

## AFRICA RISK CONSULTING

### DRC Monthly Briefing August 2023

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#### DRC Summary 22 August 2023

*The Banque Centrale du Congo (BCC) (central bank)'s Monetary Policy Committee (MPC) more than double its benchmark interest rate from 11% to 25%. It is a bold move to halt the weakening of the Congolese franc and stem rising inflation. China's CMOC Group Limited agrees on 18 July to pay the DRC's state-owned mining company Gécamines an \$800m settlement between 2023 and 2028 and at least \$1.2 billion in dividends. The agreement ends their longstanding dispute over royalties at one of the world's biggest cobalt and copper mines, Tenke Fungurume. Government suspends the licence of local company Congo Gold Raffinerie (CGR), a day before it was set to inaugurate the country's first bullion refinery in South Kivu province on 26 July, citing a lack of respect for societal obligations. Canada-headquartered Ivanhoe Mines will ship copper from its mega project in the DRC by rail to the Lobito Port in Angola under a trial agreement to examine whether the logistics route can cut transport costs.*

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#### Central bank more than doubles interest rate to 25%...

The **Banque Centrale du Congo (BCC)** (central bank)'s **Monetary Policy Committee (MPC)** announced on 9 August that it would more than double its benchmark interest rate from 11% to 25% in a bold move to halt the weakening of the Congolese franc.<sup>1</sup> The BCC had previously increased its benchmark interest rate by 200 basis points from 9% to 11% on 21 June and directed commercial lenders to keep 10% of all franc deposits in reserves, increasing from 0%.<sup>2</sup> In its latest statement, the MPC said that it had agreed to tighten monetary policy “*in view of the persistence of internal and external inflationary pressures*”.<sup>3</sup>

The **International Monetary Fund (IMF)** notes that the value of the Congolese franc has continued to depreciate as deteriorating security, increasing pre-election spending, lower-than-expected revenues and speculation by money changers exert pressure on the exchange rate with the **United States (US)** dollar.<sup>4</sup> US media house **Bloomberg's** data shows that the Congolese Franc has lost approximately 21% of its value to the dollar since the beginning of this year.<sup>5</sup> Despite the pace of the franc's devaluation slowing in the last half of July, the MPC decided to take action given the uncertainty caused by the impact of the ongoing conflicts in the eastern DRC and in **Ukraine**.<sup>6</sup> Last month, the government announced plans to reduce its cash expenditures and promote tax payments in francs instead of the dollar in an attempt to curb the currency's decline, however, increased franc reserve requirements and recent central bank interventions, including key rate hikes, have failed to stop the slide.

The continued currency depreciation in conjunction with widespread inflation has also further pushed up the price of food, impacting the country's poorest, who use the franc to purchase daily needs. BCC also reported on 9 August that annual inflation increased to 24.5% in July, from 21%

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<sup>1</sup> Banque Centrale du Congo, 9 Aug 2023

<sup>2</sup> Eco Fin Agency, 21 Jun 2023; Bloomberg, 12 Jul 2023

<sup>3</sup> Banque Centrale du Congo, 9 Aug 2023

<sup>4</sup> Bloomberg, 12 Jul 2023; Bloomberg, 10 Aug 2023

<sup>5</sup> Bloomberg, 10 Aug 2023

<sup>6</sup> Banque Centrale du Congo, 9 Aug 2023; Bloomberg, 10 Aug 2023

recorded in June.<sup>7</sup> In its latest forecasts, the BCC expects growth of 6.8%, driven by the extractives sector, and annual inflation to reach 11.5% in December, down from 13.1% in December 2022.<sup>8</sup>

### China's CMOC reaches \$2 billion deal to settle mining dispute...

**China's CMOC Group Limited (CMOC)** agreed on 18 July to pay DRC's state-owned mining company **Gécamines** an \$800m settlement between 2023 and 2028 and at least \$1.2 billion in dividends, ending a longstanding dispute over royalties at one of the world's biggest cobalt and copper mines.<sup>9</sup> This agreement follows on the breakthrough provisional deal reached between CMOC and Gécamines on 19 April over royalty payments for the **Tenke Fungurume** mine, one of the world's largest battery-metal mines.<sup>10</sup> Gécamines owns 20% of the Tenke Fungurume mine while CMOC owns 80%, which it bought from the US mining company **Freeport McMoRan** in 2016.<sup>11</sup> The two parties have been locked in a bitter dispute since mid-July over Gécamines claims that CMOC has been untruthful about its mineral reserves and owes its partner \$7.6 billion in royalties and interest (*see ARC Briefing DRC Mar & Apr 2023*).<sup>12</sup> Gécamines also demanded a renegotiation of the contract with CMOC, which has now been resolved.

The dispute between CMOC and Gécamines has had major economic ramifications, most notably after the government blocked CMOC's trucks from leaving the Tenke Fungurume mine's premises, resulting in a pile-up of cobalt and copper valued at approximately \$1.5 billion (*see ARC Briefing DRC Mar 2023*).<sup>13</sup> Despite its exports being blocked since mid-July, the mine continued operating at close to full capacity, assuming a resolution would be reached and stocking the extra metal until it can resume shipments.<sup>14</sup> Following the provisional deal in April and the final agreement in July, CMOC is now gradually releasing its stockpile, which will greatly ease the impact on supply routes and reduce logistics costs.<sup>15</sup> This is expected to drive global cobalt prices lower as the large stockpile gradually enters markets and be followed by a scramble for trucks in the region as the stocks continue to exit, which will push up freight costs and add to chronic logistical challenges at the DRC border.<sup>16</sup>

Furthermore, CMOC said on 14 July that it estimates that its first-half profits to drop by as much as 85% year on year, mainly due to the eight-month halt on sales from the Tenke mine.<sup>17</sup> In a positive development for the company, it is also expected to officially overtake **Swiss** mining giant **Glencore** as the world's largest producer of cobalt later this year, as the Chinese firm plans to bring online another massive mine in the DRC.<sup>18</sup> Cobalt is a critical component for EV batteries and the DRC possesses an estimated 70% of the world's known reserves. Thousands of citizens will also be employed in the mine and the treasury will benefit from billions in royalty payments from the mine's activities.

However, the final deal proves CMOC's skilfulness and ability to outmanoeuvring the government as the deal, worth about \$2 billion, is much smaller than the \$7 billion Gécamines originally demanded. It is highly possible that the pressure from the upcoming December elections persuaded the government to reach a quick agreement without setting aside sufficient time to negotiate properly.<sup>19</sup>

<sup>7</sup> Banque Centrale du Congo, 9 Aug 2023; Banque Centrale du Congo, 24 Jun 2023

<sup>8</sup> Agence Ecodfin, 21 Jun 2023

<sup>9</sup> CMOC, 18 Jul 2023

<sup>10</sup> China Global South Project, 19 Apr 2023; CMOC, 19 Apr 2023

<sup>11</sup> Bloomberg, 17 Jun 2022

<sup>12</sup> China Global South Project, 19 Jan 2023; Bloomberg, 27 Feb 2023

<sup>13</sup> Bloomberg, 27 Feb 2023; China Global South Project, 19 Apr 2023

<sup>14</sup> Bloomberg, 27 Feb 2023

<sup>15</sup> Bloomberg, 18 Jul 2023

<sup>16</sup> Bloomberg, 27 Feb 2023

<sup>17</sup> CMOC, 14 Jul 2023

<sup>18</sup> China Global South Project, 19 Apr 2023

<sup>19</sup> China Global South Project, 19 Jul 2023

## Government annuls first gold refinery permit days before inauguration...

Government suspended its authorisation of local company **Congo Gold Raffinerie (CGR)** a day before it was set to inaugurate the country's first bullion refinery in **South Kivu** province on 26 July, with mines minister **Antoinette N'Samba Kalambayi** citing that CGR had "*forfeited its approval*" as a processing entity and "*did not respect its societal obligations*".<sup>20</sup> The plant, which was built by CGR in 2019, was expected to produce two tonnes of gold monthly by using ore from artisan mines in South Kivu. Kalambayi had initially given the project approval and said that the processing of gold could begin in July following a meeting with CGR's officials in June.<sup>21</sup>

The **Bukavu**-based company is equally owned by Congolese businessman **Dieudonne Kasembo Nyembo** and **Burundian-Belgian** national, **Yasin Somji**.<sup>22</sup> In a statement released on 26 July, CGR said that the suspension of its licence puts jobs at risk and an unnamed spokesperson for the company told the media that:

*"We don't understand, the specifications apply to mining entities that have an operating licence, we're not an operating company".<sup>23</sup>*

**Jean Pierre Okenda**, the director of NGO **Resource Matters** which calls for greater transparency in the DRC's mining sector, says that CGR is being punished for not having signed a specification, however, "*processing units are not subject to this legal requirement*", meaning CGR's licence cannot be revoked for this.<sup>24</sup> According to the mines ministerial decree, the company has 30 days to appeal the decision. However, in the short term, the suspension slows that the implementation of President **Felix Tshisekedi's** (2018-present) plans to increase local refining of the minerals in an effort to increase the government's revenues.

## Major miner to trial Angola rail export route for Congo copper...

**Canada**-headquartered **Ivanhoe Mines** announced on 16 August that it will ship 10,000 tonnes of copper from its **Kamoa-Kakula** joint venture in the south eastern DRC by rail to the **Lobito Port** in **Angola** under a trial agreement to examine whether the logistics route can cut transport costs.<sup>25</sup> The trial shipment will travel along the railway managed on the Angola side of the border by a consortium that includes the **Singapore**-based commodity trading giant **Trafigura Group**.<sup>26</sup> Ivanhoe Mines said in its statement that using the railway to the Lobito Port in Angola, which is closer to Kamoa-Kakula, could significantly impact logistics costs and even improve the carbon footprint of its metals.<sup>27</sup> The company currently ships all its copper in the DRC from the mine by truck to ports in neighbouring **South Africa, Tanzania** and **Namibia**.<sup>28</sup> Ivanhoe Mines started exporting copper from the Kamoa-Kakula mine in mid-2021 and exported more than 330,000 tonnes of copper from the facility in 2022.<sup>29</sup> Its partners in the joint venture are the government and China's **Zijin Mining Group**.

The **Lobito Corridor** connects DRC's mining regions in **Katanga** province and **Zambia's Copperbelt** to Angola, presenting a strategic alternative route to export markets for both countries and offering the shortest route linking their key mining regions to the sea.<sup>30</sup> Policymakers and mining executives in DRC, Angola and Zambia intend to develop new logistics routes in **Southern Africa's** cobalt and copper belts beyond the traditional export point, **Port of Durban** (South Africa), which has become

<sup>20</sup> Reuters, 26 Jul 2023; Mining, 26 Jul 2023

<sup>21</sup> Mining, 26 Jul 2023

<sup>22</sup> Mining, 26 Jul 2023; Global Witness 23 Apr 2020

<sup>23</sup> Reuters, 26 Jul 2023

<sup>24</sup> Reuters, 26 Jul 2023

<sup>25</sup> Bloomberg, 16 Aug 2023

<sup>26</sup> Ivanhoe Mines, 16 Aug 2023; Bloomberg, 16 Aug 2023

<sup>27</sup> Ivanhoe Mines, 16 Aug 2023

<sup>28</sup> Bloomberg, 16 Aug 2023

<sup>29</sup> Bloomberg, 16 Aug 2023

<sup>30</sup> China Lusophone Brief, 7 Feb 2023

increasingly difficult to access due to labour strife, social unrest, vandalism, disrepair and extreme weather.<sup>31</sup>

DRC, Zambia and Angola established the **Lobito Corridor Management Institution** on 27 January in preparation for additional investment for the project.<sup>32</sup> Tshisekedi said that when fully operational, the Lobito Corridor will ensure the opening up of mines in the DRC and Zambia, in addition to “*access to and circulation of inputs essential to both the mining and agricultural industries*”.<sup>33</sup> South Africa stands to lose the most from the emergence of the Lobito Corridor as a viable alternative to the Port of Durban for the transportation of the region’s copper and cobalt.<sup>34</sup> For the DRC, the project could see more efficient export of its critical minerals, a major contributor to its GDP. The DRC’s mining sector contributes about 30% (\$2.15 billion in 2020) of its GDP and, according to IMF data, has accounted for more than 90% of total exports over the last five years.<sup>35</sup>



## Planner

8 Sep 2023 (DRC) Scheduled end date for the **East African Community Regional Force (EACRF)** mandate in the DRC;

Aug 2023 **Kinshasa (DRC)** Leaders of **Brazil, Indonesia** and the DRC meet for the first environmental trilateral summit;

Dec 2023 (DRC) Scheduled presidential and parliamentary elections;

20 Dec 2024 **Kinshasa (DRC)** End date of peacekeeping mission **Mission de l'Organisation des Nations Unies pour la stabilisation en République démocratique du Congo (MONUSCO)**;

<sup>31</sup> China Global South Project, 5 Jun 2023

<sup>32</sup> China Global South Project, 9 Feb 2023; China Lusophone Brief, 7 Feb 2023

<sup>33</sup> Bloomberg, 5 Jul 2023

<sup>34</sup> China Global South Project, 9 Feb 2023

<sup>35</sup> Natural Resource Governance Institute, 2 Dec 2020

## Chronology

21 Aug 2023 **Kinshasa (DRC)** *The East African*. **Tanzania** raises concerns over the lack of funds to take care of the increased number of refugees from DRC;

19 Aug 2023 **Kinshasa (DRC)** *The East African*. An extraordinary heads of state summit will reportedly be convening soon to give direction on the fate of the **East African Community Regional Force (EACRF)**, whose mandate expires on 8 September. DRC has signalled an unwillingness to extend the EACRF mandate for the second time, amid feelings that it has failed to rout the **M23** rebels;

18 Aug 2023 **Kinshasa (DRC)** *The Monitor*. **Ugandan** and the DRC armed forces have reportedly killed at least 548 ADF rebels since 31 November 2021, when their joint operation, **Operation Shujaa**, began. The Ugandan commander in charge **Dick Olum** also says that 50 rebels have been captured alive while 31 have surrendered;

17 Aug 2023 **Kinshasa (DRC)** *United Nations International Children's Emergency Fund*. The **United Nations International Children's Emergency Fund (UNICEF)** warns that a spike in conflict and displacement in the eastern DRC is pushing children into the worst cholera crisis since 2017;

16 Aug 2023 **Washington (United States)** *United States (US) State Department*. United States (US) state department sanctions three top environmental officials in the **DRC** for allegedly trafficking wildlife and involvement in “*significant corruption*”;

15 Aug 2023 **Washington (United States)** *AFP*. United States (US) secretary of state **Antony Blinken** calls **Rwanda's** President **Paul Kagame** and presses for a de-escalation after a new flare-up in tensions with the **DRC**;

15 Aug 2023 **Kinshasa (DRC)** *All African*. **United Nations (UN)** secretary general **Antonio Guterres** says peacekeepers in the DRC will begin departing the country in an “*accelerated withdrawal*”, confirming the departure of one of the missions first deployed 25 years ago;

12 Aug 2023 **Kinshasa (DRC)** *The East African*. The DRC is reportedly banking on bilateral defence and security cooperation with neighbours as it seeks to stem a decades-long rebellion in the eastern parts of its territory;

10 Aug 2023 **Kinshasa (DRC)** *Bloomberg*. The leaders of **Brazil, Indonesia** and the DRC will meet in the central African country this month for the first trilateral summit on the preservation of the world's three major tropical forests;

9 Aug 2023 **Kinshasa (DRC)** *Breathe*. **M23** rebels kill four civilians in **Nyamitaba** village (**North Kivu**);

5 Aug 2023 **Kinshasa (DRC)** *The East African*. **Uganda** and **Kenya** are seeking at least \$6 billion from multiple lenders to jumpstart construction of the joint standard gauge railway (SGR) and link it to the DRC;

4 Aug 2023 **Kinshasa (DRC)** *The Monitor*. According to media reports, residents near the **Uganda-DRC** border face starvation due to insecurity caused by suspected **Allied Democratic Forces (ADF)** rebels;

4 Aug 2023 **Kinshasa (DRC)** *AFP*. The **United Nations (UN)** warns that to meet the needs of the people affected by violence in the eastern DRC, humanitarian workers need more than \$1.5 billion in funding;

2 Aug 2023 **Kinshasa (DRC)** *Bloomberg*. The **Singapore**-based commodity trading giant **Trafigura Group** is forced to seek new funding for one of its flagship investments, a \$600m copper-cobalt project in the DRC after the project runs into difficulties amid cost overruns and weak cobalt prices;

29 Jul 2023 **Lubumbashi (DRC)** *The East African*. **Tanzania** is targeting more business and investments with the DRC through cargo flows between Tanzania's ports and **Lubumbashi** in the eastern DRC;

28 Jul 2023 **Kinshasa (DRC)** *Reuters*. Government officials say that **Rwandan** forces crossed its border on 27 July and attacked its frontier security forces.

27 Jul 2023 **Kigali (Rwanda)** *Africa News*. Rwanda accuses **Belgium** of listening to **DRC** officials following **Brussels's** decision to reject **Vincent Karega**, Rwanda's ambassador-designate to the **European** country;

24 Jul 2023 **Kinshasa (DRC)** *The East African*. **Uganda** will be seeking permission from the DRC to expand the operational area of the two countries' joint pursuit of **the Allied Defence Forces (ADF)**, suggesting the operation may be extended.

### About Africa Risk Consulting:

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