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STRINGS ATTACHED

Why the IMF must secure Republic of Congo transparency actions before it unlocks cash

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After over a year of negotiations, the IMF announced on 9 May 2019 that it had reached a tentative bailout agreement with Republic of Congo (Congo-Brazzaville). Upon return from their latest mission, the IMF team applauded Congo's transparency commitments, yet civil society continue to criticise its opacity. In the context of repeated broken promises, the IMF Board must not sign an agreement until all transparency actions are secured and sustained.

The finances of Congo, Sub-Saharan Africa's third largest oil producer, are in trouble. Total government debt is around 90 per cent of GDP, reflecting an improvement since 2017 but still far from sustainable. As the country stumbles in and out of financial crisis, citizens go months without salaries and pensions payments.

Part of the problem is Congo's habit of borrowing billions from private companies to be repaid in oil, so-called 'oil-backed loans.' These loans – a form of "collateralized lending" – are expensive, opaque and, when crisis strikes, complicate attempts at debt restructuring. If managed properly, they allow cash-poor but oil-rich governments to capitalise on their main asset. Yet too often they become murky funding lines for corrupt ruling groups, hiking up the country's debt and sending the economy into chaos.

Wherever struck, long-term oil-backed loans also lock countries into oil production for years, if not decades, to come. Any attempts at a so-called "managed decline" of fossil fuel production in line with the Paris Agreement (which Congo ratified in 2017), and the accompanying economic diversification, could therefore be jeopardised.

A PATCHY PAST

In Congo, the practice of oil-backed lending dates to the 1970s, to the days of the French state-owned oil company, Elf Aquitaine. Elf encouraged government indebtedness in order to maintain control over the oil and politics of Congo and other former French colonies. Today, commodity traders and other oil companies, whose vast revenues match those of some governments, do this to secure their access to oil.

Latest reports indicate that Congo owes commodity behemoths Glencore and Trafigura around $2 billion, and up to $580m to Orion Oil, a company headed by Lucien Ebata, founder of *Forbes Afrique* and current advisor on external financing (including as relates to IMF negotiations) to President Sassou Nguesso. Glencore and Trafigura's loans were only fully revealed by Congo in August 2017, at which point the country's debt-to-GDP ratio rocketed by 33 percentage points.

Congo's oil-backed loans have been the source of scandal after scandal. In 2004, we revealed how Elf employed them to enrich its "secret funds" and provide a huge unaccountable revenue stream to Congolese

President Sassou Nguesso. In 2005, we revealed how they were used to avoid the claims of Congo's creditors and as a mechanism for corruption. In 2017, we reiterated concerns about corruption around these agreements and called for any IMF bailout to be conditional on specific transparency conditions. That same year, Swiss NGO Public Eye revealed how commodity trader Gunvor made huge profits on six 'pre-financing deals' as part of a broader allegedly corrupt deal to secure access to Congo's oil.

MORE 'HIDDEN' DEBT?

Amid this context of corruption, transparency is key to holding the government and companies to account.

In recent years – and no doubt under pressure from the IMF – Congo has taken some steps towards greater transparency in its oil sector. It now publishes a number of contracts and audit reports of its national oil company, SNPC. In June 2018, in consultation with the IMF, it published a report on corruption. The Extractive Industries Transparency Initiative (EITI) Congo's latest report, published in February 2019, contains information on 2016 oil exports and sales. But it also highlights many areas where information is severely lacking.

Information is particularly scarce on Congo's existing oil-backed debt, in contravention of its 2017 transparency law and June 2018 commitments in its report on corruption. Much of this debt is contracted by SNPC – a notorious black box. Even the existing administration and seemingly Congo's financial advisors, not to mention Congolese citizens, have struggled to identify what is owed to whom and on what terms.

The IMF's recent announcement comes amid calls from Congolese civil society and opposition leaders for more transparency over oil sector debt. It also comes as more information trickles out about Congo's debt to various oil companies, painting an even more worrying picture of the country's finances.

EITI Congo's latest report, for example, states that in 2016 Total lifted 654,674 barrels of oil, worth around $26.6m, as repayment for "state debt". No further information is provided, so it is unclear what "state debt" refers to and whether any is outstanding. In response to questions from Global Witness, Total said that it had not granted a loan backed by the 654,674 barrels of oil referred to and that the EITI report is incorrect in that sense.

In April 2019, new loan agreements relating to two power plants were cited by Publish What You Pay Congo. There is no public information on these loans, so it is not clear whether they are to be repaid in oil. These come just as Congo draws a line under its repayments, via oil, to Eni for its investments in the *centrale électrique du Congo* (CEC). In 2016, Eni lifted a total of 3,777,359 barrels of oil, worth an estimated $153.6m, relating to this project, according to EITI.

UAE-based Worldwide issued Congo another $500m oil-backed loan in 2014, according to Africa Energy Intelligence. But there has been no recent mention of this and it is unclear whether it has been repaid.

BROKEN PROMISES

Congo first promised the IMF that it would stop contracting oil-backed loans 18 years ago. It reaffirmed this promise in 2003, and again in 2009 as one of the criteria for securing a bailout back then. Yet the practice appears to be alive and kicking.

The existence and terms of all oil-backed loans issued by private companies must be made public. In Congo, this and other key information including its oil production, export and sales statistics and oil-for-infrastructure agreements, must be publicly disclosed before the IMF Board signs any agreement. This time Congo must be compelled to implement real transparency and abide by its commitments to stop striking these opaque and damaging deals.

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