The DR-Congo: Current & Future Opportunities

JCCI, 12th November 2014

- Kinshasa and Brazzaville are the two closest capital cities in the world, separated only by the Congo River;
- The region from Kinshasa/Brazza to Banana/Soyo/Cabina/Pointe Noire is a definite development node;
- Katanga Province is growing fast – but with some worrying political issues;
- Copper underpinning growth of infrastructure and property sectors;
- Regions still not integrated;
Basic Background Data

- Katanga and Kinshasa (incl. Bas-Congo) account for 56% of the economy;
- The corridors from Bas-Congo to Kinshasa and Lubumbashi to Kolwezi remain the key economic zones in DRC;
- Eastern DRC (Maniema, Kivus and Orientale) account for 17% - this area is seen as a major future growth node;
- GDP to reach US$41bn in 2016, up to US$57bn by 2021;
- Growth to average 5.6% a year for next five years;
- Per capita incomes to rise from US$480 to US$590 to 2021;
- Population to reach 98 million in 5 years;
Elections scheduled for November 2016:
- Many of the large mining and industrial companies are holding off on new developments until this is settled;
- Katanga will see the departure of Moïse Katumbi, a business friendly governor;
- Concerns over ‘maverick’ rebel groups and succession in Katanga and the unstable east;

In Kinshasa, there are fewer overt concerns:
- “Kinshasa is like a ball under water – it just keeps popping up”
  - Business community feels that Kabila provides stability needed to get donors on board for development – but 3rd term aspirations likely to damage this;
  - Very political business environment – local companies are very powerful and can demand subcontracting on large projects;

BUT: a large amount of money is in the system and driving private sector development;
- “Used to be just churches in Congo – today there are more banks than churches”

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**Actual and Potential Copper & Cobalt Output (Tons)**

- Output Excluding Major New Projects
- Major Announced Development Projects
- Possible New Projects and Expansions

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**Background**

- Actual and Potential Copper & Cobalt Output (Tons)
Small Industrial Base

• Decades of conflict, corruption and mismanagement have wrecked the industrial base;
• Recovery will be slow and country will remain import dependent for many years:
• But, change is on the way:
  • At least two new cement plants being built near Kinshasa, by PPC and Nyumba ya Akiba (Lucky Cement) respectively;
  • Increase in local food and beverage production – mainly under licence by major local retailers and distributors;
  • Some activity in downstream iron and steel, but not a lot;
• Attempts to generate this kind of activity outside of Kinshasa have been less successful:
  • Local political considerations a factor;
  • Lack of power, roads, water etc a major deterrent;
  • Regulatory barriers a key constraint;
Life Outside the Cities

- Poverty is still rife;
- Hand to mouth existence;
- Little evidence of children going to school;
- Only Kinshasa and Katanga have populations living on above US$1 per day:
  - Bandundu 234
  - Bas Congo 332
  - Equateur 307
  - Kasai-Occidental 123
  - Kasai-Oriental 302
  - Katanga 573
  - Kinshasa 623
  - Maniema 198
  - Nord Kivu 213
  - Orientale 216
  - Sud Kivu 233
- Little in the way of services, amenities or formal economic activity – no hope or long term opportunity?
- However, the infrastructure projects outlined above are starting to make a difference:
  - Drive time from Lubumbashi to Kolwezi down from a week to a day for trucks, 8-9 hours by car to 3-4 hours;
Infrastructure Funding

• Much of the activity in the construction and broader infrastructure sectors depends on politics and relations with the donors: as such, because so much has already been agreed to, it will result in ongoing and increased activity for the foreseeable future. This includes:
  • The US$5bn to US$6bn (us$9Bn?) China Fund has been renewed and is dedicated entirely to infrastructure programmes;
  • Germany and India have signed bilateral development programmes;
  • The EIB has a US$400 million to US$500 million infrastructure development programme;
  • In March 2016, the World Bank’s portfolio in the DRC consisted of 26 projects, valued at US$3.3 billion.
    • Portfolio is spread across sectors, with close to 63% in infrastructure, 16% in health, education and social protection, 15% in agriculture and private sector and 6% in governance including the mining sector;

• The key to infrastructure developments is three-fold:
  • Integrate the country both east-west and north-south;
  • Rehabilitate and expand all modes of transport, as well as power;
  • Develop corridors such as the Kinshasa-Bas Congo corridor and Lubumbashi-Kolwezi region;

• Mining Companies in Katanga:
  • Funding the development of new power stations and transmission lines;
  • Have funded some roads projects;
  • TFM developing major industrial/commercial/retail/residential area
Roads Project – Key to Development

- The roads programme is ongoing and will take years to deliver. Key programmes include:
  - Muamba (Banana port) to Kasumbalesa (border with Zambia) and Sakania in Katanga. It is roughly 2,000km of roads, of which less than half are currently asphalted.
    - Section from Bajamba to Mbuji-Mayi is asphalted, the rest still needs more upgrading and development;
    - More than 1,000km of roads have or are having, studies done on them at the moment, with studies completed from Mbuji-Mayi to Moniditu in Kasai-Orientale and Moniditu to Monguba in Katanga. The project is sponsored by the EU and AfDB;
  - Four projects are starting now in addition to this major project. These are:
    - Connecting the eastern DRC towns of Bukavu, Goma and Uvira with the centre of the country. This will require a substantial number of bridges to be built as well;
    - The EU is funding a road project from Goma to Kisangani, which is roughly 860km via Bukavu
    - The World Bank is funding a study on the Kisangani to Beni road, which is roughly 700km and the Kisangani to Buta, via Bumba (330km) and then from Bumba to Zongo, a port on the border with CAR, roughly 500km away;
  - Bas Congo is running a pilot project to build storage facilities for crops. Once these are done, the project will be rolled out across the country to all agricultural areas in line with roads projects;
  - SNEL is developing hydro projects in Bandundu and Kasai in addition to the ones in Bas Congo and these will involve several new roads being built;
  - Furthermore, the EU is looking at potential hydropower developments in North Kivu and then South Kivu, to be developed after the Ruzizi III hydro plant, which would also require roads;
  - When these projects are complete it will open up enormous potential to deliver products into the under-developed areas of the interior. It will also significantly lower the cost of transport, thereby helping to lower the cost of goods and boosting demand for them in the interior.
Large Commercial/Retail/Housing Developments

- In both Kinshasa and Lubumbashi;

- **Kinshasa – La Cite du Fleuve (top right)**
  - 1st phase well underway – 125 units;
  - Own power, water, roads;
  - Building a retail and commercial park at entrance with South African partners;
  - Will dredge a total of 400ha of land contiguous to river;
    - Have sold 100ha to Chinese for development;
    - Aimed at mid to upper income locals and expats;

- **Luano City in Lubumbashi (middle)**
  - Huge project – development over next 15 years;
  - Phase 1 (office park development) is underway;
  - Mixed use development;
  - Apparently two similar projects being mooted in Lubumbashi;

- **Other Industrial/Commercial Developments:**
  - TFM ‘New Town’ at Tenke – industrial, commercial and residential
  - Kiswishi – 4,400ha integrated development (bottom right)
Sinohydro: Snapshot of Chinese Influence

- Benefit from the Bilateral Funding deal (±US$4bn to US$6bn) between China and DRC, as do CREC7 and other Chinese contractors:

- In the western part of the country they are currently busy with a number of projects. These include:
  - Zongo II, located near Kimpese in Bas Congo;
  - Building a new airstrip and control tower for N’djili International Airport in Kinshasa;
  - Building a hospital at St Chantier, near the stadium;
  - Refurbishing parts of the Kinshasa-Matadi Road in Bas Congo;
  - Possibly the rehabilitation of Inga II Power station (it had not been awarded, but they bid on the project);
  - 70km transmission line project in Kinshasa with SNEL;
  - Transmission lines for the Zongo II hydro development;

- In Lubumbashi they are active in a number of projects as well. These include:
  - A new airport tower;
  - Busanga Power station in the Kolwezi area, a US$660 million, 240MW development;
  - Surface infrastructure for a US$4bn copper development project in Lubumbashi;
  - Other smaller projects as well;
Long lead times – Difficult Operating Conditions!

- Lack of power is crippling for project development;
- Lack of cheap cement and other inputs also increases project costs significantly:
  - “Whatever it costs to build in South Africa, quadruple it.” - SA building contractor working in DRC;
  - “Doing things (licences etc) properly takes a lot of time, but if you don’t you end up paying a lot more in the long run.”
- Chinese investors fare no better. The much-vaunted Sicomines deal, to produce 125,000 tons of copper a year is a case in point:
  - Lack of adequate power and other infrastructure;
  - Struggles with bureaucracy;
  - Eight years to get project from signing to delivery;
  - Probably end up producing 50% of original estimates;
  - Power project aimed at mines is five years behind schedule;
  - Dredging of the mine (160m cubic metres of water) slowed progress;
  - “I think the Chinese are hesitant to come to Congo, after all that has happened with Sicomines – all the fuss, the problems, all the things they struggled with.” – Johanna Malm, expert on the Sicomines deal
Key Exporters to DR-Congo: 2014

- SA the key supplier over the last five years, but China overtook SA in US$ terms in 2014;
  - SA share likely to have dropped on slowing mining activity and related spend in Katanga, where SA is very strong;
  - SA doesn’t have a strong presence in Kinshasa or the East, largely due to expensive and difficult logistics;
- Zambia is the third major supplier, almost exclusively into Katanga;
  - It’s possible that some of Zambia’s supply is re-exports from SA and other countries, but Zambia is a major supplier of cement, sugar, fried fish, rice and other bulk commodities to Katanga;
- The three countries accounted for just over 50% of exports to DRC in 2014 – highlighting the fact that it isn’t a Francophone reliant importer!
  - Belgium and France have both seen market share drop sharply in the last five years – down from 13.4% in 2010 to 9.4% between them in 2014;
- Uganda and Tanzania are key suppliers into Eastern DRC, with Tanzanian suppliers also now targeting Katanga province by road;
  - Roughly 45% of recorded exports to DRC originate in region – including from Namibia, Rwanda and Kenya;

<table>
<thead>
<tr>
<th>Supplier</th>
<th>2010</th>
<th>2014</th>
<th>Total</th>
<th>Growth: ’10-’14</th>
<th>Share of Exports:</th>
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<tr>
<td></td>
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<td>2010</td>
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<tr>
<td>Total</td>
<td>4,375</td>
<td>6,702</td>
<td>29,418</td>
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<td>South Africa</td>
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<td>1,242</td>
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<td>Zambia</td>
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<td>800</td>
<td>3,630</td>
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<td>Belgium</td>
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<td>422</td>
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<td>France</td>
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<td>209</td>
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<td>Uganda</td>
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<td>182</td>
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<td>Tanzania</td>
<td>156</td>
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<td>991</td>
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<td>Germany</td>
<td>124</td>
<td>172</td>
<td>842</td>
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<td>USA</td>
<td>93</td>
<td>182</td>
<td>810</td>
<td>18.2%</td>
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<td>734</td>
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<td>Others</td>
<td>1,453</td>
<td>1,695</td>
<td>7,461</td>
<td>3.9%</td>
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SA Exports to DRC: 2010-2015, ZAR

- DRC is SA’s 21st largest global export market and 8th largest in Africa;
  - Exports of Machinery to China, SA’s largest export destination were only R350m in 2015, underlying importance of African markets to SA industrial sector;
- Exports declined slightly in 2015 from the peaks of 2013 and 2014 in Rand terms;
  - Exports of machinery continue to grow – largest export from SA;
  - Sharp drop in iron & steel and fuel exports, probably linked to slowing mine development in Katanga;
  - Other key sectors off peaks as well, but foodstuffs showing continued growth;
- 97% of SA exports to DRC are value added – amongst highest percent in the world from SA;

<table>
<thead>
<tr>
<th>Section</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Growth: ’10-’14</th>
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<tr>
<td>Total</td>
<td>6,188</td>
<td>7,952</td>
<td>12,152</td>
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<td>13,441</td>
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<td>Machinery</td>
<td>1,646</td>
<td>2,328</td>
<td>4,176</td>
<td>5,089</td>
<td>4,971</td>
<td>5,032</td>
<td>31.8%</td>
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<td>Prods Iron &amp; Steel</td>
<td>1,240</td>
<td>1,546</td>
<td>2,871</td>
<td>2,444</td>
<td>2,077</td>
<td>1,849</td>
<td>13.8%</td>
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<td>Mineral Products</td>
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<td>1,179</td>
<td>1,290</td>
<td>1,370</td>
<td>1,713</td>
<td>1,321</td>
<td>12.1%</td>
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<tr>
<td>Chemicals</td>
<td>566</td>
<td>701</td>
<td>812</td>
<td>810</td>
<td>1,268</td>
<td>1,209</td>
<td>22.3%</td>
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<tr>
<td>Plastics &amp; Rubber</td>
<td>502</td>
<td>593</td>
<td>988</td>
<td>1,095</td>
<td>1,102</td>
<td>935</td>
<td>21.7%</td>
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<td>Vehicles aircraft, vessels</td>
<td>279</td>
<td>569</td>
<td>837</td>
<td>965</td>
<td>732</td>
<td>831</td>
<td>27.2%</td>
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<td>Prepared foodstuffs</td>
<td>197</td>
<td>222</td>
<td>220</td>
<td>303</td>
<td>393</td>
<td>580</td>
<td>18.8%</td>
</tr>
<tr>
<td>Photo &amp; medical equip</td>
<td>60</td>
<td>117</td>
<td>157</td>
<td>210</td>
<td>258</td>
<td>254</td>
<td>43.9%</td>
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<td>Toys &amp; Sport apparel</td>
<td>117</td>
<td>146</td>
<td>165</td>
<td>170</td>
<td>213</td>
<td>200</td>
<td>16.2%</td>
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<tr>
<td>Vegetables</td>
<td>144</td>
<td>65</td>
<td>110</td>
<td>172</td>
<td>182</td>
<td>166</td>
<td>6.1%</td>
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<tr>
<td>Textiles</td>
<td>100</td>
<td>112</td>
<td>116</td>
<td>126</td>
<td>135</td>
<td>148</td>
<td>7.9%</td>
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<tr>
<td>Stone &amp; Glass</td>
<td>60</td>
<td>91</td>
<td>106</td>
<td>104</td>
<td>84</td>
<td>119</td>
<td>8.9%</td>
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<tr>
<td>Wood pulp &amp; paper</td>
<td>80</td>
<td>160</td>
<td>117</td>
<td>100</td>
<td>94</td>
<td>107</td>
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<tr>
<td>Live animals</td>
<td>44</td>
<td>28</td>
<td>58</td>
<td>72</td>
<td>71</td>
<td>95</td>
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<td>Animal or vegetable fats</td>
<td>36</td>
<td>47</td>
<td>62</td>
<td>74</td>
<td>72</td>
<td>65</td>
<td>18.8%</td>
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<tr>
<td>Footwear</td>
<td>16</td>
<td>19</td>
<td>20</td>
<td>33</td>
<td>32</td>
<td>35</td>
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<tr>
<td>Wood Products</td>
<td>12</td>
<td>16</td>
<td>29</td>
<td>30</td>
<td>30</td>
<td>29</td>
<td>26.7%</td>
</tr>
<tr>
<td>Other Goods</td>
<td>6</td>
<td>11</td>
<td>18</td>
<td>15</td>
<td>13</td>
<td>22</td>
<td>27.6%</td>
</tr>
</tbody>
</table>
Distribution Channels

• West, South and East all have Different Supply Channels:
  • They are essentially three different markets – linguistically, by areas of influence and by tastes;
  • Kinshasa/Bas Congo and Hinterland – from EU, South America and Asia (and SA to a degree);
  • Katanga – from Zambia and South Africa;
  • East – from Uganda, Rwanda and Kenya;

• Lack of major ‘National’ Importers and Retailers:
  • Traditionally they have not been integrated because of the lack of integrated infrastructure;
  • Slowly starting to change, but it’s difficult to move from one area of influence to another;
  • Therefore need to engage each market separately: logistics majors have three ‘Country’ offices in Congo;
  • BUT – Forrest Group, Safricas and other civils contractors have a more national presence, as do Chinese and other foreign contractors working in Congo;

• Central Congo:
  • The roads and rail links to cities like Mbuji-Mayi and Kisangani are largely non-existent;
  • Hugely expensive to get goods into the interior of the country – cement costs US$1,000 a ton at present in Mbuji-Mayi (roughly US$90 to US$100 in SA);
  • Transport costs can be up to US$300 to US$400 per ton of goods depending on season and destination;
  • Can take weeks or months to get goods to the centre of the country and thus very difficult to send perishables into these areas;
Western Congo

• Kinshasa Region:
  • At least 10 million people in the greater Kinshasa region already – it is now the largest French-speaking city in the world;
  • Sheer numbers of people make it a viable market;
  • Very little manufacturing at this stage, so the bulk of consumer and industrial goods are imported – but this is slowly changing as well;

• Several major groups that import, wholesale, retail and manufacture consumer goods;
  • Well established route to market, through their own distribution networks;
  • Serve upper, formal end of the market directly and informal market through multitude of small resellers;
  • Strong French and Belgian presence, especially in consumer goods, but growing global presence, including SA;
  • Absolutely open to sourcing from South Africa, if products meet specs and prices;

• Matadi is a badly congested port:
  • Both in the port and in the surrounding areas, which adds a day to transit times;
  • Also adds to costs, which are in the region of US$100 per ton to get to Kinshasa;
  • No alternative route – only one road;
  • Not viable to use Pointe Noire to Brazzaville and over the river as the costs are even higher;
  • Matadi is next to Soyo and Cabinda in Angola – lots of informal trade across the border;
Katanga Province

• Lubumbashi to Kolwezi Axis:
  • Much of Katanga’s population lives on this axis and most activity takes place on this spine;
  • The province is roughly the size of France, so it is very large, with little reliable (at this stage) access to regions outside of this axis;

• Things are changing quickly:
  • Mining developments have driven road reconstruction on major routes. Transit time from Kolwezi to Lubumbashi has dropped from 12 hours to 4 hours in a 4x4 as a result, with transport now possible year round;
  • Power is a major issue – mines can’t develop new capacity until new power comes on stream;
  • Lobito Rail has reached border – SNCC will possibly concession Congolese side and open a new trade route, which could threaten SA supply dominance;

• Katanga-based businesses are very strong:
  • There are a handful of local businesses that run most of the retail and wholesale operations in the province;
  • They are very influential and need to be taken into account when entering the province;
  • They are very good business partners, however, if your product is suitable;
  • Key retailers are all expanding from Lubumbashi to Kolwezi and to a lesser degree Likasi;

• Mines and Importers all have SA Offices:
  • Most have procurement offices and warehousing close to ORTIA – can fly goods in from EU and consolidate;
  • Some have large truck fleets of their own;
  • Major retail/commercial/industrial/residential developments all being driven from SA
  • Thus very strong SA links – reflected in SA exports which accounted for 19% of Congo’s total in 2014
Eastern DR-Congo

• Still unstable:
  • Armed groups and regional politics remain a key drag on development – but the situation is vastly improved on that of a few years ago;
  • Some of the best potential development in Congo and Central Africa – gold, gemstones, industrial minerals, oil and agriculture;
  • Not readily accessible from Kinshasa or Katanga, as roads, rail don’t exist;
  • River transport is available to some parts, not all – therefore multimodal from other parts of DRC, which is hugely expensive

• Rehabilitation of roads and connecting of cities in the east has had some remarkable results:
  • Buni (close to Ugandan border) to Kisangani is around 900km;
  • It used to only be accessible by air, meaning transport costs were huge;
  • “We used to charge US$1.4 per kilo of cargo, but truck drivers have come along and lowered the price to US$0.5 per kilo. Some have even reduced it to US$0.25,” said Muyisa Kambine, head of marketing for Galaxie Kavatsi airline. “Before the road carriers got into the race, we transported between 150 and 200 metric tons of goods per month to Kisangani. Now we are down to approximately 29 metric tons.”

• Serviced largely out of Uganda:
  • Kampala is becoming a major hub for developments in Eastern Congo and South Sudan – companies supplying into Uganda are thus likely to see their goods in Bukavu, Bunia, Goma and other towns as well;
  • Ugandan companies have been dealing in these areas for years and know the markets;
  • Companies in Kinshasa see huge potential in the area and are setting up distribution hubs there too;
  • Randgold and AngloGold-Ashanti are operating a large mine in Eastern DRC – most of their service providers (technical and engineering) are SA companies with bases in Uganda;
Logistics Issues

• Everything is expensive and time-consuming:
  • Roads, rail and rivers all used, but largely in a bad state – changing quite quickly in some areas;
  • Congestion is a huge problem at Matadi and Kasumbalesa – only two entry points (legal) for 85% of DRC’s imports and exports;
  • Tolls implemented on both Matadi-Kinshasa route and Kasumbalesa-Kolwezi route
  • US$150 per leg in Katanga, so a truck incurs extra US$450 from Zambian border to Kolwezi;
  • Reduced transport time from 1 week in dry season from Lubumbashi to Kolwezi to a day or two. Was up to a month in the rainy season – now doesn’t matter;

• New System Being Implemented:
  • BIVAC certificate for all goods over US$2,500 – can be problematic, but not overly onerous if working through good clearing and forwarding agent;
  • Pre-clearance of goods on certain product lines being introduced to clamp down on illegal trade – has proven difficult!
  • ‘FAO’ – a ‘facilitation fee’ that is factored into most imports adds roughly US$300 per truck to imports;
    • Everyone has to pay it, one way or another, and as such, many large companies work through third party clearing agents to avoid being implicated;

• Informal Trade:
  • Major issue in Katanga – formal importers cannot compete on price with illegal imports of basic commodities such as cement, rice, fish and other bulk products;
  • Government is trying to crack down on this, with some success – but costs simply passed onto consumers!
Summary

• A country with almost limitless opportunity and potential;
• An expensive place to pay school fees! But:
  • Good opportunities to supply into a market that still produces very little of what it consumes;
  • Large developers, mining companies and retailers all procure from SA in south – will look at goods in Kinshasa;
  • Strong SA presence and growing (Vodacom, SCMB, Shoprite, AngloGold, Randgold etc)
• Small formal markets at present:
  • Limited number of mid-range to up-market retailers, but this is changing quickly;
  • Major importer-retailers have route to market in the informal sector well mapped out;
  • Having a good local partner is critical – and it probably won’t be the same one in different regions;
• Elections in 2016:
  • A lot of development currently on hold pending the outcome of this;
  • More so in Katanga than Kinshasa;
  • A green light in 2016 could see a real development spurt in Katanga in 2017 – companies need to be well placed for this;
• Competition:
  • Local companies have a strong entrenched position in the construction and civils market as well as retail, but not insurmountable;
  • Not just EU and China – Brazil is tapping markets, increasing number of Turkish, Moroccan, Pakistani, Kenyan, Egyptian etc companies investing and exporting to Congo;
  • Cannot have a stand-off approach for long-term engagement;