

## AFRICA RISK CONSULTING

### DRC Monthly Briefing July 2017

#### DRC Summary 28 July 2017

**The government of the Democratic Republic of the Congo (DRC) requests financial support from the international community to contain a growing liquidity crisis. International donors including the International Monetary Fund (IMF) state they will not provide aid to DRC without a guarantee of political stability. Corneille Nangaa, president of the Commission Nationale Électorale Indépendante (CENI)(electoral commission), reveals that CENI will not be able to hold an election in 2017 due to a lack of funds and the ongoing conflict in Kasai Centrale province.**

#### DRC economic crash leaves Kabila appealing to donors for funds...

The government of the **Democratic Republic of the Congo (DRC)** has requested financial support from the international community to help it out of an economic crisis.<sup>1</sup> The government is strongly reliant on commodities – mainly copper and cobalt – for its revenues, while low prices over the past four years have reduced foreign currency receipts.<sup>2</sup> The government has also spent its foreign exchange reserves to prop up the value of the DRC franc (CDF), which has fallen by 50% against the **United States (US)** dollar in the past year.<sup>3</sup> The currency devalued a further 7.7% across July from CDF1488/\$ to CDF1603/\$.<sup>4</sup> The devaluation, combined with continuing government spending, has reduced foreign exchange reserves to the level where they cover just three weeks of imports.<sup>5</sup> The government has also estimated the cost of the presidential election, expected in 2018, will be up to \$1.8 billion (see *ARC Briefing DRC April 2016*).<sup>6</sup> The **Banque Centrale du Congo (BCC)**(central bank) reported on 27 July that it expects consumer price index (CPI) inflation to rise to 44.64% across 2017, far higher than the 33.12% it projected in March 2017 and over 20% more than the 22% inflation across 2016.<sup>7</sup> The devaluation of the franc is the primary driver of inflation, which is hitting both businesses and consumers, further hurting government tax receipts.<sup>8</sup> International observers, such as ratings' agency **Moody's**, believe that the medium-term economic outlook is slightly more positive as international market prices of copper and cobalt are improving.<sup>9</sup> It projects growth to improve from 2.3% in 2016 to 5% in 2018.<sup>10</sup> However, the country faces an imminent liquidity crisis and needs short term support:

*“The government has been trying to get funds to support the economy for a year now, but nobody wants to lend, it will have to make some concessions, or at least pretend to, in order to avoid a total liquidity crisis.”<sup>11</sup>*

The prime minister, **Bruno Tshibala**, on 4 July wrote a joint letter to **United Nations (UN)** secretary general **António Guterres**, the resident representatives of the **African Union (AU)**, **European Union (EU)**, the **Common Market for Eastern and Southern Africa (COMESA)**, the **Southern African Development Community (SADC)**, franc currency union the **Communauté Économique et**

<sup>1</sup> Reuters, 6 Jul 2017.

<sup>2</sup> Reuters, 6 Jul 2017.

<sup>3</sup> XE.com

<sup>4</sup> XE.com

<sup>5</sup> Reuters, 6 Jul 2017.

<sup>6</sup> Reuters, 6 Jul 2017.

<sup>7</sup> BCC press release, 27 Jul 2017.

<sup>8</sup> Moody's, 28 Jul 2017.

<sup>9</sup> Moody's, 28 Jul 2017.

<sup>10</sup> Moody's, 28 Jul 2017.

<sup>11</sup> Source, economist, Durban

**Monétaire de l'Afrique Centrale (CEMAC)**, and a selection of foreign ambassadors to DRC.<sup>12</sup> In the letter Tshibala said that:

*"... [the DRC] needs the support of the international community and thus of its traditional partners...In light of the current context, (the government) awaits in particular from these (partners) balance of payments support and budget support to allow it to confront the current economic difficulties provoked by the collapse of prices of raw materials on the world market."*<sup>13</sup>

The letter is not the only contact that the government has had with foreign donors. Tshibala reportedly met representatives of **Russia**-based bank **VTB** on 5 July, and his office told the media they had discussed a \$1 billion investment in key infrastructure projects.<sup>14</sup> However, VTB issued a statement to clarify that it had discussed supporting the DRC government in financing €1 billion (\$1.17 billion) Eurobond.<sup>15</sup> VTB said that it had made no commitment to lend to DRC and that it did not plan to lend in the future.<sup>16</sup> The government of DRC has considered marketing bonds in the past, but the devalued state of the franc would render the debt expensive to reimburse at current yields. The government has also reached out to the **International Monetary Fund (IMF)** in an attempt to restart a relationship the IMF cut off in 2012 over a lack of transparency on state sales of mining assets.<sup>17</sup> IMF managing director **Christine Lagarde** wrote a letter to President **Joseph Kabila** (2001-present) in May suggesting that officials could visit the country in September to assess the economy for a rapid credit facility (RCF).<sup>18</sup> Finance minister **Henri Yav Mulang** told the media on 6 July that the government was continuing those talks.<sup>19</sup> However, relationships with major donors are difficult. In April 2016, then prime minister **Augustin Matata Ponyo** requested \$500m from the **World Bank** and **African Development Bank (AfDB)** (see *ARC Briefing DRC April 2016*). Both organisations, and the IMF, are putting political stability and transparency of funding as conditions of any loan (see below).<sup>20</sup>

DRC's economy is not resilient. The state relies on mining and oil receipts to cover expenditure, and the populace relies on agriculture to generate income (agriculture accounts for 60% of economic activity).<sup>21</sup> When these sectors face a dip in income, the economy suffers. The government is facing a delayed cash shortage from 2013 when the price of copper fell dramatically. The government has spent much of its foreign exchange reserves on propping up the franc, with the aim of mitigating high inflation. Artificial support for the franc is an unsustainable economic policy that relies on the hope that mining revenues will bounce back to pre-2013 levels.

### **...and donors demand political change before providing support**

International donors are hesitant to provide aid to DRC while President Kabila refuses to guarantee that he will hold an election and step aside from power in 2017.<sup>22</sup> The government is in a position where it now needs funds from the international community. Donors are already stating that a commitment to financial transparency and a stabilisation of the political process will be a condition of any bail out loan.<sup>23</sup> IMF managing director Lagarde wrote to President Kabila on 12 July stating that:

*"Our support will need to be part of a context that permits an improvement of the macroeconomic situation and that involves financing from the principal partners of the DRC...To*

<sup>12</sup> Radio Okapi, 4 Jul 2017.

<sup>13</sup> Radio Okapi, 4 Jul 2017.

<sup>14</sup> La Phare, 5 Jul 2017.

<sup>15</sup> Reuters, 6 Jul 2017.

<sup>16</sup> Reuters, 6 Jul 2017.

<sup>17</sup> Reuters, 6 Jul 2017.

<sup>18</sup> Radio Okapi, 11 May 2017.

<sup>19</sup> Reuters, 6 Jul 2017.

<sup>20</sup> Reuters, 6 Jul 2017.

<sup>21</sup> Moody's, 28 Jul 2017.

<sup>22</sup> Reuters, 6 Jul 2017.

<sup>23</sup> FT, 12 Jul 2017.

*fulfil these two conditions, a credible path toward political stability will probably be a prerequisite.”<sup>24</sup>*

The IMF suspended its last \$560m loan programme to DRC in 2012, citing a lack of transparency over the sale of assets of the state-owned mining company **Générale des Carrières et des Mines (Gécamines)**.<sup>25</sup> The requirement for political stability is highly unusual for the IMF as it normally avoids taking any political position.<sup>26</sup> A diplomat from a western country told the media that financial transparency will be the baseline for any support:

*“The transparency of Congolese government finances, including Gecamines, will be a precondition for any financial support.”<sup>27</sup>*

Sources from within the AU also confirm that regional governments are unwilling to lend money to the Kabila administration without transparency and a stability plan in place:

*“In DRC you lend money and 20% disappears overnight into the hands of the government. In the past there was pressure from certain states to get round this but Kabila has few people fighting his corner, he has alienated what allies he has so it will be hard for him to get funds from the regional bodies.”<sup>28</sup>*

The administration may face further sanctions if the political situation remains as it is. The US government threatened on 11 July to impose unilateral sanctions on anyone it believes has hindered the election preparations.<sup>29</sup> US deputy ambassador to the UN **Michele Sison** told the **UN Security Council (UNSC)** that the US would take further action to ensure the elections happen.<sup>30</sup> She urged the UNSC to take further sanctions against Kabila to force a democratic transition.<sup>31</sup> The DRC has also alienated traditional allies, notably **Angola** that currently holds a UNSC seat (see *ARC Briefing DRC June 2017*). DRC further antagonised Angolan president **José Eduardo dos Santos** (1979-present) by sentencing his son in law, DRC-born **Sindike Dokolo**, to three years in prison for real estate fraud, on 16 July (see *ARC Briefing Angola July 2017*).<sup>32</sup>

The international community appears to understand that it has more leverage over the Kabila administration now that it requires financial support. When Kabila first came to power in 2001, DRC enjoyed a better relationship with donors and the international community as it emerged from almost ten years of conflict. However, donors found that there was little transparency on where the funds ended up, and little desire on Kabila’s part to undertake reforms necessary to create financial stability. When the IMF cancelled its programme in 2012, the administration increased its investment for mineral rights deals with **China** to cover the costs. Now with mineral rights less valuable, the Chinese more cautious, and a major liquidity crisis approaching, the donor community is looking to press for reforms that will ensure that its funds are spent to the benefit of the DRC populace. DRC is likely to agree to the IMF’s and other donors’ terms. Whether it abides by those terms is another matter entirely.

### **... as political tensions rise following CENI election delay**

The political situation in DRC is getting worse. **Corneille Nangaa**, the president of the **Commission Nationale Eléctorale Indépendante (CENI)** (electoral commission), told the media on 9 July that it would not be able to hold an election in 2017 due to a lack of funds and the ongoing conflict in **Kasai**

<sup>24</sup> FT, 12 Jul 2017.

<sup>25</sup> FT, 12 Jul 2017.

<sup>26</sup> FT, 12 Jul 2017.

<sup>27</sup> Reuters, 6 Jul 2017.

<sup>28</sup> Source, AU, Addis Ababa

<sup>29</sup> Reuters, 11 Jul 2017.

<sup>30</sup> Reuters, 11 Jul 2017.

<sup>31</sup> Reuters, 11 Jul 2017.

<sup>32</sup> News24, 16 Jul 2017.

**Centrale** province (see *ARC Briefing DRC May, June 2017*).<sup>33</sup> The decision to delay elections goes against the accord that government and opposition groups struck in December 2016 (see *ARC Briefing DRC January 2017*). Nangaa said that:

*"The parameters at our disposal give us, more or less, reason to think that, in December, it will probably not be possible to stick to that date."*<sup>34</sup>

The opposition bloc **Rassemblement** president, **Felix Tshisekedi**, described the announcement as a "declaration of war on the Congolese people".<sup>35</sup> However, Kabila remains defiant that he will stay in power, and claimed in an interview in June that he "promised nothing" in the December accord.<sup>36</sup> The opposition bloc released a plan of action on 23 July to remove Kabila from office this year.<sup>37</sup> Rassemblement will call a general two-day strike on 8 August as "a warning to the president of the power of the people".<sup>38</sup> It will then organise 25 simultaneous rallies in **Kinshasa** and other provincial capitals on 20 August as a protest against Kabila staying in power.<sup>39</sup> Rassemblement has set a deadline of the end of September for Kabila to announce an election date.<sup>40</sup> If he does not, "he will no longer be recognised as president of the republic on 1 October."<sup>41</sup>

It is not entirely clear what consequences the opposition statement may have. Rassemblement is not a militarised force and it is unclear what support it has outside Kinshasa.<sup>42</sup> Opposition protests in January 2016, as well as in March this year led to fatal clashes with security forces (see *ARC Briefing DRC January 2016, March 2017*). Kabila reshuffled leadership of the **Police Nationale Congolaise (PNC)** (national police force) on 24 July, naming **Dieudonne Amuli Bahigwa** head of the PNC.<sup>43</sup> Bahigwa is a **Forces Armées de la République Démocratique du Congo (FARDC)** general with experience fighting insurgents in the east of the country.<sup>44</sup> He replaces **Charles Bisengimana** as chief of the national police.<sup>45</sup> Kabila named **Sylvano Kasongo Kitenge** head of police in Kinshasa. He replaces **Celestin Kanyama** who is under US and EU sanctions for human rights violations.<sup>46</sup> Sources in Kinshasa say the changes show that Kabila is preparing for further unrest:

*"He [Kabila] is bringing the military in to the police force. If there are protests in Kinshasa or elsewhere then I would expect casualties."*<sup>47</sup>

The opposition protests could fuel the existing unrest in DRC. The conflict in Kasai Centrale continues to escalate. The **UN Joint Human Rights Office (UNJHRO)** in DRC estimates that 3,000 people have died in the conflict between the FARDC and the **Kwamina Nsapu** militia group.<sup>48</sup> The conflict has displaced an estimated 1.3 million people, include 50,000 refugees into neighbouring Angola.<sup>49</sup> The UNJHRO accused the FARDC and the DRC government of war crimes, and stated that it had found 42 mass graves in the region, some of which had been dug by "elements of the DRC army".<sup>50</sup> Other regions

<sup>33</sup> TV5, 9 Jul 2017.

<sup>34</sup> TV5, 9 Jul 2017.

<sup>35</sup> Deutsche Welle, 9 Jul 2017.

<sup>36</sup> Der Spiegel, 29 Jun 2017.

<sup>37</sup> News24, 23 Jul 2017.

<sup>38</sup> News24, 23 Jul 2017.

<sup>39</sup> News24, 23 Jul 2017.

<sup>40</sup> News24, 23 Jul 2017.

<sup>41</sup> News24, 23 Jul 2017.

<sup>42</sup> Deutsche Welle, 9 Jul 2017.

<sup>43</sup> La Phare, 24 Jul 2017.

<sup>44</sup> La Phare, 24 Jul 2017.

<sup>45</sup> La Phare, 24 Jul 2017.

<sup>46</sup> La Phare, 24 Jul 2017.

<sup>47</sup> Source, ARC correspondent, Kinshasa

<sup>48</sup> UNJHRO release, 24 Jul 2017.

<sup>49</sup> UNJHRO release, 24 Jul 2017.

<sup>50</sup> UNJHRO release, 24 Jul 2017.

of the country are more stable, although at least 52 militia groups operate in the eastern provinces of **North Kivu** and **South Kivu**.<sup>51</sup>

The Kabila administration is attempting both to seek an international bailout for the economy and to retain control for the indefinite future. The official line is that they intend to hold elections as soon as is possible, however the deliberate dividing of the opposition over the past five months shows that Kabila is willing to dismantle any effort at genuine regime change. If the opposition protests across the country on 20 August and Kabila's military-led police force responds with force, the risk of conflict spreading across DRC will increase sharply.

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<sup>51</sup> Congo Research Group, 18 Feb 2016.