Briefing

Forests; Governance

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China-Africa Forest Governance Platform, China-Africa trade and investment, mining, natural resource investment, timber

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Policy pointers

Policymakers should strengthen licensing for and monitoring of mining and logging to reduce illegal operations and ensure investment negotiations are transparent and inclusive.

They should also allocate resources to build capacity in loggers' associations and small-medium enterprises (SMEs) to develop effective partnerships with investors that focus on sustainability and benefits for local communities.

Chinese government agencies should adopt binding good practice measures for their overseas investors and ensure they comply with Chinese standards on responsible forestry, investment practice abroad and in-country laws.

The Economic and Social Council (ECOSOC), parliament, civil society and research organisations should foster dialogue and advise the government to ensure investment deals between both countries are transparent and beneficial.

Chinese investment in DRC: a view from the forest

China has a keen and growing interest in the Democratic Republic of Congo's (DRC's) natural resources. Chinese companies have secured direct access to these in return for building infrastructure and Chinese investors have made deals with local authorities to harvest resources. But such arrangements are not improving local livelihoods and sustainability. The China-Africa Forest Governance Project worked to improve the forest practices of Congolese-Chinese company partnerships and help the DRC's artisanal loggers organise to improve China-linked trade. This briefing presents a summary of progress made and explores how stakeholders from both countries can work together to improve policy and practice to promote integrated and sustainable value chains that are legally compliant and achieve real benefits for the DRC's people and forests.

With forests covering 65% of its total area and an estimated US$24 trillion-worth of mineral wealth,[1] the Democratic Republic of Congo's (DRC's) natural resources could and should provide great development benefits for its 77 million people. In 2015, the extractives sector accounted for 97% of the country's exports, 20% of GDP, 25% of government revenues and 24% of employment.[2] But despite these riches, it is ranked 176th out of 188 countries in the Human Development Index and more than 80% of its people live on less than US$1.25 a day.[3] Conflict linked to natural resource control has fuelled instability and exacerbated poverty for many years, while poverty and youth unemployment have in turn fuelled conflicts.

DRC-China deals

The DRC and China have negotiated various 'resources-for-infrastructure' deals since the early 1970s. Most have linked road and dam construction to mineral and timber extraction, with varying effects on forests and people.[4] The most prominent, the Sicomines Agreement, links US$6.2 billion in concessional loans from the Export-Import Bank of China to a joint venture between the DRC state-owned Gécamines and a consortium of Chinese firms (with 32% and 68% ownership, respectively). The agreement includes US$3.2 billion worth of infrastructure deals to build 3,400km of highway, 3,200km of railway, 31 hospitals, 145 health centres and 2 universities as well as US$3 billion worth of investment in the mining project itself in Katanga province. Estimates for confirmed deposits have fluctuated, but the deal gives predominantly Chinese mining companies tax-free access to around 10.6 million tonnes of copper and 627,000 tonnes of cobalt over 25 years, until the mining profits repay the loan. Less visible, but with collectively big impact, are the hundreds of independent Chinese SMEs involved in extracting natural resources throughout the DRC.

But weak governance around resource allocation and impact monitoring are putting renewable and non-renewable resources at risk of depletion, with little to show in terms of economic development and poverty reduction. The Sicomines deal, for example, has been mired in controversy and complexity and progress on the projects have been slow.[5]

Since 2010, China has become the largest importer of DRC timber, responsible for an average of 55% of its forest product exports

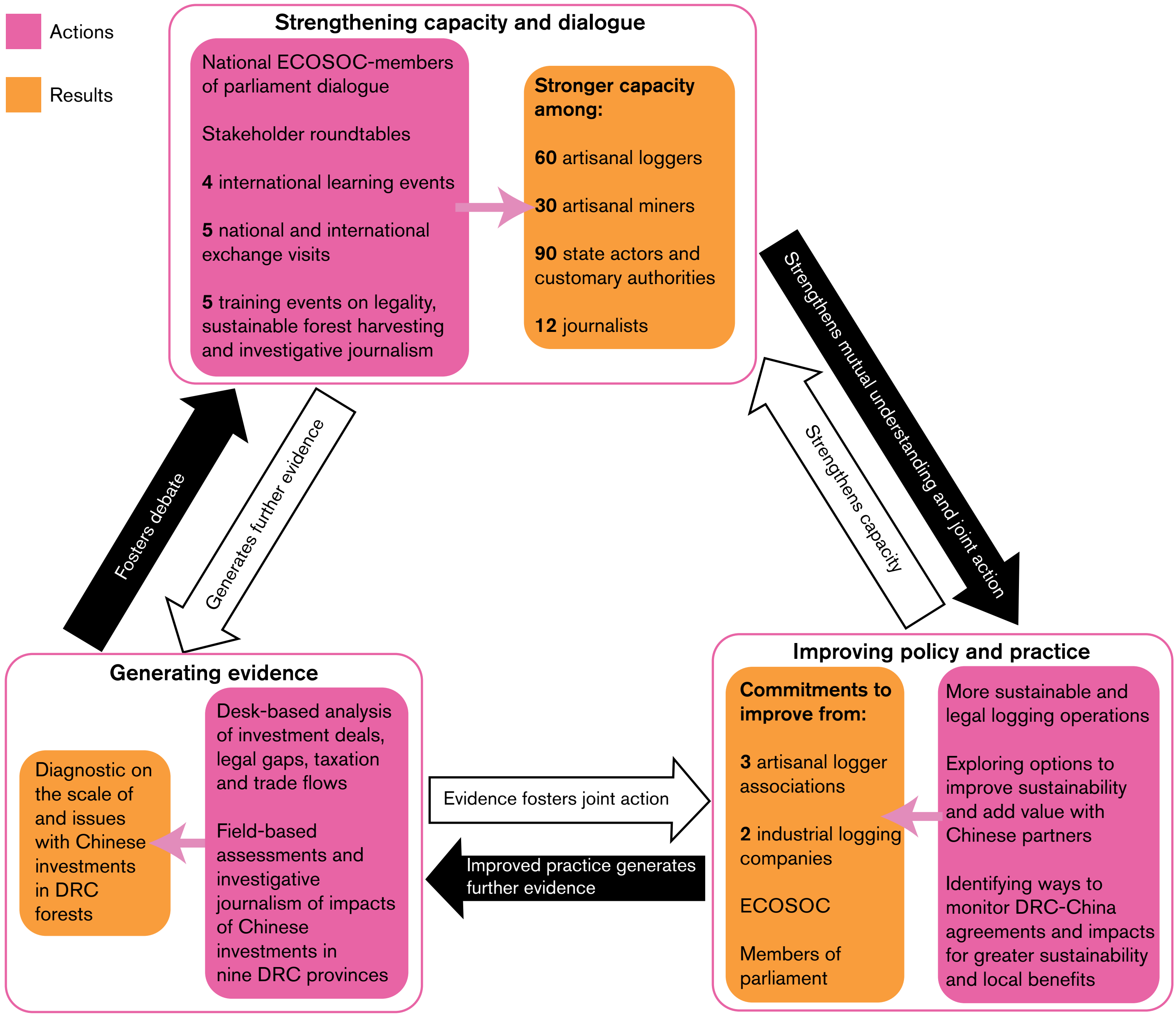
Improving evidence, capacity and dialogue for sustainable investment

Over four years, IIED's China-Africa Forest Governance Project engaged some 300 people in the DRC in research, capacity building and dialogue to policy and company practice (see Figure 1). We partnered with the World Wide Fund for Nature (WWF) and the Natural Resources Network (RRN) in the DRC and with state and non-state actors in China.[6]

Who is logging in the DRC?

A database developed by the project revealed that most industrial logging companies in the DRC are backed by Swiss, Belgian and Lebanese capital. Chinese logging and timber trading companies have a comparatively low profile, due to their more recent arrival on the scene and a 2002 moratorium on issuing new logging concessions. But much of the DRC's exported timber is headed for the Chinese market. Since 2010, China has become the largest importer of DRC timber, responsible for an average of 55% of its forest product exports by value. But it is hard to pinpoint China-linked actors in forestry value chains in the DRC, as they do not identify themselves as such in policy dialogues. Combined

Figure 1. Actions and results of IIED's China-Africa Forest Governance Project (2014–2018)



with a lack of transparency in the Congolese administration, this makes it difficult to develop a clear picture of the numbers and scale of operations and markets involved (on national, regional, African and international levels).[7]

After a 2006 government review found that companies were not complying with regulations, many lost their forest concession rights. This allowed Chinese actors to access forest resources through:

- Direct concession ownership
- Joint ventures with existing concession holders
- Informal, illegally acquired partnerships with existing concession holders, and
- Artisanal logging permits.

In the past, Chinese companies used artisanal logging permits when they could not access industrial concessions due to the moratorium. But this practice seems to have declined and our research found only limited evidence of direct operations involving Chinese companies in the forest. Rather, we found that small-scale Chinese timber traders play a more active role in artisanal timber value chains (see Box 1).[8]

Chinese involvement in mining in the forest

More than half the world's cobalt comes from the DRC and most is destined for China. Around 20% is mined by hand. Some 80% of mineral processing plants in copper-rich Katanga province are Chinese-owned and they export nearly 90% of the minerals they extract to China. Firms based in mainland China and Hong Kong also imported all the tantalum and over 80% of North Kivu's estimated tin exports.[9]

Only 15 Chinese companies are formally registered as engaged in mining activities in the DRC,[10] but Chinese traders dominate the artisanal and small-scale mining supply chains in the country's south and eastern provinces.[11] Our project identified another six companies with full or majority-share Chinese ownership working in the sector.

Journalists investigating one Chinese-Congolese industrial mining company illustrated the complexity of governing the DRC mining sector and the gap between policy and practice.[12] Local authorities have little say on rights allocation or compensation through taxes and employment during contract negotiations, limiting their ability to demand more jobs for local people or ensure that companies pay for the environmental costs they generate. Many mining operations involve cutting down areas of forest and there are many documented cases of environmental pollution, child labour and links to armed groups.[13] Our own observations in the field revealed widespread chemical pollution of rivers from artisanal and small-scale mining, leading ECOSOC to prioritise tackling this problem at provincial and national level.

Box 1. Congolese entrepreneurs: the public face of Chinese enterprises

The DRC has issued 577 artisanal permits for annual timber cutting.[15] But, with the sector providing around 90% of DRC timber production, we estimate that the number of artisanal timber operations must be much higher. So, many must be illegal. Our project data indicate that Chinese-linked companies are mainly involved as intermediaries and business partners in the artisanal value chains, often pre-financing logging operations, obtaining licenses (typically US$1,000) and paying harvesting fees (US$250 per hectare) and labourers.[16]

Forest law and taxation: the key to sustainability?

The 2002 Forest Code, the 2005 Forest Decree and the 2014 Community Forestry Decree outline requirements for forest management plans, in-country timber processing and devolving forest resource management to communities. They also give Congolese entities leeway to form partnerships with others and subcontract logging operations in forest concessions. The Forest Law, for example, allows communities and artisanal loggers to establish partnerships to harvest high-value timber resources; a 2016 ministerial order established a second category of artisanal logging permits for Congolese majority-owned legal entities.

However, there is little clarity on partnership conditions, which leads to different interpretations of the law, illegal extraction and unsustainable practices. For example, an investigative report for our project found that, instead of enforcing the law, men and women in influential positions in Haut Katanga's provincial government agencies are colluding with traditional chiefs to facilitate an illegal trade in Kakula (*Pterocarpus tinctorius*).[14] This provides little incentive for artisanal loggers to operate with anything other than short-term self-interest. Combined with illicit direct selling to timber traders, this sort of short-term, opportunistic behaviour and poor governance systems fuel illegalities.

With around 60 taxes for forest-related operations, the DRC's taxation system is incredibly complex, creating fertile ground for tax evasion and disincentivising local job creation and value addition. Central government also negotiates and collects most tax revenue, leaving provincial government agencies with limited power or resources to ensure better environmental and socioeconomic conditions locally.

Recommendations for improving sustainability in China-DRC investment

Congolese institutions can collaborate to make significant improvements in policy and practice to promote integrated and sustainable value chains — from production to processing — and ensure that local people gain more benefits from the resources.

Congolese national policymakers should:

1. Strengthen licensing and monitoring of domestic and international trade in mining and logging products agencies to reduce illegal operations.

2. Allocate resources to business incubation and credit facilities to strengthen the capacity of Congolese SMEs to work within the law to develop socially responsible businesses and better partnerships with Chinese entrepreneurs.

3. Engage national research institutions such as the University of Kisangani to conduct in-depth studies on the impacts of forest and mining activities on the environment, community wellbeing and fiscal reforms to support partnerships that will add value to resources.

4. Support the implementation of the Commission of Central African Forests' plans for a common approach to sustainable forest management in the region.

ECOSOC and **members of parliament** should foster national and provincial-level dialogue and improve scrutiny of state-to-state investment agreements and Chinese investments in the DRC.

Chinese government agencies should adopt binding good practice measures for Chinese overseas investors, including mandatory registration of economic activity in the DRC.

We call on **locally based NGOs** and **donors** who support initiatives focusing on the sustainable governance of the DRC's forests, including under the national REDD+ programme, to support these recommendations. The DRC government should also outline specific plans for the effective support of the above recommendations in its submissions to the Forum on China-Africa Cooperation.

Practical next steps

Natural resource governance favouring local livelihoods and sustainability faces many challenges in these turbulent times. Yet private sector, government and civil society innovators can have a collectively large effect through small, practical steps, such as:

- Negotiating investment deals through transparent and inclusive processes
- Ensuring that Chinese investors fully comply with Chinese standards on responsible forestry and investment practice abroad
- Ensuring that both Chinese investors and DRC stakeholders comply with in-country laws and regulations, and
- Supporting partnerships between artisanal logger associations, Congolese SMEs and Chinese and other investors focused on adding local value and sustainable resource management.

Isilda Nhantumbo, Inoussa Njumboket, Jean-Marie Nkanda, Anna Bolin and James Mayers

Isilda Nhantumbo is a consultant with IIED. Inoussa Njumboket is a programme officer at WWF-DRC. Jean-Marie Nkanda is a programme office manager at Réseau Ressources Naturelles. Anna Bolin is a researcher in IIED'd Natural Resources Group. James Mayers is director of IIED's Natural Resources Group.

Knowledge Products

The International Institute for Environment and Development (IIED) promotes sustainable development, linking local priorities to global challenges.

The World Wide Fund for Nature (WWF) is the world's leading independent nature conservation organisation. In DRC, WWF works closely with local communities and partners so that biodiversity is conserved, while improving people's livelihood and contributing to sustainable development.

Réseau Ressources Naturelles (RRN) is a platform of environmental and human rights civil society organisations in the DRC. RRN's objective is to promote sustainable use of natural resources which contributes to the economic, social and cultural development of local communities and indigenous people, while preserving ecosystems and biodiversity for future generations.

Contact
Anna Bolin
anna.bolin@iied.org
James Mayers
james.mayers@iied.org

80–86 Gray's Inn Road
London, WC1X 8NH
United Kingdom

Tel: +44 (0)20 3463 7399
www.iied.org

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Notes

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