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Report No: 53116-ZR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 33.1MILLION
(US$50 MILLION EQUIVALENT)

TO THE

THE DEMOCRATIC REPUBLIC OF CONGO

FOR A

GROWTH WITH GOVERNANCE IN THE MINERAL SECTOR
TECHNICAL ASSISTANCE PROJECT

May 19, 2010

Oil, Gas and Mining Policy Division
Sustainable Development Network
Central Africa Country Cluster 2
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2010)

Currency Unit	=	Congolese Franc
CDF897.50	=	US$1
CDF1		US$0.00114
US$1	=	SDR 0.661761

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ANE	Agence National de l'Environnement
ANEP	National Association of Portfolio Enterprises
ASM	Artisanal and Small-scale Mining
BCC	Central Bank of Congo
BGR	German Geological Survey
CAF	Country Assistance Framework
CAMI	Mining Cadastre
CAS	Country Assistance Strategy
CASM	Community and Artisanal & Small-scale Mining Initiative
CEEC	Evaluation, Expertise and Certification Center
CFAA	Country Financial Accountability Assessment
COPIREP	Committee for Public Enterprises Reform
CPAR	Country Procurement Assessment Review
CQ	Consultant's Qualification
CRGM	Geological and Mining Research Center
CSO	Civil Society Organization
CTB	Belgian Technical Assistance
CTCPM	Technical Unit for Mining Coordination and Planning (Ministry of Mines)
DA	Designated Account
DDR	Disarmament, Demobilization and Reintegration
DFID	Department for International Development (UK)
DGE	Large Tax Payers Unit
DGI	General Tax Directorate
DGRAD	General Directorate of the Administrative and Domanial Revenues
DPE	Directorate for Environmental Protection
DRC	Democratic Republic of Congo
EA	Environmental Assessment
ECC	Environmental Coordination Committee
EFL	Environmental Framework Law
EIA	Environmental Impact Assessment
EI-TAF	Extractive Industries Technical Advisory Facility
EITI	Extractive Industries Transparency Initiative
EMK-Mn	Kinsenge Mining Enterprise – Manganese (SOE)
EU	European Union
FDI	Foreign Direct Investment
FEC	Federation of Congolese Enterprises
FM	Financial Management
FQM	First Quantum Minerals
GAC-AP	Governance and Anti-corruption Action Plan
GCEP	Governance Capacity Enhancement Project
GECAMINES	Quarries and Mines General Company (SOE)
GEEC	Environmental Study Group for Congo
GIS	Geographic Information System
GPN	General Procurement Notice
GPS	Global Positioning System
GTZ	German Development Agency
IAD	Internal Audit Directorate
IC	Individual Consultant
ICB	International Competitive Bidding
ICMM	International Council for Mining and Minerals
IDA	International Development Association (WBG)
IFC	International Financial Corporation (WBG)
IFI	International Financing Institution
IFR	Interim Financial Report
ILO	International Labor Organization
IMF	International Monetary Fund
IPG	Indigenous Pygmy Group
IPPDP	Indigenous People Participatory Development Plan
IPPF	Indigenous Peoples Planning Framework

IRR	Internal Rate of Return	PRCG	Enhancing Government Capacity Project
ISDS	Integrated Safeguards Data Sheet	PROMINES	Growth with Governance in the Mining Sector Project
ISR	Implementation Status report	PRSP	Poverty Reduction Strategy Paper
IT	Information Technology	PSC	Project Steering Committee
ITRI	International Asssociation of Tin Smelters and Producers	PU	Procurement Unit
KEIDI	Katanga Extractive Industries Development Initiative	QCBS	Quality and Cost Based Selection
KMT	Kingamiambo Musonoi Tailings	RAC	Regional Advisory Committee
KP	Kimberley Process	RAP	Resettlement Action Plan
MEP	Mining Environmental Protection unit at MoM	RfP	Request for Proposal
MECNT	Ministry of Environment, Conservation of Nature, and Tourism	SADC	Southern African Development Community
MIBA	Bakwanga Mining Company (SOE)	SAESSCAM	Service for Assistance and Support to Small-scale Mining
MoB	Ministry of Budget	SAKIMA	Kivu and Maniema Gold Company (SOE)
M&E	Monitoring and Evaluation	SBD	Standard Bidding Document
MoE	Ministry of Environment	SCC	Strategic Coordination Committee
MoF	Ministry of Finance	SCCA	Sino-Congolese Cooperation Agreement
MoM	Ministry of Mines	SEA	Sector Environmental Assessment
MoPl	Ministry of Plan	SESA	Strategic Environmental and Social Assessment
MoPo	Ministry of Portfolio	SG	General Secretary (MoM)
MoRS	Ministry for Scientific Research	SNCC	National Congolese Railway Company
MoT	Ministry of Transport	SNEL	National Electricity Company
MONUC	United Nations Mission DR Congo	SODIMICO	Congolese Industrial and Mining Development Company
MTG	Mining Thematic Group	SOE	State-Owned Enterprise
MTR	Mid-term review	SOMIKI	Kivu Mining Company (SOE)
NAC	National Advisory Committee	SOEs	Statement of Expenditures
NCB	National Competitive Bidding	SPN	Specific Procurement Notice
NGO	Non-Governmental Organization	SSS	Single Sourcing Selection
NPV	Net Present Value	STAREC	Plan for Stability and Reconstruction for Eastern Congo
OCC	Congolese Control Office	TMC	Technical Monitoring Committee
OFIDA	Customs and Excises Office	TOR	Terms of Reference
OKIMO	Kilomoto Mining Office (SOE)	USAID	US Agency for International Development
PAC	Permanent Assessment Committee	USGS	US Geological Survey
PAD	Project Appraisal Document	UMHK	Union Minière du Haut Katanga
PAR	Mitigation and Rehabilitation Plan	WB	World Bank
PEMP	Project Environmental Management Plan	WBG	World Bank Group
PIM	Project implementation Manual		
PIU	Project Implementation Unit		
PMI	Public Mining Institutions		
PP	Procurement Plan		
PPF	Project Preparation Facility		

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Country Director:	Marie Françoise Marie-Nelly
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Sector Manager:	Paulo De Sa
Task Team Leader:	Gotthard Walser

CONGO, DEMOCRATIC REPUBLIC OF
DRC-Growth with Governance in the Mineral Sector Project

CONTENTS

CONGO, DEMOCRATIC REPUBLIC OF

GROWTH WITH GOVERNANCE IN THE MINERAL SECTOR

PROJECT APPRAISAL DOCUMENT

AFRICA

COCPO

Date: May 19, 2010	Team Leader: Gotthard Walser
Country Director: Marie Françoise Marie-Nelly	Sectors: Mining and other extractive (100%)
Sector Manager/Director: Paulo De Sa/Inger Andersen	Themes: Other public sector governance (100%)
Project ID: P106982	Environmental category: Partial Assessment
Lending Instrument: Technical Assistance Grant	Joint IFC:
	Joint Level:

Project Financing Data

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 50.00
Proposed terms: IDA Grant

Financing Plan (US$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	0.00	0.00	0.00
International Development Association (IDA)	20.10	29.90	50.00
Department for International Development (DFID, UK)	16.20	23.80	40.00
Total:	36.30	53.70	90.00

Borrower:
Democratic Republic of Congo
Responsible Agency:
Ministry of Mines, Immeuble Gécamines, Boulevard du 30 Juin, Commune de la Gombe, Kinshasa, Democratic Republic of Congo

Estimated disbursements (Bank FY/US$m)

FY	11	12	13	14	15	16			
Annual	4.90	9.10	12.60	14.80	6.70	1.90			
Cumulative	4.90	14.00	26.60	41.40	48.10	50.00			

Project implementation period: Start June 15, 2010 End: June 30, 2015
Expected effectiveness date: September 1, 2010
Expected closing date: December 15, 2015

Does the project depart from the CAS in content or other significant respects? ***Ref. PAD I.B.***	[ ]Yes [X] No

Does the project require any exceptions from Bank policies? ***Ref. PAD IV.G.*** Have these been approved by Bank management? Is approval for any policy exception sought from the Board?	 [ ]Yes [X] No [ ]Yes [ ] No [ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? ***Ref. PAD III.E.***	[X]Yes [ ] No
Does the project meet the Regional criteria for readiness for implementation? ***Ref. PAD IV.G.***	[X]Yes [ ] No

Project development objective ***Ref. PAD II.B., Technical Annex 3***

To strengthen the capacity of key institutions to manage the minerals sector, improve the conditions for increased investments in and revenues from mining, and help increase the socio-economic benefits from artisanal and industrial mining in Project areas.

Project description ***Ref. PAD II.C., Technical Annex 4***

The Project is co-funded by DFID and IDA and coordinated with other WB or donors' initiatives. It is structured along the line of the EITI++ value chain approach:

A. Ensure Access to Resources (US$ 31.1 million, of which IDA US$ 17.3 million). This component of the EITI++ value chain addresses fundamental impediments to accessing resources and will improve the enabling environment for mining in DRC by: (i) improving the institutional, legal and regulatory framework in the mining sector (including follow-up institutional, legal, regulatory reform measures related to the SESA); (ii) strengthening communication between stakeholders in the mining sector; and (iii) developing a geological and mining data infrastructure and evaluation of the country's mineral resources and their potential value.

B. Build Sector Management Capacity (US$ 24.6 million, of which IDA US$ 13.4 million). This component will address the presently weak Government capacity for sector management, monitoring of performance and enforcing regulations through: (i) building capacities in key oversight sector institutions; (ii) strengthening negotiation capacities and portfolio management; and (iii) developing human resources for the mining sector.

C. Enhance Transparency and Accountability (US$ 5.4 million, of which IDA US$ 3.1 million). The Project, in coordination with other WB and donors' projects, will support activities intended to: (i) develop, improve and support transparency and monitoring mechanisms regarding trade, sector management and revenues (e.g. the on-going EITI process); ii) promote awareness regarding the fiscal regime and tax collection mechanisms; and (iii), set up a broad multi-stakeholder accountability and dialogue platform for mining.

D. Build Up Sustainable Development Settings (US$ 17.7 million, of which IDA US$ 9.9 million). This element will support: (i) management of social and environmental aspects of mining; (ii) management of artisanal and small-scale mining; and (iii) integration of mining into local and regional development.

E. Project coordination and management (US$ 11.2 million, of which IDA US$ 6.3 million).

Which safeguard policies are triggered, if any?
Ref. PAD IV.F., Technical Annex 10
Environmental Assessment (OP/BP 4.01), Natural Habitats (OP/BP 4.04), Physical Cultural Resources (OP/BP 4.11) and Indigenous People (OP/BP 4.10)

Significant, non-standard conditions, **if any**, for:
Ref. PAD III.F.
Board presentation:

- None

Loan/credit effectiveness:

- The Co-financing Agreement (DFID) has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- The Recipient has adopted a Project Implementation Manual (PIM), in a form and substance satisfactory to the Association (including the Financial Management, Procurement and Administrative Procedures Manual).
- The Recipient has established a monitoring and evaluation system for the Project in a form and substance satisfactory to the Association.
- The Recipient has established the Project Implementation Unit (PIU) under terms of reference satisfactory to the Association, and has appointed the following staff of the PIU under terms of reference and with qualifications and experience satisfactory to the Association: a Project coordinator, a financial management manager, a procurement specialist, an internal auditor and a monitoring and evaluation specialist.

Covenants applicable to project implementation:

- The Recipient shall not later than 3 months following effectiveness establish and thereafter maintain or cause to be maintained a financial management system (including related staff and software).
- The Recipient shall appoint not later than 3 months after effectiveness an external auditing firm acceptable to the Association.
- The Recipient shall establish by not later than six (6) months following the Effectiveness Date, and thereafter maintain, throughout the implementation of the Project, an inter-ministerial Strategic Coordination Committee (SCC), including high-level representatives of the relevant ministries, with terms of reference, composition and resources satisfactory to the Association, which shall, among other functions, be responsible for providing overall strategic guidance for the Project.
- Upon the start of activities in a Province, the Recipient shall establish and thereafter maintain throughout the implementation of the Project, a Regional Advisory Committee (RAC) in said Province, with terms of reference, composition and resources satisfactory to the Association, which shall be responsible for providing monitoring with regard to the implementation of the Annual Work Plan in its respective Province and prepare recommendations to improve the implementation of the Project at the provincial level.
- The Recipient shall not later than 18 months after effectiveness undertake and adopt a Strategic Environmental and Social Assessment (SESA) under terms of reference satisfactory to the Association which, among other objectives, will identify in agreement with the Association such new legislation or regulatory instruments as may be necessary for the environmentally and socially sustainable management of industrial mining operations.
- Based on an agreement with the Association regarding legislation and regulatory instruments referred to in the paragraph above, the Recipient shall, not later than 36 months after effectiveness prepare, consult upon and submit if necessary draft amendments to legislation and/or modifications to proposed legislation to the Recipient's Parliament and adopt regulatory instruments, in form and substance satisfactory to the Association, containing

standards and measures for the environmentally and socially sustainable management of industrial mining operations taking into account, as appropriate, existing industrial mining operations.

- The Recipient will prepare an Annual Work Plan by May 15 of every year; only each such Annual Work Plan of activities as shall have been approved by IDA shall be eligible for inclusion in the Project and financed out of the proceeds of the Financing Agreement.
- The Recipient shall exchange views with the Association on such proposed Annual Work Plan not later than June 15 each year throughout the implementation of the Project, and shall thereafter adopt, and carry out such plan for such following twelve (12) months as shall have been approved by the Association and except as the Association shall otherwise agree, the Recipient shall not amend, abrogate, waive, or permit to be amended, abrogated, or waived, the aforementioned, or any provision thereof, without the prior written agreement of the Association.
- The Recipient shall maintain, satisfactory to IDA, the multi-stakeholder Technical Monitoring Committee (TMC), responsible for Project monitoring and the approval of the Annual Work Plans and Reports.

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.

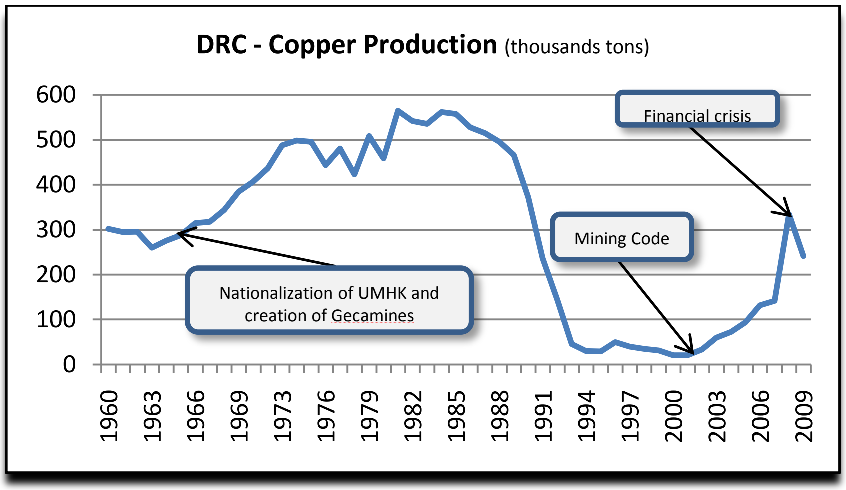
3. **DRC's existing and prospective mineral wealth stands in stark contrast with the challenges of leveraging these resources for sustainable development[4]**. Mineral rents were an integral part in sustaining the Mobutu regime (1965-1997) and the protracted conflict that followed its collapse. The mining 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.

2003-2004. These efforts led to the resumption of mining production and an increase of foreign direct investment (FDI) in the sector (until the global financial crisis). Figure 1 shows the immediate impact of these reforms on copper production. These actions, followed by a period of high commodity prices between 2004 and 2008, resulted in a renewal of investment in exploration and exploitation activities in the country. A temporary drop of commodity prices[6] during the period 2008 to 2009, due to the global financial crisis, as well as a controversial process of revisiting mining contracts (see paragraph 6 link 2 and box 3 below) led to a deterioration of the investment climate. However, following the strong recovery of commodity prices, private sector investment in new projects is substantial (well in excess of US$2 billion is programmed over the near term).

Figure 1. Impact of Sector Reforms on Copper Production



Source: US Geological Survey, 2010.

5. **The country is gradually developing a longer term vision, but still lacks the necessary mechanisms to take advantage of its mineral endowment**. Governance in the mining sector needs to be improved to provide an enabling environment for long-term investments and allow the sector to survive economic and political cycles. The revenues generated by the exploitation of mineral resources will only benefit the country and the population of Congo with enhanced sector management, transparency and accountability. To do so, two sets of critical issues have to be addressed: (a) rules and institutions to minimize the capture of the rent while encouraging further investment in the extractive industries; and (b) ensuring that the revenue generated by the extractive industries contributes to sustainable economic development for the benefit of current and future generations. To address this complexity of challenges and design a strategic program in response, the Government decided to adopt the extractive industries value chain, or "EITI++", approach (see Box 2)[7].

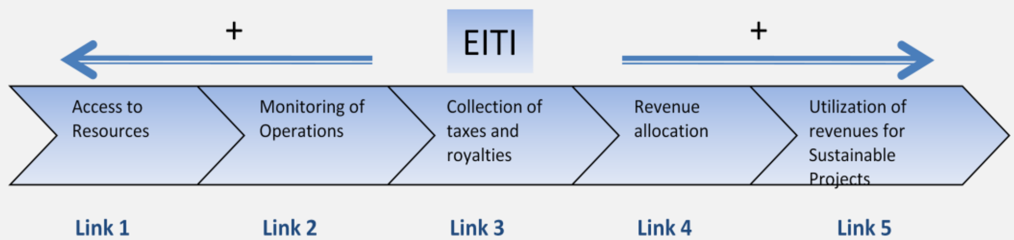
[6] With the exception of gold.
[7] For a more detailed description of the concept, please refer to the following publication, Extractive Industries Value Chain: A Comprehensive Integrated Approach to Developing Extractive Industries, Oil, Gas and Mining Policy Division, Extractive Industries for Development Series #3, World Bank, 2009.

Box 2. The Extractive Industries Value Chain Approach (EITI++)

In many resource-rich countries, the Extractive Industries Transparency Initiative (EITI) is an important entry point to the sound management of the oil, gas, and mining sector. With its focus on verification and publication of company payments and government revenues from the extractive industries, EITI demonstrates how voluntary global standards can help create incentives for transparent actions by governments and industry and provide an objective around which reformers can rally.

However, many stakeholders, including governments, are emphasizing that transparent revenue reporting, while important, is not enough. Effective management of oil, gas, and mining resources requires attention along the entire chain of managing them—from granting access to those resources, to monitoring operations, to collecting taxes, to improving economic management decisions, to spending resources effectively for sustainable growth and poverty reduction (see figure below).

An EITI++ framework approach encourages countries to take a strategic and comprehensive view of how to translate wealth from the extractive industries into growth and development. Implementing the EITI++ approach means that a government has (or is interested in developing) a vision for the good governance and sound management of its extractives sector and a (rolling) program of policy actions, institutional capacity strengthening, and investments consistent with its vision. The program, framed against the value chain needs to be prioritized, sequenced and tailored to country circumstances.



This methodology has already been used to analyze the extractive sectors of several countries globally. However, it is here being used for the first time in a systematic fashion for the design of the overall strategy to improve management of the mining sector in DRC, of which the proposed Project is part. It has been found particularly useful in the country context to (a) clarify the links and coordination needs between sectors and ministries; (b) maximize synergies with other projects supported by the World Bank and other donors (Figure 2 and Annex 2); (c) define the Project Development Objectives; and (d) provide an organizational framework for Project design.

6. **The Government and its development partners are using the EITI++ approach to identify the key challenges related to mining sector along the links of the value chain and integrate them into a coherent strategic program.** Each link in the value chain and how it relates to DRC is explained below. Following this, issues that cut across the value chain are further elaborated.

<u>Link 1 – Access to Resources</u>

- *Improving information about resources.* First and foremost, to access to resources depends on information about where areas of mineralization might lie. Despite the mining potential of DRC, little geological mapping and geophysical work has been undertaken at the regional level since independence. Exploration by private companies has mostly targeted previously known areas and occurrences. Scientific knowledge is not stored and managed, and the existing information is dispersed and hard to access, sometimes outside the country. As a result, the Government does not have the capacity to properly assess the value of mineral deposits or prospective areas; it is unable to properly promote its resources; and the level of speculation is very high.

- *Improving the legal environment for new investment.* Traditionally, DRC's mining sector was dominated by public enterprises, and private sector development of mineral resources was limited. Early in its tenure, the transitional Government recognized the need for the State to act as a regulator rather than operator. This change represented a fundamental paradigm shift toward efforts to attract private investment for exploration and development of DRC's mineral resources. However, the new constitutionally mandated decentralization program raises difficulties in terms of the division of roles and revenues between central and provincial authorities in regulating access to resources. Gaps in the mining legislation related to small-scale mining permits, community consultations, and environment protection need to be addressed. In addition, while the 2002 Mining Law and regulations are consistent with international best practice, additional training and resources are necessary to ensure their implementation (see also Link 2 below and Annex 1).

<u>Link 2 – Monitoring of Operations</u>

- *Strengthening g**o**vernment supervisory institutions.* Significant capacity building, training, and logistical support are required to strengthen the Government's capacity to administer the sector as institutions responsible for oversight are weak and ineffectual, especially in the provinces. Relevant institutions include the Ministry of Mines (MoM) and its various departments and services attached to other ministries (mainly Finance, Environment, Portfolio, Plan, and Defense). Strengthening government oversight capabilities is especially critical in the areas of environmental protection, adequate representation of local community concerns, and occupational health and safety in the key mining areas. As in many countries, there are several issues negatively affecting the performance of institutions, including lack of financial resources for operations; insufficient procurement and financial management capacity; inadequate coordination among ministries to ensure that they focus on their respective functions as defined in the Mining Law rather than developing their own vision of their role and responsibilities (in some cases as part of a "survival" strategy); unclear mandate and overlap of functions between the central and provincial authorities, particularly within the framework of the decentralization process, which implies a more important role to be played by provincial institutions; poor planning and accountability; unclear or poorly implemented procedures; lack of training in modern technologies; and political interference. Regarding the availability of human resources[8], many higher-level staff and managers, particularly at the central level, are close to retirement, but middle-aged or younger staff with reasonably adequate training are available within the institutions.[9] However, proper human resource management plans and incentives are generally lacking.

- *Reducing the economic burden of State-owned enterprises (SOEs) in the mining sector.* Mining SOEs are inefficient in exploiting mineral resources, and represent a heavy burden for the country's economy and an important barrier to investments. While they used to dominate DRC's mineral sector, most of the SOEs (including MIBA, the diamonds producer) are now at a standstill. Only GECAMINES is still operating, but it produces only a fraction

[8] A detailed institutional audit of public mining institutions is being funded under the PROMINES project preparation facility.
[9] Likely because of the long mining tradition in DRC, many geologists, mining engineers, and metallurgists are still available in the country.

of past production. The collapse of mining SOEs and their immense debts weight heavily on public accounts.[10] During the past decade, efforts to reduce production costs and increase productivity were only partially successful and did not allow for restoration of sound industrial practices. Today, instead of transforming non-renewable mineral resources into sustainable development, mining SOEs destruct value (GECAMINES' losses alone are estimated at US$15-20 million per month). At the same time, the SOEs still hold much of the known, best prospective ground for mining in DRC. In order to develop mines in these areas, private companies with access to finance have to partner with the SOEs, which often involve difficult business relationships. The Government's recent review of mining contracts (see Box 3) has been perceived by investors as undermining the security of tenure[11], a crucial factor in mining investment decision-making. In-depth reform and restructuring of the SOEs is a critical challenge, with a view to ensuring the maximum contribution of their present assets to the State, and the continuance of essential infrastructure and services in the communities where they operate. However, the SOEs still carry a lot of national and provincial prestige, and time is needed to build the required socio-political consensus for reform, as well as to set up the proper institutional framework and capacity to manage the overall State mining portfolio. The costs of the reform should easily be offset by potential benefits[12].

Box 3. Mining Contracts Review Process

Many of the state-owned enterprises that entered into partnership agreements with private sector companies during the war and conflict period did so at a time of distress or without proper evaluation of assets under the contract. In 2007, the Government embarked on a review of mining contracts led by an Inter-Ministerial Commission tasked with reviewing 61 contracts between state-owned enterprises and private companies. The Commission's final report, published in March 2008, recommended that one-third of the contracts be cancelled and two-thirds be renegotiated. As of February 2010, 16 contracts have been cancelled, the others have been renegotiated, and one, Freeport's Tenke copper/cobalt investment (Tenke Fungurume Mining) is still awaiting resolution.

The contract for the Kingamyambo Musonoi Tailings (KMT) project, which is operated by First Quantum Minerals and sponsored by the International Finance Corporation (IFC) and South Africa's Industrial Development Corporation (IDC), was cancelled in August 2009. Reasons given by the Government included the company's alleged failure to begin commercial exploitation within the agreed time frame. After months of uncertainty about the possibility that the decision might be reversed, the investors decided to file for international arbitration at the Paris Chamber of Commerce in February 2010.

<u>Link 3 – Collection of Taxes and Royalties</u>

- *Increasing fiscal receipts and improving the allocation of revenues.* The fiscal regime applicable to the sector is internationally competitive and could 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 estimates for the gap vary by sources and

[10] GECAMINES debt was estimated at US$1.75 billion in June 2009, but this has only been partially validated.
[11] Beyond security of tenure, the deficiencies shown in DRC to properly enforce law and regulations generate a broader legal insecurity within the sector (see Andrews et al., 2008; and Annex 1).
[12] Cost estimates of the reform of GECAMINES alone (excluding remediation costs for environmental liabilities and discharge of debt) are expected to be in the range of US$200-300 million, while benefits (for GECAMINES) are estimated to be on the order of US$300 million per year. World Bank staff estimates.

years. The international Extractive Industries Transparency Initiative (EITI), to which the Government adhered in 2005, is a process which facilitates the identification and disclosure of such gaps. After a period of inaction due to the 2006 elections, the Government reaffirmed its commitment to EITI, and reactivated dialogue with private companies and civil society in this regard. The first EITI reconciliation report has been prepared by an international audit firm. The report estimated the tax gap for 2007 at approximately US$22 million, but other sources for other years have estimated the gap to be much bigger. The Bank sector review[13] estimated the gap to be about US$173 million in 2005 (US$200 million expected in taxes and only US$27 million declared as received by the Government). A Senate Commission estimated that the State lost US$450 million in 2008. One reason for the discrepancy between the EITI report and the Senate report is that the scope of the former is limited, largely to copper, cobalt and petroleum industrial producers and does not take into account the more difficult to regulate artisanal sector (gold, diamonds, coltan, cassiterite etc.)[14].

<u>Link 4 – Revenue Allocation</u>

- *Ensuring sustainable allocation of revenues at the central and decentralized levels.* While fiscal receipts might progressively increase as a result of streamlining and improving the performance of collecting agencies, there is need for improving mechanisms, allocation criteria and management capacity for the use of such revenues to benefit (a) the provinces, particularly when considering the present process of decentralization[15]; or (b) the financial sustainability of the entities in charge of monitoring and regulating the sector. Both aspects are crucial to ensuring the adequate functioning of the sector but are, as a rule, not taken into consideration at the central level of government. This results in (a) lack of recourse for provinces and potential conflicts with regional authorities and populations; and (b) failure to ensure responsible, sustainable sector management. Authorities are committed to transferring 40 percent of government revenues to the provinces (abiding by the constitutionally mandated decentralization policy poses significant budgetary and implementation challenges), along with the responsibility for implementing social sector programs. However, given existing constraints, they have decided to slow the pace of implementation while strengthening capacity in public financial management and project implementation at the provincial level.

<u>Link 5 – Use of Revenues for Sustainable Development Projects</u>

- *Integration of mining activities into local and regional economic development.* A significant number of mining projects are under development or production, mostly in Katanga but also in the Kivus and Orientale. DRC in general, and the mining regions in particular, still lack adequate infrastructure[16]. The Government, with the support of several World Bank projects (e.g., ProRoutes, Energy, Multi-modal Transport, etc.) and other donor and private sector support (including the Chinese investment: see Box 4) are helping to improve the situation.

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[13] *Growth with Governance in the Mining Sector,2008, Report 43402-ZR*.
[14] See also Annexes 1, Appendix 1 and Annex 9, paragraph 14.
[15] See, for example, *Decentralization in the Democratic Republic of Congo: Opportunities and Risks,* Joint Note by the World Bank and the Delegation of the European Commission in the DRC, Report No 41776-ZR, January 2008.
[16] See for example the recent WB infrastructure study (2009) “Prioritizing Infrastructure Investments: A Spatial Approach”, by Cecilia Briceño-Garmendia and Vivien Foster.

However, developing the capacity to design and implement regional planning more systematically—integrating large and small/micro business development, infrastructure, land use, and so on—would represent a key contribution to optimize the potentially positive impacts from large-scale mining operations, use of revenues at local and regional levels, and coordination among investor projects and donor support.

Box 4. The Sino-Congolese Cooperation Agreement (SCCA)

In January 2008, the Government signed a multibillion dollar agreement with a consortium of Chinese companies for the development of mining and infrastructure projects in the DRC. The agreement with China envisaged the creation of a mining joint-venture company, SICOMINES, between GECAMINES, the DRC's state owned mining entity, and a Chinese consortium in the form of a company in which the Chinese hold 68 per cent of the shares and GECAMINES holds 32 per cent.

The agreement initially provided for the Chinese consortium to invest US$6 billion for general infrastructure development and US$3 billion in mining projects in return for around 10 million tons of copper and 600,000 tons of cobalt. In 2009, the agreement was amended to (a) remove the state guarantee on the Sino-Congolese mining joint venture and (b) limit the loans for infrastructure development to US$3 billion, half the originally envisaged amount. These changes will help to ensure that DRC's external debt remains sustainable after it has obtained HIPC debt relief.

The Chinese consortium confirmed in September 2009 the initial identification of an estimated 10 million tons of copper within the allocated concessions, while also indicating that SICOMINES could start producing in 2014. However, progress regarding mining development seems slow and the feasibility stage has not yet been completed.

More generally, this type of new business model (India and Korea are also proposing similar arrangements) is spreading in Africa and, when adequately implemented, is expected to facilitate infrastructure development and contribute to economic growth.

7. **In addition to these distinct links in the value chain, the EITI++ framework also involves some cross-cutting issues:**

- *The need to address environmental and social issues.* Negative environmental impacts of mining operations in DRC are substantial and worsening. General impacts of mining activities on the environment (water, soil, air pollution) are well-documented internationally. However, the Government has yet to conduct an overall environmental impact study of the mining sector. The study would help to identify the salient issues and problems and recommend appropriate measures to rectify them. Environmental impact assessments and management plans by private operators are sometimes discussed with local government authorities, but these are rarely more than cursory discussions and do not appear to involve meaningful dialogue with the local communities. In addition, the decline of state-owned mining enterprises has had a profound impact in terms of provision of social and infrastructure services in the communities where the companies have operations. And very little meaningful consultation with and involvement of communities by private operators in the sector appears to take place in DRC.

- *The need to improve conditions for artisanal and small-scale miners.* ASM is presently the most important segment of the mining sector, not only because it produces the highest volume of mineral commodities, but also because of the number of people dependent on it. There are an estimated 10 million people, or 16 percent of DRC's population, who depend directly or indirectly on artisanal mining for their livelihoods. Artisans are present in the production of virtually all mineral commodities: gold in the Orientale Province and Kivus, 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 in the sense that ASM is a low investment/low productivity activity, but still represents a very significant income alternative. However, most artisanal miners in DRC are illegal or informal, are active in remote areas with no or very poor infrastructure, have poor and/or unfair access to markets, are located in conflict areas (Kivus and Orientale), and have low capacity to save money and contribute efficiently to development in their communities. Competition for the exploitation of mineral resources also arises quite often between artisanal miners and large-scale/industrial companies[17].

- *The need to improve accountability.* Mining revenue flows are likely to result in a further deterioration of governance outcomes unless they are accompanied by a strengthening of transparency and accountability in public financial management. There is need for greater accountability and transparency in the management of all public sector agencies, including those concerned with the mining sector. Internal and external oversight bodies are weak, fragmented and do not adequately cover mining sector institutions and local authorities that should be benefitting from mineral resources. Effective checks and balances are needed to provide for a sound accountability framework for the management of extractive industry resources. Access to relevant information is a prerequisite for effective monitoring. Government structures should include appropriate internal monitoring mechanisms. Parliament should play an important role in the accountability system, and civil society should play an important role in monitoring. In all cases, roles need to be clearly defined, and an enabling environment and capacity need to be developed for monitoring agencies to carry out their functions.

8. **Based on the results of the value chain analysis, the Government has developed a program that aims to optimize the contribution of the mining sector to socio-economic development.** The main components of the program are shown in Table 2.

Table 2. Main Components of the EITI++ Program

Access to Resources	• Modernize/update the policy, legal, and regulatory frameworks to improve their applicability and contribute to a fair and unambiguous investment and operating environment. • Adjust the fiscal regime to establish a fair risk sharing with regard to operations between the State and operators/investors; and develop a standard contract model for improved transparency of negotiations and conditions. • Set up a long-term program to develop a proper knowledge and geo-data infrastructure of the country's mineral resources and their potential value.
Monitoring of Operations	• Strengthen public mining institutions in charge of monitoring sector performance and regulate operations at both the national and provincial levels. • Improve negotiation skills and portfolio management capacity.

[17] See *Working Together – How Large-scale Mining Can Engage with ASM*, CASM, ICMM, CommDev, 2009.

	• Restructure the mining SOEs, including financial, assets and social aspects. • Develop human capital.
Collection of Taxes and Royalties	• Increase fiscal receipts and improving the management of revenues. • Improve the business climate. • Set up of fair trade, certification, and transparency mechanisms. • Development of accountability mechanisms.
Revenues Allocation	• Ensure sustainable allocation of revenues at the central and decentralized (provinces, municipalities) levels. • Ensure adequate allocation to public mining institutions to fulfill adequately their functions. • Strengthen revenue management capacity at central and decentralized levels.
Use of Revenues for Sustainable Development	• Improve social and environmental management and reduce impacts on potentially affected populations. • Mitigate historical mining environmental liabilities. • Formalize ASM, improve their conditions of work, and integrate ASM activities into local economic development. • Integrate mining activities into community and regional development. • Develop infrastructure needed for mining and regional development.

9. **The implementation of such a program requires a holistic approach, building synergies and promoting coordination among different partners—Government, civil society, private sector, and donors.** Current Government reforms and donor-supported projects are partly addressing the identified challenges. Some of the most prominent reforms will directly or indirectly improve mining sector management, including (a) reaching the HPIC completion point (expected in mid-2010), which will reduce the debt burden and enhance macroeconomic stability; (b) the participation in the Organization for the Harmonization of Business Law in Africa (OHADA), which will improve business climate; and (c) public financial management efforts to strengthen revenue collection and management, including at the provincial level. Similarly, the Bank is leveraging synergies from several of the projects it finances to achieve the overall EITI++ objective of turning non-renewable mineral resources into sustainable development. Figure 2 illustrates schematically the respective involvement of several World Bank-financed projects as part of the comprehensive approach (for more details, including involvement by other donors, see Annex 2).

10. **PROMINES has been designed to fill critical gaps in the EITI++ value chain framework.** The Government has been increasingly open to collaboration with the international community on a wide range of mining sector management and governance initiatives. Positive developments include EITI implementation, which is at an advanced stage of validation[18]. However, the Government also recognizes the need for additional support to face some critical gaps. An in-depth assessment of the mining sector was undertaken by the Bank in 2007-2008,

[18] In April 2010, on the basis of progress to date, the country was granted by the EITI Board a 6-months extension period to be able to reach full validation.

which helped identify issues and possible activities and costs to address them[19]. The assessment included dialogue among the Government, the Bank, other donors, civil society, and private sector stakeholders. This process led to the design of a long-term program of which the present Project is designed to be the first step. The Bank is in a strong position to support the Government as it can leverage the synergies of many projects in the portfolio (transport, energy, governance, etc.). In addition, the PROMINES Project is co-funded by the Bank and the United Kingdom's Department for International Development (DFID), the other key donor organization within the mining sector. As shown in Figure 2 and in the accompanying Table 3, PROMINES focuses on links one, two, and five of the EITI++ value chain, with other Bank projects supporting some of these links as well as links three and four (Annex 2 shows the other donor projects within the same framework). Each project contributes to various aspects of the agenda along the extractive industries value chain. While this allows for a holistic view of support, it should be noted that lack of progress in one area does not mean failure across the entire value chain.

Figure 2. World Bank Projects Along the EITI++ Value Chain (Acronyms defined in Table 3)

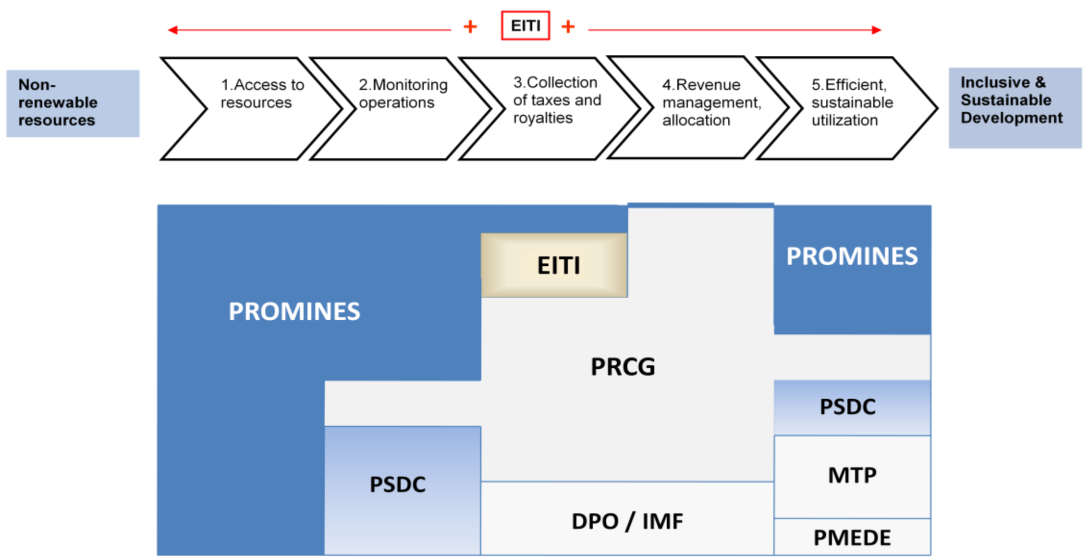

Table 3 – A Schematic Table of World Bank Projects in DRC Related to the EITI++ Value Chain

Project/Activity	Description	Relevance to EITI++ Value Chain
PROMINES Growth with Governance in the Mineral Sector.	Strengthen institutional capacity to manage the sector in an efficient, accountable and transparent manner; improve conditions for increasing invest-ments in and revenues generated by the mining sector; and improve socio-economic benefits from artisanal and industrial mining for communities in Project areas.	Link 1: Improvement of access to resources through modernization of the legal/regulatory framework; knowledge of mineral resources. Link 2: Development of governance supply capacity and of human resources Link 3: Development of demand side of governance

[19] *Democratic Republic of Congo: Growth with Governance in the Mining Sector*, Report nr. 43402-ZR, World Bank, 2008.

		Link 5: Mining related sustainable development
PSDC: Private Sector Development Competitiveness Project	Support SOEs in debt management; revise collective bargaining agreements; trans-form SOEs to limited liability corpora-tions; put in place new management team (GECAMINES).	Link 2: Management of mineral assets; limited non-economic intervention of mining SOEs; legal and partly financial aspects.
EITI: Extractive Industries Transparency Initiative	Regular publication of mining sector government receipts and company payments, and reconciliation of the two.	Link 3: Promotion of transparency in mining sector revenues, highlights strengths and weaknesses in revenue collection and reporting systems
PRCG: Enhancing Governance Capacity DPO: Development Policy Operation	For Katanga and S-Kivu provincial level establish a sustainable and transparent system of central and sub-national public finance and human resource management; and an equitable resource-sharing mechanism to achieve financial viability of targeted provinces. Various activities by WB, IMF (and other donors, see Annex 2) related to the improvement of public finances management, including WB coordination of donors support to PFM Reform and lead dialogue with DRC Government to agree on a single PFM reform program then provide direct technical assistance to government officials in its implementation.	Link 3: Improvement of tax collection in the mining sector Link 4: Allocation of resources, decentralization and capacity strengthening for revenue management
PMEDE: Regional and Domestic Power Markets Development Project (incl additional financing)	Improve operational efficiency and expand generation, transmission and distribution capacity, in order to support regional power market integration, to better serve domestic power demand and to increase revenues from electricity exports, and (b) to improve management standards and effectiveness in the power sector,	Link 5: Development of regional energy infrastructure for mining-related development
MTP: Multi-modal Transport Project; PRO-ROUTES	Improve transport connectivity and management for private sector development, including rehabilitation (MTP) of railways (SNCC) for the Katanga mining region	Link 5: Regional development

B. Rationale for Bank Involvement

11. **The Bank plays a leading role in the mining sector in DRC.** With its past engagement (see Box 5), its recent dialogue through the Mining Sector Review, and its current support to EITI, including its chairing of the Mining Thematic Group for donor coordination, the Bank is clearly expected by the various stakeholders—the Government, civil society, the private sector, other donors—to exercise a strong leadership role in the sector. The Bank has extensive conceptual and technical experience in the sector and can draw on lessons learned through the implementation of similar operations in the region, such as Ghana, Liberia, Madagascar, Mauritania, Mozambique, Nigeria, Tanzania, Uganda, and Zambia. The Bank is also uniquely positioned to offer assistance covering the full spectrum of the extractive industries value chain (EITI++ approach) through the proposed program and in coordination with other World Bank and donor activities (see Annex 2).

12. **Continued engagement by the Bank is necessary to sustain sector reform.** Pulling out of the mining sector at this time does not seem to be a productive option for the Bank. Even if the mining sector as a whole involves controversial issues and potential reputational risks, there are good reasons why the Bank should not stop its engagement in the sector at this time:

- The only way the Bank can help DRC avoid further business climate deterioration (e.g., contract renegotiation, cancellation, or other governance challenges) is by engaging in capacity building to negotiate contracts; by portfolio management; and, more generally, by strengthening mining institutions.

- Withdrawing from the sector at this time could impact other World Bank portfolio operations. A lack of support to the most important economic sector of DRC could lead to more generalized poor economic and governance performance.

13. **The mining sector features prominently in the most recent DRC Country Assistance Strategy (CAS), especially under the governance and growth pillars.** The thrust of the proposed Project is to improve governance of the sector by establishing good management practices, enhancing transparency, and strengthening government institutions to effectively and impartially enforce the legislation and regulations. By addressing these issues at both the central and provincial levels, the project will assist in establishing government authority over mineral exploitation operations and thereby contribute to the process of consolidating the peace. The project will also contribute to growth through the promotion of private sector investment in new industrial and ASM operations.

Box 5. World Bank Engagement in DRC's Mining Sector: A Long-term Development Commitment

Mining represents the backbone of the economy of DRC. Even after the production collapse of GECAMINES—once the flagship Congolese mining SOE—and during times of war and conflict, mining provided a livelihood for hundreds of thousands of artisanal miners. However, the population has yet to receive full benefits from large and small-scale mining revenues.

In recognition of this, since 2000 the World Bank has provided support to the mining sector—and with positive results. The cornerstone of the present sector rebirth is the 2002 Mining Law and the establishment of a modern mining cadastre (licensing system), both of which were adopted with World Bank assistance.

The World Bank has also supported the Government's effort to reform GECAMINES after its collapse, notably through the retrenchment program of 2003-2004*, the funding of a management team in 2006-2007, and through several studies and due diligence reports up to 2009, aimed at devising a restructuring strategy.

That said, reform of DRC's mining sector is a long-term process. DRC still has a long way to go to adjust the management of its mineral resources to modern times, as shown in the World Bank *Mining Sector Review* (2008). To this end, the World Bank is committed to supporting the Government over the long term in its efforts to reform the sector. PROMINES is the proposed new program to deliver, in the first instance, on this long-term commitment, which is likely to entail a series of technical assistance projects over the coming years as long as the Government remains committed to mining sector reform. Both the Government and the World Bank recognize that this will not be easy and there are likely to be plenty of hurdles along the way. However, the hope is that having a long-term partnership in mining sector reform will transform DRC's mineral resources into a key engine for growth, development, and poverty reduction.

* Part of the PSDC, this program is presently the focus of an Inspection Panel procedure; an Action Plan is under implementation..

C. Higher Level Objectives to which the Project Contributes

14. **The overarching goal of Bank support in the mining sector is to improve governance and increase its contribution to growth and sustainable development at the national, provincial, and local levels (see Annex 3).** The Project is aligned with the 2006 Poverty Reduction Strategy Paper (PRSP), which has been extended until 2010[20]. The PRSP notes the mining sector's significant potential to contribute to economic growth—and to kick-start private sector-led growth, by attracting private capital. The role of government would be to provide an environment conducive to private investment, as well as macroeconomic and political stability and improved governance of the sector.

15. **The Project is contributing to other sector reform objectives:**

- It seeks to enhance principles of good governance and transparency in the sector. To that end, it will promote transparency of the sector's legal and regulatory framework, to support the Government's objective of ensuring that mining sector development and investment conforms to international good practice, adjusted to the particular conditions of DRC. The program focuses on reducing conflict, improving management of environmental and social issues related to sector development, increasing growth and enhancing competitiveness in the sector, and spurring regional and local economic development through mineral sector development.

- The program is contributing to the objectives of public finance reform triggered by the proposed Organic Law on Finance through technical assistance provided to Ministry of Finance and other government entities in charge of mining taxation.

- Likewise, the program will contribute to the success of the new Framework Law on Environment that is currently under consideration in the Parliament.

II. PROJECT DESCRIPTION

A. Lending Instrument

16. **The proposed Project is a Technical Assistance Grant to be co-financed by DFID[21] (approximately US$40 million equivalent) and IDA (US$50 million equivalent), and implemented by DRC's Ministry of Mines.** It would constitute the first operation in an envisaged series of technical assistance operations signaling the Bank's commitment to long-term engagement in this most challenging sector. As part of the EITI++ approach under which multiple, complex issues are being addressed, implementation would be sequenced to allow for more difficult issues, such as SOE reform, or the extension of the geographical scope of pilot activities (e.g. support to provincial public mining institutions; ASM formalization) to be addressed over time.

[20] The Government has initiated the preparation of a second PRSP expected to be ready by the end of 2010 and covering the period 2011 to 2015.
[21] DFID approved its contribution to PROMINES on April 6, 2010 (subject to the successful conclusion of project negotiations and World Bank Board approval).

17. **The specific development objectives and activities of a possible second project would be defined on the basis of the experiences and lessons learned from the implementation of this Project.** However, in general terms, emphasis would be put on issues not dealt with under this Project, such as the reform of mining SOEs, spreading institutional reform to additional provinces, remediation of critical historical environmental mining liabilities, and also continuation of some of the activities implemented under this proposed Project.

18. **The proposed Project will not include reforms of the mining SOEs.** The World Bank is presently engaged in the reform of GECAMINES through the PSDC Project, which supports state-owned enterprises reform. This process builds on the initial reforms undertaken since 2001 to transform GECAMINES into a viable entity. While some preliminary results have been achieved, some setbacks have occurred, particularly after the global financial crisis. Full transformation of GECAMINES will require broad consensus building, which will take time. Under the present conditions, it seems unrealistic to include a contribution to full-scale reform under the proposed Project[22]. Instead, a step approach is proposed, as illustrated in Figure 3. Therefore, the proposed Project, in coordination with the PSDC, will only contribute to (a) the assessment of mineral assets (an important pre-requisite); and (b) capacity building regarding portfolio management and negotiations. In addition to GECAMINES, the presently closed state-owned diamond producer, MIBA, might be included.

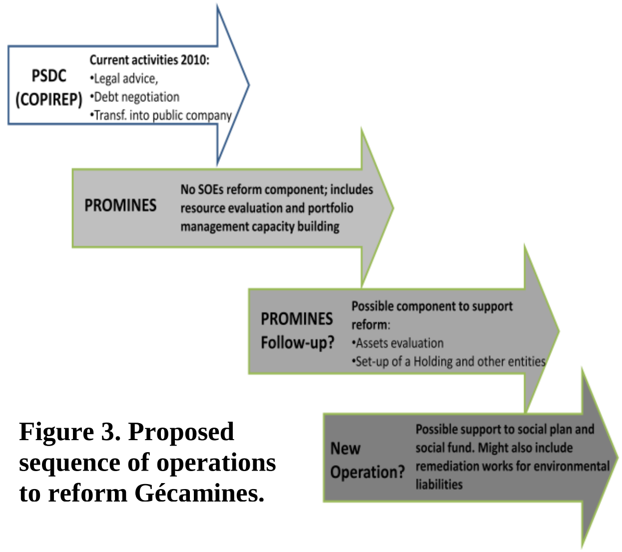

Figure 3. Proposed sequence of operations to reform Gécamines.

B. Project Development Objective and Key Indicators

19. **In line with the Government's vision, the Project Development Objective (PDO) is:**

To strengthen the capacity of key institutions to manage the minerals sector, improve the conditions for increased investments in and revenues from mining, and help increase the socio-economic benefits from industrial and artisanal mining in Project areas.

20. The Project has three specific objectives:

- To strengthen institutional capacity to manage the sector in an efficient, accountable and transparent manner.
- To improve conditions for increasing investments in and revenues generated by the mining sector.

[22] An additional constraint which might influence the decision making process is the Presidential and legislative elections scheduled in 2011.

- To improve the socio-economic benefits from artisanal and industrial mining for communities in Project areas.

21. **The indicators summarized below will be used to measure progress on each of these objectives over the life of the Project.** However, it should be noted that the major benefits of mining investments are best measured over a longer time horizon—many of the major benefits are likely to occur after the Project has ended.

(a) Mining sector management:

- Performance of key institutions in the minerals sector to enforce the legal and regulatory framework
- Status of transparency and accountability mechanisms

(b) Investments and revenues:

- Increased private investment in the mining sector
- Increased fiscal revenues from the sector

(c) Socio-economic impacts:

- Improved working and living conditions in artisanal and industrial mining communities in Project areas.

C. Project Components

22. **The proposed Project includes the following four components, which correspond to the EITI++ value chain framework:** (Component A) Ensuring Access to Resources; (Component B) Surveillance and Monitoring of Operations; (Component C) Enhanced Collection of Taxes and Revenues from the Sector; and (Component D) Sustainable Development through Mining Growth. A fifth component, (Component E), addresses Project Coordination, Management, and Monitoring and Evaluation.

23. The project will not fund any activities to directly address the fourth link of the EITI++ value chain, i.e., allocation of mining revenues, because other projects, including the Bank-supported PRCG, are doing so (see Annex 2). However, this aspect could become important during a follow-on operation, depending on the Government's commitment to allocate revenues at decentralized levels.

Component A. Ensure Access to Resources (US$ 31.1 million of which IDA US$ 17.3 million)

24. The main objective of this component is to address fundamental impediments to accessing resources and to create an enabling environment for mining development operations in DRC. The Project will support activities designed to improve the policy, legal, and regulatory framework and develop the country's geo-data infrastructure (see Box 6).

25. *Policy, legal, and regulatory framework.* This sub-component will provide technical assistance to the Ministry of Mines to design a strategy for mining development that will guide Government actions and improve consensus with civil society and private stakeholders. In

parallel, the project will support the Ministry's effort to align the Mining Law (2002) and regulations (2003) with more recent legislation and the 2006 Constitution, as well as with the development of regional initiatives to harmonize regulations (e.g., within the Southern African Development Community, SADC). Other improvements of the legal framework will address institutional barriers, streamlining and decentralization aspects of the fiscal regime, the environment, and ASM. In addition, the Project will fund communication materials, education campaigns, and consultations regarding the legal and regulatory framework, including the fiscal regime. Extensive information and consultation campaigns will help the Ministry of Mines (and other institutions) to raise awareness, and will foster participation of and better communicate with institutions, companies and civil society organizations in discussing the implications of present and new regulatory provisions.

26. *Geo-data infrastructure.* The Project will fund the completion of the national geodetic coverage, which will solve a fundamental problem for mine title administration and proper management of the sector. In addition, to ensure that the Government has the capacity to properly manage its resources, the Project will fund regional geophysical and geological surveys over selected areas, as well as research and partnerships with relevant geo-science institutes. It will also assist the Ministry of Mines in establishing a national database (i.e., Geological Information System, GIS) that will allow for storage, management and assessment of the geological information as well as the production of thematic geologic and metallogenic maps of DRC. Some preliminary economic assessments of selected deposits in the public domain will be conducted; however, more detailed resource assessments in prospective and strategic mineral-bearing areas now owned by SOEs will be supported in future projects.

Box 6. Geo-information and Development

A country's development is linked to its knowledge of its natural resources. A striking illustration of this is the assessment of the value of potential mineral resources in the ground. The value of known sub-soil assets is estimated at US$125,000 per square kilometer in OECD countries, and US$25,000 on average in African countries (Collier and Venables: *Managing the Exploitation of Natural Assets – Lessons from Low-income Countries*, 2008). DRC's reputation of being a "geological scandal," based on a few districts such as the Copperbelt of Katanga, hides the fact that still very little is known about the actual geologic potential of the country due to a lack of regional assessments and exploration over the last 50 years. One of PROMINES objectives is to set up the conditions and work to improve knowledge about the mineral potential of DRC.

Component B. Build Sector Management Capacity (US$ 24.6 million, of which IDA US$ 13.4 million)

27. This link of the EITI++ value chain is one of the most essential, and encompasses several issues of particular relevance in the DRC context. Prior to the political difficulties of the 1990s, SOEs were the State's surrogates in monitoring operations. As documented in many studies, these enterprises require significant restructuring and reform, but strong political commitment will be needed before the complex financial situation and related high social risks can be addressed. For that reason, support for SOE reform will be one of the main activities in a future project, if there is evidence of sufficient Government commitment over the course of this Project. In the meantime, the most central challenge in terms of monitoring and surveillance of mining

operations is to strengthen the public mining institutions and build capacity at the central and provincial levels. The proposed Project will build capacities in key oversight institutions of the sector; as well as strengthen negotiation capacities and portfolio management

28. *Capacities in public mining institutions (PMIs).* Under this sub-component, capacity building and technical assistance to key oversight public institutions will be based on a thorough organizational audit financed under the Project Preparation Facility (PPF). Follow-up support will comprise restructuring, revision of administration and communication procedures; and staffing programs, works, equipments, and training. The program will mainly support the Ministry of Mines and key sectoral institutions (CAMI, SAESSCAM, CEEC, CRGM, etc. [23]) by providing them with organizational re-engineering (when needed), capacity building, and infrastructure. The Project will also assist the provincial ministries in charge of mines in the main mining regions, with support focused primarily on Katanga and both Kivus. (A future project could extend to other relevant provinces, such as Orientale, Maniema, and both Kasais.) Finally, the Project will support the institutions in charge of environmental protection for the mining sector, especially the Direction for Environmental Protection (DPE/MoM), the future Environmental Protection Agency (adoption of the draft law is pending in parliament), and, until its creation, a coordination committee between the Ministry of Mines and the Ministry of Environment.

29. *Capacity building for negotiation and portfolio management.* This sub-component will build capacity in contract negotiation and other mining business skills, by providing dedicated training (legal, financial, mining, processing, etc.) to government staff responsible for managing State participation in mining contracts. The Project will also provide technical assistance to carry out transparent auctions for selected public mineral deposits. Complementary assistance could be provided through the Bank's Extractive Industries Technical Advisory Facility (EI-TAF), recently created to provide rapid-response advisory services and capacity building for extractive industry resource policy frameworks and transactions in developing countries.

30. *Human resources development for the mining sector.* The Project will strengthen university courses in geology, mining engineering, environmental sciences, mineral economics, project finance, and other relevant disciplines. This activity could include a partnership with Lubumbashi University, the largest university in Katanga Province, to establish a technical institute for training mining inspectors in health and safety, social and environmental monitoring, and related competencies. This activity will also train contractors in the mining supply chain; and will fund specific training and professional skills necessary for the development of the sector. This activity will initially focus on Katanga, but might be extended to other mining areas (e.g. Kivus).

[23] CAMI = Mining Cadastre; SAESSCAM = Service for Assistance and Support to Small-Scale Mining; CEEC = Evaluation, Expertise and Certification Center; CRGM = Geological and Mining Research Center.

Component C. Enhance Transparency and Accountability (US$ 5.4 million, of which IDA US$ 3.1 million)

31. To assist the Government in capturing taxes from the mining sector, the Project will help to streamline and reinforce government tax administration departments and strengthen tax collection and revenues. The Project will complement the efforts under other World Bank and donor projects to strengthen capacities; and will promote the development of mechanisms for civil society to monitor transparency and accountability in the sector.

32. *Transparency and certification mechanisms for mining.* The Government has reaffirmed its commitment to implement EITI and, following the production of a first EITI report on payments and receipts in February 2010, the country should reach validation by the end of 2010. The Project will provide support as needed (in addition to that of the EITI multi-donor trust fund) for the implementation of the EITI work plan, including financing for the EITI reports going forward and capacity building and workshops related to EITI. In parallel, the Project will provide support as well to the implementation of the Kimberley Process (KP) and facilitate the set up and implementation of different mechanisms on the ground to promote and monitor transparency in the sector. In particular, in coordination with DFID, EU, GTZ/BGR (German Geological Survey), and MONUC, the Project will support the creation and upgrading of traceability systems, mainly for staniferous minerals (cassiterite and coltan) and possibly gold, in an attempt to break the link between artisanal mining, mineral trade, and armed conflict in Eastern Congo, Finally, the Project will support the design of a harmonized system for statistics collection and information management, in coordination with the European Union.

33. *Framework for tax and revenues collection from mining.* Much remains to be done to reinforce government tax administration departments and strengthen tax collection and revenues. As other projects supported by the Bank (e.g., PRCG) and other donors are already supporting this link of the EITI++ value chain, the proposed Project will complement them where needed and fill the gaps. Initial activities include undertaking an inventory of mining sector related taxes and procedures and completing a modeling of fiscal projections for specific mining sites. A future project could provide additional support to tax collection agencies, both at the central and provincial levels, to address identified main capacity building and resource needs. In addition, it could support the deployment of one-stop shops (*guichets uniques*), which can significantly be improved with great return for all parties.

34. *Accountability platform*. To improve governance and minimize the potential effects of the resource curse, in addition to strengthening public institutions and developing transparency processes, it is critical to set up stronger accountability mechanisms. Accountability includes the relationships between the mines (private and public, formal and informal) and Government (provincial and central); among Government and parliament and civil society more broadly; and between the mines and the local communities in which they are located. To increase demand for accountability and transparency across key segments of the value chain, and ensure the participation and empowerment of all stakeholders, including civil society, media, think tanks, unions, professional associations, faith-based organizations, and members of Parliament, the Project will develop and implement a platform for continued dialogue around mining issues. This platform should also enhance the participation of indigenous people and a better inclusion of the gender dimension in mining benefit sharing. The structure of this platform will be defined in the

first months of the project, in close coordination with EITI and other existing entities and forums. The development and implementation of an information and communication strategy (see paragraph 25 above) would facilitate the sharing of sector knowledge and help to create the conditions for a meaningful dialogue among stakeholders.

Component D. Build Up Sustainable Development Settings (US$ 17.7 million of which IDA US$ 9.9 million)

35. The last link in the EITI++ value chain approach is to ensure that mining development takes place in a sustainable fashion, specifically with regard to environmental and social protection; and that revenues from industrial and artisanal and small-scale mining are integrated into the local economy. There are about 1.5 million artisanal miners across the country, and 8 to 10 million people (14 to 16 percent of the population) whose livelihood depends on artisanal mining, and most live under deplorable social, environmental, security, and working conditions. The ASM issue needs to be seriously addressed in the context of the overall development of DRC, and especially in reference to districts where the central and provincial governments may not be fully in control of the administration or security. The Project will support activities to improve the management of social and environmental aspects of mining; the integration of mining into local and regional development; and the management of ASM.

36. *Environmental and social management of mining.* Historically, mining operators and public monitoring entities have not properly managed the environmental dimension of mining. The proposed Project will, immediately upon inception, undertake a Strategic Environmental and Social Assessment (SESA) to identify possible environmental and social impacts related to mining growth, as well as possible policy, legal, regulatory, and institutional reforms that would help to mitigate its negative environmental and social aspects. The Project would also assess existing environmental liabilities resulting from past mining activities in Katanga, identify the sites most hazardous to human health and safety, and propose monitoring actions as well as possible remediation measures that might be implemented with the support of future projects. This sub-component will also enhance coordination between CSOs/NGOs and the private sector through the implementation of innovative community engagement and social accountability mechanisms.

37. *Integration of industrial mining into local and regional development.* The Project would fund technical assistance for provincial development plans in three pilot provinces (Katanga and both Kivus). The related planning exercise will comprise the set-up of provincial coordination committees, and support for the creation of local mining community development funds or similar mechanisms. In Katanga, synergies will be sought with the Katanga Extractive Industry Development Initiative (KEIDI, supported by DFID and USAID). In parallel, the Project will support initiatives to improve local content and stimulate linkages between mining operations and local economic development. It will also include a pilot to assist two pilot local authorities in preparing to absorb budget increases resulting from mining activities, and manage them to the benefit of the population in a transparent and sustainable manner. This activity would entail

support for the production of local development plans[24], capacity building in participatory budgeting, and specific training on procurement and financial management.

38. *Management of ASM.* ASM has become paramount in and represents for the time being one of the few possible revenue generating activity for millions of Congolese. The proposed program for ASM is based on an in-depth study funded by DFID, as well as experiences from World Bank projects elsewhere in Africa[25]. The Project would be active at two levels: (a) institutional, essentially through SAESSCAM, the public entity in charge of ASM outreach (covered under the second component); and (b) on the ground at selected pilot sites in Katanga, the two Kivus, and/or Orientale Province (covered under this sub-component). The pilot activities will include integrated technical assistance to address formalization processes (access to titles, set-up of cooperatives, improved business management); technological good practices; environmental management; health and safety; diversification of economic activities; and community relationships. The Project will also pilot innovative approaches to i) financing and trading practices (e.g., microfinance, fair trade), ii) gender and child labor issues (in coordination with the International Labor Organization (ILO), iii) relationship between SOEs and ASM communities, and iv) infrastructure planning to open export and import routes for ASM communities. One objective of the Project is to induce a replication effect to other sites (with little or no PROMINES support if possible). In addition to the capacity building effort, the project will provide technical assistance for added value activities in the ASM sector in cooperation with other donors (see also Annex 1, Appendix 1).

Component E. Project Coordination and Management (US$ 11.2 million, of which IDA US$ 6.3 million)

39. This component will support (a) Project coordination and management of procurement, financial management, and disbursement; and (b) monitoring and evaluation of project implementation, including reporting, audits and assessment of safeguards policies. A Project Implementation Unit (PIU) has already been established under the PPF, and is managed by staff contracted by the Ministry of Mines. In addition to the financial management and procurement units, the PIU will include a technical group with staff from the Ministry and consultants. The PIU is under the authority of the Minister of Mines but is supervised by (a) multi-stakeholders Technical Monitoring Committee (TMC) on implementation aspects of the Project; and (b) a high level Strategic Coordination Committee (SCC) (see Section III. B) on policy aspects. In addition, regional multi-stakeholder advisory committees will gradually be established in the provinces where PROMINES will be active.

D. Lessons Learned and Reflected in the Project Design

40. The Project design is based on experiences from national and international initiatives related to extractive industries, including World Bank Group projects. In addition to sustained

[24] No land acquisition or resettlement is envisaged from local economic development activities, which aim at ensuring communities/local authorities' capacity to benefit from mining operations, either through local employment in industries servicing the mines or through use of revenues and/or in-kind contributions from mining operators for local development projects, In any case, such activities will not be initiated until the completion of the SESA (see paragraph 36 and Annex 10).

[25] See the Community and Artisanal & Small-scale Mining Initiative (CASM) website: www.artisanalmining.org.

dialogue with a wide range of government officials, extensive stakeholder consultations in country, and strong donor coordination, the preparation of the PROMINES Project has been informed by a strong political economy analysis (see Box 1 and Annex 16).

41. The main lessons learned from mining sector operations in various regions include the need for (a) a sector-specific focus, while remaining open to cross-sectoral issues arising from the EITI++ value chain; (b) clear delineation of authority and responsibility across the various sector ministries and agencies; (c) beneficiary participation in project preparation, organization, implementation, and coordination at the field level; (d) institutional champions to ensure the sustainability of different project components; and (e) strong ownership and political commitment to project objectives.

42. On the policy level, project implementation experience has demonstrated that Government ownership is crucial for successful outcomes of Bank-financed projects. The Bank has maintained an active dialogue with Government authorities over the past decade on preparation of the Mining Law and regulations (2002), preparation of the Mining Sector Review (2008), and the ongoing EITI process. For this Project, the Government's strong ownership and commitment has been evident in consultations with all involved ministries (Environment, Decentralization, Finance, Budget, Planning, Portfolio, and Transport), sector institutions, and revenue authorities; as well as with provincial and local authorities, the private sector, and civil society. These consultations were designed to ensure that the project is fully in line with the Government's development goals and vision, and responds to expectations from civil society and investors[26].

43. The Project is built on a foundation laid by previous projects, and the lessons from those projects have been reflected in the Project design, which includes (a) Government ownership and commitment to mineral sector reform; (b) an integrated approach to sector development; (c) enhanced multi-stakeholder consensus on project objectives, participation in monitoring, and sharing in benefits; (d) regional development initiatives and measures to take stock of the economic activity being generated by the mining of non-renewable resources; (e) improvement and management of sector information systems and databases; (f) close correlation of institutional capacity building initiatives with the specific project activities to be executed by those institutions; (g) a cost-effective and pragmatic approach to project supervision in a spirit of cooperative partnership among the Government, the World Bank, and DFID.

44. While these lessons have been taken into account, the project design also recognizes that the mining sector in DRC is highly political and risky. Taking an integrated approach to sector reform, supporting the Government's reform priorities, and involving multiple stakeholders will improve the project's chances of success.

45. Institutional reform and modernization—one of the key issues addressed under the proposed Project—has traditionally been a challenge in DRC because of existing vested

[26] The project has been designed by a multi-disciplinary core group from the MoM CTCPM, Bank's and DFID's staff. Progress has been discussed with the Project's Technical Monitoring Committee on a regular basis. Consultations have been held in Bounia (Orientale/Ituri), Bukavu (South Kivu), Goma (North Kivu), Kolwezi and Lubumbashi (Katanga), Kananga (Kasai Occidental), Mbuji Mayi (Kasai Oriental), Kisangani (Orientale) as well as in Kinshasa.

interests, rent seeking, fear of change, poor consultation and communication with staff regarding reform objectives, resistance to new approaches to mineral development, and so on. Based on the institutional audit carried out during project preparation, and in order to promote ownership, each agency will be directly responsible for implementation of its own reform process. Each agency will also be directly involved, to the extent possible, in implementing project activities within its mandate, thereby maximizing opportunities for on-the-job training.

46. The project includes extensive measures to support responsible ASM, reflecting international good practice and lessons learned through the Bank's role as host to the Communities and Artisanal and Small-scale Mining Secretariat. CASM experience has shown that small-scale mining issues need to be addressed in a holistic manner, wherein trust is built with artisanal and small-scale miners, and environmental and social improvements are coupled with formalization and improved incomes.

47. The lesson of involving communities and civil society has also been incorporated into the design of the project on several levels. PROMINES involves communities and civil society in the local economic development component. The environmental and social component involves civil society in the SESA and Indigenous Peoples Planning Framework (IPPF), as well as in consultations on procedures, guidelines, and environmental and social awareness programs. The communication strategy and actions component involves civil society in communication campaigns. In addition, self-selected representation from civil society is included in the EITI multi-stakeholder working group. Civil society is also represented in the project's oversight structure. In addition to these measures which improve transparency, the Project will also develop multi-stakeholder public accountability mechanisms that involve civil society, legislative institutions, academia, and media.

48. The Project also takes account of stakeholder expectations regarding the scope or pace of the planned interventions towards reform and improvement of sector management, as well as—particularly in the case of ASM—amelioration of conditions regarding formalization. A comprehensive communication scheme will be set up to keep project implementation partners informed of Project status and plans on a regular basis and to engage partners effectively in the program

49. An additional lesson learned in recent years led to adopt the EITI++ approach, which provides an efficient practical analytical tool for multi-sector analysis: critical inter-linkages within the sector, and with the broader growth and development agendas, can be properly understood and integrated.

E. Alternatives Considered and Reasons for Rejections

50. Several alternatives to the Project were considered and rejected, including addressing issues under other existing Bank investment projects, deemed too piecemeal for a sector that requires a more holistic, integrated, and sustained approach.

51. The option not to intervene was also considered because some conditions in the sector might not allow the implementation of a meaningful reform process, particularly in view of the deteriorated investment climate and weak commitment to a more in-depth restructuring of

mining SOEs. This alternative was rejected because failure to support the Government's program or the involvement of other stakeholders would do nothing to improve the investment environment, and would likely postpone the necessary reforms for many years. On the other hand, continuing the dialogue with the Government and providing the proposed technical assistance would help to create the conditions for rationalizing sector management and structure, by strengthening the capacity for contract negotiations and portfolio management, setting up accountability mechanisms, strengthening monitoring institutions, and facilitating knowledge sharing on mineral resources.

52. The use of an Adaptable Program Loan (APL), which implies a long-term Bank commitment, was considered because the mining sector in DRC will require assistance over an extended period of time. However, an APL presumes a program with identifiable triggers for moving between phases. Given the variety of challenges in the mining sector, this approached seemed too complex. Instead, a more flexible approach, which allows for identification of priority interventions and achievable outcomes, was selected.

53. The project could have chosen not to intervene in the eastern provinces, where violence and instability can compromise success. However, given current international mobilization to support those provinces, where the insecurity is directly linked to the mineral trade, it would have been unrealistic not to provide support, particularly since the region has enormous untapped reserves of gold, cassiterite, coltan, diamonds, and iron. The proposed project includes targeted activities in the Kivus and Orientale to support the development of traceability mechanisms (Component C) and artisanal mining formalization in pilot areas (Component D). While this adds another risk dimension to the project, it also directly responds to one of the Government's most important policy priorities, namely Peace stabilization in the East. The Project's engagement with the conflict dimension of the sector building will be guided by the recommendations of the Strategic Conflict Assessment for the DRC mining sector carried out by DFID and GTZ in 2007.

III. IMPLEMENTATION

A. Partnership Arrangements

54. At the early stage of PROMINES preparation, DFID and the World Bank agreed to cooperate closely, leading eventually to DFID's decision to co-finance the Project. This represents an opportunity to advance donor harmonization in this key sector, where DFID and the Bank are the two main donors. DFID's co-financing will be channeled through a Single Donor Trust Fund administered by the World Bank, and will finance a percentage of expenditures (including operating costs), in line with the Project Procurement Plan.

55. A joint implementation support team comprising World Bank and DFID representatives will review Project progress and work to advance the sector dialogue. Joint supervision missions will be undertaken at least twice a year. The Supervision Team will operate as a consultative body issuing collegial recommendations. However, the Bank, as administrator of the trust fund, will retain full authority/responsibility for fiduciary management of the Project, and the Bank's operational policies and procedures—including safeguard mechanisms, procurement guidelines, financial management requirements, and disbursement procedures—will apply. Supervision

missions will also assess progress on work plans and approve annual work plans of activities eligible for Project financing. The Supervision Team will liaise with government and donor representatives as necessary.

56. The EITI++ framework has also facilitated coordination of activities among other development partners active in DRC's mining sector, including GTZ, the European Union, Belgian Technical Cooperation, USAID, and others (Annex 2 provides an overview of wider donor activities in the sector). In addition, the existing Mining Thematic Group (see below, paragraph 59), chaired by the Ministry of Mines and with the Bank functioning as Secretariat, will continue to be a relevant mechanism for donor and the Government coordination in the sector as the project is implemented.

B. Institutional and Implementation Arrangements

57. Because of the importance of the mining sector and the fact that it affects constituencies at different levels, the project will use multi-tier institutional and implementation arrangements to ensure better coordination among all relevant government agencies—the lack of coordination is currently a severe weakness in the sector. The project is also designed to ensure that a wide range of stakeholders (government, industry, civil society) have a role to play in promoting transparency and accountability.

58. The formal oversight structure for the project will consist of:

- **An inter-ministerial Strategic Coordination Committee (SCC)**, including high-level representatives of the relevant ministries (including the Minister of Mines, the Ministers of Portfolio, Finance, Environment, Energy and Infrastructure), to provide overall strategic guidance for the Project as well as coordination between projects, initiatives and reforms linking with the extractive industry value chain. The possibility to use an existing high-level Committee, like the EcoRec (Inter-ministerial commission for economic questions), to serve the purposes of the SCC will be further explored before effectiveness.

- **A Technical Monitoring Committee (TMC)**, already established and active, which is responsible for providing overall monitoring of activities and the validation of Annual Work Plans and related budgets of the Project at the national level. The TMC includes representatives from the relevant agencies involved in the implementation of the Project[27], as well as from the private sector[28] and from civil society. It is chaired by the Head of CTCPM at the Ministry of Mines and will ensure coordination and linkages across relevant agencies and provides guidance regarding implementation on the ground.

59. In addition, other structures will also participate in the monitoring of PROMINES, including:

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[27] Presidency, Prime Minister's office, Ministries of Mines, Environment, Budget, Energy, Infrastructure, Finance (including DGI, DGRAD and OFIDA), Plan, Portfolio, Sciences (including the DRC Geological Survey, CRGM) and Transport.

[28] FEC, ANEP and ASSEMIPEC.

- **A Mining Thematic Group (MTG)**, already established, that will continue to coordinate donor support and related international initiatives (e.g., EITI, the Great Lakes Initiative, various international certification processes, etc.). Donors, government and private sector representatives, and civil society organizations are part of the MTG. It is chaired by the Minister of Mines; the World Bank and CTCPM jointly manage the Secretariat.

- **Regional Advisory Committees (RAC)** will, upon the start of activities in a Province, will be established by the Ministry and maintained throughout the implementation of the Project. They will be responsible for providing monitoring with regard to the implementation of the Annual Work Plan in its respective Province (or group of Provinces) and prepare recommendations to improve the implementation of the Project at the provincial level. RACs could be set-up as needed (Eastern and Western Kasais, Katanga, North and South Kivus, and Orientale Provinces) and should include representatives of Provincial authorities, private sector and civil society.

60. The activities of these structures will be coordinated by the **Ministry of Mines (MoM)**, with support from the PROMINES implementation team. The MoM will be responsible for the overall coordination and facilitation of the implementation of the Project; the approval of the draft annual work programs and budgets of the Project; the approval of the progress reports for the Project submitted by the PIU; the resolution of any conflicts that may arise between the different entities involved in the implementation of the Project; and the follow-up on the orientations and recommendations of the SCC.

61. A dedicated **Project Implementation Unit (PIU)** has been established within the Ministry of Mines and is responsible for day-to-day Project management activities, including procurement, disbursement, financial management, and monitoring and evaluation. The PIU reports to the Ministry of Mines through CTCPM. In addition to its fiduciary responsibilities, its main function are to ensure that the Project work plan are properly coordinated and implemented by the different agencies involved, and to coordinate the meetings of the different oversight committees. One critical responsibility of the PIU will be to ensure maximized ownership of the agencies involved in PROMINES, both regarding the institutional reform process and the implementation of program activities. The PIU will be strengthened by additional experts as necessary.

62. **A Project Implementation Manual (PIM)** has been developed by the Borrower, in parallel with the elaboration of this PAD. The process involved a CTCPM core team, as well as representatives from all the entities involved in implementation. The PIM includes (a) a detailed description of the planned Project activities; (b) the mechanism of operation and interaction among the involved entities; (c) the level of authority entrusted to the Ministry of Mines, the PIU, and the different committees, and the relationships among them; and (d) their organization, responsibilities and functions.

63. The PIU will prepare not later than May 15 each year throughout the implementation of the Project, an annual work plan for the period from July 1 of ongoing calendar year to June 30 of the next calendar year, together with a budget for such activities and a timetable for their implementation. These work plans will be reviewed and approved jointly by the Bank and DFID.

C. Monitoring and Evaluation of Outcomes/Results

64. The Project management team in the Ministry of Mines has overall responsibility for monitoring and evaluation in accordance with the indicators and milestones included in the results framework (Annex 3). However, given the complexity of the Project, it will be important to measure progress and impact at different geographical and institutional levels, involving stakeholders in government, civil society, and the private sector. This will require a sufficiently robust system for monitoring and evaluation. Therefore the Project will engage the services of a specialist prior to effectiveness to establish system requirements, and identify the training needs for different partners, including Ministry staff.

65. The Government, DFID, and the World Bank have agreed on the importance of developing adequate and reliable monitoring and evaluation tools, which would provide systematic data and reporting of sector performance beyond the scope of the project. Additional funds from DFID have been made available to help develop these tools.

66. The current baseline studies will be updated and refined to strengthen the monitoring and evaluation framework. For example, a household survey would be carried out in selected mining areas in collaboration with the comprehensive DRC "1-2-3 Survey."

67. ***Reporting***. Not later than 45 days after each quarter, the Ministry of Mines team will submit to the Bank unaudited financial reports covering all Project activities. Bi-annual progress reports should provide detailed analysis of implementation progress toward development objectives, as well as an evaluation of financial management and a post-review of procurement.

68. About 30 months after effectiveness, a **Mid-Term Review (MTR)** will be carried out by the Government jointly with the Bank and DFID, to measure progress toward achieving the project's objective. The MTR will assess overall project performance against indicators, as well as the level of political commitment during the first half of the Project.

D. Sustainability

69. Key parameters for sustainability include the Government's commitment to implementing the sector reform agenda. Mining is a priority sector to bring about development and improvement of socio-economic conditions in DRC. Improving sector management will make benefits at the local level more concrete, while also increasing DRC's attractiveness to investors. In the long run, investments in the sector are expected to provide sustained revenues that can be used to help maintain sector oversight and management systems set up during the project (e.g., mining cadastre, inspectorate functions), as well as for wider development purposes.

- At the national level, the project will help improve the Government's capacity to (a) manage the sector properly, (b) ensure that the revenues due to DRC from mining operations flow to the Treasury; and support local economic development and value addition for mining in DRC. The project is also expected to strengthen DRC's policy/regulatory framework, and enhance its institutional and human resource capacity to address the environmental and social impacts of mining.

- At the community level, sustainability will be supported by positive changes fostered by including mining communities in essential decision making processes. Specifically, they are expected to see increased influence over local economic development, use of money generated by mining activities to foster development at the local level, and improved socio-economic linkages to the mines. By supporting artisanal and small-scale miners' efforts to improve their formalization and integration into local economic development, as well as exploitation methods and techniques, the Project is expected to improve management of mineral resources toward sustainable livelihoods. It is important to note that, except in the case of the Copperbelt of Katanga, mining operations mostly take place in rural areas and in a country where poverty is widespread.

E. Critical Risks and Possible Controversial Aspects

70. The mining sector in DRC is risky and politically sensitive. With mitigation measures in place, both the Bank and DFID are willing to bear these risks in light of the project's potential benefits. Table 4 below summarizes the critical risks, mitigation measures, and the residual risk rating after taking into account mitigation measures. Additional details are provided in the Risks Identification Worksheet.

Table 4. Critical risks and Mitigation Measures

Risk factors	***Description of risk***	***Rating[a] of risk***	***Mitigation measures***	***Rating[a] of residual risk***
I. Country and/or Sub-National Level Risks				
Political instability and conflict resurgence	Although the country is largely at peace, the Eastern provinces are still affected by armed conflicts. With elections upcoming in 2011, a contested presidential election or popular discontent could spark a fresh round of civil conflict. As the Project covers the entire country, this might affect its operations on the ground.	H	The Bank will continue to work closely with the UN and the numerous other bilateral partners involved in the region to monitor the political situation and adjust its program accordingly. If required by too difficult field conditions, activities, particularly linked to artisanal mining, could be shifted to safer areas (e.g. the Kasais).	H

Risk factors	*Description of risk*	*Rating*[a] *of risk*	*Mitigation measures*	*Rating*[a] *of residual risk*
Macro-economic framework	The worldwide economic crisis has curtailed economic growth and reduced fiscal revenues. Periodic monetary financing of the budget has raised inflation and amplified exchange rate movements. However, expenditure cuts are politically difficult.	H	The authorities have negotiated a new IMF PRGF program that was approved by the IMF's Board in December 2009. The program aims to enhance macroeconomic stability and fiscal space for priority spending. In close coordination with the IMF, the Project will pursue its monitoring of the country's adherence to the PRGF, including macroeconomic stability and fulfillment of other HIPC Completion triggers. Adherence to this program is a key trigger to release of about US$10 billion HIPC debt relief and possible additional MDRI.	S
II. Sector Governance, Policies and Institutions				
Political commitment	There is a risk that the Government may not sustain the commitment/ political will to implement the reform program associated with PROMINES. Planned elections in 2011, as well as existing vested interests, could dampen the Government's commitment, or possibly spark civil unrest/renewed conflict.	H	The Bank and DFID will work in close partnership with other international actors, local and international civil society/NGOs, and the private sector, including mining companies, to influence the Government's continued commitment to reform. The project will include clear technical and policy benchmarks, and flexibility in project implementation will be maintained so that if the Government's commitment/political will is in question, the project can be adjusted to channel funds to activities less dependent on the Government (e.g., artisanal mining, mitigation of environmental impacts of mining investments), or away from conflict areas.	**S**
Governance risks	There are critical governance risks associated with DRC and the mining sector in DRC in particular. There are many aspects to this, but a key risk is that the sector may continue to operate outside of the (good practice) legal framework due to poor incentives for government officials/civil servants to operate within the law.	H	A detailed Governance and Anti-corruption (GAC) Action Plan has been elaborated (see Annex 15) to address key governance risks. The Project aims to strengthen institutional and human resource capacity to manage the sector soundly, and includes measures to strengthen sector transparency and accountability (e.g., through EITI and the Accountability Platform). Civil service reform is also a key issue and is being addressed through other donor projects and partly through the Bank's private sector project. On the particular risks related to contract awards, the set up of an independent technical panel to validate future mining contracts will be proposed as part of the Accountability Platform activities.	S
Reputational risk	While the mining sector fits strategically with what the Bank and DFID are trying to achieve in DRC, there is a reputational risk of (a) being associated with government agencies/officials and mining companies accused of corruption or inappropriate	H	Regular sectoral analysis will be carried out to assess reputational risk and understand the shifting balance of power (e.g. political economy studies). A proactive communication strategy will be developed at the Ministry and PIU levels to clarify what PROMINES intends to achieve and what is outside its control (e.g., conflicts in Eastern Congo). The risk will be spread by	S

Risk factors	*Description of risk*	*Rating[a] of risk*	*Mitigation measures*	*Rating[a] of residual risk*
	behavior; (b) raising excessive expectations regarding PROMINES' possible achievements.		involving as many partners as possible (donors, NGOs/civil society, private sector) in promoting good sector governance.	
Business climate	The operating environment for responsible mining companies could deteriorate, causing leading investors to scale back or discontinue their involvement in DRC.	H	The Bank and DFID will work in close partnership with key international development partners to push for positive reforms to the business environment. PROMINES components include capacity building in regulatory enforcement, and business skills (e.g., negotiation, State portfolio management) for public servants involved with the private sector. The Project should also stimulate the participation of private sector, communities and NGOs in policymaking. The SESA will recommend policy improvements to monitor social and environmental practices of all mining players.	**S**
Project coordination	Project coordination (a) across ministries and between central and provincial levels proves difficult; (b) with other Bank projects or donors active in the sector leads to confusion, gaps or duplication of efforts; and (c) under the EITI++ framework other initiatives do not deliver the expected results.	H	Strong leadership from the MoM and PIU will be necessary and ensured through strict hiring criteria and official recognition of the coordinator(s). The Project Strategic Coordination Committee (inter-ministerial guidance) will be established, and the "Groupe Thematique" (donor coordination) revitalized to facilitate coordination and ensure regular information sharing. Project provincial offices will maintain strong relationships with provincial authorities. Given that the comprehensive EITI++ approach relies on a number of projects to fully address the issues in the sector, the risk that the non-performance of some of the other projects will affect the success of this Project is real, but is mitigated by the fact that the key issues to be addressed under this Project will still yield substantial results if successful, even if the other initiatives underperform.	S
Project implement-ation (including fiduciary risks)	Poor or difficult Project implementation, including: (a) disagreement between Project team and Government regarding project objectives; (b) poor management of the financial and procurement functions; (c) misuse of Project funds (procurement and financial management risks).	H	Government has shown strong ownership of the Project and its objectives. The Bank and DFID are ensuring that strong financial management arrangements and systems are in place. A Project Implementation Manual acceptable to both donors (with comprehensive M&E arrangements) is being developed, as was a Governance and Anti-Corruption Action Plan addressing both sector and Project risks. Robust financial and procurement management arrangement systems are proposed in annexes 7 and 8. A minimum of two on-site fiduciary implementation support missions per year, in addition to desk reviews of Interim Financial Reports (IFRs), annual work	S

Risk factors	*Description of risk*	*Rating[a] of risk*	*Mitigation measures*	*Rating[a] of residual risk*
			program and budget, audit reports, and timely advice to the task team will ensure sound financial management. Given that the procurement risk is high, Bank staff will carry out both prior reviews and post reviews of procurement actions during quarterly supervision missions for the first 18 months of the project. These missions shall include a Bank or consultant procurement specialist.	
	Overall Risk	***H***	***Overall Risk with Mitigation***	***S***

H- High; S-Substantial; M-Moderate; L-Low

71. In Eastern DRC, where conflicts could reignite, the project will take a pragmatic and flexible approach (as have other Bank projects in the area, including projects on environmental management of national parks). If security deteriorates, the project will move those particular activities to other areas, such as Kasai. PROMINES' objective in Eastern DRC is essentially to coordinate and facilitate existing artisanal mining initiatives, especially regarding the traceability of mineral products. The project will not take the lead in those activities, but build on other donor-supported projects.

F. Grant Conditions and Covenants

72. Conditions for effectiveness include:

- Standard conditions (legal opinion).
- The Co-financing Agreement (DFID) has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- The Recipient has adopted a Project Implementation Manual (PIM), in a form and substance satisfactory to the Association[29] (including the Financial Management, Procurement and Administrative Procedures Manual).
- The Recipient has established a monitoring and evaluation system for the Project in a form and substance satisfactory to the Association.
- The Recipient has established the Project Implementation Unit (PIU) under terms of reference satisfactory to the Association, and has appointed the following staff of the PIU under terms of reference and with qualifications and experience satisfactory to the Association: a Project coordinator, a financial management manager, a procurement specialist, an internal auditor and a monitoring and evaluation specialist.

73. The remedies of the Association include:

[29] Association refers to the International Development Association (WBG).

- The Mining Code has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.
- At any time before the Closing Date, the Recipient has not applied standards and measures to industrial mining operations that are based on sound international good practice to ensure the environmentally and socially sustainable management of all industrial mining operations commenced or materially revised after the Agreement Date.

74. The main dated covenants include:

Environment safeguards

- The Recipient shall not later than 18 months after effectiveness undertake and adopt a Strategic Environmental and Social Assessment (SESA) under terms of reference satisfactory to the Association which, among other objectives, will identify in agreement with the Association such new legislation or regulatory instruments as may be necessary for the environmentally and socially sustainable management of industrial mining operations.
- Based on an agreement with the Association regarding legislation and regulatory instruments referred to in paragraph 1 above, the Recipient shall, not later than thirty six (36) months after the Effective Date prepare, consult upon and submit if necessary draft amendments to legislation and/or modifications to proposed legislation to the Recipient's Parliament and adopt regulatory instruments, in form and substance satisfactory to the Association, containing standards and measures for the environmentally and socially sustainable management of industrial mining operations taking into account, as appropriate, existing industrial mining operations.

Financial management

- The Recipient shall not later than three (3) months following the date of Effectiveness establish and thereafter maintain or cause to be maintained a financial management system (including related staff and software).
- The Recipient shall appoint not later than three (3) months after the Effective Date, an external auditing firm acceptable to the Association.

Annual Work Plans

- The Recipient will prepare an Annual Work Plan by May 15 of every year; only each such Annual Work Plan of activities as shall have been approved by the Association shall be eligible for inclusion in the Project and financed out of the proceeds of the Financing Agreement.
- The Recipient shall exchange views with the Association on such proposed Annual Work Plan not later than June 15 each year throughout the implementation of the Project, and shall thereafter adopt, and carry out such plan for such following twelve (12) months as shall have been approved by the Association and except as the Association shall otherwise agree, the Recipient shall not amend, abrogate, waive, or permit to be amended, abrogated, or waived, the aforementioned, or any provision thereof, without the prior written agreement of the Association.

Others

- The Recipient shall establish by not later than six (6) months following the Effectiveness Date, and thereafter maintain, throughout the implementation of the Project, an inter-ministerial Strategic Coordination Committee (SCC), including high-level representatives of the relevant ministries, with terms of reference, composition and resources satisfactory to the Association, which shall, among other functions, be responsible for providing overall strategic guidance for the Project.
- Upon the start of activities in a Province, the Recipient shall establish and thereafter maintain throughout the implementation of the Project, a Regional Advisory Committee (RAC) in said Province, with terms of reference, composition and resources satisfactory to the Association, which shall be responsible for providing monitoring with regard to the implementation of the Annual Work Plan in its respective Province and prepare recommendations to improve the implementation of the Project at the provincial level.
- The Recipient shall maintain, satisfactory to the Association, the multi-stakeholder Technical Monitoring Committee (TMC), responsible for Project monitoring and approval of the Annual Work Plans and Reports.

IV. APPRAISAL SUMMARY

A. Economic and Financial Analyses

75. The proposed Project is technical assistance and thus does not lend itself easily to economic analysis, and traditional net present value (NPV) and economic rate of return (ERR) analyses do not apply. However, some macroeconomic indicators can be projected and compared with present performance, in particular, increased investments in exploration, development, and production; improved governance; and, as a result, increased fiscal revenue from the expected growth in sector activities.

76. PROMINES—implemented in parallel with other donor projects and contributing to broader public financial management reform—will bring economic and financial benefits through two key effects:

- It will strengthen the capacity of government to more effectively manage the mining sector, which will in turn help to improve tax collection, thus increasing the sector's contribution to government revenues as well as socio-economic impacts of mining activities at the local level;
- It will help the mining sector in DRC to become more attractive to investors, thus increasing the gross revenues generated by the sector and its contribution to the economy overall.

77. Economic appraisal of this Project has been limited to the fiscal receipts at the central level, which are estimated through modeling. The results, detailed in Annex 9 and summarized in Table 5 below, suggest that these benefits will be significant.

78. The Project, together with other World Bank and donor initiatives, will contribute to reducing the tax gap associated with inefficient and ineffective collection, potentially yielding an additional US$164 million in government fiscal receipts in the period 2010-2014, and an additional US$862 million in the period 2015-2020. Thus benefits will continue beyond the life of the project.

79. If the DRC mining sector becomes a more attractive place to invest, and new investments are secured, the Project could yield an additional US$472 million in government revenues between 2010 and 2014, and an additional US$2 billion between 2015 and 2020. Increased government receipts, if turned into increased spending in poverty-targeted sectors, will contribute to broader social and economic development in DRC.

80. This analysis is based on the assumption that production will reach about 800,000 tons in 2014 and 1,000,000-1,200,000 tons by 2020, which encompasses assumptions on the geological and mining engineering side, as well as on energy availability and export transportation. Commodity prices used in the analysis are very conservative, and assumptions on the starting point for the rate of tax recovery are cautious. Thus, the figures indicated above are indicative only and in no way binding. The economic models will be periodically updated over the course of the Project to take account of the evolving situation.

81. It should also be noted that this analysis focuses on fiscal receipts, which do not fully capture the developmental benefit of the mining sector. Natural resource abundance should be good for economic development more generally. Typically, investment in mining almost always requires some new infrastructure, which has externalities for other industries and creates upstream, downstream, and, most importantly, vertical (outsourcing) linkages, which in turn generate employment and income. The positive externalities generated by the sector have traditionally been neglected, but countries are increasingly trying to optimize the sector's non-fiscal contribution to the economy.

82. The PROMINES Project will improve tax collection in cooperation with other Government and donor-supported projects devoted to the same objective, as a result of a combined effort. Tax collection results will be monitored as part of the project's M&E function, and assessment of collections will be updated on a periodic basis.

Table 5. Summary of PROMINES/EITI++ Economic Appraisal

$ MILLIONS	2010-2014 Annual Average	2010-2014 Total	2015-2020 Annual Average	2015-2020 Total
BASE SCENARIO				
Mining Sector Gross Revenue	2,088	10,438	4,218	25,307
Excluding Sicomines	*1,832*	*9,162*	*2,863*	*17,176*
Mining Sector Contribution to Govt Revenues	267	1,335	705	4,229
Mining Sector Contribution to Poverty Sectors[1]	34	168	92	550
IMPROVED EFFECTIVENESS SCENARIO				
Mining Sector Gross Revenue (*as Base Scenario*)	2,088	10,438	4,218	25,307
Increase over Base Scenario	*0*	*0*	*0*	*0*
Mining Sector Contribution to Govt Revenues	300	1,499	848	5,090
Increase over Base Scenario	*33*	*164*	*144*	*862*
Mining Sector Contribution to Poverty Sectors[1]	38	190	110	662
Increase over Base Scenario	*4*	*21*	*19*	*112*
MORE INVESTMENT SCENARIO				
Mining Sector Gross Revenue	2,468	12,342	5,611	33,665
Increase over Base/ IE Scenario	*381*	*1,905*	*1,393*	*8,358*
Mining Sector Contribution to Govt Revenues	394	1,971	1,184	7,105
Increase over Base Scenario	*127*	*636*	*479*	*2,876*
Increase over IE Scenario	*94*	*472*	*336*	*2,014*
Mining Sector Contribution to Poverty Sectors[1]	50	251	154	924
Increase over Base Scenario	*17*	*83*	*62*	*374*
Increase over IE Scenario	*12*	*61*	*44*	*262*

[1] Defined here as Education, health, agriculture, rural development, and infrastructure & public works

B. Technical

83. The proposed project will provide a considerable amount of technical assistance to most entities related to the management and regulation of the mining sector, including the Ministry of Mines and the agencies reporting to the Ministry; units within the Ministry of Environment involved in mining permitting and control; the relevant entities at the provincial and district levels, and civil society. It has been prepared with the cooperation of mining technical experts in the Ministry of Mines, the Bank, and DFID. One important component addresses the need for more properly trained national technicians and professionals, through support to technical training centers and universities in selected areas[30]. Reversing the negative trend in sector education will be critical, as the average age of staff in public mining institutions is quite high and there is a shortage of younger mining professionals.

84. The Project will establish an enabling institutional and regulatory environment to help attract and sustain mining investment. In particular, it will strengthen the technical capacity of government staff to administer and regulate exploration and mining projects, and to achieve socially acceptable and environmentally sustainable private investment in the sector. Expert technical assistance will also build capacity to establish professional relations with private

[30] For example, a large number of foreign technicians (mostly from Asian countries) are employed by mining companies during construction, but also during the operational phase due to the lack of trained nationals.

companies, to foster development of the sector. These capacities—all important building blocks of a strong sector—will strengthen the government's ability to promote the sustainable development of mineral resources (see Table 6).

Table 6. Technical Aspects	
Objective/EI Value Chain Link	**Requirements**
Component A. Ensure Access to Resources	A sound legal and regulatory environment A geodetic network to eliminate overlaps of mining permits Accurate and available geological information Availability of technicians and professionals for mining management and development Specialist skills covering appropriate geological, mining, and processing technology; and social, community-focused skills
Component B. Build Sector Management Capacity	Technical competency in mine inspection, licensing, statistics, health, safety, and environment Assessment of SOEs' mineral assets (SOE reform not to be handled under the project) Government mining portfolio management skills Communication tools and skills
Component C. Enhance Transparency and Accountability	Awareness of legally defined taxes and fees (streaming of taxes mostly under other World Bank projects) Transparency and certification processes Accountability platform
Component D. Build Sustainable Development Settings	Technical skills in leveraging the development impact of mining for the benefit of the broader economy Community-focused skills ASM-focused technologies and processes Regional and land use planning skills

C. Fiduciary

85. **Financial Management.** The financial management (FM) arrangements for the project have been designed with consideration for the country's post-conflict situation, while taking into account the Bank's overall FM policies and procedures (OP/BP 10.02). The assessment of the FM capacity of the Ministry of Mines revealed some weaknesses and risks, mainly in the areas of staffing arrangements and capacity, accounting systems, and fiduciary risks. The FM risk after mitigation measures is deemed substantial, mainly because of the above weaknesses. Due to the weaknesses and the fiduciary risks associated with the project, the financial management team will be headed by a qualified, experienced Finance Manager (individual consultant), supported by two accountants at the central level and one accountant per province where the Project would have a provincial office, all selected or to be selected on a competitive basis among individual consultant or when feasible among civil servants. Since the provincial offices will not be opened 6 months after the Project effectiveness, the timing of the selection of the accountants at decentralized level should be adjusted accordingly. A financial management procedures manual is being prepared and will be adopted prior to Project effectiveness. A computerized accounting system is being acquired and will be implemented.

86. The internal audit function of the Project will be under the responsibility of an internal auditor (individual consultant) to be recruited on competitive basis prior to the Project effectiveness. The internal auditor will carry out regular internal audit controls, aiming to ensure that internal control system is performing well. In addition to ensuring that the Project funds are

used for the intended purposes, the internal auditor will have to provide technical assistance to the PIU to create thereafter a robust Internal Audit Unit (IAU). The IAU will be composed of a mix of technical and fiduciary staff. The findings of the internal auditor will be used by project management (e.g., the Strategic Coordination Committee and the Technical Monitoring Committee) to make decisions regarding project implementation, as well as payments and contracts for service providers and implementing agents.

87. One "pooled" Designated Account (DA) will be opened in US dollars in a commercial bank acceptable to IDA. This Designated Account will receive proceeds of the DFID financed trust fund grant and the IDA grant. Disbursements to the DA or on account of direct payments will be made on a pro-rated basis proportionally to each financier's contribution (IDA/DFID). Disbursements from the DFID financed trust fund grant and the IDA grants will be transaction-based. This disbursements based on SOEs will be used during the first eighteen months and thereafter, the option to disburse against submission of quarterly unaudited Interim Financial Reports (also known as the Report-based Disbursements) could be considered subject to the quality and timeliness of the financial management system deliverables. The option of disbursing the funds through direct payments on contracts above a pre-determined threshold will also be available.

88. The "Cour des Comptes", the Supreme Audit Institution having been assessed as weak, a qualified, experienced, and independent external auditor will be recruited based on approved terms of reference. The *"Cour des Comptes"* may participate in the selection of the external auditor. The external audit will be carried out according to either International Standards on Auditing (ISAs) or Auditing Standards (ASs). The audit will cover all aspects of project activities implemented at central and decentralized levels, as well as verification of expenditures eligibility and physical inspection of goods and services acquired. The audits will be carried out annually and the reports submitted to IDA and the *"Cour des Comptes"* six months after the end of each fiscal year.

89. The Project will be supervised on a risk-based approach. FM supervision will focus on the status of financial management system to assess whether the system continues to operate well and provide support as needed.

90. ***Procurement.*** The main recommendations of the 2004 Country Procurement Assessment Review (CPAR) were to (a) prepare and approve a Public Procurement Code; (b) undertake a survey of the existing capacity on procurement; (c) undertake a needs assessment of the institutional and human capacity requirements for public procurement in the country; and (d) prepare an action plan for the procurement reform. All these recommendations have been implemented, and the new procurement code has been promulgated on April 27, 2010 and is expected be effective after a few months.

91. Once the national procurement code is effective the national procurement procedures will be reviewed and suitable modifications to the Project will be discussed and agreed before implementation.

92. The institutional arrangements for Project implementation take into account the need to strengthen the Ministry of Mines' capacity in procurement and other fiduciary areas. At the

central (national) level, a Procurement Unit (PU) will be created as part of the PIU, located within the Ministry, in accordance with the provisions of the pending Procurement Code; and a team of qualified and experienced procurement officers (POs) will be positioned there to carry out major procurement activities. The PU will have full responsibility for fiduciary compliance regarding procurement, and will report to the project coordinator and his deputy to ensure its independence. All Project procurement will be managed by the PIU in accordance with the World Bank Procurement Guidelines, including the use of Standard Bidding Documents (SBD) for national procedures. The PU will be assisted initially by a senior procurement specialist recruited internationally, who will provide the following services: (a) develop and strengthen the procurement capacity of the Ministry of Mines staff; (b) advise the national PIU's PO team; (c) reinforce the integrity and internal review of the procurement process; (d) oversee and advise on procurement-related issues; and (e) assist the project coordinator in drafting the no objection requests for all procurement decisions subject to prior review. The duration of this assignment will be for one year on a full time basis, and periodic interventions up to project mid-term review (MTR).

93. A procurement plan (PP) for the first 18 months of project implementation has been prepared. It will be updated annually, or as required, to reflect actual project implementation needs and improvements in institutional capacity. It will be available at the Ministry of Mines, in the Project's database, and on the Bank's external website. DFID funds will be managed in accordance with World Bank procurement rules. Procurement arrangements are detailed in Annex 8.

D. Social

94. The proposed Project objective is to strengthen institutional and human resource capacity and enhance accountability, notably in key demand-and supply-governance institutions at the national, provincial, district, and community levels. Project activities are designed to promote greater use of country systems, as well as more effective use and strengthening of the country's social safeguard systems.

95. A Strategic Environmental and Social Assessment (SESA) will be undertaken at the start of the Project to provide detailed information on sectoral environmental and socio-economic policies and potential impacts—positive and negative—in the project areas and sector wide. The SESA process will be used to recommend measures aimed at mitigating any potentially adverse environmental or social impacts, while at the same time enhancing pro-poor and gender-sensitive policy reform and positive impacts. This analytical and operational work will consider large, small, and artisanal mining, and will help decision-makers make informed policy choices.

96. On the social side, the mining industry is becoming more sensitive to community needs, and efforts are being made to enhance community consultation, participation, and ownership as well as avoid gender biases in community mining programs. The Project will work with key stakeholders, government officials, companies, and communities, including women, to promote inclusion and enhance social accountability and governance, with a view to achieving increased productivity and better development outcomes in the mining areas. With regard to gender bias,

the Project will conduct training on how to better engage community groups, redress unintended gender bias, and provide more direct and indirect employment opportunities for women and men. By developing a consultation strategy, a social accountability plan, and gender-sensitive policy reforms, the Project will improve the ability of key stakeholders to design sustainable and gender-sensitive benefit sharing in community programs and foster good practice in public-private partnership in the mining area.

97. Although mining is the main economic activity in many areas of DRC, mining operations often still operate as enclaves, with few linkages to local socio-economic development. There is a need for better integration of mining at the local and regional levels, to ensure that communities benefit from opportunities that the mines can bring (e.g., direct and indirect employment; local procurement of mine materials; services such as catering and laundry). Many companies, to gain the "social license to operate," have corporate social responsibility programs that can feed into local economic development plans, particularly if communities around the mines are well organized. For provincial authorities, this requires proper planning based on an inventory of resources and needs. The Project will support the preparation and implementation of such local plans on a pilot basis which, in addition to promoting coordination for broader physical and social infrastructure, will support the creation of community mining development funds. In Katanga, synergies will be sought with the Katanga Extractive Industry Development Initiative (KEIDI), a public-private partnership aimed at community development and stimulation of business linkages in targeted mining areas. The project will provide assistance to local authorities in pilot areas, to prepare them to absorb and use those budget revenue increases in a transparent and sustainable manner to benefit the population. This will entail support for the production of local development plans, capacity building in participatory budgeting, and specific training on procurement and financial management.

E. Environment

98. The Project is expected to achieve significant positive environmental results by (a) reinforcing the regulatory setting for the management of environmental risks associated with mining activities; (b) strengthening environmental management capacity in the Ministry of Mines, the Ministry of Environment, and provincial administrations; (c) identifying legacy contamination associated with past mining activities and recommending measures to address these risks; and (d) promoting modern mining technologies.

99. Mining activities often risk significant adverse impacts on natural habitats, livelihoods, cultural resources, and indigenous peoples. To help the Government better manage these risks, a key component of this Project is the preparation of the SESA. The SESA will help the Government to (a) reinforce DRC's policies and regulations for addressing environmental and social issues in the mining sector; and (b) identify key gaps in regulatory implementation through multi-stakeholder consultations, including culturally appropriate consultations with indigenous peoples. The SESA will also identify and clarify the role to be played by provincial authorities in these areas as a consequence of the ongoing decentralization process.

100. In addition to the SESA, the Project will strengthen the capacity of the Ministry of Mines, the Ministry of Environment, and provincial administrations in selected mining provinces (the two Kasais, Katanga, the two Kivus, and Orientale) to administer the environmental impact

assessment, permitting, and inspection processes, with a particular focus on coordination among these institutions. At the national level, upon passage of the Environmental Framework Law, the Project will provide support to develop the environmental management capacity of the proposed National Environmental Agency.

101. The Project will also provide significant resources to identify and conduct a risk assessment of environmental mining legacies, with a particular focus on the Copper Belt of Katanga. A similar process will be undertaken in other areas where artisanal mining activities may have caused severe impacts. A prioritized remediation plan will be prepared. The funding of the proposed interventions, however, is beyond the scope of the proposed Project, and resources to implement the remediation plan will have to be identified separately.

F. Safeguard Policies

102. The proposed technical assistance operation has been rated environmental category B under the Bank's Environmental Assessment policy (OP/BP 4.01). As a technical assistance operation, the activities have no physical "footprint". The Project is not expected to have any direct adverse environmental impacts, and will not result in the relocation of people or the displacement of livelihoods. Nevertheless, to address potential indirect impacts, the safeguard policies on environmental assessment, natural habitats, physical cultural resources, and indigenous people have been triggered.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[X]	
Natural Habitats (OP/BP 4.04)	[X]	
Pest Management (OP 4.09)		[X]
Physical Cultural Resources (OP/BP 4.11)	[X]	
Involuntary Resettlement (OP/BP 4.12)		[X]
Indigenous Peoples (OP/BP 4.10)	[X]	
Forests (OP/BP 4.36)		[X]
Safety of Dams (OP/BP 4.37)		[X]
Projects in Disputed Areas (OP/BP 7.60)[*]		[X]
Projects on International Waterways (OP/BP 7.50)		[X]

103. The safeguard policy on involuntary resettlement is not triggered because the project will not cause direct economic and social impacts that result in the involuntary loss of land or restriction of access. To enhance the project's potential sustainability outcomes, the SESA will include a social assessment and the development of measures to mitigate adverse economic and social impacts associated with mining activities, particularly on poor and vulnerable groups.

104. **Environmental Assessment**. Terms of reference for the SESA have been prepared, subjected to consultations and disclosed. The Ministry of Mines will undertake, based on the agreed terms of reference and adopt, not later than eighteen months after effectiveness, a Strategic Environmental and Social Assessment (SESA), which, among other objectives, will

[*] By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.

identify such new legislation or regulatory instruments as may be necessary for the environmentally and socially sustainable management of industrial mining operations.

105. Based on an agreement with the Bank regarding legislation and regulatory instruments referred to in the paragraph above, the Government shall, not later than thirty six months after the effectiveness prepare, consult upon and submit if necessary draft amendments to legislation and/or modifications to proposed legislation to the DRC Parliament and adopt regulatory instruments, in form and substance satisfactory to the Bank, containing standards and measures for the environmentally and socially sustainable management of industrial mining operations taking into account, as appropriate, existing industrial mining operations.

106. Until the adoption of this legislation and regulatory instruments, the Ministry of Mines will apply standards and measures to industrial mining operations that are based on sound international good practice, and acceptable to the Association, to ensure the environmentally and socially sustainable management of all industrial mining operations commenced or materially revised subsequent to effectiveness of the Project.

107. ***Natural Habitats.*** The SESA will analyze key large-scale environmental and social issues associated with mining growth, including impacts on natural habitats as a direct result of mining activities; as well as indirectly through the development of regional transport, energy, and water infrastructure networks. Potential impacts include the risk of deforestation, habitat conversion, loss of biodiversity, water degradation, and contamination related to specific minerals.

108. ***Physical Cultural Resources***. The SESA will assess potential impacts on physical cultural resources as a result of growth in the mining sector, and identify measures to help mitigate these impacts.

109. ***Indigenous People.*** Before appraisal, the Ministry of Mines, through the PIU, prepared an Indigenous People Planning Framework (IPPF) with methodologies and procedures for the participation of indigenous communities. Lessons from this experience will be used for planning and implementation of future mining investment projects. Consultations were carried out in Kinshasa and selected provinces, mainly with NGOs representing indigenous Pygmy groups.

110. ***Consultations.*** During preparation, consultations were carried out in Kinshasa and in the following areas of the selected provinces: Lubumbashi and Kolwezi in Katanga; Kananga and Mbuji Mayi in the two Kasai; Bukavu and Goma in the two Kivus; and Kisangani in Orientale (Kisangani). The reports and recommendations from the different workshops are in the project files (see Annex 10 for further information).

G. Policy Exceptions and Readiness

111. There are no policy exceptions and the Government is ready to implement the Project as designed. In regard to readiness:

- The main text of the draft Project Implementation Manual (PIM), including a detailed Procurement Plan (PP) for the first 18 months of the Project agreed at negotiations and attached to the minutes) have been completed. The ToRs corresponding to the activities defined under the PP are under preparation. The draft Financial Management Procedure Manual, to be included in the PIM, has been completed and is being reviewed by GDRC and the Bank. The PIM and the Financial Management Procedure Manual, will be approved by IDA before effectiveness.

- Core PIU staff who worked effectively together on Project preparation will continue during implementation. A Coordinator, a deputy Coordinator, a Financial Manager, a Procurement Specialist and an Accountant, all with project management experience (including in Bank-funded projects) have been contracted. Terms of reference for the contracting of the internal auditor and the M&E specialist, as well as for the design of the M&E system and procedures, have been approved and the contracting process has been initiated.
- The Annual Work Plan for the first year of implementation, corresponding to the period July 1, 2010 to June 30, 2011, will be included in the PIM to be approved before effectiveness (expected date is September 1, 2010).
- Safeguards requirements have been completed and disclosed before appraisal as agreed (SESA ToR and IPPF).

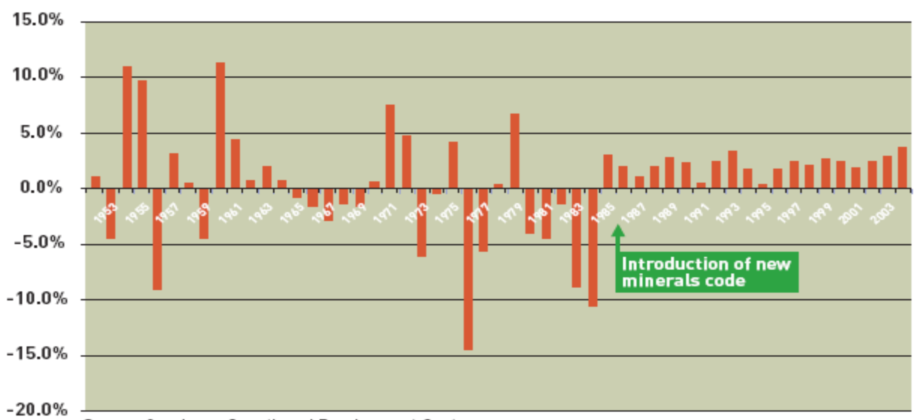
Annex 1: Country and Sector Background

CONGO, DEMOCRATIC REPUBLIC OF: Growth with Governance in the Mineral Sector

Mining, Growth, and Poverty Reduction

Mining has the potential to contribute to economic development and poverty reduction. In many countries—e.g., Argentina, Australia, Botswana, Canada, Chile, Ghana, South Africa, and Tanzania—the mining sector is an important contributor to national and regional economies. Recent studies by the International Council for Mining and Metals have discussed the sector's contribution to economic development[31]. The case of Ghana is illustrative. That country's passage of new mineral legislation in the late 1980s enabled private investment in the sector. As a result, the production of minerals, particularly gold, expanded rapidly in the mid-1990s, and was an important stimulus of GDP per capita growth in comparison to previous periods. Improvements in the health and well-being of populations in some mining areas in Ghana are measurable, but these improvements have taken time and a critical mass of multiple mining operations[32]. Ultimately, however, the real challenge for governments is to translate growth in minerals production and associated revenue streams into measurable improvements for the whole country.

Figure 1: Ghana Per Capita Growth Rates: 1950 – 2003 (PPP 1990$)



Source: Groningen Growth and Development Centre

Using the benefit streams from the mining sector wisely, to improve the well-being of the population, does not happen automatically. Many countries fail to make the best use of

[31] See *The Challenge of Mineral Wealth*, International Council for Mining and Metals, Resource Endowment Series, 2006. It is noted that considerable variance exists in the ability of countries to harness their mineral wealth for economic development. Ghana and Botswana are noted as success stories, but there are other countries which have had greater difficulty in using their mineral wealth. The key seems to be a genuine will and commitment to reform on the part of the Government.

[32] Another example is the case of the Selebe Phikwe nickel mine in Botswana. This mine has been in continuous operation for 40 years, and the well-being indicators for the community and surrounding areas are superior to those of the nation as a whole. See Jan Issaksen, *Economic Benefits Streams from Selebe Phikwe and Tsumeb,* Cristian Michelson Institute, Bergen, Norway, 2006.

the benefit streams from the extractive industries. Unfortunately, DRC is among these countries, in spite of its long tradition of mining and a critical mass of operations in a number of metallic and non-metallic minerals. The World Bank Group Extractive Industries Review determined that extractive industries can contribute to economic development, but only if the right conditions are in place[33]. These include general conditions such as political stability, peace, and consistent application of sound principles of macroeconomic management, as well as exogenous factors such as favorable external markets. Regrettably, the DRC's history of conflict and poor economic management has severely limited the mining sector's ability to fulfill its potential as an engine of economic growth. There are at least three other key conditions that apply to the mining sector. First is the necessity of an internationally competitive enabling environment, i.e., the legal, regulatory, and fiscal framework required to attract private sector investment. The enabling environment should also provide a sound basis for the government to capture a fair share of the rents generated from mineral deposits. Second is the need for consistent, effective enforcement of laws, regulations, and tax requirements. This means that supervisory institutions should have the mandate and authority to enforce the laws; adequate logistical support and funding; trained and motivated staff; and internal procedures that ensure fair and transparent dealings with stakeholders. Third is the need for government officials, companies, and civil society to observe the fundamental principles of good governance. While the DRC has been reasonably successful in adopting laws and regulations to improve the enabling environment for the mining sector, it has been less successful in ensuring their consistent implementation. High-level campaigns promoting the principles of good governance have had limited success. In fact, under the Mobutu regime, DRC became a byword for institutionalized corruption, a legacy the country is shaking off only very slowly.

Description of the Mining Sector

1. The 2.3 million square kilometers of DRC's national territory contain more than 1,100 different mineral substances. Four main regions—Katanga, the two Kasaïs, Northeast Congo, and Kivu-Maniema—contain most of the known mineralization. However, other provinces also have mineral potential, much of which has not yet been explored. Known mineral resources are shown on Map 1 (Annex 17) and in Table 1.

Table 1. DRC Mineral Endowments, by Province

Province	Minerals
Bandundu	Diamonds, gold, petroleum
Bas Congo	Bauxite, oil shales, limestones, phosphates, vanadium, diamonds, gold
Equateur	Iron, copper and associates, gold, diamonds
Orientale	Gold, diamonds, iron
Kasai Oriental	Diamonds, iron, silver, nickel, tin
Kasai Occidental	Diamonds, gold, manganese, chrome, nickel
Katanga	Copper and associates, cobalt, manganese, limestone, uranium, coal
Maniema	Tin, diamonds, cassiterite, coltan
North Kivu	Gold, niobium, tantalite, cassiterite, beryl, tungsten, monazite

[33] See Extractive Industries Review (EIR) and Management Response to the EIR, 2004: http://www.ifc.org/eir.

Province	Minerals
South Kivu	Gold, niobium, tantalite, cassiterite, sapphire

2. The mining sector has been key to DRC's economy since colonial times, contributing between 70 and 80 percent of export earnings and around 8 percent of GDP. Since the early 1990s, however, industrial production of minerals has declined substantially as a result of the civil war, mismanagement of state-owned enterprises, weak and corrupt government services, and a downturn in international commodity prices. The recent Government review of mining contracts has further reduced DRC's attractiveness as an investment destination. The difficult business environment has driven up operating costs for investors, thus limiting the country's ability to attract partners for unexploited deposits. The decline of the large industrial producers has had significant repercussions not only on the national economy, but also on the provinces and communities where mining operations are located. In particular, companies have been unable to maintain previous levels of support for infrastructure and social activities in communities where they work.

3. As DRC's industrial sector has declined, the artisanal mining sector has expanded (for a more detailed review of the ASM sector, see Appendix 1 to this annex). Estimates vary, but as many as ten million Congolese depend directly or indirectly on artisanal mining for their livelihoods. Artisans currently produce an estimated 90 percent of the minerals exported, but they do so under very difficult safety, health, and security conditions. In spite of these conditions, given the present high commodity prices and the lack of alternative livelihoods, the artisanal subsector will continue to dominate the production of minerals. However, the industrial mining sector should expand again over the next ten years, as operations in advanced stages of planning start to come on-stream in 2012.

4. The rebirth of industrial mineral production has been spurred by the 2002 Mine Law, which opened the country to private investment in exploration and exploitation operations. Table 2 below summarizes the scope of the Law and compares it with mining legislation in selected other countries.

Table 2. Comparison of DRC Mining Legislation with Other Mineral-Producing Countries

Principle	DRC	Argentina	South Africa	Indonesia
Ownership of Minerals	State	State	State	State
Limitations on government discretionary powers in granting of exploration and exploitation permits	Yes	Yes	Yes	Yes
Specification of the duties, competencies, and mandates of government agencies	Yes	Yes	Yes	Yes
Establishment of an independent mine title registry service or cadastre	Central	Provincial	Central	Central
First come, first served permit issuance	Yes	Yes	Yes	Yes
Ability to tender mineral properties held by parastatals	Yes	Yes	NA	NA

Principle	DRC	Argentina	South Africa	Indonesia
Clear and consistent criteria for issuance of mineral rights[34]	Inadequate	Yes	Yes	Yes
Security of tenure, exclusivity, and non-discrimination[35]	Under question	Yes	Yes	Yes
Payment of escalating surface rents to hold mineral rights	Yes	Yes	Yes	Yes
Possibilities to transfer or cede a mineral right with a minimum of formalities	Yes	Yes	Yes	Contract
Distinction between large and small-scale mineral operations	Yes	No	Yes[36]	NA
Special provisions for artisanal miners	Yes	No	Yes	NA
Requirements for protection of the environment	Yes	Yes	Yes	Yes
Mining contracts or development agreements between parastatals and companies	Yes	Yes	NA	Contract of work
Specification of sector taxation	Yes	Partially	No	Contract of work

Katanga (see Map 2 in Annex 17)

The Copper Belt of Katanga Province contains world-class resources of copper, cobalt, zinc, and uranium. Its identified resources include 70 million metric tonnes of copper, five million metric tonnes of cobalt (the world's largest known cobalt reserves), and six million metric tonnes of zinc (3 percent of world reserves)[37]. The copper reserves make the Katanga Copper Belt the second richest copper region in the world after Chile.[38] From 1900 until 2003, a total of 18 million metric tonnes of copper metal was produced, as well as 0.5 million metric tonnes of cobalt, 3.6 metric tonnes of zinc, and 0.28 million

[34] Generally, governments establish publicly disclosed minimum thresholds for financial and technical competence, as well as require applicants to submit a proposed a work program. In the case of the DRC, tests of technical competence and submission of a proposed work program are questionable. The minimum financial capacity required is only 10 times the amount of surface rights payable during the last year of validity of the permit in question, a negligible amount compared with the financial capacity required to conduct exploration activities.

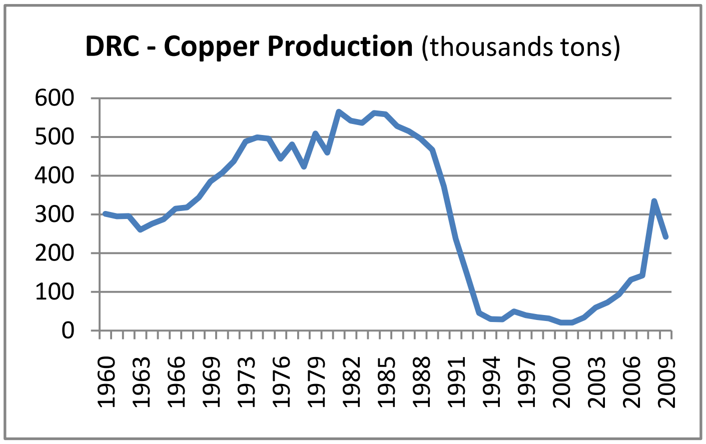
[35] Clear legal standing of mining title; exclusivity with respect to surface area, minerals, and progression from exploration to exploitation, exploitation provided there is compliance by the holder of legal requirements under the law in force; and non-discrimination in terms of local, foreign, large, small investors. In terms of security of tenure, it should be noted that in some cases the government does not follow the correct legal procedures to terminate the relevant licenses, as was the recent case involving CAMEC. Additionally, the current review by the government of mining agreements has added uncertainty and undermined security of tenure. Finally, CAMI has sometimes had difficulty in adequately registering and recording permit issuance and maintenance.

[36] Government policy mandates special provisions for historically disadvantaged groups.

[37] The Kipushi ore body, owned by GÉCAMINES is one of the largest zinc-copper-germanium deposits in the world, with 5 million metric tonnes of zinc. This mine has been on a care-and-maintenance basis since the early 1990s, and very little is currently produced. However, following an international tender, the rehabilitation of Kipushi mine was awarded to United Resources (Switzerland) in 2006. Also, the Big Hill cobalt and zinc deposit, with 1.2 million metric tonnes of zinc and 4 million tonnes of cobalt, is currently under exploitation by a joint venture among GÉCAMINES, George Forrest International, and Outokumpo (Finland).

[38] Philip Crowson, *Minerals Handbook*, 2001, Macmillan. The Chile reserves are estimated to be 90 million tonnes.

metric tonnes of germanium. Annual copper production peaked in the 1980s at 565,000 metric tonnes, before collapsing in the early 1990s. In 2005, officially recorded copper exports from industrial and artisanal sources were 27,925 tonnes of copper metal and 177,310 copper concentrates. Cobalt exports were 17,770 metric tonnes of cobalt and 84,835 metric tonnes of cobalt concentrates[39]. With new joint ventures between Gécamines—the state-owned copper producer—and private industrial mining companies, as well as copper and cobalt mined by artisanal miners, the production of copper metal or copper metal equivalent contained in concentrates reached 335,000 metric tonnes per year in 2008.



5. The promulgation of the new Mining Law in 2002, followed by a peace accord in DRC and a subsequent commodities boom, resulted in a rush of companies into Katanga province. Due to the fact that Gécamines and Sodimico had most of the known deposits and indices in the province, a significant amount of projects in Katanga were undertaken in partnership with these two parastatals. Many of the original deals involved players with strong political connections who were already active in Katanga. In several cases, deposits were swapped for debt by Gécamines creditors, who then made deals with junior mining companies to develop the projects. Current mining operators in the province range from large multinationals to smaller players operating only in Katanga, and the latter are sometimes perceived to work outside established rules and norms for responsible investors.

6. Katanga has benefited from strong demand for its raw materials. Copper prices saw a historic high of nearly US$9,000 per tonne in June 2008, but collapsed almost to US$2,500 per tonne only four months later due to the global financial crisis. However, demand has been recovering and the overall outlook for copper remains good, as world inventories have been depleted and signs of overall economic recovery are evident. Globally, it is widely expected that copper deposits in Katanga will increase in importance as production in South America begins to plateau.

7. Despite the history of industrial-scale mining in Katanga, there is still a significant artisanal presence in and around many of the large deposits. The commodities boom led to the establishment of several small-scale smelters to process artisanally produced ore. Most of these

[39] Report on Katanga mineral exports, compiled from Office Congolais de Contrôle (OCC) official export statistics.

enterprises were financed by Chinese, Indian, and Lebanese entrepreneurs, and most closed when the mineral bubble burst at the end of 2008, leaving thousands of artisanal miners without buyers for their production. The continued presence of large numbers of artisanal miners drives up operating costs for large-scale operators, which need to tread a fine line between protecting their sites against illegal intrusion and the need to maintain positive relationships with surrounding communities.

The Kasais

8. In the provinces of Kasaï Occidental and Kasaï Oriental, diamonds are mined from alluvial deposits as well as kimberlitic pipes, but only about 5 percent of the diamonds are of gem quality. Diamonds are also found in Katanga, Kivu, and in the north of the country, adjacent to the Central Africa Republic. In terms of carats, DRC has the largest known diamond resources in the world—approximately 150 million carats, or 25 percent of the world's total known reserves. The potential of finding more diamond reserves is unknown, but estimates by the United States Geological Survey suggest that 500 million carats could be found in DRC. In terms of value, however, DRC's deposits come after Botswana and Russia because its industrial quality stones do not command the highest prices. While 5 to 8 percent of the production at Mbuji Mayi in Kasaï Oriental is gemstone quality, the artisanal production around Tshikapa and Kananga is said to be of far higher quality. Artisanal production of diamonds accounts for 75 percent of DRC's total production in terms of carats, and 62.5 percent in terms of value.

9. Diamonds were discovered in the Kasaïs in 1906. During the colonial period, between 1912 and 1961, a joint venture between the Belgian state and private investors extracted approximately 24 million carats. There has been little large-scale formal production since then, and the creation of Bakwanga Mining Company (MIBA) as the state-owned monopoly producer in 1961 ushered in the slow demise of Kasaï's diamond industry. Since the signing of the 2003 peace agreement, MIBA has established several joint ventures with international investors, but all of these have largely failed due to the complex and costly business environment. Today, MIBA is effectively defunct, with significant debts, an excessive workforce, dilapidated equipment, and diminishing reserves. The DRC Government has recently announced a US$20 million capital injection to revitalize the company, and efforts are underway to recruit international management. However, many observers believe that this will not be sufficient to undo decades of plunder and neglect.

> The tens of thousands of artisanal diamond miners in DRC live in appalling conditions. They sell their production to small traders *(negotiants)*, who act as middlemen for the larger traders in town *(comptoirs)*. Some traders travel to Kinshasa to sell their production, while others export directly from Mbuji-Mayi. As DRC is an active member in the Kimberly Process, it has taken steps to regularize its diamond sector, but despite these efforts, it is estimated that a significant proportion of the DRC's diamond production leaves the country illegally, as traffickers find new ways around the established controls.

Eastern DRC (see Maps 3 and 4 in Annex 17)

> Rich deposits of gold have been exploited in the Kilo and Moto districts in the Ituri region of Orientale Province. There has also been active gold exploitation in Kivu and Maniema provinces, which contain world-class deposits. The existing and identified resources and grades in both provinces are sufficient for several open-pit operations. The three major industrial gold deposits currently being considered for exploitation contain approximately 850 tons of gold in all resource categories. Smuggling of gold particularly into Uganda and Burundi has attracted the attention of the UN Group of Experts. A recent report by the DRC Senate's Commission on Natural Resources estimated that several tons of gold are smuggled out of the country each year resulting in a significant loss to the public purse[40].

10. Other minerals in the region include alluvial as well as primary deposits of cassiterite, tantalite, columbite (coltan), and wolframite in the eastern part of the country (the Kivus, Maniema, and northern Katanga). Around 900-1,200 tonnes (worth US$20 million per month) of cassiterite and allied mineral products are exported from Goma through 18 active *comptoirs d'achat* (a total of 25 are members of the gold traders' association, but only 18 are active at the moment). The price of a ton of tin, the commodity contained in cassiterite, fell from US$24,000 per tonne in 2008 to US$13,000 per tonne in 2009. This has had a significant impact on the export trade and caused some *comptoirs* to suspend operations.

11. The Bisie mine, which accounts for 70 percent of the cassiterite mined in North Kivu, is located 120 kilometers to the east of Goma. The raw cassiterite ores, in the form of sacks of rocks weighing some 40 kilograms each, are carried by porters over a track for two days before reaching a makeshift airstrip at Walinkale. From there, the ores are transported in 1,800 kilogram lots by Antonov aircraft to Goma airport. This end of the trade is organized by *negociants* (approximately 100 are known), which purchase the ores from the artisans and pre-finance their activities. Once in Goma, the ores are purchased by *comptoirs,* which crush, grind, and beneficiate the ores to a purity level of 58-68 percent tin (Sn) content. The *comptoirs* process the ores for international clients, which require certain specifications and purity levels.

12. The traffic in cassiterite and coltan from eastern DRC through neighboring countries to final customers in Europe and Asia has been a concern to the Government and the international community for some time. Various illegal militia groups, as well as the Congolese national army, are involved in extraction and trade of these minerals, and also exact extra-legal payments from the artisans, *porteurs* (carriers), *negociants*, and others.

13. The funds generated from these activities are believed to finance continued conflict between armed groups and the central government, and to contribute to the personal enrichment of senior national army officers. With its link to conflict, the trade remains under scrutiny by a United Nations Group of Experts. It has also been the subject of numerous reports by national and international NGOs, which have built strong campaigns targeting foreign companies involved in the trade, as well as their host governments. Most of the investigations have focused

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[40] See *Commission d'Enquête sur le Secteur Minier*, Sénat, République Démocratique du Congo, 2009.

on the downstream end of the production and trading chain; i.e., the relationships of the various *comptoirs* with the armed groups and external trading companies and smelters.

14. Because of international concern about the implications of minerals trade for peace and security in Eastern Congo, various schemes have been proposed for certifying the origins of the exported materials. One scheme, promoted by the international association of tin smelters and producers (ITRI), aims to respond to NGO pressure to expand company due diligence higher up the chain of production. This poses major challenges due to the physical inaccessibility of many mining sites, the presence of armed groups, and the fact that virtually all production in Eastern DRC is done by artisanal miners.

15. Since the flare-up in armed conflict in late 2008 and early 2009, the Government has paid particular attention to the link between minerals exploitation and instability; and with the help of the international community, has articulated a plan for stability and reconstruction (STAREC) for Eastern Congo. As part of this plan, the Ministry of Mines is establishing *centres de negoces* (buying centers) close to important mining sites, which will, for the first time in years, allow officials from the various mining services to operate outside of Goma and Bukavu. The first five pilot donor-funded *centres* are expected to be deployed by the middle of 2010.

Government Supervisory Institutions and Capacity Issues

16. In spite of DRC's relatively long history as a minerals producer, government institutions responsible for supervision of the mining sector are weak and ineffective. Historically, the sector has been dominated by parastatals—*Générale de Carrières et des Mines* (GÉCAMINES), the Office of Mines of Kilomoto (OKIMO), the *Compagnie Miniere de Bakwanga* (MIBA), and others—which have exercised almost complete control over the sector Under the new Mining Code, the formal governing structure of the sector is consistent with international practice, with the Law specifying the supervisory responsibilities of different central and provincial-level government institutions. However, the Government faces a significant challenge in strengthening these institutions so they can effectively exercise their responsibilities.

> *Government institutions responsible for regulating and supervising the mining sector are ineffectual. They require considerable restructuring and strengthening, and a greater measure of accountability.*

17. Key sector institutions include CAMI, the mining cadastre service; SAESSCAM, the extension service in charge of small-scale mining; CEEC, the diamond, precious stones, and metals evaluation and certification agency; CTCPM, the technical planning and coordinating unit under the Ministry of Mines; and the services concerned with the collection of taxes and fees. These are OFIDA, in charge of customs duties; DGRAD, in charge of collecting mining royalties, fees, and surface rents; DGI, in charge of collecting income and other general taxes; and OCC, in charge of control of all activities. Also important are the Kimberley Process Commission, under control of the Ministry of Mines; and CRGM, under the Ministry of Scientific Research, which is responsible for geological mapping, geophysics, and earth sciences research.

18. CAMI was established by the Mining Law as a semi-autonomous agency within the Ministry of Mines to issue and maintain a registry of mineral rights. In DRC, as in other countries, the mine title registry service is the key agency for implementing the licensing system; and it needs to function smoothly, transparently, and impartially in order to provide security of tenure for holders of mineral rights. CAMI has been in operation since 2003, but has encountered some difficulties, including three changes of senior management, problems with software, and a high volume of requests for mineral rights. CAMI has processed more than 9,220 applications and has approved more than 5,359 exploration, exploitation, and other permits. A central issue is the extension of CAMI's activities to certain key mineral producing provinces. At present, CAMI only has offices in Kinshasa and Lubumbashi. CAMI's absence from other key mineral areas significantly impedes effective state control of mining operations. There is also a problem in tracking whether payments of surface rents, as invoiced by CAMI, are effectively received by the Ministry of Finance/DGRAD and the Central Bank. There are also, from time to time, allegations of pressures on CAMI to deviate from established guidelines and criteria in the issuance of permits.

19. SAESSCAM was created in 2003 as an extension service for small-scale and artisanal miners. It now has a staff of 120 and operates in nearly all of the provinces, but mostly in the capital cities and not necessarily at the artisanal mining sites. Reviews of its performance are inconclusive. On the one hand, the organization has been given relatively high marks for helping to organize artisans in some areas and providing them with technical advice. On the other hand, many of its personnel lack the specific technical training and skills needed to advise the artisans. Also, there have been some allegations of SAESSCAM personnel demanding extra-legal payments from the artisans. It is clear the SAESSCAM could play a key role in helping to organize the artisans into effective cooperatives and also to serve as a means to properly record production in this sector. Yet funding constraints and, more importantly, human capacity constraints, have prevented it from being completely effective.

20. CEEC is the official state agency responsible for evaluation and certification of diamonds. It is a key element in the effective implementation of the Kimberley Process, and in ensuring that the government receives fair market value for its diamond and gold exports. However, CEEC has not been as effective as it could be in terms of valuing these exports. There is considerable fraud and clandestine exports of stones, particular those of gem quality. Also, many of the valuators in the CEEC were initially recruited from private diamond trading *comptoirs,* which raises the possibility of conflicts of interest. It has also been alleged that CEEC's own valuations are below market value, and that key staff are themselves engaged in illicit activities.

21. Mine inspection services (through the Directorate of Mines) in the provinces are wholly inadequate to perform their mandated function of monitoring production, health, safety, and environmental protection at industrial and artisanal mining sites. In Katanga, the Directorate of Mines has only 30 staff to cover a vast province with many operations. Moreover, the Directorate does not have adequate logistical support to function effectively, or adequate staff trained in technical specialties. Another weakness is its inability to assess and evaluate the work performed on the hundreds of exploitation permits in the country. The permit holders are, in theory, required to submit periodic reports to the Ministry and open their operations for

inspection. However, the inspection services of the Ministry are as yet incapable of performing this function in a systematic and consistent way.

22. CRGM (under the Ministry of Scientific Research) is responsible for geological mapping, geophysics, and earth science research. Updating and completing the geological database for the country, and locating new mineral deposits, is crucial for sustainable growth in the sector. The geological research function is a joint public and private sector undertaking. Private companies generally focus on detailed exploration, such as drilling and ground truth geophysics, in precise locations with identified minerals. To identify these exploration targets, the companies rely on regional geological maps produced by CRGM. Little serious exploration on a regional scale has been done in DRC since independence. As a result, 90 percent of the country remains unexplored, and the remaining 10 percent has been explored using techniques and scientific methods that are 50 years out of date. Moreover, most of the maps and data that do exist are not available in DRC, since the facilities and services in charge of archiving this information are defunct. Fortunately, the Royal Museum of Tervuren in Belgium, and other geological survey institutions in Europe and North America, have originals and copies of most of the information. A program needs to be developed to transfer this data to DRC in digital format. Another important way to improve scientific knowledge of the DRC resource base is through rehabilitation of certain university and research institute programs, some of which are under the Ministry of Scientific Research. Not only do the universities and research institutes produce valuable studies, but they also train future generations of Congolese earth science professionals.

23. The *Office Congolais de Contrôle* (OCC) has a monopoly over quality control. It is required to give a quality certificate for mining exports. It is unable to control exports, however, as a large amount of minerals is exported illicitly.

Key Sector Challenges

24. While the context varies across regions and resources, a number of challenges with broader significance can be identified:

- The inconsistent and at times illegal application of the DRC's mining laws and regulations opens the door to corruption and significantly increases the operating costs for formal mining operators. Decades of mismanagement and impunity have largely undermined incentives for officials to follow the rules and private sector actors free from international shareholder pressure have been able to skew the playing field in their own favor. The political will to tackle this largely broken system has generally been absent, although the Ministry of Mines has recently shown an increasing openness to reform.

- Government agencies lack the resources and technical capacity to manage the mining sector. Recent discussions in Eastern DRC have revealed that many agencies are not even aware of the laws and rules they are meant to enforce. This is a general problem across the Government, and it will require years of consistent investments to reverse this trend.

- The involvement of armed groups and some members of the military in minerals exploitation and trade is a significant factor in continued instability in large parts of the country. Political will is needed to address this issue, but the stakes are high and progress is likely to be slow. Even in areas where there is no active conflict, the trade attracts armed bandits, smugglers, and others operating outside the law, which means that the treasure loses significant revenues every year.

- The costs of doing business in the DRC are further increased by inadequate infrastructure. Many mining areas are not accessible by road, while others only remain open to the outside world because the large mining companies build and maintain access roads. Securing sufficient energy supplies is also difficult, despite the country's massive hydroelectric potential. Several mining companies and other international investors have offered to assist with the rehabilitation and expansion of power generation capacity at Inga, but progress remains very slow.

- The vast majority of the DRC's mining production remains artisanal, which creates complex social, economic and environmental problems. The lack of enforcement of the legal framework for artisanal mining, combined with the lack of viable alternatives for miners, makes it very difficult for formal mining companies to carry out their activities as planned. The scale of the phenomenon rules out quick solutions and requires instead a national plan for reform of the sector.

Appendix to Annex 1: The Artisanal and Small Scale Mining sector [41]

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

Artisanal mining as a development challenge

1. Artisanal mining is the largest segment of the DR Congo's mining sector and it is estimated that it generates up to 90 percent of minerals production[42]. ASM is the most significant sector of the DR Congo's economy in terms of employment. It is difficult to accurately gauge the number of people working in the DR Congo's ASM sector today as a result of a lack of census data and the direct relationship between the number of people working in the sector and fluctuations in world mineral prices[43]. Estimates vary, but 500,000 to 2,000,000 diggers *(creuseurs)* are thought to be actively and directly involved in extraction of minerals (World Bank, 2008). With an average of four to five dependents for each digger, the total number of persons whose livelihood depends on this activity for could be as high as 8 to 10 million – or 14 to 16 percent of the total population of Congo (Ibid.). While secondary economies and supply chains in ASM in the DRC remain underdeveloped in general, the number of people dependent on ASM increases exponentially when factoring in those involved in current supply, trade, control and policing. Garrett and Mitchell estimate the trading chains in minerals from Eastern DR Congo sector sustains a further 1,000,000 people regionally (DFID, LSE, CRG, 2009). In the difficult context of the DR Congo, the ASM sector is a popular employment provider for the following non-exhaustive reasons (Garrett, 2008):

- ASM is perceived as the best income generating opportunity locally;
- Rising global mineral demand and related higher mineral prices;
- A slowly progressing domestic economic recovery process, which entails limited income opportunities in the formal sector;
- Both domestic and external migration into a sector that provides an income opportunity of last resort;
- The end of armed conflicts in some areas, which has seen many marginal social groups, such as ex-combatants, war-related orphans and IDPs (Internally Displaced Persons) seek their luck in the mines;
- The continued instability in other areas, which has led many to give up their traditional source of income, such as farming.

2. Artisanal mining in the DRC is legal under the 2002 Mining Code, however the conditions stated in the law are flouted in every respect therefore the majority of artisanal

[41] This section is largely based on two reports: Nicholas Garret, 2009, Mining as a Source of Growth in the DR Congo (World Bank CEM background paper, forthcoming); and PACT Congo, 2010, Artisanal Mining in the DR Congo (study financed by DFID in the context of PROMINES preparation).

[42] The nature of artisanal mining makes it very difficult to obtain reliable information. Information on the quantity and value of artisanal mining production, as well as the number of artisans, has been compiled from a number of sources, including government statistics, UN Security Council reports, various donor-supported (DFID, USAID) studies, and studies of various NGOs such as Global Witness. Production volumes have been balanced with official statistics (USGS, BGR) and sectoral reviews (Goossens).

[43] The higher the prices, the more lucrative the activity becomes, and the more people flock to the mines.

exploitation is in fact carried out outside the law. Artisanal mining in the DRC is inefficient. Prospection is carried out on the basis of opportunism, history, rumor, luck and superstition. Extraction requires manual labor, using rudimentary techniques and equipment, usually with little regard for issues such as health and safety, or environmental impact. Sites are poorly planned, if at all, and mining is inefficient with resources being wasted and site potential being under-utilized. Industrial-grade sites are illegally occupied by artisanal mining groups causing conflicts and deterring foreign investors. Significant amounts of funds, time and effort are wasted in inappropriate investments due to lack of geological knowledge, poor advice and desperation. Once minerals are extracted, they enter a trading system which is heavily weighted in favor of key individuals or cartels, may be illegal, and generally fails to deliver appropriate benefits to the state in terms of taxes and export revenues.

3. Over and above these technical and economic problems, artisanal mining is frequently associated with negative social impacts including migration, substance abuse, health problems, prostitution, child labor, gender discrimination and violence. Artisanal mining in eastern DRC is also inextricably linked to insecurity as mines are reportedly controlled, in varying degrees, by military or militia elements. According to several reports from the UN and a number of CSOs active within the region, this leads to conflict, disruption of communities, forced labor, theft, corruption, and violence against individuals as well as providing a source of funds to maintain the rogue security forces in the region.

4. However, despite this significant array of problems and challenges, artisanal mining is one of the most important livelihoods in the DRC and, from the point of view of the mining sector, has a potentially important role to play in the country's economy and society if practices, regulation and impact could be improved. It is this potential which PROMINES seeks to identify, support and develop.

Rationale for supporting the artisanal mining sub-sector

5. The revitalization of the mining sector in the DRC does not solely depend on creating a climate for increased industrial mining, rather it requires identifying and developing the frameworks and resources through which all of the DRC's mineral resources can be exploited in a responsible and appropriate manner such that increased benefits reach the poor; that minerals contribute effectively to national growth and stability; that environmental and social risks are minimized and mitigated; and that the rights of people and impacted by mining are respected.

6. The points in favor of artisanal mining being considered as a legitimate part of the mining sector in the DRC include:

- Ore bodies vary widely in terms of their scale, depth, mineralization, and grade therefore different strategies and techniques are required if the full spectrum of DRC's minerals are to be exploited efficiently. Large, deep resources need significant investment, based on sound geology, using industrial mining techniques for exploitation. However there are other ore bodies or mineral deposits which also have economic value but do not justify significant investment in major mine plant and equipment. Some ore bodies lend themselves to manual labor if the resource is reasonably accessible but too dispersed for efficient mechanical recovery. Others would require excessive investment in infrastructure to be viable for industrial mining and therefore may be more suitable for a smaller-scale approach. All of these have potential to deliver value to the population and the government if they are effectively and safely exploited through regulated artisanal mining. Looking across the DRC's resources to match the grade and scale of deposits with their appropriate exploitation technique will contribute to overall resource efficiency in the mining sector.

- As with many manual versus mechanized labor systems, artisanal mining employs far more physical workers than would be the case if heavy machinery is used. There are high hopes for the positive impact on employment that the industrial mining sector in the DRC will generate but, in fact, the direct employment opportunities are relatively limited with peak casual labor levels during mine development and, thereafter, a comparatively limited number of low-skilled jobs available to very specific communities immediately around the mines. Of course the indirect employment opportunities generated by associated industries and services that service large mines is also a key point to consider, however this equally applies to artisanal mining which has a vast and complex economic web around the mining areas. Efforts cannot focus solely on creating large-scale mining employment opportunities, the role that artisanal mining plays cannot be discounted.
- Building industrial mines, training people, creating jobs, stimulating service industries, and generating an in-direct economy which is sustainable post-mining all take time, resources and considerable, coordinated effort on the part of business, government and donors. In the many years that this will take, mineral exploitation will continue to be a viable livelihood opportunity for hundreds of thousands, if not millions, of Congolese citizens. The reality is that artisanal mining is not going to stop any time soon therefore efforts are required to regulate and improve this activity in the interim.
- Artisanal mining is very much about people and resources at the most basic level. There is a sense of disenfranchisement in many communities in which foreign, industrial mining companies operate where it is perceived that the people of the DRC no longer have control of, or access to, their 'own' resources. Artisanal mining is (or can be if well managed) 'the people's mining' and can deliver a greater sense of ownership of, and direct participation in, the mining sector.

Priorities to improve artisanal mining

7. Among the challenges to address, consultations organized during the preparation of PROMINES identified the following priorities.

- The Mining Code came in after artisanal mining already started and its retrospective application when activity is already underway is very complicated;
- The Mining Code is not harmonized with the Forestry and Land Codes which leads to resource and rights conflicts;
- The process of decentralization commenced after the establishment of the Code therefore aspects of transfer of authority to the provinces have not been included. For example, there is no clear role in the Code for the Provincial Ministry of Mines;
- Decisions taken at Kinshasa do not take into account the provincial realities;

- The Mining Code provides for Artisanal Mining Zones however there is a lack of practical knowledge of the value and suitability of sites and no precedents for conversion of titles into Artisanal Mining Zones;
- All suitable sites have already been granted to industrial mining companies so there is no place for Artisanal Mining Zones to be established;
- There is no provision in the law for the State Owned Enterprises to permit artisanal miners to work on their concessions;
- Certain actors who participate in the sector (e.g. small-scale companies carrying out earth movements on artisanal mining zones) do not have defined roles and responsibilities under the law therefore this needs revision.
- A revision of the cost of the Carte de Creuseur is required if artisanal miners are to be incentivized to get their cards;
- 30m depth is realistic for alluvial materials but is not deep enough for hard rock minerals;

8. More than the mere revision of the texts, people agreed that what is needed is a realistic plan which can help the sector (a) address some of the fundamental disparities which exist over mineral access and rights; (b) review the (relatively few) clauses which pertain to technical aspects of mining that need changing; (c) disseminate the legal or regulatory documents in local languages and appropriate media as an essential step towards promoting knowledge, understanding and respect of the law; and (d) enabling the actors involved in implementing, monitoring and enforcing the law.

9. Given the multiplicity of challenges, the Ministry of Mines has taken a two-pronged approach: i) support at the institutional level, to improve the performance of key institutions in the management of artisanal mining; ii) support at the pilot level, to develop innovative approaches to improve the livelihoods of artisanal mining communities. This pilot approach should focus on a selected number of topics that would be tested in targeted areas and then documented in a systematic way in view of replication. Those topics would include: formalization in artisanal mining zones, relationship between artisanal and industrial mining, child labor and gender-based discrimination, health and environmental risk mitigation related to mercury use in gold mining, and traceability of minerals.

Support at the institutional level

10. There are a range of government services and actors involved in the management of artisanal mining in the DRC. Those described in the Mining Code are:

Government Actor	Role and Responsibilities
President of the Republic	Declaration of minerals as 'reserved substances', notably uranium, thorium and all radioactive ores *(this is relevant to artisanal mining as, in Katanga, artisanal miners are actively mining radioactive substances)*
National Minister of Mines	Creation of artisanal exploitation zones; Granting and withdrawal of approval for authorized traders for the purchase of artisanal exploitation products; Issuing of authorizations for the processing or transformation of artisanal exploitation products.

Provincial Governor	Issuing of traders' cards for artisanal exploitation products
Provincial Authority of Mines	Issuing of artisanal miners' cards
The Mining Registry[44]	Registration of artisanal mining zones in the national database; Assuring that mining titles granted to mining companies do not overlap with artisanal mining zones
The Geology Directorate	Opening and closing down of an artisanal exploitation area
Directorate of Mines	Compiling and publishing statistics and information about the production and sale of products from mines and quarries; Controlling and inspecting small-scale mining exploitation and the artisanal mining exploitation; Receipt and processing the applications for approval of authorized traders; Issuing its opinion in the event of the opening of an artisanal mining exploitation area; Issuing its opinion on the applications for approval of authorized traders for gold, diamonds and other artisanal mining mineral substances
Department in Charge of the Protection of the Mining Environment	Definition and the implementation of the mining regulations concerning environmental protection with regard to the rules governing artisanal miners

Further to these agents and services listed in the Mining Code, Article 14 of the Mining Regulations identifies four technical services within the mining ministry which have specific responsibilities in the artisanal mining sector:

- The Service for Assistance and Organization of Artisanal and Small-scale Mining - *Service d'Assistance et d'Encadrement d'Artisanal et Small Scale Mining* (SAESSCAM);
- The Technical Unit for Coordination and Planning of Mining – *Cellule Technique de Coordination et de Planification Minière* (CTCPM) (www.miningcongo.cd);
- The Centre for Evaluation, Expertise and Certification - *Centre d'Evaluation, d'Expertise et de Certification* (CEEC) for precious and semi-precious minerals (www.ceec.cd);
- The Mining Registry referred to above - *Cadastre Minier* (CAMI) (www.cami.cd).

11. The DR Congo's government has put in place SAESSCAM, the Congolese state's body for providing technical and extension services to the ASM sector, and fostering the formation of cooperatives. It was established by presidential decree in March 2003, following a pilot project set up in 1999 in Tshikapa[45]. The World Bank reports that amongst other issues[46], SASSECAM does not have sufficient logistical support in the small-scale and artisanal mining areas, nor are the most of its personnel skilled in specific artisanal and small-scale mining issues (2008). SAESSCAM's most recent organizing effort in Kasai-Oriental has moved to more of a cost recovery model, with the result that, from a digger's perspective, they offer much less and demand much more (Garrett, Mitchell, Levin, 2008). In return for organizing the diggers and

[44] The Mining Registry or *Cadastre Miner* www.cami.cd
[45] GW and PAC, 2004. The Key to Kimberley, *Global Witness and Partnership Africa Canada*, p. 11
[46] Several factors make it difficult for the Government and/or SAESSCAM to effectively intervene in the sub-sector. Workers are paid in sacks of gravel, which renders accurate production statistics difficult to acquire; and the companies for which they work often operate on concessions or permits which belong to other persons, for which the lease payments vary between 20 and 40 percent of the gravel mined.

bringing them into the formal sector, SAESSCAM seemingly expected to receive a 15% share of their production. Most of this money would be funneled to Kinshasa and used to fund SAESSCAM itself, rather than benefitting the diggers, even though some might return in the form of development programs[47]. There is thus a conflict of interest in SAESSCAM's mandate between ASM tax collection and service provision, and similarly to EMAK and CMKK it is not clear whether SAESSCAM always operates in the best interests of the miners[48]. With the help of the NGO PACT, SAESSCAM has developed an ambitious strategy for artisanal mining regulation, strengthening and transition; however SAESSCAM's current capacity constraints make swift results unrealistic (Garrett, 2008). In a field report from the Kasai province, Blore suggests that "the *Ministère des Mines* (MoM) and other state authorities suffer from capacity constraints in their attempts to enforce trade regulations in the field[49], which means the government has effectively ceased most field-based efforts to regulate the artisanal sector as a whole"[50].

12. In the state's absence in many mining areas, opportunist elements have established themselves, while traditional authorities have moved to fill a regulatory gap. It is often village chiefs, a management committee made up of chiefs, or local landowners, who designate dig sites or, in the case of a new and valuable find, allocate plots within the new digging area[51]. Under customary law local chiefs get a significant amount of money for enforcing the law properly, and thus have an incentive to monitor and regulate the operations. The 'legal basis' for most artisanal mining communities and operators thus remains customary law. This has generated the notion of a 'chaotic' sector; a label, which unhelpfully promotes disregard for the customary organizational and institutional structures that govern the sector in many parts of the DR Congo that are based on more realistic, albeit not necessarily equitable configurations of production and trading relations (Garrett, 2008).

Support at the pilot level

13. This pilot approach should focus on a selected number of topics that would be tested in targeted areas and then documented in a systematic way in view of replication. Those topics would include: formalization in artisanal mining zones, relationship between artisanal and industrial mining, child labor and gender-based discrimination, health and environmental risk mitigation related to mercury use in gold mining, and traceability of minerals.

14. Of particular importance is the last one on traceability of minerals. Certification and traceability of artisanally-mined minerals in eastern DRC is a hot issue. International attention first focused on this question in 2000/2001 during the 'coltan boom' when a shortage of tantalum on the international market boosted purchasing from the east of DRC where thousands of artisanal miners could be easily mobilized to quickly meet this short-term market demand. Due to the political insecurity in the east at that time, many mines operated under the control of

[47] Interview with Jean Claude Kabimba of SAESSCAM. 2008. Mbuji-Mayi office, in Blore, S. 2008. *Diamond Mining in DRC,* unpublished document

[48] Blore, S. 2008. *Diamond Mining in DRC,* unpublished document

[49] The MM office in Mbuji-Maji, for example, barely has enough people to staff the 30 or so comptoirs offices in the city.

[50] Blore, S. 2008, Diamond Mining in DRC, unpublished document, emailed to RCSL on August 15th 2008,

[51] Blore, S. 2008. *Diamond Mining in DRC,* unpublished document, emailed to RCSL on August 15th 2008.

various military and rebel groups and the resulting minerals became known as ‘conflict minerals’ or ‘blood minerals’ due to the coercive nature of their extraction and the fact that the proceeds from this trade were used to fund the conflict.

15. International attention on the issue continued in the ensuing years but the issue came back to high prominence in 2009 as a result of various reports such as the UN Panel of Experts most recent report, Global Witness’ 2009 report, and others. International advocacy and lobby groups have succeeded in gaining the support of US politicians and, as a result, the US congress introduced the Congo Conflict Minerals Act into the legislative process in 2009. This is a bill to require annual disclosure to the Securities and Exchange Commission of activities involving columbo-tantalite (coltan), cassiterite (tin), and wolframite (tungsten) from the DRC.

16. The impact of the lobby groups, the exposé reports, and the industry-led initiatives is tangible. In Goma in December 2009, traders reported a 50% decline in production and processing as buyers pulled out of the cassiterite trade under pressure from international lobby groups. The *Association des Negociants de Minerais de N.Kivu* (AMEMNKI) reports that the number of legal negociants of these metals operating in Goma has reduced from 180 in 2008 to 50 this year. The lack of sales results in lack of funds available to finance artisanal mining activities which, in turn, results in reduced production. Thus a cycle is being perpetuated which is eroding artisanal mining productivity.

17. Some groups are lobbying for an embargo on minerals from eastern DRC on the basis that they come from mines controlled by the military or that the minerals they produce are used to finance military activity. This was strenuously denied by *negociants* and *comptoirs* who were interviewed during the Study. They consider that these external actors’ observations are based only on perceived negative aspects without understanding the reality in the mines, nor acknowledging efforts being made by local actors to improve governance and traceability. During the course of our research, this was manifest as active hostility towards international NGOs and some foreign actors.

18. However, while the investigations and accusations resulted in significant resentment on the part of traders and anger in the artisanal mining community, it is important to note that it has also produced positive impacts. There is a wide-spread willingness to participate in certification systems to ensure access to markets, even from actors who might previously have been indifferent or dismissive.

19. There is a certain sense that the situation has swung from one extreme to another. The minerals trade in eastern DRC has gone from a situation in which there were years of criticism without any positive interventions to one in which there is a plethora of initiatives from different interest groups who all want to make a difference. These initiatives include:

- A traceability scheme for tin being implemented by ITRI (International Tin Supply Chain Initiative) with local partners in the Kivus;
- Extension into the DRC of the mineral certification system (Certified Trading Chains – CTC) established in Rwanda by the German government;

- Establishment of a regional certification system being explored by Partnership Africa Canada with the German government;
- A local, grassroots initiative by the Negociants of Goma to trace minerals in North Kivu;
- Creation of trading centres (Centres de Negoce) for artisanally-mined minerals in the Kivus with a direct link to the presence of MONUC and the FARDC to ensure security in those areas;
- Initiatives to promote de-militarization of the artisanal mining areas in the Kivus by the Task Force; (elaborate)
- Mapping of artisanal mines and military/militia presence by the Belgian NGO, IPIS;
- Recommendations by the UN Panel of Experts that a roving certification body be established;
- Research and recommendations by consumer industry groups including RESOLVE; GESI; EICC; BSR; and MakeITFair

20. At this point, one of the major challenges is that the initiative lack sufficient coordination to ensure that there are neither gaps nor duplication. Some of the initiatives are working intensively at international level without a very strong connection to the field and to actors there which means that: (a) Congolese actors feel disenfranchised, and (b) the initiatives do not benefit from having first-hand local knowledge and participation. Transforming the willingness on the part of local, national and international actors into a concrete and credible system of traceability and certification will require considerable effort. On that particular topic PROMINES activities will focus on this much needed coordination effort.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

1. World Bank Funded Projects			
Projects	**Sector Issue**	**Latest ISR for ongoing Projects and IEG for Completed Projects**	
		Implementing Progress (IP)	Development Objectives (DO)
Mining Sector Review P101019	Economic and Sector Work. Provide information on mining in DRC, help better assess the impacts and plan to strengthen the linkages of the mining sector with other economic sectors, and provide a platform for continued dialogue between the Bank and the government, private sector and companies	Completed in 2008	Satisfactory
Extractive Industry Transparency Initiative (EITI) P098842	Multi-Donor Trust Fund. Support implementation of EITI, a platform for governance reform in mining sector (reconciliation of payment and revenues; capacity building in government and civil society) in DRC	Moderately unsatisfactory	Moderately unsatisfactory
DRC Private Sector Development Competitiveness (FY04) P071144	Assist with improving the investment climate, supporting reform of public enterprises including in mining, and stimulating economic diversification and development in the Katanga region through community-driven development approaches	Satisfactory	Satisfactory
CD-IDF Ministry of Mines TA (FY98) P056069	Policy dialogue, seminar with the sector's stakeholders to discuss the future orientations for mining; study tours for exposure to international best practices through field trips; and legal reform for the drafting of a new mining code.	Completed in 2001	Satisfactory
DRC-Enhancing Governance Capacity (FY08) P104041	To enhance transparency and efficiency in central and sub-national public finance and human resource management. To establish and consolidate an equitable resource sharing mechanism between central and sub-national government	Moderately Satisfactory	Moderately Satisfactory

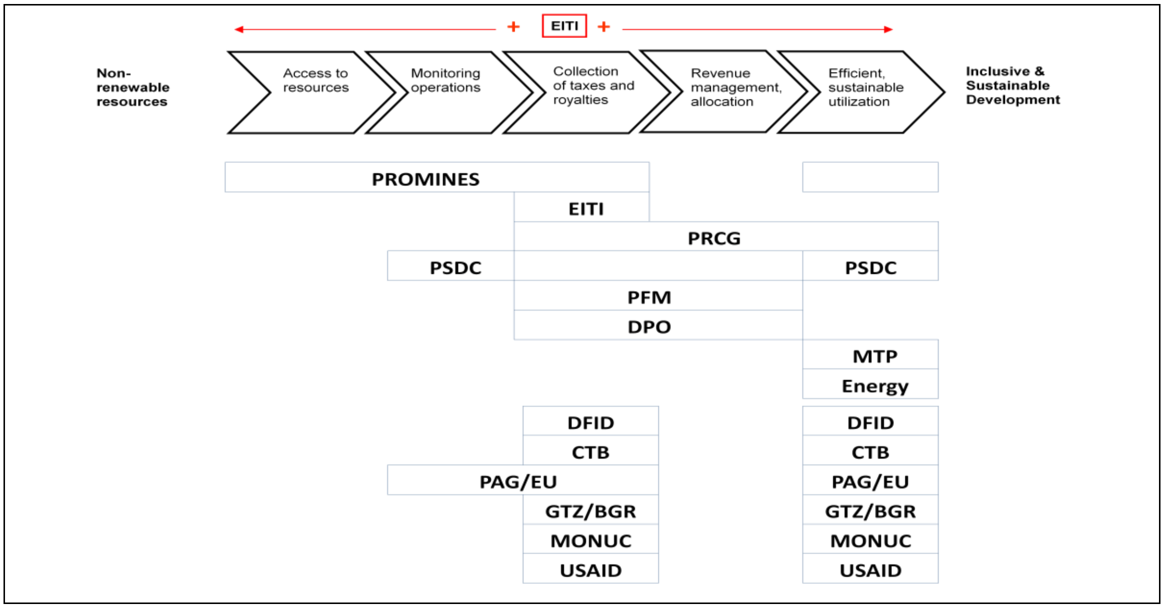
1. World Bank Funded Projects			
Projects	**Sector Issue**	**Latest ISR for ongoing Projects and IEG for Completed Projects**	
		Implementing Progress (IP)	Development Objectives (DO)
Country Economic Memorandum P106432	Economic And Sector Work. Analysis of the sources of growth	In preparation (to be delivered in 2010)	N/A
CD-Mining PSIA (FY07) P085120	Rapid analysis of the social impact of broad-based retrenchment policy of DRC mines, including social risk analysis	Completed in 2007	Satisfactory

2. Examples of coordination between Bank Projects along the EITI++ value chain

Mining State-Owned Enterprises (EITI++ link 2)	
PSDC	**PROMINES**
- Support to SOEs debt management - Revision of collective bargaining agreements - Transformation of SOEs to limited liability corporations - New management team (GECAMINES)	- Negotiation of mining transactions and portfolio management capacity building - Mineral resource assessments (based on existing data)
Mining Tax Collection (EITI++ link 3): PROMINES	
- Awareness raising - Mining taxation calculation and communication on results - Support to statistics collection and management - Capacity Building of Tax collection agencies as needed - Mining taxation trainings (for institutions and civil society) - Support to transparency mechanisms: EITI, Kimberley, Traceability	
Allocation of revenues and redistribution (EITI++ link 4): PRCG	
- Providing provinces and local authorities with predictable revenue levels - Designing and implementing a sound and coherent legal basis for the operation of provincial and local governments - Aligning the legal basis for the organization and management of the public service with the decentralization process and assessing capacity building needs - Modernizing the legal basis for public financial management - Development of budget management systems at provincial level - Building regional development project management capacity in order to enable the provincial governments to formulate economic development opportunities Conducting a comprehensive training needs analysis of the core public service	

3. Projects Funded by Other Development Agencies			
Projects	**Action**	**Development Agency**	**Status**
Civil Society Fund for Good Governance	• Support to DRC NGOs to strengthen advocacy for better mining sector governance	DFID, Canada, Netherlands and Sweden	Effective
KEIDI	• Katanga Extractive Industries Development Initiative: Local Economic and Community Development (in partnership with USAIDDFID and selected mining companies). DFID and USAID	DFID, USAID	Under preparation
Projet d'Appui à la Gouvernance (PAG)	• Gemology Institute in E DRC • Support to CEEC and SAESSCAM • Management of mining fiscal revenues	European Union	Effective as of December 2009
EITI	• Extractive Industries Transparency Initiative	GTZ, with support from DFID, CTB and WB	Effective
Projet d'Appui à la Gouvernance	• Management of mining fiscal revenues • EITI	GTZ	Effective (2009-2012)
	• Support to the definition of a traceability system	BGR	
	(H. Clinton initiative) • Transparency and Good Governance • Local Economic Development	US Department of State	Under preparation
	• Taskforce on illegal exploitation of natural resources • EITI	CTB	Effective
	• Centres de négoces (Kivus)	MONUC, Canada and DFID	Effective
Potential involvement considered by additional donors			
	• Extractive Industry Contract Negotiation	BAD	Under evaluation
	TBD	Canada	Under evaluation
	• Mining sector training	South Africa (Mintek)	Under evaluation

Schematic representation of WB and donors projects areas of activities in relation of the EITI++ value chain.



Annex 3: Results Framework and Monitoring

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

Results Framework

<table>
<tr><th>PDO</th><th>Project Outcome Indicators</th><th>Use of Project Outcome Information</th></tr>
<tr><td colspan="3">To strengthen the capacity of key institutions to manage the minerals sector, improve the conditions for increased investments and revenues from mining, and help increase the socio-economic benefits from artisanal and industrial mining in Project areas.</td></tr>
<tr><td>(a) Strengthened institutional capacity to manage the sector in an efficient, accountable and transparent manner

(b) Improved conditions for increasing investment in and revenues generated by the mining sector

(c) Increased socio-economic benefits of artisanal and industrial mining for communities in Project areas</td><td><u>Mining sector management</u>

Performance of key institutions in the minerals sector to enforce the legal and regulatory framework

Status of transparency and accountability mechanisms

<u>Investments and revenues</u>

Private investment in the mining sector

Fiscal revenues from the mining sector

<u>Socio-economic impacts</u>

Working and living conditions of artisanal and industrial mining communities in Project areas</td><td></td></tr>
<tr><th>Intermediate Outcomes</th><th>Intermediate Outcome Indicators</th><th>Use of Intermediate Outcome Monitoring</th></tr>
<tr><td colspan="3">Component A: Access to Resources</td></tr>
<tr><td rowspan="3">Improve basic conditions for access to mineral resources to encourage increased investments in and revenues generated by the mining sector</td><td>The geodesic system</td><td></td></tr>
<tr><td>Availability of geological information for the country</td><td></td></tr>
<tr><td>Communication and information flow within the sector, including consultation with civil society</td><td></td></tr>
<tr><td colspan="3">Component B: Sector Management Capacity Building</td></tr>
<tr><td>Strengthen the Government's</td><td>Presence and capacity of CAMI</td><td></td></tr>
</table>

capacity to manage the mineral sector	(Mining Titles Registry)	
	Capacity and performance of SAESSCAM (Government Service to Support Artisanal Miners)	
	Status of technical and professional training institutes and programs in Katanga	
Component C: Tax Collection and Transparency		
Strengthen the Government's capacity and accountability in mining tax collection	Production of EITI reconciliation reports for increased transparency of mining sector	
	Status of tax collection framework for mining sector	
Component D: Sustainable Development of Mining		
Develop innovative approaches to improve socio-economic impacts of artisanal and industrial mining in three provinces	Monitoring of social and environmental impacts of industrial mining activities involving the participation of local communities	
	Integration of mining activities in provincial and local economic development	
	Number of artisanal mining sites upgraded and formalized	
Component E: Project Coordination and Management		
Monitoring and Evaluation	M&E framework	
	Household economic data in mining areas	

Note on the grey-colored Table below. The table shows overarching goal and indicators towards the achievement of which the project would contribute within the broader framework of the EI value chain context, which include a number of other Government's, WB and donors initiatives. As a result of the joint project preparation with the Government and with DFID, it was agreed that these indicators would be monitored by the project as they are important in the context of the overall mining sector development. This agreement was confirmed during negotiations. The following tables are specifically project- related.

NB: The overarching goal and overarching indicators shown in the gray table below are higher-level aspects related to the Project. These indicators will be tracked as part of Project supervision since they are important to the context of the Project. The more specific Project-related indicators are shown in the tables that follow.

OVERARCHING GOAL: To improve governance of the mining sector and increase its contribution to economic growth, sustainable development and poverty reduction

Overarching Indicators[1]		TARGET VALUES						DATA COLLECTION AND REPORTING			Assumptions
		Baseline 2009 (2008)	Milestone 2010/11[1]	Milestone 2011/12	Milestone 2012/13	Milestone 2013/14	Target 2014 (2015)	Frequency of Reporting	Source & MoV/Data Collection Instruments	Responsibility for Data Collection	
Real annual GDP growth	%	2.7% (2009) 6.2% (2008)	5.4%	7.2%	6.9%	8.2%	6.8%	Biannual reviews of PRGF	IMF reports	WB/DFID to collect	
Deviance between officially recorded fiscal receipts from mining (copper and cobalt) sector and those declared by private sector mining companies	%	Deviances for Copper & Cobalt: 4.4% for Redevance miniere, 1.6% for Income tax 66% for surface based taxes[2] Overall deviance for Copper & Cobalt 15% (EITI report on 2007 data)	Deviance for Copper & Cobalt: 15%	Deviance for Copper & Cobalt: 10%	Deviance for Copper & Cobalt: 7%	Deviance for Copper & Cobalt: 5%	Deviance for Copper & Cobalt: 0% Overall deviance of 5% for mineral substances covered by EITI reports[3]	Annual	EITI Reconciliation Reports	WB/DFID to review DRC's EITI reports as well as reports issued by the International EITI Secretariat	
Share of domestically financed central expenditure for poverty focussed sectors (education, health, agriculture, rural development, infrastructure & public works)[4]	%	12% (2010 budget)[4]	At least no reduction over the baseline	At least no reduction over the baseline	At least no reduction over the baseline	At least no reduction over the baseline	At least no reduction over the baseline	Budget annual; Expenditure reports bi-annual	DRC national budget and expenditure reports	WB/DFID to review reports	
Mining sector contribution to GDP growth[z]	%	23.7% (2008) -61.1% (2009)[5]	+50% to GDP real term value contribution	+60% to GDP real term value contribution	+65% to GDP real term value contribution	+70% to GDP real term value contribution	+75% to GDP real term value contribution	Annually	WB/IMF reports	WB/DFID to review reports	

PROJECT DEVELOPMENT OBJECTIVE/PURPOSE: To strengthen the capacity of key institutions to manage the minerals sector, improve the conditions for increased investments and revenues from mining, and help increase the socio-economic benefits from artisanal and industrial mining										
	TARGET VALUES						DATA COLLECTION AND REPORTING			Assumptions/ Comments
Project Outcome Indicators	**Baseline 2009 (2008)**	**Milestone 2010/11[1]**	**Milestone 2011/12**	**Milestone 2012/13**	**Milestone 2013/14**	**Target 2014 (2015)**	**Frequency of Reporting**	**Source & MoV/Data Collection Instruments**	**Responsibility for Data Collection**	
Strengthened institutional capacity to manage the sector in an efficient, accountable and transparent manner										
Performance of key institutions in the minerals sector to enforce the legal and regulatory framework	The existing framework is poorly enforced	Weaknesses and gaps in existing framework and level of enforcement identified	Proposals for improvements to the framework and how it is enforced agreed	Recommended improvements adopted by the government	Revised framework adopted by parliament, promulgated by the president and published in the official journal	Improved framework effectively enforced[6]	Biannual project reporting	Project monitoring reports[7], Consultancy Reports, Steering Committee Meeting Reports	PIU	Political will for reform exists All government services involved in the mining sector agree on need for reform
Status of transparency and accountability mechanisms	Very limited availability of data; Debate largely dependent on NGO reports or poor quality media reporting; Little informed public debate	DRC achieves EITI validation which includes the dissemination and discussion of 1st EITI Reconciliation Report (national and provincial levels) Project accountability platform concept fully articulated	Dissemination and discussion of EITI Reconciliation Reports (national and provincial levels) Project accountability platform launched	Dissemination and discussion of EITI Reconciliation Reports (national and provincial levels) Project accountability platform achieves its objectives[6]	Dissemination and discussion of EITI Reconciliation Reports (national and provincial levels) Project accountability platform achieves its objectives	Dissemination and discussion of EITI Reconciliation Reports (national and provincial levels) Project accountability platform concept evaluated and decision over its future beyond the project agreed	Annually	EITI reporting Media reporting Project monitoring reports	PIU	EITI process remains on track

Improved conditions for increasing investment in and revenues generated by the mining sector										
Private investments in the mining sector (number of investments over 10 million dollars)	23 declared investments over $10 million in Copperbelt[8]	Maintain or increase over baseline	10% increase over baseline	15% increase over baseline	20% increase over baseline	25% increase over baseline	Annually	Ministry of Mines website	WB/DFID to review data from website	Public and private investments in infrastructure continue
Fiscal revenues from the mining sector	Revenues from the mining sector collected at export point $75 million (2008) Overall mining tax collected in 2007 for copper & cobalt: $70 million (EITI report)[b]	$100 million	$150 million	$200 million	$250 million	$300 million	Annually	Reports from the Ministry of Finance EITI reports, reports from the Ministry of Mines, NGOs	PIU	Political will for reform exists at national and provincial levels Resistence to reform within existing structures and institutions can be overcome
Increased socio-economic benefits of artisanal and industrial mining for communities in project areas										
Working and living conditions of artisanal and industrial mining communities in project areas	Very limited availability of data. Reports on specific sites suggest that: 20% of diggers in Kolwezi (Katanga) are children, 40% of people involved in ASM (including support actvities) are women, On average, copper & cobalt diggers in Katanga earn $100-$120 per month. Detailed indicators, baseline, milestones and target will be established as part of project monitoring system[10] (including household consumption in targeted mining communities)	% increase over baseline	% increase over baseline	% increase over baseline	% increase over baseline	% increase over baseline	Biannual project reporting	Project monitoring system reports 1-2-3 survey reports	PIU	Security in project areas is maintained

INTERMEDIATE OUTCOME INDICATORS/OUTPUTS	TARGET VALUES						DATA COLLECTION AND REPORTING			Assumptions/ Comments (critical issues will be monitored through project monitoring system [5])
	Baseline 2009 (2008)	**Milestone 2010/11**	**Milestone 2011/12**	**Milestone 2012/13**	**Milestone 2013/14**	**Target 2014 (2015)**	**Frequency of Reporting**	**Source & MoV/ Data Collection Instruments**	**Responsibility for Data Collection**	
Component A. Improve basic conditions for access to mineral resources to encourage increased investments in and revenues generated by the mining sector										
The geodesic system	Very limited geodesic network with 35 points exists in the south; system does not exist in north and centre of the country	Detailed plan for national coverage developed	Network upgrade being carried out	Geodesic network covers the whole country	Geodesic network has achieved target density (as defined in plan)[11]	Geodesic network covers the whole country has achieved target density (as defined in plan)[11]	Biannual project reporting	Project monitoring reports, consultancy reports	PIU	Technical feasibility of upgrades to the geodesic system and national geological database
Availability of geological information for the country	Existing data scattered and incomplete	Contract for design of geological database awarded	Design of geological database completed	Regional Geophysical and Geological Surveys over key areas with minerals potential carried out	National geological database fully operational[12]	Database publicly accessible and range of maps produced	Biannual project reporting	Project monitoring reports, consultancy reports, outputs from the database, Ministry of Mines website	PIU	Upgrades to the geodesic system and national geological database can be carried out within reasonable budget
Communication and information flow within the sector including consultations with civil society	Ministry's communications with stakeholders in government, the private sector and civil society unplanned and ad hoc which hampers the development of a coherent vision for the future of the sector	Communications strategy and associated tools for more systematic dialogue involving all relevant stakeholders in the sector developed and approved	Satisfactory implementation of the strategy[9]	Ministry organises at least 4 communications events (newsletters, roundtables, conferences)	Ministry organises at least 4 communications events including a national roundtable discussion on the future directions of the sector	Ministry communicates regularly and professionally with all relevant stakeholders	Biannual project reporting	Project Monitoring Reports Reports from the Ministry of Mines Consultancy Reports Written Communications Material	PIU	Commodity prices remain stable

Component B. Strengthen the Government's capacity to manage the mineral sector										
Presence and capacity of CAMI (Mining Titles Regsitry)	No functional CAMI operations at provincial level	Plan for strengthening CAMI's presence in 3 target provinces developed and endorsed by the Minister of Mines	1 fully-functioning[13] CAMI operation at provincial level	2 fully-functioning CAMI operations at provincial level	3 CAMI offices fully operational at provincial level providing quality information and services within agreed timeframes	Fully-functioning CAMI operations at national level and in target provinces	Biannual project reporting	Reports from Ministry of Mines and COPIREP Consultancy Reports CAMI website Spot check visit reports Project Monitoring Reports	PIU	Political will for reform exists Resistence to reform within existing structures and institutions can be overcome
Capacity and performance of SAESSCAM (Government Service to Support Artisinal Miners)	SAESSCAM presence and capacity weak and not fulfilling its remit to provide support services to artisinal miners	National and provincial plan for SAESSCAM restructuring developed	National and provincial plan for SAESSCAM restructuring adopted by GoDRC	Satisfactory[11] implementation of national and provincial plan	Satisfactory[11] implementation of national and provincial plan	National plan fully implemented, SAESSCAM reformed and fulfilling its remit to provide support services to artisinal miners	Biannual project reporting	Reports from Ministry of Mines and SAESSCAM, Consultancy Reports Discussions with SAESSCAM staff, NGOs, local communities, artisanal miners during Supervision Project Monitoring Reports	PIU	Political and strategic stability to see through complex reform processes is maintained
Status of technical and professional training institutes and programmes in Katanga	Technical institutes in Katanga are run down and their programmes are not adapted to modern industry requirements	Improvement plan for technical institutes and university programmes developed and agreed	Upgrading of selected institutes and university programmes being carried out in accordance with agreed plan[11]	Technical apprenticeships delivered Start of long term professional education programs	Beneficiaries of apprenticeships enter job market Upscaling of professional education programs	Technical institutes in Katanga providing competent workforce for mining operations Significant increase in local hire versus expatriates by mining companies[14]	Biannual project reporting	Reports from provincial education services and from training centres themselves	PIU	Training centres can be upgraded within reasonable budget

Component C. Strengthen the Government's capacity and accountability in mining tax collection										
Production of EITI reconciliation reports for increased transparency of mining sector	1st EITI reconciliation report for copper and cobalt produced covering FY 2007	Government and mining sector companies provide necessary information for cobalt and copper for EITI reconciliation report for FYs 2008 and 2009	Government and mining sector companies provide necessary information for cobalt, copper, and one other resource for EITI reconciliation report for FY 2010. Recommendations from previous report acted on.	Government and mining sector companies provide necessary information for cobalt, copper, and one other resource for EITI reconciliation report for FY 2011. Recommendations from previous report acted on.	Government and mining sector companies provide necessary information for cobalt, copper, and one other resource for EITI reconciliation report for FY 2012. Recommendation s from previous report acted on.	Government and mining sector companies provide necessary information for cobalt, copper, and one other resource for EITI reconciliation report for FY 2013. Recommendations from previous reports acted on.	Annually (2 FYs to be covered in 2010 to clear backlog)	EITI Reconciliation Reports	PIU, WB/DFID, local EITI Secretariat	EITI process remains on track [need to be careful - EITI reports aren't always produced annually]
Status of tax collection framework for mining sector	Multiple legal taxes - not consistently applied; numerous additional 'unofficial' taxes also applied	Inventory of mining sector related taxes (formal and informal) and procedures for payment. Training programme to reinforce proper implementation of tax regime developed	Modelling of mining taxation revenues	Training programme to reinforce implementation of national mining tax regime rolled out		Tax regime effectively and consistently applied in line with the law[6]	Biannual project reporting	Reports from the Ministry of Finance, EITI reports, reports from the Ministry of Mines, NGOs Project Monitoring Reports; Feedback from private sector	PIU, WB/DFID	Effective measures are taken to tackle corruption at all levels Roles and responsibilities can be clarified between agencies and between central & provincial governments Collaboration with Ministry of Finance is good

Component D. Develop innovative approaches to improve socio-economic impacts of artisanal and industrial mining in three provinces										
Monitoring of social and environmental impacts of industrial mining activities involving the participation of local communities	Social and environmental impacts of mining activities not well understood and managed	Strategic Enviornment and Social Assessment (SESA) carried out in target provinces. Identify suitable mechanisms for community participation	Policy and institutional reforms to reduce environmental and social risks from expansion of the mining sector identified and agreed with community involvement	Risk assessment of selected polluted sites in Katanga carried out with community involvement	Assessment of mechanisms used to involve community participation in monitoring social and environmental impacts of mining activities. Results disseminated nationally	Environmental management and community participation in mining sector improved[6]	Biannual project reporting	Project monitoring reports, Consultancy Reports, reports from the Ministry of Environment, NGO reports	PIU	Political will for reform exists at national, provincial and local levels Complementary reforms and investments in social sectors, infrastructure & SSR are carried out
Formalization of artisanal mining[15]	Poor conditions (economic, social, health and safety, security, etc) in designated artisanal mining sites; Proportion of registered production for gold is between 2% and 10% in 2008 (various sources)	Action plan to strengthen regulation and management of the ASM sector and to improve conditions on and around ASM sites developed and adopted	Successful Implementation of at least two pilots[7]	Review of lessons and start replication in other areas	Improved working conditions on targeted ASM sites Proportion of officially registered ASM production increased by 10% over baseline in target provinces	Conditions (economic, social, health and safety, security, etc) in designated artisanal mining sites improved Proportion of officially registered ASM production increased by 15% over baseline in target provinces	Biannual project reporting	Reports from SAESSCAM, Consulatncy reports, NGOs, project monitoring reports; 1-2-3 survey	PIU	Security situation in Eastern DRC improves Multi-stakeholder agreement to mining development funds can be achieved

E. Establish monitoring and evaluation (M&E) framework for evaluating project implementation and its impact										
M&E framework established	No M&E framework	M&E framework developed and agreed with all relevant stakeholders; baseline data collection	Implementation of M&E system Biannual project monitoring reports produced Biannual project supervision missions with participation from range of stakeholders	Implementation of M&E system Biannual project monitoring reports produced and information/ lessons fed back into project implementation Biannual project supervision missions with participation from range of stakeholders	Implementation of M&E system Biannual project monitoring reports produced and information/ lessons fed back into project implementation Biannual project supervision missions with participation from range of stakeholders	Well functioning M&E system delivering quality reports for all logframe indicators	Biannual project reporting	Consultancy report, Project Monitoring Reports, Aide Memoires from Supervision Missions, M&E reports	PIU, WB/DFID	Suitable M&E infrastructure can be created Sufficient collaboration from governmental and no-governmental stakeholders can be secured Sufficient access to project sites can be secured
Availability of household economic data for mining areas	Non-existent	Mining areas covered in 1-2-3 survey	Data (for 2010) available and disseminated	Repeat survey carried out	Data for 2012/13 available	Reapeat survey carried out Data available after project end	every 2-3 years	1-2-3 survey reports	DRC Statistical Agency, WB	1-2-3 surveys will be carried out as planned

0	These indicators were selected on the basis of being most relevant for the project. DFID DRC and the WB regularly monitor a broader set of social, economic and governance indicators (e.g. HDI, Doing Business, Transparency Corruption Perception Index) which will help to put the project into its broader context
1	Progress in 2010 will be measured in 2011 etc.
2	Baseline figures from DRC's very first EITI report for 2007 and hence accuracy in doubt. There are indications that differences for 2008 are bigger. As tax take increases it is also likely that efficiency of tax collection
3	The project monitoring system will capture data for other mineral resources as soon as they are captured by EITI reporting
4	Overall aim is to increase the share of domestically financed central expenditure for poverty focussed sectors. GoDRC currently working on next PRS which should allow us to set realistic milestones
5	Not meaningful to set targets, but will be monitored to gauge mining sector's contribution to GDP. A reduction over time might be a positive sign of economic diversification & reducing reliance on mining for growth
6	Performance will be assessed as satisfactory (or otherwise) during bi-annual PROMINES supervision missions as well as through ongoing monitoring of the sector by WB & DFID staff
7	TA resources will be provided to the PIU to develop and implement a robust project monitoring system. Design of this will happen between WB approval and project effectiveness. Indicators will be disaggregated by area and gender. Will also monitor critical assumptions.
8	This figure includes project at feasibility stage. Accurate baseline will be confirmed during first six months of project implementation as part of the M&E system
9	2008 & 2009 data for copper & cobalt will be collected through EITI process prior to project effectiveness. Consolidated baseline for this indicator will be confirmed during first six months of project implementation as part of the M&E system
10	1-2-3 survey to cover mining areas will be conducted in 2010 to provide baseline data. Baseline indicators will be disaggregated by area and gender and integrated into project's monitoring system.
11	Performance in implementing the plan will be assessed as satisfactory (or otherwise) during bi-annual PROMINES supervision missions
12	Supervision staff will perform searches using database to confirm its functionality
13	Spot checks will be carried out whereby requests are made of CAMI offices to test their ability to provide the services expected from them under the law. Performance will also be benchmarked against the improvement plan carried out the year before
14	The project monitoring system developed will capture progress and impact and will disaggregate by area, gender
15	Working and living conditions of artisanal miners (approx. 80% of the sector) are very bad largely due to inability of mining sector institutions to manage and support this sector.

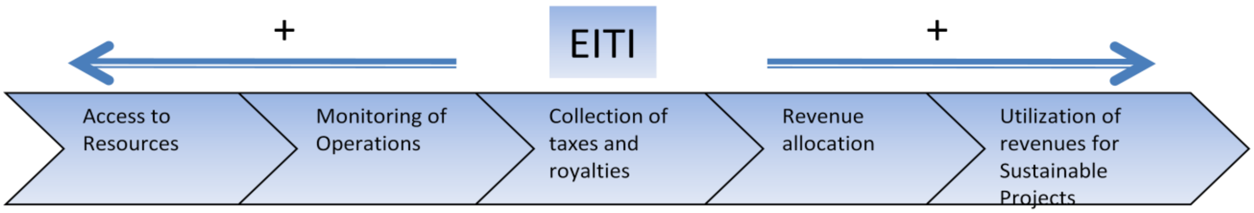
Direct and Indirect Project Beneficiaries (of which % of women)											
Outcome indicators		Unit	Baseline	Target Values					Data Collection and Reporting		
				YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
A Access to Resources											
(i) regulatory framework	indirect		0	0	400k (10)	800k (20)	1,000k (25)	1,400k (30)	Annually	PIU M&E reports	PIU
(ii) communication	direct	persons	0	100k (25)	400k (30)	800k (35)	1,000k (35)	2,000k (40)	Annually	PIU M&E reports	PIU
(iii) geo-infrastructure	direct	institutions	0	CRGM	+CAMI	+CEEC	+Provinces	+Provinces	Annually	PIU M&E reports	PIU
	indirect	companies	0	0	25	50	World access	World access	Annually	PIU M&E reports	PIU
B Build Sector Capacity management											
(i) key sector institutions	direct	institutions	0	6 (National)	Nation.+ 4/Province in 3 Provinces	Nation. +4/Province in 6 Provinces	Nation +4/Province in 6 Provinces	Nation +4/Province in 6 Provinces	Annually	PIU M&E reports	PIU
(ii) negotiation capacity	direct	SOE + GDRC entities	0	4	8	8	8	8	Annually	PIU M&E reports	PIU
(iii) HR development	direct	persons	0	0	200 (10)	300 (15)	600 (20)	1,000 (25)	Annually	PIU M&E reports	PIU
C. Enhance Transparency and Accountability											
(i) Transparency mechanisms	indirect	persons	0	100k (20)	200k (25)	300k (30)	400k (30)	500k (35)	Annually	PIU M&E reports	PIU
(ii) Awareness about law and fiscal conditions	direct	Companies and ASM associations	0	25	30	40	60	80	Annually	PIU M&E reports	PIU
(iii) Accountability platform	indirect	persons	0	100k (25)	400k (25)	800k (30)	1,000k (30)	2,000k (35)	Annually	PIU M&E reports	PIU
	indirect										
D. Sustainable development											
(i) Social and Environmental management	direct	persons	0	0	10k (30)	20k (30)	50k (30)	80k (30)	Annually	PIU M&E reports	PIU
	indirect	persons	0	0	20k (40)	40k (40)	100k (40)	160k (40)	Annually	PIU M&E	PIU

Direct and Indirect Project Beneficiaries (of which % of women)											
Outcome indicators		**Unit**	**Baseline**	**Target Values**					**Data Collection and Reporting**		
				YR1	**YR2**	**YR3**	**YR4**	**YR5**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
										reports	
(ii) ASM	Direct	persons	0	20k (20)	40k (20)	100k (25)	300k (30)	400k (30)	Annually	PIU M&E reports	PIU
	indirect	persons	0	60k (30)	120k (30)	300k (40)	500k (40)	800k (40)	Annually	PIU M&E reports	PIU
(iii) Regional development	indirect	persons	0	0	0	100k (50)	400k (50)	800k (50)	Annually	PIU M&E reports	PIU

Annex 4: Detailed Project Description

Democratic Republic of Congo: Growth with Governance in the Mining Sector (PROMINES) Technical Assistance Project

1. The PROMINES Technical Assistance Project follows the EITI++ value chain framework, which promotes the transformation of non-renewable resources into sustainable development, as illustrated in the following graph:



2. The EITI++ framework was developed by the Bank and formed the basis of several recent analytical works. Used for the first time as an operational tool in this project, it underlies the project's innovative approach to extractive industries governance in DRC. The project has five components that parallel the stages in the value chain: (A) Access to Resources; (B) Sector Management Capacity Building; (C) Tax collection and Transparency; (D) Sustainable Development of Mining. There is no component on Revenue Allocation as explained below. A fifth component (E) covers Project Coordination, Management, and Monitoring and Evaluation.

3. The project will not fund activities that directly address the allocation of mining revenues, which is being addressed by other projects, including the Bank-supported Enhancing Government Capacity Project (PRCG). Since the allocation of revenues is an essential link in the EITI++ value chain, and the Bank has a long-term commitment to DRC's mining sector, this issue may be addressed more directly in future projects.

Component A. Access to Resources (US$ 31.1 million of which IDA US$ 17.3 million)

4. The main objective of this component is to address fundamental impediments to accessing resources and enabling mining operations in DRC. The project will support activities to: (1) improve the policy, legal, and regulatory framework; (2) develop geo-data infrastructure; and (3) develop human resources for the mining sector.

5. ***A.1. Policy, Legal, and Regulatory Framework (US$ 2.7 million, of which IDA US$1.5 million).*** The Government does not have a clear policy for developing the mining sector over the long term. Further, the legal framework set out in the Mining Code and regulations of 2002 and 2003 is poorly enforced, not only because of weak institutional capacity, but also because it is not harmonized with earlier legislation, including the Constitution of 2006, the Framework Law on Environment, the Organic Law on Finance, and the SADC regional texts. The Mining Code also lacks effectiveness because it is poorly understood by stakeholders.

6. This sub-component will provide technical assistance to the Ministry of Mines for (a) the adjustment of the Mining Code and other official texts pertaining to the mining sector. This will include support to work out a Strategy for Mining Development that will guide public and

private stakeholders. It will clarify the respective role of the State and the Provinces and spell out objectives and policy directions for the future of mining institutions and operations. As for adjusting the Mining Code and Regulations, the Project will address notably i) the harmonization with other national legislation and SADC regional texts, notably with respect to the fiscal regime, the environment, and the decentralization process; ii) the role of the different institutions on various aspects including the collection and administration of mining taxes and royalties; iii) the provisions related to Artisanal and Small-scale Mining (ASM); iv) the taxation of mining title transfers; v) the criteria for the financial eligibility of mining title holders; and vi) the procedures for the calculation, collection, and management of financial bonds for the rehabilitation of the environment.

7. DRC's mining sector generates both expectations and frustrations. The demand for proper stewardship of the country's mineral endowment is high but difficult to achieve. There is little understanding of the sector's contribution to the overall economy or potential benefits to local communities. There is also little understanding of the private sector's efforts to operate with higher performance standards, or Government efforts to improve management of the sector. Therefore, this subcomponent will also (b) fund extensive communication, consultation, and information on sector policy and implementation, to help foster participation and understanding among institutions, the private sector, and civil society organizations. Communication products will include flyers, brochures, broadcast videos, and audio spots will be designed in that purpose. A particular focus will be given to training programs related to the mining fiscal regime.

8. ***A.2. Geo-data Infrastructure (US$28.4 million, of which IDA US$ 15.8 million).*** The northern half of the country has not been adequately covered by geodetic surveys. The number and management of connection stations that determine the quality of mapping are also inadequate. The project will (a) fund the completion of national geodetic coverage, which will solve a fundamental problem for mine title administration and proper management of the sector.

9. Despite the mining potential of DRC, little geological mapping and geophysical works have been undertaken at the regional level since independence. Exploration by private companies has mostly targeted previously known areas and occurrences. Scientific knowledge is not stored and managed, and existing information is dispersed and hard to access, sometimes outside the country. As a result, the Government does not have the capacity to properly assess the value of mineral deposits or prospective areas, is unable to properly promote its resources, and cannot control speculation. To assist the State in mastering access to its own resources and preparing for future development of the sector, the project will (b) fund regional geophysical and geological surveys over selected areas, as well as research and partnerships with relevant geo-science institutes; and assist the Ministry of Mines in (c) establishing a national database (GIS) that will allow for the storage, management, and valuing of geographic information, as well as for the production of synthetic geologic and metallogenic maps of DRC. Some economic assessments of selected deposits in the public domain will be conducted; however, detailed resource assessments in prospective and strategic mineral-bearing areas controlled by SOEs will be supported in future projects.

Component B. Sector Management Capacity Building (US$ 24.6 million of which IDA US$ 13.4 million)

10. This critical link of the EITI++ value chain encompasses several issues of particular relevance for DRC. Prior to political difficulties of the 1990s and the reforms initiated through the Mine Law of 2002, SOEs acted as virtual surrogates of the State in providing surveillance and monitoring of operations. In fact, these enterprises still control many of the available exploration and exploitation concessions. However, with the crises of the past several years, the SOEs have fallen on hard times and now require significant restructuring and reform. However, strong political will and decision-making will be needed to address the related high social risks. For that reason, support to SOE reform is not included in this project.

11. The most central challenge in terms of monitoring and surveillance of mining operations is to strengthen mining institutions at the central and provincial levels. Special assistance will be given to correctly structure and monitor extractive industry transactions from the outset, thus reducing the risk of costly or politically difficult remediation at a later stage. The main objectives of this component are, therefore, to: (a) build administration and human resource capacities in key public mining institutions; and (b) strengthen negotiation capacities and portfolio management.

12. ***B.1. Capacities in Public Mining Institutions (US$ 19.2 million, of which IDA US$10.6 million).*** Under this subcomponent, capacity building and technical assistance to key public mining institutions will be based on a thorough organizational audit financed under the Project Preparation Facility (PPF). Follow-up support will comprise restructuring, revision of administration and communication procedures, staffing programs, works, equipment, and training. In addition, the financial viability and sustainability of those institutions will be reviewed and recommendations formulated to ensure their long-term capacity to monitor the sector. The project will mainly support institutions dependent on the central Ministry of Mines, including:

a) CTCPM, the Ministry Cabinet, and the Kimberley Commission;

b) the mining administration, essentially the General Secretariat and the Ministry Directorates, with particular focus on provincial delegations, to ensure good mining inspection in the field;

c) the Mining Cadastre (CAMI), which is internationally recognized as the cornerstone of the mining investment climate. The project will support CAMI's deployment in four additional provinces (it currently has only one decentralized office in Lubumbashi, and needs offices at least in Bukavu, Goma, Kisangani, and Mbuji-Mayi). Activities will include running those new offices for a limited period of time ; updating the computerized system and setting up an intranet to ensure real-time connection between the provincial offices and headquarters in Kinshasa (a critical condition to respect the "first-come first-served" rule governing mining title allocation) ; building staff and management capacities through specific training, seminars, learning trips, and twinning exchanges with foreign counterpart agencies;

d) the Small-scale Mining Assistance and Control Service (SAESSCAM), a special agency founded in 2003 which, despite 400 civil servants, is struggling to provide adequate services to an increasing number of mining artisans. While SAESSCAM is present in many ASM areas and has successfully controlled the subsector in some of them, it requires far more capacities to assist ASMs countrywide;

e) the Centre for Evaluation, Expertise and Certification (CEEC) in charge of the quantity and quality evaluation of precious and semi-precious stones to ensure Government export returns are fair. In practice, fraud in gold and diamond exports is considerable, and the CEEC lacks skills and equipments to exert its quality check in name of the state; and

f) the Center for Geology and Mining Research (CRGM) which is a public institution currently supervised by the Ministry of Scientific Research and in charge of geology and mining research, expertise of mineral ores, geological mapping, and holding of mining titles in name of the state.

13. The project will also assist the provincial ministries in charge of mines in the main mining regions, with support focused primarily on Katanga and both Kivu.

14. Finally, this subcomponent will strengthen environmental monitoring and protection institutions in charge of mining. According to the Mining Code, the Directorate for Environment (DPE) under the Ministry of Mines is responsible for management of the mining environment. However, the coordination between DPE and other directorates, including at the Ministry for Environment, and the procedures to effectively protect the environment—from exploration to the closure of a mining project—are unclear. In addition, an Environment Protection Agency will be created with cross-sectoral responsibilities. The project will therefore support:

a) the DPE and other directorates, especially through the elaboration of clear guidelines for the production, the evaluation, and the validation of environment impact assessments of mining projects, the evaluation of environment and social management plans, and the actual periodic monitoring and evaluation on the field. An information system (GIS) for managing the environment will be piloted as a key monitoring tool;

b) establishment of the Environment Protection Agency, after adoption of the EPA Law;

c) until its creation, the set-up of a Coordination Committee between the Ministry of Mines and the Ministry of Environment, with a clear mandate for improving management of mining environment;

d) the activities of this Committee, including the definition of methodologies and action plans to prioritize missions to mining sites in pilot provinces, and the logistical support to successfully undertake such missions.

15. ***B.2. Capacity Building for Negotiation and Portfolio Management (US$2.7 million, of which IDA US$1.4 million).*** One of the main challenges for the State and for SOEs has been to become involved with the private sector. With their critical need to access finance, several SOEs have concluded joint ventures with private companies that could provide the necessary investment. However, the SOEs signed the contracts with little knowledge of business practices, and several of them turned out being unfavorable. In addition, the Mining Code provides that the

State must be given a free, non-dilutable 5 percent share in any company granted a new mining permit. This mechanism should generate substantial dividends; however, due to lack of business and portfolio management skills, the State has been unable to monitor those shares or claim those dividends.

16. This subcomponent will address capacity building in contract negotiation and other mining business skills. The project will (a) provide dedicated training (legal, financing, mining, processing etc.) to Government staff and help them managing state participations. Subsequent training in portfolio management will be provided especially to the Direction of Participation under the Ministry of Portfolio. The Project will also (b) provide technical assistance to carry out auctioning processes on authorized public deposits in a transparent manner. Complementary assistance could be provided in those matters through the Extractive Industries Technical Advisory Facility (EI-TAF) recently created to assist resource-rich, developing countries to facilitate rapid-response advisory services and capacity building for extractive industry resource policy frameworks and transactions.

17. ***B.3. Human Resources Development for the Mining Sector (US$ 2.7 million, of which IDA US$1.4 million).*** Human resources development in the mining sector will require a long-term effort. Both public and private actors in the sector have repeatedly noted the lack of qualified nationals and training facilities. Training available from universities and technical institutes is inadequate, and historic training centers, such as the Gecamines center in Kipushi are no longer operational. The lack of future leaders for the sector could lead to a disproportionate number of foreign mining professionals and managers in the sector's workforce.

18. The project will focus on Katanga, where demand for trained professionals is high and possibilities to partner with institutes and private entities have already been identified. This subcomponent will:

a) at the provincial level, strengthen university and institute courses in relevant disciplines such as geology, mining engineering, environmental sciences, mineral economics, and project finance. This activity will include a partnership with Lubumbashi University to set up a technical institute to train mining inspectors specializing in health and safety, and social and environmental monitoring. It will also develop the peripheral competencies of contractors in the mining supply chain; and

b) at the national level, provide a pool of funding for professional skills training necessary for the overall development of the sector. Candidates will be selected from public authorities, training institutions, the private sector, civil society organizations, artisanal and small-scale miners, and communities.

Component C. Enhance Transparency and Accountability (US$ 5.4 million of which IDA US$ 3.1 million)

19. Several analyses of DRC's mining sector have found that the Government is not collecting the taxes to which it is entitled. This is due to several factors, including lack of transparency, inefficiencies in the tax administration, conflicts between central and provincial authorities, poor communications and IT infrastructure, lack of proper operational and financial

controls, lack of effective Government control over certain mineral producing areas, and incidences of fraudulent practices on the part of companies as well as Government officials. The financial loss to the state was estimated in 2007 to be on the order of US$150 million per year, but it could be much higher.

20. ***C.1. Transparency Systems for Mining (US$ 3.4 million of which IDA US$ 1.9 million).*** The Government has reaffirmed its commitment to implement the Extractive Industries Transparency Initiative (EITI), and has recently undertaken steps to update the organizational structure of the EITI implementation committee and to reactivate dialogue with private companies and civil society. A first reconciliation report was achieved in December 2009 and the first validation exercise took place in March 2010. The country was granted a 6-months extension to reach full validation. In close coordination with EITI Secretariat, the Project will (a) support the EITI work plan, finance audits, capacity building and workshops to relay the EITI Multi-Donor Trust Fund when it expires.

21. In parallel, the Project will implement other practical mechanisms to promote and monitor transparency in the sector. Much attention has been focused in recent years on the link between mineral trade and the conflict in Eastern DRC. Taking stock of the Kimberley Process that was instrumental in breaking the link between artisanal diamonds and conflicts, the international community has promoted innovative systems to trace minerals from the pit to the exportation point, in order to distinguish between licit and illicit channels. In coordination with GTZ and the German Geological Survey (BGR), which are leading this activity in DRC, the project will (b) support the creation and up-grading of "traceability" systems, mainly for staniferous minerals (cassiterite and coltan) and possibly gold.

22. In addition, there is a need for more reliable statistics on the sector, to address the problem of inconsistent information produced and used by different agencies, which increases opacity and can lead to major revenue losses. The project will, therefore (c) support the creation of a harmonized system for statistics collection and information management, in coordination with the European Union, which will finance the feasibility study and establishment of the organizational structure. The project will assist with additional technical assistance, capacity building, and mainstreaming of the new system through workshops and seminars.

23. ***C.2. Tax Collection Framework (US$ 1 million of which IDA US$ 0.6 million).*** Much remains to be done to reinforce Government tax administration departments and strengthen tax and revenue collection. As other Bank- and donor-funded projects are already supporting this link of the EITI++ value chain, the project will fill the gaps where needed, mainly by undertaking an inventory of mining sector-related taxes and procedures, and modeling fiscal projections. Future support might include assistance to tax collection agencies to address capacity building and resource issues; as well as possible deployment of one-stop shops (*guichets uniques*).

24. ***C.3. Accountability Platform (US$ 1 million of which IDA US$ 0.6 million).*** To avoid the resource curse it is necessary to build stronger accountabilities. These accountabilities include those between the mines (private and public, formal and informal) and the government (provincial and central); between the government and parliament and civil society more broadly; and between the mines and the local communities in which they are located. To improve the

demand side for more transparent management across key segments of value chain, the project will finance a platform for continued dialogue around mining issues, to ensure the participation and empowerment of a variety of actors, including civil society, the media, think tanks, unions, professional associations, faith-based organizations, and members of Parliament. This platform should also help to enhance the participation of indigenous people and inclusion of the gender dimension in mining benefit sharing. Its structure, membership, and exact mandate will be defined at the commencement of the project, in close coordination with existing entities and forums, in particular EITI.

Component D. Sustainable Development of Mining (US$ 17.7 million of which IDA US$ 9.9 million)

25. The fifth and last link in the EITI++ value chain approach is to ensure that mining development takes place in a sustainable fashion, specifically with regard to environmental and social protection and the involvement of locally affected communities. Sustainable development also requires adequate integration of industrial mining into the local economy, which is one of the challenges facing the mineral sector. In addition, there are more than 1.5 million artisanal miners across the country, representing an estimated 8 to 10 million persons (14-16 percent of the population) who derive a livelihood from artisanal mining, and who work under deplorable social, environmental, security and safety conditions. This issue needs to be seriously addressed in the context of DRC's overall development, especially in districts where the central and provincial governments may not be fully in control. The project will support activities intended to improve: (1) the management of social and environmental aspects of mining; (2) the integration of mining into local and regional development; (3) the management of artisanal and small-scale mining.

26. ***D.1. Environmental and Social Management of Mining (US$ 3.7 million of which IDA US$ 2.1 million).*** Mining operators and supervision departments have historically not properly managed the environment dimension of mining. At its inception, the Project will (a) undertake a Strategic Environment and Social Assessment (SESA) to identify possible environmental and social impacts related to mining growth as well as possible policy, legal, regulatory, and institutional reforms that would prevent the development of mining in DRC from affecting the environment and the populations. The SESA will not only be an analytical process but rather a participatory and inclusive process that let all the stakeholders, especially the most vulnerable, express their views and concerns. Besides, in some mining districts, serious pollution has taken place due to decades of acid drainage and degradation of tailings and dams. The Project will (b) conduct an inventory and risk assessment of legacy mining sites in Katanga to dimension the risks and proposed monitoring actions like containment of irreversible contaminations and remediation measures where possible.

27. ***D.1. Environmental and Social Management of Mining (US$3.7 million, of which IDA US$ 2.1 million).*** Mining operators and supervision departments have historically done a poor job of managing the environmental dimension of mining. At its inception, the project will:

a) undertake a Strategic Environment and Social Assessment (SESA) to identify possible environmental and social impacts related to mining growth, as well as possible policy, legal, regulatory, and institutional reforms that would prevent the development of mining in DRC from affecting the environment and population. The SESA will be a participatory and inclusive process that allows all the stakeholders, especially the most vulnerable, to express their views and concerns; and

b) conduct an inventory and risk assessment of legacy mining sites in Katanga to determine the extent of environmental damage from acid drainage and degradation of tailings and dams; and propose containment and remediation measures, where possible.

28. The Mining Code also requires consultation with local communities in advance of any mining development, but these consultations are rarely carried out. Therefore, the project will (c) enhance coordination between NGOs/CBOs and the private sector to promote community engagement, and implement innovative social accountability mechanisms such as scorecards and grievance reporting procedures.

29. ***D.2. Integration of Industrial Mining into Local and Regional Development (US$ 5.4 million of which IDA US$ 3 million).*** Mining is the main economic activity in many areas of DRC, but mining operations sometimes have few linkages with the local economy. For a mining operation to act as an engine for growth and poverty reduction, it needs to be well integrated at the local and regional levels. For provincial authorities, this requires proper planning based on a user-friendly inventory of resources and needs. The project will:

a) fund technical assistance for provincial development plans in three pilot provinces (Katanga and both Kivu). The planning exercise will comprise establishment of provincial coordination committees, support for the creation of provincial-level mining development funds; and sufficient reporting to allow for possible replication. In Katanga, synergies will be sought with the proposed Katanga Extractive Industry Development Initiative (KEIDI, supported by USAID), which would be an innovative public-private partnership. The SESA should inform the extent to which these activities could result into land acquisition or involuntary resettlement; and

b) support initiatives to improve local content and stimulate linkages between mining operations and local economic development (support to SMEs, training, database of business opportunities), in coordination with mining companies and chambers of commerce.

30. With the implementation of the Mining Code and retrocession procedures, some local authorities are likely to receive substantial revenues from the mining sector. The project will (c) assist two pilot local authorities in preparing to absorb and use those budget increases in a transparent and sustainable manner to the benefit of the population. This will entail support for the production of local development plans, capacity building in participatory budgeting, and specific training on procurement and financial management. The SESA should inform the extent to which these activities could result into land acquisition or involuntary resettlement.

31. ***D.3. Management of Artisanal and Small-scale Mining (US$ 8.6 million of which IDA US$ 4.8 million).*** The project will implement the main recommendations of the ASM study carried out during preparation, which found a need for sequenced, long-term assistance. In addition to institutional support provided through SAESSCAM (Component B), technical

assistance through pilot activities will address health (water and sanitation) and safety in ASM areas; formalization processes in pilot sites (mining titles, cooperatives); new financing and trading practices (microfinance, fair trade); child labor (in coordination with ILO); and better infrastructure planning to open up export and import routes for ASM communities. The project will also provide technical assistance for value-addition initiatives in the ASM sector.

Component E. Project Coordination and Management (US$ 11.2 million of which IDA US$ 6.3 million)

32. This component will support Project coordination and implementation, including procurement, financial management, and disbursement, which will be managed by the Ministry of Mines staff organized into the PROMINES Project Implementation Unit (PIU). Additional experts may be hired to join the team. The Steering Committee, chaired by the Head of CTCPM, will also be formed, with sub committees in the main mining Provinces. The subcomponents will support (1) Project management and (2) monitoring and evaluation of Project implementation, including safeguards studies to periodically review the overall environment and social impact of the Project, its strength and weaknesses.

Annex 5: Project Costs

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

Project Cost By Component and/or Activity	Local US $million	Foreign US $million	Total US $million
Component A. Ensure Access to Resources	1.7	27.3	29.0
Component B. Sector Management Capacity Building	12.9	10.1	23.0
Component C. Enhance Transparency and Accountability	3.1	1.9	5.0
Component D. Sustainable Development	8.9	7.6	16.5
Component E. Project Management, Monitoring and Evaluation	8.7	1.8	10.5
PPF Refinancing		2.0	2.0
Contingency	1.0	3.0	4.0
Total Project Costs	**36.3**	**53.7**	**90.0**

Project Cost Estimates by Type of Expenditure
(US$ million)

Expenditure type	Bank Financing	DFID Financing (US$ equiv.)	Total Cost
Consultants	21.3	17.7	39.0
Training and workshops	4.0	3.6	7.6
Goods	7.5	6.5	14.0
Works	10.5	8.4	18.9
Operating costs	2.5	2.0	4.5
Sub-total	45.8	38.2	84.0
PPF	2.0		2.0
Contingencies	2.2	1.8	4.0
Total Project Costs	**50.0**	**40.0**	**90.0**

Annex 6: Implementation Arrangements

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

Project Implementation Period

1. The proposed project – PROMINES 1 - is a Technical Assistance Grant and is part of a larger, longer term program. PROMINES 1 will be implemented over a period of five years (2010 – 2015). The completion date is June 30, 2015.

Implementing Agency

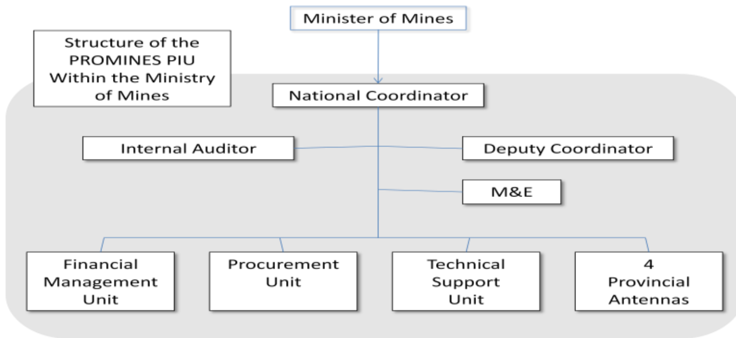
2. Overall project coordination and management will be the responsibility of the Ministry of Mines, which will ensure these functions through a dedicated PIU responding to the Minister of Mines and led by a National Coordinator.

Project Management

3. Because of the importance of the mining sector and the fact that it touches on various constituencies at various levels, a multi-tier mechanism of institutional and implementation arrangements will be used. This will ensure that all relevant government agencies are included, which will help promote better coordination amongst them—a severe weakness currently and an issue that the Project aims to address; it is also designed to ensure that a wide-range of stakeholders (government, industry, civil society) are involved as part of the effort to promote transparency and accountability.

4. The **Ministry of Mines (MoM)** shall be responsible for the overall coordination and facilitation of the implementation of the Project; approval of the draft annual work programs and budgets of the Project; approval of the progress reports for the Project submitted by the PIU; resolution of any conflicts that may arise between the different entities involved in the implementation of the Project; and follow-up on the orientations and recommendations of the Strategic Coordination Committee (see paragraph 7 below).

5. A dedicated **Project Implementation Unit (PIU**) has been established within the Ministry of Mines and is responsible for day-to-day Project management activities, including procurement, disbursement, financial management, and monitoring and evaluation, reporting to the Ministry of Mines through CTCPM. Besides its fiduciary responsibilities, its main function is to ensure that the Project work plan is properly coordinated and implemented by the different agencies involved. It will also coordinate the meetings of the different oversight committees. The PIU will be strengthened by additional experts as necessary. One critical responsibility of the PIU will be to ensure maximized ownership of the agencies involved in PROMINES, both regarding the institutional reform process and the implementation of program activities.



6. A **Project Implementation Manual (PIM)** has been developed by the Borrower, in parallel with the elaboration of the PAD. The process has involved a CTCPM core team, as well as representatives from all the entities involved in the Project implementation. It includes (a) a detailed description of the planned Project activities; (b) the mechanism of operation and interaction between the involved entities; (c) the level of authority entrusted to and the relations between the Ministry of Mines, the PIU and the different committees; and (d) their organization, responsibilities and functions.

7. The Project formal oversight structure will consist of:

- An inter-ministerial **Strategic Coordination Committee (SCC)**, including high-level representatives of the relevant ministries, which will be responsible for providing overall strategic guidance for the Project as well as coordination between projects, initiatives and reforms linking with the extractive industry value chain. It would include the Minister of Mines (co-chair), the Ministers of Portfolio, Finance, Environment, Energy and Infrastructure as needed.

- A **Technical Monitoring Committee (TMC)**, already established and active, which is responsible for providing overall monitoring of activities and the validation of Annual Work Plans and related budgets of the Project at the national level. The TMC includes representatives from the relevant agencies involved in the implementation of the Project52, as well as from the private sector[53] and from civil society. It is chaired by the Head of CTCPM at the Ministry of Mines. It will also ensure coordination and linkages across relevant agencies and provides guidance regarding implementation on the ground.

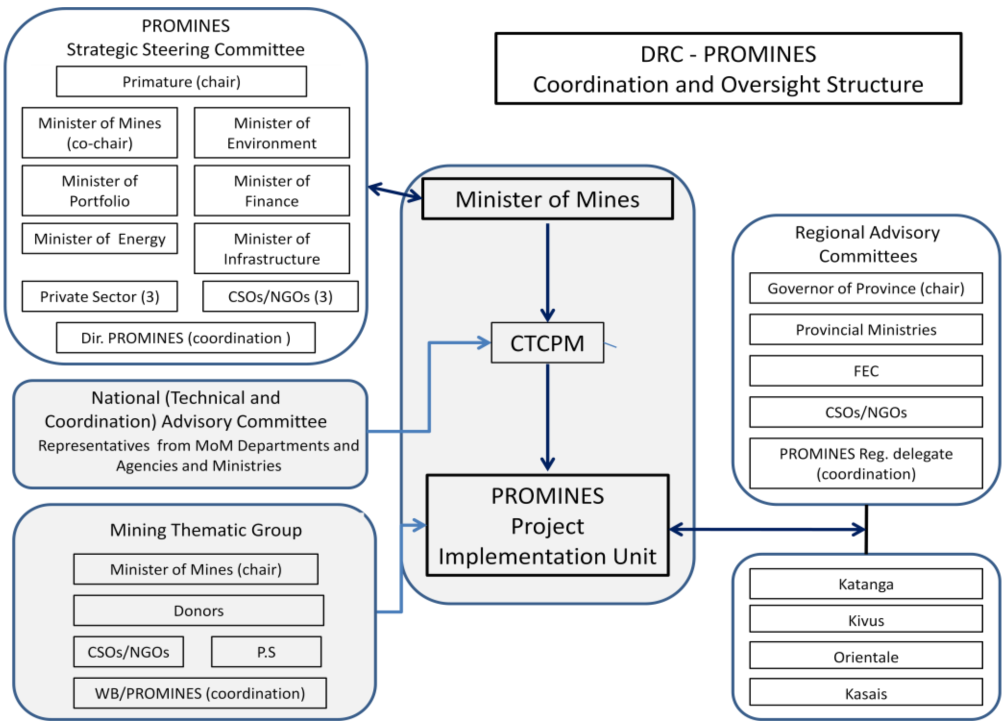
8. In addition, other structures, coordinated by the MoM, will also participate in the monitoring of PROMINES:

- **Regional Advisory Committees (RAC)** will gradually be established in Provinces where and when Project activities will start implementation. They will be responsible for providing monitoring with regard to the implementation of the Annual Work Plan in their respective Provinces and prepare recommendations to improve the implementation of the

[52] Presidency, Prime Minister's office, Ministries of Mines, Environment, Budget, Energy, Infrastructure, Finance (including DGI, DGRAD and OFIDA), Plan, Portfolio, Sciences (including the DRC Geological Survey, CRGM) and Transport.
[53] FEC, ANEP and ASSEMIPEC.

Project at the provincial level. RACs will be set-up as needed (Eastern and Western Kasais, Katanga, North and South Kivus, and Orientale Province) and will include representatives of Provincial authorities, private sector and civil society.

- A **Mining Thematic Group (MTG)**, already established, will continue to coordinate donor support and related international initiatives (e.g., EITI, the Great Lakes Initiative, various international certification processes, etc.). Donors, government and private sector representatives, and civil society organizations are part of the MTG. It is chaired by the Minister of Mines and the Bank ensures the Secretariat jointly with CTCPM.



9. It is important to emphasize that proper coordination with other WB projects, other donors' activities and other ministries will represent a critical factor of success as well. For example, the PROMINES activities referring to the reform of SOEs, while aiming principally at a better definition of their mineral resources (component A.2) and technical assistance regarding portfolio management as well as auctioning of properties, will not at this stage be involved in a full reform and long-term sustainability of the enterprises. PROMINES will also coordinate closely its activities within this field with the WB Competitiveness Project (PDSC), the Ministry of Portfolio and COPIREP. Similarly, cooperation with the WB Governance Enhancement Project (PRCG) would facilitate the set up of provincial and municipal entities in charge of sector management. It will be an important responsibility of the PIU, with the support of the WB supervision team, to ensure that such coordination takes place.

Monitoring and evaluation

10. The Project management team in the Ministry of Mines has overall responsibility for monitoring and evaluation in accordance with the indicators and milestones included in the results framework (Annex 3). However, given the complexity of the Project, it will be important to measure progress and impact at different geographical and institutional levels, involving stakeholders in government, civil society, and the private sector. This will require a sufficiently robust system for monitoring and evaluation. Therefore the Project will engage the services of a specialist prior to effectiveness to establish system requirements, and identify the training needs for different partners, including Ministry staff.

11. The Government, DFID, and the World Bank have agreed on the importance of developing adequate and reliable monitoring and evaluation tools, which would provide systematic data and reporting of sector performance beyond the scope of the project. Additional funds from DFID have been made available to help develop these tools.

12. Current baseline studies will be updated to strengthen the monitoring and evaluation framework and generate data by which progress can be tracked and compared in an improved way. For exemple, household survey in mining areas and will be carried out in collaboration with the more comprehensive DRC "1-2-3 Survey."

13. Not later than 45 days after each quarter, the Ministry of Mines team will submit to the Bank unaudited financial reports covering all project activities. Bi-annual progress reports should provide detailed analysis of implementation progress toward development objectives, as well as an evaluation of financial management and a post-review of procurement.

14. About 30 months after effectiveness, a Mid-Term Review (MTR) will be carried out by the Government jointly with the Bank and DFID, to measure progress toward achieving the project's objective. The MTR will assess overall project performance against indicators, as well as the level of political commitment during the first half of the Project.

Partnership Arrangements

15. At the early stage of PROMINES preparation, DFID and the World Bank agreed to cooperate closely, leading eventually to DFID's decision to co-finance the Project. This represents an opportunity to advance donor harmonization in this key sector, where DFID and the Bank are the two main donors. DFID's co-financing will be channeled through a Single Donor Trust Fund administered by the World Bank, and will finance a percentage of expenditures (including operating costs), in line with the Project Procurement Plan.

16. A joint implementation support team comprising World Bank and DFID representatives will review Project progress and work to advance the sector dialogue. Joint supervision missions will be undertaken at least twice a year. The implementation support team will operate as a consultative body issuing collegial recommendations. However, the Bank, as administrator of the trust fund, will retain full authority/responsibility for fiduciary management of the Project, and the Bank's operational policies and procedures—including safeguard mechanisms, procurement guidelines, financial management requirements, and disbursement procedures—will apply.

Implementation support missions will also assess progress on work plans and approve annual work plans of activities eligible for Project financing. The implementation support team will liaise with government and donor representatives as necessary.

17. The EITI++ framework has also facilitated coordination of activities among other development partners active in DRC's mining sector, including GTZ, the European Union, Belgian Technical Cooperation, USAID, and others (Annex 2 provides an overview of wider donor activities in the sector). In addition, the existing Mining Thematic Group, chaired by the Ministry of Mines and with the Bank functioning as Secretariat, will continue to be a relevant mechanism for donor and the Government coordination in the sector as the project is implemented.

Annex 7: Financial Management and Disbursement Arrangements

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

Executive Summary

1. The financial management (FM) arrangements for the project have been designed with consideration for the country's post-conflict situation, while taking into account the Bank's overall FM policies and procedures (OP/BP 10.02). The assessment of the FM capacity of the Ministry of Mines revealed some weaknesses and risks, mainly in the areas of staffing arrangements and capacity, accounting systems, and fiduciary risks. The FM risk after mitigation measures is deemed substantial, mainly because of the above weaknesses. Due to the weaknesses and the fiduciary risks associated with the project, the financial management team will be headed by a qualified, experienced Finance Manager (individual consultant), supported by two accountants at the central level and one accountant per province where the Project would have a provincial office, all selected or to be selected on a competitive basis among individual consultant or when feasible among civil servants. Since the provincial offices will not be opened 6 months after the Project effectiveness, the timing of the selection of the accountants at decentralized level should be adjusted accordingly. A financial management procedures manual is being prepared and will be adopted prior to Project effectiveness. A computerized accounting system is being acquired and will be implemented.

2. The internal audit function of the Project will be under the responsibility of an internal auditor (individual consultant) to be recruited on competitive basis prior to the Project effectiveness. The internal auditor will carry out regular internal audit controls, aiming to ensure that internal control system is performing well. In addition to ensuring that the Project funds are used for the intended purposes, the internal auditor will have to provide technical assistance to the PIU to create thereafter a robust Internal Audit Unit (IAU). The IAU will be composed of a mix of technical and fiduciary staff. The findings of the internal auditor will be used by project management (e.g., the Strategic Coordination Committee and the Technical Monitoring Committee) to make decisions regarding project implementation, as well as payments and contracts for service providers and implementing agents.

3. One "pooled" Designated Account (DA) will be opened in US dollars in a commercial bank acceptable to IDA. This Designated Account will receive proceeds of the DFID financed trust fund grant and the IDA grant. Disbursements to the DA or on account of direct payments will be made on a pro-rated basis proportionally to each financier's contribution (IDA/DFID). Disbursements from the DFID financed trust fund grant and the IDA grants will be transaction-based. This disbursements based on SOEs will be used during the first eighteen months and thereafter, the option to disburse against submission of quarterly unaudited Interim Financial Reports (also known as the Report-based Disbursements) could be considered subject to the quality and timeliness of the financial management system deliverables. The option of disbursing the funds through direct payments on contracts above a pre-determined threshold will also be available.

4. The "Cour des Comptes", the Supreme Audit Institution having been assessed as weak, a qualified, experienced, and independent external auditor will be recruited based on approved terms of reference. The "Cour des Comptes" may participate in the selection of the external auditor. The external audit will be carried out according to either International Standards on Auditing (ISAs) or Auditing Standards (ASs). The audit will cover all aspects of project activities implemented at central and decentralized levels, as well as verification of expenditures eligibility and physical inspection of goods and services acquired. The audits will be carried out annually and the reports submitted to IDA and the "Cour des Comptes" six months after the end of each fiscal year.

5. The Project will be supervised on a risk-based approach. FM supervision will focus on the status of financial management system to assess whether the system continues to operate well and provide support as needed.

Summary Project Description

6. The objective of the Project is to strengthen the capacity of key institutions to manage the minerals sector, improve the conditions for increased investments in and revenues from mining, and help increase the socio-economic benefits from artisanal and industrial mining in Project areas. It will have the following three key components:

- Component A: Ensuring Access to Resources: US$ 31.1 million of which IDA US$ 17.3 million ;
- Component B: Build Up Sector Management Capacity: US$ 24.6 million of which IDA US$ 13.4 million ;
- Component C: Enhance Transparency and Accountability: US$ 5.4 million of which IDA US$ 3.1 million ;
- Component D: Build Up Sustainable Development Settings: US$ 17.7 million of which IDA US$ 9.9 million ;
- Component E: Project Coordination and Management: US$ 11.2 million of which IDA US$ 6.3 million ;

The description of the components is detailed in Annex 4.

Country Issues

7. The World Bank and other donors' assessments notably, the CFAA (Country Financial Accountability Assessment), PER (Public Expenditures Review), and PEFA (Public Expenditure and Financial Accountability) completed between 2002 and 2007 portray an unsatisfactory economic and financial control environment including weak budgeting preparation and control, financial reporting, external audit and human resources. In-depth structural reforms have been launched in the areas of economic governance, public expenditure management, financial sector and public enterprises to strengthen capacity in the public administration. With the support of the international community, the Government of DRC is undertaking a series of PFM reforms in budget preparation and execution, adhesion to Treasury forecasts, preparation of regular budget execution reports, and simplification of the national budget classification system. A new organic Law is currently being finalized while a new procurement code was adopted in December 2008.

Although there is reason for cautious optimism it will take time for these reforms to yield substantial improvements in the management of public funds. As a result, the overall country fiduciary risk is still considered high. The Bank cannot thus, at this period of time rely on the public expenditure framework for the purpose of this Project.

Institutional arrangements for financial management

Financial management capacity assessment of the Ministry of Mines:

8. The Project's implementation arrangements will be based on a delegation of implementation responsibilities to government administrative and technical entities and private enterprises and consulting firms wherever possible.

9. The findings of CFAA and PEFA exercises as well as the FM capacity assessment conducted during the Project preparation revealed some capacity shortages in the fields of financial management and procurement within the Ministry of Mines. The scope and responsibilities of the FM Division of the Ministry of Mines are limited to the preparation and execution of the budget of the ministry. The weaknesses of the FM Division of the Ministry of Mines include (i) insufficiently qualified staff in financial management at all levels of the Ministry of Mines system, (ii) staff's insufficient familiarity with IDA and other donors financed–project procedures for reporting, disbursement arrangements, and auditing; (iii) lack of a proper accounting system in place to record and prepare financial reports ; (iv) lack of computerized and modern accounting tools at central and provincial levels; and (iv) weak internal control systems at the Finances Division. In a nutshell, the findings of the review suggest that a need for strong support of the FM division of the Ministry to be able to manage IDA funds as well as the funds of the other donors.

10. Therefore, the financial management system acceptable to IDA is the one described below. The current FM arrangements in place within the Ministry of Mines require significant improvements and support before it could fully meet the Bank and other donors' financial management requirements.

The "Financial Management Unit at the Ministry of Mines.

11. It was agreed following the discussions during the project preparation to set up the FM team within the Ministry of Mines to manage the fiduciary aspects of the Project.

12. The Project Implementation Unit "PIU" to be set up at the Ministry of Mines will be the Bank and other donors' main counterpart and focal point. It will oversee the entire project management including management of the fund and will primarily be responsible for: (i) overseeing implementation; (ii) handling financial and administrative management; (iii) collaborating and coordinating with other relevant entities at central and provincial coordination units involved in the project for the successful implementation of the program; and (iv) liaison with the Bank and other donors. The FM team of the Project at the central level headed by a FM Manager will be composed of (i) one Accountant (iii) one Treasurer (working on disbursement issues) at central level. An Accountant will be assigned in each decentralized entity (provincial level- Lubumbashi, Goma, Mbuyi Mayi and Bunia) managing the project funds. The timing of

the selection of the accountants at decentralized level will be tailored to the timing of the opening of each provincial office. The key FM staff at the central level was selected among individual consultants. The FM Manager recruited on a competitive basis, will provide technical support to the overall FM team of the project team including building capacity of the other implementing entities and the Ministry of Mines as a whole. The ToRs of the mission will provide more details on the scope and responsibilities of the Finance Manager.

Risk assessment and mitigation

13. The Bank's principal concern is to ensure that project funds are used economically and efficiently for the intended purpose. Assessment of the risks that the project funds will not be so used is an important part of the financial management assessment work. The risk features are determined over two elements: (i) the risk associated to the project as a whole (inherent risk), and (ii) the risk linked to a weak control environment of the project implementation (control risk). The content of these risks is described below.

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Residual Risk
Inherent risk	**H**			**S**
Country level The CFAA, PER and the PEFA reports outlined PFM weaknesses at central and decentralized government levels as well as sector ministries level in term of governance and public funds management;	H	The government is committed to a reform program that includes the strengthening of the budget classification and implementation of an interim IFMIS. A new legal framework is being prepared. However there are still weaknesses in capacity and in audits of a first set of accounts. Efforts are being continuing to strengthen the accounting and audit capacity. Use of IDA FM procedures is required for this project.	N	H
Entity level The assessment of the key ministries during the CFAA, PEFA and particularly the FM assessment of the Ministry of Mines and the Finance Division during the preparation of this project revealed internal control weaknesses and weak fiduciary environment.	S	Relying on a dedicated *FM team at the* PIU and use of IDA FM procedures requirements is critical for the mitigation of fiduciary risk of this project. Recruitment of a finance manager and, accountants at central and decentralized level and Internal Auditor will mitigate internal control weaknesses.	N	S
Project level The resources of the project may not reach all decentralized entities (province and districts) and used for the intended purposes. Delays in the	S	The PIU will strengthen ex-ante and ex-post control of funds allocated to implementing entities at decentralized offices and other specialized entities (e.g. CTCPM,	N	S

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Residual Risk
reporting system and auditing due to the weak capacity of the fiduciary team and geographically location of some entities are expected.		CAMI, EITI Secretariat…). The scope of audit will include review of expenditures incurred at decentralized level. FM staff will be recruited on ToRs acceptable to IDA and training and hands on advice to staff before project implementation.		
Control Risk	**H**			**S**
Budgeting: (i) weak capacity at central and decentralized entities to prepare and submit accurate work program and budget; (ii) weak consolidation of decentralized budgets; and (iii) weak budgetary execution and control	M	Annual work plan and budget required each year and proclaimed. The project Financial Procedures Manual will define the arrangements for budgeting, budgetary control and the requirements for budgeting revisions. Annual work plan and budget required. IFR will provide information on budgetary control and analysis of variances between actual and budget.	N	M
Accounting: poor policies and procedures, lack of qualified accountant staff at all levels (Ministry of Mines and PIU and Internal Audit at decentralized levels).	S	(i) The project will adopt the Congolese accounting system. Accounting procedures will be documented in the procedures manual (ii) The FM team headed by a qualified and experienced Finance manager will be carried out by qualified individual consultants recruited on competitive basis; (iii) training on IDA FM procedures will be provided to the team.	N	S
Internal Control: internal control system at decentralized level may be weak due to weak FM capacity of the IA at central and decentralized level.	H	(i) Adoption of a FM Procedures Manual and training on the use of the manual by the consultant recruited for this purpose (ii) Recruitment of an internal auditor who will scrutinize the proclaimed accounting, financial and operational procedures. The internal auditor will report to the Steering Committee "Comité de Suivi" and the Coordinator. Copies of his reports will be sent to the Bank.	Y	S
Funds Flow: (i)Risk of misused of funds and		(i) Payment requests will be approved by the Finance Manager		

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Residual Risk
delays in disbursements of funds to IA; (ii) and beneficiaries at regional level; and (iii) unsecured safekeeping and transportation of funds.	S	prior to disbursement of funds to contractors or consultants and decentralized entities and IA. (ii) The ToRs of the Internal Auditor as well as the External Auditors include regular field visits (physical inspection of goods, services acquired). (iii) A ceiling for expenditures and cash that can be handled at decentralized level will be set up in the FM procedures manual; (iv) Replenishment of bank accounts at decentralized level will be made via a simplified IFR (summary report) and supporting documents will be kept in provinces; (v) Bank accounts will be opened at decentralized level (vi) FM staff capacity will be strengthened prior and during project implementation period.	N	S
Financial Reporting Inaccurate and delay in submission of IFR at central level due to delays from regional IAs.	S	(i) A computerized accounting system will be used at central and decentralized level; (ii) IFR and financial statements formats will be agreed at project negotiations. (iii) A Finance Manager will support the FM team of the PIU to centralize data from the provinces.	N	S
Auditing: Delay in submission of audit report and the scope of the mission may not cover expenditures incurred at decentralized level.	M	(i) The project's institutional arrangements allow for the appointment of adequate external auditors and the ToRs will include field visits and specific report on finding of physical inspections of goods , services and works acquired at central and decentralized levels (ii) Annual auditing arrangements will be carried out during the project implementation period.	N	M
Fraud and Corruption Possibility of circumventing the internal control system with colluding practices as bribes, abuse	S	(i) The TOR of the internal and external auditor s will comprise a specific chapter on corruption auditing (ii) The internal auditor will	N	S

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Residual Risk
of administrative positions, misprocurement etc, is a critical issue.		report directly to the Steering Committee "Comité de Suivi" and to the Coordinator (iii) One sample of his reports will be submitted to the Bank on a quarterly basis; (iv) FM procedures manual approved before project effectiveness; (v) robust FM arrangements (qualified FM staff recruited under ToRs acceptable to IDA, quarterly IFR including budget execution and monitoring; (vi) technical auditing; (vii) measures to improve transparency such as providing information on the project status to the public, and to encourage participation of civil society and other stakeholder are built into the project design (see Annex 16- Anti corruption plan)		
OVERALL FM RISK	**H**			**S**

Strengths and Weaknesses

14. No specific strength has been identified. In contrast, the main weaknesses for the FM arrangements of this program include shortage of qualified accountants (mainly at decentralized levels), delay in reporting and disbursement. The long process involved in producing reports from provinces and districts to the FM team at central level, may delay the timely submission of financial reports to the Development Partners and disbursement as well. In addition, the lack of strong internal control may also lead to misused of the project funds and inaccuracy of the IFRs.

Financial Management Action Plan

15. The Financial Management Action Plan described below has been developed to mitigate the overall financial management risks.

Issue	Remedial action recommended	Responsible body/person	Completion date	FM Effectiveness Conditions
Staffing at Central level:	Appointment of a Treasurer (Finance Officer)	PIU	3 months after effectiveness	NO (1)
Staffing at decentralized	Appointment of the accountants at decentralized units set up in the 4	PIU	Gradually after Effectiveness	NO (1)

Issue	Remedial action recommended	Responsible body/person	Completion date	FM Effectiveness Conditions
level:	provincial capitals		based on the timing of the opening of the each provincial office	
Information system accounting software	(i) Acquisition and installation of accounting software for the project and training of the users	PIU and the software providers.	3 months after effectiveness	NO (1)
Administrative Accounting, and Financial Manual	Finalization and adoption of the draft FM Procedures Manual	PIU	By Effectiveness	YES
Internal auditing	Appointment of the Internal Auditor	PIU and the Ministry of Mines	By Effectiveness	YES
External auditing	Appointment of the external auditor completed and contract signed	PIU and the « Cour des Comptes »	3 months after Effectiveness	NO (1)

(1): The actions required 3 months after effectiveness are part of the Financing Agreement (Ref. Schedule 2- Section II, Paragraph B-1 and B-4) and have been reflected in the Minutes of the Negotiations

Description of the Implementing Entity

16. The Project Implementation Unit (PIU) to be set up at the Ministry of Mines will be the Bank and other donors' main counterpart and focal point. It will oversee the entire project management including management of the funds and will primarily be responsible for: (i) overseeing implementation; (ii) handling financial and administrative management; (iii) collaborating and coordinating with Decentralized coordination unites "Antenna" and the others specialized entities (e.g. CAMI…) involved in the project for the successful implementation of the program; and (iv) liaison with the Bank and other donors. The FM team of the project will be composed of (i) one Finance Manager; (ii) one Accountant and one Treasurer (Finance Officer) at central level; and (iii) one Accountant in each of the 4 provinces. The FM staff will be selected on a competitive basis under ToRs acceptable to the Bank (the FM Manager and the Accountant at central level are already on board). The FM team would be composed of individual consultants. The option of having civil servant may also be explored. The Finance Manager will have the overall oversight of the project financial management system.

Budgeting Arrangements

17. For the purposes of this project, it is expected that the budget of the PIU will include the estimated IDA and other donors' resources. The FM team of the PIU will prepare an annual work plan and budget for implementing project activities taking into account the project's components. The work plan and budgets will identify the activities to be undertaken and the role of respective parties in implementation. Annual work plans and budgets will be consolidated into a single document by the FM unit of the project, which will be submitted to the Steering Committee "Comité de Suivi" for approval, and thereafter to IDA for approval no later than December 31 of the year proceeding the year the work plan should be implemented.

Key Accounting Policies and procedures

18. An integrated financial and accounting system will be put in place and used by the PIU. The Project code and chart of accounts will be developed to meet the specific needs of the project and documented in the Manual of Procedures. The prevailing accounting policies and procedures in line with the national accounting standards – *Plan Comptable Congolais* - will apply. The accounting systems and policies and financial procedures used by the project will be documented in the project's Administrative, Accounting, and Financial Manual, which will be used by the project staff as a reference manual; by IDA to assess the acceptability of the project accounting, reporting, and control systems; and by the auditors to assess the project's accounting systems and controls and to design specific project audit procedures. Specific procedures will be documented for each significant accounting function. They will be written to depict document and transaction flows and will cover the flow of funds, record keeping and maintenance, the chart of accounts, formats of records and books of account, authorization procedures for transactions, planning and budgeting, financial reports (including formats, linkages with chart of accounts and procedures for reviewing them).

19. For the project to deliver on its objectives, a computerized financial management system will be developed based on software to be acquired by the PIU. The system should integrate budgeting, operating and cost accounting systems to facilitate monitoring, evaluation and reporting. The computerized accounting system will be established at each decentralized project coordination unit. Consolidation of accounting data will be made at central level on a monthly basis.

Internal Control and Internal Auditing

20. Internal control system is aimed to ensure (i) the effectiveness and efficiency of operations, (ii) the reliability of financial reporting, and (iii) the compliance with applicable laws and regulations. For this purpose, an Accounting, Financial and Administrative Procedures Manual, being an integral part of the Project Execution Manual will be created to document, explain and describe work processes, information flow, authorization and delegation of authority, timing, job segregations, auto and sequential controls, compliance with project objectives, micro and macro rules and regulations. Application of the procedures set up in the manual will be mandatory for all staff at all level. In addition to the procedures manual, all rules of the Ministry of Mines that will not conflict with the manual will also apply to the project.

21. In the specific component related to ensuring the reliability of financial reporting, the following staffing arrangement should be sufficient to maintain accounting records relating to the project financial transactions, and to prepare the project's consolidated financial reports and submit the same to IDA. The financial management function will be carried out by a team composed of a Finance Manager with acceptable Bank FM procedures, who will be in charge of the overall financial management function of the project, one accountant and a treasurer at central level and four accountants at decentralized level.

22. The PIU at the Ministry of Mines will establish an Internal Audit Unit (IAU), with appropriate organizational and staffing arrangement. The IAU will be composed of a mix of technical and fiduciary staff. The FM procedures manual will contain a description of the roles and responsibilities of the IAU and the arrangements that guarantee the necessary level of independent. The role of the IAU is to ensure that the project's fiduciary and operational procedures and regulations are adhered to by the PIU at the Ministry of Mines and any entity managing the project funds. In the early stages of the project implementation, it is likely that the IAU will not have built sufficient capacity in order to enable it to adequately fulfill its mission. The project will thus provide support for the strengthening of this function through the recruitment of an experienced and qualified internal auditor under terms and conditions acceptable to the Bank. The internal auditor will report directly to the Technical Monitoring Committee (TMC) and the Coordinator. The team of the TMC will be designed to provide flexibility and allow regular meeting as it has been recently implemented in the Pro-Route. He will undertake periodic assessments on the strengths and weaknesses of the internal control system at central and decentralized levels. All deficiencies or circumvented practices identified will be communicated in a timely manner to the overall senior management of the project, mainly the TMC and the Coordinator for immediate corrective action as appropriate. One of each such report will also be communicated to the Bank. The internal auditor will provide training and hands on support to the staff in the IAU to be created through the join conduct of internal audit mission. He will also prepare relevant manuals and guidelines.

Funds Flow and Disbursement Arrangements

Disbursement methods

23. Upon Grant effectiveness, transaction-based disbursements will be used during the first eighteen months of project implementation. During this time, an initial advance up to the ceiling of the DA will be made into the designated account and subsequent disbursements will be made against submission of Statements of Expenditures or records. Thereafter, the option to disburse against submission of quarterly unaudited Interim Financial Report (also known as the Report-based disbursements) could be considered subject to the quality of financial management arrangements as assessed in due course.

24. The option of disbursing the funds through direct payments to third party on contracts above a pre-determined threshold for eligible expenditures will also be available. Another acceptable method of withdrawing proceeds from the IDA grant is the special commitment method whereby IDA may pay amounts to a third party for eligible expenditures to be paid by the Recipient under an irrevocable Letter of Credit (LC).

Designated Account

25. A pooled Designated Account (DA) denominated in US Dollars will be opened in a commercial bank on terms and conditions acceptable to IDA. The pooled DA will receive proceeds from the IDA grant and from the DFID TF grant in the proportions specified in the respective legal agreements. This designated account will finance all eligible project expenditures under the components and would be maintained by the PIU under the responsibility of the coordination team. The ceiling of the DA has been set at US$2.4 million of which US$1.3 million would come from the proceeds of the IDA grant and US$1.1 million from the DFID financed trust fund. An initial advance up to the ceiling of the DA will be made upon effectiveness at the Recipient's request.

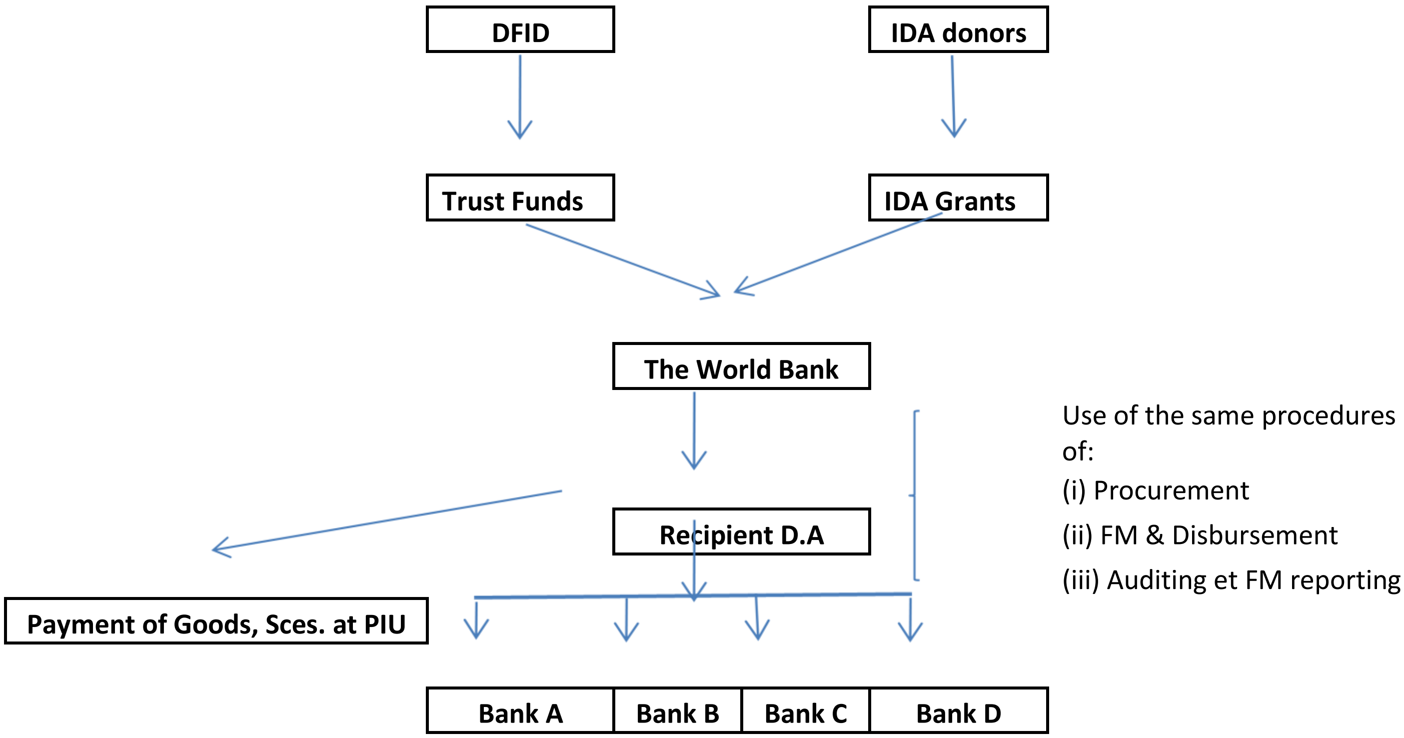
26. The Designated Account will be used for all payments less than 20 % of the deposited amount and replenishment applications will be submitted, on a monthly basis. Disbursements to the DA or on account of direct payments will be made based on the percentage of eligible expenditures to be financed ("disbursement percentage"), determined on a pro-rated basis to each contribution (IDA/DFID). The disbursement percentage of from each financier will be determined and reviewed as new contributions are committed to the TF; the starting percentage is 44.4% from the DFID and 55.6% from IDA. Additional advances into the Designated Account will be made against withdrawal applications supported by Statements of Expenditures (SOE) and other documents as specified in the Disbursement Letter.

Disbursement of funds to Decentralized Project Coordination Antenna and the Specialized Entities including the Ministry of Mines

27. Funds will be disbursed to decentralized entities on the basis of three months budget depicted under a Work Plan. Acceptable commercial banks operate in the 4 provinces selected to implement the project. Therefore, the funds will be transferred into accounts opened in these commercial banks acceptable to IDA. The submission of accountability (supporting documents of expenditures) for previous advances will not be a condition for paying subsequent request for replenishment of the Provincial offices. However, replenishment of each provincial bank account will be made on the basis of two documents: (i) a statement of expenditures depicting the expenditures made and classified by category or component of the grant (SOEs) and (ii) a summary showing the total amount received, the expenditures made classified by category and project components, the closing cash balance and the forecast for the next three (3) months. The balance between the next three months forecast and the closing cash balance of the bank account will constitute the amount to be transferred to the provincial office/antenna.

28. To ensure accountability before the annual audit, the internal auditor will include in its work program regular field visits to decentralized offices and specialized entities to review the eligibility of expenditures incurred at these levels. The ToRs of the external auditing will also cover expenditures incurred at decentralized level and specialized entities.

29. Overall funds flow is described in the chart below:



Taxes

30. Funds will be disbursed in accordance with project categories of expenditures, as shown in the Financing Agreement. Normally, the financing of each category of expenditure would be authorized at 100 percent inclusive of taxes as per the current Country Financing Parameters approved for DRC. As this operation is jointly financed by IDA and DFID, eligible expenditures will be financed in the proportion of each financier's contribution: 55.6% and 44.4% for IDA and DFID, respectively.

Financial Reporting

31. Financial reports will be designed to provide quality and timely information on project performance to project management, IDA and other relevant stakeholders. Formats of the financial reports will be developed and agreed during project negotiation. The quarterly IFR includes the following financial statements: (i) statement of sources of funds and project revenues and uses of funds; (ii) statement of expenditures classified by project components and or disbursement category (with additional information on expenditure types and implementing agencies as appropriate), showing comparisons with budgets for the reporting quarter and cumulatively for the project life; (iii) cash forecast; (iv) explanatory notes; (v) Designated Account activity statements. The consolidated quarterly IFR will be prepared and submitted to IDA within 45 days after the end of each calendar quarter.

32. On the basis of financial reports received from the relevant implementing agencies at the central and decentralized levels, the FM team will submit a consolidated IFR to IDA within the timeframe prescribed above (45 days after the end of each quarter). Each implementing agency will be responsible to submit regular financial reports to the FM team set up at the central level of the Ministry of Mines.

33. In compliance with International Accounting Standards and IDA requirements, the project will produce annual financial statements. These include: (i) a Balance Sheet that shows Assets and Liabilities ; (ii) a Statement of Sources and Uses of Funds showing all the sources of Project funds, expenditures analyzed by project component and or category; (iii) a Designated Account Activity Statement; (iv) a Summary of Withdrawals using SOE, listing individual withdrawal applications by reference number, date and amount; and (v) Notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements. The financial statements will constitute the entry point of the external auditor's annual diligences.

Auditing

34. Due to the weak capacity of the Supreme Audit Institution, (Cour des Comptes) an external qualified audit firm will be recruited under Terms of References and procedures acceptable to IDA. This firm will audit the financial statements of the project annually. The PIU with participation of the "Cour des Comptes" will prepare the terms of reference for the audit and they will be agreed on during negotiations. The scope of the audit will cover the activities performed by the PIU at central level and the decentralized offices as well as any specialized entities managing the project funds.

35. The annual audited financial statements together with the auditor's report and management letter covering identified internal control weaknesses will be submitted to IDA no later than six months after the end of each fiscal year. A single audit opinion will be issued with respect to project income and expenditures, designated accounts, and the IFR. The report will also include specific controls such as compliance with procurement procedures and financial reporting requirements and consistency between financial statements and management reports and field visits (e.g. physical inspection). The audit report will thus refer to any incidence of non-compliance and ineligible expenditures identified during the audit mission. The first audit report of the project will include the review of the use the PPF.

Audit Report	Due Date
The Project audit reports (Audit report and Management letter)	(i)Not later than June 30 (2000 + N) if effectiveness has occurred before June 30 (2000 + N-1). (ii) Not later than June 30 (2000 + N+1) if effectiveness has occurred after June 30, (2000 + N-1)

List of conditionalities

36. Following are the FM effectiveness conditions:

- Recruitment of the Internal Auditor
- Approval of the FM procedures manual (included in the PIM).

Supervision plan

37. FM supervisions will be conducted over the project's lifetime. The project will be supervised on a risk-based approach. Supervision will focus on the status of financial management system to verify whether the system continues to operate well throughout the project's lifetime and to ensure that expenditures incurred by the project remain eligible for IDA funding. It will comprise inter alia, the review of audit reports and IFRs, advice to task team on all FM issues. Based on the current risk assessment which is **Substantial** and the decentralized implementation of the project, more supervision mission's budget will be allocated in order to conduct appropriate on-site visit supervisions (e.g. at least twice during the first FY and may be adjusted when the need arises). The ISR will include a FM rating of the project. An implementation support mission will be carried before effectiveness to ensure the project readiness. To the extent possible, mixed on-site supervision missions will be undertaken with procurement monitoring and evaluation and disbursement colleagues.

Annex 8: Procurement Arrangements

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

A. General

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised October 2006, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan.

2. The World Bank's standard bidding documents (SBDs) will be used for all contracts involving international competition, including International Competitive Bidding (ICB) for works, goods and non-consultant services and the World Bank Standard Request For Proposals (SRFP) for all consulting firms estimated to cost the equivalent value of USD 200,000 or more. Until such time that a national procurement system has been developed and its use for Bank-financed projects approved by the Bank, the SBDs will also be used for contracts involving national competition, including NCB, with suitable modifications, as specified in the Project Implementation Manual (PIM). The preparation of a PIM, satisfactory to the Bank, is a condition of effectiveness.

B- National procurement system

3. The main recommendations of the 2004 CPAR were to (i) prepare and approve a public procurement code, (ii) do a survey of the existing capacity on procurement, (iii) make a needs assessment of the institutional and human capacity requirements for public procurement in the country, and (iv) prepare a plan of action for the procurement reform. All these recommendations have been implemented and the new procurement code has been promulgated on April 27, 2010 and is expected to be effective after a few months.

4. The procurement reform in DRC began soon after the 2004 CPAR with assistance from the Bank, including the drafting of an Act on the Public Procurement Code. Progress with the formulation and approval of the Act has been slow. Recent events however can be taken as an indication that the Government and Parliament are committed to moving the reform forward. The law review at the level of the national assembly has been promulgated on April 27, 2010 and it is expected to be effective after a few months. Once the national procurement code is effective, the national procurement procedures to be followed will be reviewed and suitable modifications to the Project will be discussed and agreed before implementation.

C- Procurement methods

5. Procurement of Works: Works procured under this project would mainly include refurbishing of Ministry and other public mining institutions premises, in Kinshasa or in the

Provinces. Also the deployment of geodetic network throughout the country will necessitate works. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and National SBD agreed with or satisfactory to the Bank. Small simple works may be procured by requesting at least three written quotations from qualified contractors.

6. Works to be procured under the matching grant mechanism will be carried out in accordance to the procedures laid out in the Project Implementation Manual.

7. Procurement of Goods: Goods procured under this project would include IT equipment (computers, telecommunication etc.), various consumables and office materials, vehicles (cars, motorbikes), data (geologic or geo-scientific, socio-economic data, satellite and airborne pictures), workshop materials (prints, bags, banners etc.), technical and laboratory equipment etc. The procurement will be done using the Bank's SBD for all ICB and National SBD agreed with or satisfactory to the Bank. Small value goods may be procured under shopping procedures. United Nations Agencies and Direct Contracting may also be considered with the Bank prior review and approval.

8. Procurement of Services (other than consultants' services): Services (other than consultants' services) to be procured under the project will include editing, translating, operation and maintenance for vehicles and facilities, etc.

9. The procurement will be done using the Bank's SBD for procurement of services for all ICB and National SBD agreed with or satisfactory to the Bank. Some of these services may be contracted with public sector services

10. Selection of Consultants: Consultants' services required would cover consultancies for those for the review of legal and institutional frameworks, included related communication, consultation and training, geological surveys and geo-data infrastructure, evaluation of human resource needs, baseline surveys, technical specifications for works, conception of and support to transparency mechanisms, technical assistance for artisanal mining, environmental and social impacts of industrial mining, monitoring and evaluation tools etc. Service providers, including NGOs and public sector services, may be employed, in partnership with smaller local organizations at field level, to provide facilitation and community capacity development services across the project area.

11. Contracts for highly specialized assignments estimated to cost less than US$ 100,000 equivalent may be contracted through Consultants' Qualification (CQ).

12. Least-Cost Selection (LCS) will be used for selecting consultants for assignments of a standard or routine nature (for example audit services and works supervision) where well-established practices and standards exist.

13. Single Source Selection (SSS) may be employed with prior approval of the Bank and will be in accordance with paragraphs 3.9 to 3.12 of the Consultant Guidelines.

14. All services of individual consultants (IC) will be procured under individual contracts in accordance with the provisions of paragraphs 5.1 to 5.4 of the Guidelines.

15. Short lists of consultants for services estimated to cost less than US$ 100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

16. The advertisement for all consultant services estimated to cost the equivalent value of USD 100,000 or more will be done in UNDB online and DGMarket as well as in local newspapers in respect of the clause 2.5 of the guidelines for the selection and employment of consultant

17. Training: Training programs would be part of the Annual Work Plan and Budget and will be included in the procurement plan. Prior review of training plans, including proposed budget, agenda, participants, location of training and other relevant details, will be required only on annual basis.

18. Operating Costs: Operating costs shall consist of office supplies; operation and maintenance costs for vehicles and equipment; electricity and telephone, among others.

19. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, will be included in the Operations/Procurement Manual to be prepared by the Borrower.

D- Institutional arrangement for procurement and capacity of the executive unit to handle procurement

Institutional arrangement for procurement

20. The institutional arrangements for the implementation of the Grant have taken into account the need to strengthen Ministry of Mines' capacity in procurement and other fiduciary areas. At the central (national) level, a "Procurement Unit" will be created in the Project Coordination Unit located within the Ministry ,in accordance with the provisions of the upcoming national procurement code and a qualified and experienced Procurement Officer (PO) will be positioned there to carry out major procurement activities,. The Procurement Unit will report to the Project Coordinator to ensure his/her independence. He/she will have the full responsibility of the fiduciary compliance on procurement point of view. All procurement on the project at the central level will be managed by the PIU of the Ministry of Mining in accordance with the World Bank Procurement Guidelines, including the use of standard bidding documents for national procedures. This PO will be assisted by a Senior Procurement specialist internationally recruited who in addition to his daily job, will provide the following services: (i) develop and strengthen the capacity of the Ministry of Mining staff on procurement, (ii) coach the national Procurement Officer of the Ministry of mining ,(iii) reinforce the integrity and internal review of the procurement process, (iv) oversee and advise on procurement related issues, and (v) draft for the Project Coordinator the no objection requests for all procurement decisions subject to prior review. The duration of this assignment is one year on a full time basis and periodic interventions up to project MTR.

Assessment of the agency's capacity to implement procurement

21. The capacity of the implementing agency of the Ministry of Mining was assessed by Bourama DIAITE, Sr Procurement Specialist in Kinshasa CO on February 04, 2010. The assessment found that the Ministry of Mining has currently no significant capacity to handle the project procurement activities. This is why the Bank team will fully support the Ministry of Mining responsible in the recruitment process of the PO and the internationally recruited PS so as to ensure the recruited candidates have the adequate qualification and experience. Drafting of the TORs and the selection process will take into consideration this objective.

E- Assessment of the risks and measures to mitigate

22. The risk factors for procurement performance include those posed by the country context and those due to the low procurement capacity of the Ministry of Mining. This ministry will be in charge of project implementation. In terms of the country context, the Country Procurement Assessment Review (CPAR) and the experience of other IDA- and International Financing Institutions (IFIs) funded projects indicate that procurement on the project is likely to involve the following risks:

- A weak governance environment, weaknesses in accountability arrangements, and an overall lack of transparency in conducting procurement processes creates significant risks of corruption, collusion and fraud;

- The administrative system as it operates in practice creates opportunities for informal interference in the procurement process by senior officials – creating opportunities for waste, mismanagement, nepotism, corruption, collusion and fraud;

- Government officials likely to be involved in project procurement through tender committees may not be familiar with procurement procedures;

- There is neither a national control system ensuring that the rules are respected nor a regulatory body to handle complaints from bidders and

- Few companies are interested in supplying goods and constructing works for development projects in the current country conditions. Goods may not be available or exorbitantly expensive, especially up-country. As a result, there may be insufficient competition resulting in higher prices of goods and services.

Overall project risk for procurement is high.

Measures to mitigate the risks

23. The following strategy has been devised in the project to mitigate the procurement risks:

a) To mitigate the risks of collusion, fraud, corruption, waste and mismanagement, implementation arrangements will be geared to achieve a high level of transparency in project implementation.

b) To mitigate risks related to the low level of capacity both at the project coordination unit and the Ministry of Mining, all proposed procurement decisions at a given threshold (**to be determined**) will be subject to mandatory review by a contract committee composed of representatives from Ministry of Finance, Ministry of Budget, Ministry of Mining, excluded staff involved in evaluation and contract award processes.
c) The publicly accessible project website will include all relevant information to facilitate transparency and integrity of implementation, including the following: Project Appraisal Document and Grant Agreement; advertisements; funding proposals; terms of reference for all activities; contract awards; progress reports from implementing entities; a procedure for handling complaints satisfactory to the Word Bank; and complaints received and action taken.
d) All ICB contracts for goods and works and all consulting contracts costing US$ 200,000 and above, will be published in the UNDB and DgMarket, in accordance with World Bank Guidelines;
e) The government project team will apply a 'one-strike' policy to all contractors and consultants - any case of complicity in corruption, collusion, nepotism and/or fraud will lead to dismissal, disqualification from all further project activities and prosecution;
f) A project launch workshop will be carried out for all project's stakeholders including the Ministry of Mining staff, relevant staff of all other entities involved in project implementation, NGOs, and civil society;
g) For all procurement, the Project Implementation Manual, to be adopted by effectiveness, will include procurement methods to be used in the project along with their step by step explanation as well as the standard and sample documents to be used for each method**;**
h) The Ministry of Mining, in close relation with the PIU, will create a data base of suppliers of the required goods, construction contractors and consultants (firms and individuals). The database will also include information on current prices of goods.

F. Frequency of Procurement Supervision

24. In addition to the prior review supervision to be carried out by the Bank staff, the capacity assessment of the Implementing Agency has recommended quarterly supervision missions during the first 18 months to visit the field to carry out post review of procurement actions. Missions in the first 18 months shall include a Bank Procurement Specialist or Consultant.

G. Procurement Plan

25. The Borrower developed a procurement plan for project implementation, which provides the basis for the procurement methods. This plan will be agreed between the Recipient and the Project Team at appraisal and will be available in the project's database and on the Bank's external website. The Procurement Plan will be updated in agreement with the Bank annually or as required to reflect the project implementation needs and improvements in institutional capacity.

26. The thresholds for the use of the various procurement and selections methods are summarized below:

Thresholds for Procurement Methods and Prior Review

Expenditure Category	**Contract Value Threshold (US$)**	**Procurement Method**	**Contracts Subject to Prior Review (US$)**
1. Works	>=3,000,000	ICB	All
	>=100,000 but <500,000	NCB	Only 2 first contracts
	<100,000	quotations	Post Review (small works)
		DC	All
2. Goods and Services (other than Consultants' Services)	>=500,000	ICB	All
	>=50,000 but <500,000	NCB	First two contracts
	<50,000	Shopping	None
		DC	All
3. Consultants' Services Firms	>100,000		All
	<100,000	CQ	First two contracts
		SSS	All
Individuals		SSS	All
	>=50,000		All
	<50,000		Subject to post review

H. Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Services (other than Consultants' Services)

27. List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	**Contract (Description)**	**Estimated Cost ('000 USD)**	**Procurement Method**	**P-Q**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Bid-Opening Date (dd/mm/yy)**	**Comments**
	Goods							
1	Communication and information materials for	300	NCB	N/A	No	Post	28/02/11	1batch

1	2	3	4	5	6	7	8	9
Ref. No.	**Contract (Description)**	**Estimated Cost (‘000 USD)**	**Procurement Method**	**P-Q**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Bid-Opening Date (dd/mm/yy)**	**Comments**
	legal							
2	Supply of small equipment for SAESSCAM	1 000	ICB	N/A	No	Prior	28/02/11	Multiple batches
3	Supply of technical equipment for laboratories	2 000	ICB	N/A	No	Prior	30/11/10	Multiple batches
4	Supply of ICT equipment	1000	ICB	N/A	No	Prior	30/11/10	Multiple batches
5	Supply of telecommunica tions equipment and accessories	500	ICB	N/A	No	Prior	30/11/10	Multiple batches
6	Supply of Furniture and Fitting	1 000	ICB	N/A	No	Prior	30/11/10	Multiple batches
7	Supply of Motor Vehicles	500	ICB	N/A	No	Prior	30/11/10	Multiple batches
8	Supply of furniture and consumables for traceability systems	500	ICB	N/A	No	Prior	29/05/11	1 batch
9	Data Acquisition for Monitoring and Evaluation	100	NCB	N/A	No	Prior (One of the two first NCB to be prior reviewed by the Bank)	30/11/10	1batch
10	Workshops and conferences	1 000	Shopping	N/A	No	Post (Due to the fact that the contract cost estimated include the prices of several workshop and conferences that will be organized)	30/11/10	Multiple batches
11	Training centers	1000	Shopping	N/A	No	Post (Due to the fact that the contract cost estimated include the prices of several workshop and conferences that will be organized)	30/11/10	Multiple batches

1	2	3	4	5	6	7	8	9
Ref. No.	**Contract (Description)**	**Estimated Cost ('000 USD)**	**Procurement Method**	**P-Q**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Bid-Opening Date (dd/mm/yy)**	**Comments**
	Works							
1	National Geodetic Network	4 500	ICB	N/A	No	Prior	29 Jan. 2011	1 batch
2	Airborne geophysics over selected areas	10000	ICB	N/A	No	Prior	29 Jan. 2011	2 batches
3	Renovation of Ministry of Mines and Mining Administration	1 000	NCB	N/A	No	Post (except 2 first)	29 Apr. 2011	Multiple
4	Renovation of Provincial Ministries facilities	300	NCB	N/A	No	Post	28 July 2011	Multiple
5	Renovation of ANE, Ministry of Environment, DPE facilities	600	NCB	N/A	No	Post	28 July 2011	1 batch
6	Renovation of UEP buildings	100	NCB	N/A	No	Post	29 April 2011	5 batches

(a) Contracts estimated to cost above US$ 3,000,000 for works and US$ 500,000 for goods and Non consultant services per contract and all direct contracting will be subject to prior review by the Bank.

2. Consulting Services

28. List of consulting assignments with short-list of international firms

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated Cost ('000 USD)**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date (dd/mm/yy)**	**Comments**
1	Review and adjustment of legal and regulatory framework	1 000	QCBS	Prior	15 Dec. 2010	1 batch
2	Technical assistance for information and communication campaigns	200	QCBS	Prior	14 Jan. 2011	1 batch
3	Elaboration of the program	500	QCBS	Prior	15 Dec. 2010	1 batch

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated Cost (‘000 USD)**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date (dd/mm/yy)**	**Comments**
	to reinforce the national geodetic network					
4	Establishment of the national geological database	1 000	QCBS	Prior	15 March 2011	1 batch
5	Mineral Potential Assessment of Selected areas Zone A	5 000	QCBS	Prior	15 March 2011	1 batch
6	Mineral Potential Assessment of Selected areas Zone B	5 000	QCBS	Prior	15 March 2011	1 batch
6	Implementation coordination of the institutional strengthening work plan at MoM and affiliated institutions as well as at provincial level (3 Provinces).	1500	QCBS	Prior	15 Dec. 2010	Multiple
7	Design and support to set up of the Mineral Information Management System	1000	QCBS	Prior	15 Dec. 2010	1 batch
8	Implementation coordination of the institutional strengthening work plan at DPE, GEEC and MoE (including design and set up of an Information and Management System of the Environment at the DPE and GEEC/MoE)	750	QCBS	Prior	15 Dec. 2010	1batch
9	Elaboration of guidelines and materials for training in ESAs	200	QCBS	Prior	15 Dec. 2010	1 batch
10	Elaboration of the program to reinforce universities and institutes	100	QCBS	Prior	28 Feb. 2011	1 batch
11	Mining taxation training	100	IC	Post	31 Oct. 2010	Multiple batches
12	Support to EITI implementation	200	QCBS	Prior	15 Dec. 2010	Multiple batches
13	Support to traceability systems	200	QCBS	Prior	13 June 2011	1 batch
14	Inventory and modeling of tax revenues	400	QCBS	Prior	15 Dec. 2010	1 batch
15	Facilitators for Accountability Platform	50	ICS	Post	31 Dec. 2010	Multiple
16	Strategic Environmental and Social Assessment	700	QCBS	Prior	15 Nov. 2010	1 batch
17	Capacity building for local community participation to public consultation	400	QCBS	Prior	15 Dec. 2010	Multiple
18	Technical assistance for	1000	QCBS	Prior	15 Dec. 2010	Multiple

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated Cost ('000 USD)**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date (dd/mm/yy)**	**Comments**
	artisanal and small-scale mining					
19	Consultants for Project Management	1 000	ICS	Post	31 Oct. 2010	20 batches
20	Audits	100	QCBS	Prior	15 Dec. 2010	1 batch
21	Baseline Study	1000	QCBS	Prior	15 Dec. 2010	1batch

(a) Consultancy services estimated to cost above US$ 100,000 equivalent per contract for firms and US $ 50,000 for individuals and all contracts awarded on a single source basis (SSS) will be subject to prior review by the Bank

(b) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US$ 100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

1. The proposed project is a technical assistance loan and as such does not lend itself easily to economic analysis. As such, traditional NPV and ERR analysis do not apply.

2. However, some macroeconomic indicators can be projected and compared with present performance, in particular increased effectiveness in tax collection, increased investments in exploration, development and production, improved governance and, as a result, increased fiscal revenue from the expected growth in sector activities.

3. The following analysis focuses on fiscal receipts which, admittedly, do not fully capture the developmental benefits of the mining sector. Mining investments typically require infrastructure developments, creating upstream and downstream linkages and generating more employment and income. However, those positive externalities are more difficult to capture in a modeling exercise.

4. The results detailed below demonstrate the positive impact of supporting the sector. For an estimated project cost of $90 million the project could contribute to reducing the tax gap associated with inefficient and ineffective tax collection, potentially yielding a further $164 million in government fiscal receipts in the period 2010 to 2014, and a further $862 million in the period 2015-2020 (as benefits will continue beyond the life of this project).

5. That said, it should be noted that the PROMINES Project does not commit to achieving such tax collection increase. Other Government and donor-supported efforts are devoted to the same objective and only a combined success of those could ensure the potential is reached. The tax collection increase will be monitored as part of the Monitoring and Evaluation of PROMINES and the analysis below could therefore be updated on a periodic basis.

Background

6. The DRC is a country with a vast mineral wealth. In the past the mining sector has been a key driver of the economy and with improved prospects for peace across the country it has begun to play this role again in recent years (although in 2009 the impact of the global economic crisis and commodity price collapses has hampered the recovery). However, critical problems related to the way in which the sector is governed have meant that the revenues generated from the mining sector have not been used effectively to contribute to sustainable economic and social development in the DRC.

Minerals Sector and Economic Growth

7. The minerals (extractive industries) sector's contribution to growth in DRC has been volatile as illustrated by Figure 1, which also clearly demonstrates how important what happens in the minerals sector is for the overall pattern and levels of economic growth in DRC. The

period of recovery in minerals sector growth 2001-2008 corresponds with an overall resurgence in growth.

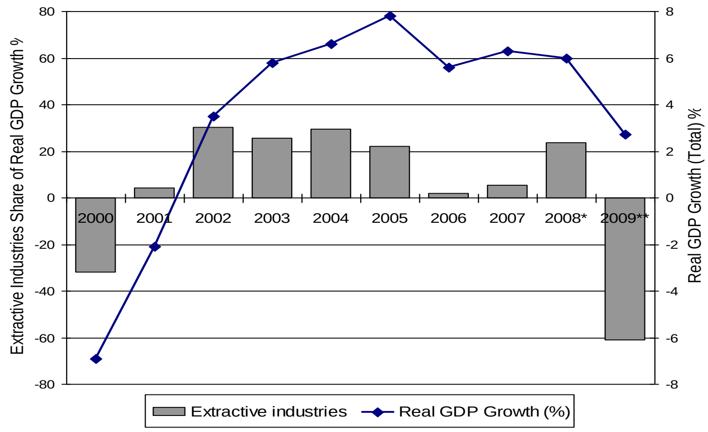


Figure 1. Overall GDP Growth and Key Sector Contributions 2000 - 2009.

8. In 2009, the minerals sector contracted largely due to the fall in key commodity prices and with this overall GDP growth. As seen in recent months, developments in international commodity markets have wide ranging implications for the DRC economy. Together copper, cobalt and diamonds represent 80% of DRC's exports – in the last quarter of 2008 prices of these minerals fell by roughly 50%, 33% and 25% respectively. As a result export earnings in the DRC are expected to have fallen by $3.2 billion between 2008 and 2009.[54]

Figure 2. Volatile commodity prices.

9. However, it is not only prices that explain sector developments, even at lower prices copper production remained profitable – there are other reasons why production fell. It is essential to understand the range of factors that have contributed to past growth, or contraction, in the mining sector. These include: international commodity prices; political stability; incidence of conflict; corruption; broader mining sector governance; and the business environment.

10. The DRC minerals sector will need to attract additional private sector investment – both locally and from abroad – in order to really fulfill its role as an engine of growth. The plentiful supply of mineral resources means that there are many interested investors – and FDI to the DRC has been growing steadily – however, the level of external investment would undoubtedly grow more, and more quickly, if the overall business environment were better.

[54] Source: IMF, DRC Rapid Access Component of Exogenous Shocks Facility (Mar 09)

11. The DRC is the second most difficult country in the world in which to do business; according to the 'Doing Business' Surveys.[55] It scores poorly across all categories – falling in the bottom 10% of all countries surveyed regarding 'Employing Workers', 'Getting Credit', 'Trading Across Borders' and 'Enforcing Contracts'. It scores in the bottom 20% of countries surveyed for all other categories.

12. The recent mining contracts review – particularly the cancellation of the KMT contract which is now the subject of an international arbitration case - has also sent negative signals to investors regarding the business climate in the mining sector specifically.

Table 1. DRC: Doing Business Score (rankings out of 183 countries)

	DRC	SSA Average
Overall Rank	**182**	**139**
Starting a Business	154	126
Dealing with Construction Permits	146	117
Employing Workers	174	119
Registering Property	157	123
Getting Credit	167	120
Protecting Investors	154	113
Paying Taxes	157	112
Trading Across Borders	165	137
Enforcing Contracts	172	117
Closing a Business	152	127

Minerals Sector Contribution to Government Revenues

13. The contribution of the minerals sector to sustainable social and economic development is not just concerned with economic growth, but also with the sector's contribution to government revenues and the way in which these are managed to contribute to broader development.

14. Currently, the government's capacity to collect taxes from the mining sector is weak. In part this is because revenues are not collected, but to a large extent it is because revenues are not recorded – and are potentially misreported due to control weaknesses in the system. Estimates of just how weak vary significantly, from 20% in the World Bank's 2008 study "Growth with Governance in the Mining Sector", to approximately 85% on the basis of the recent EITI Reconciliator's Report for 2007[56]. A critical problem is the lack of clarity over which agency should collect tax receipts and at which level – this is clearly shown in the EITI report where variations for individual taxes are greater than overall and in the 2008 report of a Senate Commission. It should also be noted that the Senate Report suggests that on the whole tax recovery is worse than the EITI report (see section 3) and that performance in 2008 was worse than in 2007. One reason for the discrepancy between the EITI report and the Senate report is that the scope of the former is limited, largely to copper, cobalt and petroleum producers. The

[55] The Doing Business Surveys had consistently ranked the DRC as the most difficult country to do business until the Central African Republic was included in the 2010 survey.

[56] RDC : « *EITI » Rapport du Concilateur Indépendant Exercice 2007 (Dec 2009).* Using data for individual taxes from the EITI consolidators report for 2007, the author calculates that an average of 85% of revenues declared as payed by the mining companies are declared by Government agencies.

more difficult sectors to regulate are those with high artisanal activity (gold, diamonds etc.) and so it is indeed that the current EITI report overestimates sector wide tax recovery performance.

15. The government has recognized, and is taking steps to address, the effectiveness of mining sector tax collection – both in preparation for PROMINES and in developing the Memorandum of Economic and Financial Policies 2009-12 (MEFP) which forms the basis for the recently approved program with the IMF. "The government's objective is to increase the contribution of the mining sector to domestic revenue, which has been weak thus far. Accordingly, the government will strengthen the capacity of the tax department's (DGI) Large Taxpayers Office responsible for revenue collection from the sector, including by cooperating closely with specialized audit companies. Further, the collection of royalties and mining taxes (outside customs) will be transferred from the Directorate of Administrative and State Revenue (DGRAD) to the DGI, with the relevant legislation planned to be submitted to Parliament by April 2010. OFIDA will also establish specialized centers to assess adequately the quality and values of key mineral exports."(MEFP, 2009-12)

16. Through helping support tax collection and revenue management within the mining sector, PROMINES will also be contributing to broader Public Financial Management (PFM) reform. PFM in the DRC is currently very weak[57], and fiduciary and corruption risks assessed as high. The government has acknowledged this and PFM reform constitutes another key pillar of the MEFP and IMF program. Throughout 2009 significant efforts have been made to develop a government-led, donor-supported PFM reform action plan (a prioritized matrix should be finalized and endorsed by end March 2010).

17. Although the broader PFM reform effort is outside the scope of this project the importance of the mining sector for revenue generation means that there are areas where PROMINES will contribute to the broader PFM reform effort and that as two highly complementary programs efforts should be made to maintain synergies and linkages.

Using government revenues to leverage broader socio-economic development

18. The extent to which government revenues (including from the mining sector) are effectively managed by the government and used for broader social and economic development within DRC then depends largely on the overall quality of Public Financial Management and the DRC policy framework.

19. As mentioned above, Public Financial Management overall is assessed as very poor by the PEFA assessment undertaken in 2008. This assessment also notes particular weaknesses in the extent to which the budget is well founded on national policies; largely due to the inexistence of sectoral strategies that adequately lay out the costs of meeting policy objectives (both investment and recurrent costs).

20. In the 2010 budget, 58% of central expenditure is expected to be financed from domestically generated government revenues. Of this, only 12% (7% of overall budget) is to be used for key poverty focused sectors, defined here as Education, Health, Agriculture, Rural

[57] PEFA Assessment Report, 2008

Development and Infrastructure and Public Works. (This compares to 5.6% for defense, and 8% debt related payments to Paris Club and Multilaterals.) In total the share of spending for these sectors will be higher since information on expenditures made by provinces – including those using the un-earmarked transfer from the centre to provinces – is not available to factor into this analysis. The arrival of HIPC Completion point in 2010, and development of a new poverty reduction strategy, may help put increasing focus onto these sectors over the coming years but this is yet to be clarified.

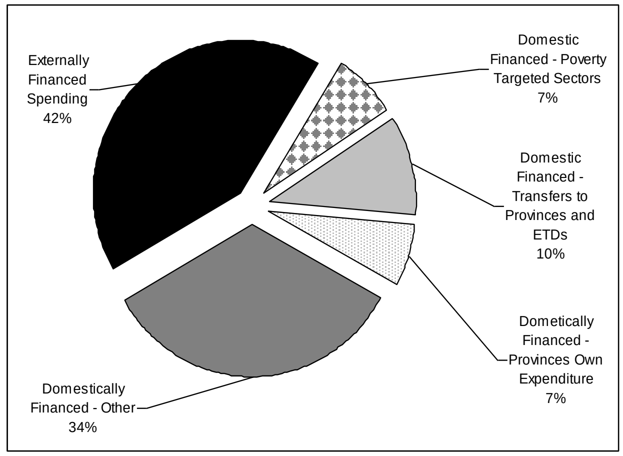


Figure 3. Budget 2010 - Allocation to Poverty Sectors

Estimated Benefits from Program

21. The PROMINES project will bring economic and financial benefits through two key effects:

- It will strengthen capacity of the government to manage more effectively the mining sector, in turn helping to improve the effectiveness and efficiency of tax collection within the mining sector, thus increasing the sector's contribution to government revenues
- It will help the mining sector in DRC become a more attractive sector in which to 'do business' and attract increased mining investments into the DRC, thus increasing the gross revenues generated by the sector and its contribution to the economy overall

22. It should be noted that PROMINES cannot claim 100% attribution for these benefits; there are a number of other projects supporting activities in the sector (e.g. those financed by GTZ, the EU and other WB projects) that will also contribute.

Base Case Scenario: Current potential of the mining sector

23. The starting point for this analysis is to consider what the current outlook for the mining sector in DRC is on the basis of current investment and production plans; the base scenario. Due to data limitations, this analysis focuses exclusively on copper and cobalt production and associated revenues and taxes from these minerals. This obviously excludes a number of important minerals – notably gold which is likely to increase in importance over the coming years.

24. The following analysis estimates copper and cobalt production levels in the DRC from 2008-2020, using data from the World Bank, the IMF and publicly available information from key joint ventures in the mining sector and follows a similar approach to that used by the World Bank for the Growth with Governance study in 2008, and in some cases directly uses the models developed for this, but updated to reflect more recent information. In this base scenario, output

is estimated for GECAMINES and for each of the major joint ventures currently in operation or under development namely Frontier, Ruashi, Tenke Fungurume, Kamoto KCC, Nikanor KOV, and Sicomines[58]. The last of these covers the investments to be made under the terms of the Sino Congolaise minerals for infrastructure deal and whilst the convention de collaboration has recently been renewed (and revised), it remains unclear when exactly they will begin to develop their operations, let alone start producing. However, as an important deal already envisaged it is included in the base scenario.

Production Levels

25. Figure 4 below summarizes shows the potential for copper and cobalt production in the DRC between now and 2020 as per this base scenario;, it is projected that copper production will increase from approx. 280,000 tons in 2009 to 800,000 tons in 2014 (end of current PROMINES project) and to over 1 million tons in 2020.

26. As noted above, the Sicomines production is the most uncertain element of the base scenario. If this were excluded then production levels would increase to 600,000 tons of copper and 22,138 tons of cobalt in 2014 (642kt and 63kt respectively in 2020).

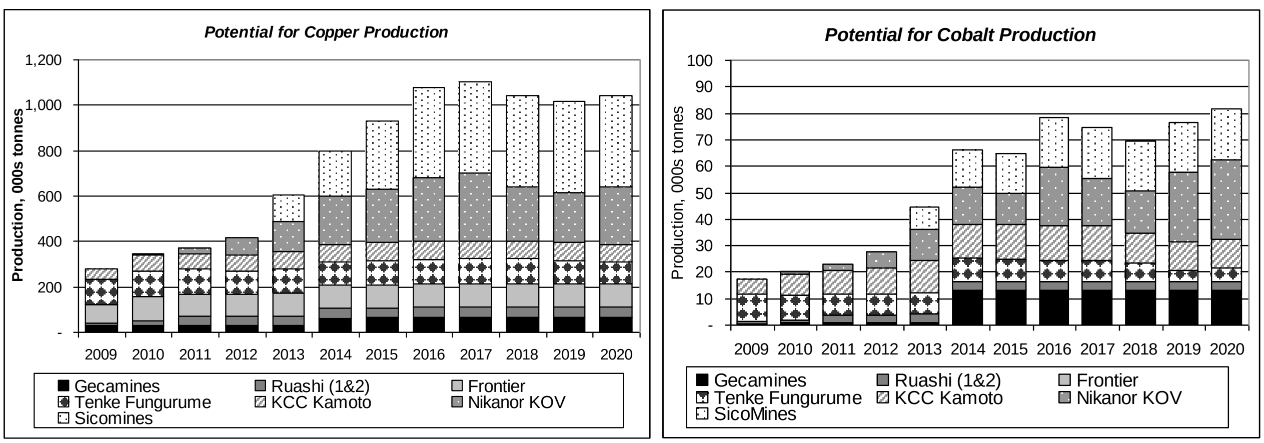


Figure 4. Base scenario estimates of Copper and Cobalt production (current and currently planned operations).

Gross revenues

27. For these estimated levels of output, a base scenario level of gross revenues is estimated; this is presented in Figure 5 below. This shows revenue generated through copper and cobalt production increasing from approximately \$1.3 billion in 2009 to \$3.5 billion in 2014 and \$4.4 billion in 2020. As a % of GDP, copper and cobalt revenues are projected to increase from 12% in 2009 to 20% in 2014, then further increasing to 21% in 2016 before falling back down to approximately 15% by 2020. (GDP has been estimated using IMF World Economic Outlook projections to 2014 and authors own estimates to 2020.)

[58] As KMT has had its contract cancelled and has lodged a case for international arbitration this has been excluded.

28. If the Sicomines investments do not materialize then gross revenues are forecast to reach \$2.6 billion (15% of GDP) in 2014 and \$3.0 billion (10% GDP) in 2020.

29. This is based on a very conservative estimate of the price curve for each commodity (per World Bank 2008.) Sensitivity analysis conducted later in this Annex looks at the implications of changing the price assumptions.

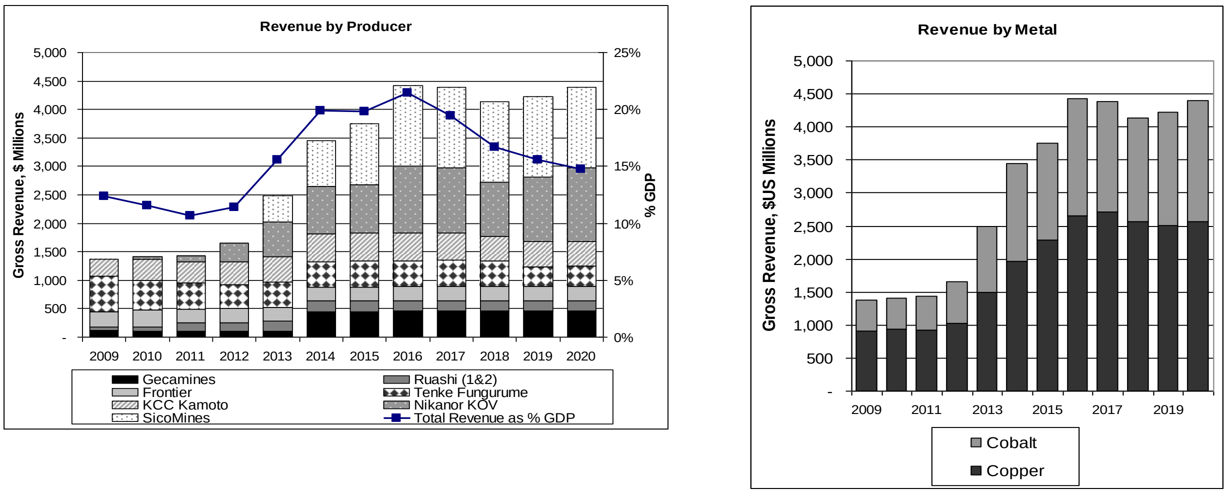


Figure 5. Base scenario estimates of gross revenues from Copper and Cobalt Production (current and currently planned operations).

Potential Tax Receipts

30. Following the approach used by the World Bank 2008 and on the basis of IMF information, the potential tax earnings associated with these copper and cobalt revenues has been estimated. The tax schedule used is as follows:

Table 2. Tax parameters used as per current Mining Code.

Mining Royalty	2%	Applied to gross revenue
Surface Area Based Taxes	5.08	\$ph applied to area under exploitation
Import Duty	2-5%	Applied to imports of equipment etc[1]
Export Services	1%	Applied to gross revenue
Income Taxes	30%	Applied to Taxable Income
Estimate of Taxable Income [2]	*64%*	*Applied to Gross Revenue (IMF assumption)*
Witholding Tax, Dividends	10%	Applied to Net Income
[1] *From WB models used for 2008 study*		
[2] *Where WB models do not provide*		

31. It is recognized that when set up a number of Joint Ventures have managed through their convention de collaboration to negotiate various modifications to their terms and conditions, including their tax liabilities. Sufficient information on the details of each is not available for this analysis – so the above tax schedule is used with the exception of the Sicomines investment. For this latter venture, it has been agreed that the JV will be exempt from all taxes until the

investment loans are repaid (the IMF estimate that this will be in 2018) and this is factored into the analysis.

32. On this basis, estimates of potential tax revenue (i.e. if all taxes are collected properly in accordance with the mining code) are as shown below in Figure 6. Potential revenue from these operations is set to increase from a level of approximately $177 million in 2009 to approximately $557 million in 2014 and to more than $1.2 billion in 2020. This is equivalent to 1.6% of GDP and 9% of total government revenues in 2009, increasing to 3.2% of GDP and 16% of total revenues in 2014, and to 3.9% of GDP and 19% of revenues in 2020. (Government revenues have been estimated using IMF projections (AIV 2009) to 2012 and maintained at same level relative to GDP through to 2020.)

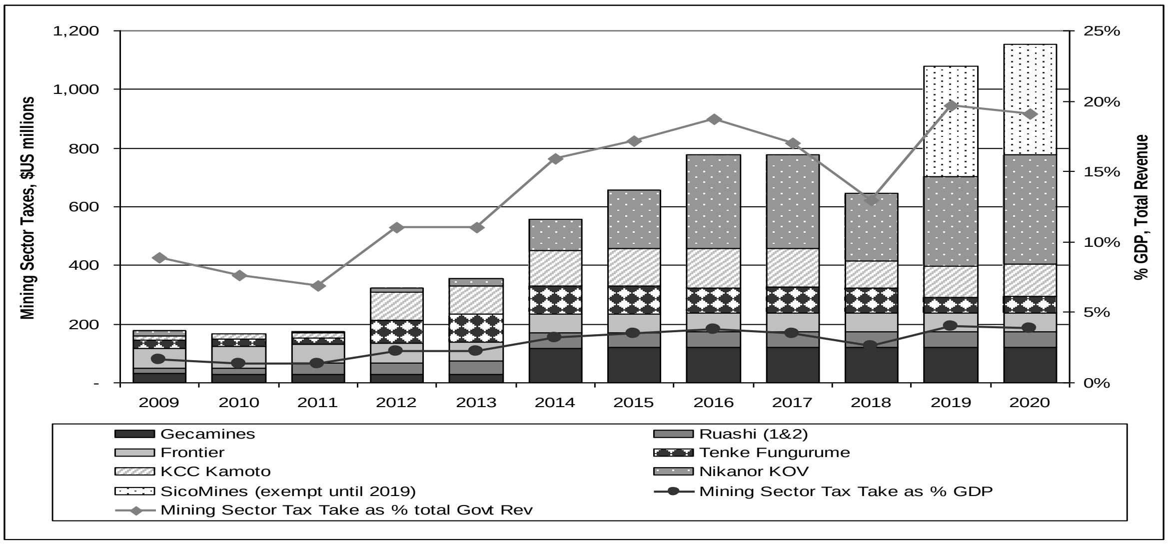


Figure 6. Base scenario estimates of potential fiscal receipts from Copper and Cobalt production (current and currently planned operations)

Likely Tax Receipts

33. Unfortunately, as noted above, the Government has not been fully effective in collecting (or properly recording) tax revenues from the mining sector to this date. The EITI Reconciliator's report for 2007 provides information for different taxes on what mining companies declare as taxes paid, and corresponding amounts declared by Government tax collection agencies. The extent to which these vary differs by tax – as shown in Table 4 below – and this has been used to estimate the likely tax receipts if this situation does not improve.

Table 3. Calculations based on EITI consolidator's report - Extent to which different taxes are collected.

Tax	Recovery Rate	Source
Mining Royalty	96%	EITI Reconciliators Report for 2007 (2009)
Surface Area Based Taxes	60%	EITI Reconciliators Report for 2007 (2009)
Import Duty	100%	No information – so 100% assumed
Export Services	100%	No information – so 100% assumed
Income Taxes	76%	EITI Reconciliators Report for 2007 (2009)
Witholding Tax, Dividends	100%	No information – so 100% assumed

34. On the basis of the above parameters, and assuming no improvement in the base scenario, likely tax receipts are estimated to be only 88% of the potential in 2009, and 83% in 2014 and 2020. The "tax gap" or foregone revenue in the base scenario would then increase from $22 million in 2009 to approximately $91 million in 2014 and $197 million in 2020.

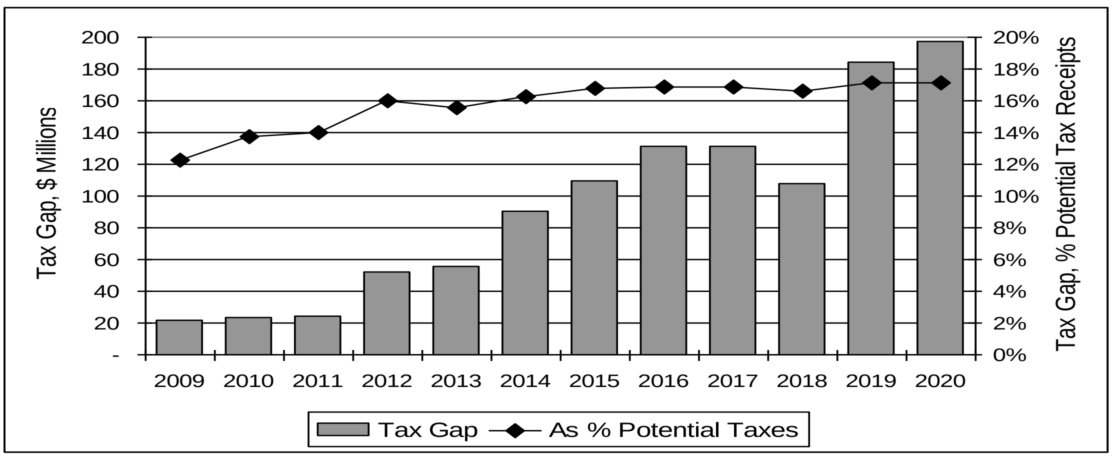


Figure 7. Base scenario estimates of tax gap in collection of receipts from Copper and Cobalt production (current and currently planned operations).

35. A Senate Commission report published in 2009, estimated even weaker tax recovery, it also suggested that 2008 performance was worse than 2007 (the year covered by the EITI report). Sensitivity analysis later in this annex analyses the implications of assuming a weaker level of tax recovery.

Mining sector contribution to key poverty targeted spending

36. In the 2010 (original) budget, 12% of domestic resources are allocated to 5 key poverty targeted budget lines[59.] On the assumption that fiscal receipts from the mining sector are fungible, this proportion of mining sector revenues can be assumed to be the sectors minimum

[59] SANTE PUBLIQUE 2.7% ; EPSP 7.0% ; INFRASTRUCTURES ET TRAVAUX PUBLICS 0.9%; AGRICULTURE 0.9% ; DÉVELOPPEMENT RURAL 0.4%.

contribution to broader social and economic development.[60] This increases to 13% of domestic resources once debt payments are excluded – assuming that DRC reaches HIPC Completion point in 2010, but that the overall policy framework does not change, 13% is assumed for 2011 onwards.

37. On this basis, the base scenario estimates an increasing contribution from the mining sector to poverty targeted spending from approximately $18 million in 2009, to $84 million in 2014 and to $124 million in 2020.

Summary: Base Scenario

38. Table 4 below summarizes the base scenario: Gross Revenues will average approximately $2.1 billion per annum 2010-2014 (the PROMINES 1 period); and $4.2 billion per annum 2015-2020. The contribution to government revenues will average approximately $270 million and $700 million over the periods 2010-2014 and 2015-2020 respectively. This in turn will translate into an annual average contribution to (central) poverty spending of approximately $34 million and $90 million 2010-2014 and 2015-2020 respectively.

Table 4. Summary of base scenario

$ MILLIONS	2009	2010-2014		2015-2020	
		Annual Average	Total	Annual Average	Total
BASE SCENARIO					
Mining Sector Gross Revenue	1,373	2,088	10,438	4,218	25,307
Excluding Sicomines	*1,373*	*1,832*	9,162	2,863	17,176
Mining Sector Contribution to Govt Revenues	155	267	1,335	705	4,229
Mining Sector Contribution to Poverty Sectors	14	34	168	92	550

<u>Improved Effectiveness Scenario</u>

39. As mentioned above, the first effect through which the PROMINES (and other) project will yield economic and financial benefits is through strengthening the capacity of the government to collect, record and manage tax revenues from the mining sector.

Increased Likely Tax Receipts (brought in line with potential)

40. To estimate the impacts of this effect, it is assumed that the effective recovery of mining sector taxes increases from the rates shown in Table 4 above, to 100% for all taxes in a linear fashion by the end of the project. This reduces the tax gap to zero over the life of PROMINES 1

[60] Poverty targeted spending is also undertaken in and by the provinces, to the extent that this is from their own resources, or from the unearmarked transfer from the centre, it is not captures in the 12%. For this reason, 12% is considered the minimum contribution.

(see Figure 8 below)and so increases the mining sector contribution to government revenue (without changes to production, prices, investment etc.). The increases in revenue from the mining sector, should translate into increased spending on poverty targeted sectors.

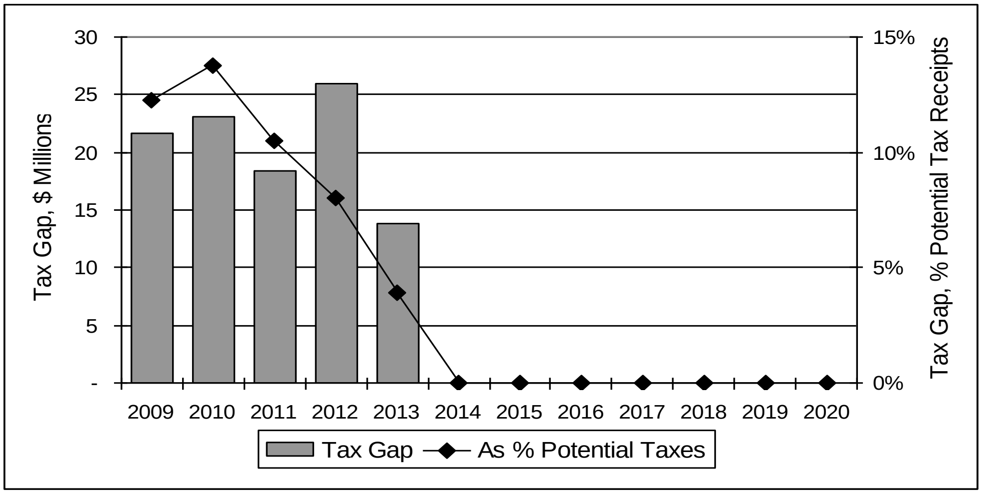


Figure 8. Improved effectiveness scenario estimates of tax gap in collection of receipts from Copper and Cobalt production (current and currently planned operations).

41. It is recognized that a linear improvement in effectiveness in tax collection over the period is unlikely; in fact as more and larger mining investments move into operations and start turning over a positive profit, the increase in the tax base could actually lead to a reduction in efficiency to begin with.

Summary: Improved Effectiveness Scenario

42. The added value of the PROMINES project through this first "improved effectiveness" effect is summarized in Table 5 below.

43. Improved efficiencies could yield an additional $44 million annually on average 2010-2014 and $185 million annually on average 2015-2020. This amounts to $1.0 billion in additional (or now officially declared) government revenue between 2010 and 2020.

Table 5. Summary of improved effectiveness scenario and comparison with base scenario.

		2010-2014		2015-2020	
$ MILLIONS	**2009**	**Annual Average**	**Total**	**Annual Average**	**Total**
IMPROVED EFFECTIVENESS SCENARIO					
Mining Sector Gross Revenue	1,373	2,088	10,438	4,218	25,307
Increase over Base Scenario	*0*	*0*	*0*	*0*	*0*
Mining Sector Contribution to Govt Revenues	155	300	1,499	848	5,090
Increase over Base Scenario	*0*	*33*	*164*	*144*	*862*
Mining Sector Contribution to Poverty Sectors	19	39	193	110	662
Increase over Base Scenario	*0*	*4*	*21*	*19*	*112*

More Investment Scenario

44. The second effect through which the PROMINES project may yield economic and financial benefits is by improving the management of the sector to the extent that it is a more attractive place in which to do business.

45. In estimating this scenario, it is assumed that the following will happen:

- That GECAMINES production levels will increase—reaching 100 kilotons of copper in 2018.
- The KMT project site will become operational either through resolution of the existing dispute or through a new investor taking over the site and that production will start in 2012.
- That a new large scale mining investment will be developed (equivalent to the current TFM operation) and that production will start in 2013.[61]
- That a new medium scale mining investment will be developed (equivalent to the Metorex Ruashi operation) and that production will start in 2013.

Production Levels

46. In this scenario (Figures 9 and 10), it is projected that a further 2.0 million tons of copper and 238,000 tons of cobalt could be produced between 2012 and 2020 (of which 366,500 tons of copper and 45,000 tons of cobalt could be produced between 2012 and 2014 – i.e. within the PROMINES period.)

Gross Revenue Projections

47. This additional production could yield an additional $10.3 billion in gross revenues for the mining sector between 2012 and 2020 – of which, $1.9 billion could materialize between 2012 and 2014. This would bring gross revenues to $4.6 billion in 2014 (or 26.7% of GDP[62]) and to $5.8 billion in 2020 (or 19.6% of GDP7).

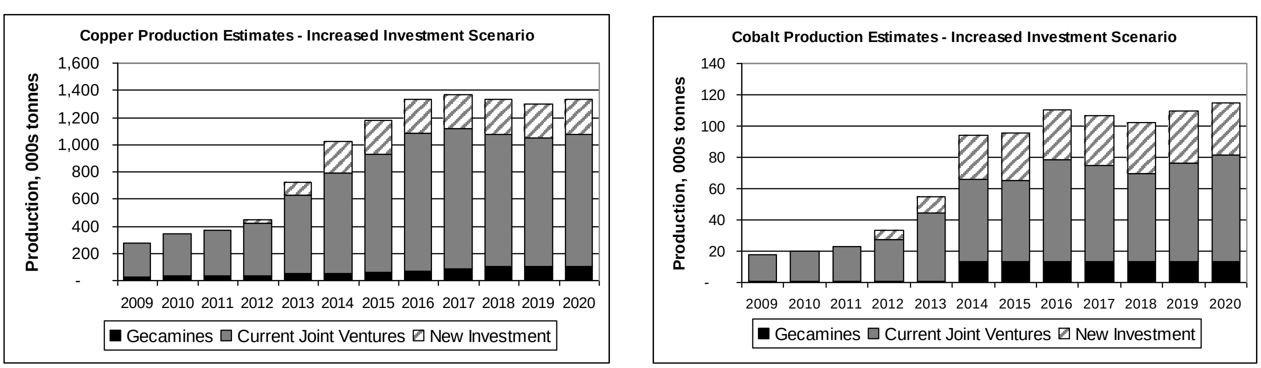


Figure 9. Increased investment scenario estimates of Copper and Cobalt production.

[61] It is possible that TFM itself could double its operations over this time period (2010-2020).
[62] Although it is likely this would also lead to increases in GDP as this is not factored into current IMF projections.

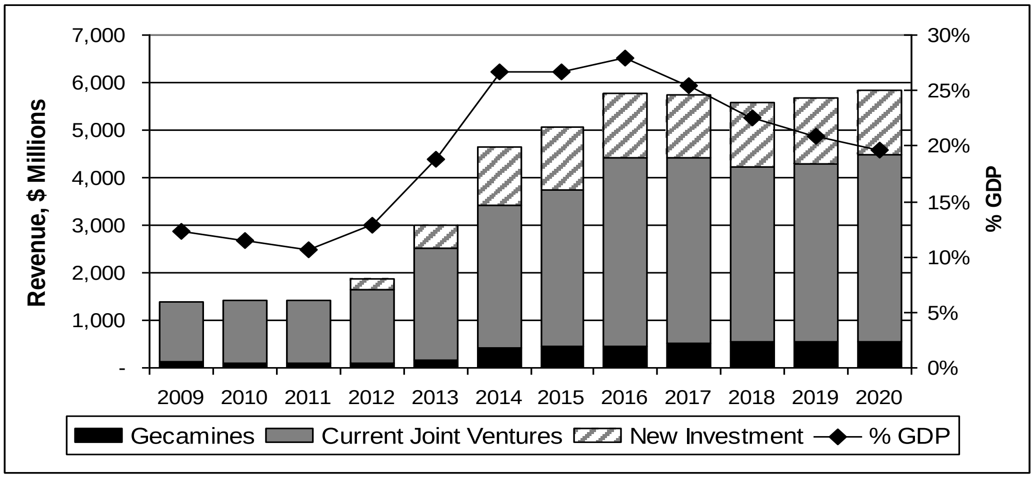


Figure 10. Increased investment scenario projections of revenues from Copper and Cobalt production.

Fiscal Receipt Projections

48. Fiscal receipts for the Increased Investment Scenario are calculated by applying the same assumptions on tax rates as the Base Scenario but on increasing effectiveness of tax collection as per the Improved Effectiveness Scenario.

49. Additional fiscal receipts totaling \$2.5 billion could be realized over the period 2012-2020 (of which \$472 million could materialize during 2012-2014). This would bring total mining sector fiscal receipts to \$862 million (or 5% of GDP, 24.6% of Government Revenues[63]) in 2014; and to \$1.5 billion (or 5% of GDP, 25% of Government Revenues 8 in 2020).

Spending on Poverty Targeted Sectors

50. Assuming no change in the government policy framework compared with the Base or Improved Effectiveness Scenarios, it is assumed that 13% of all additional revenues would translate into additional spending on the identified poverty targeted sectors. This is equivalent to an additional \$323 million in spending on these sectors between 2012 and 2020 over and above the improved effectiveness scenario (of which an additional \$61 million could be realized between 2012 and 2014).

[63] Although it is likely this would also lead to increases in overall revenues as this is not factored into current IMF projections.

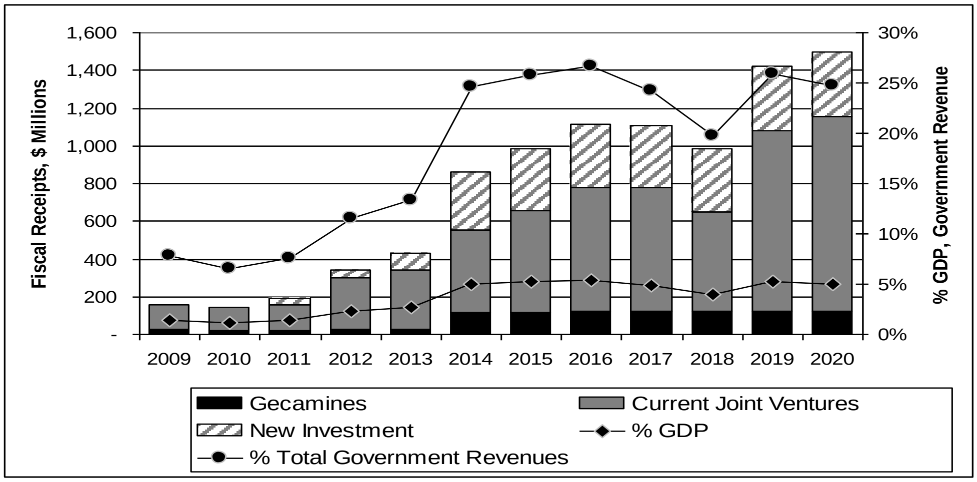


Figure 11. Increased investment scenario projections of fiscal receipt from Copper and Cobalt operations.

Summary: Increased Investment Scenario

51. The potential added value of the PROMINES project through this second "increased investment" effect is summarized in Table 6 below.

52. Attracting new investments of the types projected could yield an additional $381 million annually on average 2010-2014 and $1,393 million annually on average 2015-2020 in gross mining sector revenues – an additional $10.3 billion in total over the period 2010-2020.

53. On top of additional revenues generated through improved effectiveness of tax collection (IE Scenario) this new investment could generate an additional $94 million annually on average in government revenues 2010-2014 and $336 million annually on average 2015-2020 – an additional $2.5 billion in total over the period 2010-2020.

54. In turn this could yield a further increment in spending on poverty sectors of $12 million annually on average 2010-2014 and $44 million annually on average 2015-2020 – an additional $323 million over the period 2010-2020.

Table 6. Summary of increased investment scenario and comparison with base and improved effectiveness scenarios.

		2010-2014		2015-2020	
$ MILLIONS	**2009**	**Annual Average**	**Total**	**Annual Average**	**Total**
MORE INVESTMENT SCENARIO					
Mining Sector Gross Revenue	1,373	2,468	12,342	5,611	33,665
Increase over Base/ IE Scenario	0	381	1,905	1,393	8,358
Mining Sector Contribution to Govt Revenues	155	394	1,971	1,184	7,105
Increase over Base Scenario	0	127	636	479	2,876
Increase over IE Scenario	0	94	472	336	2,014
Mining Sector Contribution to Poverty Sectors	19	51	255	154	924
Increase over Base Scenario	0	17	83	62	374
Increase over IE Scenario	0	12	61	44	262

Sensitivity Analysis

55. For completeness, this section looks at how certain of the assumptions above affect the forecasts produced through the model used.

Price Assumptions

56. The assumptions on copper and cobalt prices used in the above analysis are extremely conservative, following those used in the WB models used for the Growth with Governance study (2008). These estimates are even significantly below current prices. Sensitivity to this assumption is tested by using three alternative hypotheses:

- Prices in 2010 at current levels but fall to the level of the 2009 low by 2014;
- Prices assumed to be 50% higher throughout the model;
- Prices assumed to be 50% lower throughout the model.

Sensitivity to Copper Price Assumptions

57. Table 7 shows how the core analysis in section 2 is affected by different assumptions on the copper price. As one would expect, this shows that if higher price estimates are used the forecast gross revenues, contribution to government revenues and contribution to poverty spending will be higher.

Table 7. Sensitivity to copper price assumptions - by hypothesis.

	Hypothesis A		Hypothesis B		Hypothesis C	
	2010-2014	2015-2020	2010-2014	2015-2020	2010-2014	2015-2020
BASE SCENARIO (% change as compared to core analysis)						
Mining Sector Gross Revenue	37%	13%	30%	30%	-12%	-12%
Mining Sector Contribution to Govt Revenues	30%	7%	22%	15%	-9%	-6%
Mining Sector Contribution to Poverty Sectors	29%	7%	22%	15%	-9%	-6%
IMPROVED EFFECTIVENESS SCENARIO - Increase in $ Millions compared with base scenario						
Mining Sector Gross Revenue	0	0	0	0	0	0
Mining Sector Contribution to Govt Revenues	190	915	192	984	153	813
Mining Sector Contribution to Poverty Sectors	25	119	25	128	20	106
MORE INVESTMENT SCENARIO - Increase in $ Millions compared with IE scenario						
Mining Sector Gross Revenue	2,216	9,234	2,356	10,372	1,724	7,552
Mining Sector Contribution to Govt Revenues	524	2,213	563	2,470	435	1,832
Mining Sector Contribution to Poverty Sectors	68	288	73	321	57	238

58. If (in the highly unlikely case that) prices were 20% lower than the current cautious assumption, then overall copper and cobalt revenues would be 12% lower, contribution to government revenues and poverty spending 6% lower.

59. Even in this case, however the economic and financial benefits of the PROMINES program (and other complementary initiatives) would be significant. Under the improved effectiveness scenario, government fiscal receipts are still forecast to increase by $153 million

2010-2014 and $813 million 2015-2020 in comparison with the base scenario. Poverty spending is forecast to increase by $20 million 2010-2014 and $106 million 2015-2020 compared to the base scenario.

60. The increased investment scenario would also still yield significant results despite lower copper prices.

Sensitivity to Cobalt Prices

61. The analysis for cobalt prices is similar to the above. If (in the highly unlikely case that) prices were 20% lower than the current cautious assumption, then overall copper and cobalt revenues would be 8% lower, contribution to government revenues and poverty spending 4% lower.

62. Even in this case there would be significant economic and financial benefits – via improved effectiveness of tax recovery and increased investment – over the period of the program.

Table 8. Sensitivity to Cobalt price assumptions - by hypothesis.

	Hypothesis A		Hypothesis B		Hypothesis C	
	2010-2014	2015-2020	2010-2014	2015-2020	2010-2014	2015-2020
BASE SCENARIO (% change as compared to core analysis)						
Mining Sector Gross Revenue	22%	13%	20%	20%	-8%	-8%
Mining Sector Contribution to Govt Revenues	10%	7%	9%	10%	-4%	-4%
Mining Sector Contribution to Poverty Sectors	9%	7%	9%	10%	-4%	-4%
IMPROVED EFFECTIVENESS SCENARIO - Increase in $ Millions compared with base scenario						
Mining Sector Gross Revenue	0	0	0	0	0	0
Mining Sector Contribution to Govt Revenues	175	912	177	936	159	832
Mining Sector Contribution to Poverty Sectors	23	119	23	122	21	108
MORE INVESTMENT SCENARIO - Increase in $ Millions compared with IE scenario						
Mining Sector Gross Revenue	2,330	9,826	2,405	10,522	1,704	7,492
Mining Sector Contribution to Govt Revenues	549	2,369	572	2,536	432	1,806
Mining Sector Contribution to Poverty Sectors	71	308	74	330	56	235

Assumptions on Current Effectiveness of Tax Collection

63. As mentioned above, a Senate Commission (reporting in 2009) suggested that overall recovery of taxes from the mining sector is much lower than the EITI report suggests. Table 9 shows the recovery rates as estimated by the Senate report (compare to Table 3 to see variance with EITI report).

Table 9. Calculations based on Senate Commission Report - Extent to which different taxes are collected.

Tax	Recovery Rate	Source
Mining Royalty	72%	EITI Reconciliators Report for 2007 (2009)
Surface Area Based Taxes	31%	EITI Reconciliators Report for 2007 (2009)
Import Duty	100%	No information – so 100% assumed
Export Services	100%	No information – so 100% assumed
Income Taxes	1%	EITI Reconciliators Report for 2007 (2009)
Witholding Tax, Dividends	100%	No information – so 100% assumed

64. Table 9 above shows how this affects the findings from section 2. As to be expected, if the Senate Commission information is used to estimate tax recovery rates then the contribution to government fiscal receipts and poverty spending will be lower in the base scenario than in the core analysis above.

65. With these new assumptions on the tax recovery rate, it is estimated that actual taxes collected in 2009 would be only 48% of the potential, with a tax gap of approximately $92 million. Under the base scenario the average rate of tax recovery and tax gap would be 32% and $379 million by 2014, and 29% and $820 million by 2020.

66. It is also evident that the gains to be realized under an improved effectiveness scenario which increases the rate of recovery (for the sake of simplicity still assumed to reach 100% linearly by 2014) will be more significant when making assumptions based on the Senate Report than EITI. In this case it is estimated that an additional $686 million in government tax receipts would be leveraged by improving effectiveness (compared to the base scenario) between 2010 and 2014; and a further $3.6 billion between 2015 and 2020. The additional funding for poverty focused spending would also increase by $89 million between 2010 and 2014, and $466 million between 2015 and 2020.

67. The additional benefits from the increased investment effect are not affected by this assumption.

Conclusions

68. The economic and financial benefits associated with this project are potentially very significant. This analysis attempts to assess benefits accruing via increased capacity for tax collection and attracting increased investment in the copper and cobalt sectors. For an estimated project cost of $92 million the project will contribute to reducing the tax gap associated with inefficient (and mismanaged) tax collection, potentially yielding a further $164 million in government fiscal receipts in the period 2010 to 2014, and a further $862 million in the period 2015-2020 (as benefits will continue beyond the life of this project).

69. If through the project the DRC Mining Sector becomes a more attractive place to invest, and new investments are secured, the project could help yield a further $472 million in government revenues between 2010 and 2014, and a further $2.0 billion between 2015 and 2020.

70. Increased government receipts should be turned into increased spending in poverty targeted sectors, contributing to broader social and economic development in DRC.

Table 10. Sensitivity to tax recovery rate assumptions.

	Senate Report Data	
	2010-2014	**2015-2020**
BASE SCENARIO (% change as compared to core analysis)		
Mining Sector Gross Revenue	0%	0%
Mining Sector Contribution to Govt Revenues	-59%	-64%
Mining Sector Contribution to Poverty Sectors	-59%	-64%
IMPROVED EFFECTIVENESS SCENARIO - Increase in $ Millions compared with base scenario		
Mining Sector Gross Revenue	0	0
Mining Sector Contribution to Govt Revenues	686	3,581
Mining Sector Contribution to Poverty Sectors	89	466
MORE INVESTMENT SCENARIO - Increase in $ Millions compared with IE scenario		
Mining Sector Gross Revenue	1,905	8,358
Mining Sector Contribution to Govt Revenues	458	2,014
Mining Sector Contribution to Poverty Sectors	59	262

Annex 10: Safeguard Policy Issues

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

1. The development of the mining sector will have positive impacts on the national economy and the population of DRC, but negative impacts on social conditions and the environment, particularly in the mining areas. The country has an important deficit with respect to environmental management, and environmental deterioration resulting from past and present activities represents a significant cost to the country. The assessment of those impacts as part of the proposed PROMINES project is critical in order to maximize its social benefits, protect the present and future environment, and ensure the sustainability of natural resources and the balance of ecosystems.

2. DRC's mineral wealth consists of a large number of diamond, gold, copper, cobalt, tin, colombo-tantalite (coltan), iron, and other deposits (see Annex 1). The exploitation of these resources, particularly in mineral-rich provinces, may negatively affect the biophysical environment and the lives of a large percentage of the population. The armed conflicts that broke out in 1996 contributed to a climate of chaos and confusion, which favored the proliferation of illegal practices and exacerbated the social and environmental impacts of mining activities. Formal, industrial mining is slowly replacing the once predominant informal, artisanal activities, and a relatively adequate legal framework for the sector has been in place since 2002. However, proper law enforcement for both large and artisanal mining is a major challenge.

Institutional and Regulatory Context

Environmental Impact Assessment

3. Decree 03-025, dated September 16, 2003, of the Ministry of Environment, Conservation of Nature and Tourism (MECNT) provides the legal basis for environmental impact assessment (EIA) in DRC; but no decree on the EIA process and content has yet been adopted. MECNT is in charge of reviewing and approving the EIA reports. Older legislation (Ordinance 41-48 of February 12, 1953 on classified plants (*Etablissements dangereux, incommodes et insalubres*) requires that any plant that may have negative impacts must be assessed against health and safety standards and subjected to a public inquiry, including consultation with neighboring communities. In addition, within the framework of the PMURR, the Government has adopted EIA regulations (*Ministerial Arrêté* 037/CAB/MIN/ECN-EF/2004 of June 24, 2004), which establishes the *Groupe d'Etudes Environnementales du Congo* (GEEC). Subsequent regulations (Ministerial Arrêté 044/CAB/MIN/ECN-EF/2006 of December 8th, 2006) clarified that the GEEC is charged with conducting and coordinating social and environmental evaluations of all investment projects and programs. DRC also has legislation on land use planning (Decree of June 20, 1957).

4. Project proponents, including line ministries in the case of government projects, are responsible for conducting EIAs. Currently, the GEEC reviews and approves EIAs, while MECNT and sectoral ministries establish standards and monitor effluent and ambient environmental quality. These standards are weak. A draft Environmental Framework Law (EFL)

is currently being considered by Parliament. The EFL, which includes a section on environmental and social impact assessments (ESIAs), should provide a strong legal basis for such assessments in future projects. It is expected that after the EFL is promulgated, an implementing decree will be adopted to specify ESIA processes, supervision, and monitoring requirements, as well as the respective roles, mandates and responsibilities of the MECNT, the proposed National Environmental Agency (*Agence National de l'Environnement* – ANE), line ministries and agencies, and the assignment of roles among central, provincial, and local authorities under the decentralization program. It is also expected that general and sectoral guidelines will be developed to define EIA requirements for different types and sizes of projects, including consultation and dissemination requirements in the EIA process.

5. Effective implementation of environmental policies and the Environmental Framework Law and regulations will remain a challenge. Currently, both MECNT and GEEC have limited technical capacity and budget for implementing the EIA process, monitoring the execution of mitigation measures, and enforcing environmental law in general. Local authorities and line agencies face the same challenges. The public consultation required for effective EIA preparation and implementation remains inadequate because of the size of the country and limited resources. Investments in awareness raising and training will be needed to improve the effectiveness of EIA processes, performance, and outcomes.

Natural Habitats

6. DRC has several laws on biological diversity management and conservation (Law 082-002 on hunting, which establishes fauna reserves and regulates game reserves; Law 69-041 on conservation of nature, which governs "integral nature reserves"; Law 75-024 dated July 22, 1975 establishing "Safeguarded Sectors" ("*les secteurs de sauvegarde*"); and the 2002 Forest Code provides the legal basis for protection, conservation, and restoration of natural habitats, including declaration of protected areas (national parks and wildlife sanctuaries). Various decrees have been adopted to establish specific parks and protected areas, protect species, and specify conditions for the implementation of the laws. It is expected that they will be completed through a specific Nature Conservation Law, a draft of which has been adopted by the Government and submitted to the National Assembly. Other sector policies and regulations (on fisheries, water resources, cultural heritage) and various international conventions and agreements supported by the Government also have relevant provisions on conservation and protection of natural habitats.

7. ICCN has responsibility for the management of the protected area system. It was established by Law 75-023 of July 22, 1975. Provincial governments are expected to play an important role in consultation with local communities and implementation of protection measures on the ground. The Government is also considering the establishment of forest and biodiversity conservation concessions to promote environmental services. Protection of natural habitats and biodiversity receives considerable recognition within the Government, but not from all agencies involved. Therefore, effective implementation will depend on close cooperation with local governments and local communities, as well as on the capacity of the implementing agencies and coordination among them.

8. Other legal and regulatory instruments apply directly or indirectly to the management of the mining sector and its activities, including:

- the Forestry Code of 2002 (Law 011/2002);
- the law and regulations on the management of water resources, including existing texts controlling the pollution and contamination of water bodies, as well as measures related to the protection of springs, underground waters, lakes, and water courses. These include a decree on the concession and administration of lakes and water courses (May 6, 1952); an ordinance on the pollution and contamination of springs, lakes, watercourses, and parts of water courses (July 1, 1914 (!)); and Ordinance 4443/52 (December 21, 1952) protecting springs, underground waters, lakes, and rivers; preventing the pollution and misuse of water; and controlling the exercise of rights of use and concessions);
- various texts related to energy and public hygiene;
- laws on the protection of cultural resources; and
- international conventions endorsed by the DRC and related obligations about work hygiene and safety as well as the protection of the environment in general.

Mining Code and Social Aspects

9. The 2002 Mining Code regulates many social issues related to the development of mining projects, including:

- restrictions for the holder of mining or quarrying rights regarding occupancy or use of superficial grounds and requirements to reach agreement by competent authorities or the legal occupant;
- following most modern mining laws, it includes the principle of full responsibility of the title holder with respect to the damages caused because of its occupation of the ground and the development of mining activities; and,
- the principle of indemnification by title holders to the legal occupants of the grounds.

Mining Code – Environmental Aspects

10. The Mining Environment Protection (MEP/MoM) unit within the Ministry of Mines has primary responsibility for environmental management of the mining sector. It coordinates with other environmental agencies to enforce environmental regulations, including those defined under the Mining Code, particularly with respect to:

- prospecting activities;
- artisanal mining activities;
- exploration and exploitation activities, including mines and quarries;

- monitoring and control of environmental management and protection by mining title holders;
- the technical evaluation of the Mitigation and Rehabilitation Plan (PAR) in relation to exploration activities;
- the technical evaluation of EIAs and Project Environmental Management Plans (PEMPs) presented by mining title applicants for mines and quarries; and
- the assessment of environmental audits.

11. EIA and PEMP preparation include mandatory consultations with local communities. The evaluation and approval procedures involve a Permanent Assessment Committee (PAC) including representatives from several ministries and agencies, under the coordination of the MEP unit in the Ministry of Mines. The PAC has 180 days to present its recommendations and conclusions, which are then transmitted to the Mining Cadastre (CAMI) and published. Approval is a condition for the granting of the title.

Applicable Safeguard Policies

12. The proposed project supports technical assistance and does not include actual investment in mining facilities (apart from small works related to the refurbishing of offices) or activities related directly to the restructuring of mining SOEs which could include issues such as resettlement. The project has therefore categorized as a **Category B**.

13. The proposed Project triggers safeguard policies on environmental assessment, natural habitats, and indigenous peoples, as indicated below.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[x]	[ ]
Natural Habitats (OP/BP 4.04)	[x]	[]
Pest Management (OP 4.09)	[]	[x]
Physical Cultural Resources (OP/BP 4.11)	[x]	[]
Involuntary Resettlement (OP/BP 4.12)	[]	[x]
Indigenous Peoples (OP/BP 4.10)	[x]	[ ]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP 7.60)	[ ]	[x]
Projects on International Waterways (OP/BP 7.50)	[]	[x]

14. The safeguard policy on involuntary resettlement is not triggered because the Project will not cause direct economic and social impacts that result in the involuntary taking of land or the involuntary restriction of access. The Strategic Environmental and Social Assessment (see below) to be undertaken during project implementation will include a social assessment and the development of measures to minimize and mitigate adverse economic and social impacts associated with mining activities, particularly upon poor and vulnerable groups.

Environmental Assessment

15. Terms of reference for an SESA have been prepared, and consultations were carried out during project consultation workshops in the two Kasais (Kananga and Mbuji Mayi), Katanga (Lubumbashi and Kolwezi), the two Kivus (Bukavu and Goma) and Orientale (Kisangani) provinces, as well as in Kinshasa. The Ministry of Mines will undertake the SESA at project start based on the agreed terms of reference.

16. The principle objective of the SESA will be to identify the key environmental and social problems associated with the development of the sector, as well as the policy, legal, regulatory and institutional adjustments required to improve social and environmental management. The SESA will take into account not only the environmental and social aspects directly linked to the development of the sector, but also the broader issues induced by such development, such as population movement, health and safety, and increased local and regional socio-economic inequalities.

17. More specific objectives of the SESA will be:

- provide the information and knowledge necessary for the involvement of development partners, the mining industry, civil society, and NGOs in a dialogue regarding the contribution of the mining sector to sustainable development in DRC;
- assess the main probable effects of mining sector growth on the environment and population, and classify them in order of priority;
- assess the adequacy of policy and institutional management systems in place or being planned to address those probable effects;
- To promote the best international practices and the sharing of local experiences in terms of mobilization of the populations in order to take into account the social and environmental impacts of mining development;
- produce recommendations to adjust sector policies, laws, regulations, and institutional structures; and
- ensure the inclusive participation of local populations in the management of issues related to mining development, with particular attention to vulnerable groups.

18. Based on an agreement with the Association regarding legislation and regulatory instruments referred to above, the Recipient shall, not later than thirty six (36) months after the Effective Date prepare, consult upon and submit <u>if necessary draft amendments to legislation and/or modifications to proposed legislation</u> to the Recipient's Parliament and adopt regulatory instruments, in form and substance satisfactory to the Association, containing standards and measures for the environmentally and socially sustainable management of industrial mining operations taking into account, as appropriate, existing industrial mining operations.

19. At any time before the Closing Date, the Government will applied standards and measures to industrial mining operations that are based on sound international good practice to ensure the environmentally and socially sustainable management of all industrial mining operations commenced or materially revised subsequent to the date of this Agreement. It has also

been agreed between the Bank and the Government that good practice refers to the following WBG documents: the “Pollution Prevention and Abatement Handbook” (1998) and the “Environmental, Health and Safety Guidelines for Mining” (IFC, 2007).

Natural Habitats and Physical Cultural Resources

20. The SESA will analyze key large-scale environmental and social issues associated with mining growth, including impacts on natural habitats and physical cultural resources, as a direct result of mining activities; as well as indirectly through the development of regional transport, energy, and water infrastructure networks. These impacts will include the risks of deforestation, habitat conversion, loss of biodiversity, water degradation, and contamination related to specific mining activities or minerals.

Indigenous Peoples

21. As the precise identification and location of indigenous pygmy groups that would be potentially affected by mining activities is not known, an Indigenous People Participatory Framework (IPPF) has been developed to indicate the terms and procedures for the participation of indigenous people in the regions where PROMINES will be implementing activities.

22. The IPPF also defines how future mining investment projects should identify and assess potential impacts on indigenous communities, and also carry out prior, free, and informed consultations with those groups regarding project development. Investors will be required to:

- Set up a culturally appropriate consultation framework, open to issues such as gender and inter-generational justice, with the participation of indigenous Pygmy groups (IPGs), NGOs, and other organizations selected by the communities. Particular attention should be paid to the opportunities that the mining investment creates for women and youth.
- Provide IPGs with all necessary information on the project (including studies on community impacts) in a cultural appropriate way and at each stage, from preparation to implementation. As part of the investment decision process, the title holder will declare, on the basis of those prior, free, and informed consultations, whether the affected indigenous people are in favor of the investment.

Public Consultations

23. During preparation of the proposed project, consultations were carried out in all the provinces where PROMINES will be implementing activities (Katanga (Lubumbashi and Kolwezi), the two Kasai (Kananga and Mbuji Mayi), the two Kivus (Bukavu and Goma) and Orientale (Kisangani)) as well as in Kinshasa. The reports and recommendations from the different workshops are in the project files.

24. The consultations covered issues related to the PROMINES design (including indigenous issues), and to the draft TOR for the SESA. They revealed widespread interest in the sector and

the need for strong technical assistance. Stakeholders from government, civil society, and the private sector all found that the project design addressed their main concerns.

25. The main recommendations emerging from the consultations were that the project should:

- Take into account the risk of political interference, and support activities not only on the supply side but also on the demand side;
- Focus not only on industrial mining, but also on artisanal mining, which employs far more Congolese;
- Work in close cooperation with security forces and donor-supported initiatives to help secure mining activities in the Eastern provinces;
- Take account of decentralization in the implementation arrangements, and organize provincial consultative groups;
- Include activities on health impacts of mining activities as well as gender considerations;
- Involve all mining institutions in implementation, and formalize some arrangements to ensure ownership.

26. The project design was revised to integrate these main recommendations, as well as some that were more specific. In addition, separate consultations on the IPPPF were held in Orientale Province (Bunia) and in Kinshasa.

Environmental and Social Impact Assessments

Report	**Consultations**	**Disclosure in DRC**	**Disclosure in InfoShop**
Environmental:			
ToR for SESA	Lubumbashi, Kolwezi, Mbuji Mayi,Bukavu, Goma (12/03-10/2009), Kananga (02/	February 22, 2010	April 8, 2010
Social:			
Indigenous Peoples Participation Framework	Bunia (02/-/2010), Kinshasa (02/-/2010)	February 26, 2010	April 8, 2010

Annex 11: Project Preparation and Supervision

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

	Planned	Actual
PCN review		04/28/2008
Initial PID to PIC		11/13/2008
Initial ISDS to PIC		11/13/2008
Appraisal	02/10/2010	04/20/2010
Negotiations	02/15/2010	05/06/2010
Board/RVP approval	04/15/2010	
Planned date of effectiveness	09/01/2010	
Planned date of mid-term review	01/15/2013	
Planned closing date	12/15/2015	

Key institutions responsible for preparation of the project:

Ministry of Mines, Kinshasa, DRC
Ministry of Environment, Kinshasa, DRC
Ministry of Portfolio, Kinshasa, DRC
Ministry of Finance, Kinshasa, DRC

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Craig Andrews	Lead Mining Specialist	COCPO
Paulo De Sa	Sector Manager	COCPO
Gotthard Walser	TTL	COCPO
Delphin Tschimena	Mining Specialist	COCPO
Remi Pelon	Mining Specialist	COCPO
Antoine Lema	Senior Social Development Spec.	AFTCS
Paul Jonathan Martin	Senior Environmental Spec.	AFTEN
Mohammed Bekhechi	Lead Counsel	LEGEN
Thierry Rakotoarison	Project Management Specialist (STC)	COCPO
Daria Goldstein	Senior Counsel	LEGAF
Aissatou Diallo	Finance Officer	CTRFC
Jean Charles Kra	Senior Financial Management Spec.	AFTFM
Bourama Diaite	Senior Procurement Spec.	AFTPC
Philippe Mahele Liwoke	Senior Procurement Spec	AFTPC
Mamadou Woury Diallo	Senior Financial Management Spec	AFTFM
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Kai Kaiser	Senior Economist	PRMPS
Veronika Kohler	Operations Spec. (STC)	COCPO
Hariseheno Randriamamonjy	Team Assistant	COCPO
Edilene Pereira Gomes	GIS Spec. (STC)	COCPO
Leonce Kazumba	Team Assistant	AFCC2

Name	Title	Unit
Cecilia Tan	Team Assistant	COCPO
Desiré Kurhinjirage	Team Assistant	AFCC2

DFID staff who worked on the project included:

- Holger Grundel, Team Leader Growth & Governance (Natural Resources) and Principal Counselor, DR Congo
- Chris Carter, Deputy Program Manager, DR Congo
- Kobi Bentley, Economic Counselor, DR Congo
- Diane Mbombo Tite, Administration Manager, DR Congo

Bank funds expended to date on project preparation:

1. Bank resources: 1,008 kUSD
2. Trust funds: n/a
3. Total: 1,008 kUSD

Estimated Approval and Supervision costs:

1. Remaining costs to approval: 75 kUSD
2. Estimated annual supervision cost: 200 kUSD

Annex 12: Documents in the Project File

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

1. Government documents

- Ministry of Mines, December 2009. Project Implementation Manual. 8th Draft version.
- Ministry of Mines, January 2010. Termes de Référence pour l'Elaboration d'une Etude Sociale et Environmentale Stratégique.
- Ministry of Mines, February 2010. Cadre de Politique pour les Populations Autochtones. Draft
- SNC-Lavalin, April 2003. Etude sur les impacts environnementaux des opérations minières et métallurgiques de cuivre et cobalt en République Démocratique du Congo.
- Loi N° 007/2002 du 11 juillet 2002 portant Code Minier.
- Ministry of Mines, February 2009. Rapport des consultations en Provinces (Katanga, Kasai Oriental, Kasai Occidental, Nord Kivu, Sud Kivu, Province Orientale).
- Commission de revisitation des contrats miniers, 2007. Rapport des travaux.

2. World Bank documents

IDA processing internal documents

- World Bank, May 2008. Democratic Republic of Congo - Growth with Governance in the Mining Sector. Report 43402-ZR.
- World Bank, April 2010 (in prep). Country Assistance Strategy for the Democratic Republic of Congo FY08-FY11 Progress Report for the period FY08-09.

Policy and technical documents

- World Bank, July 2008. The political economy of mining in the DRC, by Jerome Chevallier and David Mutamba Dibwe. Working paper.
- World Bank, 2010. Mining as a Source of Growth in the DR Congo, by Nicolas Garrett (Resource Consulting Services). CEM background paper.
- World Bank, 2009. The Kasai mining industry, structure and perspectives. Unpublished political economy analysis.
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- World Bank and European Union, 2008. Decentralization in the Democratic Republic of Congo, opportunities and risks. Public Sector Reform and Capacity Building note.
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- COPIREP, 2009. Stratégie de Transformation de la GECAMINES. Report by Europhenix.

3. Other relevant documents

- PACT, July 2009. Benchmarking Best Practices of Corporate Trust Funds and Foundations. Unpublished draft presentation to TFM.
- PACT, April 2010, PROMINES Study: Artisanal Mining in the Democratic Republic of Congo, WORKING DRAFT

- Extractive Industries Review (EIR) and Management Response to the EIR, 2004: http://www.ifc.org/eir.
- Commission d'Enquête sur le Secteur Minier, Sénat, République Démocratique du Congo, 2009
- DFID and GTZ, April 2008. Strategic Conflict Assessment of Mining & Minerals sector in DRC.
- International Monetary Fund, January 2010. Democratic Republic of the Congo: Statistical Appendix.
- Processus de Kimberley, 2009. Visite d'examen en République démocratique du Congo.
- IPIS, 2008. Handbook: Mapping Conflict Motives in War Areas.
- Global Witness, 2009. Faced with a gun, what can you do?
- RAID, 2009. Chinese Mining Operations in Katanga, DRC.
- Enough, 2009. A Comprehensive approach to Congo's conflict minerals.
- Center for Chinese Studies, EITI, Revenue Watch, 2009. Chinese Companies in the Extractive Industries of Gabon & the DRC: Perceptions of Transparency.
- ITIE, 2009. Rapport du Conciliateur Independent (PriceWaterHouseCoopers), exercice 2007.

Annex 13: Statement of Loans and Credits

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

			Original Amount in US$ Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P091092	2009	DRC Urban Water Supply Project (FY09)	0.00	190.00	0.00	0.00	0.00	190.50	0.00	0.00
P104041	2008	DRC-Enhancing Governance Capacity (FY08)	0.00	50.00	0.00	0.00	0.00	43.58	-3.10	0.00
P101745	2008	DRC- Pro-Routes (FY08)	0.00	50.00	0.00	0.00	0.00	46.00	2.73	0.00
P104497	2007	DRC-Em. Urban & Social Rehab ERL (FY07)	0.00	180.00	0.00	0.00	0.00	108.07	62.85	0.00
P086294	2007	DRC-Education Sector Project (FY07)	0.00	150.00	0.00	0.00	0.00	142.91	38.08	0.00
P088751	2006	ZR-Health Sec Rehab Supt (FY06)	0.00	150.00	0.00	0.00	0.00	113.72	86.04	0.00
P088619	2005	DRC-Emergen Living Condition Impr (FY05)	0.00	82.00	0.00	0.00	0.00	42.79	30.42	0.00
P086874	2005	ZR-Emerg Soc Action (FY05)	0.00	60.00	0.00	0.00	0.00	27.00	24.38	0.00
P082516	2004	DRC-Multisectoral HIV/AIDS (FY04)	0.00	102.00	0.00	0.00	0.00	53.16	7.93	0.00
P081850	2004	DRC-Emerg Econ & Soc Reunif ERL (FY04)	0.00	214.00	0.00	0.00	0.00	31.91	16.98	-20.05
P078658	2004	DRC-Emerg Demob Reintegr ERL (FY04)	0.00	150.00	0.00	0.00	3.26	44.23	1.59	0.00
P071144	2004	DRC Priv Sec Dev Competitiveness (FY04)	0.00	180.00	0.00	0.00	0.00	84.10	12.76	0.00
P057296	2003	DRC-Emerg MS Rehab & Recovery ERL (FY03)	0.00	591.00	0.00	0.00	0.00	75.93	-149.25	-150.24
		Total:	0.00	2,149.00	0.00	0.00	3.26	1,003.90	131.41	- 170.29

CONGO, DEMOCRATIC REPUBLIC OF
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

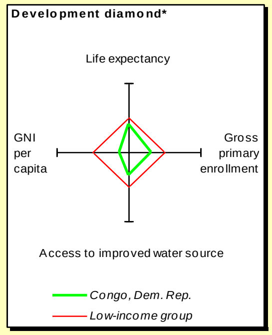
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
	Adastra Miner...	0.00	0.09	0.00	0.00	0.00	0.01	0.00	0.00
2003	Celtel DROC	8.57	0.00	0.00	0.00	8.57	0.00	0.00	0.00
2005	Kolwezi	0.00	4.80	0.47	0.00	0.00	4.46	0.47	0.00
2005	PCB Congo	0.00	0.45	0.00	0.00	0.00	0.45	0.00	0.00
	Total portfolio:	8.57	5.34	0.47	0.00	8.57	4.92	0.47	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

Annex 14: Country at a Glance

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

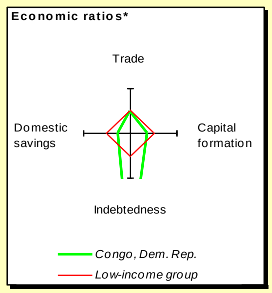
POVERTY and SOCIAL	Congo, Dem. Rep.	Sub-Saharan Africa	Low-income
2007			
Population, mid-year *(millions)*	62.4	800	1,296
GNI per capita *(Atlas method, US$)*	140	952	578
GNI *(Atlas method, US$ billions)*	8.6	762	749
Average annual growth, 2001-07			
Population *(%)*	3.0	2.5	2.2
Labor force *(%)*	3.1	2.6	2.7
Most recent estimate (latest year available, 2001-07)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	33	36	32
Life expectancy at birth *(years)*	46	51	57
Infant mortality *(per 1,000 live births)*	129	94	85
Child malnutrition *(% of children under 5)*	34	27	29
Access to an improved water source *(% of population)*	46	58	68
Literacy *(% of population age 15+)*	67	59	61
Gross primary enrollment *(% of school-age population)*	61	94	94
Male	68	99	100
Female	53	88	89



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

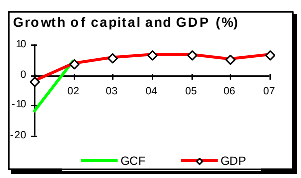
	1987	1997	2006	2007
GDP *(US$ billions)*	7.7	6.1	8.5	9.0
Gross capital formation/GDP	14.2	2.5	16.2	17.7
Exports of goods and services/GDP	26.0	18.8	29.5	28.2
Gross domestic savings/GDP	11.3	6.3	4.7	8.6
Gross national savings/GDP	2.7	-0.4	8.9	11.1
Current account balance/GDP	-14.2	-3.1	-7.5	-7.7
Interest payments/GDP	1.5	0.0	1.6	..
Total debt/GDP	114.5	202.6	131.1	..
Total debt service/exports	22.5	1.0	11.9	..
Present value of debt/GDP	..	..	98.0	..
Present value of debt/exports	..	..	311.9	..

	1987-97	1997-07	2006	2007	2007-11
(average annual growth)					
GDP	-6.0	2.0	5.1	6.5	6.9
GDP per capita	-9.1	-0.8	1.8	3.5	4.3
Exports of goods and services	-10.0	9.5	2.4	9.9	..



STRUCTURE of the ECONOMY

	1987	1997	2006	2007
(% of GDP)				
Agriculture	29.7	48.1	45.7	42.5
Industry	28.3	21.5	27.7	28.4
Manufacturing	9.6	6.3	6.5	6.4
Services	42.0	30.3	26.6	29.1
Household final consumption expenditure	78.8	85.9	88.1	82.2
General gov't final consumption expenditure	9.9	7.8	7.3	9.3
Imports of goods and services	28.9	15.0	41.0	37.3



	1987-97	1997-07	2006	2007
(average annual growth)				
Agriculture	2.8	-0.8	2.5	3.0
Industry	-13.5	6.3	9.8	11.0
Manufacturing	-11.8	2.3	8.0	8.0
Services	-12.5	2.2	8.5	8.5
Household final consumption expenditure	-5.8	2.2	..	..
General gov't final consumption expenditure	-13.2	-14.2	..	..
Gross capital formation	-15.4	6.6	..	..
Imports of goods and services	-16.3	24.9	5.3	9.2

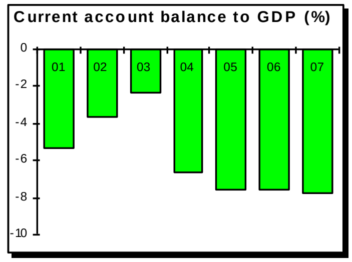
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

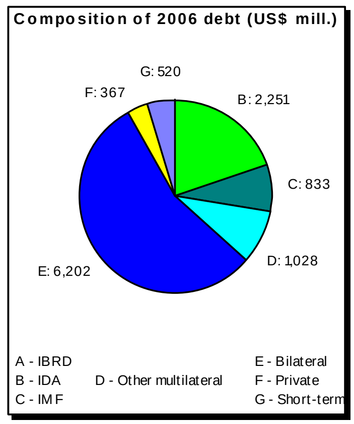
BALANCE of PAYMENTS

(US$ millions)	1987	1997	2006	2007
Exports of goods and services	2,045	1,244	2,561	2,846
Imports of goods and services	2,474	1,025	3,563	3,767
Resource balance	-429	219	-1,002	-921
Net income	-646	-406	-400	-356
Net current transfers	-14	-1	759	583
Current account balance	-1,089	-188	-643	-694
Financing items (net)	1,207	168	533	642
Changes in net reserves	-118	21	110	52
Memo:				
Reserves including gold *(US$ millions)*	..	47	470	522
Conversion rate *(DEC, local/US$)*	3.75E-10	13	468.3	556.9



EXTERNAL DEBT and RESOURCE FLOWS

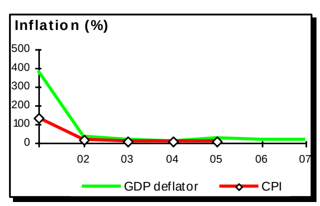
(US$ millions)	1987	1997	2006	2007
Total debt outstanding and disbursed	8,776	12,337	11,201	..
IBRD	50	82	0	0
IDA	738	1,225	2,251	2,402
Total debt service	470	13	319	..
IBRD	21	0	0	0
IDA	9	0	50	56
Composition of net resource flows				
Official grants	97	113	1,752	..
Official creditors	320	0	-19	..
Private creditors	-18	0	-6	..
Foreign direct investment (net inflows)	43	79	180	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	282	0	0	0
Disbursements	223	0	138	99
Principal repayments	18	0	32	38
Net flows	206	0	106	61
Interest payments	12	0	18	18
Net transfers	194	0	89	43



Note: This table was produced from the Development Economics LDB database. 9/24/08

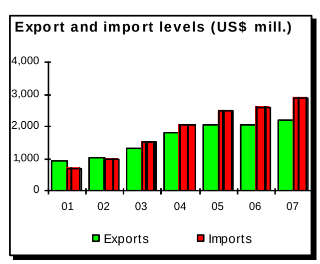
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices				
(% change)				
Consumer prices	..	175.5	..	..
Implicit GDP deflator	73.8	192.6	13.1	17.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	5.0	25.1	23.5
Current budget balance	..	-5.8	13.5	12.9
Overall surplus/deficit	..	-5.8	5.5	5.6



TRADE

(US$ millions)	1987	1997	2006	2007
Total exports (fob)	..	1,196	2,044	2,218
Copper	..	..	1,154	1,241
Coffee	..	87	..	..
Manufactures	..	..	..	..
Total imports (cif)	..	694	2,607	2,864
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index *(2000=100)*	..	..	..	..
Import price index *(2000=100)*	..	..	..	..
Terms of trade *(2000=100)*	..	..	..	..



Annex 15: Governance and Anti-corruption Action Plan
CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

Overall background

1. Poor management and corruption exist in all economies, but they flourish especially in countries still recovering from the insecurity arising from recent social and/or political conflict. Weak public institutions and lack of effectively articulated demand for accountability and responsiveness create incentives for political actors and local elites to use their influence for private gain. Poorly functioning public administrations, the absence of an independent media and inexperienced civil society organizations can also contribute to a situation where corrupt behavior by private firms and high-level politicians and officials goes unpunished.

2. There is perceptible impact of good governance on economical and social development. It has been demonstrated that good governance has a pronounced incidence on per capita income growth, national well-being, and social achievements. Many studies conducted by development agencies have demonstrated that there is a strong correlation between bad governance and weak economic performance. Tackling the most important factors that allow corruption and bad governance should therefore be a priority in the fight against poverty.

Governance and Corruption in the DRC

3. Severe governance problems and corruption continue to hamper the DRC's development prospects. Corruption remains widespread and is taking a heavy toll on public service capacity to deliver key services. The DRC is ranked 162 of 180 countries by Transparency International. Corruption in the DRC is largely a legacy of the Mobutu era of rapid enrichment and impunity. At the higher level, it has been aggravated by the conflict and political transition, during which the lack of a strong executive prevented the imposition of effective sanctions, while many high-level officials tried to rapidly take advantage of their positions in a context fraught with uncertainties. At the lower level, the problem is compounded by the extremely low amount and still irregular payment of salaries. There is a consensus that unless decisive action is taken in this area, the odds are low that the DRC will be able to break the cycle o f poverty and conflict.

4. The state has traditionally been perceived by citizens as a source of enrichment for those in Government. This perception is changing only very slowly as the democratically-elected government under President Joseph Kabila battles to shake off the legacy of Mobutu years and the conflict that followed. A strong culture of impunity is further undermining citizens' faith in government's ability to tackle wide-spread corruption.

5. The DRC is ranked 182^{nd} out of 183 countries in the ease of doing business. It requires 13 procedures, takes 149 days, and costs 391 percent of national per capita income to start a business in the country. It is difficult to enforce contracts. The DRC's judicial system is one of the world's six weakest in terms of enforcing commercial contracts.

Mining Sector Governance

6. The DRC's existing and prospective mineral wealth stands in stark contrast with the challenges of leveraging these resources for sustainable development. Mineral rents were an integral part in sustaining the Mobutu regime. They were also an essential ingredient of the protracted regional conflict that ushered in the fall of Mobutu as well as the subsequent peace settlement. Given weaknesses in other economic sectors it is likely that mining will remain at the centre of the state's resource base and the diversion of mineral rents away from government budgets, if it continues, would severely weaken its ability to invest in reconstruction and development.

7. While rent seeking is not uncommon in developing countries with significant natural resource endowments, the situation in the DRC is considerably worse by a confluence of domestic and exogenous factors:

- Corruption at all levels of the public sector was condoned and even encouraged during the Mobutu years. Public servants – from traffic policemen to heads of public agencies – were told not to expect remuneration from the public purse and instead to use their positions of power to earn a living (*debrouillez-vous!*). Pay for civil servants remains low and unreliable and working conditions have yet to improve with crumbling buildings, non-existent equipment and no upgrading of skills. As a result staff morale and motivation is extremely low and the temptation to earn at least a very basic living through bribes is very real.

- Another legacy of the Mobutu reign is the concentration of political and economic powers in the hands of a few individuals. While it is extremely difficult for outsiders to understand what's going on within this inner circle of powerbrokers, it has been alleged that large sums from mining deals have been diverted for the benefit of a small elite. Some argue that the recent review of mining contracts was at least partially driven by these interests.

- While the DRC's mining laws and regulations are comparatively good, their application is patchy at best. Officials especially at provincial level are often not even aware of the rules they are meant to be enforcing which leads to inconsistent decision making. Competition between agencies further exacerbates the confusion felt by private sector operators who can find themselves paying several times for the same permit or service.

- The long civil war which at times involved several of the DRC's neighbors on opposing sides has all but destroyed the infrastructure in the East of the country and has left a legacy of armed groups controlling minerals exploitation and trade. Illegally-obtained revenues from predominantly artisanal mining activities continue to stoke conflict and instability which make it impossible for government agencies to fulfill their management and regulatory responsibilities.

- While the DRC has a vibrant civil society movement with a strong interest in the mining it lacks the resources and experience to succeed in its demands for greater accountability and transparency in the sector. In addition, many Congolese NGOs are dependent on INGOs that tend to pursue narrow campaigning and advocacy strategies instead of working to strengthen the capacity of Congolese partners.

8. However over the past few years there has been tangible progress in a number of areas. At a general level, the Ministry of Mines has been showing itself to be increasingly open to collaboration with the international community on a wide range of mining sector management and governance initiatives. Many of these aim to reduce the scope for rent seeking from mining, an indication of the will in the current government to begin to take on the challenges of reform.

9. There have been other positive developments. Despite an initially slow start EITI implementation in the DRC has recently been making considerable progress culminating on the publication of the first report on copper/cobalt and oil. Validation has started and there is reason to hope that the country's efforts will receive a largely positive reception from the International Secretariat in Oslo. Congolese NGOs have been the main domestic driving force behind EITI implementation and it has provided them with a tangible cause for more coordinated action on mining sector transparency. A new support fund for DRC civil society is about to come on stream and should exploit these important strides.

General Governance Issues related to Donor-funded Projects

10. As other projects in the context of DRC, especially dealing with capacity building of institutions, the Project will have to cope with: i) management and redeployment of staff; ii) opacity and inadequacy of the wage system; iii) weakness of organizational, institutional and technical capacities; and iv) absence of basic infrastructure.

11. In addition, two specific areas that provide opportunities for corruption and which are the target of reforms and anti-corruption measures are procurement and financial management.

- Following the finalization of the Country Procurement Assessment Report in 2004, the reform of the procurement system in the country started with the drafting of the Procurement Code, which has recently been approved by the Cabinet and is now in Parliament. Once it has been passed and has become effective, other reform measures will have to follow. A reliance on an acceptable national system in Bank-assisted projects will have to wait till the reform has progressed further. In the meantime, the use of the Bank's Procurement Guidelines and procedures is required for all procurement in Bank-financed projects. The state of the procurement system in DRC, its use in practice, and the overall procurement risks are presented in Annex 8 of the PAD.

- Governance issues related to financial management are addressed in Annex 7. In DRC the auditing of public accounts is nominally entrusted to the "Cour des Comptes" (equivalent to the Office of the Auditor General). However, this critical state organ is not able at this time to fulfill its function as the supreme audit authority for public sector accounts. Annual audits on Bank-assisted projects are instead carried out by independent external auditors (see Annex 7). It is expected that the PFM Reforms Coordination Committee, newly established within the Ministry of Finance, will play a pivotal role in providing guidance for the development of new and transparent rules and procedures for managing public resources.

Anti-Corruption Strategy and Action Plan for PROMINES

12. PROMINES represents a strategy and a longer term program to face these complex challenges. It seeks to enhance principles of good governance and transparency in the sector. To that end, it will support transparency of the mining sector legal and regulatory framework, to support the Government's objective of ensuring that mining sector development and investment conforms to international good practice, adjusted to the particular conditions of DRC.

13. The project components already include a number of important activities that aim to improve governance and transparency at a number of levels:

- Project and Project Implementation Unit
- Ministry of Mines at national and provincial levels
- Across Ministries and Government Agencies involved in the mining sector
- Across the Sector more generally through Partnerships with Companies and Civil Society

14. The table below sets out the activities that have already been incorporated in the PROMINES work plan.

Specific Governance and Mismanagement Issues	**Specific Actions**
Governance in the SECTOR	
Unfair award of mining permits and contracts ▪ Unfair contracts between the state, the public enterprises and/or private operators ▪ Award irrespective of the first-come first served rule ▪ Award to ineligible citizens or companies ▪ Inequitable treatment of private and public mining companies ▪ Illegal cancellation of permit	▪ Disclosure of contracts on the Ministry of Mines website (with regular updates and indication of the missing ones) and other accountability measures to be developed with the "Accountability platform" ▪ Training and capacity building in contract negotiation and auctioning processes ▪ Strengthening of the Cadastre (CAMI), review of application and applicability of the first-come first served rule ▪ Capacity building within mining institutions (and possibly public enterprises), especially about the role of state in the mining sector and the

	related legal requirements
<u>Absence of or wrong monitoring of mining operations</u> ▪ Absence or biased control of prospection, exploration, construction, or production sites ▪ Undue administrative approvals or refusals	▪ In partnership with committed private sector associations, publication of a quarterly record of inspections conducted by any public administration to mining companies ▪ Arbitrary control of administrative approval or refusal of feasibility studies and environment impact assessments by a special task force within the Ministry of Mines or similar mechanisms devised on a consultative basis ▪ Capacity building, institutional audit, strengthening and/or restructuring of institutions
<u>Tax avoidance or undue taxing</u> ▪ Companies not paying tax or other legal payments ▪ Public institutions imposing undue tax or other illegal payments ▪ Corruption of civil servants	▪ Strengthening and continued support to the EITI in DRC ▪ Support to the set up of traceability mechanisms for artisanal mining products with review of tax systems along the trading chain ▪ Proposition of a whisleblowing system (with a possible dated covenant under the grant agreement) hosted by a reputable independent body (like an international NGO with a strong presence in DRC), or similar mechanisms to be devised through the "Accountability platform" ▪ Capacity building and institutional strengthening in close collaboration with PRCG and other projects (including other donors)
<u>Absence of or unauthorized transfers of mining revenues</u> ▪ Tax collected at municipal and provincial levels not transferred to the central level (when it should) ▪ Tax collected at the central level not transferred at the provincial or municipal levels (when it should) ▪ Absence of tax revenues going to the general budget	▪ Support to implement the EITI, including at sub-national level ▪ Set-up of a mining statistics database and monitoring tool ▪ Technical assistance (limited to sectoral expertise) to the broader issue of retrocession ▪ Capacity building and institutional strengthening in close collaboration with other projects (including other

▪ Corruption of civil servants	donors) ▪ Consultation and information campaign with national and provincial parliaments (especially commissions set up to investigate on mining) , and other members of the Accountability platform”
Mineral trade fueling insecurity ▪ Mining revenues used to purchase arms ▪ Insecurity and/or human rights violations on mining sites or caused by mineral trade	▪ Support to the UN panel of experts on illegal exploitation of natural resources in DRC ▪ Coordination with MONUC and other donors to improve knowledge of artisanal mining in Eastern Congo (coltan, cassiterite, gold etc.) ▪ Support to the set up of traceability mechanisms for artisanal mining products in partnership with public agencies, private companies and NGOs ▪ Involvement of defense and police authorities in PROMINES consultative group of the Eastern provinces ▪ Institutional support (SAESSCAM) and piloting of good practices in artisanal mining
Human Resources Issues ▪ Staffing concentration at central level ▪ Lack of professional at provincial and district levels ▪ Over-aged personnel at all levels	▪ Assessment of the existing human resources at both central and provincial levels (institutional audit) ▪ Optimizing of staffing of Ministry of Mines and other institutions ▪ Development of a comprehensive plan for staff redeployment and reconversion ▪ Capacity building, case by case training and partnership with universities and institutes (in Katanga) to prepare the new generation of mining staff
Governance in the PROJECT	
Procurement ▪ Undue use of single source selection of consultants and direct contracting for goods and works ▪ Undue down payments to suppliers ▪ Weak and lax stock/store management practices (inaccurate records of transfers)	▪ Close supervision of procurements prior and post ▪ Annual Work Plans to be approved by World Bank / DFID joint supervision teams ▪ Purchase planning linked with preventive maintenance program ▪ Inspection of stores and records ▪ Systematic registry of bills and payment and

	integration of billing and payment records ▪ Written procedures for supplies Improved procurement and contract management and payment procedures
Financial management, accounting and budgeting ▪ Late submission of supporting documents ▪ Poor filing and records ▪ Lack of system integration ▪ Lack of budget discipline ▪ Unauthorized commitment to suppliers, bypassing budget and expenses vetting procedures ▪ Unsecured safekeeping and transportation of funds ▪ Unsuitable working environment for cashier ▪ Late payments of social security charges	▪ Budget control procedures and systems ▪ IT based cash management procedures and records ▪ Improvement in the workplace to enhance security and comfort ▪ Surprise inspection of cash ▪ Treasury management and planning ▪ Internal auditor reporting to the Coordinator (not the Financial Manager) ▪ External auditors ineligible after one or several audits
Equipment Management ▪ Making improper use of equipment	▪ Transparency in sourcing of equipment ▪ Management of furnished equipment

13. The above list of actions will be further developed before effectiveness, and constitute a dedicated section of the Project Implementation Manuel (PIM). In the course of the project, related activities will be launched with all project stakeholders possibly as part of the "accountability platform". Implementation progress will be monitored as part of the project's overall Monitoring & Evaluation system.

Annex 16: Political Economy Analysis

CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

1. In DRC, the control of mining rents has always been a key to gaining power, which has resulted in poor governance and contributed to national and regional conflicts. This is an extremely complex, difficult, and challenging agenda—it will take years to improve the governance situation in DRC in general and in the mining sector in particular. However, through the PROMINES Project, the Bank is making a commitment to engage with the Government and other stakeholders over the long-term to begin to try to affect positive change in this sector.

2. The preparation of the PROMINES Project has been informed by political economy analysis as well as sustained dialogue with a range of government officials (including several reform-minded ones), wide stakeholder consultations in country, and strong donor coordination. In particular, the political economy analysis has highlighted the many facets of political economy at work in DRC—cross-cutting challenges in the sector (and more widely) include the prevalence of vested interests, elite capture and weak cohesiveness among different elites, focus on short-term gains, weak or non-existent checks and balances, and continued risk of conflict. Symptomatic of these dynamics is the apparent poor coordination across government agencies.

3. Such prevailing political economy presents several challenges for enhancing the broad-based developmental impact of the mining sector. Vis-à-vis investors, the Government will need to ensure credible and transparent policies to maximize fiscal and other benefits, otherwise investors will continue to demand high risk premiums to operate in the DRC. Vis-à-vis citizens, greater transparency is also necessary (but may not be sufficient) to ensure that the population ultimately benefits from the country's natural resource endowments, avoiding private or public capture of the rents generated by the exploitation of these resources. Particularly in post-conflict settings, resource rents can be a catalyst for growth and development, or cause of further conflict.

4. While admittedly the existing political economy presents a challenging environment in which to operate, the interventions proposed by PROMINES are calibrated, to the extent possible, to this context. The emphasis has been on selectivity along the value chain, focusing on what is feasible, and structuring interventions in a progressive way, to strengthen institutions over time and to tilt gradually the mining sector toward more a pro-development orientation. Key to this strategy is the emphasis on transparency and improving the demand-side of governance through activities such as the Accountability Platform. To the extent windows of opportunity and demonstrated country ownership are open for more ambitious reforms, interventions can be built upon to leverage this.

As noted above, in DRC the control of mining rents has always been key to gaining power, which has resulted in poor governance and contributed to national and regional conflicts.

5. DRC's existing and prospective mineral wealth in copper, cobalt, diamonds, gold, and some oil stands in stark contrast with the challenges of leveraging these resources for sustainable development. Mineral rents were an integral part in sustaining the Mobutu regime (1965-1997) and the protracted conflict that followed its collapse. The mining sector 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, and Kivus). Challenges in other economic sectors tend to increase the relative importance of the mining sector, even if it operates below potential..

6. In 2002, the new Mining Law clarified the State's role, essentially restricted to promoting and regulating the sector. The State should act as an arbitrator between competing commercial interests and as a protector of human rights and facilitator of development. In practice, however, both vested interests and issues of technical capacity limit or actively undermine the State's ability or willingness to do so. Some political and military actors are alleged to have strong personal interests in the mining sector that conflict with mining sector reform initiatives. On the technical side, untrained personnel, insufficient salaries, and a poor presence in the mining regions are all significant obstacles. Similarly, the Mining Law stipulates that the State may operate mines provided it treats mining SOEs on the same footing as private companies. In reality, this has not proved to be the case, neither in regard to mining permitting nor in the operation of mines.

In recent years, signs of relative progress in terms of transparency and accountability have been counterbalanced by evident and perceived power interferences in minerals sector management.

7. Over the past few years there has been tangible progress in several areas. At a general level, the Ministry of Mines has been increasingly open to collaboration with the international community on a wide range of mining sector management and governance initiatives. Many of these aim to reduce the scope for rent seeking from mining, an indication of the will in the current Government to begin to take on the challenges of reform. Positive developments include EITI implementation, which has recently been making considerable progress, culminating in the publication of the first EITI report on copper/cobalt and oil. Congolese NGOs have been the main domestic driving force behind EITI implementation and it has provided them with a tangible cause for more coordinated action on mining sector transparency. Another example of the increasing public demand for proper stewardship of mineral resources is the Commission established by the Senate in 2008 to investigate on fiscal receipts generated by mining and related gaps.

8. Such progress, however, has been counterbalanced by evidence of involvement of some state actors in the informal taxation/extortion of the mining sector. A multitude of private and state security actors are alleged to compete and at the same time collaborate for economic gain in artisanal mining localities. The military are not adequately trained to control or guard natural resources and low wages paid irregularly encourage corrupt practices. Most security services, especially in Eastern Provinces, level illegal taxes on the natural resource trade all the way from production to export. Soldiers from different factions are also sometimes involved in mining themselves, thus competing for deposits with large-scale mining companies and artisanal miners. Similar issues are raised with mining public institutions; questions remain, for instance, over the degree to which SAESSCAM genuinely serves miners' interests.

The Project design had to be selective in view of political economy realities in current DRC context.

9. Despite the difficult political economy of mining described above, there is a misperception by those unfamiliar with DRC that the country's political situation makes it too difficult to intervene in a meaningful way. While Government views and commitment to reform are not homogenous across issues, there is actually ownership amongst a number of counterparts for the agenda set out in the Project. Signs of commitment included proactive contributions during Project preparation from different public institutions, the consensus around the usage of the integrated and inclusive EITI++ approach, and positive feedback from civil society organizations and the private sector during the Project consultations.

10. In view of political economy realities, however, PROMINE's scope has been strategically selective by excluding certain activities, specifically, mining SOE reform. The World Bank is presently engaged in the reform of GECAMINES through the PSDC Project, which supports a more comprehensive support of SOEs. This process builds on the initial reforms undertaken since 2001 to transform GECAMINES into a viable entity. While some preliminary results have been achieved, some setbacks have been observed, particularly after the global financial crisis. Full transformation of GECAMINES will require much more consensus building, which will take time. Under the present conditions, especially the Presidential and Legislative elections scheduled in 2011, it was judged unrealistic to include a contribution to a full-scale mining SOE reform under the proposed Project. The Project will still contribute to the assessment of mineral assets (an important pre-requisite) and capacity building regarding portfolio management and negotiations. If demonstrated commitment for mining SOE reform is built over the course of the Project, a subsequent project may take on this agenda more fully.

11. A second example of selectivity concerns the process of decentralization, which has been planned for quite some time, but has yet to fully take shape and be implemented. Originally envisioned as a mechanism to resolve and prevent conflict, the process contains both threats and opportunities, particularly when considered in relation to the mining sector and mineral wealth. Having the political control of resources closer to the point at which taxes are raised presents opportunities to increase transparency and accountability. Governors and provincial authorities have taken on increased importance, in light of the 2006 Constitution with its emphasis on decentralization and revenue sharing. Politics in Provinces with mining endowments have focused on securing provincial shares of mining revenues (notably the 40 percent retrocession set out in the Constitution). However, there is a risk that decentralization simply transfers many of the existing problems of corruption and lack of transparency and accountability for revenues to a provincial level, whilst increasing political competition. It was found therefore more appropriate that the Bank-supported Governance and Capacity Building Project lead on this agenda in a broader and more inter-sectoral way. That said, PROMINES will work closely with key provinces to enhance the prospective developmental impacts of mining.

The Project's approach—based on a suitable mix of supply and demand side support—can build on various actors' incentives to circumvent potential resistance to change.

12. Policy changes over the course of the Project may occur, especially after the 2011 general elections, but there are consistent incentives on which the Project can rely and which are not

likely to change. The latest political economy analyses have highlighted the role of political interests in shaping current outcomes and reform potentials along a variety of points along the EITI++ value chain. To the extent possible, analytical work has sought to identify some of the potential incentives of key actors in shaping these situations. Given the informal if not clandestine nature of some of the stakeholders in their actions, it is naturally difficult to fully validate these dynamics.

13. A suitable mix of supply and demand side support is therefore needed to increase leverage, spread the risks, and build-on different positive incentives. The activities of the Project that will build on supply and demand side incentives can be summarized as follows:

(a) Supply side capacity building in DRC's various government agencies associated with the mining sector will likely fail unless they appear to serve or at least not be at odds with leading interests in DRC. The Project will provide for significant technical assistance to mining institutions. Significant capacity building, training, and logistical support are required to strengthen the Government's capacity to administer the sector as institutions responsible for oversight are weak and ineffectual, especially in the provinces. Relevant institutions include the Ministry of Mines (MoM) and its various departments, and services attached to other ministries (mainly Finance, Environment, Portfolio, Plan, and Defense). As in many countries, there are several issues negatively affecting the performance of the institutions, including lack of financial resources for operations; insufficient capacity to negotiate large contracts; inadequate supervision of and poor coordination between entities by the MoM (or other ministries) to ensure they focus on their functions as defined in the Mining Law and do not develop their own vision of their role and responsibilities (in some cases as part of a "survival" strategy); unclear mandate and overlap of functions between the central and provincial authorities, particularly within the framework of the decentralization process, which implies a more important role to be played by provincial institutions; poor planning and accountability; unclear or poorly implemented procedures; lack of training in modern technologies; and political interference.

(b) On the demand side, civil society monitoring of business practices, human rights, and transparency issues has been essential in providing information about the real issues affecting the minerals sector, but the effectiveness of their work remains hampered by a lack of national and international enforcement mechanisms. To improve the demand side for more transparent management across key segments of the value chain, the Project will build stronger accountability by developing and implementing a platform for continued dialogue around mining issues to ensure participation and empowerment of actors including civil society, media, think tanks, unions, professional associations, faith-based organizations and members of Parliament (building on the EITI multi-stakeholder model). This platform should also help enhancing the participation of indigenous people and the better inclusion of the gender dimension in mining benefit sharing. Accountability include the relationships between the mines (private and public, formal and informal) and the government (provincial and central); between the government and parliament and civil society more broadly; and between the mines and the local communities in which they are located.

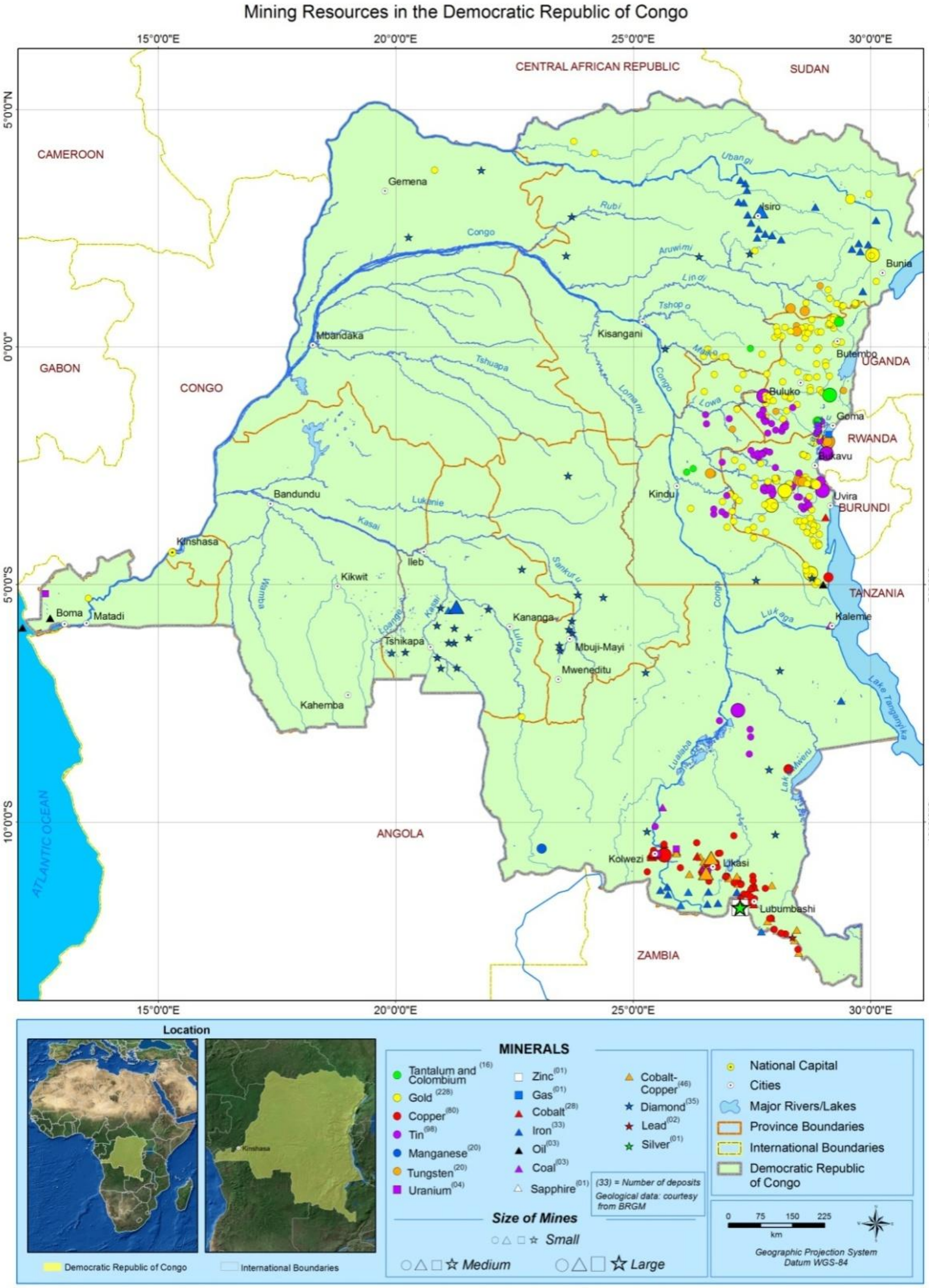
14. The following table summarizes the main corresponding incentives identified, on the supply side (categorized in national, provincial, and local levels) and on the demand side (categorized in civil society and private sector):

Project Activities	Supply-side Incentives	Demand-side Incentives
Component A. Access to Resources. Provision of technical assistance to address key impediments to access resources and create an enabling environment for mining development operations by (a) modernizing/updating the policy, legal and regulatory frameworks as well improving communication skills and means; and (b) developing a proper knowledge and geo-data infrastructure of the country's mineral resources and their potential value.	Increase the leverage of the DRC authorities in their negotiations with potential investors (national level) Information for policymakers that allows them to make well-informed decisions and strengthen their hand in dealing with the private sector.	A modern regulatory framework reduces the scope for arbitrary decisions by policy makers and allows for monitoring of decisions by civil society and investors. Publicly available geo data allows for well-informed investment planning by the private sector, raising total investment.
Component B. Sector Management Capacity Building. Provision of technical assistance to (a) strengthen public mining institutions in charge of monitoring sector performance and regulate operations at both the national and provincial levels; (b) improve negotiation skills and portfolio management capacity; and (c) strengthen structures for human resources development for the mining sector.	Stronger institutions with better negotiating skills strengthen the hand of the DRC authorities in their negotiations with potential investors.	Both investors and civil society find it easier to work with well-managed institutions and hence may welcome the strengthening of public sector institutions.
Component C. Enhanced Transparency and Accountability. Provision of technical assistance to (a) strengthen the framework for tax and revenues collection from mining; and (b) support the development of certification and transparency mechanisms (including support for EITI implementation); and (c) development of accountability mechanisms involving civil society and the private sector.	Greater transparency in mining-revenue collection facilitates the negotiations between national and provincial authorities on revenue-sharing arrangements. Such negotiations may be particularly important in the run up to the 2011 elections.	Greater transparency in mining-revenue collection allows for monitoring of public finance management by civil society. It also mitigates the public relations risk of investing in DRC for publicly listed international mining companies.
Component D. Sustainable Development of Mining. Provision of technical assistance to support the sustainable development of the mining sector by (a) supporting the preparation and adoption of a Strategic Environment and Social Assessment (SESA) as well as follow-up policy, legal, regulatory, and institutional reforms; (b) improving	A better understanding of potential environment and social impacts as well as contingent liabilities of mining operations allows the authorities better monitoring of mining companies.	Transparency and predictability of contingent liabilities is desirable for both civil society and private investors. Clear standards allow civil society to hold mining

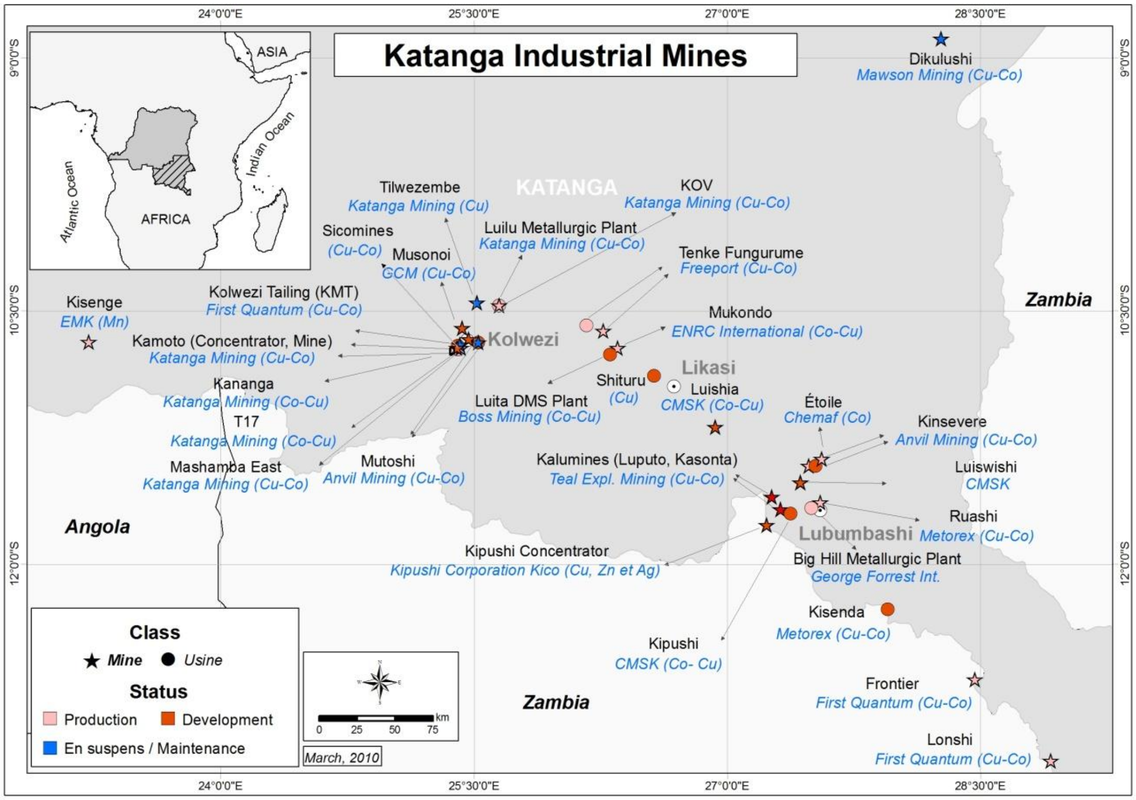
Project Activities	Supply-side Incentives	Demand-side Incentives
community involvement in the social and environmental aspects of mining development; and (c) contributing with risk assessments to the mitigation of historical environmental liabilities from mining. Provision of technical assistance to support further integration of industrial mining activities into local and regional development. Provision of technical assistance to support the management of artisanal and small-scale mining, improve the socio-economic conditions of artisanal miners and the communities around artisanal sites, and integrate artisanal mining activities into local economic development with better environment and social practices.	Technical assistance to assess the options to encourage the integration of the mining sector in local and regional development strengthens the position of the authorities in their negotiations versus the mining companies. Similarly technical assistance that will allow the authorities to support the artisanal miners also strengthens the authorities' hand in their negotiation with these miners.	companies accountable and reduce risks for mining companies alike. Technical assistance for integrating the mining sector in local and regional development as well as for the development of the artisanal mining sector mitigates the risk for conflicts between the mining sector and civil society.

Annex 17: Maps
CONGO, DEMOCRATIC REPUBLIC OF: DRC-Growth with Governance in the Mineral Sector

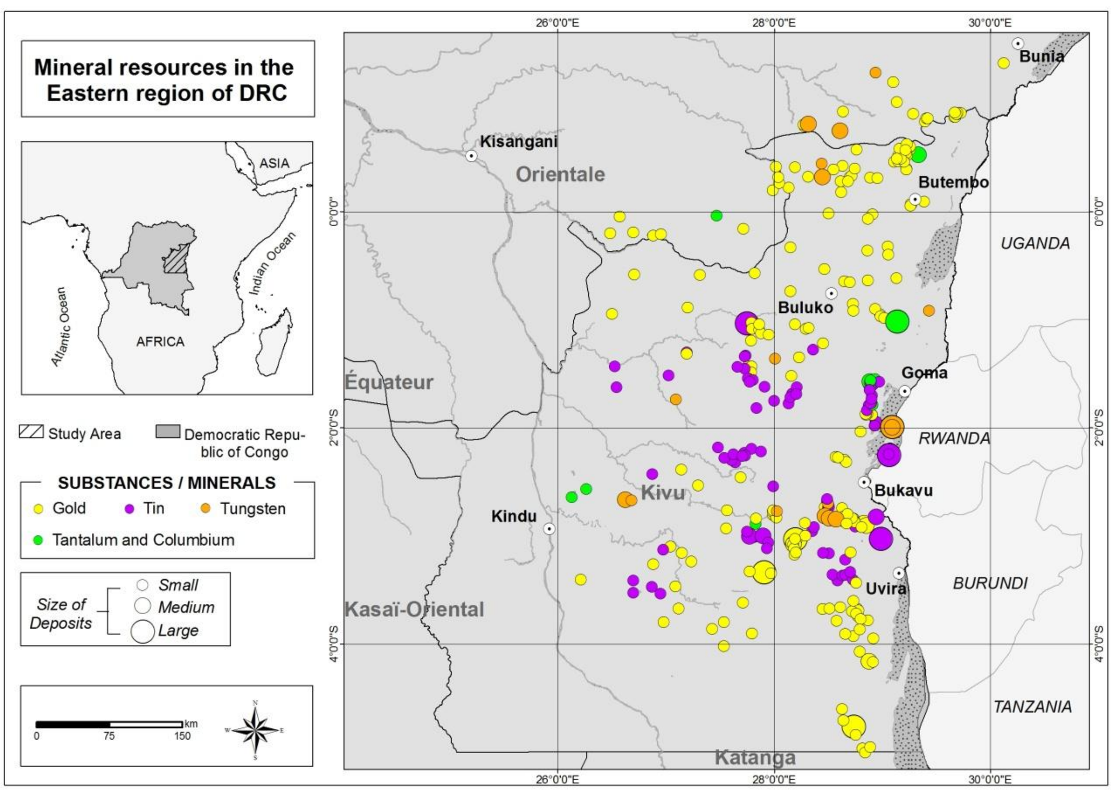
Map 1: Mining Resources in the DRC



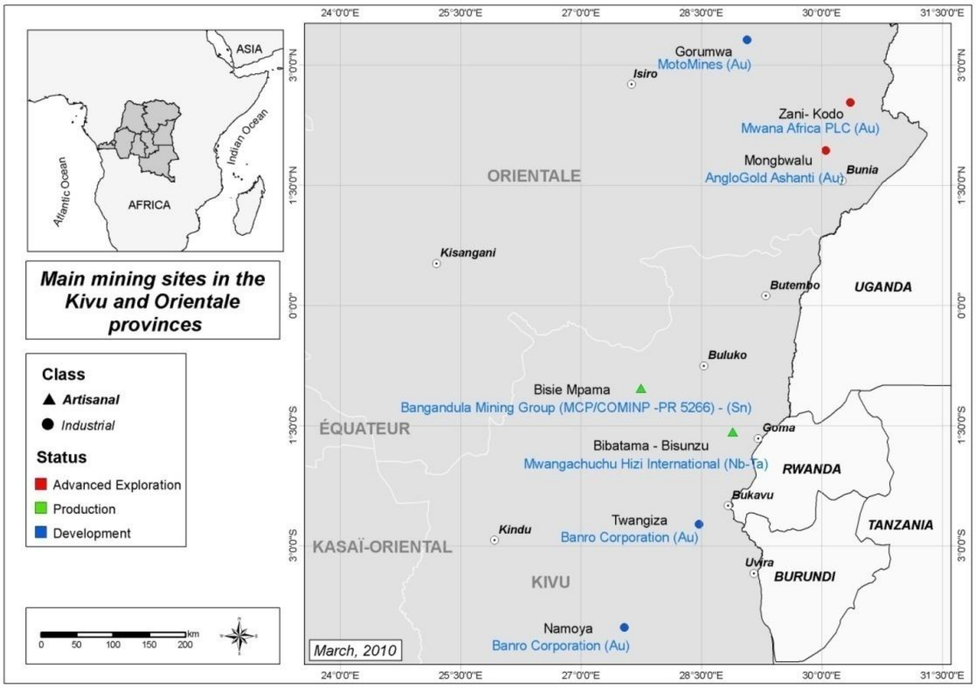
Map 2: Katanga Industrial Mines



Map 3: Mineral Resources in Eastern DRC



Map 4: Main Mining Sites in Eastern DRC



Map 5: Corridors for Mining Production Export