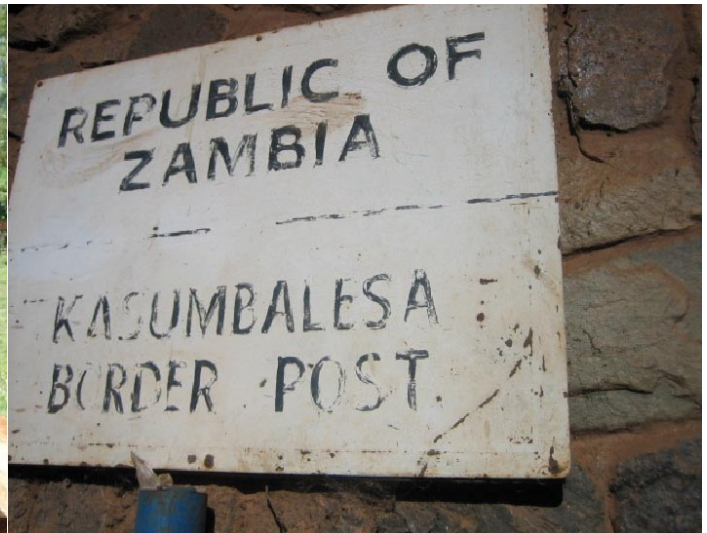


Research Report

Trading for Peace

Achieving security and poverty reduction through trade
in natural resources in the Great Lakes area



Trading for Peace – Research Report

This report is a **Synthesis** of four research studies commissioned by DFID, USAID and COMESA during 2007.

It does not represent the official views or policy of DFID, USAID or COMESA

It has been written by **Hilary Sunman**, economist, and **Nick Bates**, political analyst, in the East and Central Africa unit in DFID in London.

1. Executive summary	4-7
2. Objectives and approach	8-9
2.1 Objectives and methodology	8
2.2 Structure of the report	9
3. The nature of natural resource exploitation in DRC	10-13
3.1 Security and the political economy	10
3.2 The informal nature of resource exploitation and trade	12
3.3 Re-industrialisation of mining	12
4. Cross border trade and DRC	14-27
4.1 The importance of trade	14
4.2 The border crossings and corridors	15
4.3 The nature of trade – volumes and values by commodity	16
4.4 Unrecorded, fraudulent, and informal trade	19
4.5 Reasons for fraud and under-recording	20
4.6 Underlying problems and implications	22
4.7 Implications	26
5. Livelihoods and poverty impact	28-31
5.1 Introduction	28
5.2 Livelihoods and earnings	29
5.3 Resource losses	30
5.4 Low value added and economic issues	30
6. Implications and responses	32-43
6.1 Issues and opportunities	32
6.2 Priorities and thematic issues	33
6.3 Livelihoods	35
6.4 Trade	36
6.5 Economics and finance	38
6.6 Governance	40
6.7 Looking ahead	42
Annex 1 list of acronyms	44-47
Annex 2 maps	48-53
Annex 3 statistics: issues, methodology and conclusions	54-55
Annex 4 concept note: natural resources and trade flows in the great lakes region	56-58

1. Executive Summary

The Democratic Republic of Congo is intensely rich in natural resources, most famously its minerals but also its forests, its fertile lands and most importantly its people. Bad political and economic governance have dogged the country for many years and left its people with little benefit from its wealth. There is no intrinsic reason why this should not be reversed to make the DRC a vibrant economy with government that serves the interests of its people. It is potentially a huge market for imports as well as a major exporter. The DRC is a significant player in external trade. Its trade, which has managed to remain active and vital even through the most difficult political times in what has traditionally been an open economy, could and should become the engine for a rapidly re-energised drive for growth and become a major element in the reduction of poverty and the improvement in the quality of life for its people and those of the region.

In the autumn of 2006 DFID, in collaboration with COMESA and USAID, commissioned four research organisations (Forests Monitor, INICA, PACT and Pole Institute) to undertake a detailed analysis of trade flows of natural resources and other commodities out of the DRC through the Great Lakes region and East Africa.

The goal of this project was to enhance the sustainable and equitable use of the DRC's natural resources in the interests of poverty reduction in the DRC and stability in the region, through building a robust evidence base for policy.

The purpose was to provide a regional dimension to the analysis and understanding of natural resource exploitation in the DRC, with a view to developing and implementing policies and reforms that improve both the governance and functioning of markets in the DRC and the region.

This report is the synthesis of those four reports. It represents a detailed analysis of the nature of natural resource exploitation and how trade works. It sets it in the context of the political economy of DRC and the region as it emerges from conflict and instability. It illuminates the systemic institutional problems that have both inhibited trade and allowed it to be dominated by political elites in a militarised economy. It focuses on how and why natural resource exploitation and its trade has become so informalised as to make traders say that "presently in the DRC it is actually easier to do business illegally than legally". It looks at the types of resource exploitation, including forestry, and in particular the artisanal nature of much of the minerals sector, and the variations in the nature of these activities between regions. The report provides a detailed analysis of the way trans-boundary trading corridors work both for the export of the high-volume and high-value natural resources and other commodities and also for the more localised import and export of local produce and basic livelihoods needs.

A very significant proportion – at least 50% – of exports from the DRC is not recorded by government officials in the way they should be – partly because traders and officials under-declare exports in order to avoid paying taxes and charges, partly because of bureaucratic weaknesses and poor governance among government organisations. This is the case across the board, covering exports of minerals and timber, as well as agricultural products (notably coffee), and imports including

petroleum products. Trade flows are undermined by corrupt behaviours and reform of the trading system is made more difficult by – for example – weak financial and banking systems, very poor infrastructure, continuing security problems and low capacity levels in both government and civil society institutions. This is important as the level of fraud and corruption makes the trading system and the natural resource sectors vulnerable to abuses and take-over by militias or other elites. Furthermore, the government loses substantial sums on public revenues through tax evasion, and the inaccuracy of the trade data severely undermines macro economic analysis and policy formulation in the country.

The Government of DRC has recognised many of the issues identified in the analysis, and has drawn up detailed plans on how to address them, and has started to tackle some of them. This report can offer the government of DRC, as well as those of neighbouring countries, a sound base of evidence and analysis to inform their policies and reform implementation programmes.

Indeed, there is a window of opportunity for improving governance in trade and natural resources exploitation, with relative peace in the area, successful elections and constitutional reform, and buoyant markets for exports products.

The sum of the analysis, notwithstanding major difficulties in rationalising a large amount of conflicting data, provides a solid evidence base from which to identify the key areas of needs and concerns. These have been divided into four thematic areas: livelihoods, trade, economic and financial issues and last but not least governance. They in turn establish a platform for recommendations for further work and development of policy interventions. Across all these is the over-arching need for security and stability both in DRC and in the region. Underlying them is a need for capacity at all levels and in all sectors.

There are four key areas where reform or progress could significantly transform livelihoods, reduce poverty and help promote growth. These are greater peace and security in DRC and stability in the region, governance reform, including the regulatory frameworks and the implementation of decentralisation plans, infrastructure (both energy and transport), and the revitalisation of other economic activities, notably agriculture.

Within this overarching framework the principal conclusions under the four thematic headings mentioned above are:

LIVELIHOODS

- Significant numbers of people are involved in or dependent upon the minerals sector, from the diggers and porters to the middleman and traders. Most of the mining is artisanal. Most of the trade and export is informal.
- There will inevitably be a move towards industrial mining in some areas, notably Katanga and the Kasais, where machines will replace miners. There will need to be action to help families diversify from mining to alternative livelihoods, potentially most profitably back into agriculture. There is a risk of conflict at the work places as these transformations take place.
- In other areas like the Kivus, where small scale and artisanal mining may well remain the most efficient method of extraction, support to this type of mining will be better.
- In an environment of greater security and better governance many workers in the minerals sector may seek alternative livelihoods in agriculture or in the service delivery sector, such as teaching.
- The livelihoods of communities in cross-border areas will benefit from a more regularised and open trading regime both within DRC and across borders.

TRADE

- DRC is traditionally a relatively open and vibrant trading economy and it has played a significant role in external trade even through troubled times. But insecurity and bad governance have held it in check. Trade could grow rapidly with better accessibility to large markets inside Congo and ever increasing demand and high prices for its natural resources abroad.
- Trade is largely informal, often a-legal and with extensive opportunities for fraud. More often than not it is the state actors who behave outside the law or regulations, forcing the traders to evade them. A more regulated and formalised trading regime would benefit the government at national and provincial level from greater revenue collection. It would also benefit the people at large both from these revenues being used on service delivery but also in the creation of wealth through growth. It would benefit the traders who would become less victim to the rent-seeking opportunities given to a multiplicity of state actors in a system in which impunity is the norm and the law is ineffective.
- Traders in the trans-boundary corridors are adept at evading legitimate dues and taxes as well as the more opportunistic and unauthorised ones, often by cutting deals with corrupt officials. But evidence points to their preferring a transparent and fair trading regime to coping with the current informal system. A lot of officials would prefer that too.

ECONOMICS AND FINANCE

- Bad political governance has made for a dysfunctional economy. A significant amount of economic activity is informal. Most exports are unprocessed; most imports are goods manufactured abroad. Local added value has been minimal.
- Mining, logging, agriculture, fishing are all economic sectors which could grow rapidly in an atmosphere of better governance and greater security. This in turn would have a strong beneficial impact on public finance.
- The financial and banking sector is weak in DRC and inhibits trade. It pushes traders to use barter systems, especially with gold, and parallel exchanges or banking facilities in neighbouring countries often to the detriment of smaller traders.

- The improvement of energy supply and roads, including rural feeder roads, both within Congo and across borders would dramatically transform livelihood and trade opportunities in all economic sectors.
- Better electricity supply would facilitate the opportunities to develop local processing of minerals and timber. Better roads would help farmers and fishermen get their produce to market, and make the minerals and logging sectors easier and less prone to opportunistic rent-seeking.

GOVERNANCE

- The dysfunctional and informal nature of trade and economic activity has largely been created by an environment of insecurity and bad governance.
- The illegal or inappropriate actions of state actors are the major drivers for traders to evade regulation or trade fraudulently.
- Simplification and clarification of regulatory systems may prove more effective than elaboration of further rules in an already confused and often contradictory legal environment. State, or national, law and rights on land ownership overlap customary rights and practice on land use rights.
- Decentralisation could become a significant driver of better governance through greater accountability of locally generated revenue and wealth. However it could exacerbate tensions between a strong tradition of regionalism and a habit of centralisation in Kinshasa.
- Better communication of information on rights, regulations and the enforcement of the law would empower people to challenge the abuse of power by state actors or elites.

In September 2007 a selection of experts, mainly Congolese and from government, private sector and civil society, met in Lusaka with DFID, COMESA and USAID together with the four research organisations to critique this synthesis report and to provide advice on what actions would be appropriate. The meeting gave a strong validation to the research findings. It also endorsed the broad area of needs and concerns identified in the report as a basis on which a clear work plan for action might be based. DFID, with COMESA and USAID, is following this up by drawing up such a work plan in which stakeholders can identify what would be appropriate for them to pursue. Actions might involve government or donors, using the research as an evidence base for work they are already doing or planning. It might involve NGOs or research organisations identifying areas for action or further research. It might involve donors, both bilateral and multilateral, identifying work they are prepared to fund. The private sector may also find it a useful resource on which to base support to local and regional enterprises or business associations or the further development of public-private partnerships.

The report is essentially a forward-looking document. It aims to identify ways to facilitate the transformation of resource exploitation and trade from being informal, exploitative and of little added value to the people of Congo and the region to it becoming more regularised and productive. It provides a basis for identifying ways to mitigate and manage the inevitable negative impacts of such change on some livelihoods.

The report asserts that, notwithstanding the fragility of the DRC and the Great Lakes region and the continuing risks of conflict renewal, the development of natural resource exploitation and the promotion of trade offer significant means to break the cycle of poverty and stimulate growth. And that there are enough positive trends to say that the moment is right to try and facilitate this. So, in the coming months the report will be widely disseminated to all stakeholders¹ and we hope it will provide a continuing resource for discussion and, more importantly, the rapid implementation of programmes and policies, leading to sustainable poverty reduction.

¹The report is available at www.dfid.gov.uk and all the research reports are on the attached CD

2. Objectives and Approach

2.1 Objectives and methodology

- 1 In September 2006, DFID began working with USAID and COMESAⁱⁱ on an analysis of trade flows of natural resources and other commodities out of DRC through the Great Lakes and East Africa. The goal of this project is to enhance the sustainable and equitable use of DRC's natural resources in the interests of poverty reduction in DRC and stability in the region, through building a robust evidence base for policy. The purpose is to provide a regional dimension to the analysis and understanding of natural resource exploitation in the DRC, with a view to developing and implementing policies and reforms that improve both governance and the functioning of markets. Better management of trade in natural resources will lead to more sustainable incomes and livelihoods for the poor, support transparent revenue raising for legitimate governments and play an important role in bolstering regional security.**
- 2 Much of the research to date on natural resource exploitation in DRC has been driven by the well-intentioned aim of exposing and preventing illicit and exploitive activities, especially those that have involved serious human rights violations. This approach has been firmly set in a conflict context in which the links between conflict and natural resource exploitation (NRE) have been well rehearsed. But in order to develop strategies for poverty reduction, the role of natural resource exploitation and trade in sustaining livelihoods has to be understood, however much this may be constrained by conflict. It is a basic premise of this report that trade continues to flow in any context and provides livelihoods not only to producers and traders but critically to local populations as consumers of essential goods such as sugar, oil, soap and other foodstuffs. Trade can clearly be distorted by conflict and in a militarised economy it is elites and armed elements who disproportionately become the major beneficiaries.
- 3 In a post-conflict environment there is a need, and an opportunity, to expand trade and capture its potential to generate wealth and employment in order to help reduce poverty and re-establish stability. It is our assertion in this report that, notwithstanding the continuing fragility and high risks, there are enough positive trends to say that the moment is right in the DRC and the Great Lakes region to help promote trade and productive economic activity. There has been much damage and little benefit to the people of DRC from NRE in times of conflict. Even in more stable times there has been little added value to the people along the value chain from the minerals, timber and export commodities unless they have been exported. This report aims in part to facilitate the transformation of NRE and trade from being informal, exploitative and of little added benefit to the people of Congo to it becoming more regularised and productive.
- 4 **The study was commissioned in November 2006. Four research institutions were selected by the steering committee to undertake the work, each with special focus in the context of trade and natural resource exploitation in the DRC and the region. They were:**
 - Forests Monitor – an NGO working in sustainable forest management, independent monitoring of forest law enforcement and governance, based in Cambridge but with a research network in the Great Lakes region;
 - INICA, based in Kigali under the auspices of UNECA which focuses on building local, bottom-up networks to support trade in the Great Lakes region and eastern DRC in particular;
 - PACT, an NGO working mainly in Katanga and Kasais, focusing on livelihoods issues and the support of artisanal miners; and
 - Pole Institute, an NGO in Goma which carries out detailed research in minerals exploitation in the Kivus and works with local communities and civil society organisations.

- 5 The research was based on a combination of desk and field research and included: a literature survey/bibliography (included on the attached CD-ROM); collection of local, national, regional and international trade statistics from a wide range of sources; detailed field research and personal interviews in key mining areas and at the principal border crossings (see maps in Annex 2). The field researches took place between January and April 2007. The four groups worked mainly in parallel but with strong coordination through monthly steering group meetings both by VC and in person. Each group has held its own internal or local peer review of the findings. The four full reports are available on CD-ROM with this report
- 6 The result of this approach is a rich and detailed understanding of actual trade flows, processes and barriers from eastern and southern DRC out through the Great Lakes and Zambia. The official data are woefully weak – this is discussed in the text – but the combination of discussions with officials, companies, traders, artisanal foresters and miners, all along value chain from mine or forest to market – and such data as exist builds a formidable account of the nature of trade, and provides insights as to how the natural resource sector can be strengthened and focused towards poverty reduction.
- 7 The government of DRC recognises many of the issues and concerns raised in this report. It has addressed these in detailed plans in the PAP and DSCRⁱⁱⁱ and has started to implement some of the recommendations within this document, for example in training and better equipping customs officers.

2.2 Structure of the report

- 8 **This report synthesises an extremely rich body of findings and analysis from the four reports by PACT, Pole Institute, INICA and Forests Monitor. This paper brings together the different perspectives and develops a coherent policy response to the range of complex issues encountered.**
- 9 In section 3 of the report we set out the context in terms of security and the political economy in Eastern DRC, reflecting on the changes in the natural resource exploitation and the context in which reforms will need to be introduced. Section 4 goes on to describe the main findings of the researches, the details on the nature of trade, volumes of goods traded and estimates of the volumes which are traded formally. The section goes on to discuss some of the underlying and fundamental problems which undermine legitimacy and good governance in the natural resources sectors. The aim is to understand how trade and natural resources can reduce poverty, and we discuss the impact of problems in the trading framework and governance on livelihoods and poverty in Section 5. Finally, Section 6 draws out the implications of this discussion and sets out fundamental issues across four broad thematic areas – trade issues, economics and finance, livelihoods and governance. These four thematic areas are linked by a number of cross cutting issues – in particular capacity at all levels, and the military and security environment. The report is supported by a number of annexes: a glossary of terms; maps; a statistical annex which analyses and explores the strengths and weaknesses of data available in the Congo and the region; a literature search; and the executive summaries of the four research reports, each of which contains its own set of policy recommendations.
- 10 The report concludes with a description of key issues that should form part of the way forward, the start of a process, not the conclusion. These issues were discussed at the Lusaka meeting. An outcome of the meeting has been to begin to build consensus on a package of measures and policies which can be taken forward. They will need broad endorsement by all stakeholders – officials, traders and miners within DRC and the region, the international community, civil society and the private sector, and they will be shared widely with stakeholders at each border crossing, capitals and among donors including IFIs.

. Common Market for Eastern and Southern Africa

ⁱⁱⁱ Plan d'actions prioritaires (PAP) and the Document de la stratégie de croissance et le réduction de la pauvreté (DSCR)

3. The nature of natural resource exploitation in DRC

3.1 Security and the political economy

- 11 The political and security context in which natural resource exploitation and trade is now taking place in DRC is one in which there are clear broad positive trends within both DRC and the Great Lakes region, and internationally. These are leading by and large towards political and security stabilisation that should create opportunities, and hope, for the Congolese people and those of the region as a whole. And there is a virtuous circle of greater stability enabling more and better regulated trade that in itself directly leads to greater stabilisation. But these positive developments do need to be set in a context of institutional fragility and long-term conflict both within DRC and in the region, deepening conflicts on a local level and a continuing high risk of a reversion to some sort of wider conflict or continuing regional insecurity.**
- 12 The transitions and electoral processes leading to legitimately elected governments in DRC and Burundi were clearly major achievements. But both new governments face, and sometimes pose, significant challenges. There has been a real reduction in conflict, both internally in DRC and regionally. In DRC the new constitution and the elections have opened the door to decentralisation of provincial government and parliaments which should lead to a greater level of local accountability.
- 13 There is an expectation that the Security, Stability and Development Pact signed in Nairobi in December 2006 by the eleven states of the greater Great Lakes region will act as a further political mechanism for regional co-operation and confidence building. It could also become a mechanism for economic and social development to promote growth and reduce poverty. Rwanda and Burundi have just joined the East African Community. That should work towards giving them a more secure economic future through a more open trading system. This and the resuscitation of the CEPGL, linking Eastern DRC to Rwanda and Burundi, should link the Congo into the East African trading area and should also open up both routes and markets for and in the DRC, although the issues of who does what between the various regional organisations does need addressing and clarifying..
- 14 Other regional bodies, like the African Union, UNECA and COMESA and the broader international community have clearly recognised that the successful transitions in DRC and Burundi and the reductions in conflicts in the region are just early steps on a long road to solid post-conflict stabilisation. Following their commitments at the Gleneagles Summit in 2005 the G8 countries are scaling up their commitments globally, especially from 2008, and have recognised that DRC and the Great Lakes region must remain a priority.
- 15 These broadly positive trends however do need to be set against the background of intense violence and competition from which the people and states of DRC and the region are emerging. There remains a high risk of continuing insecurity or renewed conflict arising from a range of factors. Some of them may remain localised around protection of livelihoods against the impacts of reform and change. Some could re-ignite socio-economic or ethnic competitions between communities and political leaders within or across national boundaries. Others derive from the continuing weakness of the DRC's new institutional frameworks in guaranteeing stability and equitable political representation, which incites political players to seek alternative means of securing their political and economic base. All the above positive indicators could therefore be matched by caveats and 'ifs' and 'buts'. These negatives of course need to be factored into any risk assessment but we suggest they need to be taken into consideration in the broader context of positive developments.

- 16** The absence of law and order and the culture of impunity which became entrenched in the later Mobutu years and became acutely manifest in the wars of the second half of the nineties, allowed those with power and arms to control economic activities. This bred a militarised economy that remains in many respects in place today. Those with power hold on to their control of economic activity; those who want power fight to gain that control. It has enabled an appalling amount of human rights abuses to be perpetrated with impunity, particularly the terrible use of sexual abuse - against women and children as a spoil of war - and a weapon of intimidation usually inflicted on innocent civilians.
- 17** Part of the purpose of this analysis is to identify ways to facilitate the move from informal to more regularised exploitation and trade. In any such transformation there will always be losers. Some of those who have benefited from an absence of regulation, from the militarization of economic activity, from the opportunities of unauthorised rent-seeking, will undoubtedly become spoilers and try to prevent change or find new ways around it. There will also be others, much larger in number and all the way through from miner to local officials to exporter, who have engaged in the informal nature of the exploitation and trade simply because the formal systems have become so corrupted that they inhibit rather than facilitate exploitation and trade. As PACT quotes a trader saying, 'Presently in DRC it is actually easier to do business illegally than legally'.
- 18** The vibrancy of trade and its increase creates opportunities for wealth and growth but it does carry risks when it is set in a context of weak governance. It is important in any transformations that sequencing is taken into account. For example, there is risk in building roads before land use rights have been settled, in that they can simply provide better infrastructure for illegal loggers and the militias who protect them. Similarly, the allocation of concessions for timber harvesting without first ensuring that rights of local people are respected, revenues fairly distributed and laws properly enforced may serve only to accelerate illegal and unsustainable destruction of the forest resource. Formal trade is growing and becoming easier for bigger or better connected operators. While this is welcome from the point of view of taxable trade and increased economic activity, it can squeeze the informal small-scale traders who operate across borders and whose business is essential for every day life for the large urban and rural communities either side of the borders.
- 19** The transformation of these peoples' livelihoods needs to be managed and sequenced, and where necessary, supported. A paid and trained customs officer with clear rules to follow will derive his income, and his social status and respect, from his salary and reputation rather than from the rent-seeking opportunities his job afforded him. A porter who currently might earn a dollar a day carrying heavy sacks of cassiterite 35 kms from the mine to the trading post along hazardous tracks will not give up that back-breaking high risk work unless he is confident that any alternative livelihood, in agriculture for example, will bring him more cash as well as a safer life for him and his dependents.
- 20** The nature of the security and political context of the Kivus, especially north Kivu, needs particular mention. Without going into the current face-off surrounding the volatile mix of the government forces, the rebel forces of Nkunda, the FDLR and the Mai Mai which is likely to develop and change as quickly as the ink dries on the paper, there are deep tensions of political competition and exclusion, land rights and usage, migrations and competition for the exploitation of natural resources and control of trading regimes and routes. Steps towards economic reform in this context will have to withstand particularly close local scrutiny in regard to the impartiality of their execution.

3.2 The informal nature of resource exploitation and trade

- 21** The failure of Zaire (and then DRC) as a state and the near collapse of state institutions and infrastructure not only increased insecurity and conflict, it also meant that most productive activity, including mining and logging and trade became informal in the sense that it operated outside, or in the absence of formal structures. In one sense this could be called illegal but the term a-legal may be more appropriate. In the mining sector, either where mining companies had ceased operating or where, in conflict zones, power-holders took control of mines the workforce became informal, or artisanal, with few rights or protection within a militarised economy. That in turn spawned a whole value chain that remained largely informal to the point of export.
- 22** The governmental authorities became informal too, both in the sense that they saw their employment as a rent-seeking opportunity and because the number of officials seeking these opportunities tended to multiply. That meant that traders found ways to either work the informal system or find ways around it. The highest number of officials claiming a role in an export chain our researchers found was 26! Clearly some of these have a legitimate role in the regulation of trade. But for many, especially in the security services it is opportunistic. Security services obviously have legitimate reasons to be present at borders in defence of national security but that need not and should not extend to taking advantage of their presence to seek rent opportunities.
- 23** The informal nature of artisanal mining/logging leaves the workers (miners/loggers/porters etc) vulnerable to abuses of both physical risk and economic exploitation. The absence of rights and rights to land or mining permits presents opportunities for conflict at both personal and group levels.

3.3 Re-industrialisation of mining

- 24** For the mining sector to become a significant transformational driver of growth and economic development in DRC, it will require a move towards industrialisation or re-industrialisation. However there are significant differences between regions in the extent of industrialisation of the mining sector which impact on the nature of the mining and the trade and, consequently, on the nature of transformations that might be recommended. In the Kivus, for example, there are currently no industrial mines in production and many of the mines are suitable only for artisanal exploitation. It would be unrealistic, not to say harmful to livelihoods and the environment, to push for rapid industrialisation in that context. In many places, the formalisation and technological development of small-scale and artisanal mining provides a more realistic and equitable alternative for community development.
- 25** In Katanga, large mining multinationals invested heavily in the sixties to eighties, but the province suffered from the flight of large scale foreign investment and looting of equipment from the early nineties. Many mining communities were left to fend for themselves and used their local knowledge of the mines to build artisanal mining and informal trading circuits, usually in the absence of legal recognition. In contrast to other parts of Zaire/DRC it remained relatively free of conflict in the second half of the nineties, although the ethnic cleansing of Kasaians from Katanga in the early 90s left deep scars. Particularly with the current high demand and price for its two principal minerals, copper and cobalt, relative current security, the usability of roads out through Zambia and a relatively secure supply of power there has been a recent intensive re-industrialisation process with large and medium-scale international operators coming back and investing in new developments in selected areas. As these companies take possession of their concessions, and especially when the technology-intensive production starts

up, they are challenging the informal nature of mining practices, depriving artisanal miners of access to the tailings and old mine sites where they have traditionally worked and replacing miners with machines. This can lead to localised conflict and will require innovative policies to mitigate the impacts of transformations on the artisanal miners and their dependents, work which PACT, with USAID and DFID support, are already engaged upon.

- 26** The Kasais, almost exclusively a diamond area, benefited from heavy industrialisation in the sixties and seventies to become highly productive and profitable. However since then it has suffered from a lack of continuing investment, deterioration in infrastructure, the monopolisation by MIBA as a state-owned enterprise and the general economic depression. The population moved into the large mine sites to work the alluvial gravels and tailings and the old shafts, often in dangerous conditions. Their livelihoods are also threatened by the revitalisation of formal industrialised mining. In an area like Tshikapa for example, where small arms are traded cheaply in the markets from demobilised soldiers and militias, the risk of industrial conflict being violent is intensified. These problems in access to resources are exacerbated by clashes and inconsistencies between modern and customary law.
- 27** In eastern Congo, the Kivus, Maniema, Orientale and Ituri, mining has traditionally been small-scale and at scattered sites. There has been little industrialisation and, as mentioned above, there are no industrial mines currently in production. The pyrochlor mine at Lueshe which for a short time benefited from having both power and being industrialised is now closed. There are small processing facilities for gold, cassiterite and coltan in various parts of Eastern DRC, but not on an industrial scale. In this respect, eastern DRC has had less confrontation between artisanal miners and large companies squeezing them out through industrialisation. On the other hand there has been greater and more violent abuse of the miners by the militarised authorities who control the areas where the mines are situated and more violent conflict around ownership and control of mines and trade routes.

4. Cross border trade and DRC

4.1 The importance of trade

28 Trade is important to DRC. It is a very open economy with high volumes of trade, and, despite decades of decline, the country remains a significant player in external trade. With urbanisation rates of 35-40% and a concentration of urban centres near border areas, the DRC represents a significant market for basic food and consumer goods. The deterioration of domestic infrastructure (including rural access roads) and security problems during the conflict period has highlighted the importance to the DRC of international transport corridors, maintained essentially by its neighbours. The trade situation is however economically imbalanced with DRC exporting mainly unprocessed natural resources to international markets while importing substantial amounts of food and manufactured products from the region and beyond.

29 It seems that the volume of trade has doubled since 2002^{iv}, although the discussion below (and Statistical Annex) shows that the base data are far from reliable. The rising prices of raw materials on the international market and the proximity of some minerals to the eastern and southern borders mean a lively export trade. The damaging impacts of economic decline, pillaging, insecurity from a lack of law and order, and conflict periods have all led to loss of infrastructure, agricultural extension services, agricultural inputs and plantation agriculture. This has all but eliminated many agricultural exports, certainly for the short to medium term, although there is an active petty trade in food and consumer goods.

30 Virtually all the natural resources are exported as raw materials with minimal processing and almost no domestic market. This applies equally to minerals (copper, cassiterite, cobalt, coltan, gold), precious stones (diamonds) and timber. Again, the legacy of conflict and decline has undermined the potential for processing and adding value to natural resources. Energy supplies are hopelessly inadequate, roads in poor condition. And, as noted above,

the trade is highly informal, and all institutional structures informalised. Commodities mostly transit through Africa to Asia and Europe. Gold and diamonds are often traded directly for consumer goods; copper and cobalt are exported through more formal channels via Zambia. The routes for coltan and cassiterite are more varied, through northern and southern corridors by roads from Eastern DRC to Indian Ocean ports of Mombasa and Dar es Salam. The Northern corridor via Kampala and Nairobi is the most efficient and secure, since it is all tarmac from Mombasa to Kigali, and then links to Goma and Bukavu. South Kivu transporters have different transit roads:

- Rwanda via Cyangugu and Kigali through the northern corridor
- Burundi via Bujumbura through the central corridor
- Uvira/Fizi/Baraka in DRC to Tanzania via Kigoma across Lake Tanganyika and the central corridor.

Forest products tend to have different markets, with a strong regional market for sawn timber, the majority of which is used in neighbouring EAC countries – mainly Kenya and Uganda, or processed/treated there and then re-imported into eastern DRC for the construction industry.

31 The natural resource sectors of DRC are facing strongly growing demand – for minerals from Asia (China and India); and for timber in neighbouring countries – Uganda for example, and southern Sudan where aid money is available for reconstruction. All the data sources, unreliable as they may be, indicate a very strong growth in exports since 2001; not surprising with external demand growing and greater stability within the DRC over the period – export growth is a peace dividend. The current inefficiencies and informal nature of trade doubtless inhibit DRC's ability to take full advantage of buoyant international markets; but the momentum may provide a good window for reform – it is easier to implement changes when prospects are positive than in times of decline and retrenchment. The question is whether the current situation can translate into sustainable poverty reduction

^{iv} Note that this follows a sharp decrease during the war

4.2 The border crossings and corridors

32 The analysis of trade flows was concentrated into the six main trading corridors from Eastern DRC, and the findings of actual trade practices are drawn from detailed interviews and field studies in the corridors. These six corridors are estimated to account for some 70% of total exports from the DRC (excluding diamonds and petroleum products), and as such provide a good indication of practices in the country as a whole (see map in Annex 2). The thumbnail sketches below show that they have quite different characteristics in terms of goods traded and the nature of trade:

- **Lubumbashi-Lusaka:** This corridor accounts for 57% of official DRC exports (according to the Zambia Revenue Authority, 90% of copper and cobalt exports from DRC use this corridor), and about one quarter to one third of imports. The export of minerals here is dominated by companies and big traders, while import trade is conducted by many small and medium traders, importing foodstuffs and inputs for the mining industry and large cities. The distribution of these imports reaches up to north Katanga, Maniema and the Kasais.
- **Goma-Gisenyi:** the second largest corridor, trading mainly natural resources – exports of cassiterite, coltan, wolframite and agricultural commodities – coffee and quinine bark, and imports of consumer goods and food for Goma. There is a large informal trading community – 15,000 to 20,000 people cross the border each day, and there is strong potential for growth in this area, if infrastructure and security constraints could be removed. The cross-border trade of local produce in both directions is significant, even if sometimes convoluted. Tomatoes grown in the Bukavu area are often taken across to Rwanda where the transport can better take them to Gisenyi where they go back across to Goma, often then for Goma traders to sell across the border in Rwanda.
- **Beni/Butembo-Kasese:** Beni/Butembo is a commercial centre serving interior cities of Bunia and Kisangani and the Kivu provinces. Formerly a centre of agricultural exports (papaine, quinquina and coffee) it is still important for trade in gold and is the largest single exit point for timber. This corridor is on an almost direct line between the main source of timber in

eastern DRC (the Ituri forest) and the main regional markets of Kampala and Nairobi. The main imports are manufactured products from Dubai and the Far East and refined petroleum products. There is an integrated network of large traders in this corridor, operating with support from numerous small to medium scale traders. The Nande people largely control this extended and integrated network. They are linked to the Kondjo in Uganda, but their commercial connections stretch across East Africa, and they have the best connections of all traders in Eastern Congo with Dubai and also with Kinshasa. Butembo market has been the central entry point for Asian goods to all of eastern Congo since the '80s, and the gold trade is key in maintaining this position.

- **Uvira-Bujumbura:** A corridor substantially used by small traders, it covers natural resources exports from DRC (gold (unrecorded), some foodstuffs (notably palm oil), cement and wooden planks); imports are mainly consumer goods from Dubai and the Far East and some local foodstuffs. Roads are reasonably good and the trade links up with the central corridor to Dar es Salaam. Much of the trade seems to be on a barter basis; this is a lively local market with 12-15,000 people crossing the border on market days.
 - **Bukavu-Cyangugu:** A smaller corridor, based on exports of natural resources (gold (unrecorded), cassiterite, coltan, coffee, timber and palm oil) and imports of foods and consumer goods for the 460,000 population of Bukavu. Researches suggest that fraud is high here, particularly for the export of coffee and both import and export of timber. About 70% of the traders are women.
 - **Aru-Arua:** A busy corridor, which also includes Mahagi, for small local traders and agricultural products, like coffee and fish. It is a major route for timber export. Some gold that does not pass through Beni/Butembo is traded to Uganda-based dealers. It should also be noted that the small trading town of Ariwara north of Aru in Orientale, which has an active export trade in timber and gold and imports from Dubai and the Far East (including large volumes of motorbike assembly kits), draws traders from different parts of Africa and is almost exclusively managed by African traders.
- 33** While there are clear distinctions between the corridors, there is in practice considerable interaction between them on the DRC side, for example Beni/Butembo to Goma, Goma to Bukavu and Bukavu and Bunia. Powerful traders play on their ability to work several corridors and provide linkages between them – and also to Kinshasa. Ability to play power levers in Kinshasa is an important factor in local and cross border relationships.

4.3 The nature of trade – volumes and values by commodity

34 A key aim of this study has been to understand the nature and volumes of trade in natural resources. In the course of the study we have attempted to assess the actual volumes (and values) of goods traded through the five key corridors. This has not been easy. Trade statistics gathered by government offices (see Table 4 below describing the various government offices) vary widely between themselves and even within agencies, so indirect routes have been taken to assess the quantity of exports. For example, in the case of all minerals, virtually the total quantity produced will be exported, as there is no processing capacity within the DRC. Therefore data on production should give values close to the data on exports. Several of the neighbouring countries collect reasonably reliable statistics, which should give an indication of the quantity of product exported from DRC. And there are a number of regional and international agencies which collect trade statistics (COMESA, FAO, Eurostat and others)^v.

35 So a combination of review of available data, discussions with officials, and with traders, has enabled us to draw some overall conclusions about the nature of trade and the relation between officially recorded statistics and actual quantities of commodity which are exported. The following table shows some estimates of actual and recorded exports from DRC. What emerges is a very strong picture of the divergence between official data and the values and volumes of goods which are known to be traded. The difference between the two sets of values points to a consistently high level of under-recording and fraud in both the export and import process. The case for each of the minerals and forestry is set out more fully below, but the headline conclusions are that a very significant proportion of exports from the DRC are not formally recorded.

36 As the table shows, there is a very wide difference, between recorded values and the estimated actual 2005 export levels. The level of flows of goods which is unrecorded is very large. Observations at border posts and discussions with traders indicate that the difference between recorded and actual for other commodities such as coffee, is also significant, as well as for imports. Goods from overseas would be more likely to have formal paperwork, but nevertheless border observation indicates that under-recording of machinery and metals, vehicles, chemicals and foodstuffs is significant. Each commodity shows different patterns but the underlying story runs through all the commodities.

^v Annex 3 contains a more detailed discussion of the nature of data and data collection, and the full discussion of statistical sources is shown in the four research reports and as a separate annex on the CD rom.

Table 1 Assessment of actual and recorded exports from DRC		
Recorded exports from DRC	Estimated actual exports	Comments
Copper (2005)		
OFIDA, 117,315 MT	223,000 MT	Actual based on recorded imports to Zambia adjusted upwards by 10%
Gold (2005)		
600kg (S Kivu); 9kg (N Kivu)	About 10 tonnes	Based on volumes produced, US Geological survey plus estimates from traders
Cassiterite (2006)		
3599 MT (DM, N Kivu) 3149 MT (OFIDA, S Kivu)	16,870 MT	Estimates of actual based on details of airfreight lifted at Walikali, recorded by Direction Générale des Mines, plus traders' estimated of level of unrecorded exports and production
Timber (2006)		
25,000m ³ , see para 40	50-70,000 m ³ from Ituri, N Kivu	Exports from Eastern DRC. Actual based on recorded imports of timber into Uganda, Rwanda and Burundi where data collection fairly robust
Petroleum imports (2005)		
Declared volume, 16,264m ³	Actual volume, 25,805m ³	Data compiled from Beni branch of state petroleum company SEP-Congo, 2005 (June to Sept)

Copper

- 37** Estimates of actual copper exports are based on analysis of statistics collected by the Zambia Revenue Authority. Virtually all copper produced in DRC is exported via Zambia, and the ZRA figures are thought to reflect about 90% of total imports. However, the volume of exports recorded by OFIDA is not much more than half the quantity, exported to Zambia, suggesting that here too there is considerable under-recording.

Gold

- 38** In the case of gold, production in DRC is around 10 tonnes per year, yet registered exports are much lower, perhaps 10% of the total. The US Geological Survey^{vi} indicates that production of gold in Ituri, the DRC's most important gold producing area, has averaged around 5.5 tonnes per year, fluctuating from a high of 7.6 tonnes in 2002 to a lower figure of about 4 tonnes in 2003 and 2005. This is all mined artisanally. Local gold traders estimate that around 100 kg gold leave Ituri each week, giving an annual total of around 5 tonnes. Local traders in South Kivu make similar estimates for that region too. Thus DRC gold exports can be very tentatively estimated at very roughly 10 tonnes per year, almost all of it undeclared. Production tends to be fairly constant, but the level of fraud varies. Yet recorded values of exports of gold are extremely low – about 300 kgs according to CEEC for 2005 or 754 kgs according to OFIDA at Bukavu.

Cassiterite and coltan

- 39** In the case of cassiterite, data from a number of official agencies and witnesses provide a graphic illustration of the scale of unrecorded trade. At the point of mining, in Walikale, 10,309 tonnes of cassiterite were recorded as leaving for Goma. By the time the cassiterite was certified for export by CEEC in GOMA the volume had fallen to 2,391 tonnes. What is particularly interesting about this is that losses seem to occur at two points; between Walikale and Goma, and again within Goma. Yet the volumes recorded by the four government bodies covering exports at Goma are reasonably close to each other. The originating volume of 10,600 is close to the capacity of the mines in question. At the mine the DM does not have any tax collection function so there would seem to be no incentive for fraud at this point. There will be some 10% losses in volume from cleaning of the mineral but no more than that. The pattern for coltan is very similar to that for cassiterite.

^{vi} Although they give no source for the data

Table 2 Attrition in cassiterite exports, 2006	
Point of record and Recording Agency	Volume (tonnes)
Witnessed as leaving Walikale (DGM Kilambo)	10,309.0
Registered as leaving Walikale for Goma (Bureau Miniere Walikale)	4767.3
Registered as arriving in Goma (Bureau de Navigation Aerienne Goma)	4818.2
Registered as leaving Goma (Division Miniere Goma)	2904.1
Declared for export (OFIDA, Goma)	2,948.0
Checked for export (OCC, Goma)	2912.0
Certified for export (CEEC, Goma)	2391.1

Source: data collected at points of origin in Walikale and Goma, Pole Institute

Timber

- 40** Almost all current commercial timber exploitation in eastern DRC is non-industrial logging using artisanal techniques such as pit sawing. Transport of the planks produced is by head load to the roadside and from there by truck to the local markets or directly to the border. Most of the timber is exported to Kenya and Uganda in approximately equal shares and is consumed in the major cities of Kampala and Nairobi. However, analysis of records by importing countries shows about about 51,000m³ per year is recorded as being imported from Eastern DRC^{vii}, worth around \$12.75 million (\$250/m³) on arrival in neighbouring countries. (The average price of timber in the main border (Kasindi/Mpondwe) is around \$230 to \$280^{viii} for the two main exported species, African Mahogany (Sapele, locally known as Libuyu) and African Teak (Iroko)).
- 41** Although there is little evidence of systematic large scale smuggling of timber into Uganda, it is apparent from interviews with traders that there is frequent under declaration of the volumes exported from DRC to Uganda. It is thought that this might add 30% to the volume actually crossing into Uganda. Most of the timber actually passes through formal border points on the Uganda side,

and documents are provided, taxes paid and records kept – but there is nevertheless under declaration either by traders, which would suggest actual imports to Uganda, Rwanda and Burundi are about 75-80,000 metric tonnes. In contrast, OFIDA statistics show timber exports from Beni/Butembo in 2006 at 2,453 tonnes of raw timber plus 1,086 tonnes of planks (3539 tonnes) – an enormous discrepancy. On the other hand, OCC Goma recorded about 12,000m³ of exports in 2006 (extrapolated), and OFIDA at Mpondwe recorded 6000m³. FM also established that the proportion of recorded exports to actual trade at Mpondwe is about 1:3, and this may be a reasonable assessment of the level of recorded exports. Based on conversations with officials at a number of key border posts it is clear that a large proportion does bypass official controls or is in some way fraudulent at point of export (though very few shipments physically bypass the checkpoints via back roads). There is also apparent that there is under-declaration of the value of exports on the DRC side, by officials and traders.

Diamonds

- 42** The narrative on diamonds is less clear. Data from the Kimberley process certification scheme indicates exports in line with production, at around 30 million carats per year. However, about 90% of diamond production are mined in the artisanal sector, and recent research indicates that a significant proportion of production and sales are not registered at the level of comptoirs or negociants^{ix}. Many artisanal miners do not pay, for example, for their Carte d'exploitant artisanal, indicating scope for under recording of sales and other transactions. The impact of the Kimberley process makes overall management of the sector clearer than for other minerals, but there is still a high level of under-declaration of production and sales.

Petroleum products and other imports

- 43** Although not the focus of this study, it is clear that there is similar under-recording and fraudulent practices in the import of a wide range of goods. The data quoted in the table above indicated that actual petroleum imports exceed the declared levels by over 50%, and similar patterns apply to imports of cloth, foodstuffs, machinery etc. Imports and exports involving products coming from Mombasa or other ports are generally carried out by the same traders, and they use and face the same mechanisms for both – and adopt the same practices.

^{vii} Estimated by Forests Monitor, based on data from COMESA, URA, ECNEF, OCC and OFIDA

^{viii} Calculated from a number of government sources, principally via extrapolation of raw material import records from specific customs posts in Uganda, through which 80% of the trade flows. The average value is drawn from 5 main traders at the Ugandan border, confirmed by others sources in Beni area Only Grevellia is valued at as little as \$35-55/m³ in the production zone of Makwa

^{ix} Felicien Mbikayi, Rapport de l'etude diagnostic du secteur minier en RDC, filiere diamante, Janvier 2007

4.4 Unrecorded, fraudulent, and informal trade

44 As noted in section 3 above, the economy has become increasing informal over the past 20 years, with an informality which extends throughout the fabric of government as well as commercial and mining activities. It is clear that large quantities of traded goods are not recorded at an official level, and there is no doubt that some of this is due to fraud by either traders or government officials. Several terms are used to describe the difference between recorded trade and the known totals – informal, or illegal, or fraudulent. We have used the terms fraudulent or unrecorded to describe this phenomenon, since informal implies that within the formal sector the problem does not arise, whereas the researches and analysis show clearly that there are serious discrepancies within both the formal and informal sectors. There is a distinction too between genuinely fraudulent trade – where traders or officials are aiming to avoid charges and taxes or receive bribes – and inconsistencies which arise as a result of bureaucratic muddle and poor administrative capacity, and this is developed in the following discussion.

45 The main approach for fraudulent trade is either for a trader to avoid points at which charges or taxes are due by using informal transport connections; or through a deal between tax payer and tax collector. But in some cases, if no tariffs or duties are due on commodities then officials do not bother to record the statistics; or in other cases, border officials do not know what the current regulations or charges are and are maybe working from out of date regulations, or use out of date prices supplied by central government but not updated in line with market changes. This appears to happen not just on the Congolese sides of borders. In these cases it is more a problem of ignorance or weak capacity in data collection and collation than of intentionally fraudulent behaviour.

The mechanisms of export fraud

All operators and services in North Kivu agree that a large proportion of goods entering and leaving the province from/to neighbouring countries passes the border informally even through recognised border posts. This can take various forms:

- goods are free of tax and/or import/export duty and therefore the customs bodies do not bother to register them
- Incorrect use of trade nomenclature to calculate taxes is also another means of extracting more revenue than is actually due
- goods are taxed and in order to reduce the tax burden, importers/exporters bribe customs officials and other state agents to register a lower quantity/value or even to let them through without registration
- the state bodies concerned decide as bodies not to apply the official tax/customs regime either in full or in part to all or some traders, against payment
- taxed goods are hidden underneath non-taxed goods and detailed controls are either lax anyway or relaxed against payment
- traders obtain tax exemptions for certain goods and use them to hide other goods amongst a consignment of exempt goods
- traders in possession of tax exemptions trade on behalf of other people who do not have exemptions
- goods are traded by people with good military links or members of the military, and security services order other services to go away while their vehicles cross
- goods cross at non-official border posts - in the open countryside, on side roads or by boat across lakes.

Source: Pole Institute, interviews with state services and traders in Goma, Jan-April 2007

- 46** Where taxes are due on traded goods, traders will often bribe border officials to register a lower value or volume of goods. Revenues collected by officials are often not passed on in full to government authorities, so that scope for 'private arrangements' becomes normal. Pole Institute identify nine distinct mechanisms for export fraud. (See Box above).
- 47** The main mechanisms for fraud then are the systematic under-declaration of the volume or value of goods in order to pay less. It is furthermore estimated that between 30-40% of revenues legally collected by officials are pocketed by the agents responsible. The informality of the economy means that there are benefits for many individuals, along the value chain from mine to market. The buoyant export markets and the lack of domestic processing make such fraudulent behaviour easier.

4.5 Reasons for fraud and under-recording

- 48** **Fraud is deep seated in the way goods are traded. The main reasons for this lie in the high costs associated with formal export, but also the opportunities for enrichment along the way. The details of the charges and levies are discussed in the next section, but the aim of reducing both formal and informal payments for officials and others is an important motive for fraud.**

A respondent in N Kivu is quoted as saying: 'If you want to export legally, lots of services come and witness the loading operation, and each of them demands a payment for having been there. They come and witness, later they demand that you come to their office and ask for \$300, and if you don't pay you get arrested'

Another trader from Goma explained: "At the moment, to export one container of 25 t cassiterite legally from DRC I have to pay \$6500 in tax. If I export from Rwanda, I pay \$200; if I export from Uganda, \$40. So if I can get my product to Rwanda or Uganda first and export officially from there, I save a lot of money. Avoiding DRC taxes costs me \$2000 for one container. So I save \$4500. The DRC is the only country in the region which still levies an export tax. All the others have abolished it."

- 49** Some of the charges are broadly legitimate, others are genuine charges for services rendered (eg transport, consolidation of goods) while others are essentially opportunistic rent seeking. For example, taxes and charges between Bisie cassiterite mines and the border crossing point at Goma are about \$365 per tonne of product (or 15% of the product value). All of these charges are levied by government bodies; some more than once (OCC, CEEC). These may well be partly legitimate charges, but each one offers an opportunity for cost/profit sharing between trader/exporter and official. The table below sets out details of the number and level of taxes and charges levied on the trading chain from Walikale to Goma for cassiterite. There is a similar situation on gold exports from Ituri; the total value of taxes and charges for artisanal mining works out at about 40% of the production value – and the lease from OKIMO makes up the lion's share of this.

- 50** The charges avoided cover a wide range including royalty payments for mining rights as well as the costs associated with the value chain between mine and market. What becomes clear from the detailed research at border points is that the provisions of regional organisations such as EAC and COMESA, whereby there should be no import tariffs to neighbouring countries, are applied in a far from consistent manner. For example, official taxes on agricultural and manufactured goods entering Rwanda are between 30% and 50%, comprising value added tax (levied at 18%), customs duties and a 5% service charge^x. This is despite agreements through COMESA and CEPGL, and assurances from the Rwanda Revenue Authority that there are zero tariffs on imports of unprocessed materials.
- 51** In timber trade, harvesting fees (US 8-12 \$/m³) and local sale taxes (US 5-20 \$/m³) in eastern DRC are relatively low, other official and unofficial taxes to cut, transport (US 2-50 \$/m³), and export (US 10-35 \$/m³) timber are quite significant.
- 52** There are important subtleties in the differences in tariffs and charges: there are significant historical differences between the two parts of North Kivu, le Grand Nord based around the Beni-Butembo triangle and le Petit Nord based around Goma. The former is almost exclusively made up of Nande who have traditionally maintained a near monopoly on the import/export trade in the area and into Uganda. Le Petit Nord is typified by a much greater mix of ethnicities, including Nande and Banyarwanda (both Hutus and Tutsis) who have competed for land and the minerals. During the war the RCD/K/ML and RCD-Goma respectively developed different taxation regimes. In the more homogenous Grand Nord the RCD/K/ML developed a "système forfaitaire" which was effectively a flat-rate levy on imports and exports. In Petit Nord the RCD kept the old national regime of taxing a percentage of the value of the shipment (système déclaratif). With inflation and changing values the levies under the 'système forfaitaire' are much lower than those levied on an ad valorem basis. A consequence of this is ongoing competition between the two regions, and restrictive trade practices. For example, fuel imported at Beni in the Grand Nord at a flat rate tariff could be sold in Goma at a price undercutting the local traders who pay an ad valorem tariff, and this leads inevitably to tensions between the two trading communities.

Table 3 Taxes and fees levied along the trading chain for minerals from Walikale to Goma^{xi} (various sources)

Tax or other charge	Amount
Bisie "droit coutumier" by customary land owners	5% of production
Bisie "supervision"	5% of production
Mubi: Walikale territory tax	\$100 per 2t
Mubi: North Kivu province tax	\$50 per 2t
Mubi: Small and Medium Enterprises Inspectorate	\$10 per 2t
Mubi: Revenue authority DGI	\$35 per 2t
Mubi: Mining Bureau	\$10 per 2t
Kilambo: Transport authority Transcom for airstrip use	\$25 per 2t
Goma: North Kivu province EAD	1% of export value (\$24 per t)
Goma: Customs agency OFIDA	5% of export value (\$120 per t)
Goma: Maritime freight agency OGEFREM	0.59% of export value (\$14 per t)
Goma: Non-tax state revenue authority DGRAD	45% of 1.25% of export value (\$13.5 per t)
Goma: Certification authority CEEC	55% of 1.25% of export value (\$16.5 per t)
Goma: Export control authority OCC	1.8% of export value (\$19.2 per t)
Goma: DGRAD export licence	\$50 per container (1 container: 25t)
Goma: OCC product analysis	\$140 per container
Goma: CEEC certificate	\$100 per container
Goma: OFIDA export seal witness declaration	\$60 per container
Goma: OCC export seal witness declaration	\$30 per container
Goma: Mining Division export seal witness declaration	\$30 per container
Goma: CEEC export seal witness declaration	\$20 per container
Goma: DGRAD export seal witness declaration	\$20 per container
Goma: Provincial Govt export seal witness declaration	\$20 per container
Total (current official export value: \$2400 per ton), excluding Bisie levies (not paid by trader)	\$365.26 per t = 15.2%
Total excluding Mubi levies (not paid by exporter)	\$250.26 per t = 10.4%

^x INICA

^{xi} Compiled from various sources in Walikale and Goma. Rates may be incomplete and subject to change

53 Furthermore, many of charges set out in the table above are non-existent in any formal sense. The Goma Chapter of the Fédération des Entreprises Congolaises (FEC) counted 21 'false' taxes. Taking the example of a bag of wood charcoal originating from the Masisi and sold in Gisenyi traders pay 32% of the initial purchase price in "taxes" at the DRC border and an additional 18% at the Rwandan border for a total of 50% of the initial purchase price. Of the 50% in taxes about one third could be considered official if the CEPGL and COMESA tax rules were applied.

4.6 Underlying problems and implications

54 It seems safe to say that most of the exploitation of natural resources in DRC operates outside any proper legal framework, whether at the point of export, through export fraud, or at the exploitation point itself. Forests Monitor report that in the Ituri forests in 2006, over 60% of the companies surveyed had no timber permits, and in some regions fewer than half had trading licences and 20% operated with no papers at all. In 2006, ECNEF Bella recorded 4,810 m³ with 2,226 m³ illegal (46.3%)^{xii}. This means there is no possibility of systematic management of the forest resource.

55 The lack of formal structures is also very deeply embedded within the trading and mining groups. There is virtually no use of any formal banking systems, and local networks are stronger than formal structures. For example, in the dynamic Nande trading area of Orientale/N Kivu, there are very strong links with Indo-Pakistani networks, as well as with the Ugandan Kondjo, and with Dubai, including a parallel foreign exchange rate which fixes a USD-CDF rate independently from the Congolese Central Bank^{xiii}. Less formal parallel foreign exchange dealers tend to set up in market places and along borders. This meets a need, but the absence of formal banking exposes small and uninformed traders to considerable foreign exchange risk. Some smaller traders prefer to barter in goods, which reduces risks of being cheated on exchange rates. Alternatively, the lack of confidence in any banking systems in DRC means that Eastern Congolese traders often bank in Rwanda or Uganda – another incentive for fraudulent trade.

^{xii} FRCF Beni in 2004 intercepted 1,836 m³ from illegal timber with a financial losses calculate by them at US\$ 36,180

^{xiii} INICA

- 56** Traders export informally (invisibly?) to Rwanda or Uganda or Burundi, and export formally from these countries, in the case of Rwanda paying only tax at 30% on profits rather than 15% on the gross value of goods traded.
- 57** In the absence of formal systems, middle-men play a significant role as bankers. They can advance funds to various intermediaries along the chain. Another mechanism for dealing with the absence of banking facilities is to use the commodity itself as currency – this is especially the case with gold. The role of the middle-men is ambiguous. On the one hand miners are distanced from the markets and may face information asymmetries; but on the other the middle-man is to some extent a risk taker, taking on some banking and exchange risk functions and acting as negotiators with administrators or military. In the timber trade, financing is often provided by traders in neighbouring countries, providing cash advances on the costs, chainsaws and fuel. This reflects the fact that local traders do not have the ability to finance their operations in the face of continuing risks. In this regard, stability and peace do not necessarily mean the same thing – transition in the control of the trading chain causes greater vulnerability at the bottom of the value chain. Local traders prefer stability to uncertainty even if delivered by a militia!
- 58** The number and nature of regulations and regulatory bodies both add to transaction costs for traders, and add to confusion leading to increases in the opportunity for corruption along the value chain. There is an unnecessary multiplicity of state agencies (and different data) – and there are often too many state agents at crossing points, as Pole note. It should be noted that there is some government recognition of the problem and efforts at reform: in 2002, the government determined that the number of state agencies operating at border posts should be limited to four (OFIDA, OCC, DM and the Service d'Hygiène). Indeed this is still officially the case, but in addition to the permitted four a number of other agencies are usually present. Security Services do of course have a legitimate role in terms of border security but that should not extend to a role in trade. They may need to inspect cargo eg for illegal arms imports, or drugs, but that need not require an inspection fee or handling charge. Pole argue that the number of different and competing state agencies involved in trade control has continuously increased since the war. FM/EarthSight collected evidence from Aru-Arua of efforts apparently made by many of the official bodies present at border posts and engaged in illegal rent seeking to club together to make payment easier for traders – the trader makes one single payment and this is distributed to a number of police, army and other officers for them. This suggests both a level of organisation and a level of understanding of the advantages of facilitating trade among such unofficial rent-seekers which is somewhat unexpected.
- 59** The multiplicity of agencies also leads to severe data weaknesses – data are inaccurate and inconsistent. There is a wide range of numbers collected by different agencies (see discussion in statistical annex). Some of the differences will reflect systematic under recording of transactions, as outlined above, but there is very little incentive for statisticians to apply high standards to data collection at a regional or even national level. But this does make it very difficult to understand accurately what is going on. It is difficult to pull out any consistent patterns on performance by different agencies; OFIDA has the widest data collection remit, but the coverage and quality varies even within a sub-region. One question is whether the effective introduction of decentralisation under constitutional reform might change underlying incentive structures.
- 60** The problem of excessive state regulation and its attendant opportunities for rent-seeking is compounded by the tensions between customary law and state regulations. Under customary law, mines throughout DRC are owned by the traditional customary owners of the land under which they lie, and they collect taxes. Under modern law, the mines belong to the state which has the right to concede them. This it has done in a way which creates new conflicts. In the case of forests, the agreement of the customary chief and local authority figures (local chiefs, land chiefs, nobles) must be obtained. They receive requests for forests concessions and permits; decide in the name of their peoples to grant and sign permits, usually specifying the species and areas to exploit. It appears that very often it is difficult to obtain any reasonable financial consideration in return. For example, in the Mambasa-Beni area, the average payment for a timber permit granted to a logging company is around US \$5 per hectare plus a cow (between 150 and 250 US \$^{xiv})

^{xiv} The value depends on the weight and type of the cow (i.e. a milker or not). The price is US\$400 in Goma.

Table 4 DRC Offices with functional responsibilities in exports		
Acronym	Office & function	Notes
OFIDA	Office des Douanes et Accises	OFIDA is the customs & excise authority and for purposes of this study OFIDA information is used as the standard baseline, supplemented but not supported by data from other sources.
OCC	Office Congolais de Contrôle	OCC is responsible for export/import quality and quantity control.
OGEFREM	Office de Gestion de Fret Maritime	OGEFREM is the office for freight and maritime trade with responsibilities for import/export across the great lakes, westwards via the port of Matadi, and with handling facilities eastwards in Dar Es Salaam.
CEEC	Centre d'Evaluation, d'Expertise et de Certification des Substances Minérales Précieuses et Semi-Précieuses	Founded in 2003, the CEEC operates as an autonomous body charged, by Presidential Decree, with implementing the Kimberley Process. In the diamond producing areas, the CEEC are the foremost source of trade and export information, with some supporting information available from the Division of Mines. OFIDA does not record information on diamond production. In other areas, the CEEC also records information and has responsibility for developing certification processes for other minerals.
CAMI	Cadastre Minier	CAMI was established under the DRC's Mining Code as the authorised body for processing applications for mining titles. It does not, therefore, record trade information. However CAMI was consulted for supporting information on mining companies operating Katanga.
	ECNEF	Conservation of Nature, Water, Forests and the Environment (DRC)
BCC	Banque Centrale du CongoCC	BCC data are used to validate some non relevant from other sources (OFIDA and CEEC) and to complement export statistics when unavailable. Diamond production data (industrial and artisanal) are more accurate than those from other sources.

Land rights and the problem of modern vs customary law

Since colonial times land ownership, both surface and sub-surface, has been vested in the state: the Bakajika Law (1966), the Constitution of 1971, and the Land Law (1973) all make this explicit. This has included all forestry and mining rights.

At the same time, and equally going back to and beyond the colonial period, traditional authorities (chefferies) have been recognised as guardians of the land and who have granted usufruct (land use) rights.

The Land Act of 1973 formally transferred all land to the state and made the chefferies public administrators of the land on behalf of the state. They have continued their traditional role of granting land use rights. This nationalisation gave the government exclusive rights to cede property rights.

In eastern DRC this built up a competition between some Banyarwanda landowners, who had their rights under modern law, and chiefs of other ethnic groups who had their rights under customary law. The nationality laws of 1981 and in the 1990s, largely directed against the Banyarwanda, turned this competition over land ownership into extremely violent conflicts, which in turn fed into violent competition over trade. In this confusion, the only way to guarantee security of land ownership and usufruct rights is by force.

The 2006 Constitution is even less clear on land user rights than previous legislation.

The vast mining concessions in the Kivus, Ituri and Katanga granted to private, often foreign, holders in the colonial period and regularly reaffirmed afterwards, exclude the local population completely. This aberration, as it seems to local Congolese, fuels the suspicion that the law and the state give their land to outsiders and has no part for the Congolese.

- 61** Poor communications and ignorance are another factor. Based on interviews at the borders the overwhelming majority of officials appear to be unaware of the agreements signed by their own governments in the context of COMESA, EAC and CEPGL. Especially on the Rwandan side, officials claim to apply the tax rates instructed by the Government of Rwanda. A number of traders interviewed referred to the high tax rates charged by the Rwandan authorities as being a major incentive for fraud and impediment to the development of regional markets – yet these rates may be lower than in DRC so there are inconsistencies in behaviours of traders.

Of particular interest to traders would be all weather roads connecting: (1) Shabunda with Bukavu, (2) Bukavu with Uvira (without having to go through Rwanda), (3) Bukavu with Goma, (4) Bukavu with Kisangani, (5) Goma with Beni and (6) Goma with Kisangani.

Along the main transport corridor (the northern corridor) traders have particularly identified: (1) the Kasese – Kampala stretch and (2) the Jinja-Bugiri stretch of road. Other severe problems are the malfunctioning of the Rift Valley Railroad which brings freight to and from Mombasa to Kampala and of the Mombasa-Eldoret oil pipeline (outdated and running well below capacity).

INICA

- 62** The state of infrastructure is appalling in most of eastern DRC – the legacy of many years of economic decline and conflict. Not only does this impose direct costs on exporters (and importers) of perishable goods, in terms of delays and damage to produce, but it means that there are many bottlenecks in trading, forcing small traders into dependency even just for getting through the physical and institutional barriers. These bottlenecks also provide a context for road blocks and ‘informal check points’ – each of which offers an opportunity for exploitative behaviour. The lack of infrastructure also means export costs are very high. The box below lists the main priority infrastructure improvements highlighted by traders in north and south Kivu.
- 63** Also, though it is true that the direct connections with militias and rebel activity are much less now than they were, at a minimum rebel groups do continue to benefit from the trade (eg currently Laurent Nkunda’s troops taking money from timber trucks at road blocks in Walikale) and FARDC using their own trucks to carry timber in Ituri to trade on their own behalf.

4.7 Implications

- 64** **The implications of this fraudulent trade pattern are numerous. The one most often headlined is the loss of revenues to government and this is clearly important. Such behaviour will also be a major deterrent to longer term international (and domestic) investors. Equally, if the true value of imports and exports is three times greater than the apparent values, macro-economic analysis will be heavily distorted, particularly given the significance of official trade values in the macro-economy as noted above. But the implications are also more profound. The deep-seated culture of fraud and corruption means that – even if traded minerals do not seem to be as strongly associated with militias and rebel activity as in the past – the deep corruption and the willingness of traders and individuals at all points along the chain to behave ‘informally’ makes the governance structures extremely vulnerable to continuing abuse and difficult to reform.**
- 65** The lack of governance associated with the trade severely undermines the likelihood that the population will benefit from mineral wealth in any sustainable way. A recent study by Collier emphasises that the ‘resource curse’ is most strongly linked with bad governance; at the individual level, as we see here in DRC, but also in the government and institutional levels, whereby governments misuse revenues raised from taxes and charges on the minerals sector. The weak governance surrounding natural resources exploitation in DRC also means that long term damage to the environment and the resource base itself, especially for non-renewable minerals, is almost inevitable.



5. Livelihoods and poverty impact

5.1 Introduction

66 A key aim of this research has been to support trade in order to stimulate stronger economic activity and reduce poverty. This raises two sets of questions: firstly, how does the fraudulent and uncontrolled nature of natural resource exploitation affect people's livelihoods? And secondly how can the facilitation of a more regulated trade regime benefit the population? Will the policies that support trade also enhance incomes directly, or are additional policies needed as well? To what extent will increased government revenues – a clear benefit of a more streamlined and orderly trade regime – benefit incomes?

67 We have argued earlier in the report that trade and private sector activity is vibrant and robust within the DRC, and that measures to reduce transgressions and improve the flows of goods and people at corridor level could have a real impact on people's lives. Reform of the trading regime will have a direct impact on poverty – but is also a building block for providing much stronger economic base and to move from poverty reduction to growth.

68 The fraudulent and uncontrolled nature of natural resource exploitation directly threatens individuals' livelihoods in several ways:

- Artisanal workers are vulnerable to human rights abuses and working place abuses, which have been well documented elsewhere.
- Artisanal miners have weak rights in terms of their access to mining sites. This varies across the different mining areas, but for example in Katanga and Kasai, tensions between artisanal miners and formal sector investors have on occasion led to violence and threatened miners' sources of income

- In the forestry sector, the lack of clarity between traditional land ownership rights, user rights and current legislation can be distorted to benefit a small elite rather than the small scale foresters who then become excluded from forest areas^{xv}
- As argued above, the fraudulent and corrupt nature of trade management in the eastern DRC means that the system is vulnerable to abuses by elites, militarised groups or other disruptive forces. The poorest are those who are worst affected by such disruption.

^{xv} "In Ituri, there isn't a hectare of land left which isn't subject to some customary right of ownership or other, despite the fact most of the forest is described by local decision-makers as being effectively unoccupied" (Long, 2007). Improvement and clarification of the legal framework for forest resource allocation are required to provide the right incentives for sustainable and equitable resource use.

5.2 Livelihoods and earnings

- 69** Throughout the Congo, people's and families' livelihoods are based on a portfolio of informal activities, for example petty trading mixed with a bit of farming. Insecurity and low incomes (or non-payment of wages and salaries) draw professionals, such as teachers, into the fluid value chain. In such a context, the attraction of an activity generating immediate and sometimes high earnings such as mining is strong and workers clearly make the high risk-high reward link - particularly when working with diamonds and gold, both very high value and portable commodities. The livelihoods and earnings from mining – between \$1 and \$6 per day – or up to \$167 per month, are not bad in the Congolese context (about three times the salary of an official or teacher – when they are actually paid). However, with the costs of living near mining sites, the levies imposed, and the high physical risks involved, it is not clear that income is sufficient to permanently increase living standards for the miners and their households. Most mining communities also lack basic services and in Eastern DRC they are particularly vulnerable to abuse and exploitation by armed groups.
- 70** The household members may be engaged in a variety of activities as well as mining (farming, livestock or petty commerce) but this may only operate on a seasonal basis and with deferred incomes. A household can migrate to a new mining site and, in theory, then move back to other activities as the profitability of the mine declines. But the informalisation of the economy has led to a deep-seated insecurity that in turn undermines the willingness of people to make investments in agriculture even over a short growing season. People tend to move into activities that require very few assets and are risk-averse in terms of infrastructure (artisanal mining, forestry, petty commerce), and shift out of more complex activities requiring assets and infrastructure (agriculture or livestock). It seems also there is now a cultural bias, particularly for young men, in favour of mining and away from activities requiring a longer term investments from an individual.
- 71** The mining sector employs a very large number of youth ranging from 17 to 30 years old. In the Masisi area artisanal mining employs more than 3,000 youth many of whom come from other regions in search of permanent or seasonal employment. In North and South Kivu about 4-5% of the active population is engaged in mining activities at least on a seasonal basis. In Katanga there are currently about 152,000 artisanal miners and labourers employed in industrial mining. So the sector has a major impact on livelihoods. The provision of goods and services of all sorts, including bush meat, haircutting, and prostitution, to the mining communities provides further employment along the value chain. In the Kivus this could account for another 5,000 jobs. But workers are vulnerable: employment contracts are rare; working conditions are often difficult. They require little qualification and get little training and even less social protection (CREF Network discussing the timber sector, 2005).
- 72** The timber trade also generates some employment; almost exclusively men on the production side while some women are involved in sales and marketing. Though no statistics are available, the numbers are smaller. In the area covered by the FM study in DRC, ENRA is the only industrial enterprise, and has 74 employees associated with timber production. Others are small-scale pitsaw operators (of which there are more than 250 individuals in the Mambasa-Beni area and as many again in Walikale-Itombwe) and cross-cutters (of which there are more than 100 in Mambasa-Beni)^{xvi}. Around 300 people are employed as craftsmen processing wood in Bukavu region.

^{xvi} The harvesting and sale of fuel wood most certainly employs a good few thousand additional individuals, with tens of thousands of individuals employed nationally in this way (FAO, 2007).

5.3 Resource losses

73 The frail regulatory context means there is negligible management of the natural resources – either in the case of renewable resources such as timber, or non-renewables such as the minerals. In the former case policy reforms should be managed to ensure the long term robustness of the forest sector but also of the contribution of the Congo forests to the global environment; in the latter, industrialisation or technological improvement of mining should be accompanied by measures to ensure the sustainable livelihoods of the population in agriculture – made feasible by the greater security and improved local trade opportunities.

5.4 Low value added and economic issues

74 As noted a significant proportion of activity in the natural resources sector is in the highly informal sector. In the case of timber for example, around 95% of the high-value commercially harvested tropical timber is exported – notably to Uganda and Kenya – with little or no value added, in the form of rough-sawn un-dried planks. In mining there is virtually no value added, although government policies are aiming to reverse this. For example the governors of Katanga and Kivu provinces decreed that no further exports of raw ore would be permitted from their provinces, as a move to increase value added in the province. But in the short term it is not easy to implement such policies in the absence of efficiently operating plant, a secure investment climate, energy supplies and infrastructure.

75 To really reduce poverty it is important to take a longer term view of the economic potential from minerals and other traded commodities. The value added in DRC in the natural resources sector is very limited; there is little domestic processing of raw materials prior to their export, so that the main impact of the activities lies in the direct earnings of miners and foresters and incomes generated along the value chain. The other longer term important aspect is attracting value-adding investments to the region and pooling resources and capacities, for example in energy and transport infrastructure, across the region. If this takes place then an increasing number of people are likely to turn to more productive mining and agriculture and agriculture-based processing.

- 76** It is also the case that the share of value in the main traded commodities retained by those at the bottom of the value chain is very low. To bring people out of poverty it is essential that redistribution mechanisms are improved and producers at the bottom of the value chain receive a better share of the final sales price of their goods. This will involve better communications and more effective associations and traders within the corridors and regional markets.
- 77** The discussion in section 4 above has indicated many of the underlying problems in the trading sector – and these problems in turn pose serious barriers to economic vitality. These factors include the lack of banking facilities, the weak regulatory structures which affect business at all levels, weak property rights and land rights, affecting access to resources, ignorance and prejudice. The ability of dominant or militarised groups to extract substantial margins from the value chains for exports and the distribution chains for imports may reinforce ethnic tensions and provide a trigger for the nascent trading economy to collapse again, given its fragility. Nevertheless there are some indications of change. There is some feeling that a “young generation” of traders is emerging that is more open to relationships outside of ethnic affinities and actively seeking regional/international business partners as a means of expanding their operations. They tend to be more educated and globalised, largely through information technology, than their elders.
- 78** At the same time, the physical context of economic activities is very poor. The need for infrastructure refurbishment including energy, as has been noted above, is crucial.
- 79** Finally, there is the role of public finances. If economic activities become more formalised then the potential of mining and forestry as a source of public revenues is strengthened. There is a strong opportunity here if the decentralisation aspects of the constitution are enforced, whereby 40% of public revenues raised within the province is retained by the provincial government. This significantly changes the balance of incentives for improved local governance. The expectation of change among the local population and the provincial assemblies should ensure that local governors respond with the delivery of better public goods – education, health, rural roads.
- 80** The weaknesses in the business environment have been highlighted – for example by the Fédération des Entreprises Congolaises ^{xvii} – and are beginning to be better understood. But the informality of the whole range of economic activities in the eastern DRC imposes a culture of insecurity and vulnerability throughout society. Redressing this to bring better standards of living for the population needs to be approached on many fronts. Continuing and growing security from the absence of conflict is fundamental, but moves to streamline and strengthen the business and economic environment on a wider basis also contribute. Fewer tracasseries, better managed public finances and rationalisation of duties and tariffs related to trade can play a key role in providing an environment for investment and growth – from small-scale agriculture through to roads and power stations. But it should be remembered that there may well be a need to protect and support workers in the transformations of activities that will inevitably accompany such changes.

6. Implications and responses

6.1 Issues and opportunities

81 The main aim of this study has been to understand how to use the exploitation of natural resources to reduce poverty (incomes, government resources); and what interventions are feasible that would make a difference. Interventions are possible all through the value chain from the production points in DRC, at borders and through the export corridors, and of course with official bodies both in capitals and at provincial and local levels. It is clear that trade in both natural resources and food and consumables (such as kerosene and other fuels) is highly important for the DRC economy, whether recorded or not, but that the weak governance threatens to undermine or limit the benefits to society. While the analysis and discussion do paint a negative and high risk picture there are a number of developments on the ground which may provide a clearer framework within which to strengthen trading governance and enhance livelihoods and provide real opportunities to make things better.

Opportunities

- 82** The global climate for greater corporate social responsibility is starting to have an impact on the activities of international mining and logging companies operating in DRC and the Great Lakes. There is a momentum on the ground in, for example, Katanga, both in terms of private sector responsiveness to government action and in terms of their working at the socio-economic level with communities.
- 83** The newly appointed provincial governments and elected provincial assemblies in DRC are starting to create opportunities to promote reform. At a recent workshop organised by Pole Institute in Goma there appeared to be a real appetite amongst officials as well as traders for reform and for greater transparency and efficiency of the fiscal and trading regulations and structures.
- 84** Although it remains tentative and has faced set-backs, a more open society has been developing in the region and this is also happening in DRC as the political and security situation stabilises. The media are gaining a stronger voice and traders and workers are starting to organise themselves again to be in a position to defend their members' interests and challenge ministers and officials to account for their actions. There is an expectation among the Congolese population that things could and should now change for the better, a tangible increase in 'democratic space'.
- 85** Within the business community in DRC, at small-scale and artisanal level, there seems to be a sense of optimism; within the agricultural sector there is a ready and strong response to micro-finance for seeds and agricultural inputs, and a growth of small societies of artisanal workers.
- 86** In neighbouring countries, governance reforms are providing a better environment for change than there has been for some time. More efficiency and co-operation on both sides of the border posts means better information, and this contributes to a more positive environment for formalising trade. The regional states and the international community are also clearly recognising the importance of stability in the region and the key role needed to be played by DRC in building this.
- 87** Strong optimism may be premature but many things are moving in the right direction. The needs and issues outlined below should be seen within this more positive context and act as a platform for identifying positive actions to further consolidate this.

6.2 Priorities and thematic issues

- 88 The principal areas of progress or reform emerging out of the study are: peace, security and stability (in DRC itself and the Great Lakes region); governance reform including regulatory frameworks and implementation of decentralisation plans; infrastructure (energy and transport routes); and revitalisation of other economic activities, notably agriculture. Significant improvement on any and all of these will have a major transformational impact on all aspects of the exploitation of natural resources and other commodities and their trade.**
- 89** The needs and areas for reform are intertwined and overlap, but one can identify four thematic areas in which recommendations and opportunities become evident. These are: livelihoods; trade issues; economics and finance; and governance, and each is considered in turn below. We have tried to draw out key issues and areas where interventions may be appropriate. These are not recommendations, but set out areas or raise questions where further studies, actions and investments can help towards realising the longer (and shorter) term goals.
- 90** At the same time, there are two important cross cutting issues, which affect all the thematic areas, and these are capacity at all levels and military and security concerns. The need for Security Sector Reform as a top priority for government has been well rehearsed elsewhere and need not be detailed in this report. The need cuts across all these thematic areas and it remains the top issue on which so much else depends.
- 91** Capacity limitations come through as a second major issue at all levels. Building capacity clearly emerges as one of the principal requirements in making natural resource exploitation and its trade work more effectively to generate wealth, protect livelihoods and reduce poverty. The public service is the sector in most urgent need of capacity-building, at national and provincial level in both the administration (in Kinshasa and provincial capitals) and at border posts and municipalities. Public servants need to be trained and paid appropriately for the job they do rather than getting into it as an opportunity to make what they can from it. The inconsistencies and multiplicities of officially recorded and informal statistics that have emerged from these studies at both national and local levels in DRC and in the neighbouring countries clearly point to a need to strengthen data collection and the capacity to use data effectively. Work is already in hand in UNECA and COMESA, among others, but might be enhanced.
- 92** Civil society, particularly workers associations, trader networks and agricultural associations, could be strengthened and given greater licence to operate on behalf of their interest groups both to enhance the voice of those they represent and to act as a challenge to abuse by state actors and systems.

6.3 Livelihoods

- 93 This section inevitably focuses on DRC where the productive beginning of the value chain starts, but there are livelihoods issues in the region as well, not least at the moment when the domestication of processing in the DRC, of timber for example, will start to reduce employment in this sector in Kenya or Uganda.**
- 94** In the mine-to-market chain there are two major points where the potential transformations in natural resource exploitation and trade flows are likely to impact significantly on livelihoods: among the small-scale and artisanal mining and logging communities and in the cross-border trading communities. More formal/streamlined regulatory and trading frameworks and a move towards the industrialisation and/or technological development of mining (and potentially logging) will change both the opportunities and risks of the livelihoods of thousands and their dependents who survive in the current informal systems. Risk management and alternative livelihoods will need to be actively pursued and supported by all types of stakeholders, from government to civil society and private sector to the international donor community. This will also need to be managed in terms of avoiding the risk of work-related conflict.
- 95** The redevelopment of the agriculture sector is likely to be a significant area for alternative livelihoods and diversification, as well as being an objective in its own right. In mineral rich areas agriculture has often been abandoned in the search for work in mineral exploitation. Conflict and insecurity have been major disincentives to agricultural development. A net result of these has been either extreme poverty or malnutrition or, for those who could afford it, a greater dependence on imported produce. The revitalisation of the agriculture sector has the potential to service growing local demand and create new wealth and employment as well as provide alternative livelihoods and diversification away from mining and logging.

Risks and security

- 96** For young men, joining an army or being a miner/porter has offered a surer and quicker way to earn money and status as a man than farming or other occupations. Greater security, demand for locally produced food and the provision of services like education will encourage diversification but will need to be preceded or framed by more secure land use rights, land access and support to demobilisation and reintegration programmes for ex-combatants.

Relation between artisanal and industrial exploitation

- 97** Noting the differences in the natural resources and ways of exploitation between regions it will be important to develop strategies to fit the particular situation. For example there will be areas where enhancing artisanal and small-scale mining (ASM) will work better than re-industrialisation and other areas where hybrids might be more effective. This could lead to developing specific zones for artisanal activity. Developing artisanal mining, technology and health and safety improvements and energy supplies could be done at quite a small scale and locally making public authorities more locally accountable.

98 The following list of issues illustrates, in no particular order the sort of areas where further studies, actions and investments can help develop activities to support livelihoods, under the subheadings of:

- Diversification and increasing local value added
- Labour markets
- Developing markets and market access

Diversification and increasing local value added

- A mapping approach to understanding stakeholders, market studies, land use could be helpful, supported by risk assessment with respect to other livelihoods. Mapping could cover an inventory of forest resources, minerals, agricultural potential etc
- Agriculture and fishing are areas with strong potential for value added, both locally and in developing markets beyond in the region and further export, e.g. permethrin, quinine.
- Key questions are how to realise sustainable benefits from and for the mining sector? How to supply and support sectors (minerals, forestry, etc), what is the role for SMEs in providing services for formal/industrial mining sector (e.g. Kasai).
- Exploration of livelihood transition options for ASM, including gender considerations (women often more reliable and better managers of money).
- Develop local processing, eg working with small-scale producers on both sides of borders along value chains (eg palm oil, wood charcoal) to work together on value adding. Potential role for chambers of commerce/local associations.
- Grasp the opportunity to build on the vitality of the informal sector – revenues and trade regimes, seen as positive in livelihoods. The informal sector is the workhorse of regional economy – both sides of borders. Development of transition mechanisms allowing for the informal sector to formalise themselves where appropriate.
- Consider potential of Public Private Partnerships to support diversification of livelihood options as an entry point.

Labour markets

- Extend mapping to the labour market for other skills and professions – e.g. teachers within a wider strategy for understanding different contexts (eg do teachers mine because there are no teaching jobs? Could demand for teaching be developed further outside the public sector and within faith-based organisations and the private market?)
- How does DDR fit in; social and economic reintegration?
- Recognise importance of diversification of risks – the need for a portfolio of ways of earning living within households and the extended family. For example a mix of petit commerce, teachers, miners, civil servants and farmers.
- Training needed to improve efficiency, improve safety, reduce waste (eg in sawn timber). Training and organisational skills to develop trades unions and producer associations.

Developing markets and market access

- Develop local markets – infrastructure (eg feeder roads, covered markets, storage areas) and sustainable systems of security and maintenance. Enable more open access to a range of traders across borders outside of the immediate vicinity to increase competition and avoid monopolies.
- Marketing channels: monopolistic behaviour is already established with collusion between large traders and officials leading to barriers for other players to enter. Can this be challenged, eg through cross-border traders' associations?
- Improve access to simple market information – marketing channels, prices – local and regional, regulations and demand opportunities.

6.4 Trade

- 99** Given the historical eastward pattern of trade flows for eastern Congo, the richness of its natural resources and agriculture, the concentration of urban centres near the borders, it has made eastern Congo a de facto part of the east African polity and economic zone. As well as the wealth this trade has brought, it has also created tension, given that eastern Congo is part of the political Kinshasa-centric greater Congo. The same can be said for the southern-facing nature of Katangan trade. It may be possible to look ahead to a time when the constitutional decentralisation in DRC has taken root and greater regional stability has allowed freer trade and movement of people to once again see the regions in DRC generating growth for its people, revenue for the central and provincial authorities and a growing market for the region.
- 100** It is essential to recognise the importance of trade at all levels from industrial through to petty traders. The underlying vitality of trade over the past twenty years in spite of the conflicts in the region means there is opportunity for increasing the benefits to traders and producers like farmers.
- 101** A lot of commodities, for example timber for construction and furniture-making and agricultural produce, are traded within the region and particularly in the trans-boundary areas. This could make the facilitation and regulation of the trade easier through the framework of the one or other of the regional bodies (possibly COMESA, UNECA, EAC or CEPGL).
- 102** The multiplicity of “official” fiscal and border actors in the DRC, the documentation required, taxes etc is an impediment to efficient trade, and an opportunity for fraud. At the same time it is a misapprehension that the only way to combat unrecorded trade and import/export fraud is to tighten state controls since it is often the state agents who break the law. Simplification may make more sense than tighter regulation. Incentives to trade informally (ie outside the official procedures) need to be removed before measures to enforce formal/legal trade are implemented. While these are governance issues they have an immediate impact on trade and its facilitation. It is often the absence of an effective regulatory environment that drives producers/traders to circumvent it. In that sense their activity is better described as a-legal rather than illegal. There is also a need to understand incentives for behaviour – would the effective implementation of the decentralisation elements of the constitution increase incentives for provincial government to collect revenue (and data) and to do it better?
- 103** The following list of issues illustrates the sort of areas where further studies, actions and investments can help develop activities to support trade, under the subheadings of:
- Facilitate trade routes – spatial relationships
 - Trade environment and institutions
 - Information and data collection
- Facilitate trade routes – spatial relationships**
- **Improve the flow of goods and people across key border points. Understand better and facilitate dialogue between government and local communities on each side of the border and across it through:**
 - a. delivering policies to facilitate trade on micro corridors in context of regional trade agreements like CEPGL;
 - b. information dissemination and advocacy for free flow of people and goods;
 - c. establishing cross-border observatories to understand markets better. Eg Kasindi and Kasese/Mpondwe;
 - d. facilitation and encouragement of local dialogue – cross-border community confidence building.

- Improve the recording and use of statistics – regular data provided to national statistics bureaux to provide base line information to support better knowledge of trade in region,
- In regional trade configurations, look at main transport corridors to and from ports and airports, engines of regional trade, and routes through the secondary cities on either side of the corridors.
- Communication – potential use of cell phones and better ICT etc (and links to access to funds etc)

Trade environment and institutions: To create an enabling environment for increased trade (formal and informal)

- Improve cross-border cooperation and regimen (study areas of weakness on both sides of the border within corridors, regional cooperation for both customs officials and traders through availability and exchange of information, eg through regular meetings)
- Enhance capacity of small producers and traders – stimulate ‘fair trade’ type arrangements. This might be a more workable alternative to certification though it is important to look at certification schemes too, for example in production areas for timber where it could be very useful. Help develop demand management and response.
- Clarify of roles between CEPGL and other regional organisations like UNECA, EAC, and COMESA – good time to do this with CEPGL newly re-launched, especially with its focus on energy, banking and agriculture. Also study how these work with or in competition to bilateral trade agreements.
- Support informal sector trade associations (as in COMESA and EAC work on non-tariff barriers in international corridors). Help develop the links between micro-corridors and international corridors (eg as in Northern corridor).

- Simplify and harmonise trade regimes/ cross border procedures (paperwork, visas, tax)
- Remove incentives for trading outside law – harmonisation across borders, rationalising number of services. Convergence of practices. Links between practices and procedures. Develop the guichet unique (one-stop-shop) concept. The DRC freight terminals in Mombasa and Dar need OFIDA as well as OGEFREM, so services work together.
- Increase and improve traceability: potential to develop regional trade collection and tracking systems, based on what has already been started. Link schemes into eastern DRC. Certification/chain of custody options, as in Northern corridor and Katanga-Zambia border.
- Further study on regional trade and transport associations and how to develop them; either integrated value chain approach (vertical), or issues of different groups within chain (horizontal).

Information, data collection

- Clarification and dissemination of information on tax and trade regimens at local/cross border level: eg develop informational pamphlets on existing rules and payments required
- Improve collection of trade data: domestic and regional
- capacity building
- Provision of equipment – electricity and computers.
- Neutral and independent information – rules governing trade, tax regimes, neighbouring countries etc. Transparency of the rules on revenues

6.5 Economics and Finance

104 Mining, especially given the current global demand and pricing of many of the minerals found in DRC, has the potential to make a significant economic difference in DRC, especially in the resource-rich provinces of Katanga, the Kasais, Orientale/Ituri and the Kivus. But for this to happen to a significant degree the mining sector needs to be re-industrialised where it was industrial and given improved technology where it has always been artisanal. This will require political stability for investor confidence, clearer regulatory frameworks and more transparent governance, and an upgraded infrastructure (energy and transport). Given the current extensive nature of informal artisanal mining and noting the regional differentiations mentioned earlier the transition from that to industrialised mining will need careful management to mitigate the knock-on effects on the livelihoods of those who work in the informal system or are dependent on it. The risks of violence and tension from displaced artisanal miners will also need handling. There will need to be extensive activities to protect such livelihoods and find alternatives which should involve government, civil society and the private sector.

105 The banking and financial services sectors in DRC, both locally and centrally in Kinshasa, do not command the confidence of traders and are often avoided or circumvented. Credit and cash for traders locally and across borders needs to be made more easily available. COMESA or CEPGL may be best placed to develop systems or support the private sector in this field.

106 However much improvement there is in terms of regulatory frameworks and improvements in governance, natural resource exploitation (including the domestication of processing of minerals and timber), agricultural production and their trade will be restrained by the lack of energy and poor transport infrastructures both within DRC and in the region. Early focus on these will reap immediate and longer term benefit. AfDB and the World Bank may be best placed to carry forward work in this field both nationally and on a regional trans-boundary basis.

107 The recent efforts in both Katanga and North Kivu to enforce existing legislation against ore being exported unprocessed are likely in the medium term to have a beneficial impact in DRC in terms of growth and employment though the domestication of processing. However in the short term there are likely to be acute problems of capacity and energy and likely efforts to circumvent enforcement.

108 The following list of issues illustrates the sort of areas where further studies, actions and investments can help develop activities to strengthen economic and financial outcomes under the subheadings of:

- Infrastructure
- Public finance
- Business environment
- Private investment and finance
- Adding value, market structures

Infrastructure

- Infrastructure development and linkages – both national and regional transport and energy (Northern corridor into ERDC). Important to ensure sequencing considerations are taken into account (eg timber – rights established before roads otherwise there is a high risk of rapid forest depletion). Involvement of local populations through civil society.
- Regional cooperation on shared cross-border energy supplies (hydro, methane and oil).

Public finance

- Maximising return to state of revenues (natural resource revenue management)
- Regional harmonisation and coordination on taxation – financial sector. Regional coordination between revenue and customs authorities. (cf Northern corridor re petroleum products)
- Create transparent publicly (honestly) administered development funds at the provincial level – earmarking rather than general revenues eg PRSP or Provision of Basic Services type approach at provincial level.
- Decentralisation – Clarification of exactly what the 40% means is key to understanding revenue availability. Mechanisms for redistribution are unclear at present. Need for transparency on revenue-raising, enhanced public debate – particularly around the issue of retrocession (mining code).
- Pay regular salaries for all public servants, including military and police.

Business environment

- Economic incentives, tax exemptions, unfair privileges etc can skew the local economy. The current situation reinforces domination of local economies by certain groups retaining aspects of the militarised economy.
- Level playing field needed between local and large scale formal and informal business (as well as between local and international business).
- Improving regulatory climate for business; eg simplification of rules for initiating new businesses
- Try to sustain creativity and innovation in the informal business sector rather than letting formalisation and

bureaucratisation crowd this out during transition. Analyse the overall business environment including the potential for collaborations, PPP, and the positive dimension of informal trade.

- Modernise and redefine roles of State Owned Enterprises (Gecamines, Miba and Okimo).

Private investment and finance

- The banking sector needs to open to small businesses: Excessive bank charges; lack of confidence in banking systems; 'tiers payant'; Removal of obstacles for moving into formal economic; access and cost of financing – pre-financing; bonding; lack to access to finance.
- Local, regional and international investment opportunities for small scale businesses, banking sector, small and medium-sized enterprises (SME) and for larger enterprises.
- Identifying sources of finance for SMEs to stimulate downstream processing – timber and other natural resources. Clarification of laws e.g., does the mining code stipulate that 80% product must be processed; and does the law apply only to forestry concessions only.
- Financial and capital markets. Development generally in neighbouring countries in East Africa is impressive. Good profits linked to SMEs in neighbouring countries. Mitigate negative DRC business climate through linkages to neighbouring countries and to key financial markets; Opportunities for mobile banking units and Cell pay.

Adding value, market structures

- Progressively transform more dynamic trading corridors into economic corridors (Northern corridor eg in standards in regional markets)
- Local processing and increasing economic activities adds value locally.
- Map out main value chains for exports and imports in countries and regionally.
- Value chains for imported products – encourage cluster approach to corridor development. Identify lead investors, tax incentives etc.

6.6 Governance

109 Last but not least, governance. It is widely recognised, globally but also for the purposes of this report in DRC and the Great Lakes region, that poor governance at both national and provincial level is a major factor in the dysfunctionality of both government political systems and those that govern trade and economic activity. The absence, or non-effectiveness, of law and order has allowed impunity to those who have the power to ignore it. The non-functioning of state systems, for example in paying regular and appropriate salaries to state officials, creates the incentives for those affected to seek other means of remuneration. This in turn creates a system in which a multiplicity of "official" actors, of documents to be authorised, of taxes and dues to be paid can be used as opportunities for fraud or rent seeking.

110 Obvious reforms, largely in simplifying and streamlining the number of processes and the officials involved, and building capacity in such a modernised structure, will face resistance from those who benefit currently from the present systems and would lose out in the reformed and better managed ones. In a system where the legal actors are acting illegally (or inappropriately), it is difficult to describe the producers' and traders' avoidance as being illegal.

111 Decentralisation should offer great opportunities for constructive changes, including greater local accountability and more local financial resources for investment, but the way in which this will play out remains uncertain (see box)

Decentralisation

There are some real issues of confusion and contradiction in the process and implementation of decentralisation in DRC, and in particular over the collection of revenues.

The 2006 Constitution, already in force, makes provision for the retention of public revenues, defined as recettes a caractère national, at the provincial level, at a level of 40%. This is a significant innovation as before all revenue was supposed to be sent to the public accounts in Kinshasa and then redistributed.

However the legal language is not precise particularly in the terms recettes a caractère national and retenue a la source.

A commission was set up following a meeting of ministers and provincial governors in June to study the detail of implementation of the decentralisation aspects of the Constitution. However implementation cannot happen until a Law of Decentralisation has been passed. A Decentralisation Bill was introduced in March but not passed; in any case did not clarify revenue definitions. It may anyway have to await the re-ordering of the provinces in which it is planned to increase the number from 11 to 26, which is not supposed to come into effect until three years after the constitution, ie in 2009. The bill also introduced a further innovation which was that the 40% retained by the provinces should be further divided 40% for the provincial budget and 60% for the lower levels of administration. The latter levels will not be established until local elections have taken place.

A further area in need of clarification is that the Constitution says that customs and import/export rights are the exclusive remit of central government but the organisation of small frontier commerce is the exclusive remit of the provinces. It is not clear how this matches provisions on revenue collection.

112 The issues of land rights, customary rights and ownerships is complex and made more politically complicated by it being, in many respects, a reflection of the deep-rooted and historical dichotomy in Congolese society between a centralised Kinshasa-based national identity and a provincial one claiming local and often community and customary-based rights and ownerships. For example national law claims all Congolese soil and sub-soil belongs to the state. Customary law gives ownership and user rights to customary chiefs. The Forestry Code of 2002 does uphold traditional user rights but the State is granting concessions; generally these are governance problems that affect forestry rather than forestry governance problems.

113 The following list of issues illustrates the sort of areas where further studies, actions and investments can help strengthen governance under the subheadings of:

- Legal and regulatory issues;
- Compliance and enforcement
- Peace and security
- Information and communication

Legal and regulatory issues

- Clarification of rights needed, resolution of customary vs. statutory law.
- Need to ensure laws are reasonably enforceable (eg the 80% processing law is not realistic etc).
- How to make voluntary principles on mining concessions (local and international) effective?
- Longer term entry point – Opportunities in certification and need for trading licenses; start to test certification through procurement – donor projects, government, EU-FLEGT-type
- Review of rights of local communities, mining contracts and existing concessions. Although a review is ongoing it has been behind closed doors. Need transparency and consultations. Need for impact studies before contracts are signed (according to authorities in Goma). Land tenure, access, ownership and title all need to be sorted out before issuance of concessions.

- Decentralisation – clarification of roles of national and provincial bodies; and whether decentralisation is entrenched in constitution but not yet in law.
- CITES – some species of wood should be reviewed in terms of sustainability. Need for DRC listing of species (well defined process under CITES)

Compliance and enforcement issues

- Clarification of official tax regimes and support to their application (Rule of Law issue); Facilitation and simplification of procedures and documentation for small-scale traders across borders, forwarding agents etc .
- Enforcement of mining code, applicability to ASM sector including protective and adherence requirements. Information around different aspects of code, legal system etc
- Dialogue between governors and cross-border partners on economic cross border agreements – Kenya-Uganda, Tanzania-Kenya – better practices, etc – visas waiver systems etc
- Monitoring mechanisms eg observers at market/corridor level to check non-tariff barriers, bribes. Immediate and long term process for mapping exercise on eg level of bribes on particular corridors.
- Separation of economic exploitation and political power. Can people who accede to political office be required to declare their economic interests? This was a specific question asked at the meeting in Goma^{xviii}.
- Exposure of officials and private operators who levy unofficial charges – stop culture of impunity. Links to transparency of revenues.
- Clarify the presence and activities of state agencies at the borders. (eg legitimacy of security role – but separate from trading process). Needs to be internal and self-enforced (eg not MONUC).
- Enforce compliance of codes of practice for private sector, (PPP, EITI); Code of conduct for forwarding agents.

^{xviii} Pole Institute held a meeting of stakeholders including many officials at Goma prior to finalisation of their report – and there were many interesting ideas floated.

Peace and security issues

- Security sector reforms (SSR) – national and provincial need: community level security, DDR; DDRRR; voluntary agreements on human rights observation; application of do-no-harm approaches in all activities;
- Involvement of combatants (state and non-state) in NRE and trade re-enforces militarised economy. Seek mitigation strategies including engaging constructively with stakeholders, sustainable employment diversification from military activities for ex-combatants.
- Inventory of military equipment and use (eg military trucks should be used to transport soldiers and not minerals; similarly commercial vehicles should carry commerce not soldiers)
- Conflict prevention: mitigate potential resource-based conflicts, eg limit access to resources, licenses, and trade routes by armed groups; reduce risk of internal work-related resource conflicts, on the mining concessions; possibly conduct Conflict Vulnerability Assessment (CVA)
- Policing enforcement: role for domestic/community police including to replace military
- Priority to improve physical and economic security for grass roots actors. Joint border patrols and actions within corridors. Consider whether the security corridors concept is workable.
- Developing and building upon community level mechanisms and platforms for resolving conflict, monitoring

Information and communication issues

- Need for transparency – transparency of revenues: public finance management (PFM).
- Need for documentation. Reliable and accurate information and access to this. Advice to traders, facilitation and communications
- Ensure awareness of law – transparency eg ASM rights within mining code
- Keep databases accessible to people on the ground.

6.7 Looking Ahead

114 Clearly, if trade is to be strengthened as a pillar of growth and poverty reduction, there is need for action on many fronts. The list of possible actions above appears formidable, but many proposals are common sense, and there are programmes already in train for some issues. To some extent the issues identified are those which would underpin growth in DRC based on any economic activity, not just traded goods; but the importance of trade lies in its robustness and resilience and the fact that it is feasible to build better structures on already dynamic activities. Agriculture has been very badly degraded and will need a long term programme of reconstruction, but the trade in minerals, forestry, and for example tree crops such as coffee is already underway, and the proposals in this report aim to strengthen and legitimise, rather than start from scratch.

115 This is not to say it will be easy to reform. There are vested interests and decades of very weak governance. To enable an effective programme of reform a strong campaign to involve the full range of stakeholders – officials, traders, miners, civil society and the private sector and the international community - is essential. The next step then is to transform this analysis into programmes and proposals for investment that have come out of the peer review meeting, the aim of which was to clarify and confirm the issues and themes identified and to begin to formulate them into fundable and implementable programmes. These will be defined in a work plan for the coming months and years, and developed and shared widely through a series of local meetings and consultations, with local officials, at crossing points and on both sides of the borders; with groups representing private sector interests; with local chambers of commerce and the Fédération des Entreprises du Congo, elements of civil society, and with funding agencies. The goal is to grasp the window of opportunity as rapidly as possible.

Annex 1: List of Acronyms

ACCO	Association des Chauffeurs du Congo / Congo Drivers Association	ASADHO	Association de Défense des Droits de l'Homme	CIF	Carriage, Insurance, and Freight
ACP Countries	African, Caribbean and Pacific Countries	ASBL	Association Sans But Lucratif / Not-for-Profit Association	CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
AfDB	African Development Bank	ASI	Alex Stewart International	CMKK	Co-operative Maadini Kwa Kilimo
ADARWA	Association des Exploitants de Bois du Rwanda / Association of Logging Companies in Rwanda	ASM	Artisanal & Small-scale Mining	COMESA	Common Market of Eastern & Southern Africa
AEFOSKI	Association des Exploitants et Etudes Forestières au Sud-Kivu / South Kivu Association of Forestry Research and Logging Companies (DRC)	AU	African Union	COMIFAC	Central African Forest Commission
AEMAPRI	Association des Exploitants Miniers Artisanaux pour la Pacification et la Réconstruction de l'Ituri	BCC	Banque Centrale du Congo / Central Bank of the Congo	COODES	Coopérative pour le Développement Economique et Social / Economic and Social Development Cooperative (DRC)
AFABKA	Association de Fabricants de Braise à Kasindi / Kasindi Charcoal Manufacturers Association (DRC)	BCDC	Banque Commerciale du Congo / Congo Commercial Bank	COVEB	Comptoir d'achat et de Vente du Bois à l'Exportation / Export Timber Purchasing and Sale Office (DRC)
AMEKI	Association des Menuiseries de Kihumba / Kihumba Carpentry Association (DRC)	BIC	Banque Internationale du Congo / Congo International Bank	CPA	Comprehensive Peace Agreement
ANEMISA	Association des Négociants des Minerais Stanifères et Accompagnateurs	Bureau II	Bureau Militaire / Military Office (DRC)	CPGL	Communauté des Pays des Grands Lacs / Community of the Great Lakes Countries
ANR	Agence National de Renseignements	CAMI	Cadastre Minier	CREF Network	Network for the Conservation et la Réhabilitation des Ecosystèmes Forestiers / Conservation and Rehabilitation of Forest Ecosystems
AODRPI	Association des Orpailleurs pour le Développement et Reconstruction et la Paix en Ituri	CASM	Communities, Artisanal & Small Scale Mining	CRM	Centre de Recherche des Mines
APENB	Association Professionnelle des Exploitants et Négociants de Bois / Professional Association of Timber Operators and Traders (DRC)	CBC	Qnqidian Broadcasting News	CVA	Conflict Vulnerability Assessment
APJ	Agent de police judiciaire / Junior Criminal Investigation Officer	CDC	Commonwealth Development Corporation CDF	CSO	Central Office of Statistics, Zambia
		CEEC	Centre d'Evaluation, d'Expertise et de Certification	CTPCM	Cellule Technique de Coordination et de Planification Minière
		CENADEP	Centre National d'Appui au Développement et à l'Education Populaire / The People's National Education and Development Support Centre	DDR	Disarmament, Demobilisation, Reintegration
		CENEM	Comité des Exploitants et Négociants du Bois en territoire de Mangina / The Mangina Territory Committee of Wood Traders and Logging Companies (DRC)	DEMIAP	Direction Militaire des Anti-Patrie / Military Detection of Antipatriotic Activities (DRC)
		CEPGL	Economic Community of the Great Lakes Countries		
		CIAT	Comité International d'Aide à la Transition / International Committee to Support Transition (DRC)		

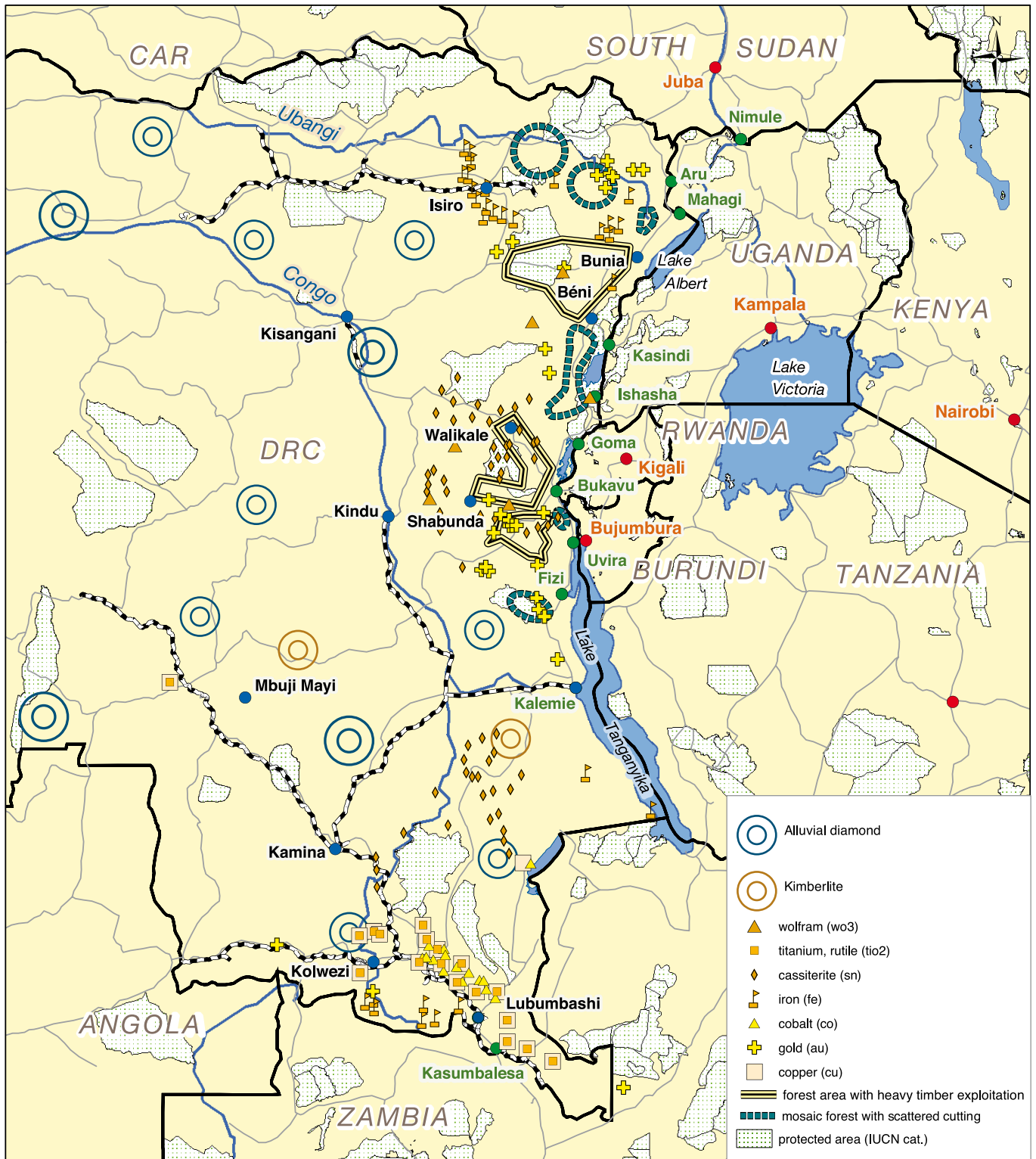
DFID	Department for International Development, UK government	FAO	Food & Agriculture Organisation	GAERN	Groupe d'Appui Aux Exploitants des Ressources Naturelles
DFO	District Forestry Office (Uganda)	FARDC	Forces armées de la RDC / The DRC Armed Forces	GDP	Gross Domestic Product
DGC	Direction Générale des Contributions / The Congo Inland Revenue	FDLR	Front démocratique pour la libération de Rwanda / Democratic Front for the Liberation of Rwanda	GECAMINES	General des Carrières et des Mines
DGI	Direction Générale des Impôts / The Tax Office	FEC	Fédération des Entreprises du Congo / Federation of Congo Businesses	GLHRP	Great Lakes Human Rights Program
DGM	Direction Générale des Migration / The Congo Migration Office (DRC) (security)	FECODI	Federation des Negociants d'Or et de Diamants	GNU	Government of National Unity (Sudan)
DGRAD	Direction Générale des Recettes Administratives et Douanières / General Directorate of Administrative and State Revenues (DRC)	FID	Forestry Inspection Division (Uganda)	GoSS	Government of South Sudan
DRC	Democratic Republic of Congo	FLEG	Forest Law Enforcement and Governance	ICCN	Institut Congolais de la Conservation de la Nature / The Congolese Institute for Nature Conservation
EAC	East African Community	FM	Forests Monitor	ICCO	Interchurch Organisation for Development Co-operation
EAD / DAE	Entité Administrative Décentralisée / Decentralised Administrative Entity (DRC)	FMP	Forest Management Plan	ICT	
ECA	Economic Commission for Africa	FNI	Front for National Integration	IDEC	Institut de développement économique / Institute for Economic Development (Burundi)
ECCAS	Economic Community for Central African States	FNL	Forces Nationales de Libération / National Liberation Forces, Burundi	IECCC	Information, Education et Communication environnementale pour le Changement de Comportement des communautés / Environmental Information, Education and Communication to Instigate Change in Community Behaviour
ECNEF	Environnement, Conservation de la Nature, Eaux et Forêts / Conservation of Nature, Water, Forests and the Environment (DRC)	FOB	Free On Board	IFIs	International Finance Institutions
EITI	Extractive Industries Transparency Initiative	FOPRADI	Foyer pour la Promotion Paysanne et la Redynamisation des Actions pour le Développement Intégral / Club for the Promotion of Farming and the Restimulation of Integral Development Actions (DRC)	ILO	International Labour Organisation
EMAK	Exploitants Miniers Artisanaux du Katanga	FRCF	(Service) Fonds de reconstitution du capital forestier / Fund for the Reconstitution of Forestry Capital (DRG)	IMF	International Monetary Fund
ENRA	Ecole Nationale de Recherche Agronomique	FRPI	Front des Résistances Patriotiques	INICA	Initiative for Central Africa
EPB	Exploitation du port de Bujumbura / Bujumbura Port Authority	G8	Group of Eight Major Industrialised Countries	IPIS	International Peace Information Service
EU	European Union	GA	Garantie d'Approvisionnement / Guarantee of Supply		

IPMEA	Industrie, Petites et Moyennes Entreprises Artisanales / Ministry of Industry and Artisanal, Small and Medium Sized Enterprises (DRC)	OCC	Office Congolais de Contrôle / Congo Office of Law Enforcement	RRN	Réseau Ressources Naturelles / Natural Resources Network
IPO	Initial Public Offering	OCHA	United Nations Office for the Coordination of Humanitarian Affairs	RWE	Round Wood Equivalent
ITC	International Trade Commission	OECD	Organisation for Economic Co-operation and Development	SADC	Southern Africa Development Community
ITTO	International Timber Trade Organisation / Organisation Internationale des Bois Tropicaux	OFIDA	Office des Douanes et Accises / DRC Customs & Excise	SAESSCAM	Service d'Assistance et d'Encadrement d'Artisan et Small Scale Mining
LRA	Lord's Resistance Army	OGEFREM	Office de Gestion et Fret Maritime / Office for the Management of Maritime Freight	SAKIMA	Société Aurifère du Kivu et Maniema
m3	Cubic metres	OGP	Office of Global Programs	SDI	Spatial Development Initiative
MARP	Méthode Accélérée de Recherche Participative / Accelerated Participatory Research Method	OIBT	Organisation Internationale des Bois Tropicaux / International Timber Trade Organisation	SDN	Specially Designated Nationals
MDGs	Millenium Development Goals	OKIMO	Office des Mines d'Or Kilo-Moto	SMEs	Small and medium enterprises
MFAT		OPJ	Officier de police judiciaire / Senior Criminal Investigation Detective	SNEL	Société Nationale d'Électricité / National Electricity Board (DRC)
MIBA	Société Minière de Bakwanga	ORAFRICA		SOKIMO	Société des Mines d'Or de Kilo-Moto
MINITERE	Ministry of Lands, Environment, Forestry, Water, and Natural Resources (Rwanda)	PIR	Police d'intervention rapide / Rapid Intervention Police or Force (DRC)	SOMINIKI	Société Minière du Kivu
MLC	Mouvement de Libération du Congo / Movement for the Liberation of Congo (DRC)	PFM	Public Finance management	SOOCODEFI	Société des Coopératives pour le Développement de Fizi / Society of Cooperatives for the Development of Fizi (DRC)
MONUC	Mission des Nations Unies au Congo / United Nations Organisation Mission in the Democratic Republic of Congo (DRC)	PPP	Public Private Partnerships	SPLA	Sudan People's Liberation Army
MT	Metric tonnes, also tonnes	PRS, PRSP	Poverty Reduction Strategy, Poverty Reduction Strategy Paper	SPLM	Sudan People's Liberation Movement
NCTTA	Northern Corridor Transport and Transit Authority	PSR	Police speciale de roulage / Special Haulage Police	SPLM/A	Sudan People's Liberation Movement/Army
NFA	National Forest Authority (Uganda)	RCD-ML	Congolese Rally for Democracy – Liberation Movement	SPRL	Société Privée à Responsabilité Limitée, equivalent to a private limited liability company
NGO	Non-Governmental Organisation	RDC	Resident District Commissioner	SSR	Security sector reform
NR	Natural Resources	ROL	Rule of Law	TCB	Terminal Container of Beni (DRC)
NRM	National Resistance Movement	RRA	Rwanda Revenue Authority	TRANSCOM	Transport & Communication (DRC)
				TRC	Tanzanian Railways Corporation
				TVA	Total Value Added taxes and duties

UAE	United Arab Emirates
UCD	Union des Commissionnaires en Douane / Union of Customs Clearing Agents and Brokers
UCDAK	Syndicale des Creuseurs du Diamant Artisanal
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UPDF	Uganda People's Defense Force
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
VAT	Value Added Tax
VC	Video conference
VPA	Voluntary Partnership Agreements
WB	World Bank
WCS	Wildlife Conservation Society
WNBF	West Nile Bank Front
WWF	World Wide Fund for Nature / World Wildlife Fund
WWF-PEVi	World Wide Fund for Nature - Programme Education Virunga
ZRA	Zambian Revenue Authority

Annex 2: Maps

Democratic Republic of Congo - Main areas of natural resource exploitation





Capital towns

Main production or market places

Major border points - DRC

Major border points - Other

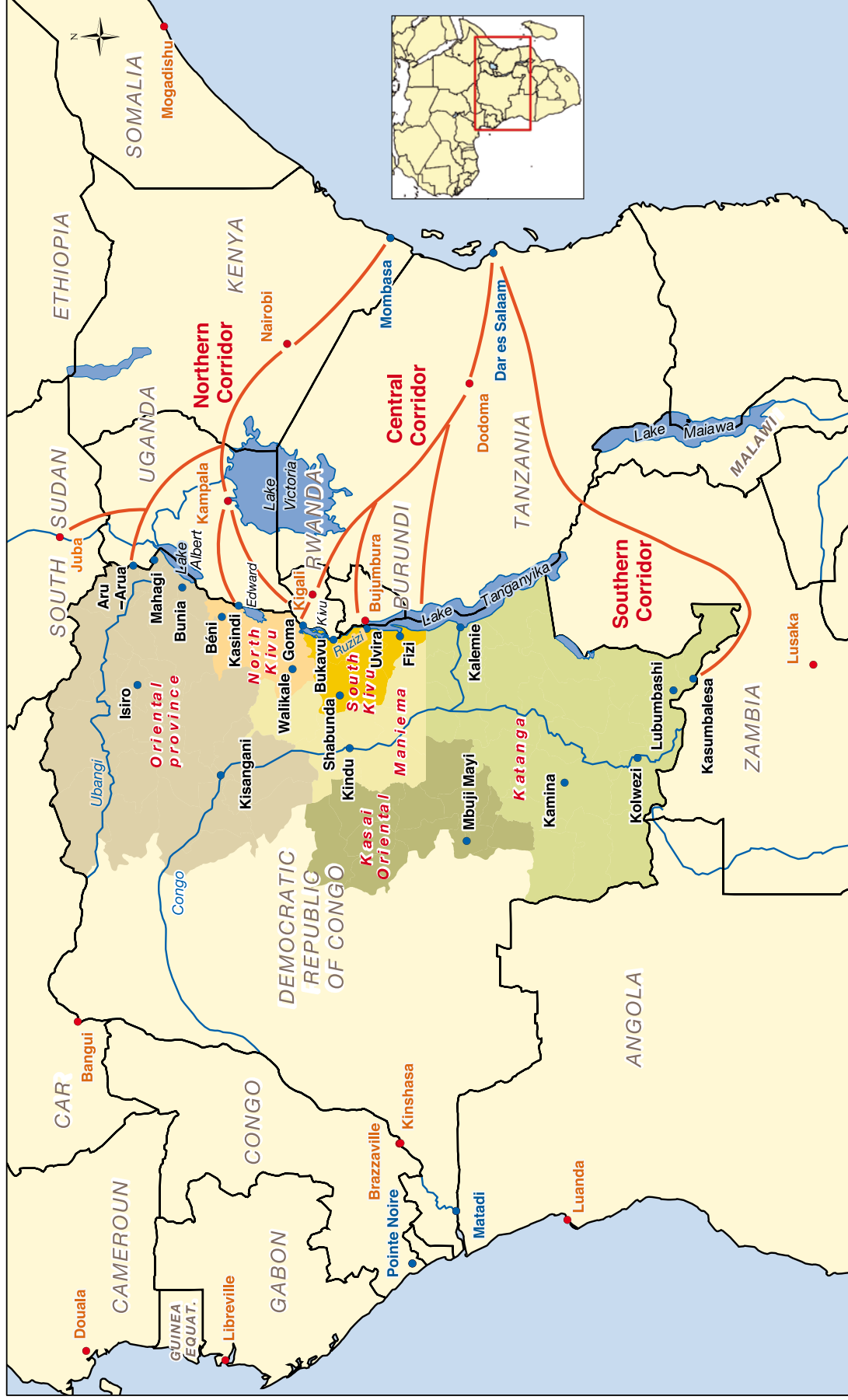
Railways

Main roads

Map designed by Antoine Schmitt, Forests Monitor

The sites of exploitation are not exhaustive: they are based on the results of field investigations in specific areas. For more information see full thematic reports in appendices on the CD-ROM included with this report.

The study area and three main export corridors





Provinces
Capital towns
Main production or market places
Major international ports

Democratic Republic of Congo and South Sudan - Major border trading corridors





- Provinces
- Capital towns
- Main production or market places
- Major border points - DRC
- Major border points - Other
- Railways
- Main roads

Annex 3: Statistics

Issues, methodology and conclusions

This annex notes some of the key issues in collecting reliable statistical data concerning trade in the DRC and describes the methodology underlying the analysis in Section 4 of the main report. The implications of the findings and underlying reasons are discussed in the main report and the detailed issues are discussed in the four research studies.

The aim of the study is to understand better how trade works in DRC, with the ultimate goal of supporting trade in poverty reduction. The analysis of trade in the eastern DRC has up to now been somewhat partial and anecdotal. It was therefore a central element of the study to collect as much data on trade as is available, and to understand fully its robustness.

There were a number of immediate difficulties. Discussion of exports of natural resources from the DRC usually contains the terms 'illegal', 'illicit' and 'smuggled'. But we argue that in many ways it is inappropriate to define exports, particularly from artisanal miners, as 'illegal' and have tended to prefer the term 'alegal' to define trading and mining activities in an environment where many aspects of regulations and law and order have broken down or their enforcement is corrupted. The whole economy is very highly informalised, and a key issue in understanding the actual compared with 'official' levels of export is to understand the nature of informality.

Thus, while official statistics are essential, it was well understood that some of the trade, both on the export and import side, was not recorded formally, and the issue has been to try to assess the actual volumes and values of trade and compare this with the recorded, official data. We have tried to understand the 'real' values of trade - volumes and value. In this context we have used the term 'recorded' and 'unrecorded' rather than 'formal' and 'informal' to reflect the difference between the data collected by government agencies and the estimates of total volumes of trade. Formal and informal trade are present both on the officially recorded data and in the unrecorded, totally informal data. To equate 'formal' with being registered in official statistics is not therefore appropriate.

Baseline official data

The methodological approach has been to review both published and unpublished statistics, and compare these with what can be observed on the ground, through analysis of flows of goods at border crossing points and other indirect means of assessing export levels. There are strong reasons for the use of actual government data as a base line. The statistics are publicly available and 'not negotiable'; using these underlines the role of DRC government in the area of data collection and management; and the analysis will, through showing inconsistencies etc, provide a clear basis for future programmes to strengthen capacity in data collection etc.

In practice, there are a number of important official sources of data for the analysis of trade. These include the customs agency, OFIDA (Office des Douanes et Assises), the export control agency OCC (Office Congolais de Controls); and for minerals exports, the provincial mining department (Division des Mines et Géologie)^{xxx}. OFIDA has the widest coverage of goods traded, covering minerals and timber, but not agricultural products as there are no customs duties payable. OFIDA is also thought to be the most complete and most consistently available at provincial level. Certainly, all the provincial OFIDA offices had some data sets, although not necessarily internally consistent.

The aim was, at a national level, to collect data from OFIDA and compare this with other estimates from international bodies or importers, eg COMESA, to provide insights into the overall national picture. This analysis aimed to permit:

- Comparison of official and 'real' or survey-based exports for a wide range of commodities along the border of Eastern Congo
- Comparison of official national exports by province and commodity with externally collected data and
- An assessment of how full the national statistics are and how the differences compare with locally generated data.

^{xxx} A table showing the main agencies with responsibility for collecting data is shown in section four

However, it emerged that the data were not robust enough to allow for such a consistent approach. What is clear when you scratch the surface of official data in DRC is that the whole data collection and collation process in DRC is extremely weak. In DRC no organisation has a computerised data system, and data collected is very often hand written, sometimes in a ledger and sometimes on pieces of paper, sometimes in ink and sometimes in pencil and sometimes legible and sometimes illegible. There is a systemic weakness, and capacity and human and financial resources for data collection are very limited. We also sought to find trend data - from 2003 to 2006 – but this proved impossible. In any event earlier statistics are broadly meaningless as they would have been collected under war conditions. This was true of both local and provincial level data and of national level trade data.

International trade data

International trade statistics vary hugely between years and between sources – and even within sources. This is partly because DRC does not use the same Harmonised System as is used in most neighbouring countries; and for example Zambia and Tanzania are now using the international Automated System for Customs Data (ASYCUDA) which enables automation of data collection and greater precision. Data were collected from a number of sources: Eurostat, Trademap, COMESA, EUROTRACE. Data are presented in full in the Pact report, but the comparisons show huge discrepancies between the various sources, between official exports from DRC and imports from neighbouring countries, between apparent imports from DRC and exports from the receiving country.

Localised trade data

Between agencies, the data for same commodities exported through the same border crossing in the same year can be reasonably consistent. For example, exports of cassiterite from N Kivu in 2006 are recorded as follows:

Comparison of cassiterite export data, 2006		
OFIDA	2948 tonnes	\$7.06 mn (\$2395 per tonne)
Divn of mines	2904t	Not available
CEEC	2391t	Not available
OCC	2912t	\$6.9 mn (\$2369 per tonne)

The differences are small, and may reflect different stages in the export chain, or different timing of the point at which data are collected. What does emerge clearly is that this value of around 2,900 tonnes for export reflects only about one third of total cassiterite exports!

In assessing how accurate DRC statistics were, we used two main indirect approaches.

- Because there is very little processing of minerals in DRC, it is reasonable to assert that the volume and value of exports will be broadly similar to the volume and value of production. In the case of gold and cassiterite this approach showed very strong differences – the volume of cassiterite recorded as exported in 2006 was about one quarter of the total mined; in the case of gold, the recorded export volume is about one tenth of the total produced.
- Another approach for understanding the reality is to look at import statistics in the neighbouring importing countries. For example, most of the timber from eastern DRC is exported to Kenya and Uganda in approximately equal shares and is consumed in the major cities of Kampala and Nairobi. Analysis of records by importing countries shows about 51,000m³ per year is recorded as being imported from Eastern DRC^{xxx}, while OFIDA statistics show timber exports from Beni/Butembo in 2006 at 2,453 tonnes of raw timber plus 1,086 tonnes of planks (3539 tonnes). Equally, for copper, imports to Zambia were about twice the recorded export volumes.

Conclusions

The differences between recorded and non recorded trade point to a very high level of fraudulent trade in the DRC. This is partly due to tax evasion, but also because of systematic weaknesses and inadequate resources within the official agencies. The implications and causes are discussed in the individual reports and in the synthesis report. But there is clearly a strong case for a review of data collection within DRC as a first step in improving governance in the natural resource sectors and strong support to the government officials to improve the quality and quantity of data. This is recognised by the DRC government and there are some programmes starting to build capacity in, for example, OFIDA. Interventions should aim to build on these, and work to enable DRC to benefit from other programmes in the region – for example, COMESA/USAID work on 'one stop shops' for trade and freight forwarding.

^{xxx} Estimated by Forests Monitor, based on data from COMESA, URA, ECNEF, OCC and OFIDA

Annex 4: Concept note: Natural resources and trade flows in the great lakes region Issues, methodology and conclusions

The exploitation of natural resources (NRE) in the DRC has been a subject of much interest and controversy in DRC, the region and internationally. It is associated on the one hand with human rights abuses, appalling living conditions among artisanal miners and very poor health and safety standards at work; it is associated with deep seated corruption, in the issuing of concessions and at all stages of the value chain in resource extraction; and it is associated with the funding of militias which sustain the insecurity of the country. It is often argued that competition for natural resources – particularly high value minerals – itself stimulates conflict. Because Congo has been so resource-rich and governance-poor for such a long time, what should have been a major driver for development has been a curse.

As a consequence, the mining sector is seen as largely illegal, illicit; minerals which are exported are often described as being smuggled out across porous borders. There is much confusion in the writings and analysis of the minerals sector in DRC, arising from the interlinked characteristics of the sector listed above; and from the advocacy focus of many of the analysts of the sector.

A consequence of these aspects of NRE is that a range of policy proposals are made, such as international sanctions on exports of minerals associated in some way with militias – which in the end have an acutely damaging impact on the population of Congo itself.

The profound lack of security, the absence of much rule of law and exploitive political and economic governance in the Congo for the past years has to some extent given some credence to these attitudes. But now, with the transitional phase nearly through and some prospect of legitimised government being formed it is appropriate to look at how to safeguard the natural resources sector and strengthen it with a longer term view to enhancing value added in the country itself.

What is clear is that trade in minerals is necessary – value for DRC and the population cannot be derived from them until they are sold on international markets in a regulated and transparent way. Domestic demand for the minerals is very low and there is minimal domestic processing capacity. There are well established and traditional trade routes effective into and out of Congo, and these are broadly the routes used today for export of natural resources - through Goma/Gisenyi and Bukavu/Cyangugu to Rwanda, through Beni/Butembo, Mahagi, Aru to Uganda, Uvira to Burundi, all to the East African ports or airports; through Katanga to Zambia to southern Africa and east Africa. Minerals from DRC fetch up in a range of end destinations – China, India, Dubai for example, as well as Western countries.

But from all the analysis, there is little understanding of the actual nature of the trade, how much is in the formal sector, how much informal. Clarification of trade patterns would make a key contribution to understanding the role of trade and markets and how these can be influenced to improve governance of the minerals sector in the DRC.

The proposed work directly complements the work programme of DFID DRC (see box) which concentrates on working with the international architecture and private companies in the minerals sector, and on alleviation of the conditions of artisanal miners; but is not examining international trade routes.

DFID-DRC work plan on minerals sector

The goal of this coordinated effort is to enhance the contribution of natural resources to growth and poverty reduction in the DRC.

The purpose of this engagement is to improve minerals sector governance in the DRC by strengthening revenue transparency and developing mechanisms for encouraging responsible private sector (both large and small scale artisanal) activity.

Transforming the minerals sector will be a long and complex process. The World Bank with its unrivalled in-house minerals expertise is best placed to lead a harmonised donor effort to reform the sector. We and other donors are lobbying for them to play this role: recent reports that the Bank is launching a minerals sector review are positive. But whilst this process is necessary, it will not deliver impacts in the short term. This project has been identified to respond to specific opportunities which can begin to change the incentive framework for the sector and ensure that mining sector revenues begin to benefit Congolese citizens. We have identified four opportunities :

- Support to EITI: Increasing revenue transparency is an essential first step. Our support will allow us (and other donors) to test Government commitment to tackle vested interests without which deeper reform is unlikely to be achieved.
- Establishment of Public Private Alliances: These will bring together donors, mining companies, local/provincial government and civil society to develop systems for the transparent utilisation of mining company and donor funds for local development priorities (see Annex 1). PPAs will ensure that Congolese people will reap the benefits from mineral exploitation by companies in the short term. Company participation will be conditional on adherence to international standards and national laws. Over the medium-term, this mechanism should facilitate the proper and efficient use of mining sector revenues at the provincial level (see Annex 2).
- Contribute to the reform of the international architecture: Our involvement in PPAs will generate country-level information on the effectiveness of the international regulatory architecture for addressing irresponsible corporate behaviour and support efforts in capitals to improve the scope and application of international instruments such as the OECD Guidelines.
- Support the transformation of the artisanal and small-scale mining sector (ASM): With other donors we will identify options for transforming the ASM sector, which constitutes 80% of total mining sector activity.

By providing an analysis of trade routes - how trade is managed and organised – and quantified as far as possible, we can provide a framework for understanding the linkages from miner to market. This analysis would address a wide range of questions: what is the volume of different minerals exported through different routes; how can these routes be strengthened and managed better; do the practices in trade differ significantly between the various transit points; what proportion of the trade can properly be described as informal?)

Trade in minerals – as well as others goods and services - has ramifications into local and regional security as well as poverty alleviation. A number of other donors and organisations share this interest in improving the understating and effectiveness of trade – including USAID and the Netherlands; and regional organisations such as COMESA and policy development groups like INICA and Pole.

Goal and purpose

The goal of the proposed programme of work is to enhance the sustainable and equitable use of natural resources in the DRC in the interests of regional stability and helping the poor. The purpose is to provide a regional dimension to the analysis and understanding of natural resource exploitation in the DRC, with a view to developing and implementing policies and reforms that improve both governance and the functioning of markets. Better management of trade in natural resources will lead to more sustainable incomes and livelihoods for the poor, support transparent revenue raising for the legitimate government and play an important role in bolstering regional security. The programme will fall into two parts;

Outputs

Phase 1

An improved understanding of the causes, scale and processes of formal and informal mining in DRC, including the relations between mines, miners and markets, internal trading processes, roles and responsibilities identification of the key actors in the pathway from mine to external trade. Minerals will be key, but the study will enable an improved understanding of other traded goods – such as forestry and forest products and coffee, and the overall trading structure.

An improved understanding of trade flows from DRC, through all the main border posts to all destinations, an understanding of key players at country and regional level, the types of supporting organisation, processes and procedures along the trade routes to final destination for all mineral products exported from DRC.

Phase 2

Tools and policies to regularise 'illegal' or 'informal' exports of minerals from DRC and control and manage the marketing of minerals from source to final destination identified, developed and implemented. This could include policies acting on the trade chain (eg using a 'Fairtrade' approach), support to better governance in NRE in the DRC.

Strengthened regional trade and other economic organisations, supporting reform of trade in minerals from DRC and strengthening cooperative trade management with neighbouring countries and in the region.

As indicated above, the work falls into two phases, the first a diagnostic phase of data collection, analysis and interpretation and a second the effective development and implementation of policy. The knowledge about trade and trade practices – from individual miner to final destination – seems to be very partial and often biased and the initial research phase is seen as crucial.

The work proposed links strongly with two parallel work streams which are currently supported by DFID DRC:

- Support for artisanal miners within DRC, consciousness raising and public private partnerships to improve conditions for ASM.
- Support for internal reforms within DRC to strengthen the transparency and legitimacy of trade, such as supporting work in customs reform with other donors.

And the other key linkage is with ongoing work supported by DFID and others to strengthen private sector coordination and compliance with national and international agreements and protocols on the minerals trade, and within the UK, working across government (with the Foreign Office and Department of Trade and Industry in particular) to support improved trade governance in DRC and with her partners.

**13th September 2006
Great Lakes Regional Issues Unit, DFID**



DFID Department for
International
Development



USAID
FROM THE AMERICAN PEOPLE

10/07 1k Printed on recycled material containing 75% recycled fibre and 25% elemental chlorine free virgin pulp.

Produced for DFID by Cog Design.

Product reference: TFP1 ENG ISBN: 1 86192 919 6