

Executive Summary

The East of the Democratic Republic of Congo has always been an important transit region for trade in Central Africa, linking the Congo basin to the West with the Asian-facing ports to the East. Most of the population lives near an international border and knows how to profit from cross-border trade. During the Congo wars, exports of natural resources from Eastern DRC, especially North Kivu bordering Rwanda, became the subject of many international investigations due to their role in financing and sustaining conflict. The underlying local factors which made it possible for the export of natural resources to become a determining factor in structuring power relationships were never fully explored in this context. However, an understanding of these factors is crucial in order to understand how to revive the Eastern Congolese economy, which has always been very open and much more diversified than recent debate on natural resources suggests.

This report seeks to explain why trade in Eastern Congo, and North Kivu especially, happens in the way it does. Most exports take place outside the formal system and are unregistered. According to our research, cassiterite exports from North Kivu alone were worth around \$25m in 2006, and gold exports from Ituri and South Kivu up to \$100m each. But only a small fraction of this found its way into official statistics: \$7m for cassiterite, \$2m for gold from South Kivu, none at all for gold from Ituri. Of the cassiterite mined in Walikale district and registered as being flown to Goma, less than half is registered in Goma as having arrived, and only slightly more than half of this amount shows in the export registers.

The vast amounts of unregistered exports serve to finance imports of consumer goods and especially petroleum products which are also subject to under-declaration. Officially, North Kivu in 2006 exported goods worth \$23m and imported goods worth \$109m, of which petroleum products were around \$44m. Without undeclared exports, this trade deficit would be unsustainable.

Conflicts over these trade operations and their control have been a major factor in the recent wars of the region. The cassiterite export trade centred around Goma towards Rwanda and Uganda is the backbone of the business operations of a Banyarwanda trading elite in North Kivu, which through this has tried to counter the power of a Nande trading elite based around Beni/Butembo with established links to the gold trade of Ituri and South Kivu towards Uganda and Burundi.

This competition involves much more than just a race for the best business opportunities. The Beni/Butembo traders during the war gave themselves their own, advantageous trading rules, whereas the Goma traders had recourse to substantial military power. The official end of the war did not reconcile these conflicting interests. Political and military power struggles in Eastern Congo are in part an expression of commercial rivalry, but commercial rivalry in turn is an expression of competition around means of ensuring one's own and one's community's physical survival in an area of profound and prolonged conflict.

There is a further important dimension to informal trade in Eastern Congo: The trading system favours fraud and non-declaration. Export taxes in the DRC are higher than in neighbouring countries, and thus traders benefit by bringing their goods to a neighbouring country before declaring them there instead of exporting officially from the Congo. Congolese state agencies know this and take advantage of this situation by extorting payments from traders in return for allowing unregistered exports. In many cases, traders and officials come

to private arrangements with traders paying less than the legal rate to agents who then keep the transaction out of the books. „Fraud amongst consenting adults“ is a convenient way for individuals on both sides to profit from non-legality.

Opting out of this system is often not an option. Many more state agencies involve themselves in trade control at the border than provided for in the law, as well as members of a rapacious and unaccountable structure of security forces with an endless capacity for „tracasseries“.

This systemic corruption is not confined to the border. Analysis of the trade routes from mine to market shows that legal and illegal taxation is prevalent all along the chain. For North Kivu cassiterite, all taxes together add up to 15% of value, with a further 10% of production retained by authorities in the mines. For Ituri gold, an astonishing 40% of production, including a 30% royalty for the parastatal Okimo, is retained by official bodies before the gold even leaves the mines, plus various payments in the mining areas. For South Kivu gold, an array of charges in the mining areas plus a series of roadblocks on the way to Bukavu through some of the most insecure areas of the DRC serves to keep trading costs high. Living conditions in all mining areas are atrocious and consumer prices extortionate, and the dependence of mining communities on the few traders able to negotiate the trading routes and their barter regimes is total.

The Congolese state appears to have no interest in improving this state of affairs. Apart from the hefty taxes and opportunities for parallel earnings, it appears that in all mining areas uncertainty as to legal ownership of concessions has increased recently, with new contracts being signed for existing concessions and ownership conflicts remaining unresolved. This increases insecurity. No development takes place in mining areas, despite these being touted as showcase attractions to international investors.

Ongoing initiatives at trade reform in the DRC have been patchy, uncoordinated and ineffective. Their guiding philosophy has been that increased controls reduce fraud, but when the activities of state agencies remain unreformed, increased controls simply increase opportunities for non-legal private arrangements to keep trade outside the law. The new „Third Republic“, with the 2006 Constitution and an elected government, has not yet fulfilled its promise to improve local governance by implementing the constitutional provisions which allow revenue retention at source by provincial governments instead of sending it all to Kinshasa, thus denying local officials any incentive to increase official takings. As Eastern Congo depends almost entirely on cross-border trade for the public purse, this means that trade reform cannot be realised. North Kivu's public revenues in 2006 totalled around \$20.5m, of which an astonishing \$16.5m consisted of import duties – none of which at present stays in the province.

On a technical level, trade reform in Eastern Congo needs to take into account:

- ⊗ The fact that tax rates are higher in the DRC than in its neighbours
- ⊗ The levying of unofficial taxes in addition to official taxes in the DRC
- ⊗ The multiplicity of state agencies
- ⊗ The prevalence of different tax regimes in different areas
- ⊗ The continued involvement of the military in trade
- ⊗ The general lack of trust on the formal economy
- ⊗ The uncontrollable nature of the border
- ⊗ The dysfunctionality of existing mining regimes
- ⊗ The lack of infrastructure

But on a more general level, the unresolved issue of decentralisation, the unmet and pressing need for more human security, the continuing impunity for those who enforce their own private interests to the detriment of public ones and the complete lack of economic perspectives for a population desperate for improved well-being need to be factored into any economic reform policy.

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