FINANCIAL INCLUSION IN THE DEMOCRATIC REPUBLIC OF THE CONGO: CHALLENGES TO FINANCIAL DEEPENING AND OPPORTUNITIES FOR DEVELOPMENT[1]

This paper provides an overview of the state of financial inclusion in the Democratic Republic of the Congo. Physical, social, and regulatory barriers limit access to financial services. Low credit and deposits impede access to financing for individuals and firms, posing challenges to financial deepening. Increased digitalization and positive trends in mobile money engagement—in the Democratic Republic of the Congo and across the sub-Saharan African region—offer promising opportunities for increased financial inclusion and sustainable development.

A. Introduction

1. **The Democratic Republic of the Congo faces significant challenges in the context of macroeconomic fragility, which have constrained financial development.** With a 2021 population estimated at 92.4 million, the proportion in extreme poverty amounts to 77 percent in the Democratic Republic of the Congo, far above the level of 47 percent for African fragile state peers and 40 percent for sub-Saharan Africa. 2021 GDP per capita in the Democratic Republic of the Congo was estimated at US$609, nearly half the per capita amount for AFR fragile states (US$1,064) and sub-Saharan Africa (US$1,742). Informality poses a continued threat to growth and development throughout the region, and it is estimated that much of the Democratic Republic of the Congo workforce participates in the informal economy. Financial inclusion is recognized as a key mechanism to reduce poverty, bolster resilience, and promote prosperity.

The Democratic Republic of the Congo trails regional peers in several aspects of financial inclusion including account ownership (bank or mobile money), access to cash points, and capacity to save or borrow funds (see Figure 1). Throughout sub-Saharan Africa, enhanced financial inclusion plays a prominent role in sustainable development. Access to financial services enables both individuals and firms to engage in day-to-day as well as long-term financial planning. In turn, increased access encourages participation in a broader range of financial activities meant to help individuals and firms manage risks and endure financial shocks.

[1] This paper was prepared by Megan Pohl.

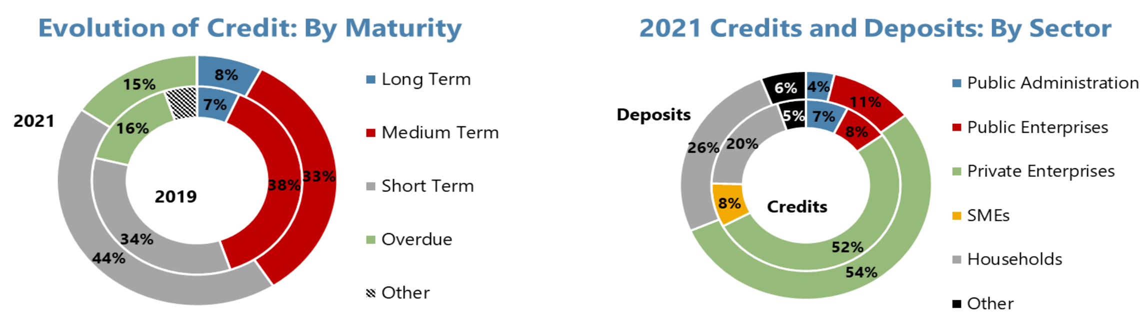
B. Financial Inclusion: Macro Indicators in the Democratic Republic of the Congo

2. **As of end-2021, the credit to the private sector in the Democratic Republic of the Congo stands at 7.5 percent of GDP while the deposits in the banking system account for 19.7 percent of GDP.** Credit in the Democratic Republic of the Congo rests well below that of regional peers, with 2020 estimates for domestic credit to the private sector amounting to 38 percent of GDP in sub-Saharan Africa and 14 percent among fragile state peers. In 2019, short-term credit accounted for 34 percent and medium-term credit for 38 percent. Credit shifted to the shorter-term in the wake of the COVID-19 pandemic, with 44 percent in short-term and 33 percent in medium-term credit as of end-2021 (see Text Figure 1). Both credits and deposits in the Democratic Republic of the Congo remain heavily dollarized (refer to Staff Report Annex VII on Dollarization).

	2019	2020	2021
Deposits (% of GDP)	12.2	16.4	19.7
Credit (% of GDP)	6.7	7.3	7.5
Source: Banque Centrale du Congo			

3. **Private enterprises account for the largest portion of credit and deposits in the Democratic Republic of the Congo (52 percent of credit and 54 percent of deposits) followed by households (20 percent of credit and 26 percent of deposits).** According to the Central Bank of Congo (BCC), credit and deposits are geographically concentrated; over 95 percent of credits have been attributed to the same six provinces and over 95 percent of deposits have been attributed to the same seven provinces since 2019.

Text Figure 1. Democratic Republic of the Congo: Credit and Deposits



Source: BCC

C. Access to Financial Services[2]

The State of Physical Infrastructure

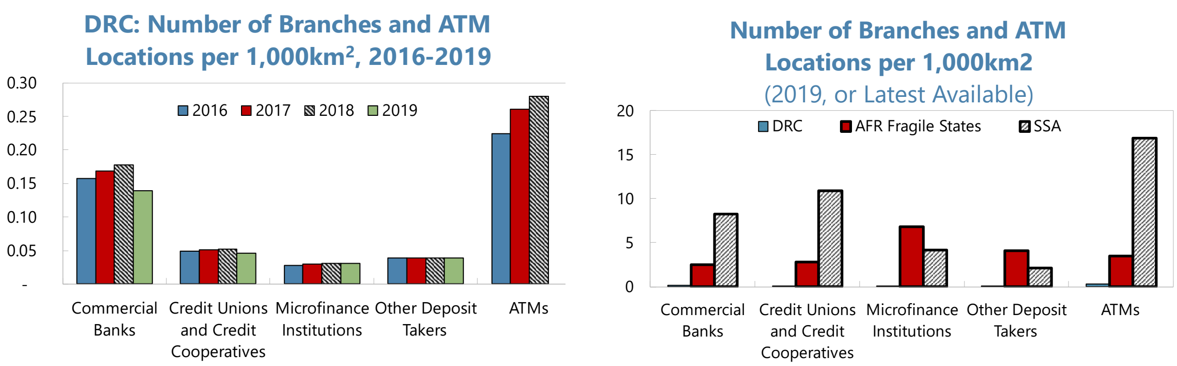
4. **Physical barriers in the Democratic Republic of the Congo hinder access to financial services and institutions, contributing to low financial inclusion.** At 2.3 million square

[2] Global Financial Inclusion (Global Findex) data represents the population aged 15 and older.

kilometers, the Democratic Republic of the Congo is the second largest country in Africa and the 11th-largest country in the world by area. Only 26 percent of the active population have a bank account and about 35 percent of adults without a financial institution account cite the distance to financial institutions and services as a major impediment.

5. **Cash points are limited in the Democratic Republic of the Congo compared to sub-Saharan Africa and fragile state peers in the region.** According to the latest Financial Access Survey, commercial bank branches in the Democratic Republic of the Congo numbered 300 while ATMs totaled 634. The number of branches of financial institutions per 1,000km^2 in the Democratic Republic of the Congo have remained below 0.2 in recent years, often more than 10 times less than the averages in other fragile state and sub-Saharan African peers (see Text Figure 2). Though the number of ATM locations per 1,000 km^2 appears to have risen incrementally, infrastructure requires further improvement.

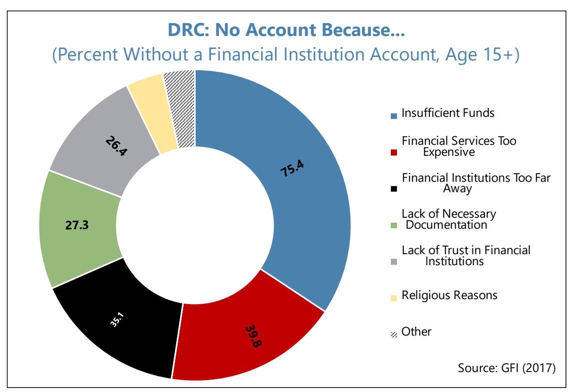
Text Figure 2. Democratic Republic of the Congo: Cash Points Compared to Regional Peers



Sources: Financial Access Survey (FAS) and IMF staff calculations.

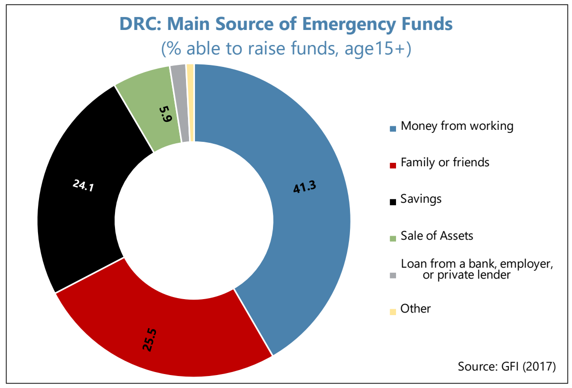
The State of Social and Regulatory Infrastructure

6. **Only 26 percent of the population have an account with a financial institution.** For those without a bank account (age 15+), the top five reasons cited are: 1) lack of sufficient funds; 2) cost; 3) distance; 4) lack of proper documentation; and 5) lack of trust in financial institutions. Account ownership is higher among those who have reached a secondary education compared to those with primary education or less. Similarly, account ownership tends to be greater for those in the richest 60 percent of the surveyed population and those who are actively participating in the labor force (refer to Figure 2).



7. 60 percent of wage recipients report receiving wages in cash; only 26 percent report receiving wages into a financial institution account. The economy of the Democratic Republic of the Congo functions primarily on a cash basis. The prevalence of cash transactions is above the average of sub-Saharan African Fragile State peers and the level of wage receipts into financial institution accounts falls below that of sub-Saharan African peers and the world. Gaps persist in available data for the Democratic Republic of the Congo when it comes to documenting cash receipts for public sector pensions, domestic remittances, government payments and transfers, private and public sector wages, and wages from self-employment.

8. Only 41 percent of individuals in the Democratic Republic of the Congo indicate that it is possible to raise emergency funds. For those who are able to raise funds, the top 3 sources are: 1) money from working; 2) family or friends; and 3) savings. Only 1.7 percent indicated that they raise emergency funds by taking a loan from a bank, employer, or private lender. Similarly, only 39 percent of individuals responded that they had saved any money in the past year, while 4.7 percent of individuals indicated that they had done so at a financial institution.



9. 35 percent of individuals responded that they borrowed money in the past year. Family or friends were the top source of borrowed funds followed by financial institutions or credit card use. Health or medical purposes were cited by individuals as the primary reason for borrowing, followed by education or school fees.

The Effects of Informality

10. Poverty and poor access to education are drivers of informality that may result in hampered access to formal employment, public benefits, and other financial services. The consequences of informality in developing economies include a narrower tax base (and thus, tax revenues), reduced productivity, lower access to financing, higher gender inequality, decreased access to formal social safety nets, and wider wage gaps (particularly the wage gaps between low skilled workers and genders in the informal compared to formal sector).[3]

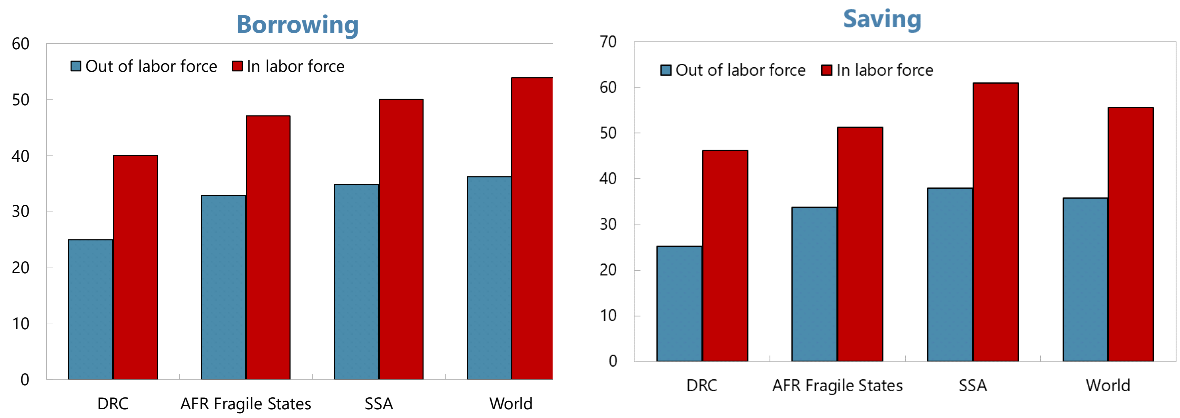
11. The estimated size of the Democratic Republic of the Congo's informal economy was 47 percent of GDP in 2015 compared to 40 percent for fragile state peers and 36 percent for sub-Saharan Africa. Congo's Trade Union Confederation estimates that 97 percent of the overall workforce may be engaged in informal sector activities.

[3] Further information on the SSA experience may be found in the Spring 2017 AFR REO, Chapter 3: The Informal Economy in Sub-Saharan Africa as well as the IMF book *The Global Informal Workforce: Priorities for Inclusive Growth*.

12. A lack of access to or unwillingness to engage in formal employment may further obstruct financial access and inclusion. 27.3 percent of those without a financial institution account in the Democratic Republic of the Congo cited the absence of necessary documentation—such as proof of residence, proof of income, and ID or ID equivalents—as a major impediment to account ownership and access to financial resources (see Section D, paragraph 7). For example, those out of the labor force borrow and save much less than those in the labor force. Account ownership is much lower for those out of the labor force for both financial institution and mobile money accounts (see Figures 2 and 3).

Text Figure 3. Democratic Republic of the Congo: Borrowing and Saving of the Labor Force

(Percent of Population Age 15+)



Source: GFI (2017)

13. More women than men are engaged in the informal sector, particularly in low-income developing countries.[4] Gender inequality is also more pronounced in the informal as opposed to the formal sectors. While women tend to be disproportionately affected by informality, measuring the effect on women in the Democratic Republic of the Congo is limited by data availability. The January 2022 Financial Sector Sustainability Review has called on the Congolese authorities for enhanced collection of gender-disaggregated data (GDD) as part of an ongoing effort to better analyze and understand the reality of gender inequality in the country (refer to Staff Report Annex II on findings from the FSSR).

Financing for SMEs

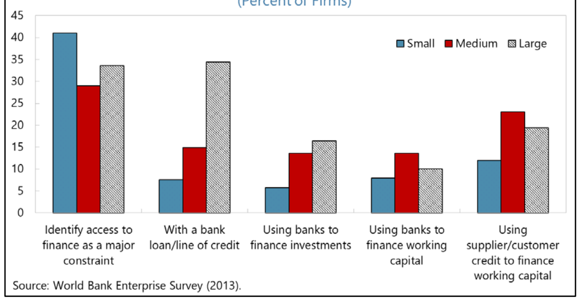
14. The available data suggests that access to financing for SMEs in the Democratic Republic of the Congo is inferior to that of households. SMEs accounted for approximately 8 percent of the credit base and 5 percent of the deposit base in 2021, the fourth largest sector

[4] For more information on trends in financial inclusion, refer to: Delechat, Corinne, and Leandro Medina, eds. 2021. *The Global Informal Workforce: Priorities for Inclusive Growth.* Washington, D.C.: International Monetary Fund.

behind private enterprises, households, and public enterprises, respectively. Microfinance institutions provide an opportunity to fill gaps in financing access for SMEs. The BCC has worked to improve the regulatory framework for microfinance institutions in recent years, and work is ongoing to strengthen the legislative framework regarding the supervision of microfinance institutions.[5]

15. 39.1 percent of firms in the Democratic Republic of the Congo cited access to finance as a major constraint to conducting business. Difficulties in accessing finance are especially borne by smaller firms in the Democratic Republic of the Congo (41 percent). Congolese firms report that approximately 92 percent of investment is financed internally compared to 75 percent of sub-Saharan African firms (see Table 1 for breakdown by size and comparison to peers).

DRC: SME Financing
(Percent of Firms)



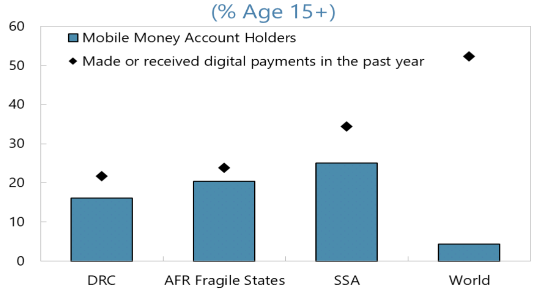
Source: World Bank Enterprise Survey (2013).

D. Digitalization and Mobile Money

16. The Democratic Republic of the Congo is lagging peers in mobile money. Latest estimates of mobile cellular subscriptions per 100 people amount to 49.5 in the Democratic Republic of the Congo compared to an average of 69.9 in fragile state peer countries, and 75.5 in sub-Saharan Africa. Approximately 16 percent of adults in the Democratic Republic of the Congo possess mobile money accounts compared to approximately 23 percent for sub-Saharan African fragile state peers. Additionally, 22 percent of Congolese individuals indicated that they had made or received digital payments in the past year—nearly on par with 24 percent for fragile state peers in the region. 17 percent of Congolese individuals used a mobile phone or the internet to access an account (see Text Figure 4). Of individuals with an account, 67 percent used a mobile phone or the internet to access an account. Improvement in the numbers of mobile cellular subscriptions—as well as upgraded telecommunications infrastructure to support advancements in wireless mobile technology—could lead to greater opportunities for digital engagement (see Figure 3).

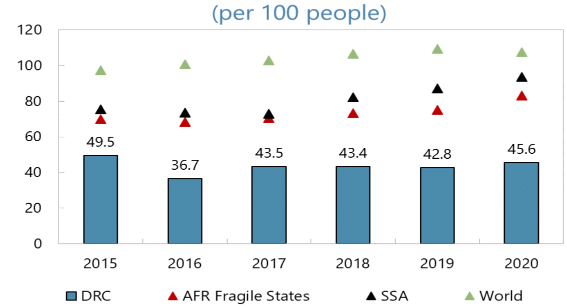
Text Figure 4. Democratic Republic of the Congo: Mobile Access

Mobile Money Engagement
(% Age 15+)



Source: GFI (2017)

Mobile Cellular Subscriptions
(per 100 people)



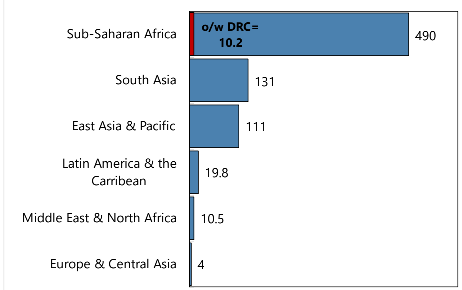
Source: WDI and IMF staff calculations.

[5] Further information may be found in the 2014 IMF Country Report No. 14/315 and 2015 IMF Country Report No. 15/281.

Box 1. Mobile Money and the SSA Experience[1]

The growing presence of BigTech[2] in emerging and developing economies offers potential opportunities for increased financial inclusion but could exacerbate existing weaknesses in financial regulation and supervision. While BigTech tends to be more retail-focused, activity in emerging markets focuses more broadly on financial services such as banking and investment. In under- and/or un-banked areas of sub-Saharan Africa, such mobile money platforms provide users with vital access to financial services.

2020 Value of Mobile Money Transactions
(in US$ billion)



Source: GSMA; BCC; and IMF staff calculations

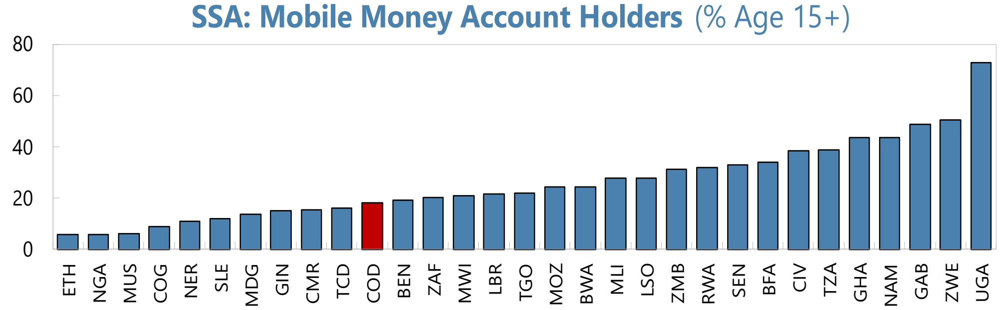
According to the 2021 GSMA State of the Industry Report, sub-Saharan Africa is a key player in the mobile money industry and accounted for 43 percent of new mobile money accounts in 2020. Mobile money transactions in sub-Saharan Africa amounted to US$490 billion out of the global total of US$767 billion. Despite this success, mobile money access remains uneven across sub-Saharan Africa.

In 2015, Multipay Congo, a new startup, emerged in the Democratic Republic of the Congo with the mission to "facilitate interoperability and shared payment services between financial institutions in order to promote financial inclusion in the Congolese market."[3] This platform, a collaborative effort between the Banque Commerciale du Congo (BCDC), FBNBank, Equity Bank, and RawBank, provides seamless connectivity between various transaction points. The goal is to enhance interbank operations so that consumers may have a wider network of financial resources at

their disposal. The access capabilities provided by Multipay Congo constitute an important step toward interconnectivity that cuts through the persistent physical barriers to access in the Democratic Republic of the Congo.

The entrance of BigTech firms as key financial service providers in underserved economies may heighten the risks of corruption (fraud, theft, money-laundering, etc.) in economies where financial regulatory frameworks are unstable or incomplete. These risks are also amplified in economies that are largely cash-based and informal. This is especially relevant for an economy like the Democratic Republic of the Congo where a lack of trust in financial institutions and high levels of informality prove to be a hindrance to financial inclusion and access (see Section D, paragraph 7).

SSA: Mobile Money Account Holders (% Age 15+)



Source: GFI (2017)

[1] Further background information on the SSA experience may be found in the Spring 2016 AFR REO, Chapter 3: Financial Development and Sustainable Growth.
[2] BigTech is defined as a "platform-based business model focused on maximizing interactions between a large number of mainly retail users. [They] are usually large technology conglomerates with extensive customer networks and core businesses across markets, for example, in social media, internet search, and e-commerce." (Bains, P. et al., 2022).
[3] This is the mission statement of the company Multipay Congo as displayed on their official webpage: https://www.multipay.cd/en/apropos-2/.

E. Policy Recommendations

17. The Democratic Republic of the Congo faces many hurdles to achieving financial inclusion levels on par with fragile state and sub-Saharan African peers. Physical, social, and regulatory barriers pose significant challenges to financial access and more private sector credit is needed to generate growth opportunities. To capture the existing potential for financial deepening, the following recommendations could be considered.

18. In a country facing significant constraints to physical access to financial services, mobile money provides a promising opportunity for greater engagement between financial institutions and the population. Despite lower penetration of mobile phones, trends in mobile money engagement in the Democratic Republic of the Congo suggest that increased mobile access would promote financial deepening. The ongoing strengthening of the payment system and supervision of payment institutions should remain in line with the Payment Systems Law passed in 2018. Additionally, the Democratic Republic of the Congo should continue to move away from a cash-based economy. Progress has been made in this regard through the policy of "bancarisation" first implemented in 2011, which required civil servants' wages and salaries be paid via bank accounts.[6]

19. To realize potential gains more fully, deepening of financial access must be accompanied by measures to strengthen financial literacy. Addressing gaps in financial knowledge—such as basic financial concepts or awareness of available financial tools and services—is critical to ensure that previously excluded societal segments are able to engage in healthy and responsible financial behavior. Enhanced financial education will help to mitigate certain consequences of exposure to risk that may be due to financial illiteracy. Equipping individuals and households with the proper tools for financial success will encourage financial resilience and greater overall financial inclusivity.

20. Bolstering financial reporting and transparency, in line with international standards, will reinforce trust in financial institutions. Limited transparency combined with subpar financial account reporting quality impedes progress toward inclusive financial access and undermines confidence in regulatory institutions. The adoption and implementation of international best practices and accounting standards, as identified in the 2022 FSSR, will shed greater light on the situation of borrowers and risks posed to the financial system.

21. The continued advancement of structural and legal reforms will aid in improving the business climate and protecting financial market integrity. For example, the 2022 FSSR has identified key areas for improvement with regard to insolvency management, including an update to the emergency liquidity assistance (ELA), recovery planning, and a resolution funding mechanism. The expected Banking Law will further the adoption and implementation of a framework for risk and

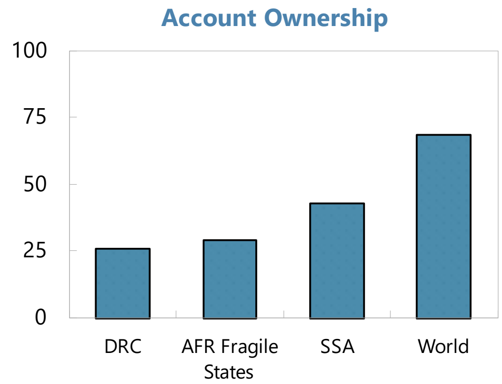
[6] This was also reported in the 2015 IMF Country Report No. 15/281.

banking crisis management. Strong legal and judicial frameworks as well as accounting and reporting systems will facilitate the advancement of reforms which will further financial deepening.

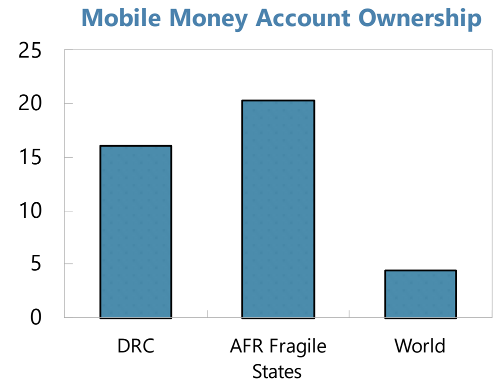
Figure 1. Democratic Republic of the Congo: Financial Inclusion Indicators Compared to Peers

(Percent of Population Age 15+)

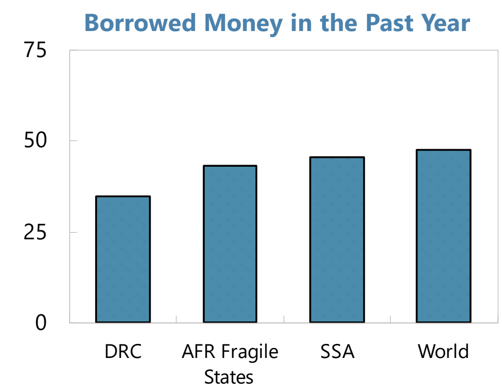
The Democratic Republic of the Congo is lagging peers in financial account ownership.



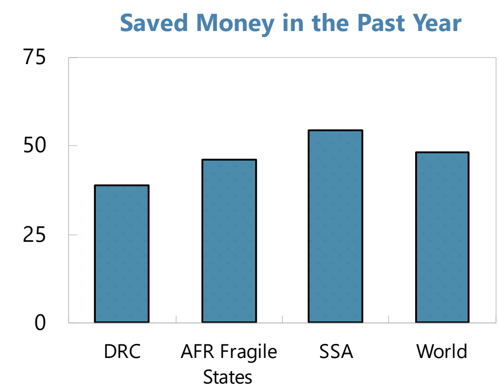
Mobile money account levels in the Democratic Republic of the Congo and fragile state peers are favorable compared to the World.



The Democratic Republic of the Congo falls behind peers in terms of borrowing…

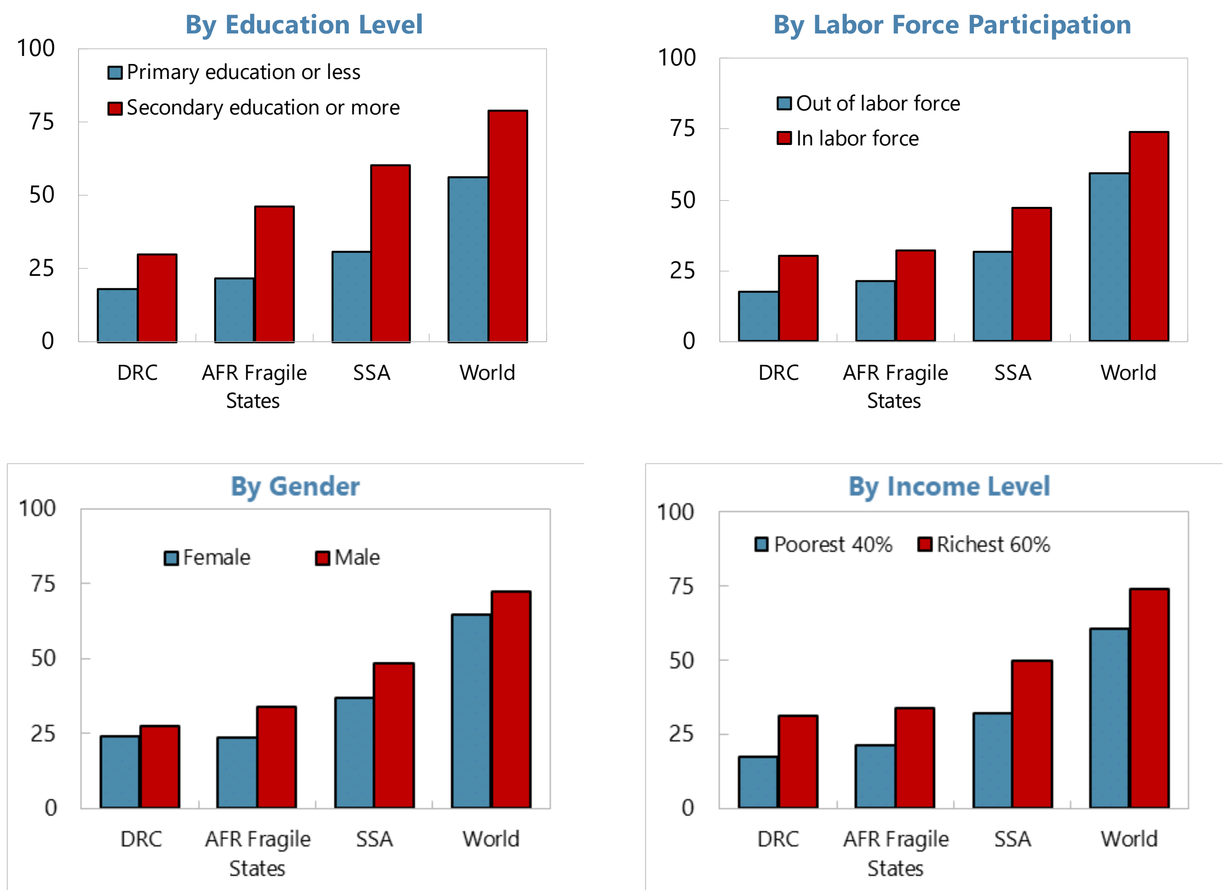


…and saving in the Democratic Republic of the Congo also remains low.



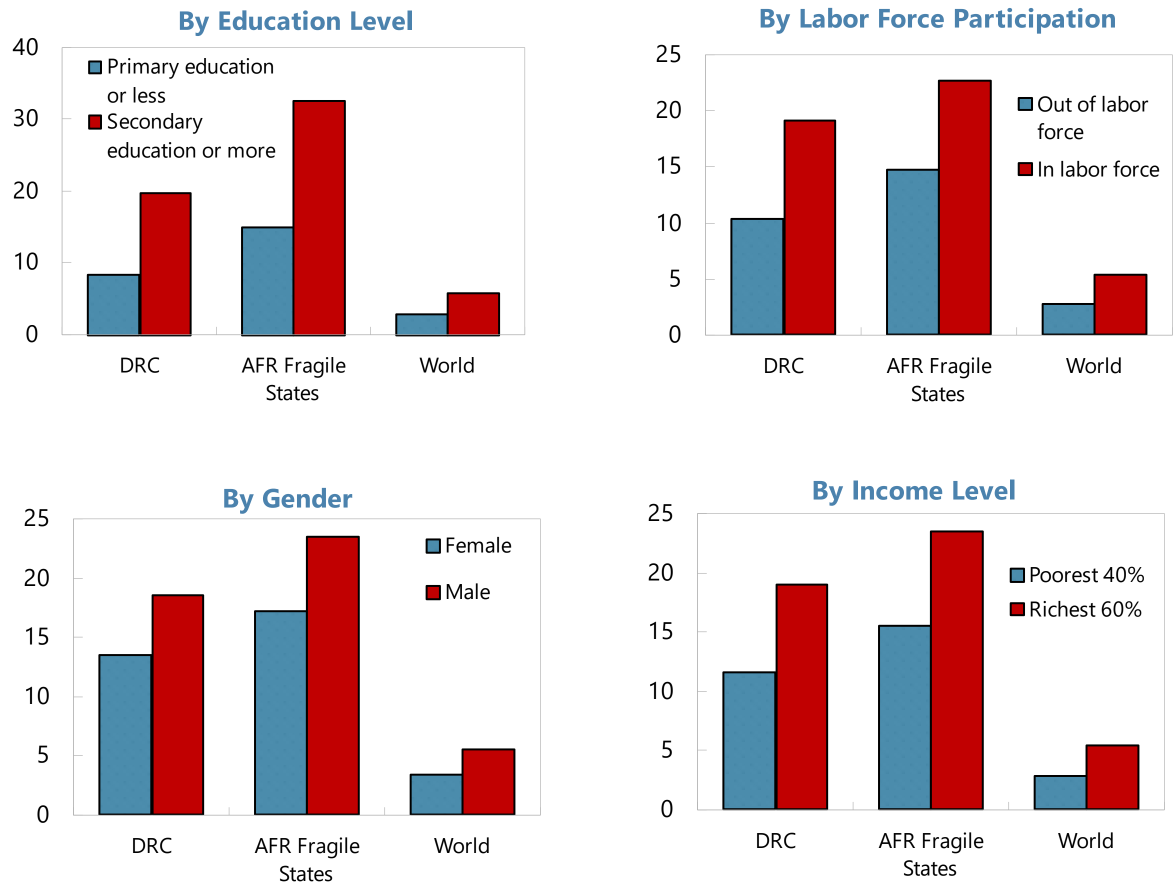
Source: Global Financial Inclusion Database, World Bank (2017).

Figure 2. Democratic Republic of the Congo: Account Ownership
(Percent of Population Age 15+)



Source: Global Financial Inclusion Database, World Bank (2017).

Figure 3. Democratic Republic of the Congo: Mobile Money Account
(Percent of Population Age 15+)



Source: Global Financial Inclusion Database, World Bank (2017).
Note: SSA aggregate unavailable for this indicator.

Table 1. Democratic Republic of the Congo: SME Financing

	DRC	SSA	All Countries
Percent of firms identifying access to finance as a major constraint	**39.1**	**38.2**	**23.2**
Small	41	40.6	24.3
Med	29	33.7	21.6
Large	33.6	27.4	18.3
Percent of firms with a checking or savings	**56.6**	**86.2**	**87.1**
Small	52.7	83.4	84.9
Med	74.1	91.8	91.7
Large	87.6	96.1	94.3
Percent of firms using banks to finance	**7.1**	**18.8**	**25.4**
Small	5.8	15.1	22.2
Med	13.6	22.1	28.7
Large	16.4	28	33.8
Proportion of investment financed internally	**92.2**	**75.2**	**72.7**
Small	92.9	77.2	74.4
Med	87.6	73	70.2
Large	91.7	74	70.4
Proportion of investment financed by banks	**0.9**	**8.9**	**14.2**
Small	0.6	6.8	12.3
Med	2.8	10.4	16.3
Large	2.6	14.5	18.9
Percent of firms using banks to finance	**8.7**	**21.8**	**28.6**
Small	7.9	17.1	24.3
Med	13.6	28.4	35.7
Large	10	37.4	42.4
Percent of firms using supplier/customer credit to finance working capital	**13.8**	**24.1**	**25.2**
Small	12	23	24.1
Med	23	26.5	27.4
Large	19.4	26.8	27.9
Proportion of working capital financed by	**1.9**	**8**	**11**
Small	1.7	5.9	9.4
Med	3.3	11	13.6
Large	1.8	14.4	16.5
Percent of firms with a bank loan/line of	**9.4**	**19.9**	**32.5**
Small	7.6	15.3	27.4
Med	14.9	25	40.3
Large	34.4	39.4	49.6

Source: World Bank Enterprise Survey (2013)

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