

EYES ON THE PRIZE: SOUTH AFRICAN BUSINESS IN THE DRC

NEISSAN ALESSANDRO BESHARATI & GREGORY MTHEMBU-SALTER

EXECUTIVE SUMMARY

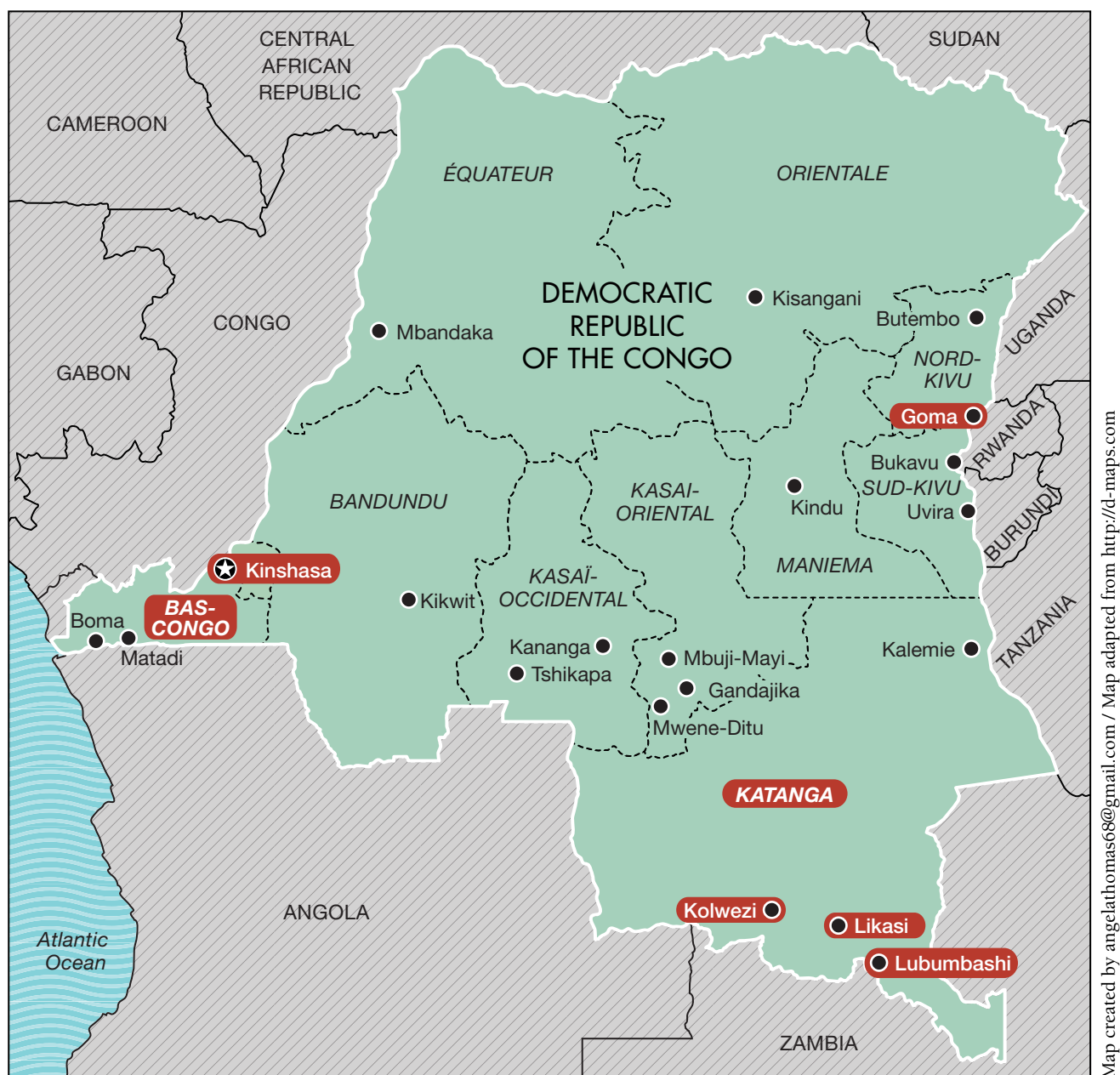
The following Policy Insight provides a brief overview of some of the major South African and Congolese economic relations, trade and private investment in the post-conflict era of the Democratic Republic of Congo (DRC). It provides a snapshot of some of the major South African corporations and joint ventures active in the agriculture, retail, banking, telecommunications, mining, construction and logistics sectors of the DRC. These South African business activities have contributed to the DRC's development processes, through their contributions to employment, infrastructure, public revenue and small social initiatives. South Africa is currently the largest exporter of manufactured goods and services to the DRC.¹ However, the difficult business operating environment, the challenges with the French language, the dysfunctional local bureaucracies and visa constraints, make South African companies lose their historical and geographic advantage in the wake of larger and stronger European and Asian investors coming to the country. The South African and DRC governments need to work closely together to overcome some of these barriers, to encourage more intra-African trade and investment, and unleash the energy potential of the Grand Inga Dam for the economic growth of the entire region.

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FIGURE 1 KEY GEOGRAPHIC LOCATIONS IN THE DRC



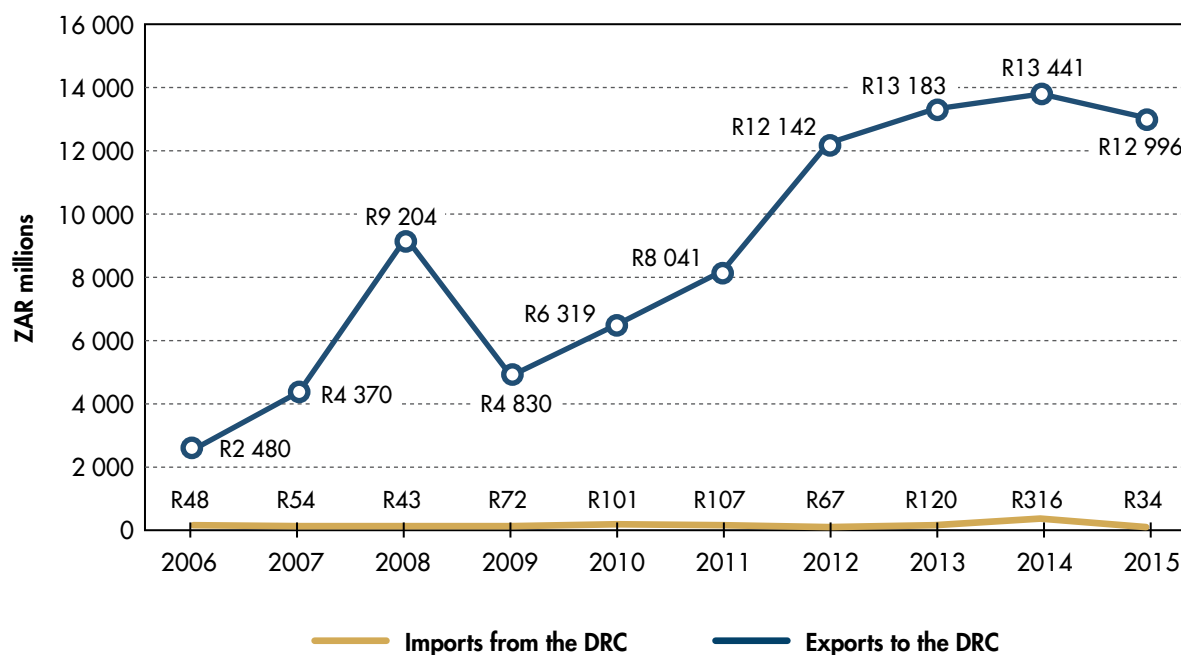
Source: Open source / UN database

INTRODUCTION

South Africa's economic engagement with the DRC is not new – in fact, South Africa has for over a hundred years supplied the southern mining towns of the DRC (principally Lubumbashi, Likasi and Kolwezi) with both South African and international goods, and the mining output of southern DRC has mostly travelled out of Africa via Johannesburg and Durban for just as long. For decades the bulk of the trade went by rail, but since the 1990s it has mostly been by road. There was little penetration of other regions of the DRC by South African business until after

the fall from power of Mobutu Sese Seko in 1996, and the country's subsequent accession to the SADC in 1997. The first movers were mining companies, such as AngloGold Ashanti, which were followed by companies in other sectors, including agriculture, construction, retail, banking and telecommunications.

FIGURE 2 TRADE FIGURES COMPARING IMPORTS FROM AND EXPORTS TO THE DRC FROM SOUTH AFRICA



Sources: South African Revenue Services, 2016, http://tools.sars.gov.za/tradestatsportal/data_download.aspx, accessed 27 April 2016; South Africa, Department of International Relations and Cooperation, 'SA and DRC bilateral relations', <http://www.dirco.gov.za/kinshasa/bilateral.html>, accessed 27 April 2016

Today, the DRC has become a significant market for South African business. The country is estimated to have the third-largest population in sub-Saharan Africa (71 million) and since 2002 has enjoyed strong economic growth rates, though these have tailed off sharply since 2014 due to a fall in commodity prices. There is a strong imbalance in the two countries' bilateral trade; in 2012, for example, South Africa exported goods and services to the DRC worth ZAR² 12 billion (\$88 million), while Congolese imports to South Africa were worth only ZAR 67 million (\$4.5 million).³

South Africa's early engagements in the DRC were largely driven by political solidarity and President Mandela's and President Mbeki's efforts to establish peace and stability in the region. Following the 2006 democratic elections and early state-building efforts,⁴ South African and Congolese relations have started to exhibit more strategic and commercial features, including exploration of the DRC's hydro-electrical potential to supply South Africa and the rest of the sub-continent.

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The core economic sectors where South Africa is invested in the DRC are agriculture and retail, telecommunications, mining and construction, logistics and other services, and electricity and infrastructure. These are discussed below.

AGRICULTURE AND RETAIL

Agricultural output across the DRC declined steeply from the mid-1970s, following ‘Zaireanisation’,⁵ and the volume of agricultural imports, including those from South Africa, began to rise accordingly. This trend has continued ever since, and South African companies today export a wide range of food products to southern DRC. The trend received a marked boost from the long-awaited arrival of Shoprite in the capital in 2012. The company has, however, been frustrated by its inability thus far to establish a foothold in Lubumbashi, where the logistics for transporting goods from South Africa are much simpler and less expensive.

Another potentially important development is the partnership between Africom Commodities, a mid-tier Potchefstroom-based agricultural business, and the Congolese government to develop agro-industry in the DRC. Africom is managing a massive state-owned farm in western DRC, called Bukanga Lonzo, which the government hopes will be the first of at least nine such ventures, and into which it has already pumped tens of millions of dollars.

The public–private agro-zone has also been at the centre of controversy as the land is sandy, and widely considered as poor for farming. This has led to suspicions among many in the country’s commercial agricultural sector that at least some of the remarkably large sums allocated to the project have from the outset been intended by the government to be discreetly redirected elsewhere. The prime minister’s office, which has taken the political lead in the Bukanga Lonzo project, has denied the accusation. Africom is also looking to build and run a new fertiliser factory and a large agricultural goods market near Kinshasa.

TELECOMMUNICATIONS

As in the rest of the world, mobile telephony has grown exponentially in the DRC over the last 15 years. The DRC telecommunications sector was liberalised in 2002, and soon after, Vodacom DRC was established, with 51% South African ownership and 49% for Congolese Wireless Network (CWN), which joined the partnership with the powerful asset of an existing licence.

Vodacom owns 51% of Vodacom DRC, giving the South African government an indirect stake in the Congolese company, through its 14% shareholding in Vodacom SA. As revealed by the Panama Papers, Jaynet Kabila, the DRC president’s twin sister, holds a 19% stake in CWN.⁶ This high-level political involvement from both South Africa and the DRC appears to have played an important role in the successful installation of Vodacom in the DRC.

Vodacom DRC has since established itself on a proper commercial footing and grown to be the largest mobile phone network in the country, with 11.2 million users, 34.7% market share and 47% country coverage.⁷ There have, however, been serious disagreements over the years between the shareholders, involving costly

legal battles that have at times dragged in the presidents of both countries. Despite the legal dramas, Vodacom South Africa executives still insist that they see a promising future for the company's ascendancy in the Congolese market.

MINING AND CONSTRUCTION

From the late 1990s to the early 2000s, South African companies acquired several Congolese mining assets, mainly in Katanga province but also in north-eastern DRC. In some cases, however, particularly in copper and cobalt, these companies have since been bought out by Chinese, Indian and other foreign enterprises. This is primarily because access to the levels of capital required to develop Congolese mining assets, which are typically geologically blessed but a logistical nightmare, has been a major challenge for miners listed on the Johannesburg Stock Exchange compared to their counterparts listed in London, Toronto and New York. Nonetheless there has been strong demand from international companies for South African mining services, skills and human resources. This has coincided with a steady shrinkage in the South African mining sector and consequent spare capacity in all three areas.

In the gold sector, a big 'semi-South African' success story has been the establishment of Kibali Gold, a joint venture of \$2.7 billion involving the Congolese state-owned mining company SOKIMO (10%), Anglo Gold Ashanti (AGA) (45%) and Randgold (45%). The mine is operated by Randgold. AGA is headquartered in Johannesburg, while Randgold, despite its deep South African roots, is headquartered in Jersey. Kibali produced 526,627 ounces of gold in 2014⁸, 642,720 ounces in 2015⁹ and is set to be one of the biggest gold mines in Africa. AngloGold Ashanti also for years held the permits for the Mongbwalu gold fields in the country's north-eastern Ituri province. After years of indecision, in 2015 the company finally opted not to develop Mongbwalu and sold the permit to a Congolese consortium.

Capitalising on the reconstruction efforts and infrastructure development occurring in the Bas Congo corridor, PPC, the second largest South African cement company, and Barnet Group, have pledged to invest \$280 million in the construction of a new cement plant 250 km from Kinshasa and 200 km from the Inga Dam site. Production at the site has started and the company says it is on course to commission the plant by the end of 2016. By 2018, PPC predicts it will produce one million tons of cement each year, for the growing DRC market, but also for Congo Brazzaville, Angola and the Central African Republic.

LOGISTICS AND OTHER SERVICES

State-owned South African Airways (SAA) flies seven times a week from Johannesburg to Kinshasa and Lubumbashi, and is currently the only airline to fly the route. The Lubumbashi route remains in good health, but SAA has faced a decrease in customer volumes on its Kinshasa route since 2014, alleged by many Congolese to be because of the onerous South African visa requirements.¹⁰

In the financial sector, Standard Bank has established branches in Kinshasa, Matadi, Goma, Lubumbashi and Kolwezi. The volatile security situation in the

DRC has also provided good business for South African private security companies, protecting South African but also other foreign-owned assets.

ELECTRICITY AND INFRASTRUCTURE

The largest and potentially most significant economic collaboration between the two countries is the regional mega-plan of generating electricity from the Inga Dam on the Congo River. The ambitious 'Grand Inga' hydropower project (involving six phases of development), is forecast to produce 40,000 MW of renewable clean electricity. It would become the world's largest electricity scheme, with potential to service 40% of Africa's power needs.¹¹

That day, however, still seems far off, as political, technical and bureaucratic delays have plagued the project. Following a succession of earlier failed plans to develop the project,¹² the South African and DRC governments signed the Grand Inga Treaty in October 2013, which committed South Africa to off-take 2,500 MW of the initial 4,800 MW that is to be produced in phase 1 of the project. Eskom plans to erect high-voltage transmission lines from the Inga site all the way to South Africa, via the copper mines of Katanga province and Zambia.

Grand Inga has been costed at around \$120 billion (with phase 1 estimated at \$14 billion), but little of this finance is yet in place. Despite South Africa's interest in the project, neither the Development Bank of Southern Africa nor the Industrial Development Corporation have sufficient financial capacity to invest in the African priority infrastructure project. Although Eskom had submitted the project to the BRICS New Development Bank (NDB) as one of its proposals for funding, the power plant was eventually not on the NDB's first list of funded projects. This might change in the future, considering both China¹³ and South Africa have strong vested interests in the realisation of this project.

THE GOOD

Are South African companies contributing to equitable and sustainable development in the DRC? This could be assessed through the prism of job creation, national revenue generation, infrastructure, local economic development and social investments.¹⁴

Investment by South African companies in the DRC, according to a government press statement,¹⁵ has created at least 4,000 jobs, to which can be added thousands more from the small enterprises indirectly linked to these investments, such as, for example, informal Vodacom airtime vendors.

South African companies in the DRC have also contributed to the building of much-needed infrastructure, including roads, bridges and small power plants. The advent of mobile telephony in the country has, as in the rest of Africa, had a socially and economically transformative impact, amplified in the Congolese case by the previous dire absence of telecommunications infrastructure. Vodacom can fairly claim to have played a vital part in the spread of communication services throughout the country, often reaching down to remote rural localities and war-affected areas in the east of the country.

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In the community development and social spheres, Vodacom has also supplied equipment to schools and refugee camps in the eastern region, while PPC has committed to spending several million US dollars on small agro-business, water and sanitation projects, youth training centres, construction of schools, clinics, churches and sports fields for their surrounding communities. This came largely as a result of the social and environmental compliance required from the co-financing of the project by the International Finance Corporation.

Finally, there is the contribution made by SA businesses to the Congolese fiscus through royalties, licences, corporate tax, custom duties, VAT, employee tax, land and other service taxes to which corporates are subject in DRC. In the case of many enterprises, particularly in mining, the DRC government also receives dividends from its partial ownership. Between 2010 and 2015 Kibali Gold reported its contribution of \$170 million to the government coffers, while Vodacom reported in 2014 tax payments of \$110.5 million¹⁶ to the DRC fiscus.

THE BAD AND THE UGLY

South African businesspeople sometimes boast about the way their ‘African-ness’ supposedly gives them a competitive advantage, compared to European, American and Asian business, in the rest of the continent. There may be a degree of truth in this in the mining sector, where many South Africans have over the years developed the skills required to do their jobs in innumerable challenging circumstances. It is, however, hard to discern evidence of South Africa’s ‘African advantage’ in other economic sectors, where South African companies are typically disadvantaged by their lack of familiarity with the French language, and in the Belgian and French bureaucratic traditions and legal systems.

Ever since the World Bank began compiling its ‘ease of doing business’ rankings in 2002, the DRC has, and for good reason, languished near the bottom of the list. Similarly the Heritage Economic Freedom index places DRC 163 out of 178 countries with regard to investment-friendly environments.¹⁷ South African companies suffer like all others with the obstacles in operating in the DRC. These include the high capital expense required to do business where infrastructure (water, electricity, roads, communications) is typically weak to non-existent. South African business in many cases struggles to access South African financing, particularly with the ongoing weakening of the South African currency, and sometimes turns to other international finance institutions, as in the case of PPC.

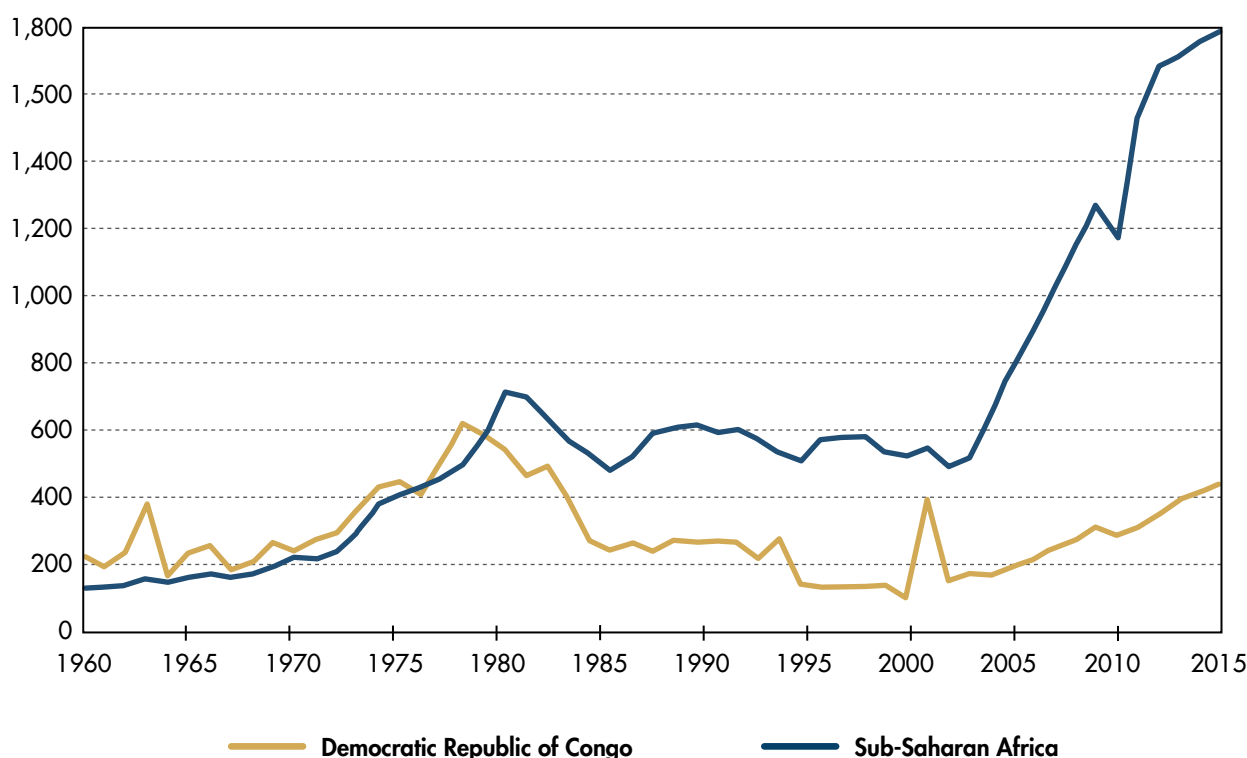
Businesses operating in the DRC complain about excessive bureaucracy, red tape and over-taxation by local and national authorities when business regulations are never clear. The rule of law in the country is uncertain at best, and the judicial system is weak and often corrupt. Systemic corruption is an issue throughout the country and political instability does not help. Elections are due in November 2016 but the electoral commission has said it is not ready for them, much to the anger of opposition parties. The government has called for a political dialogue but thus far the opposition has refused to participate. What happens next is highly uncertain, and most businesses are putting planned investments on hold until the country’s political direction becomes more clear.¹⁸

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A key constraint is the extreme poverty of the majority of the population, which to a large extent cancels out the market potential created by the country's size. The GDP per capita was estimated at just \$437.81 in 2014, making it 49th out of 53 countries on the continent on this measure.¹⁹

FIGURE 3 GDP PER CAPITA (CURRENT \$)



Sources: World Bank, accessed 2 October 2016

CONCLUSION

The South African government and the South African private sector have operated side-by-side in the DRC but rarely in a systematic and co-ordinated manner, compared to other Asian and Western countries. South African companies operating in the DRC are left to their own devices, and the South African government's capacity to help the business sector abroad is limited.

Nonetheless, efforts need to be made to align South African business investments with national and regional development plans. A major stumbling block in the SA–DRC trade and economic exchanges is the increasingly onerous visa application process which both Congolese and South Africans businessmen are subject to. Governments need to address this challenge in order to promote better regional integration and continued intra-African investment.

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Economic growth and sustainable development are central to ensuring sustained peace and stability of the DRC as well as the sub-region as a whole. The DRC government should, with South Africa and other international partners, continue to identify ways to improve the business operating environment, with particular focus on reforming public financial management systems and addressing endemic corruption.

South Africa has a clear interest in increasing its business in the DRC, as this boosts and diversifies exports at a time when the traditional source of earnings – mining – is shrinking in value and volumes. There is the additional advantage that the Congolese mining sector can absorb at least some of South Africa's excess capacity in mining and logistics.

The driving force of South Africa's economic and political partnership with the DRC remains the dream of a huge, cheap and clean energy supply coming from the Inga Dam. New ways must be found to speed up the developments of the hydroelectric projects at Inga, by leveraging some of the domestic, technical and financial resources with larger funding from the NDB, the African Development Bank and other international financial institutions South Africa is part of.

While South Africa is trading profitably with the DRC, Pretoria will remain politically engaged with Kinshasa, and this engagement is likely to support the peace processes, the institution-building and the long-term economic development of the fragile economy at the heart of Africa.

ENDNOTES

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