



global witness

IMF must ensure kleptocratic regime in the Republic of Congo does not get another sweet deal

For the second time in less than a decade, the Republic of Congo is on the verge of bankruptcy.¹

This is despite the fact that Congo-Brazzaville possesses huge reserves of oil and is expected to become the third largest oil producer in sub-Saharan Africa by 2018.²

So how could oil-rich Congo get itself into such dire economic straits twice in quick succession? Much of the answer lies in Congo's corrupt and mismanaged oil sector. In particular, debt has skyrocketed due to a series of convoluted financial arrangements called **oil pre-financing deals**¹ involving the Congolese national oil company, La Société Nationale des Pétroles du Congo (SNPC), and some of its top officials.

Despite a track record of corruption in Congo, in 2010 the International Monetary Fund (IMF) announced a debt relief package worth nearly US\$2 billion to bail out the small central African nation,³ led by President Denis Sassou Nguesso for over three decades. But fast-forward to 2017 and the Congolese government does not appear to have made any progress: it is once again in negotiations with the IMF for another massive debt write-off.

The IMF's 2010 bailout and subsequent debt relief from multilateral and bilateral agreements successfully reduced Congo's external national debt by over 70 percent.⁴ Soon after, however, a familiar combination of corruption, mismanagement and greed by a handful of political elites saw debt figures more than triple in the space of seven years. As of July 2017 Congo owed \$US9.14 billion - almost as much as the \$US9.2 billion of debt the country had accumulated by the end of 2004.⁵

¹ Also known as oil-backed loans or oil pre-payment deals.

CONGO'S EXTERNAL DEBT



In 2010 Congo received billions of \$US in debt relief from the IMF, the World Bank, and multilateral and bilateral agreements.

Source: IMF, African Development Bank Group, Banque de France • [Download Data](#) • [Embed](#)



global witness

Oil is the lifeblood of the Congolese economy. Depending on the year, income from oil represents as much as 75 percent of state revenues.⁶ Over the past decades, however, SNPC has managed to turn Congo's oil resources into a mountain of debt by mortgaging its reserves of 'black gold' for years to come, depriving the people of Congo of income that should be invested into public services such as schools, roads and hospitals. Instead, parts of that income were diverted to the private pockets of some members of the Presidential clan. Their greed is one of the reasons why the Congolese economy is again on the verge of collapse.

The IMF is considering bailing out Congo again despite the country's history of corruption and broken governance promises. It is vital that any new loan accorded by the IMF to Congo comes with strict transparency and accountability criteria attached, particularly related to oil sector management, and that any breach of these criteria leads to real consequences for the Congolese officials responsible.

PRE-FINANCING: A TALE OF FISCAL IRRESPONSIBILITY AND POLITICAL CORRUPTION

A pre-financing scheme can appear complicated, but is essentially a loan that is paid back in oil instead of cash. The oil is delivered in a different calendar year.⁷ For oil producers like SNPC, pre-financing can be a source of security because it guarantees a buyer for its oil and offers easy access to liquidity.⁸ Pre-financing deals are also attractive to both the banks that make the loan and the ultimate buyers of the oil cargoes.⁹ For the banks, the loan is safer because it is backed up by oil as collateral. For the ultimate buyers, these agreements should guarantee future oil deliveries and thereby ensure a steady flow of supply.

However, in Congo's case, suspect pre-financing deals struck from the late 1970s onwards caused massive debt accumulation. At the same time, a handful of powerful elites close to or part of Sassou Nguesso's family used these deals as vehicles for corruption. They took advantage of the mechanics of pre-financing schemes to buy oil cargoes below market price before selling them at full price for personal profits, or by diverting money from loans away from the public budget.

TOP SNPC OFFICIALS CASHED IN ON CONGO'S 'BLACK GOLD'

Between 1995 and 2000, 75 percent of Congo's borrowing was oil-backed.¹⁰ The millions of dollars the Congolese government accumulated in oil debt were owed to two major European oil companies, French Elf Aquitaine and Italian Agip, now part of Total and ENI, respectively.¹¹ When Congo entered the 21st century, its debt stood at US\$5 billion.¹²

Despite committing to the IMF to stop using oil-back loans,¹³ Congo continued to make convoluted pre-financing transactions throughout the following decade. Between 2003 and 2005, a series of suspect oil trades appeared to benefit companies linked to top SNPC officials.¹⁴ For example, a Congolese company called Africa Oil and Gas Corporation (AOGC) made a net profit of US\$3.3 million on a single pre-financed SNPC cargo sold to international oil trader Vitol.¹⁵ AOGC was owned by Denis Gokana, the Director General of SNPC at the time, representing a clear conflict of interest.¹⁶

In 2007 Global Witness showed how AOGC transferred hundreds of thousands of dollars to an Anguilla-based company owned on trust for the son of President Sassou, Denis Christel Sassou Nguesso (a.k.a. "Kiki the oilman").¹⁷ The Anguilla company then paid off Denis Christel's credit card to fund lavish spending sprees in Paris and elsewhere.¹⁸ Denis Christel was at that time a General Director of AOGC as well as an important trader with SNPC UK and subsequently General Director of Cotrade. Respectively closed in 2003 and 2008, SNPC UK and Cotrade were subsidiaries of SNPC and marketed its oil.¹⁹

The transactions were facilitated by a bank, BGFIBank Congo, that also has links to President Sassou's regime and where SNPC and AOGC held bank accounts.²⁰ Congo's largest private bank,²¹ the Congolese branch of BGFIBank is run by President Sassou's security chief and nephew, Jean-Dominique Okemba.²²

Congo's track record of deals like these compelled the IMF to ban pre-financing loans as a precondition for receiving the 2010 debt relief package.²³

HISTORY REPEATS ITSELF?

In breach of their 2010 bailout commitments, and just a year after the IMF announced nearly US\$2 billion of debt relief for Congo,²⁴ Congolese officials were back to signing oil-backed loans.

According to a September report from the Swiss transparency organisation Public Eye, SNPC concluded six pre-financing deals for a total of US\$750 million with the Swiss-based oil trader Gunvor between January 2011 and September 2012.²⁵ It was also reported in 2015 that the Congolese government had signed two pre-financing deals totaling US\$1.25 billion with Swiss oil traders Glencore and Trafigura between March and August 2015.²⁶ The IMF was apparently unaware of these contracts until August this year, when the Congolese government admitted the existence of the deals. As a result, Congo's debt was recalculated and increased from 77 percent to 120 percent of GDP.²⁷

The first round of the most recent talks between the IMF and the Congolese, from the end of September to early October 2017, was inconclusive.²⁸ Visiting the country over this period, the IMF mission discovered yet another suspicious mega-loan.²⁹ In 2014, SNPC had borrowed \$914 million from a consortium of African banks. Although the national oil company justified the loan as cash needed for developing its fields, the IMF could not trace what some of the loan was ultimately spent on, and even found that some of the money was never disbursed by SNPC.

SASSOU'S IMF NEGOTIATORS: A FORMER IMF DIRECTOR AND AN ASSOCIATE OF A MONEY LAUNDERER

In order to improve his chances of securing debt relief this time around, President Sassou Nguesso brought out the big guns before the first round of negotiations to convince the IMF. He has engaged the services of Parnasse - the consultancy firm of infamous former IMF Managing Director Dominique Strauss-Kahn.³⁰

Another key individual, who led the negotiations on behalf of President Sassou with the IMF mission, is Lucien Ebata.³¹ Sassou appointed Ebata, the president of Forbes Afrique and CEO of Orion Oil, as advisor in charge of overseas financing in August 2017.³² Since Ebata founded Forbes Afrique in 2012, and up until at least 2015, his Orion Oil company regularly obtained and traded oil cargoes from SNPC and used pre-financing schemes.³³ Co-founder of Orion Oil and director of Forbes Afrique Medias Holding, French national Philippe Chironi, was convicted in January 2017 by San Marino authorities of laundering more than €60 million of Congolese public money between 2006 and 2012 on behalf of President Sassou's family members, among others.³⁴ Chironi's lawyer, Achille Campagna, appealed against the judgment in San Marino in February 2017.³⁵

WHAT'S NEXT FOR THE REPUBLIC OF CONGO?

The next IMF visit to Congo is planned for February 2018.³⁶ However the IMF must proceed with extreme caution given Congo's track record of breaching the terms of prior bailouts by striking oil-backed loan deals which, in some cases, appear to have benefited President Sassou's family while depriving Congo's Treasury. It must make sure Sassou's government abides by the terms of any new deal.

The IMF has suggested that it is ready to assist Congo to "improve governance and tackle corruption."³⁷ This is a good step forward, but in order to really provoke positive change the IMF needs to go further in the next round of negotiations. Any future bailout has to incorporate transparency standards in all sectors, with special attention on the oil industry.

There have been few signs of progress from Sassou's government over the past 10, or even 30 years. While more than a third of the Congolese live under the poverty line,³⁸ SNPC remains a 'black box' to them – the people of Congo have no way to find out how their country's oil wealth is being managed. Despite his involvement in the 2003-2005 suspect pre-financing transactions, Denis Christel once again manages trading activities as SNPC's Deputy Managing Director.³⁹ Within the last 18 months, Congolese resource deals and financial flows had been subject of corruption investigations in at least seven countries.

In 2010, the country was offered a clean slate as the IMF pumped in cash to deal with Congo's debt. The money made in oil sales after 2010 should have been used to develop and diversify the economy. Instead, history has repeated itself. The nation's oil wealth has been mortgaged and re-mortgaged; Congo's primary source of revenue was sold out for years to come. All it got in return was debt.

A new bailout offers an opportunity to reform the current opaque management of the state's oil revenues. The government must ensure oil money flows back into the Treasury and ultimately benefits the Congolese people. If these conditions of transparency are not respected, then the IMF should be willing and prepared to hold the Congolese government accountable.

Any new bailout also needs to be forward thinking and look beyond the oil sector in order to solve Congo's economic problems. Oil is a non-renewable energy source, and will one day run out. The IMF itself predicts that Congo's oil production is likely to peak in 2018 and then start declining over the following decade.⁴⁰ To provide financial security to future generations, the Congolese state - and those providing financial assistance to it - need to begin diversifying the nation's economy and looking at other sources of income rather than relying to such a great extent on oil. The IMF should help provide the expertise and incentive to do so.

But before any action, the IMF must make sure that any bailout is in the interests of the Congolese people, and not just those of Sassou Nguesso's kleptocratic regime.

¹ International Business Times, 'China pumps money into Congo-Brazzaville oil industry hub despite alleged rights abuses', 19 January 2017.

² Reuters, 'Oil production stages unlikely comeback in Congo Republic', 8 June 2017.

³ IMF, Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — Statistical Update, March 2016, p. 31. See also: IMF, 'Factsheet: Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative', 2 November 2017; IMF, 'Press Release: IMF and World Bank Announce Debt Relief to the Republic of Congo' 28 January 2010; and Paris Club, 'Congo: Debt treatment', 18 March 2010.

⁴ From \$US9.2 billion at the end of 2004 to around \$US2.4 billion in 2010. All debt figures in this article refer to the Congolese external debt. African Bank Development Group, République du Congo: Document d'Approbation PPTE Point de Decision au Titre de l'Initiative PPTE Renforcée, July 2006, p. i. See also: Banque de France, 'Congo', Rapport annuel de la Zone franc 2016, 5 October 2017, p. 280.

⁵ IMF, 'Statement at the end of an IMF Mission to the Republic of Congo', 4 October 2017.

⁶ Le Monde Afrique, '« Panama papers » : comment le pétrole congolais s'évapore dans les paradis fiscaux', 7 April 2016. See also: Le Temps, 'Pétrole et corruption: la Suisse cible le président congolais et son clan', 19 May 2016.

⁷ IMF, Republic of Congo: Letter of Intent, and Technical Memorandum of Understanding, 14 July 2011, pp. 9-10 (para. 15). See also: Craig Pirrong, The Economics of Commodity Trading Firms: IV. Commodity Firm Financing, Capital Structure, and Ownership, March 2014, p. 8.

⁸ Financial Times, 'Oil producers seek liquidity from prepayment deals', 6 February 2005.

⁹ Ibid.

¹⁰ Global Witness, Time for Transparency: Coming Clean on Oil, Mining and Gas Revenues, March 2004, p. 30.

¹¹ Ibid., p. 26.

-
- ¹² International Business Publications, *Congo Republic: Energy Policy, Laws, and Regulations Handbook - Strategic Information and Basic Laws*, 2016 Edition, p. 18.
- ¹³ Global Witness, *Time for Transparency: Coming Clean on Oil, Mining and Gas Revenues*, March 2004, p. 30.
- ¹⁴ Global Witness, *The Riddle of the Sphinx: Where Has Congo's Oil Money Gone?*, December 2005. See also: Global Witness, '5 Bank of East Asia and Republic of Congo', *Undue Diligence: How Banks do Business with Corrupt Regimes*, March 2009; Global Witness, 'Chapter 4: Republic of Congo', *How to Lose \$4 Billion: Credibility Test for the Global Transparency Standard as Shadowy Companies Gain Billions in Oil and Mining Deals*, October 2015; and Approved judgment of the honourable Mr Justice Cooke in *Kensington International Limited v Republic of Congo & others*, [2005] WEHC 2684 (Comm), paras. 33, 61 (iii), 101, 102, 103, 145, and 155.
- ¹⁵ Global Witness, *The Riddle of the Sphinx: Where Has Congo's Oil Money Gone?*, December 2005, p. 17.
- ¹⁶ Approved judgment of the honourable Mr Justice Cooke in *Kensington International Limited v Republic of Congo & others*, [2005] WEHC 2684 (Comm), paras. 8 and 12.
- ¹⁷ Global Witness, 'Congo: Is President's son paying for designer shopping sprees with country's oil money?', 26 June 2007
- ¹⁸ *Ibid.*
- ¹⁹ Approved judgment of the honourable Mr Justice Cooke in *Kensington International Limited v Republic of Congo & others* [2005] WEHC 2684 (Comm), paras. 32, 41, 56, 59, 115, 129, and 155. See also: African Energy Newsletter, 'Upturn in relations with the IMF but questions remain over oil trading in Congo B', Issue 181, 26 February 2010.
- ²⁰ Approved judgment of the honourable Mr Justice Cooke in *Kensington International Limited v Republic of Congo & others*, [2005] WEHC 2684 (Comm), paras. 74, 156, 157, 160, 162, 164, 171, 174, 194, and 200 (iii). See also: Judgement of J. Morison in *Walker International Holdings Ltd v Republique Populaire Du Congo*, [2005] APP.L.R. 12/06, para. 65.
- ²¹ US Department of State Bureau of Economic and Business Affairs, '2017 Investment Climate Statements: Congo, Republic of the', 29 June 2017. See also: Financial Afrik, 'Un siège flambant neuf pour BGFI Bank Congo', 26 February 2016.
- ²² West Africa Newsletter, 'Turned down by the IMF, Sassou now has to contain the social unrest', Issue 762, 11 October 2017. See also: Groupe BGFIBank, *Se Réinventer pour Offrir le Meilleur: Rapport Annuel 2016*, p. 24, on file at Global Witness.
- ²³ IMF, *Republic of Congo: Letter of Intent, and Technical Memorandum of Understanding*, 14 July 2011, pp. 9-10 (para. 15).
- ²⁴ Banque de France, 'Congo', *Rapport annuel de la Zone franc 2014*, 2 January 2014, p. 226. See: IMF, *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — Statistical Update*, March 2016, p. 26, 28, 32, 33, 34, and 40; and Paris Club, 'Press Release: Paris Club Agrees to Provide 100% Debt Relief to the Republic of Congo', 18 March 2010.
- ²⁵ Public Eye, *Gunvor in Congo: Oil, cash and misappropriation: the adventures of a Swiss trader in Brazzaville*, September 2017, p. 24.
- ²⁶ Africa Energy Intelligence, 'SNPC won't be able to pay back advance funding', Issue 757, 10 November 2015. See also: Africa Energy Intelligence, 'SNPC's last resort journey to China', Issue 799, 29 August 2017.
- ²⁷ Africa Energy Intelligence, 'SNPC's last resort journey to China', Issue 799, 29 August 2017.
- ²⁸ West Africa Newsletter, 'Turned down by the IMF, Sassou now has to contain the social unrest', Issue 762, 11 October 2017.
- ²⁹ Africa Energy Intelligence, 'IMF dissects SNPC's \$900 million loan', Issue 802, 10 October 2017.
- ³⁰ West Africa Newsletter, 'Strauss-Kahn and his aides draw up debt plan', Issue 759, 8 September 2017.
- ³¹ West Africa Newsletter, 'Lucien Ebata's special mission to bail out the Congo', Issue 764, 14 November 2017.
- ³² Forbes Afrique, 'Nous Contacter', last visited on 25 October 2017 (archived at <https://archive.is/OH7nW>); Orion Group, 'Our People', last visited on 25 October 2017 (archived at <https://archive.is/IhT23> in English and <https://archive.is/x900t> in French); and Africa Energy Intelligence, 'Orion Oil founder face to face with IMF', Issue 800, 12 September 2017.
- ³³ Public Eye (then Berne Declaration), *Philia's Refined Ventures in Brazzaville: How Swiss Traders Misappropriate Congolese Oil Rents*, February 2015, p. 8. See also: Le Temps, 'Pétrole et corruption: la Suisse cible le président congolais et son clan', 19 May 2016.
- ³⁴ Africa Energy Intelligence, 'Orion co-founder accused of money laundering', Issue 789, 14 March 2017; and Canton de Vaud Commercial Registry, 'F. Afrique Medias Holding SA', 25 October 2017.
- ³⁵ Africa Energy Intelligence, 'Orion co-founder accused of money laundering', Issue 789, 14 March 2017.
- ³⁶ West Africa Newsletter, 'The SNPC overhaul creates rifts among the "clans"', Issue 763, 25 October 2017.
- ³⁷ IMF, 'Statement at the end of an IMF Mission to the Republic of Congo', 4 October 2017.

³⁸ Banque de France, 'Congo', [Rapport annuel de la Zone franc 2016](#), 5 October 2017, p. 275.

³⁹ Africa Energy Intelligence, 'SNPC pressed to pick out new front line-up', Issue 801, 26 September 2017.

⁴⁰ IMF, [Republic of Congo: Staff Report for the 2015 Article IV Consultation – Debt Sustainability Analysis](#), 1 July 2015, pp. 3-4.