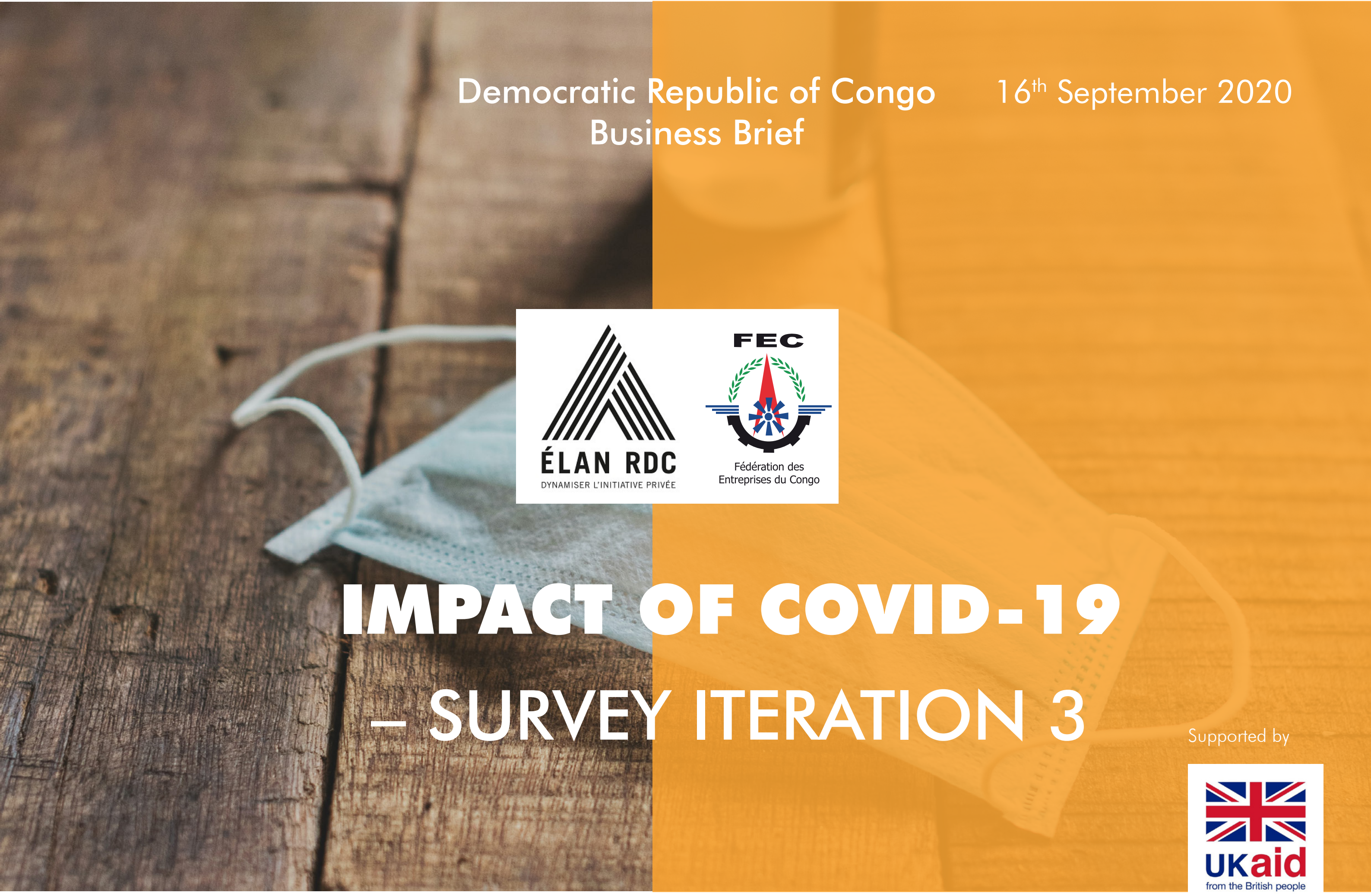

Democratic Republic of Congo
Business Brief

16th September 2020

ÉLAN RDC
DYNAMISER L'INITIATIVE PRIVÉE

FEC
Fédération des Entreprises du Congo

IMPACT OF COVID-19 – SURVEY ITERATION 3

Supported by UKaid from the British people

KEY FINDINGS

Though the situation for businesses improved after the end of the state of emergency on July 21st, this progress appears to have stalled in the face of challenges that extend beyond the pandemic.

44% of companies have seen neither significant worsening or improvement in their business landscape since early August

1/5 business leaders felt things got better in that period. Nearly 90% of them linked this to the easing of restrictions

56% think their challenges now are 'partly' due to COVID-19, while 43% said wholly. This represents a shift in perception from early August (38% partly, 54% wholly)

Business leaders face declining sales at the same time as COVID-19 continues to cause supply chain disruption and restrict operating conditions.

80% of firms saw a decline in takings compared to the same period last year. 71% of the firms affected said it was driven by a decline in sales

86% of business leaders reported supply chain delays and disruptions (vs. 84% in July and 89% in August)

80% of firms still have to alter their operations significantly to deal with the pandemic (lower than the nearly 100% of firms reporting so in July)

Businesses still need support from Government, especially small companies, as current mechanisms for help are taking a long time to reach those who need them.

1% of firms reported currently receiving support from the government, despite one in five companies having applied for help back in early August.

2% of firms say they don't need support at this time, lower than in July when 9% of firms reported this

43% of small business leaders say they need financial support or debt relief and 22% are worried about paying their debts (compared to 12% on average across all businesses)

In this iteration, we review the pandemic's impact on two key sectors for the DRC economy: the mining industry and agriculture.[1]

1. The last (third) survey iteration took place from August 24 to September 10 and 201 businesses were interviewed.

ABOUT THE STUDY

Though many domestic restrictions have now been lifted, the COVID-19 pandemic is still having a significant impact on the economy of the Democratic Republic of the Congo (DRC). Current low levels of demand for key exports such as cobalt are not set to recover until 2021 at the earliest, meaning there is little chance of swift economic recovery, and Gross Domestic Product (GDP) is expected to fall by between 2 and 3% this year. As the situation moves from short-term crisis to prolonged economic downturn, businesses in the DRC need support to weather adverse commercial conditions while operating safely (i.e. in line with social distancing advice). This study aims to track how COVID-19 is impacting companies across the country. Through data and analysis—complemented by direct input from business leaders—this study provides insight into how the government and other stakeholders can best support businesses at this time.

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 the economic activity in DRC was well received. This new study includes slight modifications to that original approach, and will be run eight times – this is the third iteration. Each study consists of a survey of 200 businesses from various sectors, sizes and locations to understand evolving challenges. The programme is being run over 20 weeks from July to December 2020. Results from the latest iteration of the survey (run between 24th August and 10th September 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 business leaders from the mining and agricultural sectors to understand the specific issues and prospects for recovery in these two crucial parts of the DRC economy.

SECTOR FOCUS: AGRICULTURE
IMPACT OF COVID19- ON THE AGRICULTURAL SECTOR

Agriculture is a central element of the DRC's economy. According to the Food and Agriculture Organisation (FAO), 75% of the population of DRC are dependent on agricultural production for their income; however, the sector has often struggled to meet its potential. The National Agency for the Promotion of Investments (ANAPI), a government-funded organisation responsible for boosting investment in the country, estimates that—if modern agricultural practices were adopted—the DRC should be able to feed 2 billion people (more than twenty times its current population). However, as of today, the country imports US$1.5 billion in food products annually. Challenges facing the sector include a lack of investment in infrastructure and instability—especially in Eastern DRC—which prevents reliable access to land needed for crop production.

COVID-19 has heightened these difficulties, particularly in the informal sector, which represents almost 90% of all agricultural production in the country. These operations are small-scale, largely subsistent and dominated by uncodified employment, ownership and commercial relations. During the State of Emergency (March-July 2020), mandatory movement restrictions at national and provincial level limited agricultural workers' access to their fields, inhibiting harvesting and tending of planted crops. Further, with markets closed, farmers were unable to sell their products and purchase inputs needed for future production (e.g. seeds and tools). This led to an immediate increase in prices. The Famine Early Warning System Network (FEWS NET) reported an 80% increase in maize prices in Kinshasa between February and July 2020. In the medium term, this disruption is likely to have significant impacts: farmers unable to plant replacement crops between March and July 2020 will have no produce to harvest later this year. This has led the FAO to estimate that overall food prices will increase by 14% in 2020 in the country .

INTERVIEW WITH MONIQUE GIESKES

BOARD MEMBER AND MEMBER OF THE AUDIT COMMITTEE FOR FERONIA INC.

Mrs Gieskes spoke to Beth Warne, from the Economist Intelligence Unit, about the impact COVID-19 has had on the business and the agricultural sector more broadly. Feronia Incorporated is an agribusiness company focused on Palm Oil production. Its DRC head office is based in Kinshasa with operations in Lokutu (Orientale Province), Yaligimba and Boteka (Equateur Province).

Firstly, how did the outbreak of COVID-19 impact your business?

COVID-19 has caused severe disruptions to our operations. We are headquartered in Kinshasa and are used to moving people to each of our plantations in remote parts of the DRC continuously. Due to the lockdown of the capital, this movement of people had to stop. People on the estates were stuck there, and people in Kinshasa could not leave to relieve them. Even now, following the end of the state of emergency, we need to test every person flying off an estate. Due to the remoteness of the locations, it can take up to a week to get results – which means delays are continuing. The river transport system has been crucial. Without it, we wouldn't have been able to move any of the produce from the estates or get vital supplies (including food and health care) from Kinshasa or elsewhere to where they were needed.

Do you think these disruptions are likely to have more long term impacts?

Yes, at least for the next 3-6 months, since this will be more around delays to strategic projects. For example, we are building a milling facility on one of our estates, which requires expertise and equipment from all over the world. We won't be able to finish the project while borders with key partner countries in Europe, Asia and the rest of Africa remain closed. This delay will impact our results for the next quarter. Having said that, overall, the agricultural sector is proving to be resilient. We are providing a first-order necessity – food – and therefore, demand will still be there. In fact, the decline in imports is likely to help the recovery. There will be more demand for domestically produced goods.

What has your company done to protect employees during this period?

As the people working on the estates were not in highly affected areas, our priority for them was instigating hygiene routines to prevent the disease from reaching or spreading in these areas. Luckily, many people in the DRC have drawn lessons from the Ebola outbreak and are supportive and ready to comply with the new rules. We installed more handwashing stations and added safe levels of chlorine to the water. These new measures were combined with an extensive communication campaign to all our workers, talking about what they should be doing to keep themselves safe and what actions the company was taking to protect them. So far, no one there has contracted COVID-19.

In Kinshasa, where the disease was already prevalent, we had to act differently to protect employees. We were unable to use the office for some time and began providing round-the-clock support so people could call anytime and reach someone if there was a problem. Doctors gave workshops, not just aimed at employees but to help educate them to know what to do even if their friends or families got sick. We have also been providing a special sanitised vehicle to help people get around to urgent appointments.

How has the sector overall responded?

One of the good things we have seen is how much people have come together in our industry to help each other out during this challenging period. For example, Feronia has been open and public about the measures we are taking and other companies have done the same. This transparency has helped us learn from one other about what's best to do and make sure people across the sector are feeling supported.

How has the government helped support the sector in this time?

For us, the VAT cut was a great help and helped protect local producers from the international price fluctuations (prices were very depressed for a few months) we witnessed at the start of the pandemic. Also, the directives on employment (around encouraging firms not to let go of staff) were good for our workforce - knowing they would not lose their jobs in this period - has helped reassure them about their job security. We don't expect many COVID-19 related job losses now, in our sector at least, as some of the disruptions are passing and, as mentioned earlier, the demand for our goods is strong. Protection of the food supply, especially for more rural areas was also important. Agriculture is a labour-intensive industry and ensuring people in our estates had access to food was a significant concern at the start of the pandemic – however, we are grateful that the shortages we feared did not materialise.

Overall, as a country, we have to prepare for the possibility of a second wave and make sure more low-income households are protected – especially if there is another lockdown.

SECTOR FOCUS: MINING
IMPACT OF COVID 19 ON THE MINING SECTOR

According to the Banque Centrale du Congo (BCC), mining in the DRC accounted for 32% of GDP and 95% of export revenues in 2018 (latest available data). The country is the largest producer and exporter of cobalt globally and the largest producer and exporter of copper in Sub-Saharan Africa. Given the importance of the sector to the economy, many mines remained open during the pandemic. Some workers lived in mandatory confinement at the mines, and mining exports were not subject to the same restrictions as other sectors during the height of the lockdown.

While this has lessened the impacts of the pandemic, the Minister of Mines, Willy Kitobo Samsoni, estimates that reduced activity, delays in new investments and lower mineral prices (although copper prices started to rebound in July 2020) will decrease mining revenue in 2020. Lower mineral revenue will negatively affect DRC GDP and government revenue, which is already stretched under higher expenditure for the health and socio-economic response to the pandemic. In the longer term, the President of the Chamber of Mines, Louis Watum, anticipates an increase in mergers and acquisitions in the sector as many smaller, more indebted and less liquid mines are forced to sell stakes in their business at a reduced value to the larger players.

COVID-19 has also affected the rollout of one of the government's flagship initiatives for the mining sector: the Mining Code. This policy, announced in 2018, requires mining operators to repatriate 60% of export earnings to an account within the DRC within 15 days of the sale and prohibits exports of mineral concentrates, requiring minerals to be instead refined before export . The Mining Code aims to incentivise the development of higher-value parts of the commodities supply chain. However, according to Bloomberg, much of the infrastructure development needed to support refinement

has been paused due to restrictions on construction activities. In August, the Governor of the BCC, Deogratias Mutombo, appealed to mining operators to repatriate their earnings in line with the Mining Code. He blamed the depreciation of the Congolese Franc partly on a lack of repatriation of mining sector earnings.

Other government plans, such as the launch of the Entreprise Generale du Cobalt (EGC), a state-owned enterprise (SOE) that will purchase all cobalt mined informally or by artisanal miners to protect them from price fluctuations (see interview below), were also paused during the State of Emergency. However, the EGC is now set to become operational at some point this month and begin making its first purchases later this year.

INTERVIEW WITH JOHN NSANA KANYONI

MANAGING DIRECTOR AT METACHEM SARL AND MANAGING DIRECTOR AT TEMBO POWER DRC

Mr Kanyoni spoke to Beth Warne and Amika Moser, from the Economist Intelligence Unit, about the impact COVID-19 has had on the mining sector in the DRC and what the latest policy initiatives mean for building the industry back better post the pandemic.

How do you think COVID-19 impacted your business and the mining sector in the DRC more broadly?

Even before the pandemic hit the Democratic Republic of the Congo (DRC), the slowdown in the Chinese economy was already impacting the Mining Sector. Exports to China are a key market in the DRC and lack of demand there has been a problem throughout the early part of this year. Chinese companies control almost 70% of the portfolio of the mining industry, especially in Lualaba and Haut-Katanga provinces. When the crisis hit here, restrictions on imports and exports compounded issues in the sector with the disruption of supply chains. Though activity in the sectors is starting to come back now, it is still too soon to judge the true extent of the negative impacts. Restrictions remain in place in neighbouring countries, but luckily, Tanzania and Mozambique allowed the flow of goods to continue, which helped the DRC's mining industry.

During the pandemic, what steps did businesses and the government take to protect the mining sector?

Throughout the crisis, the sector avoided completely ceasing operations – with some employees staying on-site throughout – despite the low production rates. More employees are starting to come back now, but there are plenty of differences in how people are working. Companies are trying to balance new governmental procedures with the demands of the sector. Some policy actions, such as the cut in VAT, were crucial in protecting businesses in the short term and now we need to work together again to find new measures needed in this phase of the pandemic. Both sides need to be creative in finding solutions to adapt to these new realities, which will go beyond purely fiscal measures.

Before the pandemic, there were many policy moves happening in the mining sector; what is the role for initiatives like the Mining Code and the Entreprise Generale de Cobalt in this new environment?

Both new policies of legislation remain relevant. With the Mining Code (see above for details), which I have been involved in putting together, it's too soon to judge how effective it has been. Some companies continue to challenge stability clauses regarding tax regimes, customs and banking alignments. These areas need to be clarified before we will see new opportunities to do business under this policy. The government currently has a lot to deal with, but these issues do need to be clarified at the same time as challenges such as outstanding debts of VAT to the sector.

On the Entreprise Generale de Cobalt (EGC – see above), EGC will increase revenues for this public entity while 20% of cobalt from DRC is artisanal, this new public entity will help to reduce the issues around child labour, safety challenges and environmental concerns - while also providing a new revenue stream for the government. At the moment only a small minority people in the DRC are in formal employment and this trend is clear in the mining sector too. What the EGC will do is help to formalise the Cobalt supply chain from end to end. This process will bring greater transparency to operations and help ensure that everyone is getting a fair price for what they produce. It could also prove to be a key revenue stream for the government going forward.

Do you think the mining sector in the DRC has the potential to come out of this crisis stronger?

Yes, the DRC has some of the best potentials in mining in the world and remains very much the engine of the DRC economy. What we have the opportunity to do now is to build back better by using this period as a chance to refocus on the structural challenges that persist, not only in our sector but in the DRC economy as a whole. One of the critical challenges is energy; mining needs a reliable supply of electricity which is still not present in many parts of the DRC. Investing in the national grid would also help other parts of the economy grow as well. Also, I think the crisis has been a real wakeup call for our reliance on a few key export markets for maintaining economic growth – we need to be ready to diversify to have greater stability overall.

If you're interested in contributing to this study please contact Mr. Bertin Muderhwa:

E-mail : b.muderhwa@fec-rdc.com

Phone : +243823678354

This research programme is supported by UKAID through the Elan RDC private sector development programme.