had 58 seats instead of 56. Kwango has 13 seats instead of 14, while North Kivu has 47 instead of 34. Kwilu had to make do with 28 seats instead of 29, as did Lualaba, which was limited to 13 seats instead of 14. Maindombe 12, Maniema 12, Mongala 11, Sud-Kivu 32 and Tanganyika 14 could each have had an extra seat if CENI had done its calculations properly.

Asserting that this list is long, the same experts consider that it is also difficult to know by what magic or formula CENI has allocated 8 seats to the territory of Masisi with 18,676 registered voters, on a par with Beni which has 719,313 registered voters. The 7 seats offered to the territory of Rutshuru, with 79,905 registered voters, are also unthinkable, as are the seats offered to Djugu, with 612,870 registered voters. Kwamouth, despite being disrupted by the Teke-Yaka community conflicts, still has the seat with 6 voters. Simply scandalous.

It is now clear that, with an electoral register already infected by the chaos that accompanied the voter registration and identification operations, CENI could neither rely on a serious external audit, nor produce a draft bill for the distribution of seats on the basis of a corrupt register.

CENI/Kadima therefore had recourse to the CENI/Nangaa file audited by La Francophonie, which it unfortunately duplicated and copied incorrectly and naively inflated the figures in an attempt to appease national and international opinion, which was already hostile towards it.

"The analysis is well-founded. CENI/Kadima lied by skimping on appropriate procedures and methodologies in its accelerated campaign to deliver voter statistics to the legislature. An analysis of the figures reveals indisputable shortcomings, especially as the electoral commission is holding everything up.

At this rate, the register is likely to be the first source of electoral conflict", especially as it is the first key element for an election, and the law on the distribution of seats which results from it and which is being discussed, is being discussed without the participation of a fringe of the national deputies, all from the opposition, who boycotted the plenary discussions and adoption, thus giving way to a forced passage by the Sacred Union!

On the economic front

The economic outlook for the Democratic Republic of Congo (DRC) is not encouraging. The country faces a number of major challenges that could have a significant impact on economic growth, financial stability and the well-being of its citizens. Below is an analysis of the various challenges and their potential implications for the Congolese economy :

- ***Depreciation of the local currency :*** Continued depreciation of the Congolese franc may lead to higher import prices, which could increase inflation and reduce household purchasing power. It could also make it more expensive for businesses to finance the imports they need to operate, which could limit their ability to invest and grow.

- ***Mauvaise gouvernance des finances publiques :*** La mauvaise gestion des ressources publiques peut entraîner une allocation inefficace des fonds, limitant ainsi les investissements dans des secteurs clés tels que l'infrastructure, l'éducation et la santé. Cela peut freiner le développement économique à long terme et nuire à la confiance des investisseurs.

- ***Poor governance of public finances :*** Poor management of public resources can lead to inefficient allocation of funds, limiting investment in key sectors such as infrastructure, education and health. This can hamper long-term economic development and undermine investor confidence.

- ***Political instability :*** Political tensions, opposition marches and arbitrary arrests can create a climate of uncertainty that can affect investment and business confidence. An unstable political situation can also hamper the implementation of economic and institutional reforms necessary for sustainable economic growth.

- ***Financial constraints :*** on the organisation of elections: Electoral expenditure can represent a significant financial burden for the country, particularly when available resources are limited. This may lead to larger budget deficits and require prudent management of public finances to avoid a deterioration in the economic situation.

- ***Insecurity in the east of the country :*** Persistent insecurity in the east of the country may disrupt economic activities, particularly in the agricultural and mining sectors. This could hamper the development of these sectors and reduce economic opportunities for the local population.

- ***Consequences of the Russian invasion of Ukraine :*** The repercussions of the Russian invasion of Ukraine may have an impact on the price dynamics of agricultural and energy products, due to the interconnection of world markets. An increase in commodity prices may affect inflation and the accessibility of essential goods.

Faced with these challenges, it is essential that the Congolese authorities take steps to promote economic and political stability, strengthen good governance, stimulate private investment, diversify the economy and improve living conditions for the population.

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Dixit Machiavel

EVOLUTION OF THE ECONOMIC AND POLITICAL SITUATION IN THE DEMOCRATIC REPUBLIC OF CONGO

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