CASM
Communities and Small-Scale Mining

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Beyond Conflict: Reconfiguring approaches to the regional trade in minerals from Eastern DRC

LSE The London School of Economics and Political Science
Crisis States Research Centre
CRG Conflict Research Group

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List of Acronyms

AM Artisanal Mining

ASM Artisanal and Small-Scale Mining

BGR German Federal Institute for Geo-Science and Natural Resources

CAMI Cadastre Minier

CASM Communities and Small-Scale Mining Secretariat (World Bank)

CEEC Centre d'Evaluation, d'Expertise et Certification des Substances Minérales Précieuses et Semi-Précieuses

CEPGL Economic Community of the Great Lakes Countries

CNDP Congrès National pour la Défense du Peuple

COMESA Common Market for Eastern and Southern Africa

CSO Civil Society Organization

DDR Disarmament, Demobilisation and Reintegration

DFID United Kingdom Department for International Development

DGI Direction Générale des Impôts (DRC)

DGRAD Direction Générale des RecettesAdministratives, Judiciaires, Domaniales et de Participation

DRC Democratic Republic of the Congo

EAC East African Community

EAD Entités Administratives Décentralisées

EITI Extractive Industries Transparency Initiative

FARDC Forces Armées de la République Démocratique du Congo (Congolese National Army)

FDLR Forces Démocratiques de Liberation du Rwanda

FEC Federation of Congolese Enterprises

GoB Government of Burundi

GoDRC Government of the Democratic Republic of the Congo

GoR Government of Rwanda

GoT Government of Tanzania

GoU Government of Uganda

ICGLR International Conference on the Great Lakes region

KPCS The Kimberley Process Certification Scheme for Rough Diamonds

LSE London School of Economics and Political Sciences

LME London Metal Exchange

LSM Large-Scale Industrial Mining

MINITERE Ministry of Land, Environment, Forestry, Water and Mines, Rwanda

MONUC United Nations Organization Mission in the Democratic Republic of Congo

MPA Metal Processing Association

MPC Mining Processing Congo

NGO Non-Governmental Organization

OECD Organization for Economic Co-operation and Development

OCC Office Congolais de Contrôle

OFIDA L'Office des Douanes et Accises

OGMR Rwanda Geology and Mines Authority

PARECO Alliance des Patriotes pour la Refondation du Congo

PPA Partnership Programme Agreement (e.g. between donor and company)

REC Regional Economic Commission

REDEMI Régie d'Exploitation et de Développement des Mines/Mining Production and Development Board, Rwanda

RIEPA Rwanda's Investment and Export Promotions Agency

SADC Southern African Development Community

SAESSCAM Service d'Assistance et d'Encadrement du Small-Scale Mining

SME Small and Medium sized Enterprise

UN United Nations

UN GoE United Nations Group of Experts

USAID United States Agency for International Development

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The Communities and Small-scale Mining (CASM) initiative was launched in 2001, in response to a critical need for integrated, multi-disciplinary solutions to the complex social and environmental challenges facing ASM communities, and improved coordination between those working in this sector.

CASM is a global networking and coordination facility with a stated mission to "to reduce poverty by improving the environmental, social and economic performance of artisanal and small-scale mining in developing countries." CASM is currently chaired by the UK's Department for International Development and is housed at the World Bank headquarters in Washington, D.C.

Resourced by a multi-donor trust fund, CASM currently receives its core funding from the UK and the World Bank, supplemented by program support from Japan, amongst others, Canada, France and the US. Several companies, trade associations and charitable funds, such as Tiffany & Co Foundation, also contribute finances to CASM's work program. CASM funding has leveraged significant additional funding for work in the ASM sector.

www.artisanalmining.org

Executive Summary

In April 2009 we published Trading Conflict for Development, which provided an in-depth analysis of the link between the mineral trade (tin, tungsten and tantalum) and conflict and development dynamics in Eastern DRC. The paper emphasised that security sector and governance reform, coupled with mineral trade formalisation, are an essential first step for the international community, local and regional stakeholders to put an end to the conflict and to increase development benefits from the trade, which sustains the livelihoods of one million persons regionally. In contrast to popular discourse on the mineral trade, the report suggested that interventions in the economic domain in the form of a ban on minerals or a disruption of the trade in minerals are unlikely to solve the issue of insecurity in Eastern DRC. In fact, depending on how such measures would be implemented, they could worsen the situation.

The slow progress of a joint MONUC and FARDC operation against the FDLR in the second quarter of 2009 and continuing human rights abuses have increased the urgency with which the international community is seeking means to end the conflict in Eastern DRC. Most significant is suggested legislation by the US Senate to place a due diligence requirement on electronics companies that source tin and other metals from Eastern DRC. This proposition has in turn, prompted suggestions from the UN, pressure groups and industry groups as to what such a scheme might look like. This follow-up paper takes a holistic view of the regional trade in minerals from Eastern DRC and constructively critiques the various engagement strategies that pressure groups, the UN and other stakeholders have recently proposed. It also makes its own suggestions for trade reform and urges policy makers to set the correct priorities when engaging with the mineral sector.

We believe that the primary reason why there is insecurity in Eastern Congo is because the Congolese state is unable to control the monopoly of violence and protect its citizens. This has translated into the presence of a number of armed groups who act with impunity, high levels of violence, including sexual violence, and the militarisation of the economy, including the mineral trade. In this context, military control of the trade in minerals is another *symptom* of general insecurity in Eastern DRC, rather than the principal cause of insecurity or sexual violence as some mistakenly stipulate. The non-militarised trade in minerals in the Kasais, southern Katanga, Bandundu and large swaths of Maniema, Ituri and Equateur underlines this argument.

This is not to suggest that a link between the minerals trade and conflict dynamics do not exist, but rather to emphasise that intervening in the trade in minerals is not enough to solve the insecurity crisis. Instead, policy makers should focus on consolidating the security sector in order to impact positively on conflict dynamics, while at the same time support governance reform, which is essential to both guarantee the sustainability of these positive impacts and to provide a platform on which to build a successful development process.

We explain our argument by first providing an overview and analysis of the regional trade in minerals from Eastern DRC, including a baseline assessment of its links to conflict and development dynamics. This assessment explains the on the ground realities, which are at the very heart of our scepticism towards the potential success of interventions in the economic domain. For example, it is simply not possible to disconnect the FDLR from its revenue from the gold trade through an economic strategy. The assessment of the trade also provides an overview of the important poverty reduction contribution, such as the trade's fiscal linkage and employment function, which it currently provides and which can be expanded with the right strategies.

Secondly, we expand on our regional perspective of the trade and introduce how successfully the DRC's neighbours, Rwanda, Uganda, Burundi and Tanzania,

BOX 1: Security, Peace and Development in DRC

Like all other observers, we wish to see an end to the terrible violence that pervades the Eastern DRC. The US Secretary of State Hillary Clinton's recent affirmation that systematic rape occurring in the DRC amounts to a crime against humanity is a stark reminder of the violence, which people in the region have to live with every day.[1] In this context, our analysis of the political economy, mineral trade dynamics, and intervention strategies are not in any way an endorsement of any illegal acts, acts of violence, or neglected responsibility on behalf of actors within the mineral trade. For example, our assessment that due diligence mechanisms are not likely to solve the insecurity crisis is not an endorsement of actors buying from the FDLR, an illegal activity we suggest should be pursued through terrorist legislation. Nor is it an uncaring dismissal of the human rights abuses committed by the Congolese armed forces and other military groups against the civilian population; such acts should and must be addressed. Rather our analysis is a realistic assessment of the likely outcomes of suggested economic interventions, and a recommendation for stakeholders to place significant effort into establishing and reforming the security sector to solve issues of insecurity. As with all our recommendations, these are focussed toward security, peace and development in the DRC.

1 Lee, Matthew, Clinton sees evil in sex crimes in eastern Congo, Associated Press, 11 Aug 2009

have leveraged their own mineral production and trading sectors in various ways for development. This regional assessment of the development impact, but more importantly the regional development potential of a reformed trade leads us to believe that processes of regional economic integration, which are strengthening in East Africa, provide an increasingly important analytical perspective of the trade, than the "loot thy neighbour" strategy that was seen to prevail during the past two Congolese wars.

These dynamics are important for the reform approaches suggested in this paper that seek to leverage the full development potential of the minerals trade both domestically and regionally. Reform approaches include both suggestions of reform of the mineral trading regime, but also approaches at the macro level, such as the need to develop a development vision for Eastern DRC, to rehabilitate the agricultural sector so as to provide viable economic opportunities outside of the mining sector, and the need to rebuild energy and road infrastructure in order to increase the efficiency and profitability of the trade.

With these strategies in mind, we hope that this report further advances the debate around the mineral sector in Eastern DRC. We urge stakeholders to take action to end the insecurity in the region and to implement strategies to maximise the mining sector's impact on poverty reduction and development through positive engagement.

Recommendations

The following are directional recommendations designed to focus policy makers and other stakeholders on the most pressing issues in Eastern DRC. Further specific strategies are elaborated in our April 2009 report Trading Conflict for Development and will also feature in our forthcoming publications, which will be available on our website www.resourceglobal.co.uk.

1. Security Sector Reform:

Recommendation 1a: Build a Functioning National Army, Police and Judiciary

A top priority for the GoDRC, with assistance from the international community, should be to build a functioning national army based on a unified chain of command, which is both operationally effective and accountable. While it is difficult to reform an army that is in a conflict situation, stakeholders should identify and act upon engagement opportunities. At the very least there should be a unified framework of foreign assistance to pursue one approach to doctrine, training and provisioning and the establishment of an effective and accountable payment structure to ensure soldiers are housed appropriately and receive living wages to feed themselves and their families.

Recommendation 1b: Align and integrate interventions in the mineral trading sector with Security Sector Reform Priorities

In the Consultative Group Meeting on the DRC in Paris in 2007 bilateral and multilateral actors suggested, "security sector reform (SSR) across the three pillars – army, police, and justice – is the key to sustainable development in DRC".[1] The government and partners also stressed the importance of combating sexual violence, violence against children, and impunity.[2] We believe the contested monopoly of violence and resulting insecurity in the Eastern DRC are principal causes of violence, economic predation and torpor in Eastern DRC. It is also the principal impediment to reform, poverty reduction and development in Eastern DRC's economic, political or social spheres. Interventions should therefore be aligned and integrated with security sector reform priorities, as far as possible. For example, the incorporation of economic security into demobilisation and disarmament and reintegration (DDR) programmes is a crucial, although highly neglected, element of any successful strategy to bring about peace.

2. Improve Governance Structures by establishing accountability mechanisms and training

Recommendation 2a: Rebuild administrative structures in Eastern DRC by establishing accountability mechanisms and a retraining programme with incentive structures to end harassment of economic actors

This is critical to progress governance reform. Administrative structures in Eastern DRC need to be rebuilt. Current structures of governance are patchy and locally negotiated, undermining any possibility that the larger population will benefit sustainably from any economic activity. International efforts must support the expansion of a state in the DRC that is capable of making effective interventions that, in turn, encourage the development of productive forces within the country. This reform must include extensive reform of administrative structures including putting in place accountability mechanisms for malpractice and retraining administrators so that they understand better their purpose and are able to do their jobs effectively. These reforms are essential in order to address the prevalent culture of abuse of position

1 Consultative Group Meeting, Paris, 2007
2 Ibid

in the Congolese Administration whereby, for example, civil servants ritualistically misappropriate state revenues. This also presents an opportunity to tackle early problems of harassment of economic actors by the administration, which is a significant obstacle to growth in peaceful parts of DRC, such as Katanga, where the administration habitually abuses its power to arbitrarily impose fines and other forms of sanctions on economic actors, if they don't comply with extra-legal requests.

3. Strengthen the Economy

Recommendation 3a: Launch and support programmes to increase the productivity of labour and land in agriculture

In pre-conflict times Eastern DRC's economy (North and South Kivu in particular) were based on agricultural production. Redeveloping agricultural productivity is essential for improving food security and lessening the population's dependence on artisanal mineral production (and poaching) for survival. This is also in line with local people's perception of mining as a marginal activity compared with agriculture, is seen as a higher status activity, at least in North and South Kivu, which are not traditional mining areas. Some concrete steps include:

- Reinvigorate small-scale agricultural production by facilitating the return of displaced rural populations to their farms and villages, which in turn depends on the right security conditions and investment in infrastructure, particularly roads and water management, and agricultural extension services;
- Create and/or restart arable and pastoral agricultural producer organisations, including at cross-border level, as a first step towards the reconstruction of commercial agriculture, which can make use of modernised agricultural entrants and techniques in order to address food security and earn export revenues at a significant level;
- Restructure and reorganise the coffee sector as eastern DRC's most significant agricultural export earner.
- To ensure the sustainability of these interventions it will be important to quickly draw on the experiences of the older generation as well as on positive local experiences in order to define a DRC agricultural policy at the national and the provincial levels;
- Investing heavily in transport infrastructure to make remote rural regions more accessible, reinvigorate local markets, lower prices and reduce insecurity.
- Coordinate programmes in the artisanal mining sector to promote agricultural activity as an alternative livelihood

Recommendation 3b: Improve Access to Finance and Break Trading Monopsonies

A principal reason the population derives only small benefits from economic activity in Eastern DRC is inadequate access to finance and the monopolistic or oligopolistic structure of trading regimes. This often results in debt bondage of small producers. These trading monopsonies are often the sole providers of finance for starting up any commercial activity; however, these arrangements seldom operate on equitable terms. In order to increase the benefits people can derive from economic activities and release the entrepreneurial potential of the Congolese people, it is important to improve access to finance and to markets. The latter is directly related to more long-term interventions, such as the development of infrastructure, especially roads, that facilitates access to resource-rich areas, the provision of microcredit and savings alternatives for miners, and a sustained effort along these lines by development agencies. In order to improve access to finance in the short-run, the following steps could be undertaken:

A remote mining site in Walikale *© Mark Craemer 2009*

- Use mobile phone banking to increase access to saving and transactional services;
- Provide incentives to encourage the proliferation and proper regulation of microfinance organisations and producer cooperatives;
- Support the long-term development of a formal banking and finance sector, as well as necessary financial architecture.
- Regional institutions such as COMESA's PTA (Preferential Trade Agreement) Bank might consider guaranteeing funds for a cross-border bank to be set up, facilitating cross-border trade. Regional banks also have a role to play in financing Micro-Finance Initiatives (MFIs) and local businesses.
- The possibility of re-opening the CEPGL "Banque pour le Developpement Economique des Grands Lacs" (BDGL) should be seriously considered.
- The legal framework for regional commercial banking requires further study.

Recommendation 3c: Promote Investment in the reconstruction of energy infrastructure through multiple mechanisms including barter agreements, cross border investment schemes and state incentives for pooled private investment

Insufficient, costly and unreliable energy prevents the existence of value added production processes, which retards domestic resource mobilisation processes and adversely affects the state's revenue base. It also encourages dependence on charcoal, with its associated devastation to forest ecosystems. It is therefore imperative to reconstruct energy infrastructure in Eastern DRC. The following are priority steps:

- Improve security in Eastern DRC
- Seek investment agreements over energy production from methane exploitation on Lake Kivu replicating Rwanda's efforts
- Given the DRC's limited financial means to pay for significant energy infrastructure in the short-run, it should explore barter agreements with investors, who have the financial means to install this infrastructure
- In the short-run seek preferential energy import agreements between Rwanda and the DRC for energy to be generated from Lake Kivu gas on the Rwandan side
- Install and maintain cross border power lines
- Maximise cross-border cooperation in the management and exploitation of joint energy reserves and the planning of energy investments
    - Work through regional bodies and REC's
    - Accelerate joint exploitation of Lake Kivu methane gas and Lake Albert oil
- Install and maintain cross border power lines
- Orienting energy development towards local demand and local supply possibilities in order to effectively address the energy deficit
    - Update and operationalise existing ideas for the optimal use of local energy production sites in order to attract investment
    - Look at the Rwanda Investment Group's money pooling model for investments option and try to replicate the model amongst the Goma based Congolese elite with a view to getting strategic investments underway on the Congolese side. Policy makers should support this process by convening a meeting to discuss the options.

Recommendation 3d: Promote Investment in the reconstruction of road infrastructure and prioritise the reconstruction of roads that are important to trade, particularly in agricultural commodities

Dilapidated transport infrastructure is a key constraint to development in Eastern DRC. It prevents cost- and time-efficient transport; it facilitates military taxation of trade, and prevents the development and opening up of rural markets, making monopsonistic control more possible. This works particularly to the detriment of small producers and rural people, who depend on trading for their survival. The following are priority steps:

- Address the issue of insecurity in the Kivus
- Draw on grassroots data generated by *Trading for Peace* research to prioritise infrastructure development, i.e. focus on primary roads/routes of importance to trade first (see infrastructure section).
- Part-finance the building and securitisation of efficient air transport links to the non-rebel held areas of Maniema and Northern Katanga through PPAs. This starts with building safe airstrips in the five main mining locations and ensuring that air transport can run profitably and safely. Expand this approach as spaces of security expand also in other geographical areas.
- Develop infrastructure with a view to achieving maximum benefit for the agricultural sector so as to aid medium term economic diversification.
- In line with EAC recommendations, the SADC Secretariat should draw up a regional infrastructure development master plan in cooperation with member states that will provide regional entry points for donor support.

4. Reform Trading Regimes, including the Mineral Trade

As detailed in this report and elsewhere, military groups continue to benefit from various rent-seeking mechanisms imposed upon *all* trading activity in Eastern DRC, including the trade in dairy products, charcoal and minerals. We suggest here that economic interventions outside the framework of security sector reform programmes, such as mineral trade control mechanisms, are likely to have limited impact on the security situation where military groups are able to easily diversify their revenue sources. It is therefore important to develop an approach to trade reform that is integrated into SSR reform, to allow for reform to be sustainable and effective.

Recommendation 4a: Establish economic interventions that stimulate sustainable development

Interventions within the economic domain are a necessary step towards reforming Eastern DRC's trading sectors. In line with the above recommendations on security sector reform, interventions in the economic domain will not solve issues of insecurity in and of themselves. However, such interventions could expand the constituency for peace if it can be demonstrated that commercial success does not rest upon contesting or controlling the monopoly of violence.

The following recommendations are geared towards the mineral trade as an example of how economic interventions might nurture longer-term development in any of the myriad trading activities that constitute the fabric of Eastern DRC's economy.

GoDRC

- Develop a development strategy for Eastern DRC.
- Commit to reforming the FARDC.
- Commit to promoting entrepreneurialism and economic diversification in Eastern DRC, including improving access to finance, infrastructure development and agricultural redevelopment.
- Commit to longer-term reform of governance structures, particularly a rebuilding and reform of the administration.
- Support long-term professionalisation and formalisation of the artisanal mining sector, and consider the role traditional authorities can play in such a process.
- Fully support the EITI in the mining sector, including the ASM sector.

Other Policy makers:

- Support the Congolese government in developing an integrated strategy for the sustainable development of Eastern DRC, incorporating environmental security priorities.
- Support the consolidation of the national army, the police and the judiciary in Eastern DRC
- Support the promotion of entrepreneurialism and economic diversification in Eastern DRC, including improving access to finance, infrastructure development and agricultural redevelopment.
- Support governance reform, particularly with a view to training and capacitating the administration in Eastern DRC at all levels, so as to improve the investment climate and generate regulatory and oversight capacity.
- Ensure that policies are implemented which have a realistic chance of success given the severe implementation constraints on the ground (logistical, governance and security sector issues).
- Support long-term professionalisation and formalisation of the artisanal mining sector, including efforts to educate miners on responsible practices and to create an enabling environment.
- Advance the EITI in the ASM sector.
- Publish disaggregated statistics on imports of minerals from the Great Lakes region into their territories. Such data should be made available to the relevant local governments and the general public.

All other stakeholders:

- Press home country governments to support the consolidation of the security sector in Eastern DRC.
- Press home country governments to support governance reform in Eastern DRC.
- Press home country governments to support the promotion of entrepreneurialism and economic diversification in Eastern DRC, including improving access to finance, state mobilisation of private investment, infrastructure development and agricultural development.
- Interventions must be designed with due process to consultation with all stakeholders. This will help ensure that the measures are appropriately designed, locally owned and sustainable.

Pressure Groups

- Contribute to conflict resolution by engaging with the *causes* of conflict, instead of placing all emphasis on conflict *symptoms* (such as the militarisation of trade), which would include developing campaigns around citizenship issues and access to land.
- Support sustained engagement with, and reform of the artisanal mining sector.
- Engage and partner with industry for sustainable reform and continue scrutinising industry actors to expose malpractice and abuses.
- Make control mechanism suggestions that are implementable, first and foremost, rather than utopian.

End Users:

- Continue to work on supply chain transparency, in line with the ongoing initiative by GeSI and the EICC in the electronics sector.
- Develop an industry wide approach to contributing to trade reform in Eastern DRC.

Processing Industry:

- Stop trading with the FDLR and other rebel groups, as well as the FARDC.
- Due diligence requirements should be implemented by companies operating in and buying from the Eastern DRC, as part of the formalization and professionalisation of the sector.
- Press the GoDRC to support security sector reform, particularly a reform of the FARDC.
- Global purchasing and trading companies should ensure that minerals purchased from DRC's neighbours have been properly taxed in their country of origin.
- The companies should publish their payments to all governments in line with the EITI.
- Collaborate with end-users working on supply chain transparency, in line with the ongoing initiative by GeSI and the EICC in the electronics sector.
- Develop collaborative appropriate responses in consultation with all stakeholders.

Trading Houses (Comptoirs):

- Stop trading with the FDLR and other rebel groups, as well as the FARDC and continue to press the GoDRC to support security sector reform, particularly a reform of the FARDC.
- Ensure that minerals exported from DRC have been properly taxed.
- Publish payments to all governments in line with the EITI.
- Develop appropriate responses in collaboration with all stakeholders.

Development NGOs and Agencies:

- Contribute to the development of an integrated strategy for the sustainable development of Eastern DRC, incorporating environmental security priorities.
- Contribute resources and expertise to security sector reform in Eastern DRC.
- Support long-term engagement with the artisanal mining sector and invest in artisanal mining communities; they need sanitation, water, and schools too and have particular needs in relation to health, child labour, gender-based and ethnic-based discrimination, as well as economic and environmental programmes too.

- Support long-term professionalization and formalisation of the artisanal mining sector, including efforts to educate miners on responsible practices and to create an enabling environment.
- Ensure all other stakeholders are taking an integrated approach to tackling the security and development challenges in Eastern DRC, including balancing social, economic, political and environmental priorities.
- Publish opinion and feedback on the likely development impacts of the actions of the other stakeholders to ensure all interventions are planned optimally for achieving the higher goals of development and security.

5. Increase state revenue to expand the financial base for the state to function

Recommendation 5a: Simplify and standardise cross-border trade regulations, to reduce or eliminate delays, increase predictability of costs to traders and increase revenue collection by state authorities

As discussed in our chapter on the fiscal linkage, the operational difficulties of the DRC's export regime are first and foremost the responsibility of the GoDRC. Inefficient and confusing border procedures incur significant costs for exporters and the GoDRC, while also providing opportunities for rent-seeking and incentives for smuggling. For businesses, border-related costs are both direct, such as expenses related to supplying information to the relevant border authority, and indirect, such as those arising from procedural delays, lost business opportunities and lack of predictability in the content or enforcement of regulations. For regional governments, the cost of inefficiency includes incomplete revenue collection due to smuggling and under-declaration, as well as difficulties ineffectively implementing trade policies. While this discussion is most relevant to the DRC, there remains considerable scope for improvement of the export regimes across the Great Lakes region. Concrete steps are:

- Apply Customs Procedures that are Simple, Predictable and Transparent.
- Harmonise the customs and tax regime with that of the East African Community (EAC), which could be done within the COMESA-EAC-SADC tripartite arrangement, and implement decisions already taken on the reduction of authorised border services
- Consider Partnerships with Other States and Services.
- Establish a one-stop customs shop to ease export and import formalities.
- In the run-up to the establishment of a one stop customs shop the countries of the Great Lakes region should consider joint customs posts, which could:
    - Significantly reduce the waiting time at borders,
    - Reduce smuggling opportunities,
    - Allow for peer review of procedures and figures at the same time as decreasing capacity building costs (improving conditions of service, sensitisation, supervision and training of customs personnel).
    - States should consider public-private partnerships with international contractors for state services. One reason why undervaluation and misdeclaration occurs is because state services collude in it. In the short-term the various state services could be partnered with international contractors, who can help build local capacity, as has happened in Katanga province.
    - The personnel of the state services should receive adequate training and wages to reduce their incentive to take advantage of rent-seeking opportunities,

bearing in mind that as a result of the extended family support structure a mere increase in wages alone is unlikely to root out petty corruption. Community sensitisation may also be required.

6. Regional Economic Integration

Recommendation 6a: Frame Reforms in the Context of Regional Integration and Development

All trades from Eastern DRC have significant regional development implications and trade reform should be framed in the context of ongoing initiatives in regional integration. This is most likely to work only if each government works its own private sector groups. It is in the domestic domain where governments can incentivize members of the shadow economy to become formal. Rwanda is doing just this, for example, through its Mining Sector Development Strategy, which was developed thorough private sector consultation and could serve as an example for neighbouring countries. Concrete steps are:

- The GoDRC should develop a coherent position towards regional economic integration.
- The GoDRC should proactively engage with vibrant processes of regional economic integration in East Africa and reconsider its prioritisation of Central African regional economic integration, given the miniscule economic benefit central economic integration will bring, compared to east oriented regional economic integration.
- Regional economic commissions (RECs), such as the EAC, COMESA, and SADC, should develop a common stance toward the trade in minerals from Eastern DRCDRC and seek common opportunities to help support and reform the trade before they eventually form a single REC.
- RECs should agree to hold a rotating annual, regional mineral trade forum that includes stakeholders from Burundi, DRC, Rwanda, Uganda and Tanzania. This would be an opportunity for dialogue amongst the regional ministries of natural resources and all other state bodies that have a stake in the mineral trade, i.e. customs, ministry of industry etc. Part of this dialogue would involve sharing lessons learned from domestic trade formalization experiences.
- Policy makers and RECs should encourage domestic mineral sector development implementation, but should at the same time also coordinate the alignment of domestic resource mobilisation strategies between neighbouring countries to allow for symbiotic growth. This ambitious task should be underlain by an understanding of the sector development priorities of each country. RECs should act as a bridge builder between their member countries to maximise mutual economic benefit between them.
- Donors should seek the revival of the CEPGL as a host forum for future mineral trade discussion rounds of concern to Burundi, DRC, and Rwanda, with a view to establishing an intermediary platform for discussions, prior to the full integration of COMESA, the EAC, and SADC. Issues of particular concern are infrastructure, energy and export practices.

7. Dialogue to kick-start the reform process

Recommendation 7a: Convene an Independently Facilitated Forum and Dialogue to establish a basis for economic and trade reform, including the minerals trade

In order to progress a reform agenda, a good starting point for a reform process would be to convene an independently facilitated forum and dialogue. This idea of a minerals-specific stakeholder forum builds on the *Trading for Peace* forums that have so far encompassed a number of sectors and have produced tangible results, such as cooperation between countries at border posts and cross-border dialogue on issues of trade both on the local, as well as on the national levels.

Suggested participants are:

- The Governments of Burundi, DRC, Rwanda, Tanzania and Uganda
- The private sector – including the Federation of Congolese Businesses (FEC), traders associations, négociants, and mid level international customers such as smelters and electronics manufacturers.
- Prominent comptoirs and négociants regardless of their political affiliation
- The United Nations, including MONUC
- Constructive experts (e.g. on security reform, development, artisanal mining)
- Constructive pressure groups
- Bi-lateral and multi-lateral donors and policy-makers
- International trading and governance bodies
- Existing mineral concession holders
- Prospective mineral concessions holders (e.g. mining companies interested in operating in Eastern DRC)
- Representatives of regional integration bodies, e.g. COMESA, the ECA, SADC, and the ICGLR
- Constructive development NGOs and agencies

An independent African country or a regional trading bloc should be selected to house the dialogue as not all stakeholder groups may be comfortable participating in the forum if it is held in any of the stakeholder countries. South Africa has experience hosting peace talks. COMESA has experience and the necessary infrastructure to host such a forum, given its co-organisation of previous *Trading for Peace* forums.

The UN Secretary General, as the representative of the international community, should appoint an independent emeritus facilitator, to facilitate the dialogue. The facilitator should be a well-respected African with a formidable track record, and should be supported by an appropriate independent body not engaged in advocacy or trading activities.

The independent facilitator should contact each stakeholder group and request a brief. This collection of viewpoints will be a solid foundation from which to facilitate the dialogue and convene the dialogue based on the following principles:

- Getting the right questions on the agenda
    - The independent facilitator and supporting body should play a key role in ensuring that the most important questions are aired and discussed.
- Form decisions on a consensus basis
    - The independent facilitator and supporting body should ensure that decision-making processes are accepted as legitimate by all stakeholders. It is suggested that decisions be made on a consensus basis.
- Identify and engage with spoilers
    - The independent facilitator and supporting body should identify both spoilers (and develop strategies to either co-opt, transform, or punish them) and the principal beneficiaries (and consider whether these are groups one wishes to engage with).

The forum should appoint a committee comprising stakeholder representatives to oversee the implementation of the recommendations made in the dialogue. The committee should be properly resourced to enable it to take the actions decided upon by the dialogue and to hold stakeholders accountable over their willing participation in the implementation phase.

Donors should mobilise funds in advance of the meeting, if possible, to allow the committee to move swiftly in implementing the recommendations. The forum should initiate a widespread public awareness campaign on the actions chosen, and the benefits for local actors, and ensure that information is available and accessible to all relevant stakeholders.

BEYOND CONFLICT

Reconfiguring approaches to the regional trade in minerals from Eastern DRC

1.Introduction

CASM
Communities and
Small-Scale Mining

Workers in the mines use rudimentary tools. Long-term engagement with the artisanal mining sector can help improve the professionalism and livelihoods of miners. *© Mark Craemer 2009*

In April 2009 we published *Trading Conflict for Development*, which provided an in-depth analysis of the link between the mineral trade (tin, tungsten and tantalum) and conflict and development dynamics in Eastern DRC. The paper emphasised that security sector and governance reform, coupled with mineral trade formalisation, are an essential first step for the international community, local and regional stakeholders to put an end to the conflict and to increase development benefits from the trade, which sustains the livelihoods of one million persons regionally. In contrast to popular discourse on the mineral trade, the report suggested that interventions in the economic domain in the form of a ban on minerals or a disruption of the trade in minerals are unlikely to solve the issue of insecurity in Eastern DRC. In fact, depending on how such measures would be implemented, they could worsen the situation.

The slow progress of a joint MONUC and FARDC operation against the FDLR in the second quarter of 2009 and continuing human rights abuses have increased the urgency with which the international community is seeking means to end the conflict in Eastern DRC. Most significant is suggested legislation by the US Senate to place a due diligence requirement on electronics companies that source tin and other metals from Eastern DRC. This proposition has in turn, prompted suggestions from the UN, pressure groups and industry groups as to what such a scheme might look like. This follow-up paper takes a holistic view of the regional trade in minerals from Eastern DRC and constructively critiques the various engagement strategies that pressure groups, the UN and other stakeholders have recently proposed. It also makes its own suggestions for trade reform and urges policy makers to set the correct priorities when engaging with the mineral sector.

We believe that the primary reason why there is insecurity in Eastern Congo is because the Congolese state is unable to control the monopoly of violence and protect its citizens. This has translated into the presence of a number of armed groups who act with impunity, high levels of violence, including sexual violence, and the militarisation of the economy, including the mineral trade. In this context, military control of the trade in minerals is another *symptom* of general insecurity in Eastern DRC, rather than the principal cause of insecurity or sexual violence as some mistakenly stipulate. The non-militarised trade in minerals in the Kasais, southern Katanga, Bandundu and large swaths of Maniema, Ituri and Equateur underlines this argument.

This is not to suggest that a link between the minerals trade and conflict dynamics do not exist, but rather to emphasise that intervening in the trade in minerals is not enough to solve the insecurity crisis. Instead, policy makers should focus on consolidating the security sector in order to impact positively on conflict dynamics, while at the same time support governance reform, which is essential to both guarantee the sustainability of these positive impacts and to provide a platform on which to build a successful development process.

We explain our argument by first providing an overview and analysis of the regional trade in minerals from Eastern DRC, including a baseline assessment of its links to conflict and development dynamics. This assessment explains the on the ground realities, which are at the very heart of our scepticism towards the potential success of interventions in the economic domain. For example, it is simply not possible to disconnect the FDLR from its revenue from the gold trade through an economic strategy. The assessment of the trade also provides an overview of the important poverty reduction contribution, such as the trade's fiscal linkage and employment function, which it currently provides and which can be expanded with the right strategies.

Secondly, we expand on our regional perspective of the trade and introduce how successfully the DRC's neighbours, Rwanda, Uganda, Burundi and Tanzania, have leveraged their own mineral production and trading sectors in various ways for development. This regional assessment of the development impact, but more importantly the regional development potential of a reformed trade leads us to believe that processes of regional economic integration, which are strengthening in East Africa, provide an increasingly important analytical perspective of the trade, than the "loot thy neighbour" strategy that was seen to prevail during the past two Congolese wars.

These dynamics are important for the reform approaches suggested in this paper that seek to leverage the full development potential of the minerals trade both domestically and regionally. Reform approaches include both suggestions of reform of the mineral trading regime, but also approaches at the macro level, such as the need to develop a development vision for Eastern DRC, to rehabilitate the agricultural sector so as to provide viable economic opportunities outside of the mining sector, and the need to rebuild energy and road infrastructure in order to increase the efficiency and profitability of the trade.

With these strategies in mind, we hope that this report further advances the debate around the mineral sector in Eastern DRC. We urge stakeholders to take action to end the insecurity in the region and to implement strategies to maximise the mining sector's impact on poverty reduction and development through positive engagement.

2. Situation analysis

Communities and Small-Scale Mining

An in-depth political economy analysis of the conflict in the Kivus is beyond the scope of this report.[3] We would like to draw interested readers' attention to a recent policy document by Dominic Johnson of the Pole Institute in Goma, which mirrors our understanding of the causes of conflict in Eastern DRC. It is very much written from a local perspective and challenges the current popular discourse equating mineral exploitation as the primary cause of, and sustaining the ongoing conflict. The popular discourse - principally driven by Western pressure groups and popular media - risks turning policy makers' attention away from developing appropriate engagement strategies, including effective steps towards peace:[4]

- Historically the economy in the Kivu provinces was based on agriculture and long-distance trade, not mineral exploitation. The mining sector gained prominence as an economic activity when agriculture was destroyed by conflict and mineral exploitation became the easiest source of revenue for the population. Mining areas are not seen as "special" by the Kivu population and jobs in mining are not seen as something to aspire to in the way they are in provinces where there was a colonial mining economy such as Katanga, Kasai, Maniema or Ituri. Rather mining always was and remains a socially marginal activity in the Kivus.[5]
- The economic dimension of conflict in Kivu (which began in 1993) is far more about rights of access to land and control of trade routes, than it is about minerals. The history of conflict in Kivu shows that the existence of a trade in minerals is not a factor favoring either conflict or its absence. Conflict is linked to nationality and ethnicity and to political and administrative power. In the economic domain this has to do with competition around control of trade routes and trade revenues between elites and with competition around access to land and water between rural populations. It is precisely because conflict revolves around other things that the minerals trade can serve as a substitute source of revenue for parties who have lost their other, really important livelihoods. Historically, there was seldom fighting around control of the cassiterite mines of Walikale, the gold mines of Lubero, the coltan mines of Masisi or the pyrochlore mine of Lueshe in Rutshuru (please also refer to box 2 below). In South Kivu, large-scale artisanal gold mining began as a means for displaced populations in remote areas to survive.[6]

With these two important perspectives in mind, the following sections briefly outline political economy issues of direct relevance to the trade in minerals in Eastern DRC.

Insecurity in Eastern DRC

Severe and chronic insecurity is preventing the development of Eastern DRC. Insecurity is an obstacle to building institutions, reforming political and governance structures, and achieving social and economic improvements and affects all aspects of life for the people of this region. The mineral sector, which generates the necessary foreign exchange to sustain Eastern DRC's import dependent economy, is also affected, preyed upon and used by military groups to help fund their activities and line private pockets.

Denying military groups access to mineral resources, which some pressure groups and the UN Group of Experts are advocating as a conflict resolution mechanism, does not necessarily equate to an increase in security. Stakeholders should take care in suggesting interventions that may well increase insecurity by encouraging the various groups to increase taxation and extortion of the local population and seek other ways to diversify their income sources. This is not an argument to allow military groups unfettered

3 For an excellent summary of the political economy of the conflict in Eastern DRC, please refer to Vlassenroot, K. and Raeyemakers, T. (2009), Eastern Congo's Intractable Security Conundrum,…

4 Johnson. D. (2009), Discussion paper on Eastern DRC, Pole Institute

5 Johnson. D. (2009), Discussion paper on Eastern DRC, Pole Institute

6 Johnson. D. (2009), Discussion paper on Eastern DRC, Pole Institute

access to resources, but rather to reiterate that the principal means of resolving the crisis of insecurity in DRC is reform and investment into the security sector. The reform of the mineral sector, while urgent, is a separate development problem, which involves governance reform and technical interventions, as recommended above, to ensure the sustainability of reform efforts.

Political Economy

There remains considerable activity by all the different military groups in Eastern DRC, many of whom are committing human rights abuses on a regular basis. A joint Congolese-Rwandan military operation that began on January 20th 2009 (known as *Umoja Wetu*) took many international observers by surprise. This, and the arrest of General Laurent Nkunda, the military leader of the CNDP, has led to a reconfiguration of the political economy of North Kivu.[7]By mid-February, the operation had forced out the FDLR from several of its key positions, especially around the town of Masisi, and the strategically important gold mines of Lubero (both in North Kivu). In addition, it had resulted in the deaths of at least 100 FDLR fighters, and the surrender - and repatriation to Rwanda - of 390 more (out of a total FDLR force of about 4,500). It also led to the recovery of significant stocks of FDLR weaponry.

By late-February, the FARDC, RDF, and MONUC sources were claiming that the operation had resulted in a significant disruption of the FDLR's command and control structures, and had paved the way for a final defeat of the group. Moreover, by the time of its official conclusion (on March 3), Umoja Wetu had achieved much away from the battlefield. In particular - and not least because the operation did end on time, with a complete withdrawal of RDF troops from Congolese territory - the operation also resulted in a general thawing of relations between Kinshasa and Kigali, to such a degree that the two countries have subsequently agreed to restore full diplomatic ties. In addition, the operation did much to restore the credibility of MONUC, the reputation of which had been badly damaged by the CNDP's advance across North Kivu in late 2008.[8]

The hope for lasting peace expressed by the GoDRC and the GoR in the context of this operation has not immediately materialized, as the operation was not allowed to achieve sustainable results given its unrealistically short time frame. The FDLR, which is a major security threat for both the DRC and for Rwanda, remains present in South Kivu and has reclaimed some of its positions in North Kivu following the withdrawal of the RDF in February. Analyst assessments revealed that far from breaking down during the fighting, the FDLR's command and control structure in fact functioned perfectly adequately throughout the fighting, with battlefield movements being directly controlled by the organization's leader, Ignace Murwanashyaka, from his base in Germany (via satellite phone).[9] More significantly, these same assessments further revealed that the FDLR's withdrawal from Masisi and Lubero during the operation had been far from disorganized, and thus probably represented a 'tactical withdrawal'. As a result, it has become clear that far from being close to final defeat, the FDLR remain a significant military threat.[10]

In response to Umoja Wetu, the FDLR carried out retaliatory action against the civilian population and committed a number of serious human rights abuses and war crimes.[11]Since March 2009 MONUC has been supporting FARDC operations against the FDLR (known as *Kimia II*), with the objective of stifling FDLR counterattacks and eventually dismantling the

7 The RDF officially withdrew again from Eastern DRC – as previously agreed - on or about 25 February 2009.

8 http://www.reliefweb.int/rw/rwb.nsf/db900SID/VDUX-7U8JPB?OpenDocument, accessed 12/8/2009

9 Ibid.

10 Ibid.

11 United Nations (2009). 'Interim report of the Group of Experts on the Democratic Republic of the Congo'. United Nations Security Councili. S/2009/253. Available at http://www.reliefweb.int/rw/rwb.nsf/db900SID/EGUA-7S9RVT?OpenDocument

rebel group. Without the backing of the military and organizational skill of the RDF, the *Kimia II* has only progressed slowly and the operation is facing internal difficulties, such as with the integration of former CNDP soldiers relating to emerging parallel commend structures and delay in the disbursement of FARDC salaries. The latter has eroded discipline within the newly integrated FARDC units, generating FARDC lootings and attacks on the civilian population. The integration of the CNDP into the FARDC, agreed following the arrest of General Laurent Nkunda, is at risk of breakdown over the payment of soldiers.[12]General FARDC capacity constraints and operational difficulties imply that *Kimia II* will not achieve its principal objective of re-establishing security unless security sector reform is progressed significantly, which will allow these issues to be addressed.

Conflict Financing

The April 2009 report *Trading Conflict for Development* revealed that military groups in Eastern DRC benefit from highly diverse revenue sources, including minerals, and that the FDLR benefits from strong economic and political support from the diaspora in OECD countries, such as FDLR leader Ignace Murwanashyaka, based in Germany. The FDLR is listed as a terrorist group by the US State Department.[13] The December 2008 and the May 2009 report by the UN Group of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth in the DR Congo[14] suggests that military groups benefit from the following sources of income:

12 http://www.reuters.com/article/congo/idUSLI291088

13 Garrett, N. and Mitchell, H. (2009), Trading Conflict for Development, DFID, LSE, CRG: p22

14 We have chosen the UN Group of Experts' data on this occasion, as their work is generally accepted by both the public and the private sector, as well as civil society as providing valuable insights into the on the ground dynamics. We recognise the limits imposed on the UN Group of Experts' work by its limited mandate and its resource constraints. It is in all likelihood that conflict financing patterns extend beyond the list of noted occurrences in the list below.

May 2009:
CNDP

- Weapons seizures from the FARDC and other sources (§34)
- Taxation of transport routes and economic activity (§23 and 36)
- Part-control over the Bisie cassiterite mine as part of the FARDC's 1st integrated brigade (§39)
- Control over the Bunagana border post until January 2009 (§46)

December 2008:
CNDP

- Seizure of FARDC weapons stocks (§ 25 and following)
- A "pool" system of financing, a sophisticated financial network of Congolese and Rwandans in the diaspora (§ 30)
- Cash and kind donations by the business community in Goma (§ 31)
- Blackmail of the business community in Goma (§ 31)
- Taxation of the food and charcoal trade, as well as road toll (§ 33)
- Protection money from wealthy farmers (§ 34)
- Cattle (§ 34)
- Control of the import and export processes at the Bunagana border post (§35 to 47)
- Remittance flows and individual financiers (§48 and following)
- Local mineral transport taxation (§57 and following)

May 2009:

FDLR

- Control over cassiterite and gold mining sites (§54, 64, and 105)
- Attacks on civilians (§ 54)
- An extensive international support network allegedly involved in fund-raising activities and organizing international money transfers (§ 60)
- Collaboration with the FARDC (§ 62)
- Support networks in Burundi (§ 63)
- Charcoal production in the VIrunga National Park and charcoal tax (§ 65)

December 2008:

FDLR:

- Trade in mineral resources - cassiterite, gold, coltan and wolframite areas under their control in North and South Kivu (§72 and following)
- Taxation of the charcoal trade (§113)
- Involvement in the drugs and timber trade (§113)

May 2009:

FARDC[15]

- (Non-payment of salary related) lootings and robberies (§19 and 30)
- Minerals and part-control over the Bisie cassiterite through the FARDC's 1st integrated brigade (§24, 39)
- Control over the Bunagana border post (§48)
- Robbery (§30)
- Collaboration with the FDLR (§62)
- International arms shipments (§69)

December 2008:

FARDC[16]:

- Joint control over mineral deposits with PARECO and FDLR (§81 and 135)
- Taxation of transport hubs (§86)
- Taxation of rural markets (§94)
- Domestic sale of military equipment (§105 and following)
- International sale of military equipment (§146)

This diversity of revenue sources of the military groups supports the argument that armed groups will take advantage of whatever source they can control, mineral, agricultural, financial or otherwise. Although, of these, the mineral trade provides the greatest

15 The FARDC falls outside of the investigative mandate of the UN Group of Experts, we have listed incidents where they have nevertheless been mentioned in the UN reports

16 The FARDC falls outside of the investigative mandate of the UN Group of Experts, we have listed incidents where they have nevertheless been mentioned in the UN reports

BOX 2: Insecurity as a problem for the trade in minerals

A recent attack on a mining community near the Bisie Cassiterite mine in Eastern DRC, which killed 16 people and wounded 45[1], prompted a press release from Global Witness, a leading pressure group on the issue of minerals in the Eastern DRC. The press release stated that the attack "is a stark reminder of how the fight to control Congo's mineral wealth is a key driver of violent conflict in the country," and that "The killings at Mpama show how Congo's mineral wealth provides an incentive for violence, and how the mines in the east are a focal point for armed groups' activities." [2]

We find this analysis lacking consideration of the important fact that the "perpetrators looted belongings and money" and then fled, rather than establishing a presence, which would constitute 'control' over the area. While a comprehensive analysis of the attack is forthcoming pending details, the information thus far would suggest that the attack once again highlights how general insecurity in the region presents a challenge for economic activity, including the mineral production and trade. This is why the focus on consolidating the security sector is presented as the most pressing issue in this report.

1 AFP, 16 killed in attack on DR Congo mine, 13 August 2009

2 Global Witness, Bisie killings show minerals at heart of Congo conflict, 18 August 2009

Extortion by military groups is widespread. Security Sector Reform should be the top priority to ensure that economic actors can benefit from their work. *© Mark Craemer 2009*

source of income (see below). Insecurity slows down the potential of economic activity to contribute to development, particularly in the minerals sector, which is the most significant in the region.

Both the FARDC (operating in parts of Ituri, North Kivu, South Kivu, Northern Katanga and Maniema) and the FDLR (predominantly South Kivu, and selected parts of North Kivu) are embedded in highly mineralized areas where they employ similar patterns of extortion to benefit from mineral production and trade. The FDLR runs exploitative security governance structures around some mines, including in rare instances forced labor coerced through violence. The FDLR and other dispersed military groups pose a formidable challenge as they benefit from scattered resources, as opposed to point resources. The FDLR's principal revenue source is the taxation of gold mining and trade in South Kivu and North Kivu.[17] The international community and the GoDRC will be logistically unable to stop or disrupt this principal income source of the FDLR, unless they disband the FDLR.

The FARDC also remains a serious source of insecurity in the Eastern DRC. Some FARDC brigades have established coercive governance structures around certain mining areas with the intentional provision of security and institutionalization of a regulatory system and tax system.[18] Generally speaking, in the majority of mines in the Eastern DRC, workers and intermediate traders continue to be obliged to pay 'taxes' on their production/trade volume.[19] These taxes are typically placed at levels high enough to generate significant revenue for the armed groups, but low

17 United Nations (2008). 'Final report of the Group of Experts on the Democratic Republic of the Congo'. United Nations Security Council. S/2008/773. Available at http://www.un.org/Docs/journal/asp/ws.asp?m=s/2008/773

18 Compare Garrett, N. Sergiou, S. and Vlassenroot, K. (2009), Negotiated Peace for Extortion, Journal of Eastern African Studies, 3: 1— 21

19 In some mines the miners are both miners and combatants.

BOX 3: Human Rights in Eastern DRC's mining sector: The Right to a Livelihood

A grassroots perspective of economic activities and insecurity in Eastern DRC provides an important counterweight to the popular discourse driven by pressure groups, which are currently focusing their advocacy on the minerals trade in Eastern DRC and its links with conflict dynamics. Advocates' focus on how minerals allow armed groups to derive their income disregards an important livelihoods element and is based on a misunderstanding of poverty dynamics on the ground. The portrayal of the miners purely as victims who are forced to mine against their will disregards the fact that many, if not most of the Congolese who operate in the sector are actively trying to access the economic activities and trading networks. They choose this as the most viable activity for surviving in this difficult economic environment, and because other economic activities such as agriculture have been rendered unviable by the conflict.[1] While forced labor does exist, an exclusive focus on this aspect ignores the more common scenario of people choosing to mine or trade simply because it is the most viable livelihood option available and necessity forces them to do so.

In their account of conflict dynamics and natural resource extraction in the Kivus, Vlassenroot and Romkema suggest that to a certain extent, the informalization of the local extraction of natural resources could even be explained as a democratization of local mineral production.[2] The advantages of mining activities are no longer limited to multinational companies or national elites, but also spread to the grassroots level and create an alternative source of income for many households. Interventions, which may reduce the value of minerals or further informalize and criminalize the trading chain, will affect these householders potentially in a severe manner.

The account of Joseph, a cassiterite miner in Walikale provides an important illustration of what it means to try and make a livelihood in a conflict situation: *"I'm a miner, not a farmer. The difference is that I can eat every day and make enough to have a family and feed my children. You cannot be a farmer in this insecure environment, because you never know whether you can stay to see the crops grow, or whether the soldiers force you off your land. And what else is there for us to do? As a miner I have money today and I know that my survival depends on me. You may think that this is wrong, but I invite you to live here [in Walikale] for a while, only then will you understand what poverty means and why we chose to mine. There is simply nothing else left for us to do."* [3]

Joseph's comments are illustrative of two important aspects of artisanal mining. Firstly, artisanal miners are not necessarily profit driven but first and foremost poverty driven and, in the case of Eastern DRC, survival driven. Secondly, artisanal mining is often performed by one member of a household as part of a set of economic activities that the household undertakes in order to earn a livelihood, whether on site or in a different geographical location.[4]

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1 Compare: Vlassenroot, K. and Romkema, H. (2002), The Emergence of a New Order? Resources and War in Eastern Congo, Journal of Humanitarian Assistance, available at: http://www.jha.ac/articles/a111.htm, accessed 27/7/2009

2 Compare: Vlassenroot, K. and Romkema, H. (2002), The Emergence of a New Order? Resources and War in Eastern Congo, Journal of Humanitarian Assistance, available at: http://www.jha.ac/articles/a111.htm, accessed 27/7/2009

3 Interview in Walikale, North Kivu, June 2008

4 Levin, E. (2005), 'From Poverty and War to Prosperity and Peace? Sustainable Livelihoods and Innovation in Governance of Artisanal Diamond Mining in Kono District, Sierra Leone'. Unpublished MA Thesis, Department of Geography. Vancouver: University of British Columbia. At http://www.resourceglobal.co.uk/index.php?option=com_docman&task=cat_view&gid=36&Itemid=41. Hayes, K. (2008). "Artisanal and small-scale mining and sustainable livelihoods in Africa." Published by CFC, PACT, and CASM. At http://www.pactworld.org/galleries/default-file/CFC_Paper_ASM_Livelihoods_in_Africa-FINAL.pdf

The dynamics of economic activity are highly resilient to change, and control interventions into the economic sphere run the risk of direct opposition by the local population that could render them ineffective. As one coltan trader put it: *"It's a pleasure when you make some profit, to know that you have done this yourself, even if you put your life in danger always. Even if the war ended and the president tried to put a stop to this commerce, I would find a way to continue"*.[5]

Presenting all economic activities as bad oversimplifies a highly complex set of interactions. Interventions should be considered for their probable impact on the local population as well as the armed groups operating as parasitical entities over them. A ban on, whether intended or unintended, or a disruption of the present economies of Eastern DRC risks creating additional violence rather than reducing it, including violence against the ordinary miners who depend on the activity to survive (see above).[6]

Although this analysis integrates the position of the grassroots population into its analysis, it does not neglect the existing links between conflict and economic activities. All it shows is that the incorporation of economic security into demobilization and disarmament and reintegration programs is a crucial, although highly neglected, element of any successful strategy to bring about peace. Interventions in the mineral trading sector should therefore be aligned and integrated with security sector reform priorities.

5 Stephen Jackson, 'Our Riches are being looted!': War Economies and Rumour in the Kivus, D.R. Congo, Unpublished Paper (2001).

6 Ibid.

enough so as not to jeopardize the overall viability of extraction and trade.

Insecurity remains the key obstacle to the trade contributing more to development. In line with our recommendations, we believe that once security improves, the development benefits from the trade can improve exponentially, so long as the reigning institutional infrastructure can be configured so that it produces developmentally beneficial governance outcomes and the physical infrastructure can be rehabilitated.

Life in the mining settlements. With long-term engagement, the life of these miners can be improved. *© Mark Craemer 2009*

3. The Trade in Minerals from Eastern DRC

Porters begin a 2 day journey to take tin ore from remote mines to regional transport hubs. Improved infrastructure can help these workers improve their livelihoods. *© Mark Craemer 2009*

The trade in minerals is one of the primary economic occupations in Eastern DRC and a common thread that draws together dozens of stakeholders in the Great Lakes region. Importantly it generates the necessary foreign exchange to sustain Eastern DRC's import dependent economy. This places it at the heart of the region's future development trajectory. The artisanal mining sector presently contributes to employment, fiscal revenues, and secondary economies.[20]

Trading Chain

The trade begins in remote mining sites in Ituri, Kasai Oriental, Maniema, (Northern) Katanga, North Kivu, Orientale, and South Kivu[21], from where the minerals are often first transported by foot, then by car or truck and finally by plane to the main export centers, such as Goma, Butembo, Bukavu, and Uvira. From here they are exported through Burundi, Kenya, Rwanda, Uganda, and/or Tanzania.[22]

20 Garrett, N. (2009), Linkages in the Mining Sector in Katanga, LSE

21 For an in detail profile of artisanal mining, refer to Garrett, Nicholas. Walikale. Artisanal Cassiterite Mining and Trade in North Kivu – Implications for Poverty Reduction and Security. Washington D.C.: Communities and Small-Scale Mining, 2008.

22 For a detailed profile of the trade in natural resources in the Kivus refer to Tergera, A. and Johnson, D. (2007), Rules for Sale: Formal and Informal Cross Border Trade in Eastern DRC, Pole Institute. May 2007

Gold, tin ore (hereafter cassiterite), tantalum (coltan), and tungsten (wolframite), are the primary export minerals. While gold is of significantly higher value and is also the principal rebel-traded mineral, it is estimated that as much as 95% of Eastern DRC's artisanal gold production is traded informally[23]. The authors will investigate the gold trade in a follow-up publication and this section therefore focuses on the trade in cassiterite as an example of the three Ts[24], which represent the bulk of the volume of the trade and which are exported via the following routes:

- Goma – Bunagana - Kampala – Mombasa/Dar es Salaam (N. Kivu-Uganda-Kenya/Tanzania)
- Goma – Gisenyi – Kigali – Mombasa/Dar es Salaam (N. Kivu-Rwanda-Kenya/Tanzania)
- Bukavu – Kigali – Mombasa/Dar es Salaam (S. Kivu-Rwanda-Kenya/Tanzania)
- Uvira – (Bujumbura) - Kigoma – Dar es Salaam (S. Kivu-Tanzania)

Exporters in the regional trading centers work with international brokers often based in Europe, who help link the trade from the Great Lakes region to the rest of the world, arranging transport from the Indian Ocean ports of Mombasa and Dar es Salaam, where the minerals are shipped to Europe and to multinational smelting companies in Malaysia,[25] Thailand, China, and India.[26] Once processed, large quantities of tin are bought by solder manufacturers or electronics contract manufacturers, who turn the solder into usable components such as capacitors, and add them into electronic devices.[27]

Trading Volume

A statistical overview of the trade in minerals from Eastern DRC quantifies the official and unofficial trade values and volumes. This can help determine the configuration and varying degrees of a-legality and thus the opportunities for engaging with the shadow economy segment of the trade. Additionally, in the following sections, we compare the trade in minerals using data from DRC and Rwanda in an attempt to understand the regional dimensions of the trade and to discern how regional cooperation can bring about more developmentally tangible benefits from the trade.

The analysis in this section emphasizes the trade in cassiterite, which was the largest reported export commodity from North and South Kivu both in terms of volume and value in 2007-2008, primarily due to the significant rise in value.

North Kivu Exports

TABLE 1: MINERAL EXPORTS FROM NORTH KIVU (GOMA AND BUTEMBO)

	2,007			2008 (Jan to Nov)
	tonnes	USD	$/tonne	tonnes
Cassiterite	10,175	$27,566,421	$2,709	12,502
Wolframite	767	$2,881,995	$3,757	441
Coltan	74	$714,495	$9,629	56

Source: Division of Mines, North Kivu. Exports from North Kivu include material leaving from both Goma and Butembo.

23 Various interviews by Nicholas Garrett, South Kivu Province, DRC, 2007 - 2009

24 The trade in gold, which is the principal earner of the FDLR, has an entirely different trade profile due to its high value to volume ratio. Gold is transported via Tanzania, but also by plane from Bujumbura, Kigali and Entebbe.

25 Garrett, N. and Mitchell, H., 'Electronics Groups Alarmed as Congo Rebels Take Over Tin Source', Financial Times, March 5, 2008

26 See 'Final report of the Group of Experts on the Democratic Republic of the Congo'. United Nations Security Council. S/2008/773. Available at http://www.un.org/Docs/journal/asp/ws.asp?m=s/2008/773 pp. 22-23.

27 Garrett, N. and Mitchell, H., Electronics Groups Alarmed as Congo Rebels Take Over Tin Source, Financial Times, March 5, 2008

BOX 4: Estimating exports from Eastern DRC

The main cassiterite production area in North Kivu is Walikale, which is estimated to account for up to 70% of cassiterite exported from Goma[1]. The most important contributor is the Bisie mine. Minerals leave Walikale by plane and by truck for Goma and Bukavu.

The airport at Goma serves as a transit hub for minerals from all over Eastern DRC. In 2007, the Division of Mines in Goma recorded 2,381 tons of cassiterite arriving from other provinces at the airport, in addition to 6,675 tons from North Kivu. However, on a normal day, six planes, transporting two tons of around 50% tin-content grade cassiterite each, fly four rotations from the Kilambo airstrip in Walikale alone. This suggests that 48 tons arrive in Goma per day from Walikale, which is 17,520 tons per year[2]. Flights operate seven days a week, if the weather permits. Factoring fluctuations in output, it is prudent to deduct 20% of that sum, which leaves 14,000 tons per year.

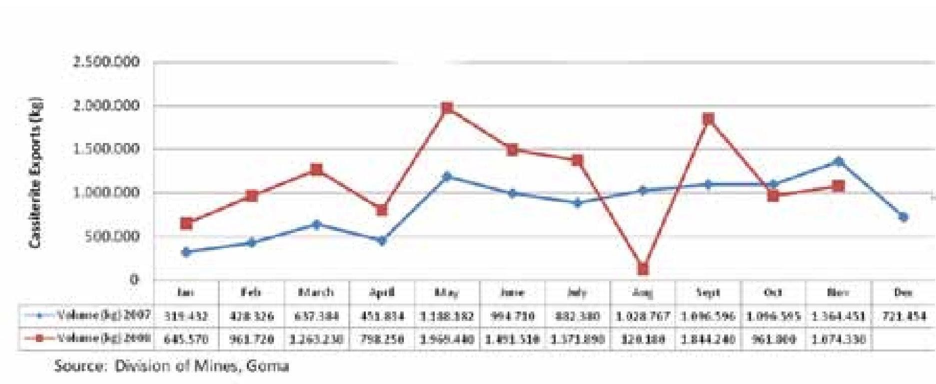
Deliveries by road fluctuate dramatically depending on the security situation and weather affected road conditions, but can add approximately 10% over the year. In addition, roughly 30% of cassiterite arriving in Goma comes from other parts of Eastern DRC, which would give a figure of just over 19,600 tons, calculated 40% from 14,000. Official exporters process the cassiterite up to an export grade of up to 65% tin content, with around 30% of weight lost in the process. This leaves a net volume of 13,700 tons of export grade cassiterite leaving from Goma. This compares with official exports of 10,175 tons of cassiterite in 2007, or an estimated under reporting from official figures of approximately 35%. Using average prices of value established in 2007, this suggests an estimated value of $37m, compared with the official export value of $27.6m.

1 Garrett, Nicholas. *Walikale. Artisanal Cassiterite Mining and Trade in North Kivu – Implications for Poverty Reduction and Security.* Washington D.C.: Communities and Small-Scale Mining, 2008.

2 Ibid.

TABLE 2: ARRIVALS OF MINERALS AT GOMA AIRPORT IN 2007 BY PROVINCE

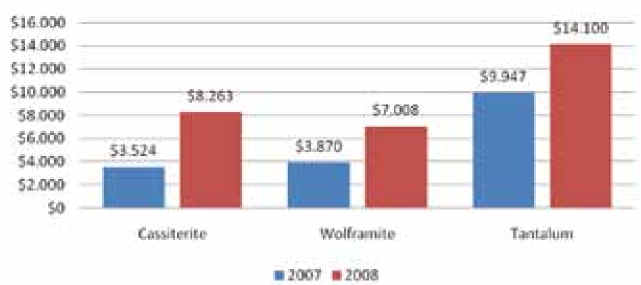
	Tonnes		Per cent per province	
	Cassiterite	Wolframite	Cassiterite	Wolframite
North Kivu	6675.3		73%	
Maniema	1638.5	156.1	18%	75%
Katanga	521.6		6%	
Orientale	221.7		2%	
Kasai-Oriental		52.1		25%



Graph 1: Cassiterite Exports from Goma, North Kivu, 2007-2008

South Kivu Exports

The following figures were provided by the Private Sector Federation (FEC) representing the mineral exporters based in Bukavu[28]. Bukavu, like Goma, reported an upswing in mineral exports between 2007 and 2008. Most dramatic was the increase in price, which, as in North Kivu, drove the increase in export volumes. Note that the dollar per ton price average in cassiterite in Bukvau in 2007 is $700 more, possibly reflecting higher costs or higher export grade, while the average $/ton figures for wolframite and tantalum are similar. As in the case in Goma, some of Bukavu's exports originate in other provinces, including North Kivu.[29]



Graph 2: USD/tonne mineral prices, Bukavu, 2007-2008

TABLE 3: AGGREGATE EXPORTS FROM BUKAVU, SOUTH KIVU 2007-2008						
	2,007			2008 Jan to Nov		
	Tonnes	USD	$/tonne	Tonnes	USD	$/tonne
Cassiterite	3,481	$12,267,960	$3,524	4,196	$43,777,538*	$8,263*
Wolframite	328	$1,270,430	$3,870	157	$1,097,856	$7,008
Tantalum	192	$1,914,352	$9,947	295	$4,156,543	$14,100

*Source: Private Sector Federation, South Kivu. *Average prices are corrected due to a March export of 216 tonnes from the Comptoir Panju to Thailand worth an average price of $55,037/tonne. Such a significant increase suggests misreporting. This figure was removed from the calculations to achieve averages.*

28 The figures are lower than official figures obtained in Kinshasa. However, Kinshasa figures also do not match the figures reported in Goma, and so for the purposes of this document, two separate statistical data points were chosen rather than the centrally consolidated figures. All figures should be understood as approximate only.

29 The Division of Mines in North Kivu reported 185 tonnes of cassiterite and 65 tonnes of wolframite transferred from Goma to Bukavu in 2006.

Accumulative Mineral Exports from the Kivus

Export figures from North and South Kivu give totals for cassiterite of 13,656 tons in 2007, and 16,698 for 2008 (Jan to Nov). Adding an estimated December 2008 figure of 1/11 of the total values provides a figure of approximately 18,216 tons. Given average $/ton values established by Bukavu's Private Sector Federation, this puts the value of the trade at just under $50m in 2007 and approximately $150m in 2008.

Based on estimates based on transport volumes from the main mine in North Kivu, cassiterite exports from Goma have been under-reported by approximately 35%. This would suggest that up to 18,400 tons of cassiterite was exported in 2007, and 24,500 tons in 2008, with the respective estimated total export values of cassiterite of up to $65m and $200m (using average of $8,263/ton from Bukavu). Including both wolframite and tantalum, the trade is potentially worth approximately $215m.

Livelihoods

The Production of gold, cassiterite, tantalum and tungsten, as well as other minerals and precious stones in Eastern DRC (excluding Ituri) is exclusively artisanal, with the World Bank's Communities and Small-Scale Mining Secretariat (CASM) in 2007 suggesting the total number of miners in Eastern DRC (North and South Kivu, Maniema) at 400,000.[30] Factoring five dependents per miner, up to 2 million people could be dependent on artisanal mining and trade in Eastern DRC for their subsistence. The World Bank suggests that up to 1/5 of the population of the DRC is dependent on artisanal mining.[31]

The attractiveness of artisanal mining as a livelihood opportunity tends to fluctuate with world mineral prices. Raw material prices have fallen dramatically since the summer of 2008 and while the price of copper collapsed, the price for gold has remained relatively stable while tin, tantalum and tungsten have fallen to a level that still allow artisanal production to sustain livelihoods.

North and South Kivu Mineral Exports, in total 2007-2008, and plus the estimated underreported volume of 35%

TABLE 4: MINERAL EXPORTS FROM THE KIVUS, 2007-2008

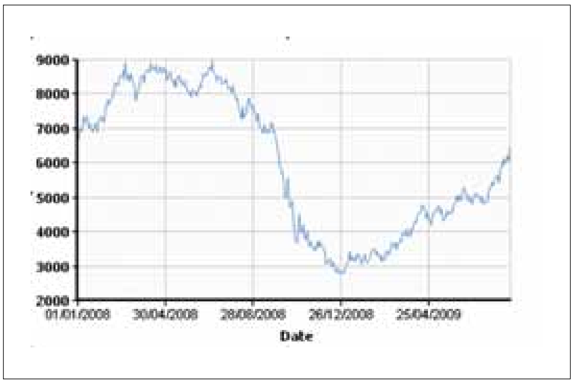
	2007				2008 (Jan-Nov + Dec estimated)				
	Bukavu	Goma	Total Kivus	plus 35% est.	Bukavu	Goma	Total Kivus	Total + Dec est.	plus 35% est.
Cassiterite	3,481	10,175	13,656	18,435	4,196	12,502	16,698	18,216	24,592
Wolframite	328	767	1,095	1,479	157	441	598	652	880
Tantalum	192	74	267	360	295	56	351	383	517

Sources: Division of Mines, North Kivu. Private Sector Federation Bukavu. Plus 35% estimation based on calculations on under reporting from Goma and are estimates only. Total + Dec est. Figure is based on 11 months of available data from Jan to Nov – actual figure might be lower due to the outbreak of violence.

30 D'Souza, K. (2007), Artisanal Mining in DRC Key Issues, Challenges, and Opportunities, CASM

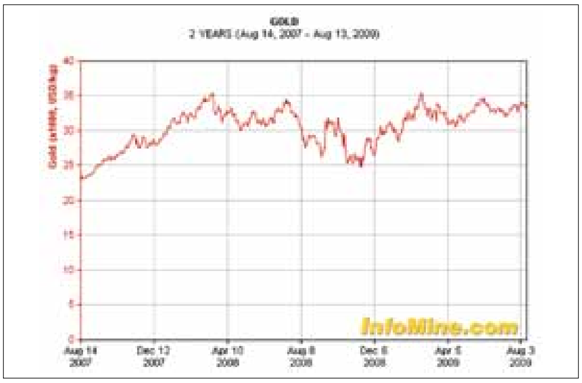
31 The World Bank (2008), Growth with Governance in the Mining Sector, The World Bank

Copper January 1st, 2008 – August 14th, 2009



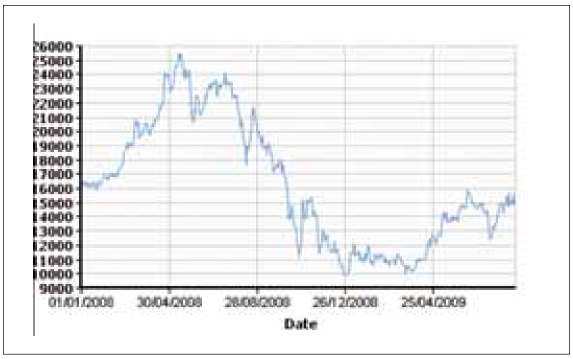
Graphs 3: International copper prices. *Source: London Metals Exchange*

Gold: August 2007 - August 2009



Graph 4. International gold prices. *Source: InfoMine.com*

Tin January 1st, 2008 – August 14th, 2009



Graph 5. International tin prices. *Source: InfoMine.com*

The trading chain is highly complicated and involves local, national, regional and international actors in-

For security and efficiency cassiterite is transported by plane to regional capitals. This airlink is also the only way food and other supplies can reach communities in remote areas.

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cluding miners, mine support workers, porters, intermediate buyers, civil servants, security forces, transporters, assayers, urban day laborers, exporters, state officials, and mineral processors.[32]With the trade also producing significant spillover effects into neighboring countries, creating jobs in processing, transport and administration a conservative estimate for 2009 is that up to 1 million people in the region

32 Garrett, Nicholas. Walikale. Artisanal Cassiterite Mining and Trade in North Kivu – Implications for Poverty Reduction and Security. Washington D.C.: Communities and Small-Scale Mining, 2008.

are dependent on Eastern DRC's minerals sector for their livelihood.

Fiscal Linkage

The fiscal contribution of the trade in 3T minerals from Eastern DRC has increased over the past years, with tax revenues from the trade accruing to US$ 4 million in 2008.[33]It is worthwhile questioning the benefit of increasing revenue for the Congolese state, in a context where historically equitable sub-national redistribution of wealth has not occurred. Broadening the revenue base is one avenue towards creating the financial basis to bring about incremental change in the institutions of the state and to endow these institutions with the necessary means to become a vehicle for the larger governance reform process.

The success of this strategy largely depends on the extent to which a tax system contributes to productive capacity building. There is no robust evidence to suggest that tax ratios as a percentage of GDP have any systematic relationship with economic growth (Easterly and Rebelo, 1993). The difficulty of establishing any relation is due to the complexity of disentangling both the effects of the absolute and marginal rates of taxation, and nominal and effective tax rates on economic growth, as well as isolating the growth effects of different types of taxes (trade, income, consumption).

It is also difficult to disentangle the tax regime from other macroeconomic (such as monetary policy) and microeconomic policies (such as industrial policy) that affect the growth path.[34] Moreover, the capacity of the state to tax does not necessarily translate into similar capacities such as undertaking industrial policy. Finally, there is the issue of endogeneity. Taxes may not only affect growth, but growth may affect the capacity of the state to tax because sustained growth involves the growing formalization of the economy and the development of a manufacturing sector both, of which make tax collection easier.[35] It is worth mentioning, however, that high tax ratios do not necessarily generate disincentives for investment and growth as many neoliberals argue.

Advocates of more statist interventions point to the fact that taxes are necessary to finance public goods (education, health, and infrastructure), which are necessary for physical and human capital accumulation. Indeed, the potentially positive contribution of taxation to growth is a standard result in many endogenous growth models that incorporate public finance and public services (Barro and Sala-I-Martin 1992).[36] Our analysis subscribes to the latter school of thought, which is why we have emphasized the fiscal linkage above. Readers interested in the sub-national redistribution of wealth should follow ongoing discussions around the EITI ++ initiative that is looking at the transparent and developmentally beneficial sub-national redistribution of state revenue.

Whereas total exports had slowed down towards the end of 2008 and early 2009, the trade rebounded late in the 1st quarter of 2009. This may translate into a similar or higher tax contribution in 2009, depending on global price developments.[37] The gold trade, however, remains almost entirely informal, with significant leakage to Burundi, Tanzania, Uganda, and Rwanda, as illustrated in the regional case studies further below.

Taxation on mineral exports from DRC involves a number of bodies, and is currently under review. Bodies that apply taxes include the Direction Générale des Impôts (DGI), Direction Générale des Re-

33 Garrett, N. and Mitchell, H. (2009), Trading Conflict for Development, DFID, LSE, UGhent, RCS

34 Di John (2008), Fiscal Reforms, Developmental State Capacity and Poverty Reduction, UNRISD, p. 31

35 Ibid.

36 Ibid.

37 Bavier, J. (2009), Congo tin exports rebound despite UN, campaigners, Reuters 16/6/2009

cettes Administratives, Judiciaires, Domaniales et de Participation (DGRAD), L'Office des Douanes et Accises (OFIDA/customs), Entités Administratives Décentralisées (EAD/provincial tax) and a number of other agencies including the Centre d'Evaluation, d'Expertise et Certification des Substances Minérales Précieuses et Semi-Précieuses (CEEC).

The North Kivu Division of Mines Annual Report 2007 and an update provided in October 2008 present a series of figures that calculate some of the revenues that accrue to some of the Congolese state institutions. The figures are incomplete and notably absent are amounts received by the central taxation department, the DGI. Nevertheless, the figures suggest that the minimum amount received by Congolese national and regional bodies from the minerals trade from Eastern DRC amounts to US$2,012,995[38] in 2007 and US$ $4,362,102 for the first three quarters of 2008, which amounts to an increase of over 100%.

If the present level of fraudulent exports of around 35% could be reduced, the fiscal linkage would strengthen further. An obstacle is the operational difficulties of the DRC's export regime. Inefficient and confusing border procedures incur significant costs for exporters and the GoDRC, while also providing opportunities for rent-seeking and incentives for smuggling. For businesses, border-related costs are both direct, such as expenses related to supplying information to the relevant border authority, and indirect, such as those arising from procedural delays, lost business opportunities and lack of predictability in the regulations. For governments, the cost of inefficiency includes incomplete revenue collection due to smuggling and under-declaration, as well as difficulties in effectively implementing trade policies.[39]

Minerals production and trade in Eastern DRC generates the standard economic linkages one would expect of an ASM dominated sector, in particular the direct and indirect employment functions and the export-focused fiscal linkage. However its contribution is retarded by insecurity born of the presence of military groups, which predominantly affects the ability to nurture the trade and encourage wider and better functioning secondary economies and value added processes. It is also affected by institutional undercapacity in the administration of the trade, which particularly affects its fiscal contribution.

Impact of the Global Financial Crisis[40]

The fall in prices of base metals associated with the global economic crisis significantly reduced the prices received by artisanal miners for their minerals. While the effect on production in Eastern DRC remains under-researched, the negative effects of the global economic crisis on copper production were highly visible and publicized, especially in the Congolese/Zambian Copperbelt. There was ample evidence of firms scaling down, temporarily stopping production, closing down (sometimes overnight), and postponing planned production or investment plans. Just as jobs were lost in LSM, the ASM market for copper and cobalt collapsed and artisanal miners were set adrift. Moïse Katumbi, the Governor of Katanga, estimated that perhaps 300,000 mine workers in the formal and informal sectors lost their livelihoods in the latter half of 2008.[41] Intelligence reports in December 2008 suggested some of the redundant miners had migrated to Eastern DRC to join armed groups.[42]

38 Original figures provided in DRClese Francs, exchange rate in 2007 of 500Fc/USD, in 2008 550Fc/USD.

39 Compare H. Sunman and N. Bates, Trading for Peace, DFID, 2007

40 Responsible Business Approaches towards Artisanal and Small-Scale Mining: Ensuring Lessons from the Boom for the Time after the Bust, PACT, Resource Consulting Services (forthcoming)

41 Wild, Franz, Congo Copper, Cobalt Miners Restart Production After Price Fall, says Governor Moise Katumbi, South Africa Resource Watch, March 02, 2009

42 Interviews with Western intelligence officials, Katanga and Eastern DRC, December 2008

In Eastern DRC, the price of the principal mineral, tin, was severely affected, but it was still profitable to mine it. There was nevertheless evidence of some migration towards gold, the price of which remained stable over the course of the economic crisis.[43]While gold was not immune to the global crisis, it has weathered the storm far better and remains a viable sector for artisanal miners. Many ASM gold miners (or *orpailleurs*) interviewed in the Mambasa area of Province Orientale in DRC in June 2009 had migrated from the tin and tantalum (coltan) mines of Eastern DRC due to a combination of the insecurity in the region and the low prices of these minerals compared to gold.[44]

43 Interviews with Western intelligence officials, Katanga and Eastern DRC, December 2008

44 Responsible Business Approaches towards Artisanal and Small-Scale Mining: Ensuring Lessons from the Boom for the Time after the Bust, PACT, RCS

4. Reforming the Mineral Trade in Eastern DRC

All stakeholders wish to see an end to the militarization of the economy in Eastern DRC. In response, a variety of interventions in the economic domain have been proposed to improve control of the mineral trade in Eastern DRC. This section constructively critiques these proposed control mechanisms and their likely effectiveness to either stop or reduce the conflict.

As the main economic driver in the region, minerals contribute significantly to the war economy, a fact that is undisputed amongst observers.[45] Yet, while minerals receive attention as the *principal* source of income of the FARDC and FDLR, relatively little attention has been given to the fact that the ongoing conflict and pervasive presence of military actors has led to the *entire* economy becoming militarized.

This has important implications for stakeholders wishing to exert control over the mineral trade via economic interventions as a means to solve issues of insecurity. Primarily, it suggests that restricting an income from minerals may simply lead a military group to obtain an income elsewhere, including increased extortion of the local population, already struggling to survive. Thus, emphasis might be better placed on dealing directly with the source of insecurity – the armed groups – rather than placing too much importance on trying to control one source of income. Diversified economic activity, including remittances, will likely prove impossible to control effectively.

This is not an argument against control mechanisms, but in the short term at least, it is more likely that depriving belligerents of income from the mineral sector would result in them increasing their income from other sources, or diversifying more intensely to more uncontrollable and undetectable minerals, such as gold and diamonds. Any change in the geography of the economics of the region will lead to a repositioning of all actors, including belligerents. The fact that much of the benefit from minerals derives from a form of illegal taxation also suggests that there would be little difference between a coffee trader and a mineral trader at a roadblock. Both would be subject to the same coercion that results from the military occupation of a civilian area.

A strategy towards ending the conflict that focuses primarily on economic interventions that seek to control the mineral economy elicits three main questions:

1. Is a focus on removing the economic benefits derived from the mineral trade sufficient to alter incentive structures and up the stake in peace?
2. Is it possible to implement effective control measures (targeted or general) to restructure these incentives and up the stake in peace?
3. What is the cost-benefit of this approach as opposed to other approaches such as a direct military intervention, or economic formalization through a political process? In particular, what are the costs to the local population of economic interventions?

It is beyond the scope of this report to assess the incentives of the various armed groups and their constituents in the DRC, except to point out that observers in the region have shown that the conflict is clearly not simply for economic gain.[46]Even if a rational economic profit motive goes far in explaining the behavior of political and military elites, placing it at the centre of the analysis neglects the complexity of the war economy in Eastern DRC, ignores a number of critical issues and actors, and is questionable as a solid base for developing adequate policies for engagement. The key arguments against this approach are:

- The insecurity in Eastern DRC is a **symptom** of the inability of the Congolese state to control

45 See for example, RCS Trading Conflict for Development, April 2009, Global Witness, Faced with a Gun What Can You Do, July 2009, United Nations, May 2009

46 Johnson, Dominic, Minerals and Conflict in Eastern DRC, Pole Institute, July 2009. http://www.pole-institute.org/site%20web/echos/echo114.htm

the monopoly of violence and broader governance failures. The persistent contestation of the monopoly of violence is denying the necessary stability to expand and strengthen the reach of the state to the East, which further underlines the need to focus on security.

- War economies include all economic activities that are carried out in wartime and attention must thus also be given to shadow economies and coping or survival economies, which are causally interlinked. In addition, war economies are enmeshed with the political, cultural and emotional economies of the conflict.[47] At play is not simply control over resources and territory, but also deep underlying tensions stemming from ethnic dimensions, past grievances, and ingrained cultural nuances, which are all significant contributing factors.
- War economy activities are not always so different to economic activities developed in peacetime. In peacetime, competition over control of natural resources is a common facet of larger political strategies to escape control by the political centre, for example, or to support local power complexes. Moreover, the political economies that surround the extraction and trade in natural resources can produce powerful centrifugal forces that not only further fragment the state but also create 'multiple unstable, ungovernable spaces'.[48]
- War economies have the potential to persist in post-conflict contexts and in some cases are hardly affected by peace processes. Even if some adaptation is needed to reach new forms of accommodation with the political centre, mechanisms of exploitation that have been instituted during wartime can largely survive in peacetime conditions.[49]

Taking these arguments into account it is worthwhile focusing on the feasibility of suggested control measures, to gauge their likely effectiveness in modifying the behavior of the various military groups in order to end or reduce violence. Any suggestions must be grounded in the political, economic, cultural and institutional realities of Eastern DRC. For example, enforcement mechanisms, which delegate oversight to the Congolese state, are unlikely to succeed, given the fact that the state is under-resourced and unable to maintain the most basic of state services. In addition, it fails to recognize that many actors within the state or military structures have an interest in maintaining the status quo.[50] Actors who are economically profiting by participating in the shadow economy may well have an interest in peace, so long as their profit motive can be fulfilled in peacetime.[51] It is therefore important not to discount particularly the established formal economic operators, such as the exporting companies, as important agents in a sectoral reform process.

Below we identify some of the key suggestions for intervening in the mineral trade and discuss their feasibility given the prevalent implementation constraints in the DRC. The feasibility of the project must be considered the key factor, given the potential interventions have for negatively impacting the local economy. Thus, the likely impacts of the suggested approaches, particularly on local communities, are also reflected upon. Both existing and new alternative approaches to the mineral trade, including shorter-term measures to formalize the minerals trade, as well as longer-term projects of regional economic integration, are discussed.

47 Goodhand, Jonathan. "From War Economy to Peace Economy? Reconstruction and State Building in Afghanistan." Journal of International Affairs 58, no. 1 (2004): 15-175. In his analysis of the Bosnian war economy, Andreas makes a similar point and points at the need for a bottom up, clandestine political economy approach. Andreas, Peter. "The Clandestine Political Economy of War and Peace in Bosnia." International Studies Quarterly 48, no. 1 (2004):29-52.

48 Korf, Benedikt, and Hartmut Fünfgeld. "War and the Commons: Assessing the Changing Politics of Violence, Access and Entitlements in Sri Lanka." Geoforum 37, no.3 (2006): 391-403.

49 Cramer, Christopher, and Jonathan Goodhand. "Try Again, Fail Again, Fail Better? War, the State, and the 'Post-Conflict' Challenge in Afghanistan." Development and Change33, no. 5 (2002), 885-909.

50 RCS, Trading Conflict for Development, April 2009, Global Witness, Faced with a Gun What Can You Do, July 2009

51 RCS, Trading Conflict for Development, April 2009

Due diligence measures will help the professionalization and formalization of the mining sector, but in themselves are not a solution to the insecurity in Eastern DRC. *© Mark Craemer 2009*

Interventions: The Feasibility of Control Measures

A number of control measures have been suggested for the mineral trade in the Eastern DRC, most notably by pressure groups[52] and the United Nations,[53] and include a proposed *Congo Conflict Minerals Act of 2009* in the US Senate for electronics companies to conduct due diligence on their mineral supply chains[54]. The Act is currently referred to committee and at the time of writing it is too early to say what will appear in the final document. However, the action has spurred the tin smelter association, *ITRI*, which represents the main purchasers of tin from the DRC, to propose a tracking and tracing mechanism that would in theory allow its members to know the mine of origin in eastern DRC.[55]

The measures suggested have invariably focused on the minerals, which form the largest proportion of exports by volume – the so-called three Ts – tin, tungsten and tantalum, with the UN and some pressure groups calling for more stringent due diligence also in the case of gold. The implication of these suggested mechanisms, either implicit or explicit, is that through the correct application of due diligence and/or tracking and tracing mechanisms, the mineral trade can be de-militarized to produce a positive impact on the problems of insecurity in the region.

The introduction of due diligence and track-and-trace mechanisms will certainly have positive effects on the sector, most notably by bringing transparency to

52 The Enough Project, Eastern Congo: An Action Plan to End The World's Deadliest War, July 2009; Global Witness, Faced with a Gun What Can You Do, July 2009

53 The Group of Experts on the Democratic Republic of the Congo: S/2008/773, Rec 14, Dec 2008; S/2009/253, Section XI, S/2009/253, May 2009

54 http://www.govtrack.us/congress/billtext.xpd?bill=s111-891

55 ITRI, DRC Tin Supply Chain Initiative, July 2009 http://www.itri.co.uk/pooled/articles/BF_NEWSART/view.asp?Q=BF_NEWSART_313589

supply chains and creating pressure for operators to professionalize their activities. However, current suggestions place either too much faith on these mechanisms to solve entrenched problems of insecurity, or too much faith in the ability of the Congolese government or international bodies to effectively implement these mechanisms.

Generally speaking the measures draw on four main modes of control, with some initiatives incorporating a combination:

1. Due diligence: Market to mine tracing mechanisms to assure mineral legitimacy and legality
2. Certificate of origin: in-country tracking measures to assure site or country of production
3. Investigation or punitive measures, typically against individuals or companies
4. Geographical and geological mapping of various mine sites and their minerals, contributing to scientific 'fingerprinting' of mineral supply chains

Blanket sanctions on mineral exports have not been endorsed by any of the main observers in the conflict, mainly because it is widely recognized that this would have a serious negative impact on the one million artisanal miners and families dependent on the trade for their livelihoods. However, both the pressure group Global Witness and the UN have recommended targeted sanctions focusing on specific mines where minerals are financing armed groups or their leadership.[56]

This is a viscerally appealing action, but it faces some significant challenges. First and foremost, any targeted sanctions against a specific mine or area, while potentially affecting the income of any parasitical military force, is likely to have a disproportionately worse effect on the mineworkers who will lose their jobs. They will need to obtain an income through other means, which may mean migration, or engaging in other problematic activities such as the illegal wildlife trade, poaching for food, or even joining a military brigade.

56 Global Witness, Faced with a Gun What Can You Do, July 2009, UN, S/2008/773, para 72, 131, 134. Recommendation 13

Secondly, while the measures above taken together should produce pressure on supply chain operators for self-discipline in accordance with legal requirements, regulatory regimes to enforce or monitor compliance are lacking. It is unclear whether these interventions could be successful even with a large and costly intervention from both the Congolese government and the international community via, for example, MONUC.

Supply chain due diligence is an important part of good business practice for a whole host of reasons. Greater visibility of the supply chain behind first-tier suppliers enables the communication of best business practices up and down the supply chain, and can lead to innovations for improved supply chain efficiency and sustainability gains. The implementation of due diligence schemes in the DRC mineral trade is a welcome step to increase transparency and professionalism in the sector. Furthermore, supply chain due diligence can *in theory* help induce the formalization of the informal and a-legal sections of the trade as operators are put under pressure to reveal their legitimacy. With the right incentives, such as access to outside markets and recognition of legal rights, a-legal and largely formal actors can be coaxed into the formal sector to assist and participate in due diligence schemes.

However, besides assisting with the formalization and professionalization of the sector, it is unlikely that the implementation of a due diligence scheme will result in the removal of military beneficiation from the mineral trade. Instead, it is far more likely that:

- Military involvement will become hidden (e.g. documentation forged, or front companies set up);
- Military groups will diversify their income or tactics of income collection (see above);
- Militarized minerals will be laundered into legitimate supply chains, including smuggled over porous borders and laundered elsewhere, as is happening already (see below);
- Monitoring will be incomplete, ineffective and corruptible or coercible.

TABLE 5: EFFECTS OF A TOP DOWN MINERAL CERTIFICATION OF ORIGIN SCHEME	
Likely	Unlikely
Increase transparency and traceability in the international trade	Eliminate avenues to launder 'conflict' or corruption minerals at sub-national level
Assist formalisation, including taxation, at export level	Assist formalisation at artisanal, small scale and other informal point of origin levels
Encourage legal or mostly legal actors to comply	Remove illegal actors/military groups from supply chain
Place greater scrutiny on downstream chain in minerals which may lead to more focus on upstream labour rights and environmental issues	Solve issues of human rights abuse, inequality, poverty, insecurity etc. upstream
Place significant burden on states to monitor, albeit with enhancement in technical expertise, and possibly create new opportunities for corruption, rent seeking and misclassification	Solve issues of corruption, rent seeking and deliberate misclassification in state institutions

In addition, without provision to fulfill the profit motive of the shadow economy actors, due diligence requirements may incentivize these actors to further informalize, rather than vice versa.

A close analogy to the proposed schemes in Eastern DR Cong is the Kimberley Process Certification Scheme for Rough Diamonds (KPCS), which emphasizes internal control systems to guarantee point of origin and the private sector's complementary system of warranties system, which 'carries' the KPCS certificate through to consumers.[57]

Unfortunately, despite 10 years of hard work, the KPCS is unable to guarantee point of origin for its diamonds in artisanal mining countries, primarily because the size and geography of the artisanal mining sector make this logistically extremely difficult.[58] There is a potentially insurmountable gap between the necessary requirements of the scheme to fully guarantee the origin of diamonds by monitoring artisanal diamond mining areas, and the ability or political will of governments to meet those requirements.[59] In practice, this means that the scheme certifies diamonds of uncertain origin, a fact that should be of serious concern to proponents of a similar kind of scheme for minerals in Eastern DRC.

The lack of political will to seriously invest in these projects should also not be discounted both domestically and internationally[60], particularly given that several interviewees have suggested that many of the interests in the mineral trade in Eastern DRC connect to political elites in Kinshasa, while Eastern DRC does not have the same strategic importance as Afghanistan, Angola or Somalia.

Private Sector Obligations

Requirements of the private sector have largely focused on the international trading relationships from DRC. Congolese exporters (comptoirs) on the one side, so the argument goes, should be obliged to obtain appropriate documentation to demonstrate the origin of their minerals; international traders and subsequent buyers on the other, should exert further due diligence pressures on the trade.[61]

We agree that the private sector should have "know your customer" and due diligence provisions. The

57 See www.kimberleyprocess.com

58 Garrett, N, Mitchell, H. and Levin, E. (2009), Regulating Reality, Egmont Institution for International Relations and DFID

59 Smillie, Ian, Vote of No Confidence, Kimberley Process, 28 May 2009 http://www.diamondintelligence.com/magazine/magazine.aspx?id=7895

60 ibid

61 Compare Global Witness (2009), When faced with a gun, what can you do, Global Witness

BOX 5: The Challenge of the Gold Trade

Crucially, the suggested tracking and tracing mechanisms fail to address the elusive trade in gold - the primary source of income for the FDLR – and like the underground diamond trade-essentially impossible to monitor at a sectoral level, perhaps even with massive investment into control measures. Gold is problematic for good reasons: the trade is essentially undetectable as it is mined from remote sites, transported in small quantities and sold informally. In addition, there are significant and well-established trading networks in the neighboring countries of Burundi, Tanzania and Uganda, which link this informal trade to the global economy. The resilience of the gold trade to track and trace measures has the potential to completely undermine efforts to remove military beneficiation from the mineral trade, particularly by the FDLR, which controls extensive gold mining operations in South Kivu.

The investigative approach currently undertaken by the UN is likely to identify some of the individual traders who are guilty of trading with the FDLR, but not all of them, despite best efforts.[1] In addition to the difficulty of meeting evidential requirements, a lack of political will, and the ability for illegal operators to quickly change business fronts are also likely to hamper these efforts.

1 In Trading Conflict for Development, we suggested that traders caught trading with the FDLR be prosecuted under terrorist legislation (as the FDLR has now been designated as a terrorist organisation in the US).

mineral sector is not only problematic due to militarized mining, but also owing to the appalling labor and social abuses and environmental damage, which are commonplace at the level of the mine. Transparency and observation of the supply chain will help regulators observe and private sector actors appropriately engage with their suppliers to attempt positive reform. However, while due diligence is a necessary first step towards the professionalization of the sector, in itself it is not enough to solve the problem of military beneficiation in the mineral sector, which do and will operate along informal channels. Rather the due diligence mechanisms will serve to clarify links between the already formal trade and legal actors, as well as encourage shadow economy actors to formalize if correctly incentivized.

Currently, the risk-freest response for the private sector to be able to guarantee that its products do not contain minerals that may have been associated with conflict dynamics is to completely withdraw from purchasing from Eastern DRC. Rather than stopping the trade, this will simply alter it as it creates a space for other buyers, who are not subject to the same scrutiny and pressure, to step in. Previous interventions into the trade by the DRC's Ministry of Mines in North Kivu, like a trading ban on cassiterite from Walikale for safety concerns in the Bisie mine in 2008, merely resulted in an alteration in the configuration of the trade. These alterations included road transportation via South Kivu, where the ban was not in effect.[62] The suspension was lifted in April 2008 by the Governor of North Kivu, after complaints by the local population that the ban on minerals going out had effectively stopped food supplies and equipment coming in to the area.[63]

Traxys, previously one of the largest purchasers of minerals from Eastern DRC has suggested that it will cease buying from the DRC[64], while some global electronics

62 Garrett, N. (2008), Walikale – Cassiterite Mining and Trade in North Kivu, CASM

63 Global Witness, Faced with a Gun What Can You Do?, pg 53

64 Reuters, Traxys says will stop buying eastern Congo tin, 4 May 2009

BOX 6: The Risk of Advocacy Self-Defeat: Perspectives of CSR managers[1]

The Corporate Social Responsibility managers of some of the leading electronics brands explained their experiences with pressure group advocacy on the issue of minerals and conflict in Eastern DRC in the following way:

"Imagine you are the CSR manager of a company that sells billions of dollars worth of electronic goods and you know you have customers with a conscience. One day NGO representatives come into your office and tell you that your product may contain conflict minerals. The next morning you realize that the same NGO has started to talk to your customer through the press. The next afternoon your sales manager tells you about a call from a sales representative, who was asked whether it was true that the product was fuelling conflict."

You don't know what to answer. You don't know Eastern DRC, the region the NGO is talking about, because your company doesn't source minerals directly. Unfortunately that also means you cannot rule out any negative externalities of the trade. In the meantime your PR department is going ballistic, because your brand name and the word conflict are too often printed and mentioned in the same sentence. The next morning you gather your troops in a meeting room and a response is internally identified: we will urge our suppliers not to source from Eastern DRC; we will try to put as much distance between our valuable brand and this conflict issue on the ground.

The next day a representative from the government development agency is in your office. He explains the issue from a development perspective and suggests that the minerals are not only associated with conflict, but also with livelihoods and basic survival. The suggestion is that instead of withdrawing from the trade, you should help to reform it. This is unknown territory for you, but given that your company subscribes to a triple bottom line approach, you agree to a dialogue. You speak to the CEOs of your competitors and you collectively agree to start your own industry wide research into the subject. You are aware that a development process takes some time, but you are willing to take the risk, so long as it is acknowledged that you are actively trying to contribute to a solution.

Then the train hits the wall.

NGO campaigns start that hold your brand responsible for conflict and rape. Another pressure group report openly suggests very stringent measure that could apply to companies and individuals found to be purchasing from the region, such as prosecution by the International Criminal Court or being reprimanded by your home governments. At the same time your sales representative keeps calling your sales manager about a response to the question about your brand, conflict and rape. The government development agency representative calls you the next day to ask you about the extent that you can commit to a reform process. You remind him that you are the CSR manager of one of the best known brands in the world, but that this is an industry wide problem. You say to him that you have not decided yet, whether you want to commit the brand. Instead you refer him to the industry representative body.

The next morning you gather your troops in the meeting room: You decide to urge your suppliers to completely withdraw from Eastern DRC; you will put as much distance between your valuable brand and this conflict issue on the ground. The risk of getting burned by the pressure groups is too high to commit your brand to support a reform process.

1 A composite presentation based on a series of interviews with CSR managers of electronics company, May-July 2009

companies were privately suggesting they would suggest to their suppliers to purchase elsewhere.[65]

The implication of a withdrawal of the formal private sector, particularly of international actors, is primarily the loss of a potential partner in the reform of the sector.[66] Given the right regulatory and market based incentives, international purchasers in particular are likely to respond to requests from downstream suppliers, and so should be included in the process of reform within the sector. In addition, the general resilience of the trade suggests that it will to continue regardless of control measures, but with further criminalization and informalization. In all likelihood, this will be to the detriment of the development of the DRC and provide an opportunity for military actors to expand their trading networks. Thus stakeholders should ensure that the private sector actors legally trade, and encourage the adoption of due diligence in their operations, but ensure that the private sector remains positively engaged for the long term.

Medium- to Long term intervention: Formalization of the Artisanal Mining Sector

The resilience of the artisanal mining sector to control measures means that any sustainable intervention in the ASM sector actually entails formalization of the sector.[67]Formalization is not a solution to the security problem, but does enable a sustained interaction with the community allowing for certain formal measures such as due diligence requirements to be implemented in return for certain benefits, namely:

- Security of tenure
- Legal recognition and protection under the law
- Training and professionalisation[68]

For a further discussion on formalization of the ASM sector, see the section on Uganda below.

Where fledgling democratic institutions find it difficult to assert themselves vis-à-vis entrenched interests, the full development potential of natural resources will not be realized so long as security around natural resource deposits is negotiated locally[69] or a transformation is attempted by applying economic sticks and carrots in the form of sanctions or similar.[70] While these practices can offer some positive outcomes, in all likelihood the state would be weakened further – continuing the negative feedback loop of governance weakness.

However, notwithstanding the continuing governance weakness and high risks, there are enough positive trends to say that the moment is right to help promote trade and productive economic activity, which remains the primary focus to achieve development through growth. A formal minerals sector would clearly represent a 'regional public good'[71], with the DRC potentially emerging as a positive economic contributor to the development trajectories of itself and its neighboring countries in the medium to long term. In any such transformation there will always be losers. Those who have benefited from an absence of regulation, from the militarization of economic activ-

65 Various interviews and conversations with company and NGO representatives, January 2009 – July 2009

66 Levin, E. (2003) The Business of War? Constructive Corporate Engagement in the Coltan Trade in the Democratic Republic of Congo. Unpublished paper. At http://www.resourceglobal.co.uk/index.php?option=com_docman&task=cat_view&gid=36&Itemid=41.

67 Hinton, Jennifer, SMMRP Strategy paper, August 2009

68 Interview with Jennifer Hinton, 7 August 2009

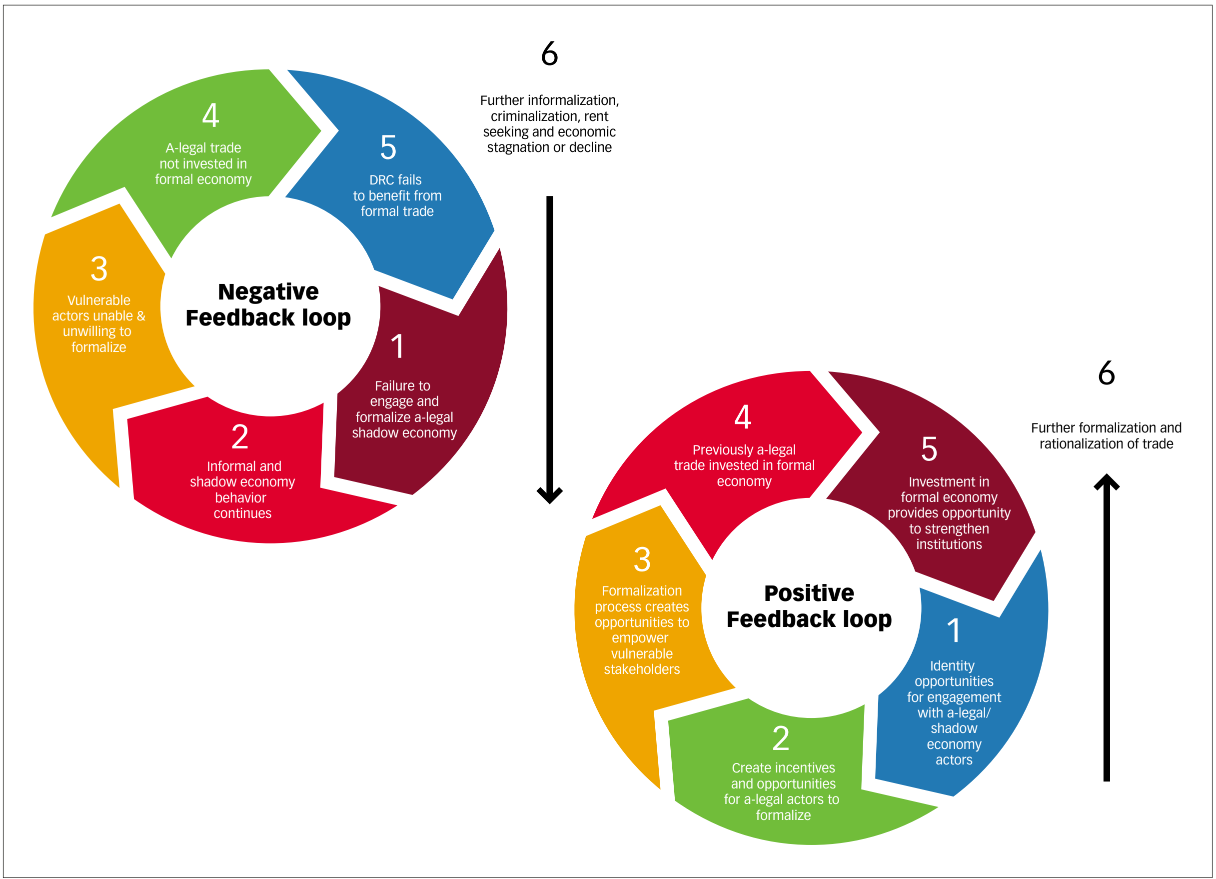
69 Garrett, Nicholas, Sergiou, Sylvia and Vlassenroot, Koen (2009) 'Negotiated peace for extortion: the case of Walikale territory in eastern DRC', Journal of Eastern African Studies, 3:1,1 — 21

70 Goodhand, Jonathan. "From War Economy to Peace Economy? Reconstruction and State Building in Afghanistan." Journal of International Affairs 58, no. 1 (2004): 15-175. A war economy includes both the production, mobilisation and allocation of economic resources to sustain a conflict and economic strategies of war aimed at the deliberate disempowerment of specific groups. A shadow economy comprises actors who profit from war, but whose objective is not necessarily to wage war, and who may have an interest in peace, so long as they regard peace as compatible with their profit motive. A coping economy comprises population groups whose economic decisions are motivated by the imperative to cope or survive, rather than to profit.

71 Goodhand, Jonathan. "From War Economy to Peace Economy? Reconstruction and State Building in Afghanistan." Journal of International Affairs 58, no. 1 (2004): 15-175.

ity, and from the opportunities of unauthorized rent-seeking, will potentially become spoilers and try to prevent change or find new ways around it.[72] There will also be others, much larger in number and all the way through from miner to local official to exporter, who have had to cope with or suffered from the informality of mining and the trade in minerals, simply because the formal systems have become so corrupted that they inhibit rather than facilitate mining and trade.[73]

Implementing a process of reform, which engages with stakeholders in the trade, is a promising way to transform the trade, a large portion of which can best be described as a shadow economy, to a formal economy. Actors in a shadow economy include in particular those who profit from insecurity, but whose objective is not necessarily to cause or sustain insecurity and who may have an interest in stability and development, so long as they regard stability and development as compatible with their profit motive.[74]Incentivizing the shadow economy to transfer their activities to the formal economy would help provide a local basis for formalizing the 'coping economy' and contribute to both bottom-up reform of governance structures and opportunities for those structures to strengthen.



Graph 6: Governance feedback loops in Eastern DRC

72 Garrett, Nicholas, Sergiou, Sylvia and Vlassenroot, Koen (2009) 'Negotiated peace for extortion: the case of Walikale territory in eastern DRC', Journal of Eastern African Studies, 3:1,1 - 21

73 Sunman, H. and Bates, N., Trading for Peace, DFID, 2007

74 Goodhand, Jonathan. "From War Economy to Peace Economy? Reconstruction and State Building in Afghanistan." Journal of International Affairs 58, no. 1 (2004): 15-175.

5. Beyond DRC: Production and Trade in the Great Lakes

A large part of the controversy over the exploitation and trade in DRC's minerals has focused on the role of neighboring countries. The following sections investigate specific regional issues of relevance to the trade in minerals from Eastern DRC, focusing on Rwanda, Burundi, Uganda and Tanzania. Indeed, the rich mineral deposits in Eastern DRC were used to finance both Rwanda's and Uganda's war efforts during the two past Congolese wars.[75] Today we are seeing significantly different political and economic strategies emerging.

Rwanda, for example, has aligned its domestic mineral sector development strategy with the larger development strategy of diversifying its economy. It focuses on service provision in the regional economies, its domestic mining sector and the mining sector of Eastern DRC. It also focuses on value-addition to its domestic production and exports from Eastern DRC. The implications of these two approaches suggest that an analysis of Rwanda's and other neighboring countries' engagement with the trade in minerals is appropriate from at least two perspectives: first, recognition of the headway that the countries have made in terms of developing their own mining sectors is fitting. Second, stakeholders, need to understand the challenges that the mineral traders based in neighboring countries pose to the development of the DRC and the region as a whole.

Rwanda

Rwanda's 'Vision 2020'[76] document presents both a vision for the nation to strive for, and a clear framework designed to advance development programs for the country's social and economic progress. In the medium-term Rwanda aims to achieve significant third sector growth and become a service-based economy. Understanding this goal helps put into perspective recent GoR actions, such as the mobilization of the domestic mining sector and moves by GoR to improve relationships with neighboring countries.

The assumption that Rwanda has no minerals in its own soil has contributed to a portrayal of the current insecurity in the Kivus as a 'resource conflict'.[77] In fact, discoveries of cassiterite, tantalum, tungsten and gold in Rwanda date back to the 1930s. In the Rwanda National Innovation and Competitiveness (RNIC) Program, Rwanda's minerals industry stakeholders have set the aim to "generate US$106m in minerals industry export receipts in 2011, and cumulative receipts of US$387m over 2007-2011 for public sector investments of US$14m, through export revenue generation for the export-focused metals and precious stones sectors, and import substitution for the domestically-focused quarries sector."[78]In 2007 Rwanda's annual domestic cassiterite production was at 1,041 tons[79], which compares to official monthly exports of 1,138 tons from the Kivu provinces in the same year.

While Rwanda's current domestic production is small compared with that of the Kivus, the country has potential. The sector has been a major export contributor and job creator for Rwanda, with around $81 million USD in export revenues recorded in 2008[80] and an estimated 35,000 mining sector jobs created.[81] Despite the global financial crisis, the industry and its secondary economies are expected to remain significant contributors to the growth and increased competitiveness of Rwanda.[82]

75 Various interviews with Ministry of Natural Resources staff, October – December 2008

76 http://www.enterprise-development.org/download.aspx?id=548

77 Stephanie Nolan, 'How rebels profit from blood and soil', Globe and Mail, October 29, 2008

78 'A new minerals industry strategy for Rwanda – Preparing for growth', cabinet paper, Government of Rwanda, Ministry of Land, Environment, Forestry, Water and Mines (MINITERE) (2006),

79 Source: Government of Rwanda: OGMR(2008), Mineral Status of Rwanda, OGMR

80 Reuters. Rwanda is set to triple mining revenues, available at http://www.mineweb.net/mineweb/view/mineweb/en/page504?oid=75696&sn=Detail, accessed 31/3/2009

81 Source Government of Rwanda: OGMR(2008), Mineral Status of Rwanda, OGMR

82 Government of Rwanda, Ministry of Land, Environment, Forestry, Water and

In 2006 Rwanda's Investment and Export Promotions Agency (RIEPA) approved about $55million USD worth of mining projects.[83] The first fruits of Rwanda's domestic sector development strategy can best be seen in the wolfram (tungsten/wolframite) sector. It is difficult to compare historical data, so not too much should be read into the significant positive trend shown in table 6 below, which depicts a wolfram production increase of 3,341% since the inception of privatization in 2005. It is clear from our research that a number of new private sector led ventures, such as Wolfram Bergbau, Pyramid International, Rwanda Allied Partners and Africa Primary Tungsten have generated production increases through investment in upgrading mining facilities.

TABLE 6: RWANDA DOMESTIC PRODUCTION OF WOLFRAMITE, CASSITERITE, TANTALUM AND GOLD: 1989, 1996, 2005,2007

	1989	1996	2005	2007
Wolframite (tonnes)	184	22	87	2,988
Cassiterite (tonnes)			215	1141
Tantalum (tonnes)			8	490
Gold (kg)				17

Source: REDEMI production statistics 1989 – 2007 / Ministry of Natural Resources Production Statistics 2007.As quoted in Freedman J.(2007). Pilot Project on Certification of Minerals Produced in Rwanda, BGR. Note: REDEMI production includes output at 8 concessions plus a small amount purchased by independent buyers from smaller, artisanal managed concessions.

The increase in output is a positive signal, but there remain different levels of investment, production, performance and social commitment among the investors. Therefore, if the full benefit of relying on private investors to help with fiscal receipts and social development is to be realized, intelligent regulation coupled with the right incentive structures will have to be considered priority areas.

Inspiring Investor Interest

Rwanda has worked hard to make its mining sector attractive to foreign investors. The success of this strategy is largely due to macro dynamics, such as political stability and predictability, as well as a willingness to continually improve. On the micromanagement level, three factors stand out:

The establishment of the Rwanda Investment and Export Promotion Agency (RIEPA)

RIEPA facilitates and assists the strengthening of the supporting industry institutions of the mining sector by solidifying the legal and regulatory framework, developing the Kigali Mining Campus, improve distribution channels, developing Rwanda's national brand and promoting opportunities in the Rwandan minerals sector.

The mining company 'Pyramides' has stated that 'RIEPA is implementing its objectives successfully. Examples of incentives are tax exemptions to upgrade production and processing capacities and the voidance of import tax for mining machinery.'[84] The Association of Comptoirs in Goma sees RIEPA as a model that should be implemented in the DRC where, for example, tax breaks should occur when investing significantly into the mining sector.[85]

The establishment of the Rwanda Geology and Mines Authority (OGMR)

The OGMR focuses on the administration, regulation, support and promotion of the growth of the mining sector, as well as the coordination of the activities of

Mines (MINITERE) (2006), 'A new minerals industry strategy for Rwanda – Preparing for growth', cabinet paper, p.3, 2006

83 http://allafrica.com/stories/200805270740.html

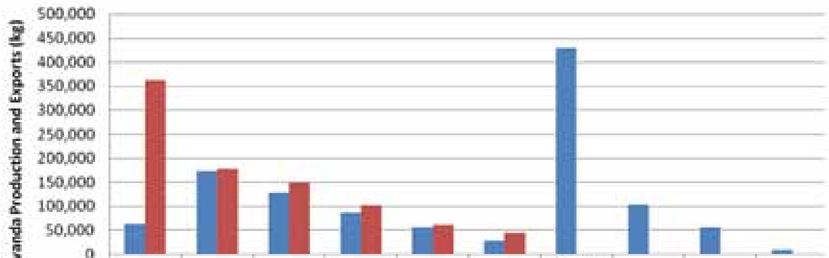
84 Mahmound Saleem, Interview with Pyramides, Nicholas Garrett (23 October 2008).

85 John Kanyoni - Federation of Goma based Traders, Interview, Nicholas Garrett (24 October 2008).

all the various other parties involved in the execution of minerals industry activities.[86] The OGMR has a key role to play as the central coordinator for the industry, liaising with other government bodies involved in the minerals sector to facilitate a coordinated and effective approach towards sector development.

The new mining law

The new mining law is at parity with international standards and ensures predictability in the application of the law for investors. This law removes some of the direct regulatory obstacles such as the issuance of renewable four-year exploitation licenses, which deterred serious investors, as opposed to 30+-year exploitation licenses found in other countries. The four-year rule attracted companies that were interested in short-term profiteering, as opposed to responsible, long-term investors. The government's intention to direct the country's development is clearly recognizable, as the majority of contracts signed so far are performance-based, which reserve the government the right to review contracts if the company does not perform as agreed[87].



	COPIMAR	Centrale Multi Services (CMS)	Munsad Minerals	REDEMI	NRD	Africa Primary Tungsten (APT)	Small Cooperatives + Mining Assocs	Irregular Small Miners 10%	Rwanda Metals	GMS
Production (Kg)	64,327	174,000	129,992	87,415	56,418	28,808	428,800	103,732	57,531	10,030
Exports (Kg)	362,362	178,488	150,257	102,011	62,749	45,273	0	0	0	0

Sources: Production Figures: Rwanda Ministry of Natural Resources , Mining and Geological Status Report, 2008. Export Figures: Rwanda Ministry of Statistics, Export Statistics, 2007

Graph 7: Rwandan Cassiterite Producers and Exporters, 2007

86 Government of Rwanda, Ministry of Land, Environment, Forestry, Water and Mines (MINITERE) (2006), 'A new minerals industry strategy for Rwanda – Preparing for growth', cabinet paper 2006

87 Interviews with mining sector stakeholders, Nicholas Garrett, Kigali, October 2008 – January 2009

Rwandan Exports by Trading Company

TABLE 7: RWANDAN BASED TRADING COMPANIES

	Rwanda Cassiterite Exports +					
	2007			2008 (Jan to Sept)		
	kg	USD	USD/kg	kg	USD	USD/kg
Africa Primary Tungsten SARL	45,273	$206,381	$4.56	125,900	$1,309,961	$10.40
Afriprom SARL	10,399	$65,748	$6.32	-	-	-
Albert Mupenzi	10,399	$65,748	$6.32	-	-	-
Centrale Multi Services	178,488	$1,185,370	$6.64	313,548	$2,992,077	$9.54
Copimar	341,730	$2,205,682	$6.45	320,986	$3,475,488	$10.83
ETS Munsad (or Damien MUNYARUGERERO)	150,257	$1,038,937	$6.91	350,585	$3,369,419	$9.61
Eurotrade International	67,066	$377,799	$5.63	22,039	$225,550	$10.23
Imperial Trading Company SARL	204,312	$1,493,624	$7.31	-	-	-
Metal Processing Association (MPA) *	2,156,357	$14,168,370	$6.57	1,079,078	$8,888,965	$8.24
Metrade Overseas	-	-	-	105,234	$1,051,457	$9.99
Minerals Supply Africa Ltd	-	-	-	429,539	$4,691,506	$10.92
Multiserve Consult SARL	32,280	$268,687	$8.32	19,568	$198,719	$10.16
NRD Rwanda Ltd	62,749	$777,905	$12.40	44,000	$489,471	$11.12
Phoenix Metal SARL	345,978	$2,378,688	$6.88	101,942	$859,349	$8.43
Redemi	102,011	$715,525	$7.01	12,227	$126,218	$10.32
Rwanda Metals	-	-	-	61,828	$1,186,783	$19.19
Sodem SARL	87,570	$668,887	$7.64	-	-	-
Trading Services Logistics	338,850	$2,562,116	$7.56	225,900	$2,569,341	$11.37
Valence Kalinda	227,188	$1,585,168	$6.98	162,333	$1,878,532	$11.57
TOTAL	4,360,907	$29,764,636	$7.09	3,374,707	$33,312,837	$10.80

*Source: Rwanda Ministry of Statistics, Disaggregated Statistics, 2007-2008 (Jan-Sept). + All exports declare origin Rwanda. Exchange rates: Original figures provided in RWF. Exchange to USD are based on interbank averages for the year. 2007: 562RWF/USD; 2008: 557/USD. * Figures from the Ministry of Mines Office in Goma show that MPA Gisenyi exported 1,068,000 kg of cassiterite from DR Congo to Rwanda in 2007*

TABLE 8: RWANDA EXPORTS OF WOLFRAM & TANTALUM 2007-2008

		2007			2008 (Jan-Sept)		
	Domestic production	tonnes	USD	$/tonne	tonnes	USD	$/tonne
Wolframite	2998 tonnes *	2757	$18,907,207	$6,858	1259	$9,417,248	$7,480
Tantalum	490 tonnes *	1105	$18,156,879	$16,432	706	$14,166,851	$20,066

*Source: National Institute of Statistics Rwanda, Disaggregated Export Data. * Source: REDEMI production statistics 1989 – 2007 / Ministry of Natural Resources Production Statistics 2007. As quoted in Freedman J. (2007). Pilot Project on Certification of Minerals Produced in Rwanda, BGR.*

Box 7: Cross border policing: the need for cooperation

The comparison of the 2007 mineral export figures from the Provincial Division of Mines in Goma with the official import statistics of Rwanda reveals a serious disconnect between the two countries' reporting of the export and import of minerals.

Transit goods are not reported in the import and export statistics of the country,[1] however, in 2007, Rwanda reported no imports of cassiterite from the DRC at all, despite cassiterite exports by Rwanda-based traders of approximately 3,000 tons in excess of its indigenous production. The same year, the Provincial Division of Mines in Goma officially reported that 1,068.8 tons of cassiterite were officially exported from Goma to Rwanda by the Kivu Resources subsidiary MPA Gisenyi. These imports are not reported in the Rwandan statistics. All other Congolese exports are reported in DRC as having worldwide destinations, which are: Belgium (7,660 tones), UK (521 tones), Austria (68 tones), Holland (24 tones), Hong Kong (187 tones), Thailand (190 tones), China (40 tones), Malaysia (308 tones), India (82 tones), and Russia (23 tones)[2].

The fact that there are no import declarations in Rwanda, even for items declared at the Congolese side, combined with the fact that in 2007, 3,000 tons of cassiterite were exported by Rwanda-based traders in excess of its indigenous production, suggests two possibilities:

The material is taxed at the Congolese border, but declared as transit goods before undergoing processing and value addition in Rwanda and being exported as material of Rwandan origin.

The consignments are informally exported raw material from DRC that is declared as material of Rwandan origin before export from Rwanda[3].

From the information available to the researchers, it is not clear which one of these activities is taking place. Yet, the fact that Rwanda-based traders process and export over 3,000 tones of – potentially untaxed – cassiterite that in all likelihood originates from Eastern DRC, is a challenge the Rwandan state will have to tackle head on. A reluctance to do so will continue to provide opportunities for lobby groups to label the entire mineral trade in the Great Lakes region illegal, which will naturally harm Rwanda's own domestic mineral sector development strategy.

1 Interview with Ministry of Natural Resources Representatives, Kigali, (Nicholas Garrett), December 2008

2 Ndimubanzi, E. (2007), *Annual Report 2007,* Division of Mines of North Kivu

3 A small percentage of this figure could also be unrecorded imports from Burundi and/or Southern Uganda, however the likelihood that it originates from DRC is exponentially higher, given the significantly higher production volumes originating from DRC.

Uganda[88]

Uganda has undertaken a series of investments into its mining sector that has begun to turn the sector from a marginal to a valuable contributor to GDP, particularly for foreign exchange. In particular, a project to engage and formalize the artisanal mining sector could prove a valuable example for other countries in the region looking to develop theirs.

Support of the artisanal mining sector can help workers like these vastly improve the efficiency of their operations and make a better living.

As little as 10 years ago, the mining sector in Uganda was still in its infancy. Despite a favorable geological environment for mineral deposits and several identified prospect areas, Uganda's mining sectors contribution to the economy in 2000 accounted for less than 0.7% of GDP and 7% of exports. Since 2003, a major initiative, known as The Sustainable Management of Mineral Resources Project or "SMMRP", has been undertaken by the GoU, the World Bank, the African Development Bank and Nordic Development Fund to develop the mineral sector, with positive results.

BOX 8: The Ugandan Mining Sector at a glance (2008)

Value
Taxes, Royalties, Fees, Rents: 3bn UGX (2007)
Value of Mineral Production: 96bn UGX (2007)

Employment
LSM: 2000 Ugandans,
ASM 150,000 Ugandans (60% women)
ASM and dependents as % of population 900,000 (2.87%)

Minerals mined:
Beryllium; clay; cobalt; columbium; copper; gold; gypsum; iron ore; lime; limestone; pozzolanic materials; salt; sand; tin; tungsten; tantalum, columbium, vermiculite, garnet, tourmaline, fluorite, kaolin, marble

Minerals mined by ASM:
Gold, clay and aggregates, tin, tantalum, niobium, tungsten, stone, sand, salt, semi-precious stones (2008)

88 This section draws primarily from the paper written by Hinton, Jennifer, SMMRP Strategy Paper August 2009

The SMMRP was designed to compliment changes in Uganda's legal framework which occurred under the Mining Policy (2001), Mining Act (2003) and Mining Regulations (2004). As a result of the development of the sector issued licenses and non-tax revenue has more than doubled between 2004 and 2008[89].

Included in SMMRP is a significant component for the artisanal mining sector, which directly employs more than 130,000 women and men in Uganda, with an additional 900,000 indirectly benefiting. ASM currently comprises more than 95% of the minerals sector workforce in Uganda and accounts for more than 90% of the production of minerals.

The SMMRP has five main components:

1. Strengthening governance and transparency in the management of the minerals sector through the following initiatives
   - Supportive legal framework for LSM
   - Effective institutions
   - Geological Information
   - Transparent mining cadastre
2. Small Scale Mining and Community Development through:
   - Institutionalization of extension services
   - Capacity building for ASM advisory services
   - Strengthening mining associations
   - Improving local capacity for mineral resource management
   - Sharing Best practice
   - Small grants
3. Environmental and Social Management Framework through
   - Building Institutional Capacity
   - Building partnerships between government institutions
   - Establish and streamline responsible environmental and social regulations, procedures and guidelines
4. Geo-information development through training
   - Crucial for foreign investment, good governance of land use and resources such as water
5. Improvement of management and Administration through training

89 Hinton, Jennifer, SMMRP Strategy Paper August 2009

Supporting the Artisanal Mining Sector

A significant part of the SMMRP program has been the support and development of the artisanal mining sector. Early on, it was recognized that the Ugandan ASM sector employs a significant number of people and is growing further. This is primarily due to the fact that ASM is easy for unskilled persons to enter.

The Ugandan government saw efforts in the ASM sector directly impacting upon their goal to ease poverty in the country. Previous efforts in the 1990s by the government to make ASM illegal failed, as they have elsewhere, but effectively marginalized the sector and denied miners and avenues to become part of the formal economy. The recognition that the sector will remain as long as it is a viable economic alternative has lead to the development of suitable policies, which include incentive based approaches towards formalization of the sector.

The move towards a national strategy for the advancement of the ASM sector has begun with the development of a set of policies and interventions suited to the context of ASM in Uganda. Part of this strategy is the recognition that for ASM miners, the benefits of formalization must outweigh the cost of licenses, fees and taxation to properly incentivize the sector towards formalization and professionalization. The SMMRP has identified the following critical needs

in the ASM sector:

1. **Formalization** through organizations and supportive policies, laws and regulations.
2. **Technical training and assistance** in finding mineral deposits and environmentally-friendly, safe mining and mineral processing methods.

3. **Improved business skills** for increased profitability and **access to financing** for necessary equipment and infrastructure.
4. **Market development** and increased income opportunities through value added processing, fair pricing and improved linkages between producers and markets.
5. **Gender mainstreaming** in policies and programs.
6. **Increased support for marginalized, opportunity-rich areas**, like North and North-eastern Uganda.
7. **Expanded support for building minerals producers**, given their critical role in National Development vis-á-vis the construction sector.
8. **Partnerships** to support other priorities related to community health and development.
9. **Political will and institutional commitment** to support all facets of the sector.

The SMMRP supported a *Training and Awareness Campaign for Artisanal and Small Scale Miners in Uganda* which began a formalization training and awareness campaign for ASM miners. The campaign comprised a number of projects including the production of a handbook, training workshops and community based training and local officer sensitization.

In addition to policy specifically focused on the ASM sector, the SMMRP has begun to address the interaction between ASM and LSM. Although previously thought of in competition with each other, recent thinking regarding the interaction between LSM and ASM has begun to propose each of the sectors in fact have different requirements and can coexist in a mutually beneficial manner.

Box 9:The Gold Trade from DRC to Uganda

There are many examples of how ASM related revenues stimulate other livelihood opportunities and not just in direct relation to service provision around the mine itself. Significant quantities of gold are currently exported fraudulently from northern DRC to Uganda.

In a similar manner to the diamond traders of West Africa, major traders in Uganda travel to a major trade centre such as Dubai or Shanghai where they transform their gold into cash and purchase containers worth of consumer goods for freight transport via Mombasa, road through Kenya and Uganda, back to the DRC.

There is currently a vibrant trade in motorbike kits (110 per container), which are assembled by young men who are trained as skilled workers in workshops all along the Aru/Arua border. From Ariwara the bikes are sold all over northern DRC and, even after transaction, shipping and assembly costs, they generate 50% profit for the trader. This is one (perhaps unusual) example of repatriation of economic opportunity, even though the initial trade may be largely fraudulent.

Finding ways to help ASM workers to develop non-mining incomes and livelihoods must be a fundamental part of any policy to address ASM. The issue of scale, however, is an important consideration and this has major implications for the timeline for transition. The number of people working in ASM is vast. Many of them will, eventually, leave ASM of their own accord when there are simply no more accessible minerals to mine. Planned programs for transition are currently only at the local, project level, funded by individual mining companies, development agencies, or some national government initiatives. There is little joined-up thinking, and even less by way of a collaborative framework with targets, resources and milestones. (Hayes, 2008: 45)

Burundi

The economy is predominantly agricultural with more than 90% of the population dependent on subsistence agriculture. Economic growth depends on coffee and tea exports, which account for 90% of foreign exchange earnings (2008).[90] The country's domestic mining sector is relatively small and entirely artisanal, with the World Bank's Community and Small-Scale Mining Secretariat (CASM) estimating the total number of artisanal miners to be less than 50,000[91], with Global Witness suggesting around 100,000.[92] Including dependents and people involved in the trade in minerals, about 300,000 persons (3.45% of the population) depend on the mining sector for their livelihood.[93] The principle minerals mined and traded are gold[94]; nickel; peat; tantalum; tin; and tungsten, but production estimates are difficult to ascertain, given the government's capacity constraints in the collection of reliable production figures.[95]

Burundi is an important export transit hub for minerals produced in South Kivu, some of which originate from FDLR and FARDC controlled mines. Burundian customs controls face the same capacity constraints as their Congolese counterparts, but given the easily concealable nature of gold, which is the principal export mineral from South Kivu by value, a large percentage is fraudulently exported into Burundi and Tanzania across Lake Tanganyika, or through the many informal crossing points along the Ruzizi river that marks the Burundi-DRC border north of the lake.

90 145 https://www.cia.gov/library/publications/the-world-factbook/geos/by.html, accessed 30/7/2009

91 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 56

92 Global Witness interview with Damien Mbonicuye, Director, Direction des Mines et Carrieres, Ministry of Water, Energy and Mines, Bujumbura, 12 March 2009, quoted in Compare Global Witness (2009), When faced with a gun, what can you do?, Global Witness, p. 73

93 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 56

94 http://minerals.usgs.gov/minerals/pubs/country/2000/bycnmimpfrrwse-myb00.pdf, accessed 30/07/2009

95 http://minerals.usgs.gov/minerals/pubs/country/2006/myb3-2006-by.pdf, accessed 30/07/2009

The gold is then sold to traders in the capital, Bujumbura, and exported from there. The international airport in Bujumbura is one of the most direct routes through which gold from South Kivu leaves the region and reaches world markets.[96]

Global Witness have undertaken some preliminary field research into the mining sector in Burundi and the following paragraph is adapted from their 2009 report "Faced with a gun, what can you do"[97]: Government statistics suggest that in 2007, Burundi produced 50.6 tons of cassiterite, 51.5 tons of coltan, 443.4 tons of wolframite and 2,422.75 kg of gold. Between January and September 2008, it produced 33 tons of cassiterite, 91.28 tons of coltan, 342.27 tons of wolframite and 1,826.85 kg of gold.[98] However, the director of the Burundian Mines Directorate explained that these figures were collected at the point of export and therefore refer to Burundi's mineral exports rather than its domestic production.[99] Global Witness also obtained extracts of export statistics collected by the Burundian customs authorities, which provide different figures for mineral exports; in some cases, these are higher, in others, lower than those collected by the Ministry of Mines.

The discrepancies could be explained in part by a high level of fraud. The government's own report on the mining sector states: "Fraud is so intense that the production recorded by state agencies only represents a tiny part of the reality."[100] The report states that cross-border trade between Burundi and the DRC has always existed and that minerals originating from the DRC, such as gold, cassiterite and coltan,

96 Compare Global Witness (2009), When faced with a gun, what can you do?, Global Witness, p. 73

97 Compare Global Witness (2009), When faced with a gun, what can you do?, Global Witness, p. 74

98 Ministry of Water, Energy and Mines, "Production miniere du Burundi", September 2008.

99 Global Witness interview with Damien Mbonicuye, Director, Direction des Mines et Carrieres, Ministry of Water, Energy and Mines, Bujumbura, 12 March 2009.

100 Ministry of Water, Energy and Mines, "Production miniere du Burundi", September 2008.

transit through the port and airport in Bujumbura before being exported further afield. It does not provide any figures or indication of the proportion of Congolese minerals passing through Burundi.

We suggest the fact that the principle mineral traded by the FDLR is easily concealable high value gold and the Burundian customs capacities are amongst the poorest in the world, it is utopian to assume that a stringent control of the informal gold trade is possible in the short- or medium-term. It is more promising in the short- to medium-term to focus on the causes of the conflict, instead of its symptoms (See chapter 4 on trade controls above). While a control system may go a long way to formalize the international trade in gold, for the specific case of the Great Lakes Region it will be more effective to stop the war and free South Kivu's gold mines of the grip of the FDLR, than it is to spend millions of dollars on a control system that has no chance to be effective given the realities on the ground.

Tanzania

The Tanzanian economy depends on agriculture, which accounts for more than 40% of GDP, provides 85% of exports and employs 80% of the population.[101] In 2006, the country was the world's only producer of tanzanite. It also played a significant role in the global production of gold, accounting for nearly 2% of the world's gold output. Other domestically significant mining and mineral processing operations included cement and diamond.[102]

The Tanzanian Government suggests that up to 1,500,000 persons are active in its domestic artisanal mining sector, including of 5 dependents, this means that 22.38% of the Tanzanian population could be dependent on ASM in their livelihood.[103] The principle minerals mined by the country's ASM sector are diamonds, gemstones, gold, gypsum, lime, limestone, salt, sand, stone (crushed and dimension), and tanzanite (2006), with artisanal miners accounting for most of the country's colored gemstone production.[104] ASM features in Tanzania's Poverty Reduction Strategy Paper, where the government pledges to develop ASM technologies, to develop a system to ensure safe and sustainable ASM, to train a minimum of 90% of registered ASM workers in safety awareness by 2010 through safety awareness campaigns and monitoring visits.[105] As in the DRC, ASM in Tanzania is at the one hand a poverty driven coping mechanism, and on the other hand a comparatively more lucrative profession than e.g. agriculture.[106] A USAID-sponsored study in Tanzania confirmed that ASM miners earned on average six times more than the average wage from agricultural labor.[107]

The Mererani-based Good Hope Program is one initiative set up to address the poverty dimension by trying to rehabilitate child miners and impoverished families. Good Hope provides skills training such as carpentry, tailoring and auto mechanics. By doing this, it helps families break the dependence on tanzanite mining however it can only reach perhaps 10% of its target population and progress may only be temporary as the fundamental causes of poverty remain and success is fragile.[108]

101 https://www.cia.gov/library/publications/the-world-factbook/geos/tz.html, quoted in Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 64

102 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 64

103 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 11

104 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 11

105 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 19

106 Nicholas Garrett, interview with Tanzanian Government official, Mwanza, January 2009

107 Phillips, L.C., H.Semboja, G.P.Shukla et al., (2001) Tanzania'sPrecious Minerals Boom: Issues in Mining and Marketing, African. Economic Policy Discussion Paper Number 68, Equity and Growth through Economic Research (EAGER), as quoted in Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 46

108 IRIN News (2006) Gem Slaves: Tanzanite's child labour. 06 Sep. www.globalexchange.org, quoted in Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 20

The principle relevance of Tanzania's ASM sector to the trade in minerals from Eastern DRC is its function as a destination for gold fraudulently exported from South Kivu. In interviews conducted in Mwanza and Mbeya it became evident that large quantities of gold from South Kivu arrive on a regular basis and are laundered into legitimate Tanzanian gold mining and trading operations.[109] This presents a problem for the Tanzanian government and gold mining industry, as Tanzania has made considerable inroads into assisting and formalizing its domestic ASM gold sector. On the international level, for example, Tanzania is a member of the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development, which acts as an advisory and consultative body to promote the contribution of mining, minerals and metals to sustainable development. The Forum will remain in existence until the end of 2010 unless there is an explicit request that it should continue thereafter and it is a platform through which collaborative action on ASM could be progressed.[110]

Further to the successes of the SMMRP in Uganda, the World Bank has granted an International Development Association credit of $50m to the Government of Tanzania to have them implement an SMMRP there. The project's objective is "to strengthen the government's capacity to manage the mineral sector to improve the socio-economic impacts of large and small-scale mining and enhance private local and foreign investment" through initiatives in supporting transparency and promoting international good practice in ensuring mining sector development.[111]

There are examples of effective associations in the small-scale mining sector, which represent the collective business interests of their members to government and the markets rather than trying to create a shared economic livelihood model. Examples include the Small Miners Association of Tanzania. These associations have consolidated their membership and impact through the creation of umbrella bodies such as the Federation of Mining Associations of Tanzania (FEDEMA) and the Regional Mining Association (REMA).[112] These groupings may give raise to indigenous capital formation and could therefore be a domestic catalyst of a higher development contribution by the Tanzanian SSM sector and a path to upgrade from ASM to SSM activity.

Particularly for some of the more progressive and potentially developmentally effective collaborative projects between LSM and ASM in Tanzania, the fraudulent gold exports from South Kivu could become a reputational issue. In Tanzania, foreign companies have entered into agreement with small-scale miners after re-licensing agreements. For example, at the Tembo Mine in the Geita district, an LSM company entered into an agreement with a small-scale miner to participate fully in mining, ore processing and marketing of products.[113] These arrangements are laudable development initiatives, but can also be easily targeted by gold laundering activities. It is therefore in Tanzania's best interest that the militarization of the gold mines in South Kivu is ended, so that it can continue its good work with the domestic ASM sector without fears of international reputation damaging advocacy.

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109 Nicholas Garrett, interview with Tanzanian gold trader, Mwanza, January 2009; Estelle Levin, interview with Tanzanian gold trader, December 2007.

110 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 26

111 World Bank (2009) Tanzania: World Bank Approves US$50 million for Sustainable Management of Mineral Resources Project (SMMRP), press release no. 2009/387/AFR, 9th July 2009. At http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22207963~pagePK:64257043~piPK:437376~theSitePK:4607,00.html?cid=3001.

112 Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 36

113 Dreschler, Bernd (2002) Small-scale Mining and Sustainable Development within the SADC Region. Santren/ITDG. Commissioned by MMSD project of IIED, as quoted in Hayes, K. (2008), Artisanal and Small-Scale Mining and Livelihoods in Africa, Common Fund For Commodities, p. 24

6. Regional Economic Integration

The researchers have not seen recent evidence that would support oft-voiced rumors that regional governments are actively backing or pursuing mining interests in Eastern DRC. The researchers make no claim to second guess the internal policy of any regional government, but it is worth noting that a pattern of heedless exploitation of DRC's minerals would appear to be inconsistent with dynamics of regional integration (discussed below) and particularly Rwanda's stated vision to develop its service oriented economy, which includes improving relations with its neighbors, and has been demonstrated by the recent military cooperation between Rwanda and DRC.

From a development perspective, neighboring countries have an inherent interest in a stable Eastern DRC as:

- They would have a larger export market for their export products.
- They would be able to source imports from DRC more easily, widely and cheaply.
- Their service sectors would be able to expand financial, insurance, and logistical, as well as extension services to economic operators in DRC.

In the context of the 3T minerals, the real challenge is to align value addition activities in neighboring countries with a sector development strategy for Eastern DRC. Presently producers in Eastern DRC are unable to add value to their products for lack of affordable and reliable energy, inadequate infrastructure, and insecurity, providing neighboring countries with a significant head start to fill this gap in the regional market. So long as the correct payments have been made to the DRC, value addition processes in any other regional country are not in contravention of the law and mirror common practices in other commodity trading chains around the world.

There are also a number of companies currently operating in Eastern DRC that have ties to neighboring countries, whether owned or run by their nationals or based in or trading through the neighboring countries. There is nothing wrong per se with any foreign run companies operating in the DRC as long as they, along with all other companies, conduct their operations in accordance with the law.

As complicated as the relationship between the DRC and its neighbors may be, their development trajectories are mutually dependent. While Uganda and Tanzania have reasonably diversified economies, Rwanda's economic progress depends largely on developing a highly diversified service sector to match the raw potential of its much larger neighbor. Therefore, for reasons of development as well as security, the neighboring countries have a significant interest in ensuring that eastern DRC becomes a stable and prosperous country.

Regional Integration Framing Reform

The DRC's economic potential, its natural resource wealth and its geopolitical significance make it an important player in the centre of the African continent and it provides an important focal point for its direct neighbors. The relationships between the DRC and most of the sub-Saharan states are characterized by a mix of resistance and attraction, so that it is not surprising that the DRC is a member of four regional economic commissions (RECs) and a multitude of regional intergovernmental bodies.[114]While analysts rightly suggest the "DRC has not been able to strengthen its regional position despite efforts to promote peace that have eased tensions and created new opportunities for regional integration"[115], it is nevertheless important to frame trade reform in minerals from eastern DRC in the context of ongoing initiatives in regional integration. This is not only the case because the trade has significant regional development implications, but because regional inte-

114 T Stevens, H Hoebeke, K Vlassenroot (2008), Political economy of regionalisation in Central Africa, iss.co.za, accessed 24/7/2009

115 T Stevens, H Hoebeke, K Vlassenroot (2008), Political economy of regionalisation in Central Africa, iss.co.za, accessed 24/7/2009, p. 166

gration in Eastern and Southern Africa is accelerating and strengthening.

Since the 1990s regional integration in Africa has placed emphasis on the development of thematic integration and open market enlargement as a means of consolidating national economic policy shifts towards greater liberalization, market orientation, competitiveness and efficiency. To this effect the African Economic Community (AEC) was established as an organization of the African Union. The AEC's stated goals include the creation of free trade areas, customs unions, a single market, a central bank, and a common currency thus establishing an economic and monetary union. These ambitious goals were first attempted at the regional and sub-regional level through the establishment and strengthening of multiple regional economic blocs, also known as Regional Economic Commissions (RECs).Most of these RECs form the "pillars" of the AEC, many of which also have an overlap in some of their member states. The DRC simultaneously belongs to four (RECs), namely CEEAC (Communauté Economique des Etats de l'AfriqueCentrale, or Economic Community of Central African States), SADC (South African Development Community), COMESA (Common Market for Eastern and Southern Africa) and CEPGL (CommunautéEconomique des Pays des GrandsLacs or Economic Community of the Great Lakes Countries). Stevens, Hoebeke and Vlassenroot suggest that it appears that the DRC's political decision to join different regional bodies has been mainly driven by short-term and incidental political logic and alliances, and not by taking into account long-term interests, which is indicative of the problematic nature of governance in the DRC.[116]

Congolese natural resources remain at the heart of regional politics, as was illustrated during the past conflicts, when these resources were mainly exploited by regionalized, informal and illicit networks. This regionalism 'from below' included trans-border and clandestine networks and involved a multitude of state and non-state actors, all aimed at illegally exploiting and profiting from the Congolese natural resources (MacLean 2003; Taylor 2003). The stabilization of other parts of the DRC, such as Katanga, has seen foreign investors developing formal and official trade and economic activities and formal regional integration has been identified as a suitable tool for facilitating the import of raw materials and reaching the DRC's market.[117] The principal RECs of relevance to the regional trade in minerals from eastern DRC are the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC). The DRC is a member of both SADC and COMESA, while the trade routes from Eastern DRC lead through EAC territory. The EAC, COMESA and SADC currently have a combined population of 527 million and combined GDP of US$625 billion.[118]

At a first EAC-SADC-COMESA Tripartite Summit held in 2008 the RECsagreed on a program of harmonization of trading arrangements amongst the three regional economic communities (RECs), free movement of business persons, joint implementation of inter-regional infrastructure programs as well as institutional arrangements on the basis of which the three RECs would foster cooperation. In addition, the Tripartite Summit resolved that the three RECs should immediately start working towards a merger into a single REC with the objective of fast tracking the attainment of the AEC as outlined by the Abuja Treaty, which may significantly some of the trading obstacles outlined in the trade section above, and improve eastern DRC's producers access to export markets, while it would also facilitate imports, eastern DRC currently depends upon.[119]

116 T Stevens, H Hoebeke, K Vlassenroot (2008), Political economy of regionalisation in Central Africa, iss.co.za, accessed 24/7/2009, p. 168

117 T Stevens, H Hoebeke, K Vlassenroot (2008), Political economy of regionalisation in Central Africa, iss.co.za, accessed 24/7/2009, p. 174

118 http://knowledge.uneca.org/member-states/observatory-on-regional-integration/regional-economic-commissions-in-africa/eac-comesa-sadc/historic-eac-comesa-sadc-tripartite-summit, accessed 18/7/2009

119 http://knowledge.uneca.org/member-states/observatory-on-regional-integration/regional-economic-commissions-in-africa/eac-comesa-sadc/historic-eac-comesa-sadc-tripartite-summit, accessed 18/7/2009

TABLE 9: REGIONAL ECONOMIC COMMISSIONS

COMESA		
Founding Members	Angola	
	Burundi	
	Comoros	
	Congo-Kinshasa	
	Djibouti	
	Eritrea	
	Ethiopia	
	Kenya	
	Madagascar	
	Malawi	
	Mauritius	
	Rwanda	
	Sudan	
	Swaziland	
	Uganda	
	Zambia	
	Zimbabwe	
Joined Later	Egypt	1999
	Seychelles	2001
	Libya	2006
Former Members	Lesotho	1994-1997
	Mozambique	1994-1997
	Tanzania	1994-2000
	Namibia	1994-2004

SADC		
Founding States	Angola	1980
	Botswana	
	Lesotho	
	Malawi	
	Mozambique	
	Swaziland	
	Tanzania	
	Zambia	
	Zimbabwe	
Joined later	Namibia	1990
	South Africa	1990
	Mauritius	1995
	Congo-Kinshasa	1997
	Seychelles	1997
	Madagascar	2005
Applicant Countries	Rwanda	2000

EAC	East African Community	
Founding States	Kenya	2001
	Tanzania	
	Uganda	
Joined Later	Burundi	2007
	Rwanda	2007

CEEAC	Communauté Économique des Étatsd'AfriqueCentrale
Members	Burundi
	Cameroon
	Central African Republic
	Chad
	Democratic Republic of the Congo
	Equatorial Guinea
	Gabon
	Republic of Congo
	Rwanda
	Sao Tome and Prin

CEPGL	Economic Community of the Great Lakes
Members	Burundi
	Democratic Republic of the Congo
	Rwanda

Yet, instead of capitalizing on this economic opportunity Kinshasa is still emphasizing integration within the Central Africa Region, regardless of the integration process amongst the Central African countries being hindered by serious political leadership. COMESA, SADC and particularly the EAC are presently being perceived as more dynamic, which is mirrored in COMESA's successful organization of an investment conference in Brussels in November 2008.[120] It is therefore important for the DRC to revisit its regional integration priorities and establish a strategy towards regional integration that makes economic sense. Current CAMEC intra-trade level is limited and cannot match the economic opportunities of SADC, COMESA and the EAC.[121] This has been confirmed by a recent survey on regional economic potential, which was carried out at the request of the GoDRC, which concludes that COMESA integration represents the best option in terms of economic development.[122] The present multi-membership of the DRC in a number of regional bodies places serious constraints on the DRC and has several drawbacks, among them high costs, membership arrears, division of meager diplomatic, economic, human capacities and energies, conflicting interests and a lack of external credibility.[123] With the SADC, COMESA, EAC tripartite summit, it may well be that dynamic East African regional integration may prove a powerful force that will provide strong economic incentives, which may serve to overcome some of the political legacies, which have so far proven an obstacle to more direct economic cooperation between the DRC and its eastern neighbors. In light of this there have been diplomatic moves to overcome some of the political tensions that have previously marred the relationship between the DRC and its eastern neighbors, such as the real possibility of reestablishment of diplomatic relations between the DRC and Rwanda.[124]The RECs have identified the trade in minerals as an engagement area. COMESA has taken the lead through the Trading for Peace project (also supported by DFID and USAID). The project has the objective of enhancing sustainable and equitable use of natural resources in the DRC, in the interest of regional stability and poverty eradication.[125] Trading for Peace has evolved from an initial research phase to holding cross-border forums on capacity building and cross-border trade facilitation at various border posts between the DRC and Zambia, Burundi, Rwanda and Uganda. In addition the project hosted two parliamentarian forums to enhance their role, particularly in advocating for the implementation of the decisions that are made pertaining to the objectives of the project.[126] Training seminars for DRC's customs officials and cross-border traders were held to create greater understanding and awareness of good governance at the border. These opportunities for interaction at the various levels between countries of the Great Lakes region have helped to enhance relationships between the different countries, as noted by several participants at the various cross border forums.[127] The project will now focus on trade reform and support measures to improve access to finance, reconstructing agriculture, making timber trade sustainable, and addressing the regional energy deficit.[128]

The positive experiences of the Trading for Peace project show that the RECs could maximize symbiotic growth across their constituency by aligning their domestic resource mobilization strategies with a view to establishing an integrated regional resource mobilization strategy. This is an ambitious task that would have to build on an understanding of the sector development priorities of the regional countries.[129] Each

120 Comesa News Vol. 5, January 2009, p. 19

121 The exports and imports within the community represent 0,8 per cent and 1,4 per cent respectively of the total trade (Fontagne et al 2008), quoted in T Stevens, H Hoebeke, K Vlassenroot (2008), Political economy of regionalisation in Central Africa, iss.co.za, accessed 24/7/2009, p. 184

122 Interview with a government offi cial in April 2008, quoted in T Stevens, H Hoebeke, K Vlassenroot (2008), Political economy of regionalisation in Central Africa, is s.co.za, accessed 24/7/2009, p. 184

123 T Stevens, H Hoebeke, K Vlassenroot (2008), Political economy of regionalisation in Central Africa, iss.co.za, accessed 24/7/2009, p. 180

124 http://www.msnbc.msn.com/id/29454497/, accessed 27/7/2009

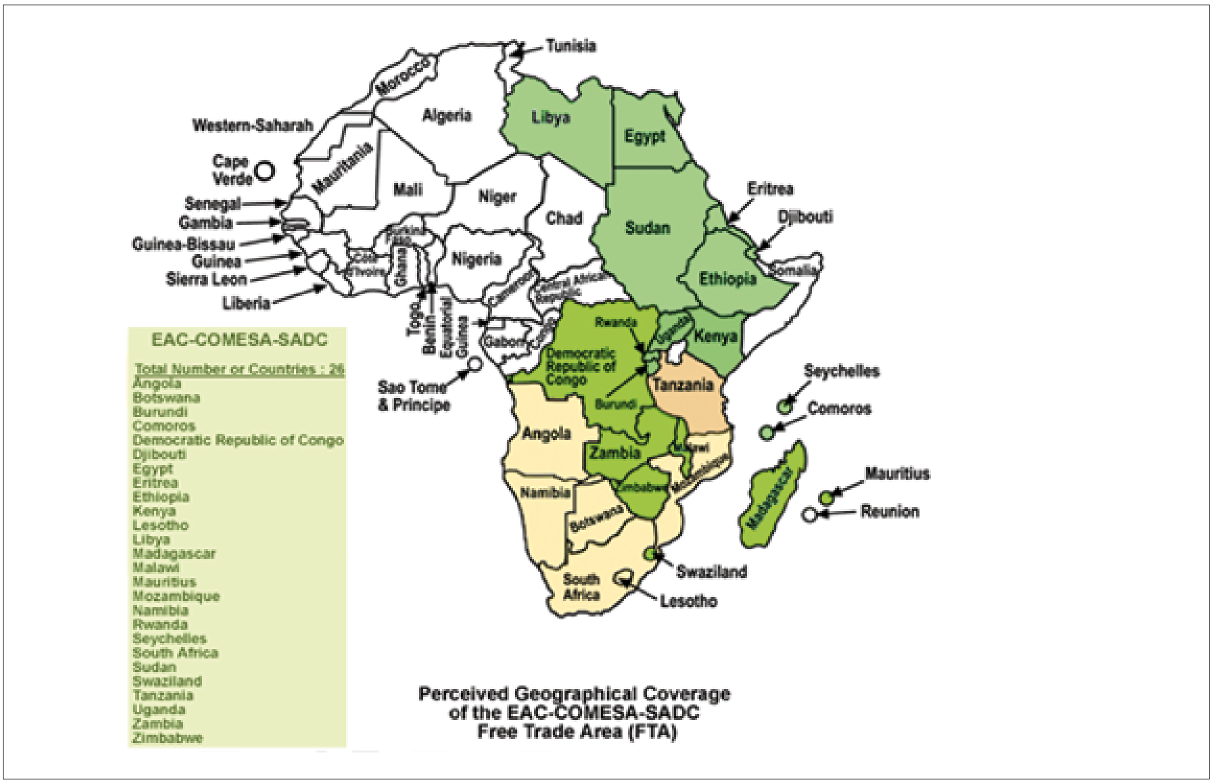
125 http://eastafrica.usaid.gov/en/Article.1201.aspx, accessed 18/7/2009

126 http://eastafrica.usaid.gov/en/Article.1201.aspx

127 http://eastafrica.usaid.gov/en/Article.1201.aspx

128 Johnson, D., Sunman, H., Bates, N. and Banfield, J. (2009), Trading for Peace – An agenda of reform, DFID

129 After WWII, France and Germany integrated their coal and steel industries through the European Coal and Steel Community, partly as a peace building exer-



Graph 8: Perceived Geogrpahical Coverage of the EAC - COMESA - SADC Free Trade Area (FTA). *Source: UNECA, 2008*

government involved will have to begin to work with groups of its own private sector actors. It is in the domestic domain where governments can incentivize members of the shadow economy to become formal.

Among other decisions, the SADC, COMESA, EAC tripartite summit approved the expeditious establishment of a Free Trade Area (FTA) encompassing the Member/Partner States of the 3 RECs with the ultimate goal of establishing a single Customs Union (see map of the geographical distribution of the FTA/Customs Union below). The three RECs will undertake a study incorporating, among other things, the development of the roadmap, within 6 months, for the establishment of the FTA which would take into account the principle of variable geometry; the legal and institutional framework to underpin the FTA; and measures to facilitate the movement of business persons across the RECs.[130]

This push towards regional trade liberalization again supports the argument that neighboring countries have an interest in a stable DRC, which is a competent and stable trading partner. Of course liberalization in itself will not lead to economic development in DRC and will have to be cushioned in a way that allows the country to benefit from its natural resource wealth. However, the liberalization drive is further evidence that suggestions that neighboring countries have an interest in instability in Eastern DRC so to facilitate the looting of natural wealth as has occurred during the two recent DRC wars is an outdated analytical lens, which critically fails to take into consideration the significant political processes on the regional level. Insisting on the looting analysis thus presents a direct obstacle to political progress and inhibits the search for a lasting solution to the conflict in Eastern DRC.

cise and partly in order to help interlink their economies further for mutual benefit.

130 http://knowledge.uneca.org/member-states/observatory-on-regional-integration/regional-economic-commissions-in-africa/eac-comesa-sadc/historic-eac-comesa-sadc-tripartite-summit, accessed 18/7/2009

7. The Way Ahead: Strategic thinking on trade-led development in the Great Lakes region

CASM
Communities and Small-Scale Mining

Trade is a necessary catalyst for development in the Great Lakes Region. Investing in the creation of an economic and political environment that enables legitimate cross-border trade to flourish pays dividends not just for the traders, but also for governments and communities throughout the region. The immediate dividend is economic, but the long-term reward may well be peaceful co-existence.

Many people suggest that an absence of political will and the existence of insecurity are too big an obstacle to overcome for the trade in natural resources to contribute to regional development. On the other hand others have suggested that taking this view provides an easy excuse to look towards others to solve the problem and all too convenient justification for inactivity in promoting trade and economic activity.[131] What is therefore needed is the development of a vision that will generate the necessary political will; a vision that is based on pragmatism, given the weakness of the prevalent institutions and the budget constraints faced by the GoDRC, its neighbors, the RECs, donors and the private sector. It is particularly the budget constraints facing all actors involved, which have led us to focus the vast majority of this report on how to conflict-sensitively formalize and make manageable the minerals trade so that it can contribute to a resource base that can be utilized to fund some of the more profound necessary investments supporting economic recovery and restoring basic infrastructure and services, which this section alludes to.

The development of a vision can be started quickly, while its implementation will involve the long-term commitment of all stakeholders. In some cases it will not just be a question of reforming systems, but of changing cultures.[132] Generations of mismanagement and of arbitrary use of state power for personal or communal gain have left deep scars on social relations and produced a particular individualistic logic to economic and political relations. At the same time, most of the region's infrastructure has at one time or another been destroyed by war; and in Eastern DRC even today, basic needs of reconstruction remain unmet, even though the steps needed to meet them are clear to see.

The previous sections of this report have already raised the need to address governance fragility and the contested monopoly of violence that results in insecurity particularly in the mining areas. Further steps go far beyond governance and security sector reform and will have to focus on the following key areas to increase the trade's developmental benefit[133]:

- Lack of sector development strategy in the DRC (prevents investment/reduces development opportunities)
- Insufficient, costly and unreliable energy (prevents value addition)
- Dilapidated infrastructure (prevents cost and time efficient transport, allows for military beneficiation, and causes monopolistic/oligopolistic rural minerals market that work to the detriment of artisanal miners and communities)
- Operational difficulties of the export regimes (corruption/inefficient export institutions provide incentives to informalise)
- Severely damaged agricultural infrastructure (prevents livelihood alternatives)
- Very limited access to finance (Prevents equitable production)

As with trade reform discussed in the previous chapters, the private sector has a central role to play also in helping to address the above issues. Public-private partnerships could be one way of engaging the private sector constructively.

131 International Alert (2008), Report of Great Lakes Cross-Border Trade Forum, held in Goma, DRC (July 8-11 2008), International Alert

132 Johnson, D. (2009), Trading for Peace – Phase 3 Report, DFID

133 Readers may also want to refer to the DFID, COMESA, USAID Trading for Peace Phase three report published in March 2009

Mineral Sector Development Strategy

The GoDRC has currently no clear mineral sector development strategy for Eastern DRC's deposits; this inhibits the development of the sector. We suggest that a strategy built around strategic imperatives would be the most appropriate means of defining the future path of Eastern DRC's mineral deposits. We regard political and social stability not as prerequisites to a strategy development process, but as elements that could be supported by strategy implementation. The PROMINES program is an ideal forum for the establishment of such a strategy.

Need to develop a mineral sector development strategy for Eastern DRC

In the short-term:

- Relevant, high ranking members in the DRC government should be approached to champion the development and implementation of the strategy. The strategic unit COPIREP in the Ministry of Mines could take this forward with the help of the World Bank in the framework of the PROMINES mining sector reform program.
- The strategy should be developed through a multi-stakeholder consultation process and led by a multi-stakeholder working group
- Essential steps include:
    - **Map stakeholders**
    - **Analyze Current Situation and develop the vision**
    - Appraise local & international mineral markets and supply chains
    - Appraise the sector's service economy, including a needs assessment
    - Analyse the competitive landscape
    - Develop preliminary vision for strategy

- **Set Objectives**
    - Reach agreement on aggressive but realistic growth targets
    - Review potential economic impact of sector objectives
- Understand Customer & Investor Needs
    - Conduct research to identify and prioritize attractive customer segments
    - Collect and synthesize relevant information to develop profile and needs of target customers (i.e., surveys and secondary sources)
- Include strategies for developing vulnerable stakeholders
    - Identify vulnerable stakeholders in the mining sector
    - Research and include strategies for including these groups in the development of the sector
- Articulate Competitive Positioning
    - Articulate the unique way forward for the sector vis-à-vis other mineral producing countries
- Develop Action Guidelines and Implement and Continually Evaluate them
    - Identify investment, regulatory and institutional priorities required to achieve goals
    - Develop priority guidelines for each target customer segments

In the medium term:

- Investment in local production
    - Given the relatively informal and unstructured nature of the sector, emphasis on the production platform is necessary both to build the bottom of the pyramid and to enable private sector investors to effectively receive support for regular mining and export efforts.
    - Many of these activities will require strengthened public-private sector cooperation and collaboration, which will, in turn, increase the efficiency of investments.

- Attract investors
    - The development of a conducive investment environment would help Eastern DRC to attract ever more responsible private sector operators – both local and foreign, who have a vital role to play in the country's reform process and construction. It will be important to support and encourage the consolidation and cooperation of these private actors through private sector associations and chambers, and to engage these structures in PPAs.
    - One strategy that has worked elsewhere is a centralized Investment and Export Promotion Agency that would have to be established in Kinshasa with decentralized arms in the provinces. This agency should facilitate and support the strengthening of the supporting institutions of the mining sector by solidifying the legal and regulatory framework, improving distribution channels, developing the DRC's national brand and promoting DRC's minerals sector opportunities.[134]
    - Given the importance of artisanal mining to the livelihoods of thousands in the DRC, and the suitability of resources for this mode of extraction, the country could in the longer run seek to encourage the establishment of efforts to produce 'ethical' or 'fair trade' minerals pending demonstrable improvements in the professionalization of the sector and the general security situation. This should be an inherent feature of building the national DRC minerals brand.

- Add value
    - The definition of value addition within a minerals sector context does not necessarily imply the transformation of a product into a finished article. The concept additionally encompasses processes that increase the value per weight of materials through treating or processing materials to remove impurities.[135] The strategy should thus include key value creation components such as programs to increase the average value of exports, and investment in community-based value-creation centers, such as a network of a number of community- or cooperative-owned minerals treatment stations, as they are operational in Rwanda's coffee sector.
    - Through these and other efforts, the metals sector should aim to increase the mineral content of its exports.
    - Another essential component of value creation is through service enhancement and the fulfillment of buyer and investor needs, which can be achieved through a combination of improved data provision,

134 This would include the development of targeted promotional materials; investor targeting and outreach; trade shows and conferences; development and strengthening of key international market linkages; and development of investor support services.

135 Rwanda minerals sector strategy, cabinet paper

increased formalization and ongoing customer and investor research.

- Take advantage of neighboring countries tertiary and quaternary sectors
    - Ongoing development of tertiary and quaternary sectors in neighboring countries – administrative, logistical, retail, training, financial and other services – should be taken advantage of by Eastern DRC's economic operators until such time as these services are available locally in DRC.
    - Formalizing and supporting this process would increase the short-term global competitiveness of the sector and increase the convenience, reliability and confidence in the sector as a whole.
- Regulate the sector
    - Strong regulatory structures support local players in increasing the professionalism and formality of their operations, which are key elements required for the development of an efficient and competitive minerals sector
    - Regulating the sector will increase credibility, decrease informal activity, and increase participation. It will also facilitate access to financing for stakeholders and increase the ability to track and enforce social and environmental performance.
- Make the sector sustainable
    - The often negative historical impacts of minerals industries on the environment and the safety, health and welfare of mine-workers and surrounding communities must be addressed and reversed through knowledge, consultation, planning and commitment in order to develop a sustainable minerals sector that meets the needs of the present generation without compromising future generations' ability to meet their needs.[136]
    - The strategy will therefore have to take into account all mining sector stakeholders and affected communities in particular, as being integral to the mining process and decisions on how the mineral resources should be exploited and managed. The strategy should be developed in partnership with these stakeholders and not on their behalf.
    - Possible components might be: capacity-building for organizing miners and improving their business performance; developing community reinvestment programs for minerals sector revenues (e.g. as per the Diamond Area Community Development Fund pioneered in Sierra Leone[137]); training minerals industry workers and their families on safety, health and environmental issues; supporting the development of ancillary and service industries in mining communities; establishing and imposing environmental standards and increasing the productive participation of women in core minerals industry activities.

136 APASA Industry paper on Sustainable Development and CSMI (Center for Sustainability in Mining and Industry) brochure

137 Temple, P. 2007. Leaving a Legacy: Recommendations for Sustainability. Integrated Diamond Management Program, December 2007. Washington, D.C.: USAID

Value Addition and Energy Generation

The lack of reliable and accessible energy supplies in the entire Great Lakes Region is one of the foremost impediments to trade and value addition activities. Currently electricity coverage in Eastern DRC is 2%; in Rwanda it is 10%; in Burundi it is 2%[138]. At the same time the Great Lakes Region only uses 2.5% of its potential energy resources, with significant sources untapped and existing installations running below capacity[139]. Value addition translates into higher revenues and further employment. The globalization of trade has seen the development of service industries to add value to raw materials in non-producer countries, which is a strategy also pursued by the DRC's neighbors that will continue to capitalize on their competitive advantage so long as the DRC cannot place the preconditions for effective domestic value addition processes in place.

European and Asian mineral import markets are unwilling to accept material below a certain purity, 60-65% in the case of cassiterite for example. In the DRC and in Rwanda this grade is currently achieved though manual or semi-automatic pre-processing. In the longer term the export of tin ingots, as opposed to tin ore presents potential for growth. Tin ingot production requires competitive processing facilities. While Rwanda is actively encouraging operators to upgrade, and a smelter in Uganda is currently in the process of rehabilitation, similar moves are absent in the Kivu provinces. In Rwanda the former REDEMI smelter in Karuruma/Kigali is now owned by Phoenix Metals SARL, but is not in operation due to uncompetitive electricity costs.[140] Kivu Resource's subsidiary Metals Processing Association (MPA) has prepared plans and has secured land in Gisenyi to house a new tin smelter to produce in excess of 2,500 tons per year of LME grade refined tin. This volume will enable MPA to become an officially licensed producer of LME grade Tin.[141]

Value addition requires the reliable and sustainable generation of energy that will allow the Great Lakes Region to compete with the likes of Malaysia, where electricity costs around 0.07US$/kwh[142], compared with Rwanda's current state subsidized price of 0.21US$/kwh.[143] There is currently no reliable energy transmission and no reliable price data for Eastern DRC, which is related to a limited operational grid, insufficient peak loads, and dilapidated transmission lines, which render impossible even smaller value addition processes. There is however immediate potential, particularly in energy generation from mini-hydro plants and methane gas generation.

Straddling an active volcanic fault system, Lake Kivu has a methane gas content of around 55bn cubic meters with an annual generation capacity of 100MW. Experts see the methane as critical to serve Rwanda's future energy needs but also DRC's as the lake is an international body of water (around 2,650 km2) between the two countries. The company Contour Global has in February 2009 signed an agreement with Rwanda's government to build up an extraction plant for $US325 Million. There is thus a possibility that Eastern DRC could in the short-term benefit from energy imports from Rwanda. The private sector should consider looking into the feasibility of erecting similar plants on the DRC side. This new energy source would provide a foundation for growth in eastern DRC's mining sector, while also significantly benefiting the population and reducing pressure on local ecosystems.

138 Johnson, D. (2009), Trading for Peace – Phase 3 Report, DFID

139 Johnson, D. (2009), Trading for Peace – Phase 3 Report, DFID

140 Interview with Phoenix Metals, Karuruma, December 2008

141 Interview with Kivu Resources, December 2008

142 http://www.st.gov.my/eest/Malaysian_tariff_SESCO.htm

143 http://mininfra.gov.rw/index.php?option=com_content&task=view&id=114&Itemid=142

Transport Infrastructure

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) 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 rent seeking behavior. The lack of infrastructure also means export costs are very high[144]. Box 10 lists the main priority infrastructure improvements highlighted by traders in North and South Kivu.

Regionally infrastructure development is progressing with significant road rehabilitation programs underway in Rwanda, Uganda and Tanzania. A major cause of concern in the longer-term are the capacity constraints in the port of Dar es Salaam, which put Tanzania at a competitive disadvantage vis-à-vis Mombasa, where clearing processes take less time. Dar es Salaam port was originally designed with a 6,000 container capacity, whereas it now processes 12,000 containers. This results in delays and increased shipment costs, with vessels having to wait at anchorage for around 15 days prior to berthing and it taking 15 more days for containers to clear the port at the point of import. There is not much room for expansion of the port, given that it is situated in the city and despite 5 new container terminals being put in place around the city, the port will struggle to serve increased capacity needs in the near future.[145]

144 H. Sunman and N. Bates (2007), Trading for Peace, DFID
145 Interview with SDV Transami in Dar es Salaam, 9/1/2009

BOX 10: Eastern DRC: Infrastructure preferences as voiced by traders[1]

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).

Source: INICA 2007 "natural resources and trade flows in the great lakes region", Addis Ababa: UNECA.

1 INICA (2007), Trading for Peace Project Report, available from the authors

Access to Finance[146]

If natural resource exploitation is to help to lift people out of poverty, then all workers at the extractive end of the value chain need to have a fair share of the proceeds. Analysis of the returns to individual workers for different value chains has shown that earnings are extremely low, but in comparison with other options, they appear to offer a good cash return – up to $10 or more per day for the actual miners. But still only a relatively small percentage of the financial benefits of natural resource exploitation returns to the communities living and working at the resource-extraction sites. In addition to legitimate costs which are present in any value chain – transport, processing, handling and legitimate taxes and charges – unofficial charges and taxes illegitimately siphon off much of the remaining value, reducing further the financial benefits that reach the lowest end of the chain. Financial infrastructure in much of the DRC in general is undeveloped and this exacerbates the problem. Few people have personal bank accounts, there is very little finance available for traders, and throughout the extractive industries traders and miners tend to be dependent on pre-financing provided by DRC-based domestic and foreign-owned comptoirs (trading houses).

The effect is that miners are tied to single purchasers, who provide equipment but often purchase product at below-market prices. These monopolies may be enforced militarily. Miners wholly dependent on daily cash income may find themselves deeply in debt as they struggle to repay loans or buy out the pre-financed goods. They pay very high prices for food and other subsistence goods in the mining areas which tend to be supplied by the same traders who buy the natural resources and who therefore set prices for both in ways which maximize their own earnings. This creates a strong tendency to spend cash as it comes in – on relaxation and consumption, rather than to save and accumulate. Offering improved financial services and infrastructure in these areas would help to reduce poverty and strengthen the primary sectors. Financial deepening mitigates risk. Saving, insurance and loan facilities allow individuals to smooth consumption needs and can protect households and individuals from drastic action when faced with shocks and variable incomes. Financial deepening also makes it easier for low-income individuals and small businesses to participate in markets, to save and to take out loans to buy equipment, and to acquire trade financing where needed. For example, if miners were able to use small loans collectively or accumulated savings to purchase equipment such as pumps and tools or to rent a pit, they could choose to sell their extracted goods to the highest bidder, assuming that there is competition at the point of sale. They could also pay for a trusted intermediary, perhaps the nominated leader of a miners' association, to travel to a trading firm to sell their goods for a higher price. Both options would change the value chain's power structure and help to channel more of the final price to its poorest stakeholders. Access to a transactional account could also help miners smooth their variable incomes and safeguard themselves from theft.

Providing traders with access to credit would provide scope for altering the power relationships within various value chains, allowing more traders to enter the market without pre-financing, thus introducing competition, and enabling them to sell their products to the individual in the market willing to pay the highest price. Most importantly, credit could facilitate the development of processing facilities for a variety of products that are now exported with little value added. Opportunities for backward and forward linkages both in the extraction/production and processing of export products could be harnessed by local businesses. The weak financial structures in the DRC demand a creative approach. Formal banking institutions see the Eastern DRC as fundamentally risky and well down their list of priorities. There are branches of

146 Adapted from Johnson, D. (2009), An agenda for reform – Trading for Peace phase three, DFID

formal banks in Eastern DRC, but they are not easily accessible to small traders or business people, their use is prohibitively expensive and for cross-border purposes, many people prefer those of neighboring countries. There is a large microfinance sector, but it has problems. In this specific context, it seems that the practical options are two-fold: the development of innovative financial structures; and improvement and changes in the structures of pre-financing. There is no doubt that beneficial pre-financing arrangements are facilitated by supportive regulatory environments where policies are enforced and where producers acquire bargaining power by taking control of value-adding processes and acquiring access to price information, e.g. through a structure of cooperatives.

Regenerating the Agricultural Sector[147]

Eastern DRC used to be one of the most important food-producing areas of the Congo, but decades of insecurity have to a large extent destroyed the region's agricultural economy. However, agricultural products still contribute up to 50% of recorded exports of North Kivu, and the majority of the population is engaged in farming. Providing the right framework for a revitalization of agriculture would not just help to alleviate poverty and hunger. It would stabilize areas characterized by mass displacement and armed attacks and strengthen the economy through the expansion of small-scale and cross-border trade. Until the 1990s much of the Kivus' economy was dominated by a highly productive plantation economy consisting of coffee, pyrethrum, quinquina, other cash crops and cattle. This was sustained by extremely unequal access to land and economic power, but it also kept in place what in retrospect appears as a high level of food and job security and agricultural incomes. This system was destroyed through land conflicts that turned violent, pitting ethnic militia against each other and culminating in the looting of most large-scale agricultural enterprises and the dispersion of their inhabitants. Collapsing agricultural incomes drove large sections of the rural population into cities, which in turn were increasingly unable to meet the food demand of their inhabitants. The situation was made worse by the destruction of the rural road system, which fell apart through lack of maintenance, and by the proliferation of armed groups extorting food and money. Food production fell and prices rose, further deepening poverty and increasing displacement.

The decline in agricultural production has also been a key driver for rural populations to choose artisanal mining as a livelihood option. Reviving agricultural production in key mining areas would serve to mitigate local food price inflation and translate into a higher earning potential for individual artisanal miners, who sometimes spend up to 90% of their disposable income on food sold at hyper inflated prices. It is therefore a key stepping stone for increasing the poverty reduction benefits the artisanal mining sector can generate.[148]

Where minimal security is re-established, farmers tend to return to work fairly quickly in order to survive and food production can increase very fast. However, agricultural inputs, training and better market conditions are needed to convert this into sustainable poverty reduction. Reinvesting the often large profits of traders in rural reconstruction instead of houses and cars in cities as at resent would ensure that rural communities see more of the benefits of agriculture. Even within a context of prolonged instability, "islands of stability" have survived where agriculture continues to function. Finding out whether the particular conditions of these isolated examples are transferable elsewhere is a key challenge.

147 Adapted from Johnson, D. (2009), An agenda for reform – Trading for Peace phase three, DFID

148 Garrett, N. (2008), Artisanal Mining and Trade in North Kivu – Implications for Poverty Reduction and Security, CASM

8. Conclusion

The conflict dynamics in Eastern DRC are more complex than a simple cause and effect connection between military groups and the trade in minerals. It is not so much the trade in minerals that causes insecurity per se, but a lack of security rooted in a dysfunctional army and failing institutions. This lack of security enables military groups to co-opt and prey on the trade. Solving this issue requires a well-informed policy response that truly comprehends the implications of economic interventions to the general population of Eastern DRC. The authors hope this report has brought some clarity to the confusion of viewpoints generated by recent reporting and advocacy on violence in Eastern DRC, and offers a considered direction for those now keen to act. We also hope it filled a gap in understanding the way in which the mineral trade from Eastern DRC contributes or can contribute to domestic and regional poverty reduction and development.

We have raised the need to address the contested monopoly of violence and governance weakness that results in insecurity that also affects many of the mining areas in this report. To realize the trade's full development potential policy makers will have to engage beyond governance and security sector reform to address[149]:

- The informal and sometimes exploitative nature of the artisanal mining sector (makes interventions challenging)
- Insufficient, costly and unreliable energy (prevents value addition)
- Dilapidated infrastructure (prevents cost and time efficient transport, allows for military beneficiation, and generates monopolistic/oligopolistic rural minerals markets that work to the detriment of artisanal miners and communities)
- Operational difficulties of the export regimes (corruption/inefficient export institutions provide incentives to informalize)
- Lack of sector development strategy in the DRC (prevents investment/reduces development opportunities)
- Severely damaged agricultural infrastructure (prevents economic alternatives)
- Very limited access to finance (prevents equitable production)

The points of entry for engagement in this report have been premised on the understanding that the main challenge in Eastern DRC is the Congolese state's inability to bring order to its territory. This is rooted in historical legacies, but also in the fact that the state has an insufficient revenue base to build a functioning army and to strengthen its institutions with its budget currently split between debt servicing, the payment of salaries, and war financing. The approach set out in this report thus seeks to generate extra revenue for the state by placing emphasis on the need to consolidate the security sector, formalization of the minerals trade, and improving governance by strengthening state institutions.

Engaging with the mineral trade in Eastern DRC should be less about stopping or disrupting it, and more about figuring out how to separate the insecurity problems from the trade and then working to formalize the trade. As lawmakers express a willingness to engage with the trade, with the United States (US) discussing the introduction of a bill aimed at companies to conduct due diligence on the supply chains of companies trading in the US, the recommendations of this report suggest that there are a number of ways to positively engage with the trade in a conflict sensitive and developmentally beneficial manner that will minimize negative impacts on the local population.

Despite the conflict, a number of relatively secure spaces exist where engaging with various stakehold-

149 The DFID, COMESA, USAID report Johnson, D., Trading for Peace – Phase 3 Report, DFID, 2009 focusses on reconstructing agriculture, improving access to finance, making timber trade sustainable, and addressing the regional energy deficit. A later report for the Communities and Small-Scale Mining Secretariat at the World Bank focuses on the above key areas, which have to be addressed.

ers could prove beneficial. There also exists some expertise within some of the existing administrative structures, which presents opportunities to partner with these institutions to mutual benefit. In addition, it is apparent from numerous conversations with stakeholders across the Great Lakes region that much of what is called an 'illegal' or 'illicit' trade is in fact a trade operating as a shadow economy by actors working informally, who can be incentivized to formalize through a process of engagement, which would further increase the revenues this trade already brings to the state.

Many stakeholders in the DRC and around the world are eager for positive change in the country. There is real opportunity to constructively engage with the trade in minerals to assist with positive reform. The cost of failure or the wrong approach cannot be underestimated; with up to one million people in the region dependent on the trade for their livelihood, the minerals trade represents the single biggest opportunity for poverty reduction and development in the region.

Nevertheless, reform will not be easy, and there should be no naivety about the potential for vested interests to attempt to derail progress. Policy and decision makers and other stakeholders must thus work together to identify potential spoilers as early as possible, engage those that are willing, and isolate and marginalize the most recalcitrant. This process may have to go beyond trade reform and involve changing the culture of impunity and short-termism that transcends both communities and the state in Eastern DRC. This is a long reform process that requires above all political will; all importantly it is a reform process that can be achieved, albeit incrementally.

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