

## **Creating a Stock Market in the Democratic Republic of the Congo(DRC): Challenges and Solutions**

**Léon MISHINDO MBUCICI**  
Master in Financial Economics ,  
Department of Economics and Econometrics  
University of Johannesburg

### **ABSTRACT**

This paper provides new solutions to the issue of creating a stock market specific to the DRC. It should be noted that a very limited number of researches has been carried out within the field, but unfortunately no concrete results have been observed so far. To achieve this, the DRC faces political, economic and legal challenges. Hence, this paper offers solutions adapted to each challenge. The Gross Domestic Product (GDP) and the GDP per Capita have shown significant growth over the last twenty years, and the market capitalization is diversifying and extending across all key sectors of the DRC's economy.

**Keywords:** Stock market, GDP, GDP per Capita, Market capitalization

### **1. Introduction**

Stock markets are a general and crucial issue of a country's economy. But the impact of stock markets on the economy depends on several factors including the organization of stock exchanges, its relationship with other components of the financial system, the system of governance in the country, etc. (Rjumohan A., 2019). All of these factors are distinct for each country; therefore, the impact of stock markets on a country's economy is also distinct. The main function of a stock exchange is to trade in stocks, bonds and other financial instruments takes place on an exchange, also called a stock market, stock exchange, where buyers and sellers meet to transact business. Capital events, including the payment of income and profits as well

as the issuing and redemption of such assets and instruments, might all be facilitated by stock exchange.

## **2. Presentation and general overview of the functioning of the stock markets in the world**

In Europe, the major stock markets include the London Stock Exchange (United Kingdom), Euronext (which operates in several countries including France, Netherlands, Belgium, and Portugal), Deutsche Börse (Germany), and Borsa Italiana (Italy), among others. These stock markets facilitate the buying and selling of stocks, bonds, and other securities. They provide a platform for companies to raise capital and for investors to trade financial instruments. Stock indices such as the FTSE 100 in the UK, CAC 40 in France, and DAX in Germany, represent the performance of their respective markets. Asia is home to several major stock markets including the Tokyo Stock Exchange (Japan), Shanghai Stock Exchange (China), Hong Kong Stock Exchange (Hong Kong), and Bombay Stock Exchange (India). Asian stock markets have experienced significant growth in recent years, driven by the region's economic expansion. These markets play a crucial role in attracting domestic and international investors, and provide opportunities for companies to access capital. The Nikkei 225 in Japan and the Hang Seng Index in Hong Kong are examples of popular stock indices in Asia.

The United States is home to the world's largest stock market, the New York Stock Exchange (NYSE), and the NASDAQ, which is known for technology stocks. These stock exchanges are known for their stringent regulatory frameworks, transparency, and liquidity. They provide a platform for companies to list their stocks and access a wide range of investors. Additionally, American stock markets are closely followed globally, and indices like the S&P 500 and Dow Jones Industrial Average (DJIA) are widely recognized benchmarks. African stock markets are diverse, with varying levels of development and liquidity. Countries such as South Africa, Egypt, Nigeria, and Kenya have established stock exchanges that contribute to the region's financial landscape. The Johannesburg Stock Exchange (South Africa) is the largest in terms of market capitalization and provides access to diverse investment opportunities. African stock markets are gradually attracting investors and companies which are seeking growth prospects and opportunities in the region.

Overall, stock markets in Europe, Asia, America, and Africa serve as crucial hubs for capital raising, investment, and economic growth. They facilitate security trading while adhering to specific regulations and reporting requirements. Hence, understanding

these markets is essential for investors and businesses looking to contribute in global financial markets and take advantage of diverse investment opportunities.

Senbet L.W. and Otchere I. (2008) put that over the last fifteen years, Africa and particularly Sub-Saharan Africa has seen rapid growth in the number of stock exchange and a stock market capitalization boom.

We have 5 biggest stock exchanges in Africa, namely:

- Johannesburg Stock Exchange (JSE) : 1.36 trillion dollars ; the JSE has 425 firms listed on it ;
- Nigerian Stock Exchange (NGX) : 66,7 billion dollars ; 156 companies listed
- Casablanca Stock Exchange (CSE) : 65,3 billion dollars ; currently there are 76 firms listed on the CSE ;
- Egyptian Stock Exchange (EGX) : 35,72 billion dollars ; 225 companies listed ;
- Nairobi Stock Exchange (NSE) : 17,19 billion dollars ; currently there are 65 companies listed on the NSE but the twenty top-performing companies listed on the Nairobi Securities Exchange are tracked by the Nairobi Stock Exchange Twenty Share Index, or NSE20, a prominent stock market index.

Nowadays, there are 29 stock exchanges, including two regional exchanges, on the African continent. Several countries have either their own stock markets or belong to a regional stock exchange, which contribute to their economy and provide a way for individuals to invest in their country's future. The Democratic Republic of the Congo is not among them. The country's main economic resources are its raw materials, and it produces almost nine-tenths of total exports and all these raw materials are sold in international markets. Apart from researchers like Charles Sabuharara (see Micale J., 2021), too little attention and reflection is locally oriented on the possibility of creating a stock market specific to the Democratic Republic of the Congo (DRC). That is why, we undertook this study which aims at highlighting the major challenges to the creation of a stock market in the DRC. This study also provides possible solutions to this problem.

### **3. A Stock Market in the Democratic Republic of the Congo : challenges and possible solutions**

The DRC's economy is largely depending on commodity prices, particularly the prices of copper, cobalt, tin, tungsten and tantalum. Most raw material pits remain untapped and have an estimated value of dollars 24 trillion. The DRC is Africa's largest producer of

copper and the world's largest producer of cobalt, a strategic metal used in battery manufacture.

The five largest mines in DRC are Tenke Fungurume Mining, Frontier Mine, Sicominex Copper-Cobalt Mine, Kibali Mine and KOV Mine. Moreover all these companies are owned by foreign multinationals. The Sicominex Copper-Cobalt Mine is owned by China Railway Group Ltd, the Kibali Mines is owned by Barrick Gold Corp ; AngloGold Ashanti Ltd ; Sokimowhich is due to operate until 2037 and the KOV Mine is owned by Gecamines SA ; Glencore Plc which is authorized to operate until 2029.

Gecamines is a private commercial company wholly owned by the state of the Democratic Republic of the Congo.

At all, companies operating in the DRC are classified into eight sectors of activity, namely: Consumer services, Financials, raw materials, Oils and Gas, Industrials, Consumer good, Telecommunications and Utilities.

The creation of a stock market in the Democratic Republic of Congo (DRC) has been a subject of discussion for many years. This stock market will provide an important opportunity for integrating DRC into the global financial market place and attracting global capital.

A well-functioning stock market can play a crucial role in boosting economic growth, attracting investments, and creating opportunities for both local and international investors. However, numerous challenges and constraints stand in the way of establishing a successful stock market in the DRC.

Let's first observe how the market capitalization presents in DRC. Indeed, market capitalization is a key indicator of the behavior and size of a stock market in a given country. Regarding the Democratic Republic of the Congo (DRC), the behavior of market capitalization can be influenced by various economic, political and social factors specific to the country.

It is important to note that there are no stock exchanges operating in DRC, but a small number of private equity firms are actively investing in the mining industry.

Several factors can explain this. First, the DRC faces economic and political challenges, such as political instability, corruption, insecurity and limited infrastructure, which can limit stock market development and affect investor confidence.

Second, the private sector in the DRC is still developing, which is reflected in the composition of publicly traded companies. Most listed companies are public companies or mining companies, which can make the stock market less diversified and less attractive to potential investors.

The table below presents the top ten countries having made the highest amount of investments in DRC between 2017 and 2021.

#### TOP 10 countries that have invested in DRC from 2017 to 2021

Number	Country	Investment cost	Number of projects	Jobs to be created
1	United Kingdom	1 967 071 009	11	2 751
2	China	1 504 800 547	14	2 917
3	South Africa	1 313 899 737	8	1 202
4	Belgium	708 089 999	10	826
5	United Arab Emirates	547 964 557	4	751
6	Mauritius Islands	391 219 428	10	1 424
7	Uganda	338 908 955	2	626
8	USA	318 695 204	7	1 506
9	Panama	265 023 621	1	600
10	Lebanon	223 277 914	12	712

Source : ANAPI/Direction des Agréments, Août 2022

However, despite these challenges, it is possible to create a more reliable stock market in the DRC. This requires a set of economic, political and legal reforms aimed at creating a favorable business climate and strengthening transparency and corporate governance.

Measures such as improving the business climate, protecting shareholder rights, establishing clear and rigorous regulations, and providing financial education to the population can promote confidence for the investor and stimulate stock market development.

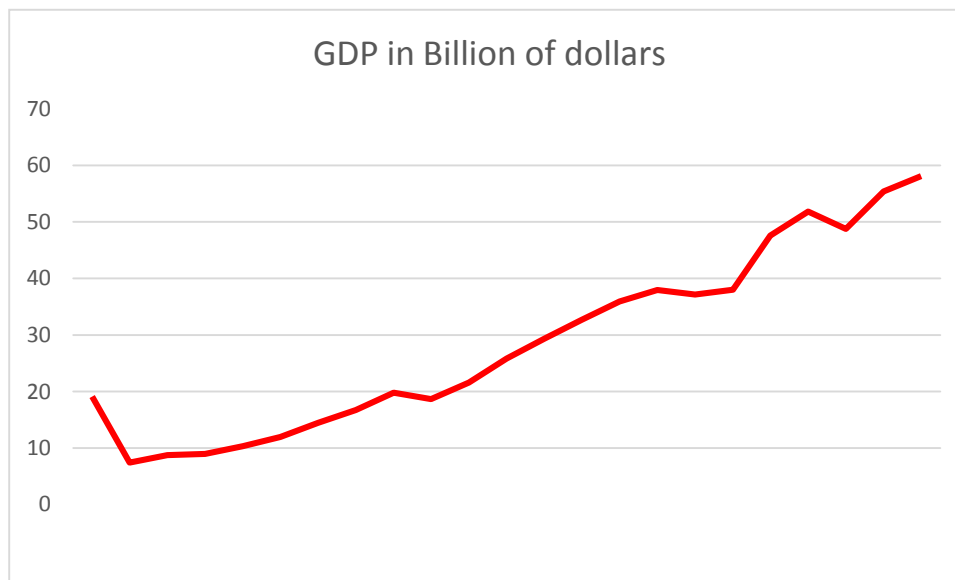
Additionally, the opening of the DRC to foreign investors and integration into regional and international financial markets can also play a crucial role in strengthening the country's stock market.

Briefly speaking, market capitalization in the DRC is currently relatively low due to various economic, political and social factors. However, with the right reforms, it is possible to create a more reliable stock market in the DRC by strengthening investor confidence, improving transparency and corporate governance, as well as promoting integration into regional financial markets and international.

This article aims to examine these issues in detail and provide insights into potential solutions. We observe the following economic situation over the last twenty-two years according to the GDP, the GDP per Capita and the Growth of GDP :

Years	GDP in Billion	GDP Per Capita in Dollars	Growth rate in %
2000	19,09	393	-6,91
2001	7,44	148	-2,1
2002	8,73	169	2,95
2003	8,94	168	5,58
2004	10,3	188	6,74
2005	11,96	212	6,14
2006	14,45	248	5,32
2007	16,74	278	6,26
2008	19,79	318	6,23
2009	18,65	290	2,86
2010	21,57	325	7,11
2011	25,84	376	6,87
2012	29,31	413	7,09
2013	32,68	445	8,48
2014	35,91	472	9,47
2015	37,92	482	6,92
2016	37,13	456	2,4
2017	38,02	451	3,73
2018	47,57	546	5,82
2019	51,78	576	4,38
2020	48,72	525	1,74
2021	55,35	577	6,2
2022	58,07	586	8,92

Source : [www.macrotrends.net](http://www.macrotrends.net): Democratic Republic of Congo GDP Growth



From the graphs above, we can clearly see that the Gross Domestic Product (GDP) has been growing over time since 2001, despite the financial crisis of 2008 and the COVID-19 pandemic of 2020 and 2021. This situation is likely to encourage investments in the country and diversify its economy. We also note that the DRC's budget increased from 4 billion dollars in 2018 to 14 billion dollars in 2022. This increase in the budget stimulated consumption which in turn led to the increase in domestic production.

#### Model

GDP	Coefficients	Std_Error	t	P> t
years	2,282648	0,1435052	15,91	0,000
_cons	1,128221	1,967645	0,57	0,572

$$\text{GDP} = 2,28 \text{ Years} + 1,13$$

This model indicates that every year the GDP increases by 2,28 billion dollars. The trend of GDP per Capita

#### Parameters from ARIMA model

Estimation					Erreur standard	T	Sig.	
GDP_per_Capita-Model_1	GDP_per_Capita	Natural logarithm	Constant		5,954	0,270	22,02	0,000
			A	Differenciation	0,850	0,115	7,415	0,000

The model is :

$$\text{LogGDP\_Capita}_t = 5,954(1 - 0,850) + 0,850\text{LogGDP\_Capita}_{t-1}$$

This model is significant in that it shows that the GDP per Capita follows an autoregressive process of order 1. It is also concerned with the growth rate; therefore, the DRC presents a necessary potential to allow the creation of a reliable stock market but the Democratic Republic of the Congo is faced with the challenges which can be mentioned in the five aspects below, and for which we will propose an adapted solution to each.

a) Political and Economic Stability:

One of the primary constraints to setting up a stock market in the DRC is the country's political and economic instability. Persistent conflicts and political uncertainty raise concerns for potential investors, leading to a lack of trust in the market and hesitation to invest. It is crucial for the government to prioritize stability, establish strong governance frameworks, and implement investor-friendly policies to attract both domestic and international investors.

b) Legal and Regulatory Framework:

A comprehensive legal and regulatory framework is essential for the smooth functioning of a stock market. In the DRC, the absence of clear and robust regulations poses a significant challenge. The government should focus on drafting and implementing market-specific legislation to protect investors, regulate trading activities, and ensure transparency. Efficient regulatory bodies with enforcement powers must be established to monitor stock market operations and prevent fraudulent practices.

c) Infrastructure and Technological Advancements:

Developing a stock market requires a robust infrastructure that can support trading activities effectively. However, the DRC faces considerable challenges in terms of inadequate technological advancements and infrastructure gaps. Addressing these issues necessitates significant investments in telecommunication networks, internet connectivity, power supply, and computer systems. Developing a network of brokerage firms, trading platforms, and reliable information systems will facilitate the seamless functioning of the stock market.

d) Market Education and Awareness:

To ensure the long-term success of a stock market in the DRC, it is crucial to focus on market education and creating awareness among the population. Many potential investors, especially in rural areas, lack knowledge about financial markets, securities, and investment opportunities. The government should spearhead initiatives to educate the public about the benefits and risks associated with the stock market. Engaging with educational institutions, organizing workshops, and disseminating information through media channels can help raise awareness and encourage participation.



#### e) Market Liquidity and Investor Protection:

Establishing a liquid market where buying and selling securities can occur without significant price disruptions is essential. In countries with limited liquidity, there is a risk of price manipulation and discouragement of investors. The DRC should focus on creating a well-regulated market structure that enhances liquidity by attracting a diverse range of investors, including institutional investors. Furthermore, investor protection mechanisms, such as systems for grievances redressal and transparent dispute resolution, must be in place to instill confidence among the investors.

#### 4. Conclusion

Creating a stock market in the Democratic Republic of Congo comes with several challenges, ranging from political and economic instability to legal and infrastructure constraints. However, with the right strategies and interventions, these obstacles can be overcome. The government, in collaboration with regulatory bodies, must undertake extensive efforts to stabilize the country, establish a robust legal framework, and prioritize infrastructure development. Market education and awareness initiatives are crucial to encourage participation and ensure sustainable growth. By addressing these critical issues, the DRC can unlock significant economic potential and foster a thriving stock market for the benefit of its citizens and the wider investment community.

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