Agriculture and rural development are priorities for the Government of Democratic Republic of Congo. The sector is central to the country’s economy, and holds major economic potential linked to water and land resources. The response to Covid-19 may increase public spending in the sector.

Government demand for external assistance is expected to rise, as government spending relies heavily on development finance.

Future demand will focus on grants and concessional loans. Highly concessional loans could be considered for activities that generate revenue, such as rural infrastructure, rural finance and agricultural technologies.

The government’s borrowing decisions place a high value on grants for technical assistance, favourable repayment schedules and large volumes of finance.

The government has a strong preference for development partnerships that align with national priorities. It is working to tackle corruption and rebuild trust with development partners to access more flexible, long-term finance.
Introduction

Background
Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional $267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF) to agriculture and rural development rose slightly from $10.2 billion in 2015 to $10.9 billion in 2018. This is only a fraction of the total ODF disbursements of $254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

Objectives, definitions and methodology of this country case study
This country case study summarises key findings from a country analysis of financing for rural development in the Democratic Republic of Congo (DRC). It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of DRC over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale-up to support public investment in rural development.

Definitions
What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details): Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development: We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria (usually defined as other official flows, or OOFs). We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a perfect measure, but given the lack of a sectoral definition or

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1 The sum of ODA and OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).
attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions
This country case study reflects our four main research areas:

• the government’s priorities for public investment in inclusive and sustainable rural development
• financing for public investment in inclusive sustainable rural development
• borrowing (external development assistance) for this public investment
• the government’s preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect the short- and medium-term implications of the crisis for government priorities and preferences for public investment as well as the amount and type of external assistance demanded.

Methodology
We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature and data analysis, which also helped us to identify country stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For DRC, we held eight interviews between April and June 2020, and received eight questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Democratic Republic of Congo: country context
DRC is classified as a low-income country (LIC) (IMF, 2019). As such, it is eligible for concessional assistance from the World Bank (the civil works preference of the International Development Association (IDA)) and the African Development Fund (ADF).

DRC is a fragile country and has often been affected by conflict and civil unrest. The country suffers from political instability, weak institutional capacity, and poor governance (ibid.). The size and location of the country, combined with its poor infrastructure, aggravates these already serious problems.

DRC borders nine other countries, many of which have experienced violent conflict over time (ibid.), with conflicts often spilling across its borders. The country is currently hosting half a million refugees from neighbouring countries, and there are approximately 5 million internally displaced people (UNHCR, 2020). The country has endured the so-called ‘resource curse’, with its vast natural resources often fuelling instability and conflict. The country is rich in diamonds, metal ores (copper, cobalt and more), and other minerals (IFAD, 2019). Control over these resources has often led to regional conflicts and has helped to finance conflict (IMF, 2019).

While the DRC has recorded episodes of strong economic growth in the past 10 years, its economy remains highly dependent on metal and mineral exports. This leaves it vulnerable to price changes and volatility. In 2015 and 2016, a sharp decline in growth was caused primarily by falling prices for cobalt and copper. In addition, a population growth rate of 3% means that, in some years, the real economic growth rate has been below, or close to, zero (ibid.).

Agriculture remains central to the country’s economic growth and its development efforts.

3 Government national and sectoral strategies, debt and aid management policies and IMF Article IV.
4 Spanning IMF, OECD and World Bank sources.
In 2018, agriculture accounted for 19.1% of GDP and employed 68.6% of the population, and 56% of the country’s more than 80 million people lived in rural areas (World Bank, 2020), where many farmers continue to rely on subsistence farming.

Agricultural production in DRC covers only a third of the food consumed in the country and it is a net importer of agricultural products (IFAD, 2019). At the same time, large and as yet untapped land and water resources mean that agriculture has the potential to transform the country. Of the estimated 80 million hectares of arable land, only around 10% are currently cultivated (World Bank, 2017). DRC also accounts for more than half of Africa’s entire reserves of surface water, but less than 0.1% is currently being used or exploited (UNEP, 2011).

DRC is one of the poorest and most gender-unequal countries worldwide. In 2019, the country was ranked at 179 in the Human Development Index (UNDP, 2019) and has some of the worst poverty indicators in the world. Per capita income stands at $470 – a sharp decline from more than $1,000 in the 1990s and well below the average for sub-Saharan African countries of $1,600 (IMF, 2019). The country is also ranked at 156 out of 162 countries in the gender inequality index (UNDP, 2019). Women have suffered disproportionately as a result of the country’s many different conflicts and outbreaks of violence. DRC is also listed as the 12th most vulnerable country to climate change and the 5th least-ready country, according to the ND-GAIN Index (ND-GAIN, 2017).

A new president came to power in 2019 with a strong governance agenda, and for the first time, there was a peaceful transition from one president to the next. President Tshisekedi has laid out a government programme built on four pillars: good governance; sustainable economic growth; the human being; and solidarity (IMF, 2019). To achieve the objectives of this programme, the President intends to scale up public investment to narrow the country’s large infrastructure gap.

**Government priorities for rural development**

Agriculture and rural development are core priorities in the government’s development planning. Both the Strategic National Development Plan (PNSD) 2019–2023 and the National Agriculture Investment Plan (PNIA) 2014–2020 pre-date the current government, but they remain the main reference documents for national planning.

The PNSD prioritises smallholder farmers and improved access to markets as a stepping stone to the development of agriculture that is more commercially oriented. The PNIA goes into more detail and expands these priorities to include food security, climate change and capacity building.

The nature of the challenges facing DRC requires simultaneous action on multiple fronts. The country’s infrastructure is very poor outside its major cities, making it difficult for farmers to reach markets. Better access to water, energy and other infrastructure (e.g. storage) is also vital to increase productivity and the added value of agricultural production. Another major obstacle is poor land administration and, in particular, the insecure land rights that restrict private investment and make it extremely hard for most farmers to access the finance they need. Finally, while lack of capacity and agricultural inputs are major constraints for agricultural development, access to extension services and agricultural technology in rural areas remains limited, at best.

Targets identified in the government strategy do not seem to receive enough attention. The PNSD recognises that most smallholders and subsistence farmers are women and calls for training and support services targeted to their needs. Similarly, the PNIA foresees support for rural organisations for women and their participation in sectoral processes. Targeting women also makes sense in the context of major gender inequalities, as mentioned above. However, measures related to gender equality did not emerge strongly as an issue during the interviews for this country case study.

The implementation of government strategy has faced challenges. Our interviewees indicated that, on the administrative side, corruption and an unfinished decentralisation process
have resulted in a myriad of fragmented and uncoordinated projects. On paper, provincial governments have the power to develop agricultural provincial programmes. But in reality, they lack the human, technical and financial resources required to do so. Insufficient public investment and continued high dependency on external assistance undermine the sustainability of investment and infrastructure projects. In addition, several regions of the country are hard to reach because of the security situation.

The Covid-19 emergency has highlighted the importance of the agriculture sector in DRC. Interviewees argue that lack of access to food has pushed discussions about food sovereignty further up the government’s agenda. Confinement measures to contain the Covid-19 outbreak made it difficult to get food from rural areas to the markets, particularly those in large cities. At the same time, the country remains a net food importer for every category of agricultural products (IFAD, 2019): imports were also compromised during the Covid-19 crisis because of the slow-down in global trade and trade restrictions.

**Financing rural development**

**Public finance**

Domestic revenues are very low in DRC and are highly dependent on exports of natural resources. The revenue to GDP ratio is less than 12%, compared with an average of 20% across sub-Saharan Africa (IMF, 2019). This figure can be explained by a narrow tax base, a large informal economy, corruption and an inefficient tax administration. Mining revenue accounts for 20% of all government revenues, making income highly volatile and sensitive to fluctuations in the price of natural resources. A Mining Code introduced in 2018 is expected to boost government revenues by increasing mining royalties and taxes (ibid.). However, this legislation will not be able to address the volatility of revenues as a result of changing commodity prices.

Public spending on agriculture and rural development is low, but it is expected to increase in coming years. The first monitoring report by the New Partnership for Africa’s Development (NEPAD) showed that public expenditure in agriculture accounted for just 2.4% of total public expenditure, far below the 10% target set by the Malabo Declaration (AU, 2018). DRC’s medium-term budget framework, however, identifies agriculture as a key sector and prioritises it for public investment alongside social infrastructure projects (Ministère du Budget, 2019).

**External development assistance**

The country continues to access concessional finance and is highly dependent on aid. DRC receives large volumes of ODF, mostly in the form of ODA grants (Figure 1). The flows remain relatively stable: over the period 2016–2018 they ranged between $2.3 billion and $2.5 billion.

The share of development assistance that goes to agriculture and rural development is relatively low and the sector has received only concessional finance (Figure 2). Grants account for most flows across the period 2014–2018. The spike in ODA loans ($19 million) in 2018 is the result of two IDA operations: the Regional Great Lakes Integrated Agriculture Development Project, and the Agriculture Rehabilitation and Recovery Support Project.

The share of ODF that targets agriculture and rural development is relatively low: the average for grants was 3% for the period 2014–2018, peaking at just 3.6% in 2016. The figure has since fallen to 2.7% in 2017 and 2018 (Figure 3).

The share of ODA loans that targets the sector is more variable as it depends on individual projects (Figure 3). Based on government strategies (see section on borrowing) and information from our interviewees, it seems possible that the volume of ODA loans will increase in the future.

It is important to mention, however, that these figures might not capture all of the ODF going to agriculture and rural development, given the variability in the use of OECD categories. For example, operations by the International Fund for Agricultural Development (IFAD) in DRC are not captured through this methodology, which is based on OECD codes. This is probably because OECD categories are very specific and this makes it difficult to classify projects that cut across several areas.
Demand for external finance to support the agriculture and rural development sector is expected to grow, mainly in the form of grants and highly concessional loans. Scarce public revenues and continued dependency on aid flows suggest that government efforts to increase public support for the agriculture and rural development sector will remain dependent on external finance. Government demands focus mostly on grants, followed by highly concessional loans.

According to our interviewees, concessional loans can be considered for activities that can generate revenues, such as rural infrastructure, rural finance and agricultural technologies. These priorities align very well with the PNSD (Ministère du Plan, 2019) and the PNIA (Ministère de l’Agriculture et du Développement Rural, 2013). In the context of the Covid-19 crisis, however, our interviewees expressed concerns that the ability of the government to raise funds for agriculture could be constrained by competing priorities (e.g. health), unexpected changes to the fiscal space (e.g. price volatility and debt repayment) and a potential increase in global competition for aid flows.

External development assistance is sometimes seen as more effective than government-managed investment. Access to finance at below-market rates was the aspect most highly valued by our interviewees and survey respondents. They also valued the contribution of external finance to support policy reform and policy advice, as well as the ability to bring in expertise and share experiences across countries (learning from peers). The ability of external partners to implement projects and deliver results on the ground was also seen as important by several interviewees. In comparison, government-managed investments were considered less effective and efficient and sometimes guided by the wrong priorities (e.g. political gains).

Development assistance for agriculture and rural development is perceived as fragmented and poorly coordinated, with multiple initiatives failing to link up to achieve a greater impact. This is illustrated by the 2018 monitoring data from the Global Partnership for Effective Development Co-operation (GPEDC), which shows the weak alignment of initiatives to government priorities (43%) and limited use of country systems, at 2% (down from 42% in 2016) (GPECD, 2019). These figures reflect the erosion of trust between development partners and the previous government, resulting from, among other things, widespread corruption. Our interviews suggest encouraging signs that, under the new government, steps are being taken to tackle key internal problems and regain the trust of development partners.
Borrowing for rural development

DRC has low levels of debt on average. The IMF estimated the country’s public debt to be 20.1% of GDP in 2018 (IMF 2019). External public debt accounts for the largest share of public debt at 13.7% of GDP. Domestic debt is made up of arrears (VAT, legacy arrears, etc.). External debt is comprised of guarantees linked to the mining sector (40% of external debt and 6.9% of GDP); multilateral concessional loans (30% of external debt and 4.1% of GDP); bilateral concessional loans (19% of external debt and 2.6 of GDP); arrears (5% of external debt) and commercial debt (with creditors accounting for 11% of external debt). According to government reports, the largest external creditors, excluding mining guarantees, are the IDA, China and
the African Development Bank (DRC Government, 2019).

DRC has an external debt of 13.7% of its GDP (IMF, 2019). While this figure is relatively low, the country is considered to be in moderate debt distress because of its lack of substantial public revenues (ibid.). This means that under current circumstances – and despite its low debt levels – access to borrowing is limited. Government reforms and the new Mining Code approved in 2018 were expected to increase government revenues (ibid.), but the Covid-19 crisis could erase previous government forecasts.

The government aims for more external concessional finance and a potential increase in non-concessional borrowing. Strong economic growth forecasts have led the government to adopt a prudent but expansionary medium-term debt strategy for 2020–2024 (DRC Government, 2019), with any borrowing used to finance the implementation of the national development plan.

As discussed, concessional finance remains the priority, but the government considers that it is difficult to raise additional volumes from donors given their limited offer (ibid.). In this context, the government will try to tap into ‘semi-concessional’ finance from India and China and non-concessional finance for public investment (ibid.).

It is not clear whether the term-semi-concessional refers to OECD criteria, a grant element of 15–35%, or to other definitions. And it is not clear whether agriculture and rural development would be prioritised for this sort of lending. So far, the evidence presented indicates that the sector has not been targeted for non-concessional flows.

In term of currency, the debt strategy prioritises operations in US dollars to minimise and help to manage exchange-rate volatility. This is also the currency used in most mining contracts and makes up most of the reserves.

Several aspects of finance operations have a strong bearing on government decisions. Interviewees emphasised a strong preference for projects accompanied by grants for technical assistance and other project expenses. Support for project management structures is often seen as instrumental for achieving the objectives of the project. Favourable repayment schedules and large volumes of finance are also preferred by the government. Large volumes, in particular, are seen as vital to reduce fragmentation and develop more integrated regional or subnational approaches.

Preferences and instruments for rural development

Preferences for development assistance for rural development

Government preferences for development assistance are diverse, and include several development effectiveness principles. The PNIA emphasises the alignment of development partners with the priorities set by the government (Ministère de l’Agriculture et du Développement Rural, 2013). The centrality of this principle has also been confirmed by our interviewees. While not formally stated, the interviewees have also identified the following preferences: project sustainability; long-term finance, untied aid, absence of policy conditionality, speed of delivery, predictability and earmarking.

Some of these preferences (e.g. sustainability, long-term finance and predictability) can be explained by the shortcomings of project finance and increasing government demand for more flexible and longer-term approaches to support agriculture and rural development. Other preferences respond to core aid effectiveness principles (untied aid) or are linked to them (policy conditionality). More interesting is the preference for earmarking, which several actors consulted for this project see as important to ensure that resources are used as expected, and reach the intended beneficiaries.

Demand for other types of instruments

There is a growing demand for more flexible and longer-term financing instruments in DRC. While the PNSD 2019–2023 acknowledges that project finance will remain the main form of support, our interviewees and survey respondents expressed the need for longer-term approaches in the form of multi-phase programme- and policy-based lending.

Widespread corruption and political instability have pushed all donors to move towards project lending. The effect of this is illustrated by the marked decrease in the use
of country systems, as discussed above. At the same time, the lack of trust in government and the predominance of project support have created high fragmentation among development partners, as well as a lack of coordination and coherence with government policies.

The new government has taken a strong stand against corruption and is trying to rebuild trust. Our interviewees indicated that some progress has been made and that some donors, led by the World Bank, are planning to increase the flexibility of their finance operations as a result. In addition, some interviewees also expressed an appetite for catastrophe risk drawdown options (CAT-DDO). This preference should be understood in the context of the high vulnerability of the country to natural disasters and external shocks.

**Conclusions**

Our analysis of the experience and perspective of the DRC on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Agriculture and rural development have been identified as a priority in government development efforts. The sector is not only central to the economy, but also holds incredible potential for the country’s future economic development in the form of large margins for valorisation and productivity gains, combined with vast – and as yet unexploited – land and water resources. Limited access to food during the Covid-19 pandemic, combined with continued dependency on food imports, has contributed to increased political support for investments in the sector to achieve food sovereignty.
- The government’s demand for external assistance for rural development and agriculture is expected to rise in the future. Limited public revenues have left the country highly dependent on development finance, and increased investment in agriculture and rural development will have to rely on external sources.
- Demand will focus on grants and concessional loans. Access to loans is constrained, at present, by limited government revenues. According to our interviewees, highly concessional loans can be considered for activities that generate revenues, such as rural infrastructure, rural finance and agricultural technologies.
- When it comes to borrowing decisions, the government values the availability of grants for technical assistance and other project expenses. A favourable repayment schedule and large volumes of finance are also preferred. Large volumes are seen as particularly important to reduce fragmentation and develop more integrated regional or subnational approaches.
- The government has expressed a strong preference for development partners to align their support to national priorities. It is also actively trying to tackle corruption and rebuild trust from development partners in order to access more flexible and longer-term finance. This could help to reduce fragmentation and improve coordination.
References


## Annex 1  List of interviewees

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<thead>
<tr>
<th>Name</th>
<th>Institution</th>
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<tbody>
<tr>
<td>Valantin Achancho</td>
<td>International Fund for Agricultural Development (IFAD)</td>
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<tr>
<td>Diego Arias</td>
<td>World Bank</td>
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<tr>
<td>Patience Balomba Mpanzu</td>
<td>World Bank</td>
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<tr>
<td>Lewnis Boudaoui</td>
<td>OPEC Fund for International Development (OFID)</td>
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<tr>
<td>Francois Elika Atubolo</td>
<td>United Nations Development Programme (UNDP)</td>
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<tr>
<td>Rigo Gene</td>
<td>Conseil National des Organisations Non Gouvernementales de Développement de la RDC (CNONGD)</td>
</tr>
<tr>
<td>Patrick Habamenshi</td>
<td>IFAD</td>
</tr>
<tr>
<td>Jean Baptiste Musabyimana</td>
<td>Fédération des Organisations Des Producteurs Agricoles (FOPAC)</td>
</tr>
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</table>
This country case study on DRC is part of a project that aims to map future demand from recipient country governments for external development assistance from official donors to support public investment in inclusive and sustainable rural development over the next five to 10 years. It also aims to explore the financial and non-financial terms and conditions of this assistance. Its analysis is included in the synthesis report for this project (Prizzon et al., 2020), which reviews the experiences of 20 low- and middle-income countries.

We are grateful to the interviewees who gave up their time to take part in this project, share their insights and provide feedback, particularly during the challenging times of spring 2020. Their contributions were vital to corroborate and challenge our initial analysis.

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We have taken care to validate the information presented in this country case study and any omissions, errors or misreporting are unintentional and the authors’ own. The views expressed in this report do not represent those of ODI or IFAD.

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