

DEMOCRATIC REPUBLIC OF CONGO
FEBRUARY 2008

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
3C	→	→	Debt collection is best suited to the use of a good collection agent.

Credit Guarantee Experience

We are open for cover in this market on a case-by-case basis where demand is increasing. It is essential that exporters wanting to do open account business in this market exercise prudence when granting credit and that they ensure that they have taken the necessary measures to protect themselves against payment defaults.

Political Highlights

- ❑ Joseph Kabila's Government became the first democratically elected Government in the 2006 elections, where the president is eligible for an additional five-year term. The next election is scheduled for 2011.
- ❑ The signing of the peace deal between the armed groups and the Congolese Government last month, covering two eastern provinces of the DRC (North Kivu and South Kivu), has reduced tensions in the area but people remain skeptical. They accept that the deal is good, but are wary about the realities that take place on the ground, given that this is not the first peace deal signed.
- ❑ Police and other security services from the DRC were deployed near the Sudanese border after the Sudan People's Liberation Army (SPLA) withdrew troops from the area that they occupied for a decade. The Congolese flag was raised over the Kengezi base which was symbolic for regaining their territorial integrity. In 1998, the SPLA - a former rebel group that is now the official army of Southern Sudan - established a base in Kengezi. This gave rise to a five year civil war. Since the late 1990s, this corner of the DRC has been plagued by numerous domestic and foreign armed groups.

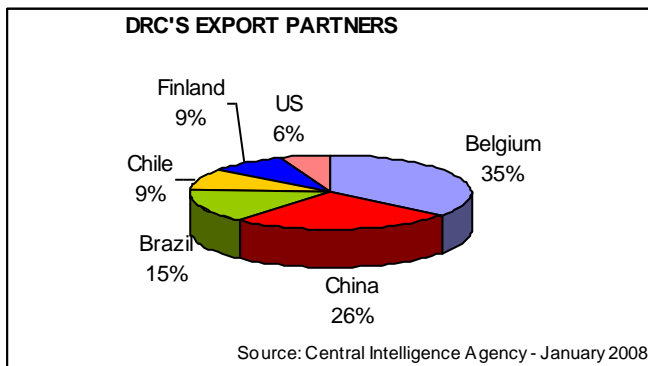
Recent Economic Highlights

- The DRC is the second-largest country (after Sudan), in Sub-Saharan Africa and borders nine countries. It has a population of 60m people that are scattered throughout the country. The DRC is one of the poorest countries in Africa with as much as 66% of its population living below the poverty threshold of one dollar a day. Infant mortality – at 1.850 per 100.000 live births – is the highest in Africa. Social safety net programmes are virtually non-existent. It is endowed with vast resources and after two decades of decline, it is showing positive signs of recovery. The conflict, which began in August 1998, resulted in the deaths of over 3.5m people, reduced the capacity of business output, destroyed infrastructure and created an environment not conducive to business and investment. The DRC is ranked 156 out of 163 countries in the Transparency International Index 2006 Corruption Perceptions Index and 168 out of 180 countries in 2007. It is ranked 168 out of 177 countries in the 2007 Human Development Index.
- The economy expanded over 5% from 2003 and was sustained by the rebuilding of the country through a massive in-flow of foreign aid. GDP growth remained above 5% in 2006, and despite being ranked the worst country in the world according to Doing Business Indicators, it received \$1bn in foreign direct investments in 2006. Expected GDP growth was 7% in 2007. The IMF expects economic growth of 8.4% in 2008. The country's growing stability over the last year shows promising signs for the economy. In the World Bank's 2007 draft of the DRC's mining sector, it states that by increasing the contribution of large and small-scale mining to economic development, production value of the mining sector could range between \$2bn and \$2.7bn per year for period 2008-2017. GDP is currently estimated at \$8.5bn with total fiscal receipts at \$1.1bn per year. The Bank also claims that the business environment is improving.
- The African Development Bank met with the DRC to assess the cooperation between the two parties and review the pressing needs of the country in preparation for the 2008-2012 strategy paper that will address challenges and constraints of the country. It highlights the ADB's policy to provide assistance for development challenges, ADB's support of the DRC's integrating efforts in Central Africa including infrastructure, ADB's assistance towards major economic infrastructures, private sector development, and conservation and sustainability of forest ecosystems.
- The UK is the biggest bilateral European donor in the DRC. It invested £6m in 2001-02 and raised this to £70m for 2007-08. The UK's Department for International Development has teamed up with fourteen other members whose cumulative aid represents 85% of development assistance to the country. One of its biggest challenges includes building an effective and accountable state that will provide security and services for the people.
- The World Bank reviewed the DRC last year and noted that the mineral rich country that has emerged from a decade of strife faces some major challenges. Thousands of former soldiers or militia members are re-learning how to be civilians. The Bank supports the DRC's transition to peace through a \$100m Emergency Demobilisation and Reintegration Project. Mining of copper, cobalt, diamonds, gold, zinc and other metals once accounted for 75% of GDP. The Katanga copper belt is one of the richest mineral belts in the world. Its resources are estimated at 70m tonnes of copper, 5m tonnes of cobalt and 6m tonnes of zinc. Katanga thus comes second to Chile (with 88m tonnes of copper) among the world's copper regions. Average ore grades in DRC are much higher than in Chile.
- There is concern that the peace and new roads may bring chaotic development to the forest belt, harm biodiversity or lead to conflict over traditional rights if efforts to reform forest management do not take hold. Government pledged to boost the country's conservation efforts by maintaining a moratorium on new logging, implementing a legal review of existing concessions and providing legal recognition and rights of indigenous people. The DRC is home to the world's second largest tropical rainforest

which is approximately 125m hectares. The Congo basin is recognised for its importance in the planet's climate as well as its unparalleled biodiversity. The basin is central to the lives and livelihoods of over 40m Congolese and the forests are inhabited by an estimated 600.000 Pygmies. The World Bank's strategy for reviving the DRC's economy relied heavily on increasing investment in the forest and mining sectors, raising the chances of environmental degradation and social disruption. It has committed over \$2bn in loans to the DRC since 2001. The United Nations Programme for Development (UNDP) has signed a governance programme with the DRC for 2008-2012 for \$390m. The programme aims at promoting a system of legitimate governance which favours resilient human development.

- The DRC will soon announce the results of a long-awaited review of sixty mining concessions in the country. Government initiated its clean up programme as it was concerned that many of the contracts were agreed to during the chaos of the civil war when too much was given away to foreigners. A mining commission was set up last year to bring contracts up to international standards. The governor of the mineral-rich Katanga province has subsequently reassured investors that they were welcome despite a leaked report that many mining licences would be cancelled. Over the past two years, about \$2bn was raised on international stock markets for the development of mining projects. The current investment momentum in the province has taken several years to develop and investors were assured that this remains the common goal. The five SA-based mining companies with interest in the DRC are Meterox, BHP Billiton, Teal, De Beers and Metmar. Metorex's key asset in the DRC is an 80% stake in the Ruashi copper mine. De Beers plans on spending \$56m on exploration in the DRC this year.
- When the Grand Inga Hydroelectric project began in 1972, it was envisioned that its capacity of 1.775mw of hydroelectricity would be sufficient to satisfy the growing industrial and consumer demand in southern Africa for many years. The demand for electricity surged after the civil war with emerging interest in developing the vast mineral resources in the Katanga region. Despite the heightened demand, both Inga phase I and phase II were producing at 30% below capacity at 351mn and 1.424mw respectively, until a private-public partnership (PPP) was created by the DRC power utility SNEL and the Canadian energy and resources company MagIndustries. Phase I will be refurbished at a cost of \$25m and four of the eight gas turbines in phase II will be rehabilitated to full capacity (712mw) at a cost of \$110m. Phase I will be completed in the first quarter of 2008 and phase II will begin mid-year 2008 and be completed by year-end 2011. SA's IDC is an equity partner with 30% in phase I and 15% in phase II. It is expected that the anticipated 800mw power demand from the DRC's Copper Belt will be met in six years and there would be enough power to supply other needs in the country as well as export to SA and Zambia.
- The aluminium smelter planned for the DRC by BHP Billiton is expected to reward the region with similar benefits as Mozambique's Mozal Aluminium smelter. BHP and Government will invest a combined total of \$8bn towards the planned hydro power station at Inga and the smelter. Government was planning a giant Inga 3 power plant on the Congo River to produce a maximum of 4.000mw. In exchange for Billiton's part funding of the project, it has secured 2.000mw of electricity for its smelter, which will be bigger than Mozal. It will produce 800 kilo tonnes of metal annually. The timing of the first production depends on completion of the power station which takes a minimum of five years and an aluminium smelter takes three years.
- MagEnergy, DRC's first independent power producer, is also interested in other power projects including Busanga, its second largest hydro site which has a potential to produce 250mw. MagEnergy projects at Inga are expected to create a plan by a group of five African countries and their international backers who have explored plans to establish the world's biggest hydro-power generator, the Grand Inga Project at an estimated cost of \$50bn. The proposed 39.000mw venture is a joint project by the Governments of Angola, Botswana, DRC, Namibia and SA through a company called Western Corridor (Westcor) with financial assistance from various world renowned institutions.

Trade Developments



- Angola approved an accord of cooperation in the civil construction sphere between Angola Public Works and the Ministry of State for Infrastructure, Public Works and Reconstruction of DRC. The agreement aims at the exploration, establishment and strengthening of scientific and technical cooperation in the civil construction and public works.
- Under an agreement signed last year, China would take on big infrastructure projects in the DRC and begin work this year. The projects are along the country's five priorities namely, water, electricity, education, health and transport. The projects would cost \$9bn and would be paid for with DRC's immense copper and cobalt reserves.
- Uganda could export significant amounts of electricity to the DRC in future. Ugandan and Congolese energy officials recently discussed that Uganda will have stabilised its energy sector by 2011 and be in a position to export between 50mw to 160mw of power to the DRC. The DRC will use this power to supply its towns close to the Ugandan border.
- SA's exports to the DRC totaled R1.8bn in 2005, R2.6bn in 2006 and R3.7bn in the year-to-October 2007.

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