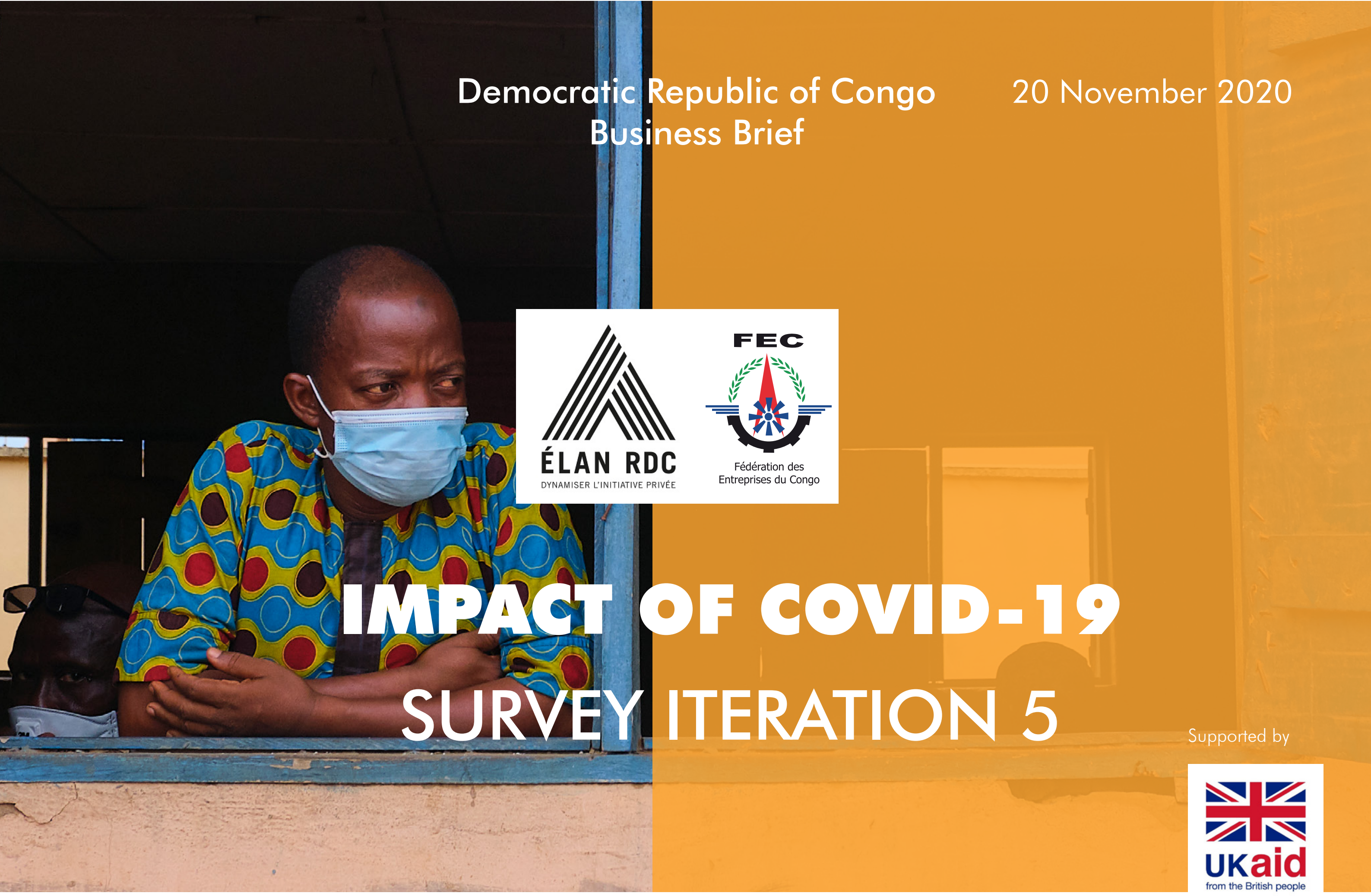
Democratic Republic of Congo
Business Brief

20 November 2020



IMPACT OF COVID-19

SURVEY ITERATION 5

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KEY FINDINGS

DRC firms are adapting to the "new normal", but there's still a long way to go until full recovery. Signs of a modest recovery are continuing in the DRC.

1/3 Over one-third of business leaders said conditions for their firm had improved over the last month; only 10% said they had worsened

59% of firms are still reporting that revenues are down year-on-year, a lower percentage than in September (73%) and July (94%)

1/4 Less than one-quarter of firms are concerned they will not be able to repay their debts, compared to 41% in July.

This improvement may be driven by firms adapting successfully to the "new normal".

84% of firms say their business still has significant measures in place to protect employees and customers from Covid-19

The most common measure firms have introduced is to re-organise their workplace

1% However, firms lag in digitalising operations. Only 1% of firms have introduced a work-from-home policy or increased automation

The recovery is not yet complete; government and business leaders need to focus on how best to support the private sector in the medium-term

61% of firms whose situation got worse in September cite falling demand for their goods and services as their key challenge

89% of firms report they may still need government support

39% still employ fewer full-time staff than this time last year, and 92% of these firms attribute this reduced headcount to the pandemic

For more information on any of the trends mentioned above, please download the full data set, available here.[1]

1. The last (fifth) survey iteration took place from November 2 to 14 and 207 businesses were interviewed.

ABOUT THE STUDY

This study aims to track how the Covid-19 pandemic is affecting companies across the Democratic Republic of the Congo. Through data and analysis—complemented by direct input from business leaders—it provides insight into how the government and other stakeholders can best support businesses' recovery in 2021.

The study is a partnership between Elan RDC and the Fédération des Entreprises du Congo (FEC). The FEC's initial May 2020 survey on the effects of Covid-19 on economic activity in DRC was well received, and we have so far completed five follow-up studies. In total, we will run the survey nine times, including FEC's original study—this is the fifth iteration. Each study consists of a survey of 200 businesses from various sectors, sizes and locations to understand evolving challenges. Results from the latest iteration of the survey (run between 2nd and 14th November 2020) are available to download here. This report follows earlier publications that can be accessed here.

Accompanying the publication of each round of results is a business briefing (see below) that focuses on particular challenges companies are facing. In this iteration, we speak to analysts from the Economist Intelligence Unit (EIU) about the prospects for a return to growth in the DRC.

BUSINESS BRIEF – MEDIUM-TERM PROSPECTS FOR GROWTH IN THE DEMOCRATIC REPUBLIC OF THE CONGO

Data from this business survey and a household survey conducted by Elan RDC and Kinshasa Digital suggests that the adverse socio-economic impacts of the pandemic are still continuing across the country. In November 2020, 59% of businesses reported falls in revenues compared to the same time last year, and in October, two-thirds of low-income households have had to reduce consumption of food and water. With the impacts of Covid-19 still very much a financial reality in the DRC, this briefing focuses on the country's growth prospects in 2020-21. It underscores what regional trends business leaders should look out for as promising signs of recovery.

Beth Warne spoke with two analysts from The Economist Intelligence Unit, Benedict Craven, Principal Economist for Africa, and Trupti Agrawal, Analyst for the DRC, about their insight into the country and region. We combine their insights to the views of business leaders across the DRC about the greatest opportunities and pitfalls for growth over the next year.

REGIONAL GROWTH OUTLOOK

BENEDICT CRAVEN, PRINCIPAL ECONOMIST FOR AFRICA, THE ECONOMIST INTELLIGENCE UNIT
INTERVIEWED BY BETH WARNE.

At the start of the crisis, many people were worried about healthcare systems in sub-Saharan Africa being overwhelmed. Why haven't we seen that as much as some expected? In what other ways has the pandemic impacted the region?

The main reason many parts of Africa were able to escape the large public health crises seen in Europe and North America was the age of their populations. Due to the nature of the virus, countries where around 50% of the population are under 25 are much less likely to see overwhelming health impacts than we have seen in countries with older populations. From both a health and economic perspective, that's an advantage Africa has over the rest of the world at the moment and why we're less likely to see a second-wave and the need for further lockdowns here that you're currently seeing in other regions. Having said that though, there is no room for complacency with some worrying signs of an re-emergence of the virus in major urban centres including Kinshasa. Also it's often hard to assess the real scale of the first wave as testing across the region remains low.

Where you have seen serious economic impacts in sub-Saharan Africa is in the extractives sector. In many countries, although this might only account for around 10-20% of total GDP, the role the sector plays in supporting public finances through both taxation and as a source foreign currency means any decline has a large knock-on effect. In the short-term, we've seen this most clearly in a rising public debt crisis as governments face a cash crunch due to falling tax revenues and a need for increased spending to cope with the pandemic. Though the World Bank, IMF and other development partners are taking steps to support countries at risk, the complex nature of this challenge means that public spending is expected to have to fall in the short term as countries have to divert resources to service their debt.

How would a decline in public spending affect medium-term growth prospects in the region?

Most countries in sub-Saharan Africa have a significant infrastructure gap. Even with the public investment growth we've seen since the financial crisis in 2008, there remain challenges around power generation, transport and the dominance of the informal economy. The predicted decline in public spending means this gap is going to take even longer to close. In theory, you would expect the private sector to 'step-in' to help in this effort – through investment vehicles such as public-private partnerships – however, this part of the economy remains small and the business environment challenging. Such constraints make such a blended approach harder to take, especially for large infrastructure projects.

In light of this, what do you think will fuel the economic recovery in the region in the short term?

The good news is that, though the extractives sector was hard hit in the early months of the crisis, the EIU expects a relatively quick recovery in both prices and demand. Of particular importance for the DRC, the EIU forecasts copper prices to rise sharply in 2021 and 2022 as demand from electric car manufacturers is set to increase. Countries with reserves of this key resource are expected to attract significant investment in the medium term.

What key metrics are you tracking to keep up with the recovery in the region?

The three key areas we will be watching are the extractives industries, public sector debt and business environment reforms. The first two are intuitive and easy to follow; however, the third will be equally crucial for medium to long term growth. Here it is essential to monitor not just changes but also keep up to date on the likely durability of any pro-business reforms. Countries in the region often take steps to protect businesses during the crisis, which are then rolled back in favour of less market-friendly approaches later on.

DRC GROWTH OUTLOOK

TRUPTI AGRAWAL, ANALYST FOR THE DRC, THE ECONOMIST INTELLIGENCE UNIT
INTERVIEWED BY BETH WARNE

From a macro-economic perspective, how have you seen the Covid-19 crisis impact the Democratic Republic of the Congo?

First, it's important to say the DRC is still experiencing the economic impacts of Covid-19 and the EIU, along with the central bank, is still forecasting a recession in 2020. From a macro-economic perspective, the main impact was the decline in both prices of and demand for the DRC's key exports of copper and cobalt. This was part of a global trend and meant that, though production stayed around normal levels through the crisis, a gap appeared in both the volumes and revenues generated from exports. Further, trying to build an accurate picture of the impacts in the short term is challenging. Data on production is often revised down after the initial release, and therefore our team is monitoring new information that emerges very closely.

When do you think we'll start to see growth return to the DRC?

In 2021, we expect to see a return to economic growth. Prices of both cobalt and copper are set to rise on the back of increased demand, especially from Asia. The fact that production was not significantly impacted in the DRC, aided in part by the launch of a new copper and cobalt mine (Dewiza mine) in January 2020, means export revenues could grow quickly next year. Growth is also expected in other parts of the economy, particularly the agriculture and services sectors driven by the lifting of domestic restrictions, although these sectors will not be as significant to growth prospects as mining in 2021 and 2022.

In the medium term, what do you see as the key opportunities in the DRC economy over the next 5 years?

In the medium term, the EIU still expects the extractives sector to dominate. There are vast mineral resources in the country that have significant potential and new projects such as the Kamoa Kakula copper mine will bring substantial new production online. Unfortunately, the challenges in the business environment mean that we do not yet forecast a considerable growth in the services sector that we are starting to see in other countries in the region. The DRC does not have security or infrastructure in place to start competing in high-value sectors such as tourism in the next five years. Though progress in these areas is being made, it is unlikely to lead to more than 4% growth until long term political stability and improvement to the business environment are achieved, which will help incentivise more domestic and international investment.

What are some of the risks you are tracking to monitor the recovery in 2021?

A big thing will be the implementation of the Mining Code. The uncertainty about when the current moratorium on export of mineral concentrates will end is weighing on industry investment. It is clear that domestic processing capabilities are not able to handle demand fully; therefore, transparency on how the policy will work in practice is needed as soon as possible to ensure companies can plan for any changes they will need to make. The domestic political situation is another area of uncertainty. Domestic and international businesses will be watching for whether the President will serve until 2023 with the current coalition arrangement, or whether he will manage to create a new majority coalition or call early elections. Here again, transparency is key – clear communication to the public and the market will help businesses remain confident in their operations in the short-term.

In the October iteration of the survey, the team asked over 200 business leaders across the DRC about their views on the prospect for short term recovery and medium-term growth. The results are summarised below.

On the prospects for short-term recovery

Business sentiment are broadly in-line with the EIU analysts' position of a recovery in 2021. Over half of business leaders expect to see their companies fully recover by around March next year, with a quarter suggesting it will take longer before they return to normal. Uncertainty does persist: one-in-six businesses are still unsure when, or if, the conditions for their companies will reach pre-pandemic levels. Our survey data also suggest that medium-sized firms (between 5 and 200 employees) are feeling the most optimistic compared to small and large firms. 81% say they will recover from the Covid-19 crisis at some point in the future compared to 72% of small firms and 73% of large firms.

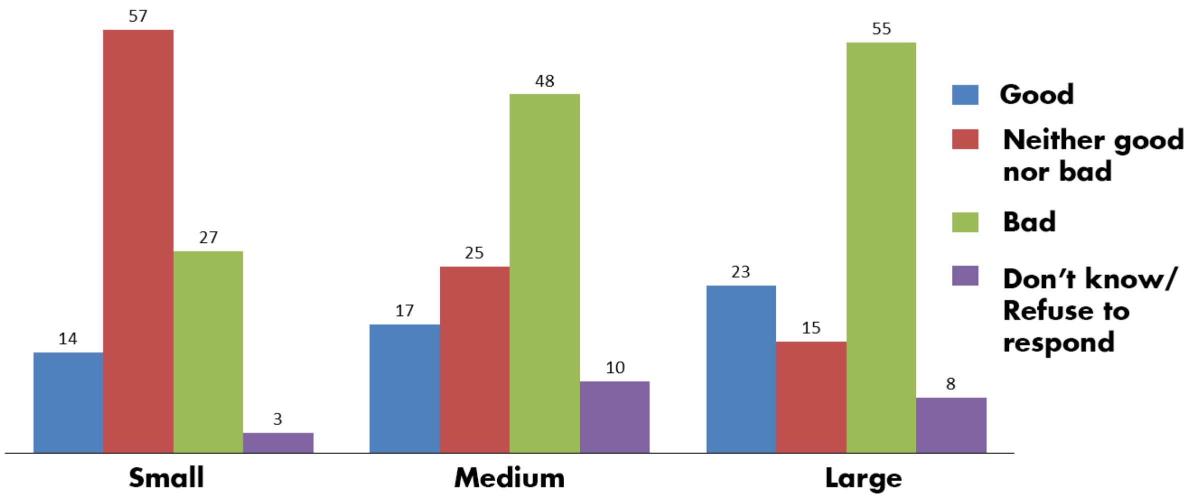
Business leaders are also reporting fewer concerns around their ability to repay debt. In the November iteration, less than one-quarter said they were uncertain about whether they would make their next repayment, compared with over 40% in August. Hopefully, this declining uncertainty will translate into increased demand for workers. Today, four-in-ten firms employ fewer people than before the pandemic and one-in-ten had to let people go in the last month. Improving employment prospects will be central to restoring both domestic demand and helping the population in general recover from this crisis.

On the outlook for medium-term growth

Though the short-term view is improving, many business leaders are much less optimistic about medium-term growth prospects. Less than 20% of businesses say the growth prospects for DRC are "good" or "very good", and around 40% describe them as "bad" or "very bad". There are clear regional trends here: 28% of businesses in Kinshasa are optimistic about the DRC's outlook, but less than 5% in North and South Kivu say the same.

Survey data also suggest that larger companies in the DRC are more optimistic on growth than smaller businesses. 23% of large businesses see growth prospects as "good" or "very good" compared to only 14% of small businesses. Smaller businesses, however, are much more likely to be agnostic on growth: 53% said the growth outlook was neither good nor bad compared to only 25% of medium business and 15% of large businesses.

Business leaders' opinion on growth prospect by company size
% of total responses – single selection



Similar to the view of the EIU analysts, governance and regulation were cited as the most crucial factors impacting growth across the board. 41% of business leaders who were optimistic about the growth outlook saw improvements in these areas as central to growing the economy in the next five years. On the other side, over a third of business leaders who had a negative view of growth prospects suggested poor policies and corruption would be the main reasons the economy did not improve. This is a strong indication that now is the time for a business-friendly agenda in the DRC.

FURTHER MACRO-ECONOMIC UPDATES

The Monetary Policy Committee held its most recent meeting on Friday 6th November 2020 under the chairmanship of Mr Déogratias Mutombo Mwana Nyembo, Governor of the Banque Centrale du Congo (BCC). The minutes of the meeting reflect the BCC's most recent analysis and forecasts of the Congolese economy. In the latest statistical release from November 4th, the BCC had not updated its expectations for a 1.7% fall in GDP in 2020.

Monthly inflation in October rose slightly to 0.45% compared to 0.28% in September; however, this remains much lower than the 2.95% rate in July 2020. Annual inflation stood at 14.47% and is now projected at around 17.3% annualised for 2020. The fiscal deficit has risen to CDF 86 billion (US$ 43m) in October as fiscal expenditure increased from CDF 520 billion (US$ 265m) in August to just over CDF 600 billion (US$ 304m) and revenues were around 20% lower than forecast for the month.

For more information on the survey methodology, or if you would like to contribute to this study, please contact Mr. Bertin Muderhwa:

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