POLITICAL RISK MONTHLY

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A series of opaque mining deals are suspected to have funded President Joseph Kabila's 2006 election campaign.

CONGO (DRC): SECRETIVE SALES OF STATE MINING ASSETS

State-owned miner Sodimico in August reportedly sold its share in two repossessed copper mines for just $30m – less than 6% of their estimated value. The transaction is the latest in a series of opaque mining deals to have been completed in recent months.

The deals reflect the government's exploitation of the lucrative Katangan mining sector as a ready source of additional funds during times of pressure. Despite promises to improve transparency, the state's short-term opportunistic management of the sector has been sustained by a queue of willing investors ready to gamble on high-risk, high-reward opportunities.

The mines' sale is likely to provide important funds to support President Joseph Kabila's re-election bid. A series of controversial mining deals are suspected to have financed Kabila's first election campaign in 2006. The trend demonstrates the government's dependence on mining-sector revenues and its mismanagement of the country's natural resources.

The government's willingness to forsake future revenues for short-term financial gain has allowed politically connected, unscrupulous investors to make substantial acquisitions in the mining sector. Their presence has distorted the competitive context, exacerbated levels of political interference, and represents one of the biggest risks to operators and to prospective investors.

The latest opaque round of sales also casts doubt on the viability of plans to offer up state-owned companies for private investment. Sodimico and Gécamines are on the list of companies slated for flotation. However, finding investors will be difficult if the government continues to strip companies of their most attractive assets, while realistic valuations will be impossible until there is transparent disclosure of asset divestitures.

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Focus: Greek bailout

French President Nicolas Sarkozy and German Chancellor Angela Merkel are providing Greece with tacit approval.

ON MESSAGE

French President Nicolas Sarkozy, German Chancellor Angela Merkel and Greek Prime Minister Georgios Papandreou on 14 September participated in a much-anticipated conference call on the subject of Greece's future in the euro. What was, on the face of it, hardly the most full-throated message of support for Greece might turn out to be the first signs of a determined and coherent European policy.

The conference call provided a clear sign that the sixth tranche of assistance for Greece from the EU/European Central Bank/IMF troika – scheduled for disbursement later in September, and without which Greece would probably default immediately – will be approved. Greece cannot realistically avoid default and catastrophe without the sixth tranche, and the rest of the eurozone, not least the French banks, is probably not ready for a disorderly default just yet.

Merkel and Sarkozy appear to be realising that bowing to media and political pressure to take a harder line on Greece is not consequence-free for their own countries. Their key task now is to convey this message more widely in their own countries, and to the more vocal smaller members of the eurozone.

BACK OFF

For all the talk of noble service to the European project, all three leaders are likely to have been speaking primarily to domestic audiences. Germany's media is taking an increasingly hard line over bail-outs, French banks are concerned over exposure to Greece and Papandreou has to avoid the image of subservience to the 'big two'.

The call also sent a clear message to the leaders of the smaller eurozone countries whose stance on Greece has become harsher than ever in the last week: back off if you want to save the euro. The call, however brief, provided a disapproving stare from Merkel and Sarkozy to Austria, Finland and the Netherlands.

QUIET APPROVAL

Greece's capacity to fulfil its side of the bargain and trim its spending in line with the troika's demands is far from assured. Reports suggest that Merkel and Sarkozy expressed quiet confidence that the new special property tax announced on 11 September would be able to compensate for the latest shortfall in the national budget, though they couched this in terms of the importance of Greece complying with its commitments.

The deeper-than-expected recession in Greece is at least as much of a factor in the latest poor budget deficit data as the country's widely perceived fecklessness and inability to control its spending. Papandreou will be relieved that Merkel and Sarkozy have – at least implicitly – recognised that fact. Quiet approval from the leaders of France and Germany is unlikely to do him much good domestically, but it is clearly better than nothing.

DEFAULT POSITION

Greece remains likely to eventually default, and none of these changes in policy are likely to change that. However, they will all buy time, and while this is viewed badly in some quarters, buying time has gained an unfair reputation in the last few months.

The longer Europe's banks have to reduce their exposure to a Greek default, and the longer Europe's leaders have to prepare their response, the less likely that contagion will be catastrophic. The question remains how much unpopularity the eurozone creditor nations will be willing to accept in the interests of this basic risk management.

11 Oct: LIBERIA – presidential, legislative

Although President Ellen Johnson-Sirleaf's domestic standing is not as overwhelmingly favourable as her international reputation, her political adeptness and incumbency advantage, combined with the disunity of the political opposition, should enable both the president and her ruling United Party (UP) to emerge victorious. However, the opposition has alleged in recent weeks that the UP is attempting to win at any cost. If opposition grievances become more vocal, the potential for violence following the announcement of results could grow.

Political violence is likely to increase in the two weeks ahead of the polls and after the results are announced. Politically motivated intimidation is already occurring: youth activists recently threw stones at Assistant Information Minister for Culture Jacqueline Capehart, while vehicles at the residence of Johnson-Sirleaf's deputy campaign manager, Lenn Eugene Nagbe, were set on fire. However, these were isolated incidents and campaigning has so far generally passed off peacefully.

A relatively smooth election cycle is likely, with national stability emerging intact, despite the potential for localised violence in hotly contested areas, such as the capital Monrovia, Nimba and Lofa counties. Personnel and assets are unlikely to be directly targeted in any election-related violence.

23 Oct: ARGENTINA – presidential

President Cristina Kirchner is expected to win the presidential election, taking advantage of strong economic growth and broad public sympathy over the death of her husband, former president Néstor Kirchner (2003-07), in October 2010. Despite growing concerns over inflation and public security, she is likely to benefit from the opposition's continued fragmentation to receive the required vote share to win in the first round, avoiding a run-off. The election is likely to pass off peacefully.

21 Nov: EGYPT – parliamentary

Egypt's first parliamentary elections since the overthrow of president Hosni Mubarak (1981-2011) are expected to begin on 21 November, though the dates are not yet fully confirmed. A host of new political parties intend to take part, and competition will be fierce, particularly given that the new parliament will play a major role in drawing up the new constitution.

Logistical challenges and procedural confusion are likely. The ruling military council has not yet issued the full details of the electoral law, leaving inexperienced political parties with little time to organise themselves. The military has vowed to ensure free and fair elections, but their policies frequently run counter to democratic principles, and tensions are rising between the army and political parties.

The polls will be accompanied by a spike in street protests, but demonstrations are unlikely to swell to the size seen during the uprising at the beginning of the year. Nevertheless, there will be potential for clashes between protesters and the security forces, and between rival groups of protesters. Nonetheless, the direct threat to foreign companies is expected to remain limited.

28 Nov: CONGO (DRC) – presidential, legislative

Political tensions are rising in the run-up to the polls. A series of clashes in September between security forces and supporters of the opposition Union for Democracy and Social Progress (UDPS) highlight the increasing threat of violence around the elections. The headquarters of both the UDPS and ruling People's Party for Reconstruction and Democracy have already been attacked. This cycle of violence and retribution will increase as the elections draw nearer, and further clashes are likely. However, violence is unlikely to develop into widespread unrest with the potential to completely destabilise the country. Nonetheless, increased levels of violence pose an indirect threat to personnel and assets. Ultimately, the use of force by the state could undermine the legitimacy of the elections.

UDPS leader Étienne Tshisekedi's decision to confirm his candidacy and reject moves by other opposition leaders to unite behind a consensus candidate has strengthened President Joseph Kabila's position. Efforts to establish a unified opposition movement appear to have stalled. Under current conditions, it will be very difficult for any single opposition candidate to achieve a plurality of votes in the one-round election and unseat Kabila.