REPUBLIC OF CONGO

Standard Bank Moving Forward™

INTRODUCING

COUNTRY PROFILE – FACTS AND FINDINGS

DEMOCRATIC REPUBLIC OF CONGO: ECONOMIC OUTLOOK

The Democratic Republic of Congo (DRC), formerly known as Zaire, gained its independence from Belgium in 1960. After independence, the DRC experienced a combination of unrest and rebellion, dictatorships, armed conflict, and neighbouring countries controlling parts of its territory. The country was the battleground for the African World War that took place from 1997 to 2003, when nine African countries fought over the DRC's vast resources. It is the second-largest country on the continent, with 10 481 km of border land. The DRC is surrounded by nine countries: Angola, Burundi, Central African Republic, Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

The country, which recorded its thirteenth consecutive year of expansion in 2015, has been suffering from systemic corruption since 1960 as well as from conflict that began in the early 90s. The DRC's economy relies heavily on the country's vast mineral reserves and its mining and oil sectors, but its manufacturing sector remains underdeveloped. As a result, its economy does not fully benefit from its resources and has to rely on imports to cover a lack of domestic supply. Its poor infrastructure and transportation also make it difficult for the agricultural sector to develop further.

The DRC has the potential to be one of the richest countries on the continent because of its abundant natural resources. It is the third-fastest-growing economy in the world after the 2009 global economic crisis, and it has amongst the highest economic growth in sub-Saharan Africa.

Given the country's large population, private consumption will keep making the largest contribution to overall real GDP growth throughout the long-term forecast period. It is estimated that private consumption will grow at roughly 7.6% each year between 2016 and 2025. Real growth in government consumption will average just 0.9% over the next ten years. Growth in this sector will be driven by the Congolese government's improved capacity for revenue collection across its entire territory.

Its political instability threatens the country's growth potential, while the uncertain outcome of the presidential elections scheduled for November 2016 negatively affect the country's business environment and investor confidence.

DRC: IN A NUTSHELL

Most popular exchange currency
US dollar

Monetary unit
Congolese Franc

Languages
French (official), Lingala, Swahili, Kikongo and Tshiluba

Population
79 375 136

Population growth
3.2%

Types of industry
Mining (copper, cobalt, gold, coltan, zinc, tin, tungsten), mineral processing, consumer products (textiles, plastics, footwear, cigarettes), metal products, processed foods and beverages, timber, cement and commercial ship repair

Type of government
Unitary republic

Capital
Kinshasa

Area
2 344 885 km^2

Major export commodities (2015)
Copper and articles thereof (60.31%); other base metals, cermets and articles thereof (16.34%); ores, slag and ash (11.18%); pearls, precious stones, metals, coins (4.65%); and mineral fuels, oils and distillation products (2.29%)

Real GDP growth
9% (2014)

Gross domestic product (GDP)
$33.12 billion (2014 actual)

Major import commodities (2015)
Machinery, nuclear reactors, boilers (20.25%); electrical, electronic equipment (15.27%); pharmaceutical products (10.30%); vehicles other than railway, tramway (9.24%); and articles of iron and steel (6.03%)

Major export countries (2015)
China (54.82%), Saudi Arabia (12.41%), Republic of Korea (6.21%), Belgium (5.44%) and the United States of America (3.22%)

Major import countries (2015)
China (29.76%), South Africa (21.65%), Belgium (10.02%), India (6.81%) and France (5.70%)

Tax rate (corporate) 35%
Tax rate (individuals) 30%

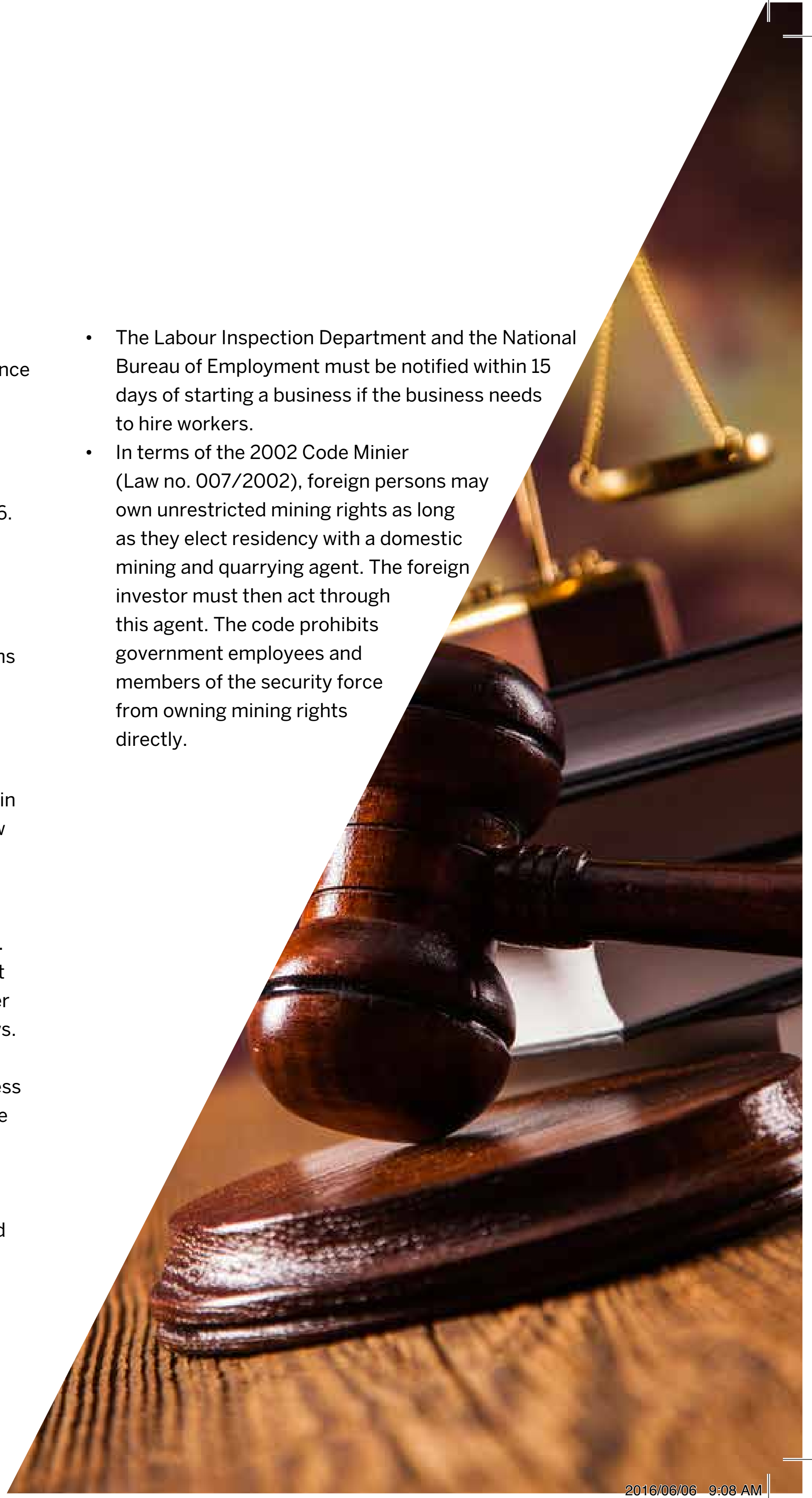
Natural resources
Copper, cobalt, petroleum, industrial and gem diamonds, gold, silver, zinc, manganese, tin, uranium, coal, hydropower and timber

CHAMBERS/ASSOCIATIONS

The DRC is a member of Federation des Entreprises du Congo (FEC), Southern African Development Community (SADC), International Monetary Fund (IMF), World Health Organisation (WHO), World Trade Organisation (WTO), World Intellectual Property Organization (WIPO), United Nations (UN), and the United Nations Educational, Scientific and Cultural Organisation (UNESCO), and is home to the South Africa and DRC Trade and Investment Chamber, and the Congolese Chamber of Commerce.

POLITICAL/LEGISLATIVE

- The DRC is a unitary republic that gained its independence from Belgium in 1960.
- President Joseph Kabila has been the president since January 2001. Presidents serve a five-year term, after which they are eligible for a second term. The next presidential elections are scheduled for November 2016.
- The DRC has an upper-moderate political risk. As the scheduled presidential elections approach, there is an increased likelihood of violence as a result of the president's intention to run for a third term.
- The DRC has poorly designed and inefficient tax systems characterised by inefficient tax collection and poor customs administration.
- The discussion of proposed laws is typically limited to the government entity that proposed the draft and to a session of parliament before it is voted on. This results in a lack of transparency in the country and does not allow for any objections from other parties.
- The legal system is primarily based on Belgian law. Elements of customary and tribal law also serve to regulate the law on personal status and property rights.
- The 2002 Investment Code governs most foreign direct investment. The mining, hydrocarbon, finance and other sectors are governed by sector-specific investment laws.
- The Congolese government has launched what is titled the Steering Committee for the Improvement of Business and Investment Climate. This committee has a mandate to improve the country's ranking for doing business, transparency of procedures, administrative delays and the cost of doing business.
- A maximum period of protection of 20 years is provided for patents and one of 20 years, renewable, is provided for trademarks, starting from the date of registration. A trademark can be cancelled if it is not used within three years.
- The Labour Inspection Department and the National Bureau of Employment must be notified within 15 days of starting a business if the business needs to hire workers.
- In terms of the 2002 Code Minier (Law no. 007/2002), foreign persons may own unrestricted mining rights as long as they elect residency with a domestic mining and quarrying agent. The foreign investor must then act through this agent. The code prohibits government employees and members of the security force from owning mining rights directly.



ECONOMICS

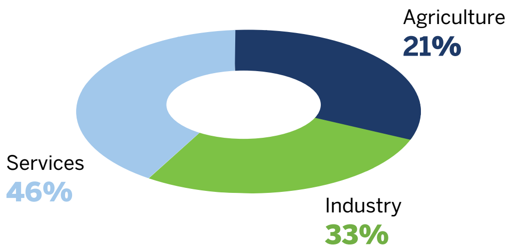
- The country has vast untapped gold and cobalt reserves. It has identified agribusiness, telecommunications, mining, oil and gas, infrastructure and energy as sectors of growth. It has also put into action investment promotion regulations, but access to credit remains a challenge, especially for small enterprises.
- The DRC has been able to keep its inflation below the target of 5%. Annual inflation averaged 1.9% during 2012 to 2016. It is expected to reach 2.5% by the end of 2016, up from 1.6% in December 2015. The BMI estimates that prices will remain low in the DRC relative to other African countries.
- The DRC's economy does not have much of a private savings component. Most people who are employed and have bank accounts withdraw all their money after their salaries have been deposited.
- In an attempt to stimulate growth and credit extensions in the banking sector, the Banque Centrale du Congo (BCC) halved the amount of equity that banks must use as collateral against loans on condition that the banks are insured through the Pan-African Credit Agency.
- The DRC's systemic corruption following independence in 1960, combined with the country's instability and corruption, has had serious economic consequences. These include a high external debt, a lower national output and infrastructure that make it expensive to conduct business in the country.

ECONOMIC GROWTH: CURRENT VS OUTLOOK

Economic growth (%)						
	2015	2016[f]	2017[f]	2018[f]	2019[f]	2020[f]
Economic Intelligence Unit (EIU)[1]	7.2	5.0	4.8			
BMI Research	7.2	6.6	7.6	7.1	7.1	7.1
The World Bank	8.0	8.6	9.0	9.0		
Inflation (%)						
EIU (Y-o-y average)	1.2	1.1	2.1			
BMI Research (Y-o-y average)	1.6	2.3	2.8	2.5	2.8	3.0
Central bank policy rate (%)						
BMI Research (End of period)	2	2	2	2	2	2
Sources: [1]EIU: Country Report, generated April 2016; [2]BMI Research: The Democratic Republic of Congo Country Risk Report 2016; [3]World Bank						

THE STRUCTURE OF THE ECONOMY:

GDP contribution by sector



Source: EIU

AGRICULTURAL SECTOR

- The DRC is the second-largest country on the continent. It still has 80 million hectares of arable land that is not used.
- Agriculture remains underdeveloped. Nevertheless, it provides employment to more than 60% of the labour force. There are opportunities in this sector, and the Congolese government promotes investment to boost economic growth and diversity.
- Foreign investment is promoted in this sector and there is easy entry. Still, foreign investors are not allowed to have a controlling interest in agricultural firms.
- Agriculture has been hampered and fell by approximately 40% because of the civil war that ended in 2001. It has recovered since 2006, though, following the rehabilitation of the rural infrastructure.

INDUSTRIAL SECTOR

- Industries include mining (copper, cobalt, gold, coltan, zinc, tin and tungsten); mineral processing and consumer products (textiles, plastics, footwear and cigarettes); metal products; processed foods and beverages; timber; cement; and commercial ship repair.
- The DRC is believed to have mineral reserves to the value of USD24 trillion.
- **Mining:** The DRC has some of the largest high-grade copper deposits in the world. Grades average between 2% and 3%, compared to the global average of approximately 0.8%. Copper output growth is forecast at 6.7% during 2017 to 2019 but faces challenges due to the country's ongoing regulatory uncertainty. The mining sector has maintained a steady growth path since 2010. However, it remains underdeveloped and this increases the country's reliance on imports.
- **Crude oil:** The DRC had proven reserves of 200 million barrels of crude oil at the end of 2014 and produced 8.4 million barrels of oil in the same year. According to the US Energy Information Administration (EIA), the DRC does not have the capacity to refine its own oil. Such capacity could optimise the benefits it gains from oil production. Regional stability in the Great Lakes oil region is threatened by the lack of clearly defined borders.
- The country's secondary sector (housing, industry and agribusiness) has advanced since 2009. This sector has recorded an average growth of 11.7% recently, compared to 2.6% between 2006 and 2008.

SERVICE SECTOR

- The services sector contributes just over 40% to GDP. The biggest contributions come from retail trade, wholesale, telecommunications and banking.
- The retail sector still remains underdeveloped and consists mainly of local supermarkets and boutiques within hotels. There is an opportunity for investors to provide modern retail facilities.
- Telecommunications: Mobile networks dominate the delivery of basic telecommunication services. Around 16 privately owned organisations were granted telecom licenses, and the subscriber base has increased significantly.
- The Congolese financial system consists of 18 commercial banks, 143 microfinance institutions, 59 transfer organisations, five specialised institutions, three electronic money institutions, 16 foreign exchange bureaus and a state-owned insurance company, SONAS. More than 90% of the DRC's population do not have a bank account. This is a relatively high figure compared to the sub-Saharan average of 80%. The sector remains underdeveloped and vulnerable to credit risk due to high credit extension concentration. Five of the largest banks hold 60% of total banking assets and 65% of banking deposits. Four of the largest banks are locally controlled, while the others are controlled by foreign holding companies.

SOCIAL/DEMOGRAPHIC

- Population: 79 375 136
- Life expectancy at birth is 60 years.
- 44.4% of the population are under the age of 15; 53% are between 15 and 64 years old; and 2.6% are above 65 years of age.
- HIV/Aids occurs among 1.04% of adults.
- The country has a Gini index of 0.45, showing inequality in income distribution.
- The country has an unemployment rate of 43%.
- 63.6% of the population live below the poverty line.
- The country is rated 176 out of the 187 poorest countries on the Human Development scale for 2015. It has one of the lowest per capita incomes at $435.
- Around 57.5% of the population live in rural areas. The urbanisation rate is estimated to be around 3.96%.

TECHNOLOGICAL

- The Internet sector has more than ten companies licensed to offer data services, and the market is open to new investors. But there is inadequate international bandwidth connectivity and transmission backbone.
- As of 2015, a few banks have been offering e-commerce payment solutions. Mobile payments are the main e-commerce payment method – two million people use mobile payment systems Airtel, M-Pesa and Tigo cash. There are great market share opportunities in the technology sector. The existing online-based businesses each have a market share of 50%. They have managed to capitalise on being the first businesses to venture into the DRC market.
- The DRC's legal framework does not yet make provision for the governance of technology-based financial systems such as mobile financial services and payment systems. This is hindering the potential for technological innovation.
- It is estimated that there were 3.47 million 3G subscriptions in the DRC at the end of 2015. By the end of 2015 there were 47.2 million mobile subscribers. The country has surpassed its 61% mobile penetration mark and expects to reach 80.7% by 2020.

ENVIRONMENTAL

- The Congolese government places land associated with activities that impact the environment, such as energy, mining and forestry, at greater risk of expropriation.
- The DRC is home to almost 10% of the world's tropical forests and around 50% of Africa's. In 2015, the government introduced a new Forestry Law which allows individuals to manage their own forests. There is a limit to the size of land that an individual can own, although there is no specification as to the amount of wood they can exploit.
- The constitution drives the protection of land. The mining code requires individuals to submit an environmental impact study and an environmental management plan for the project before mining rights are granted to them.
- There are prohibited areas, based on their environmental sensitivity. In such places the government does not grant mining rights.
- More than 96% of the DRC's power consists of hydroelectricity.
- Rural areas face crop failures and deforestation due to high temperatures being experienced in the country. Flooding and erosion are challenges in the cities of Kinshasa and Kimbaseke. Poor waste disposal practices there are aggravating conditions. Soil erosion affects the quality of water in the country and brings the cost of having to purify water. It also threatens the fisheries and worsens flooding problems.

DRC: WHAT TO CONSIDER WHEN STARTING A BUSINESS

- The upper-moderate political risk in the country increases uncertainty for foreign businesses and could adversely affect investment returns.
- In April 2013, the DRC established a one-stop window bureau to simplify the process of establishing a business and shorten it from five months to three days. Incorporation fees were also reduced from $3000 to $120.
- Investors must negotiate investment conditions with the National Agency for Investment Promotion in the DRC (ANAPI) over a period of about 30 days. They do not have to meet any specific performance requirements.
- Performance requirements agreed upon with ANAPI typically include a timeframe for investment, the use of the code of the Organisation for the Harmonisation of Business Laws in Africa (OHADA) for accounting procedures and periodic authorised Congolese government audits, the protection of the environment, periodic progress reports to ANAPI, and compliance with international and local norms for the provision of goods and services.
- Investors who want to benefit from the customs and tax incentives of the 2002 Investment Code must apply to ANAPI. If successful, they will receive final approval from the Ministry of Finance and the Ministry of Planning.
- Investment projects benefiting from incentives under the Investment Code must be assessed by ANAPI every six months.
- High corruption at all levels of government and dysfunctional judicial institutions expose both local and foreign businesses to demands for bribes, harassment and the selective application of a complex legal code.

- Many Congolese business contracts make provision for external arbitration. This option is expensive and time consuming, though, and does little to resolve routine and regular business problems.
- The Congolese government has said it intends to enforce local content or local sourcing requirements on foreign investors, particularly in the mining sector. The country has proposed a bill which will require foreign companies to use local subcontractors for subsidiary services.
- The Congolese Office of Control (OCC) – the Congolese government authority on business standards – oversees foreign businesses engaged in the DRC.
- The Congolese government may require compliance with an investment agreement within 30 days of notification in terms of the Investment Code. Non-compliance may result in sanctions.
- There is little transparency around the bidding process for government contracts. Contracts are negotiated directly with the government and not through an international tender process.

OPENNESS TO FOREIGN DIRECT INVESTMENT

- In September 2014, the country introduced the code of the Organisation for the Harmonisation of Business Laws in Africa (OHADA). This code is meant to protect investors by reforming business laws and settling disputes through supranational arbitration.
- Work permit and visa requirements are not burdensome or discriminatory. They are not designed to discourage foreign investors from investing in the DRC. But corruption causes delays in turnaround times for getting the necessary permits.
- Investment regulations prohibit foreign investors from participating in small retail commerce and ban them from getting majority ownership of agricultural firms.
- A poorly designed and inefficient tax system subjects businesses to higher administration costs compared to those in neighbouring countries. It also adds to the complexity of doing business in the DRC.
- The liberalisation of the electricity and insurance sectors has opened up opportunities for foreign investment.
- ANAPI gives incentives such as tax breaks and duty exemptions. These incentives are based on the location and type of enterprise, jobs created, extent on training and promotion of local staff, and export-producing potential of the operation.
- There is no legal restriction on converting or transferring investment funds. The government imposes a limit of USD10 000 on the amount a traveller can carry when entering or exiting the country.

OPPORTUNITIES FOR DOING BUSINESS

- Foreign investors are allowed to bid for government contracts. They may be given preference in the process because of their ability to easily access and present international insurance funding guarantees.
- Foreign and domestic investors have equal access to the credit market. However, the market tends to favour foreign investors because of their likelihood to provide valid guarantees and collateral.
- The iron ore industry has significant growth prospects.
- There are opportunities for foreign investment in the agricultural, financial and retail sectors as they remain underdeveloped.
- There is great potential for growth in the solar industry. The DRC falls in a belt with very high levels of sunshine, and this market has not been explored much. The country's current electricity supply shortages call for alternative methods of providing power.
- The fishery and livestock sectors offer great potential for investment. The country currently imports frozen chicken and fish, so citizens pay high prices for these items.

CHALLENGES TO DOING BUSINESS

- Foreign investors are subject to demands for bribes and the subjective interpretation of regulatory and taxation policies.
- There is a shortage of skilled workers. This means sourcing experienced labour may be expensive for investors. They may have to incur costs to upskill the workers they employ.
- Electricity shortages, limited transportation and inadequate physical infrastructure may bring extra costs. Increased demand and an ageing infrastructure are causing power shortages and putting the electricity grid under strain. This poses a challenge to companies that are highly dependent on electricity. Such companies may have to spend more on alternative methods of power supply.
- Visas for foreign workers are valid for three months at a time. Workers may qualify for an establishment visa that is valid for up to a year. This will be an inconvenience to foreign investors bringing employees into the DRC, especially seeing that the DRC has such a poor administrative platform.
- Foreign investment is subject to a multitude of taxes collected on imported goods by several government agencies. Slow and burdensome custom processes add to the problem.
- Investors face a risk of financial loss and high legal costs due to lengthy disputes. There is no effective legal deadline for judgements when commercial matters are brought to the judicial system.
- Only 2.2% of the DRC's citizens have internet access. Conducting business on a digital platform would be a challenge and could lead to significant financial losses.

STANDARD BANK DRC SARL CAPABILITIES

- Standard Bank DRC SARL was established as Grindlays Bank Zaire in 1973.
- The bank focuses on corporate and investment banking and has five branches and five ATMs.
- The Standard Bank team in the DRC consists of over 160 employees.

<table>
<tr><th rowspan="2"></th><th colspan="2">Trading name</th><th colspan="2">Standard Bank Presence</th><th>Standard Bank ATMs</th><th>Corporate Banking</th><th colspan="2">Retail Banking</th><th colspan="2">Investor Services</th><th colspan="3">Investment Banking</th></tr>
<tr><td colspan="2">Standard Bank</td><td colspan="2">5</td><td>5</td><td>✓</td><td colspan="2">✗</td><td colspan="2">✗</td><td colspan="3">✓</td></tr>
<tr><th>Exchange Controls</th><td colspan="13">No restrictions on inward funds to be repatriated. For importations with a value of more than USD2 500 a subscription of importation declaration 'B' to a registered bank is required. No restrictions on holding forex. Travellers must declare forex for any amount over USD10 000. Any movement of money out of the country over the ceilling mentioned above must be through bank transfer. No central bank approval required for loans. No approval is required for remittance of tax.</td></tr>
<tr><th rowspan="6">Transactional Products and Services</th><td colspan="2">Foreign Current Account</td><td colspan="2">Foreign Deposit Account</td><td>Telegraphic Transfers</td><td>Bulk Payments (channel)</td><td colspan="2">Real-Time Gross Settlement (RTGS)</td><td colspan="2">Card Acquiring</td><td>Mobile Banking</td><td colspan="2">Receipt Referencing Service</td></tr>
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<tr><td colspan="2">✓</td><td colspan="2">✗</td><td>✗</td><td>✗</td><td colspan="2">✗</td><td colspan="2">✗</td><td colspan="3">new Business Online (BOL)</td></tr>
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<tr><td colspan="5">(Team based in South Africa)</td></tr>
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</table>

✓ Available
✗ Not yet available

SOURCES

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