Africa: Treasure amid turmoil

By William Wallis
Published: December 15 2010 20:10 | Last updated: December 15 2010 20:10

Mud and money: gold miners form a human chain at the open-cast Chudja mine in the Democratic Republic of Congo

Adolph Lundin, a silver-haired mining magnate from Sweden, swept into the foyer of Kinshasa's Grand Hotel to announce the "rebirth" of the Democratic Republic of Congo's mining industry. It was 1996 and he had just secured rights to one of the richest copper and cobalt deposits in the world.

The circumstances, however, were less than auspicious. Corroded cranes and flooded craters were all that remained of ventures past. A rebellion fomented by neighbouring Rwanda had consumed half of the country (then called Zaire) and Mobutu Sese Seko, its dictator, was dying of cancer. No matter, Lundin maintained: "Taking risks too much into account is like competing in a marathon with a broken leg."

Dozens of would-be Lundins have flown to Congo in years since, drawn to one of the world's most prospective mining frontiers during a global commodities boom. In their latest incarnation they are Chinese, South Korean, Brazilian and Indian. In the wings are even Egyptian financiers, hitherto wary of putting money south of the Sahara.

Demand from emerging powers has driven **copper prices** to record highs and put a floor under the price of many other natural resources that Africa has in abundance. It is a rare moment when the market is providing an opportunity for the continent to prosper on more equal terms.

"Africa is rich and its stock is rising. The value of its land and minerals is going up," Kofi Annan, the former UN secretary-general, said this year as he launched a review of the continent's progress in meeting development goals. "There is no lack of resources, no deficiency of knowledge and no shortage of plans."

Congo ought to be in prime position to benefit. Mining analysts believe it could be to global metal supplies in the 21st century what Klondike in Yukon, Canada was to gold and Kimberley in South Africa was to diamonds in the 19th.

Economists already base long-term copper prices on how fast Congo can develop its endowment. It has one-third of the world's supplies of cobalt, Africa's largest supplies of industrial diamonds and tin, as well as coltan, gold, iron ore and uranium in abundance. To boot, the Congo river, second in volume after the Amazon, could provide hydroelectric power to metal processing plants and at the same time light up much of Africa.

"Congo has many of the attributes that Brazil had when it began to take off. They should bust it wide open," says Aly-Khan Satchu, a Nairobi-based investment banker and a torchbearer for recent Afro-optimism.

Congo, however, is where the promise of Africa's emergence from the fringes of the global economy runs up against the harsh realities of a failing state, and where the most grandiose of commercial designs are stalled by the short-term agendas of officials on the take. It is also where the dark side of globalisation – criminal networks linking illegal mines to world supplies – is making much of the running.

Reviving the formal mining industry, as Lundin might be forced to admit were he still alive, is indeed proving a marathon, with companies hobbled by the effect of corruption, instability and contractual disputes on share prices and insurance

Involvement by Beijing

China gleans resources in return for transport, schools and hospitals

Could Chinese engagement with Congo succeed where western efforts have often failed? Wu Zexian spotted an opportunity for a big Chinese entrée into one of Africa's potentially richest but least developed states when he was posted as Beijing's envoy to the country several years ago.

Following the model of neighbouring Angola – where China has lent billions of dollars in exchange for oil – he helped premiums. The most high-profile of these had Britain's **Tullow Oil** stripped of claims to two oil concessions in June and Canada's **First Quantum** pushed off three copper and cobalt assets where it had invested $1bn.

During the 1998-2003 war, mining houses had snapped up assets in opaque circumstances. President **Joseph Kabila**, who came to power in 2001, had good cause to revisit some 60 such deals, agreed when the government was at its weakest. Yet if Kinshasa had moral high ground, this was steadily ceded during a protracted contract review between 2006 and 2009 in which companies were obliged to negotiate under the table as well as across it.

Freeport McMoran, the world's largest listed copper miner, recently resolved a long-running battle with Kinshasa over its terms at **Tenke Fungurume** – the concession in which it bought a majority share from Lundin in 2005. This raises prospects for a private US venture that in ambition rivals a $6bn Chinese mines-for-infrastructure deal. Congo watchers suspect it is the same mine alluded to in diplomatic cables leaked last week by WikiLeaks on a list of facilities around the world that are regarded as vital to the US national interest.

Several gold companies, including **AngloGold Ashanti** and **Randgold**, have announced they will soon begin gold production. But the news has otherwise been less promising. Tullow is pursuing legal and other options in a bid to win back a participation in oil blocks now claimed by companies owned by **Khulubuse Zuma**, the nephew of South African president Jacob Zuma. First Quantum's concessions are subject to international arbitration. One of them has already been sold on via a shell company owned by Dan Gertler, an Israeli tycoon close to Mr Kabila, to Eurasia National Resources, a FTSE 100-listed company majority backed by Kazakh oligarchs.

While the sale has prompted discomfort in the City of London, the censure is falling on Congo. Foreign donors have begun withholding development aid and risk perceptions among investors have risen to "maximum", according to Barclays Capital. "In Latin America [our stock price] would be at £10. Instead we are at a quarter of that because of insecurity of contracts," says an official with another multinational in Congo.

. . .

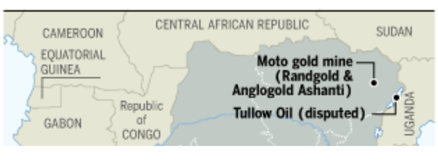
Even though tens of billions of dollars of putative investment hovers near Congo's door, only a small portion is venturing beyond. With a few exceptions, "the big western companies have been put off but the small companies that the government prefers to deal with do not have the ability to raise sufficient finance", says a senior western official.

Instead, the vast country at Africa's heart remains trapped near the bottom of world development rankings, its budget barely twice that of neighbouring Rwanda, although its land mass is 90 times larger. It is a paradox familiar to other mineral-rich nations consumed by the battle to control resources before they have become productive. That paradox is magnified by the scale of Congo's assets, the size of the territory – equal to western Europe – and the absence of functioning state institutions within it.

After a decade of conflict, and three before that of predatory dictatorship, the Congolese in their majority are destitute. Militia violence ravages the volatile east. More than 1m artisanal miners work in conditions Dante might have conjured up, supplying the local and global trading networks that fuel the conflict. The minerals end up as components in mobile phones and other gadgets sold on western high streets. But scarcely any revenues reach the state. An inquiry by Congo's senate found the treasury lost more than $450m in 2008 through tax evasion, smuggling and fraud.

The plunder is redolent of a history stretching back to the days when King Leopold of Belgium took possession of Congo and ran it as his own estate, says Kabele Kabili, a Kinshasa-based sociology professor.

To arrest the rot required a confluence of events. These seemed to be falling into place when Mr Kabila won elections in 2006, legitimising the power he inherited when his father Laurent was assassinated in 2001. The younger Kabila set about ending the wars and thawing relations with hostile neighbours. In return, foreign donors relaxed their lending rules.



In the bigger cities there are signs of a pick-up. One measure is in the increased number of cars imported to the capital – from 400 in 2000 when conflict was raging to 14,000 last year. Construction is taking off, too, financed partly by remittances. The

craft a $9bn barter deal that trades a copper concession, with 8m-10m tonnes in reserves, for roads, railways, schools and hospitals.

China takes a shorter-term view of the ability of states to absorb investment and a longer-term one of their ability to repay debt. A country emerging from civil war, its finances eviscerated, would be a case for debt relief and grants from traditional donors. Chinese companies look more to unexploited capacity.

"The Chinese are already investing before the mine is in production and we must wait a few more years for that," says Mr Wu, estimating upfront investment so far at several hundred million dollars. He is cautious, however, about Congo's broader prospects, if less inclined to hector the Kinshasa government than western counterparts.

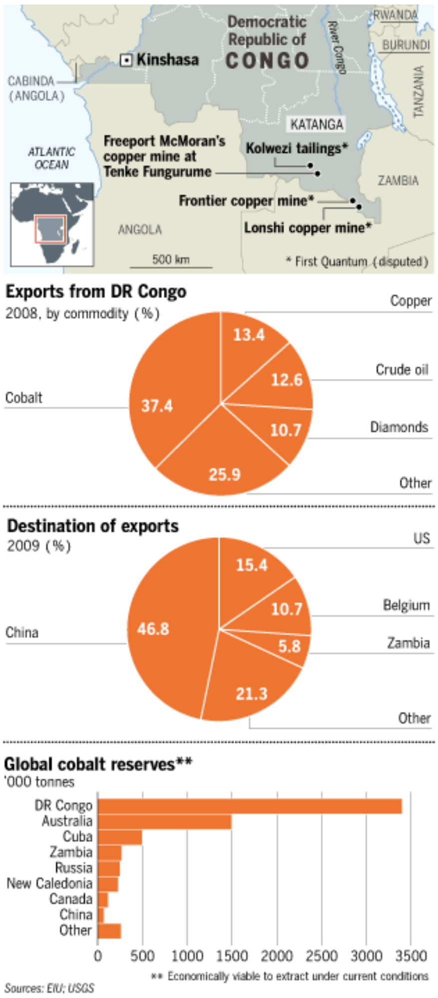
The mining project has been held up by feasibility studies and a clash with western donors concerned at the terms of the agreement and sustainability of debt repayments. This led to financing being reduced last year to $6bn.

"Here everyone knows we need to combat corruption. But we mustn't just criticise people. At the moment they have very limited means," says Mr Wu.

Western and Chinese companies are in the same situation, he adds. "They accepted the challenge. But they also are commercial outfits and if it is no longer profitable they will leave."

Congolese opinion about the value of the China deal is mixed. The barter element, with funding going straight to construction companies rather than via the government, has its supporters. "It is costing us a lot. But between costing a lot and being embezzled, which is better?" asks a member of parliament from the presidential majority.

The long-term impact on development, however, depends greatly on the Congolese. "If you do not come up with programmes that encourage new investment and specific politics to encourage business activity around new infrastructure, it will eventually disappear," says a Kinshasa banker.



impression of a turnround, however, is deceptive. What exists of the formal economy is stifled by a panoply of Kafkaesque state agencies. Businesspeople chose between devoting resources to compliance or spending less with bribes.

"At the moment, **corruption** is the largest chunk of the economy. All this dirty money improves the purchasing power of a chunk of the population. In the cities it does flow back into genuine business, as people buy food, clothes, medicines, cars and [mobile phone] airtime," says a Kinshasa businessman. "But it is an economy run on consumption. To grow further and faster, we have to start playing by the rules."

. . .

For now, the government lacks the means to enforce these rules, caught as it is in a bind familiar to other failing states. Without an effective army, police force or public administration, decriminalising the economy is a daunting task. Like so many termites, ragtag militias, the national army, politicians drawn to rent-seeking and civil servants living off the population eat away at the resources of the state.

"There are rogue states, and there is the absence of state filled by rogues. Congo falls into the latter category," says a long-term US observer of the country.

Nor does multilateral development aid appear to be providing the catalyst for change. Congo is trapped in what Prof Kabili describes as a "permanent state of structural adjustment", referring to the fiscal straitjacket imposed by the **World Bank** and International Monetary Fund on indebted African countries from the 1980s as a condition for bail-outs. Under donor tutelage, state finances have been partly sanitised, but most economic activity takes place outside formal state control.

"The stabilisation of the economy is one thing, but so long as there is no infrastructure we can't get started," says Mabi Malumba, economist and former finance minister.

Encouraging private investment would seem one obvious path to a more virtuous circle. But facing a tough and in all likelihood expensive election next year, the Kabila government has found it expedient to deploy older methods, falling back on patronage to maintain a grip, extortion to extract revenue from mines, and the presidential guard to suppress dissent.

"In a country where you don't have an army and you don't have an administration, you hold it together with threats and with money," says the Kinshasa businessman.

Public attitudes to multinationals are less than sympathetic, informed by a history of western perfidy in Congo and the perception that it is in western interests to keep the country broken so its riches can be plundered on the cheap. Yet for all the obstacles, mining groups keep coming. "If you want to hunt elephants you have to go to elephant country," Mark Bristow, the chief executive of Jersey-based Randgold, said recently, echoing the late Lundin's derring-do.

It is partly this preponderance of willing takers that has inspired the belief in Kinshasa that companies will pay up, regardless of the risks.