

## AFRICA RISK CONSULTING DRC Monthly Briefing June 2015

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### DRC Summary 29 June 2015

*President Joseph Kabila (2001- present) censures 50 political and public figures for corruption including potential electoral rival and governor of Katanga Province Moise Katumbi. Observers in DRC worry that this is the beginning of anti-corruption investigations that could have a wider effect than Kabila intends. The International Monetary Fund (IMF) claims that the sale of state-owned shares in the Kawama mining concession is in breach of DRC's 2011 disclosure laws and a World Bank agreement. State-owned Gécamines' sale to Glencore and Dan Gertler's Fleurette Group puts mining deals in the country under renewed international scrutiny. The Banque Centrale du Congo (BCC) revises its projected GDP growth for 2015 to 9.2% from 10.3% of GDP. This brings its projections in line with IMF estimates.*

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### Kabila moves on electoral opponents with corruption charges

President **Joseph Kabila** (2001-present) has censured 50 political and public figures for corruption including **Moise Katumbi**, potential electoral rival and governor of **Katanga Province**.<sup>1</sup> The president filed the complaint with the chief prosecutor via special adviser **Emmanuel Luzolo Bambi** on 23 June. It accuses the figures of corruption, money laundering and financing terrorist groups.<sup>2</sup> While the full list of those accused remains private, the names of some high profile figures on the list were leaked to the media. They include Katumbi and three other governors: **Alphonse Ngoyi (Kasaï-Oriental)**, **Alex Kande (Kasaï-Occidental)** and **Marcellin Cishambo (South Kivu)**. The other high profile figure on the list is **Gustave Beya Siku**, Kabila's former chief of staff who was fired in January during the formation of the latest government.<sup>3</sup> He is accused of taking bribes for inflating the value of a contract to extend DRC's fibre optic network from the port town of **Moanda (Bas-Congo)** to the capital, **Kinshasa**. The **Assemblée Nationale** is already investigating the inflated costs of the contract.<sup>4</sup>

Of those targeted, Katumbi poses the greatest potential political threat to Kabila. The popular governor has announced his intention to step down when Katanga province is divided in 15 regions later this year. However, he could still launch a presidential campaign against Kabila for the general elections scheduled to take place in November 2016. In response to the accusations, Katumbi said that he had not been informed of any investigation against him and added that it would not surprise him if any corruption allegations came directly from the president himself.<sup>5</sup>

Beya and Kande are both close to deputy prime minister and interior minister **Evariste Boshab** who is currently out of favour with Kabila. Kabila removed Boshab as secretary general of his **Parti du Peuple pour la Reconstruction et la Démocratie (PPRD)** on 15 May shortly after he held talks with Katumbi on the division of Katanga Province.<sup>6</sup> Analysts in DRC speculate that their inclusion on the list is Kabila trying to undermine Boshab's support base.<sup>7</sup> Both South Kivu and neighbouring **North**

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<sup>1</sup> AFP, 24 Jun 2015.

<sup>2</sup> Radio Okapi, 24 Jun 2015.

<sup>3</sup> AFP, 24 Jun 2015.

<sup>4</sup> Radio Okapi, 24 Jun 2015.

<sup>5</sup> AFP, 24 Jun 2015.

<sup>6</sup> Jeune Afrique, 15 May 2015.

<sup>7</sup> Source, political analyst, Lubumbashi

**Kivu** are opposition strongholds. Support for Kabila is low due to his inability to improve the security situation in these eastern provinces as multiple militias continue to operate despite ongoing military operations.<sup>8</sup> In this context, accusations against Cishambo could be seen as Kabila trying to reassert his control in the region.

*“There is definitely a political element here...there are lots of corrupt officials to choose from and Kabila has tried to make it appear fair but going after four governors is all about the elections.”<sup>9</sup>*

The president’s spokesperson, **Lambert Mende**, insisted that there was no political motive behind the filing. He claimed that Kabila was simply trying to clean up DRC’s corrupt political elite. Corruption is an endemic problem in DRC which ranked 154 out of 175 countries on **Transparency International’s** most recent **Corruption Perceptions Index**.<sup>10</sup> Many major political figures have allegedly benefitted from illicit enrichment, bribery and corrupt activities. A widespread investigation would draw in figures from across the political map, including Kabila’s allies, due to the interconnected nature of both political and business networks.<sup>11</sup>

Local media outlets report that the investigation is the start of a major political shake-up. Daily newspaper **Le Potentiel** described the pending investigation as a “*tsunami*” which few would survive.<sup>12</sup> Kabila and his own family are, according to local sources, widely implicated in illicit enrichment and involvement in corruption activities:

*“We have witnessed illicit enrichment with impunity over the last 10 years...and the president’s family are hardly shining examples of good business.”<sup>13</sup>*

The president has publicly appealed for national unity in the run-up to provincial elections in October 2015 and the general election in November 2016. However, high profile corruption investigations against his enemies, which threaten the security of his friends, are likely to lead to greater divisions.

*“This is opening Pandora’s box...if the courts go ahead with an investigation soon everyone in Kinshasa could be implicated.”<sup>14</sup>*

## IMF censures Gécamines sale to Glencore and Fleurette

The **International Monetary Fund (IMF)** has said that a DRC state mining company **Générale des Carrières et des Mines (Gécamines)** deal broke both domestic disclosure regulations and an agreement with the **World Bank**.<sup>15</sup> Gécamines sold the rights to a cobalt mining concession in **Kamawa**, Katanga Province, to **Mutanda Mining** which **Switzerland**-based international mining and commodities trading company **Glencore** (69%) and **Israel**-based **Fleurette Group** (31%) own. Glencore and Fleurette own both the Mutanda copper mine and the surrounding concessions. The concession is located in the same region as the Mutanda mining area. Gécamines (30%) and local mining operator **Dino Steel International** (70%) own the company through locally registered **Chabara Mining**.<sup>16</sup> The total value of the transaction was \$30m with Gécamines receiving \$10m directly.<sup>17</sup> However, the **Carter Center**, a **United States (US)**-based think-tank, claims that the value could be much higher as the claim has attracted a large number of artisanal miners due to the high-concentration cobalt deposits close to the surface.<sup>18</sup>

<sup>8</sup> Jeune Afrique, 25 Jun 2015.

<sup>9</sup> Source, journalist with ties to President Kabila, Kinshasa

<sup>10</sup> Transparency International website, 2015.

<sup>11</sup> Le Potentiel, 26 Jun 2015.

<sup>12</sup> Le Potentiel, 26 Jun 2015.

<sup>13</sup> Source, judge, DRC

<sup>14</sup> Source, think tank director, Kinshasa

<sup>15</sup> IMF statement 26 Jun 2015.

<sup>16</sup> Reuters, 24 Jun 2015.

<sup>17</sup> Reuters, 26 Jun 2015.

<sup>18</sup> Carter Center press release, 27 Jun 2015.

The IMF claims that the transaction breaks the terms of a 2011 law that requires the state and state-owned enterprises to declare the sale of all shares in joint ventures. The law requires the state body selling the stake to publish this in the government gazette or on the relevant ministerial website.<sup>19</sup> The IMF also claims that the government is in breach of a 'governance matrix' that it agreed with the World Bank. The matrix requires elements of competitive bidding in the sale of state mining assets in DRC. It requires the government to publish details of open and competitive bidding procedures within sixty days of the agreement of the sale.<sup>20</sup> The World Bank currently has \$2.29 billion of project funds active and distributed in DRC<sup>21</sup> which cover everything from school textbooks to road reconstruction. According to sources in an international organisation, the DRC could have jeopardised future projects:

*"There is a certain amount of leeway with DRC because there is so much soft infrastructure to put in place but any regressive moves – such as not following domestic legislation – are a reason to think twice before assigning further project funding."*<sup>22</sup>

The IMF does not currently have a programme of lending in place in DRC. This is also linked to the actions of Fleurette, which Israeli billionaire **Dan Gertler** controls. Gertler describes himself as a close friend of Kabila.<sup>23</sup> The IMF withdrew a \$532m loan programme in December 2012 after the government failed to disclose the sale of Gécamines shares in mining company **Congolaise des Mines et de Développement (Comide)** to **British Virgin Islands (BVI)**-registered **Straker International Corp** in July 2011.<sup>24</sup> **Kazakhstan-based Eurasian Natural Resources Company (ENRC)** was the majority owner of Comide. ENRC purchased its shares from a BVI company that Gertler owned in 2010.<sup>25</sup> Gertler also purchased the **Kolwezi Tailings Project** that the DRC government expropriated from **Canada-based** mining company **First Quantum Minerals** in 2010 and sold it to ENRC later that year.<sup>26</sup>

*"Dan Gertler is everywhere in DRC because he has the best access – direct to Kabila himself...I think that Gertler and Glencore will be genuinely surprised at the IMF...this is a consolidation deal, not a major sale."*<sup>27</sup>

### Central bank revises growth down to 9.2%

The **Banque Centrale du Congo (BCC)**, DRC's central bank, revised its growth estimates for 2015 down from 10.3% of gross domestic product (GDP) to 9.2% on 8 June.<sup>28</sup> Kabila announced in a speech in December that growth would remain in double digit figures throughout the year as a testament to DRC's economic potential (see *ARC DRC Briefing December 2014*). The BCC's revision is in line with the IMF's revised estimate of 9.2% that it published on 4 June after ending a two-week mission to the country. However, the IMF's estimate increased the projected growth by 0.1% from 9.1% which it forecasted in October 2014.<sup>29</sup>

*"The DRC will still retain a high growth rate at 9.2%...however there are such monumental challenges to economic development that this revision won't have much effect on the broad trend of recovery."*<sup>30</sup>

<sup>19</sup> IMF statement 26 Jun 2015.

<sup>20</sup> Reuters, 26 Jun 2015.

<sup>21</sup> World Bank website, 2015.

<sup>22</sup> Source, international organisation, Washington DC

<sup>23</sup> Bloomberg, 2 Dec 2012.

<sup>24</sup> Bloomberg, 2 Dec 2012.

<sup>25</sup> Bloomberg, 2 Dec 2012.

<sup>26</sup> Canadian Business, 5 Jun 2012.

<sup>27</sup> Source, mining executive, London

<sup>28</sup> BCC statement, 8 Jun 2015.

<sup>29</sup> Mineweb, 4 Jun 2015.

<sup>30</sup> Source, international organisation, Washington DC

The BCC did not give a definitive reason for its decision to decrease the growth forecast. However, the IMF said that output from mining of copper and cobalt remains the primary driver for growth in the country. It said that the medium term outlook was positive, but warned against private sector investor caution in the run-up to the 2015 and 2016 general and municipal elections.<sup>31</sup> The IMF said that there was a “*wait and see*” attitude of potential investors who had decided to hold back on investments until after the elections have been decided.<sup>32</sup>

DRC produced over 1m tonnes of copper in 2014 for the first time on record, making it Africa’s largest copper producer. However, the price of copper fell sharply at the end of 2014. Copper reached a 5-year low of \$5,400 per tonne in January 2015. The price rose 18% to a high of \$6,380 per tonne on 12 May but fell again to \$5,738 per tonne at time of writing.<sup>33</sup> Despite the 6.2% total increase across the first two quarters of 2015, the price of copper is at its lowest levels since the global financial crisis of 2009.<sup>34</sup>

### Implications

Any third party investigation into corruption amongst senior political and public figures in DRC would be likely to uncover widespread involvement in illicit enrichment and other corrupt acts. When Kabila launches an anti-corruption campaign three months before municipal elections and names four governors, including his potential greatest electoral rival, it is a strongly political act. The investigation could spin out of control if officials linked to Kabila get caught in the investigation but the courts are unlikely to charge the president, his family and others in his inner circle. The cases at least indicate that Kabila is concerned about the elections next year. Taking out opposition governors prior to their re-election campaigns will give him greater leeway to put allies in place before campaigning begins.

Mining deals in DRC are still high risk for corruption and illicit enrichment. This is particularly the case where Gécamines and Dan Gertler are involved. Gertler has arranged a number of deals with Gécamines and other state-owned enterprises that have drawn international criticism. Investors in the sector should be aware that involvement in improper processes raises ‘red flags’ with international observers including the IMF and World Bank.

The BCC’s revised growth forecast shows a level of cooperation with the IMF during the two-week mission to the country. The BCC’s previous estimate of 10.3% was already ahead of the estimates of other observers (ratings agency **Moody’s** estimated 10% in January) so this brings it back in line with more reasonable estimates. However, in DRC growth estimates have only a limited use as so much of the country’s economy is in the unrecorded agrarian or informal sectors and much of the country’s economic value continues to move off the books. A better measure of DRC’s economic progress is its infrastructure development.

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<sup>31</sup> Mineweb, 4 Jun 2015.

<sup>32</sup> Mineweb, 4 Jun 2015.

<sup>33</sup> Investmentmine, 2015

<sup>34</sup> Investmentmine, 2015

### About Africa Risk Consulting:

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