I. STRATEGIC CONTEXT AND RATIONALE

A. Country and Sector Issues

1. **Mining represents a critical sector for the development of the Democratic Republic of Congo (DRC).** Since the early 1910s, the mining sector has dominated the Congolese economy and served as its engine for growth. For instance, in its height in the mid-1980s, copper production approached 600,000 tons per annum and the annual contribution of the entire mining sector to GDP was 8-12 percent. However, as a result of a decade of civil war and conflict during the 1990s and early 2000s, 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 Government is facing significant challenges to re-establish industrial production and bring order to the artisanal and small scale mining (ASM) sector. This is all the more needed in the Eastern part of the country, particularly in the Kivus and Orientale Provinces, where competition for minerals has been fueling conflicts and violence.

2. **Given DRC's superb mineral resource, its mining sector could bring revenues equivalent to 15-20 percent of GDP and one quarter of Government revenues by 2020**[1]. DRC is one of the most mineral rich countries in the world. Copper reserves make the Katanga Copper Belt the second richest copper region in the world after Chile. This tremendous potential for exploiting copper, as well as cobalt, gold, diamonds, cassiterite and coltan could mean a growth rate of 8-10 percent per year in the mineral sector and help the Government achieve the objective of double digit growth in the economy as a whole. In terms of production, it is possible that copper output could increase from 255,000 metric tons in 2009 to between 600,000 and 800,000 tons in 2014 and between 600,000 and 1,000,000 in 2020 (see details in Annex 9) and that DRC could become one of the biggest copper producers in Africa[2]. This could translate into significant revenue increases, as illustrated by the three scenarios summarized in Table 1.

Table 1. Revenue Scenarios: DRC Mining Sector, 2009 - 2020[3]

Scenarios	2009	2010-2014		2015-2020	
(US$ million)		Average/year	Total	Average/year	Total
Base Case Scenario					
Gross production value	1,373	2,088	10,438	4,218	25,307
Government fiscal receipts	155	267	1,335	705	4,229
Improved Tax Collection Effectiveness Scenario					
Gross production value	1,373	2,088	10,438	4,218	25,307
Government fiscal receipts	155	300	1,499	848	5,090
Speculative Investment Growth Scenario					
Gross production value	1373	2,466	12,330	5,563	27,815

[1] Using conservative assumptions on commodity prices: see details in Annex 9.
[2] In comparison to Zambia, which produced an estimated 655,000 tonnes of copper in 2009.
[3] See Annex 9 for a detailed description, analysis, and assumptions.

Scenarios	2009	2010-2014		2015-2020	
(US$ million)		Average/year	Total	Average/year	Total
Government fiscal receipts	155	394	1,971	1,184	7,105

Sources: DFID, IMF, and World Bank staff estimates, 2005-2009 data.

Box 1. PROMINES: A Political Economy Perspective (see also Annex 16)

The Project is based on an analysis of the political economy in the mining sector and builds on identified opportunities for changing the status quo. The analysis of the existing situation attempts to map rent seeking behavior and non-transparent transfer of resources as factors constraining reforms. The analysis also showed that there is significant demand for activities that move the sector towards better governance. Such demand originates partly from the traditional sources, such as civil society and private investors, whose interest to hold the authorities accountable will be strengthened by the Project. But the analysis also identified areas in which the public stakeholders' interests coincide with the Project's good governance objectives.

In particular, the analysis identified assistance that strengthens the authorities' hand in their negotiations with private mining companies as an area of strong public stakeholder interest. Such assistance goes well beyond the training for negotiating skills (included in component B) but also covers information on the available resources (component A) and a better understanding of the possible contingent liabilities of private companies (component D). Going beyond the negotiations with private mining companies, greater transparency and accountability (component C) provides reliable information that is necessary for the negotiations on revenue sharing between the national and provincial authorities, a further area where current stakeholders would gain from the Project.

The political economy analysis also identified some constraints where the resources provided by the Project would likely be too small to entice far-reaching changes. There is no doubt that a reform of Gecamines and other state-owned companies is desirable from an economic perspective. However, the issues are too complex to be tackled with a technical assistance Project alone. Hence the design of the Project strengthens the overall sectoral conditions to lay the ground for future SOE reform and addressing other key issues when the political economy environment is more favorable.

3. **DRC's existing and prospective mineral wealth stands in stark contrast with the challenges of leveraging these resources for sustainable development[4]**. Mineral rents were an integral part in sustaining the Mobutu regime (1965-1997) and the protracted conflict that followed its collapse. The mining sector has been and will continue to be a critical part of the state's resource base at the national and particular sub-national levels (e.g., Katanga, Kasais, Kivus) and challenges in developing other economic sectors tend to increase the relative importance of the mining sector, even if it operates presently below potential. The management of DRC's mineral wealth remains central to the maintenance of political stability, but, at the same time, speculation and the exploitation of the mining sector continue to fuel tensions between interest groups. In addition, the administration of the sector is dysfunctional, handicapped by insufficient institutional capacity, poor business climate, and fundamental deficiencies in governance[5].

4. **As part of its economic reform program since 2001, the Government has made some efforts to improve governance of the sector,** including the enactment of the 2002 Mining Code and the partial restructuring of the state-owned copper and cobalt producer, GECAMINES, in

[4] See Kaiser, K., 2009: *The Political-Economy of Mining Development in DRC A Synthesis*. Draft Paper.
[5] See Annex 16.