PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB3834

Project Name	DRC-Growth with Governance in the Mineral Sector
Region	AFRICA
Sector	Mining and other extractive (100%)
Project ID	P106982
Borrower(s)	GOVERNMENT OF DRC
Implementing Agency	
Environment Category	[ ] A [X] B [ ] C [ ] FI [ ] TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

The mining sector has historically dominated the Congolese economy and served as its engine for growth. In its heyday in the mid-1980s copper production, for instance, approached 500,000 tonnes per annum and the annual contribution of the entire mining sector to GDP was eight to twelve percent. However, during the past ten years of civil war and conflict flagship industrial mining declined substantially and informal, largely undeclared and uncontrolled production of mineral commodities has taken place throughout the country. Now that peace has returned to most of the country the new democratically elected Government will face significant challenges to re-establish industrial production bring order to the “far west” atmosphere prevailing in the artisanal and small scale mining sector. The ultimate objective is to ensure that growth in the mining sector results in significant revenues and benefits streams that can be used for economic development of the nation as a whole and for the communities which are dependent on mining activities.

However, in the past this ultimate objective has proved elusive. Even when industrial mineral production was at its peak and some semblance of order prevailed in the informal sector DRC was unable to harness its mineral wealth for economic development. This was due largely to corrupt management and political interference in the parastatal mining companies and to inappropriate policies that limited private sector investment. Following the fall of the Mobutu government and the period of civil war, the transitional government has taken some important steps to stimulate development of the sector, the most significant of which was the passage in 2002 of a new Mine Law and regulations as well as the mining cadastre office. These actions, together with current high commodity prices, have resulted in a renewal of investment in exploration and exploitation activities. But, in spite of the auspicious sector investment conditions, the probable expansion of the sector will not result in a positive economic outcome or improved well-being of the Congolese. This is because the administration of the sector is dysfunctional – handicapped by insufficient institutional capacity, continuing political instability, corruption, and fundamental deficiencies in governance. The Government, with the assistance of donors, private sector companies, and civil society, must undertake a coherent and systematic series of actions to improve governance of the sector, strengthen government supervisory institutions, improve human capacity, and address the serious poverty related dimensions of the artisanal mining sub-sector.

Given its superb mineral resource and the right investment conditions DRC's mining sector could, within ten years, contribute 20-25 percent of GDP and one-third of total tax receipts.[1] This would imply a growth rate of 8-10% per year and help the government achieve the objective of double digit growth in the economy as a whole. In terms of production, it is highly probable that DRC can attain a production level of 400,000 – 600,000 metric tonnes of copper. In addition, significant expansion can occur in the production of cobalt, diamonds, gold, cassiterite and coltan. The various growth trajectories for the sector, based on conservative assumptions in respect of international commodities prices, are summarized in the following table.

Growth Scenarios
DRC Mining Sector 2008 - 2017

Scenarios	2008-2012	2013-2017
Base Case Scenario		
Gross production value, US$ million	1,932	2,676
Government fiscal receipts, US$ million	186	388
Medium Growth Scenario		
Gross production value, US$ million	2,651	3,792
Government fiscal receipts, US$ million	244	689
Speculative Growth Scenario		
Gross production value, US$ million	2,741	5,056
Government fiscal receipts, US$ million	246	734

Source: World Bank staff estimates

Improved *governance* of the mining sector is the most critical and urgent priority. While the Mining Law and Regulations of 2002 are consistent with international best practice, the Government's effective application of the Law is wholly inadequate. The fiscal regime applicable to the sector is internationally competitive and would provide a solid basis for generating tax revenues for the state. However, fraudulent practices by companies and government agencies have created a "tax gap": the sector should generate US$200 million in taxes per annum yet the government claims to have received only US$27 million in 2005. Other areas where improved governance is required are clear guidelines for government equity participation in mining enterprises, full and complete disclosure of mining contracts and the particulars of the partners involved, and conflict of interest issues with civil servants and political officials owning stock in mining companies or serving as officers of them. Of note are the several initiatives to develop tracing systems for mineral commodities with a view to curtailing clandestine exports and certifying production methods. After a period of inaction due to the

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[1] For reference, following estimates of GDP and total government fiscal receipts per annum for reference: GDP (2005) = US$ 8,500 million , total fiscal receipts = US$ 1,100 million

elections, the Government has reaffirmed its commitment to implement the Extractive Industries Transparency Initiative (EITI) and in January 2008 held a national EITI workshop which validated an ambitious work program to implement the initiative. The World Bank and other donors are supporting the implementation of EITI.
The central *government institutions* responsible for oversight of the sector are weak and ineffectual, especially the antenna offices in the provinces. These institutions include the Ministry of Mines and its various departments; services attached to other ministries (customs, security), and others. Significant capacity building, training, and logistical support are required to strengthen the Government's capacity to administer the sector. Strengthening of government oversight capabilities is especially critical in the areas of environmental protection, ensuring adequate representation of local community concerns, and occupational health and safety in the key mining areas.

Also of importance is the *future of the state-owned enterprises* which have been very large industrial miners in DRC in the past. However, at present, virtually all of them are moribund and producing a fraction of the production of previous years. The successful restructuring of these enterprises is contingent on an adequate evaluation of the mineral assets of the state-owned companies, determination of fair market value on a discounted basis.

Private sector *investment in new projects* is substantial (well in excess of US$2 billion is programmed over the near term). But, expansion of industrial production will face very significant constraints, especially in terms of key transport and power infrastructure as well as skilled manpower.

The *artisanal and small-scale mining sector* is the most important segment of the mining sector, not only because it produces the highest volume of mineral commodities, but also because of the people dependent on artisanal mining. There are an estimated 10 million people, 16 percent of DRC's population, who either mine directly or are dependent on artisanal mining for their livelihoods. Artisans are present in the production of virtually all mineral commodities: gold in Ituri province, diamonds in the two Kasais, copper and cobalt in Katanga, and cassiterite/coltan in the Kivus. The artisanal sector presents challenges for the Government that are distinct from those in other segments of the mining sector.

Relationship to the CAS

The mining sector features prominently in the DRC Country Assistance Strategy (CAS), which covers FY07-FY11 and was approved by the Board on December 18, 2007. The CAS is centered around five strategic pillars: (i) promoting good governance and consolidating peace; (ii) consolidating macroeconomic stability and economic growth; (iii) improving access to social services and reducing vulnerability; (iv) combating HIV/AIDS; and (v) promoting community dynamics (iv). Mining in particular is identified as one of the main sources of economic growth, along with agriculture and selected manufacturing and services.

The proposed operation fits squarely under the first and second CAS pillars. The thrust of the project is to improve governance of the sector through establishment of good management practices, enhanced transparency, and strengthening government institutions to effectively and impartially enforce the legislation and regulations. Also, through working on these aspects at the central as well as provincial levels the project will assist to establish government hegemony over the mineral exploitation operations and thereby contribute to the process of consolidating the peace. The project also fits under the second CAS pillar in that it will directly promote private sector investment in new industrial operations as well as artisanal and small scale mining. The sector is capable of generating significant revenues which the project is aimed not only at increasing but also ensuring that the revenues streams are properly recorded and accounted for. As well, the project will help to stimulate the linkages and downstream economic activities which attach to large and small scale mining operations.

2. Proposed objective(s)

The proposed operation has three principal objectives: i) increase minerals production and the value added from these operations, ii) strengthen government institutions and governance capacity to administer the sector transparently and fairly and, iii) enhance the ability of the government to channel the revenues and benefits streams from the sector for sustainable economic development. The project will capitalize on the strategic and operational synergies with Bank and other donor interventions in sectors such as transport, energy, education, governance and private sector development.

3. Preliminary description

The proposed project is composed of five components. Each contains specific actions and interventions to address the priority issues which have been identified as principal constraints to achieving the development objectives.

1. Maximizing the Contribution of Mineral Resources

The DRC is exceptionally well endowed with mineral resources. In order to develop these resources and to maximize their contribution to economic development the project will assist the government to pursue three parallel activities.

A) Put state owned mining enterprises onto a commercially viable and economically sustainable footing. These enterprises[2], which had previously dominated DRC's mineral production, are moribund and bankrupt. Yet, these enterprises have substantial (if dilapidated) plant, equipment and social assets. Moreover, the enterprises hold significant mineral rights which could be the subject of existing or future partnership arrangements with private mining companies. The government has recently introduced laws which would open the shareholding structure and/or the mineral assets of the companies to private participation. The proposed project will assist the government to prepare an overall strategy and action plan for doing so, building upon the options provided for in the new legislation. Specifically, the project will conduct various

[2] GECAMINES (copper, cobalt), OKIMO (gold), MIBA (diamonds), SOMINKI (cassiterite, coltan, wolframite), EMK (manganese), SODIMICO (copper, cobalt, alloys).

diagnostic studies and baseline analyses with focus initially on state enterprises: Gécamines (copper, cobalt, and zinc), MIBA (diamonds) and OKIMO (gold). Depending on the recommendations of these diagnostic studies further technical, financial, legal due diligence reviews could be programmed with a view to introducing private sector participation. Particular attention will be paid to the disposition of social and infrastructure support which the enterprises provide to the communities where they operate. It is possible that the cross support of other Bank units such as FIAS, IFC investment advisory services, and MIGA could be enlisted to assist in this effort.

B) Stimulate private sector investment through support to infrastructure required and improvements to the enabling environment. Private sector investors are already very active in key mineral producing areas. Yet, they face critical infrastructure constraints such as inadequate power, transport and water availability, certain deficiencies in the laws and regulations, and the “hassle factor” which govern their operations. The proposed project will not be the lead Bank intervention to up-grade transport and power infrastructure. It will, however, liaise closely and provide support to the interventions in the transport and power sectors because of the integral importance of infrastructure for mining sector development. For instance, the project will support a baseline study of power needs, sources, pricing, and contractual arrangements in Katanga for the mines in operation or which will come on-stream in the near future. Additionally, the project will support initiatives of the infrastructure department of the IFC to identify specific requirements and development of possible public-private partnerships. Finally, the project will retain close contacts with the Bank teams and government agencies involved in helping plan the infrastructure development proposals of the Chinese, who have committed over US$7 billion to transport infrastructure in the country.

C) Capitalize on the presence of large and small mining operations to stimulate overall provincial economic development. The state owned enterprises and private sector companies (large and small) present in Katanga, the two Kasais, and Ituri provide the bases upon which to establish strong economic linkages within the province and beyond. Mining in these areas is the largest economic sector in terms of formal and informal employment (outside of subsistence agriculture), value added, export potential, and stimulus for add-on industries. The proposed project will assist the government, private companies, and civil society to assess the overall development impacts of mining operations in these areas together with an action plan to establish the economic linkages within the provinces and local communities as well as to assist the various stakeholders to ensure that maximum benefits are derived. To do this, the project will conduct, among other activities, a baseline and regional economic development study as well as to support the activities of IFC/MIGA and other donors to support community development based on the benefits streams derived from the mining operations. Based on the recommendations of the diagnostic and baseline studies a series of actions in support of the objectives may be funded by the proposed project. In this respect, the co-financing which is proposed by DFID will be of significant assistance. The project would also work to carry out geological mapping of the country’s mineral endowment (at 1:250,000 scale of 50% of the country). Because of the high associated costs, the operation would seek assistance from other donors to co-finance this activity. The project would work with other donors (DFID/USAID) on the creation and implementation of a mining company association forum in Katanga, based on the South African model. Finally, the project, under the second component would conduct a regional mineral resources assessment of 1-2 key selected mining areas which would construct a holistic land-use planning and regional economic development model, integrating geological, water, forestry and other resources potential.

2. Improving Governance, Building Capacity, and Respecting the Environment

Lack of appropriate governance procedures and dysfunctional government administration of the sector are the two principal constraints to ensure that benefits streams are used for economic development and improvement of the well being of the Congolese population. The government is committed to improving governance in general, and the mining sector specifically, as evidenced by the Governance Contract adopted in February, 2007. A subsidiary, but important issue, is to improve environmental protection and to remediate legacy mining sites. The project will aim to improve governance and to build capacity at the central and provincial levels for administration of the sector in association with other donor initiatives.

A) The project will assist the government to urgently undertake steps to *improve governance* of the sector. This includes adjusting the enabling legislation and fiscal regime, adopting standards of corporate financial reporting, improving supervision of partnership agreements, requiring full disclosure of contract terms and corporate organization, prohibiting of conflicts of interest, clarifying the terms of anticipated government equity participation and management thereof in joint ventures, tracking of financial and mineral flows (coordinating with the EITI) and awarding of mineral properties through tender procedures in accordance with the mine law, where warranted. A special initiative is to create an independent panel of experts to "validate" certain re-negotiated mining contracts in respect of their conformance to the legislation and "fairness" to both parties. This will help to re-establish the credibility of DRC on international financial markets which has been degraded due to uncertainties over the re-reading of some mining contracts. A particularly important aspect is to reinforce the governance capabilities in the provinces. Full cooperation will be ensured with the separate initiatives within the Bank programs (e.g., the governance project) and IFC and MIGA interventions. As well, the project will assist the activities of other donors, principally the Germans and Belgians, who are working to strengthen of government institutions as well as certification and traceability systems.

B) Build Capacity in Key Government Oversight Institutions
Government administration of the sector is dysfunctional and is a major impediment to better governance of the sector and proper use of benefits streams. The need to reform outdated institutions, install proper internal procedures, and build capacity is evident at the central as well as the provincial level. In fact, the challenges posed by decentralization and/or duplication of many central government functions and the roles to be played by these provincial institutions are a key "choke-points" in government-company relations. As in other heavy industrial sectors (railways, power), the mining

industry in general, and government departments particularly, many employees are over 50 years of age. Not only do they lack the physical stamina for much of the work but also lack appropriate new skills required for the modern mining sector, be it operating an advanced piece of equipment or administering the mine title system. All of the government departments need to have adequate logistical and funding support to exercise their functions. The proposed project will assist the government to remedy these institutional deficiencies through operational studies of the government departments, skills and needs surveys of current and future employees, support for training and logistics, up-grading of the mines inspection services as well as other government agencies involved in occupational health, safety and labor relations, and increase capacity to evaluate environmental impact assessments, management plans, and monitoring and evaluation. Significant scope exists to capitalize through the project on the initiatives of other departments of the Bank group (for instance, IFC and MIGA work on training programs at the University of Lubumbashi) as well as the work of other donors (Germans, Belgians and others) to strengthen key government departments such as CAMI, CEEC, and SAESSCAM, and OFIDA (customs services). The Bank will take the lead in providing assistance to CAMI.

C**)** Improve Environmental and Social Performance

In the main mineral producing regions (principally Katanga) the environmental legacy of past mining operations is severe. The legacy includes improperly closed mining operations and facilities, soil pollution, eroding tailings impoundments, and other remnants of past mining exploitation. Audits and records do not exist of past and current environmental liabilities making it impossible to determine who is responsible for pollution flows. Few government services or companies have the ability to prepare let alone properly assess environmental impact studies and management plans. Community consultation procedures are not clear and, in any event, not really effective carried out by companies on a consistent basis. The proposed project will provide funding to carry out environmental baseline studies, risk assessment of legacy sites, support to site remediation, regulatory and legislative reforms, and setting up of procedures for community consultation. This work will be coordinated with and, if required, support the work of other Bank groups (IFC/Comdev on company governance and community relations) as well as other donors working on enhancing corporate governance (USAID/DFID). An inventory of mining legacy sites will be conducted in Katanga. Depending on available funding, the project will engage in remediation of several mining sites in the Katanga area.

3. Increasing Fiscal Receipts

The “gap” between the taxes the government should be receiving from the sector and what it actually receives is estimated conservatively at US$150 million per annum. The reasons for the “tax gap” are many, including fraudulent practices on the part of companies and government services and tax assessment and collection agencies, under valuation of mineral product, clandestine exports and smuggling. While the IMF has primacy in the area of taxation, the project will support studies and reforms within the agencies responsible for tax assessment and collections. Included in these actions are audits of companies having revenues in excess of US$ 10 million per annum, an “risk control and assurance audit” of government departments responsible for assessment and collection of taxes, logistical support and training to key government agencies, and possible out-sourcing of the revenues collection and reporting function as a means to rapidly build capacity.

4. Improving the Economic and Social Conditions of the Artisans

There are an estimated 10 million Congolese who depend directly or indirectly on artisanal or small scale mining for their livelihood. Artisanal miners at present produce 60 to 90 percent of the country’s minerals. However, the sub-sector is dominated by a number of problem areas, including relations between artisans and large-scale mines; exploitation of vulnerable populations; extortion by government officials and criminal elements; lack of health, safety, or environment protection; and inadequate legal protection and government assistance for the miners. The proposed project will assist the government to improve the working and living conditions of the miners as well as to improve their productivity and access to terminal markets under fair and secure conditions. It will conduct baseline studies of the problems of artisanal miners, support to government extension services, establish pilot schemes, conduct sensitization campaigns and help establish miners’ cooperatives, work with private companies, and provide support for legal and regulatory reforms. In addition, the co-financing provided by DFID will be of significant help in carrying out these activities. As well, the project will coordinate with IFC and CommDev to: work with companies and artisanal mining communities.

5. Project Implementation

The fifth component will focus on project implementation, setting up the project PIU, and fiduciary arrangements, including financial management, disbursement and procurement. It is proposed that the project set up an independent PIU within the Ministry of Mines in Kinshasa. A key finding of the recent CPPR is that capacity to implement projects in DRC in accordance with Bank procedures and adequate “buy-in” from line ministries is a key constraint. Establishing the PIU within the Ministry of Mines will ensure buy-in and a “hands-on” approach to project management. Activities in the provinces will be supervised directly by this central PIU. The project will place additional staff in key mineral producing areas to assist in project implementation.

4. Safeguard policies that might apply

An Environmental and Social Impact assessment would be required. Additional guidance from ASPEN would be required.

5. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	1
International Development Association (IDA)	49

Total	50

6. Contact point

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