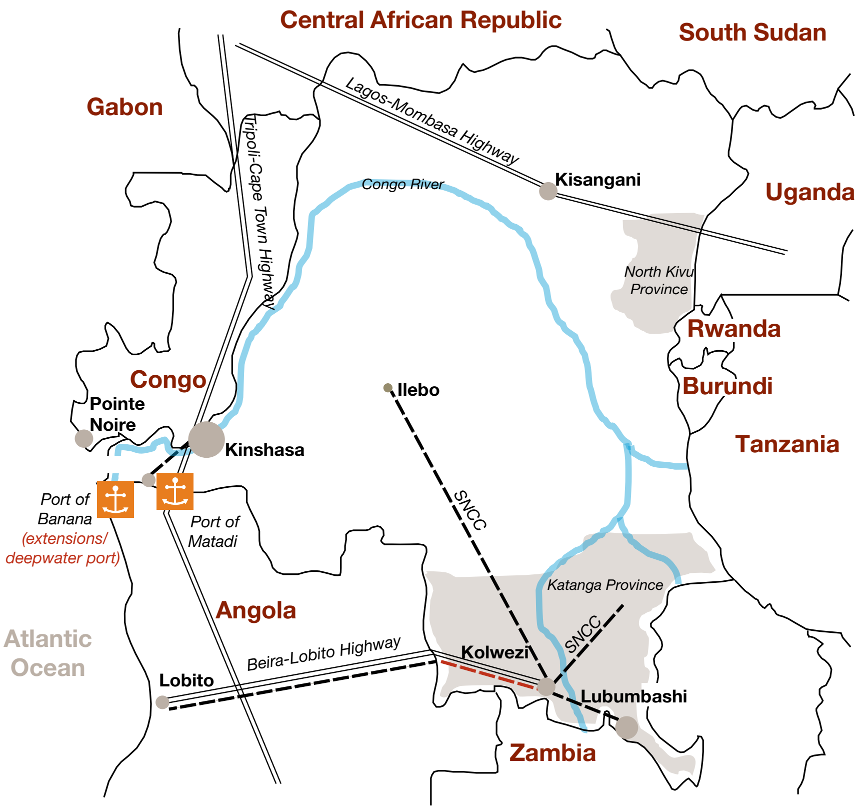
Democratic Republic of Congo

2nd

largest country in Africa

The Democratic Republic of Congo has immense potential but remains a risky investment location. Main hurdles include pervasive poverty, political turmoil, security issues, vast land area and inadequate infrastructure.



These bubbles represent the cities of the DRC and the size of the bubbles indicates the population size of the city

Airport | Port | Future Airport | Future Port | Future Railway | Future Road | Railway | Road

If it were not for the numerous obstacles, the Democratic Republic of Congo (DRC) would be a highly attractive investment location. It is the second-largest country and has the third-largest population in Africa. Most significantly, **the DRC is considered to have among the largest endowments of minerals on the continent.**

Social and economic conditions are very challenging and the **DRC is recognised as one of the most difficult places in which to do business in the world.** In addition to these factors, transport infrastructure is a major impediment to economic growth.

An escalation in conflict in the eastern DRC also stands to impact growth prospects, but not as severely as a commodity price crash scenario, given the country's high dependence on the mining sector.

Notwithstanding the challenges it faces, the DRC should see sizeable economic growth over the short to medium term, while remaining an extremely challenging place in which to do business.

Gold industry largely underdeveloped

Conflict minerals

"Conflict minerals are minerals originating from the Democratic Republic of Congo or neighbouring countries. They include tantalum, tin, gold, and tungsten.

Companies are required to publicly disclose the use of conflict minerals if those minerals are 'necessary to the functionality or production of a product'."

U.S. Securities and Exchange Commission (SEC)

The economy and resources

International trade activity contributes significantly to domestic economic growth in the DRC, with exports and imports accounting for 68% and 78% of GDP respectively. There was notable growth in exports and imports between 2001 and 2011, estimated at 8.6% and 12.3% per annum respectively.

Over 90% of exports are in the form of extracted commodities. This fragility was exposed in 2009 when a crash in commodity prices coincided with an escalation in conflict in the eastern region, revealing the country's dependence on external demand and financial flows.

Despite exports being expected to increase, there could be temporary drops in volumes as a result of international developments.

A campaign similar to the one established to control the spread of blood diamonds, but focusing on conflict minerals, is gaining momentum. Section 1502 of the Dodd–Frank Wall Street Reform and Consumer Protection Act requires electronics companies to verify and disclose their sources of certain minerals that are used in the manufacture of electronics such as smartphones and computers.

This was reinforced in 2012 when the US Securities and Exchange Commission (SEC) passed rules requiring companies to disclose the purchase of tin, tantalum, tungsten and gold from the DRC.[i] It is thought that making it more difficult to export conflict minerals could decrease the level of conflict in some areas and perhaps allow the country as a whole to benefit from its mineral resources.

The DRC has made distinct efforts to improve its integration with world trade. In the aftermath of a diagnostic study to draw up the DRC's trade policy – conducted in 2010 with the aid of the World Bank – the DRC set up a steering group to introduce a one-stop-shop reform to simplify foreign trade operations.

The country is also a member of several African trade communities, including the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Economic Community of Central African States (ECCAS).

It is not only the recent issue of conflict minerals that is holding the DRC back from fully utilising its massive mineral reserves. For example, **decades of conflict and turmoil have kept the gold industry largely underdeveloped**.

The country has significant offshore oil and gas reserves. Angola and the DRC are negotiating a new production-sharing agreement in the so-called 'zone of common interest' off the West Coast.

The DRC has a relatively small market size, with GDP estimated at US$17.2 billion in 2012. With per capita GDP of just US$230, only Burundi and Malawi rate worse than the DRC globally.

Coming off an extremely low base, the country has nevertheless experienced strong economic growth, estimated at 7.1% annually between 2010 and 2012. The IMF expects this to increase to an annual average of 8.6% between 2012 and 2017. The economy is dominated by the agricultural sector, contributing around 39% of GDP and employing over 60% of the labour force.

The DRC has historically suffered high levels of inflation, but authorities have recently managed to moderate price inflation and it is expected that it should remain within the single-digit range over the IMF forecast period until 2018.

Risk to business

The greatest impediment to economic development in the DRC has been the political turmoil in the country. The unsettled socio-political environment is a key risk factor for businesses.

High political risk has severely undermined prospects for diversified growth, while protection of property rights is hampered by dysfunctional public administration. Furthermore, enforcement of the complex legal code is selective. Another challenge is the local financial sector, which remains fragile and underdeveloped.

Large population of

65.7m

Potential to be Africa's largest power exporter

The DRC's high taxes are a further discouragement for investors, with a corporate income tax rate of 35% and additional types of taxes that can increase the total tax payable significantly.

The DRC's immense natural resources have fuelled conflict rather than development. Human rights abuses and banditry deter economic activity, but at the moment this mainly affects the country's eastern region, close to the borders with Rwanda and Uganda.

The eastern part of the country still sees frequent clashes between the rebels and government forces, and there is sporadic fighting in other parts of the country. Security forces are known to set up occasional, spontaneous roadblocks, especially after dark, which places a constraint on transportation and results in delays.

High poverty, low productivity

The DRC has a large population, estimated at 65.7 million in 2012. A high population growth rate of 2.7% will intensify the already challenging social conditions. According to the World Bank, approximately 50 million live on less than US$1.25 a day. The DRC has a low HIV/Aids infection rate as years of war and little infrastructure development have restricted human movement and the spread of the virus.

Despite having a labour force of nearly 25 million, available labour is mostly unskilled, with only 23.2% of the population having secondary education. Labour productivity is extremely low, with every person employed contributing US$691 to national GDP. In comparison, Tanzania, the second-lowest of the ten countries profiled in this publication, has a labour productivity of US$1 239 per person employed.

Power potential

Power blackouts and electricity shortages occur frequently and present major problems to the rising number of mining companies operating in the country. This situation is fuelled by fast-rising demand for power and ageing infrastructure. About 40% of firms in the DRC own and operate their own backstop generator to shield themselves from frequent power interruptions.

Despite these challenges, the DRC has immense power generation potential. It boasts the largest and most cost-effective hydropower potential on the continent and could produce up to 100 000MW of power. The entire installed capacity of sub-Saharan Africa is only 48 000MW and **the DRC has the potential to become Africa's largest power exporter**.

The Government has ambitious plans. While less than 10% of the population has access to electricity today, the Government has set an ambitious target to provide electricity to 60% of the population by 2025. The first step in achieving this goal is the construction of the Grand Inga dam, which will produce about 40 000MW at a cost of US$80 billion.

Key indicators

Population size (million, 2012)	65.7
Population growth (2012-2020, avg p.a.)	2.7%
GDP (US$ billion, 2012)	17.2
GDP growth forecast 2012-2017 (avg, y/y rate)	8.6%
GDP per capita (US$, 2012)	230
Global competitiveness index 2012 (global rank/144 (score 1-7))	n/a
Corp. Income Tax (CIT) rate	35.0%
Top exports	Cathodes and sections of cathodes (24.7%); Cobalt ores and concentrates (17.8%); Copper ores and concentrates (11.9%)
Logistics Performance Index 2012 (global rank/155 (score 1-5))	143 (2.21)
Global Competitiveness Index 2012 - Infrastructure (global rank/144 (score 1-7))	n/a

Around 2/3 of the country is by navigable waterways

China promises **US$3bn** *for road and urban infrastructure*

Resources sector

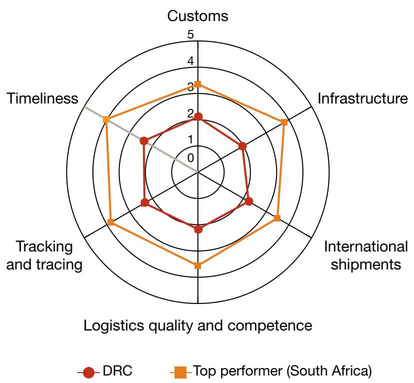
While the DRC's economy is currently dominated by the agricultural sector, mining will be the main driver of economic growth in the medium term. Copper, the country's largest export product, will play a key role in medium-term economic growth. In 2011, mine production of copper in the DRC increased by an estimated 28%, reaching 440 000 tonnes. This is equivalent to around 2.7% of global copper output.

The large population, coupled with robust population growth, implies high potential for the retail sector. However, given the low per capita GDP, this is likely to be concentrated in the area of basic consumer goods.

Logistics

Logistics performance has dropped significantly in the last two years.

Logistics Performance Index



Source: World Bank

Poor trade facilitation infrastructure and inefficiency limit growth prospects for transport and logistics businesses in the DRC. Logistics performance fell significantly between 2010 and 2012, with the country declining from 85th to 143rd out of 155 countries on the Logistics Performance Index.

All indicators of logistics infrastructure worsened during this period: logistics competence, timeliness, customs, international shipments, infrastructure, and tracking and tracing. The DRC's performance in terms of the number of documents required and the time to import and export is significantly higher than the sub-Saharan average, while the cost to import and export is more than 50% higher than that of its peers in sub-Saharan Africa.

Infrastructure

The DRC probably has the most challenging transport infrastructure environment in Africa.

The DRC is one of the most infrastructurally challenged countries in the world. Ground transportation has always been difficult and the country's vast geography, low population density, extensive forests, and criss-crossing rivers further complicate the development of infrastructure networks.

As a result of conflict, networks have been seriously damaged or left to deteriorate. Road and rail infrastructure is dilapidated and the rail network has fallen into disuse.

On a positive note, the country has thousands of kilometres of navigable waterways and water transport has traditionally been the **dominant means of moving around approximately two-thirds of the country**.

According to the World Bank, the infrastructure investment needed in the DRC is among the highest in Africa. Unless spending is increased and efficiency improved, it will take more than a century to redress the country's infrastructure deficit. But in the last few years there have been promising signs.

Since 2006, there has been a large upswing in external financing commitments from OECD and non-OECD partners. For example, **a major new financing agreement signed with China promises US$3 billion, primarily for road and urban infrastructure projects**.

The DRC's population and economic activity are concentrated in three areas – Kinshasa in the southwest, Lubumbashi in the southeast, and Kisangani in the northeast. There is little well-developed infrastructure linking these three cities. The most serious impact of insecurity on infrastructure development has been felt in the east, where conflict and instability have had a major impact on infrastructure development.

Ports

With poor connections to the sea, the DRC is predominantly landlocked.

Port infrastructure in the DRC is very poor and connection to the ports is hampered by the country's nature and vast area. No ports in the DRC can take direct calls from conventional cargo liners and the country has to rely on transshipments from Pointe Noire in the Republic of Congo using smaller vessels.

There are two main ports in the DRC, Boma and Matadi, which have low capacity and a low draught and are unable to fill the needs of the western part of the country adequately.

Regulatory oversight needs to be strengthened in airline industry

Rail network used extensively for copper exports

In addition to the two main ports, the **DRC has the sea port of Banana, which currently has limited capacity and is used mainly for crude oil export**.

According to AICD, the Port of Matadi on the Congo River is playing a greater role in serving Kinshasa and the southwest area of the country, but also has limited cargo-handling capacity and a low draught, as well as costly and inefficient port services.

Because of the high internal transport costs and large distances involved, trade from southeast DRC, notably copper, is channelled mainly through Durban in South Africa and to a lesser extent through Dar es Salaam in Tanzania. Mombasa in Kenya remains the key port for Kisangani and the northeast part of the country.

While an improved Port of Matadi will be able to service the southwest DRC for some years to come, in the longer term additional capacity will need to be found. To achieve this, the DRC faces two strategic options. One is to further develop the Port of Banana and convert it into a deep-water port. The establishment of such a port would cost around US$2 billion and take 10 years to complete. The other option involves strengthening land links with the Republic of Congo to facilitate access to the Port of Pointe Noire.

While the network of rivers across the country poses one of the biggest challenges for national roads and rail lines, it provides an opportunity for inland water transportation. Inland waterways can provide low-cost surface transport, with only relatively modest investments needed to improve navigability.

The Congo River traverses the DRC, linking two of its main cities, Kinshasa and Kisangani, while its numerous tributaries cross much of the country. About 15 000km of the Congo River and its tributaries are navigable, or potentially so with regular dredging and relatively modest investments in quays and signalling.

Air transport

Air transport could open up access to this vast country if security improves.

There are a number of airports in the DRC. Since 2000 the number of domestic air transport routes has dramatically increased and the aircraft fleet has undergone renewal. Given the vast size of the DRC, its disparate population centres and deficiencies of the surface transport network, the air transportation system has an important role to play in passenger travel. However, the DRC is not well connected with other countries, being served primarily by South African Airways, Ethiopian Airlines and Kenya Airways.

The DRC's domestic air transport services have a worrying safety record and the most urgent issue facing the sector is to strengthen regulatory oversight in order to improve the safety of domestic flights. One of the consequences of this problem has been the diversion of a significant volume of domestic air transport outside of the country to avoid using domestic air services. This means that domestic transit was often undertaken via a foreign country. This situation has significantly changed since the arrival of Korongo Airlines – a company partially owned and technically supported by SN Brussels.

Rail

The DRC has two main rail systems of strategic importance to the country, "Société Commerciale des Transports et des Ports" (SCPT, formerly ONATRA) and the "Société Nationale des Chemins de Fer du Congo" (SNCC). The networks are inefficient and tariffs are relatively high. Both have fallen into disuse for the most part.

SCTP railway connects Kinshasa to the Port of Matadi. The line is only 30 years old and the track is in reasonable condition.

SNCC operates an extensive network centred in the southeast of the country. The most important branch of this network connects Katanga on the Zambian border to Dilolo on the Angolan border. It also connects the northern part of the Katanga region to Ilebo in the Kasaï region.

The SNCC network is used extensively for copper exports leaving the DRC for the port of Durban and will also facilitate exports through Lobito in Angola once construction on the Benguela Railways is completed. The SNCC network is in poor condition, with speed limits of 10-35km/h.

Railway connections to neighbouring countries are set to gain importance, as the three major companies providing railway services for Zambia, Tanzania and the DRC have signed a tripartite agreement in the hopes of making traveling and transportation of goods easier.

With this agreement in place, cargo can now move in either direction and from Dar es Salaam to Kapiri Mposhi and Lubumbashi, and vice versa, without necessarily trans-shipping, re-marshalling or complications of any sort. Other projects that are widely funded by the World Bank mainly include renovation, rehabilitation and upgrading of existing lines.

Recently, the SNCC acquired nine locomotives to revive the rail sector in the southern region. In addition, the company is planning a new acquisition of 47 locomotives by 2015 under World Bank funding.

Roads

Following years of armed conflict, much of the DRC is disconnected with the majority of the road infrastructure being in poor condition, and only 1.8% being tarred.

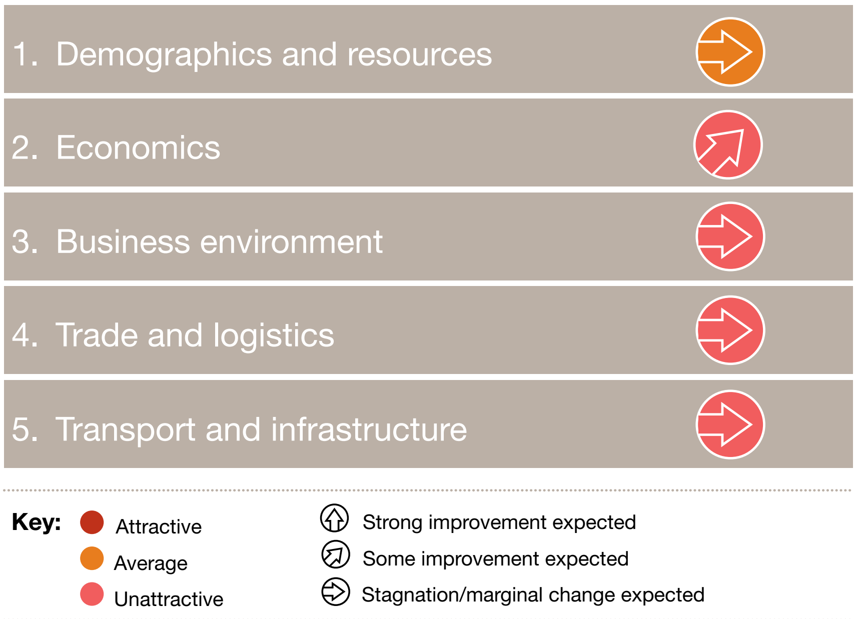
Since the end of the national conflict in 2003, rehabilitating the road network has been a priority. The country has secured major development funding as well as an infrastructure-for-minerals deal with China. Private enterprise is also playing a role, with mining companies also investing in roads.

These initiatives cover many of the country's major road corridors linking Kinshasa and Lubumbashi, as well as roads along the eastern side of the country. The effort is already paying off. Rehabilitation of rural infrastructure, specifically roads, has been recognised for the contribution it has made to the agricultural recovery that started in 2006.

Conclusion

Based on our analysis, we have assessed the investment potential for DRC's transportation and logistics sector as shown in the graphic below.

DRC – Investment potential assessment



End notes

i Sovereign Wealth Fund Institute, 24 Oct. 2012, online: http://www.swfinstitute.org/tag/1
"SEC Adopts Rule for Disclosing Use of Conflict Minerals", US Securities and Exchange Commission, http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171484002