

# Report of Great Lakes Cross-Border Trade Forum Proceedings

Bujumbura, Burundi, June 10<sup>th</sup>-13<sup>th</sup> 2008



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## 1.0 Background

COMESA, with support from DFID and USAID, is running a series of cross-border trade fora between the DRC and its Great Lakes neighbours from February 2008 to January 2009. The overall purpose of these fora is to promote and facilitate trade across the borders in order to help reduce conflict and promote economic development to reduce poverty. The specific aims of the meetings are to develop the capacity among traders and officials at the local cross-border level in the practicalities of trade, to help build cross-border communication and networks, and to deepen understanding of specific aspects of trade within the context of the research report *Trading for Peace*<sup>1</sup>.

This report forms part of the larger “Trading for Peace” project, funded by DFID in collaboration with COMESA and USAID, which is currently focused on validating the thesis that as Congo and the Great Lakes region emerge from conflict, facilitating trade can and should contribute towards regional stabilisation and poverty reduction through growth.

Each trade forum consists of three components: the dissemination of COMESA's Simplified Trading Regime (STR) for traders of small and medium enterprises; a cross-border trade fair; and a thematic module to increase understanding of a specific issue and identify activities around it.

The aim of this report is to document the second of a series of five Trading for Peace fora, which took place in Bujumbura from June 10<sup>th</sup> to 13<sup>th</sup> 2008. The forum took a thematic perspective on financial institutions and money flows in the region. As an aspect of the documentation, this report seeks to provide a narrative overview of proceedings and will highlight the main areas for further research and action that emerged from the discussions.<sup>2</sup> Video footage of the forum, with shots of the trade fair and interviews with various participants, was also produced as a further component of the documentation (see Annex 4 for a record of the video material produced) and will be used in accordance with the overall communications' strategy that is being developed for the Trading for Peace programme.

## 2.0 The Bujumbura Forum

### 2.1 The Simplified Trading Regime (STR)

The first component of the meeting, called the Capacity Building and Cross-Border Trade Facilitation Forum, took place on June 10<sup>th</sup> and 11<sup>th</sup>. This component sought to disseminate COMESA's STR for traders of small and medium-sized enterprises. It was attended by 46 people, primarily from Kalemie and Uvira in the DRC and from Bujumbura and Gatumba, a border town, in Burundi. Annex 2 gives the list of participants, including 21 traders from both sides of the border, customs and other government officials from both countries, plus police representatives in charge of the border crossing.

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<sup>1</sup> Trading for Peace: Achieving security and poverty reduction through trade in natural resources in the Great Lakes area, Hilary Sunman and Nick Bates, DFID, October 2007

<sup>2</sup> For more general information on the fora, see Trading for Peace, Note for Information, DFID, June 08, Annex 1

This meeting was in two parts: the first consisted of a comprehensive overview of COMESA's trade and regional integration arrangements and a description of its gender and women in business programme. The second part of the meeting comprised a detailed presentation of the STR and the booklet describing the regime, which COMESA finalised based on comments from participants at the forum in Kasumbalesa, DRC, in February 2008. The booklet<sup>3</sup> describes the ten steps traders need to take to comply with customs regulations and cross the border quickly when exporting or importing goods valued at USD 500 or less per batch.

During the STR component of the forum, participants showed great interest in the details of the STR and the related paperwork designed to facilitate small trade across borders in the region. Traders vigorously discussed the regime, the changes that it represents and how it can be of benefit to them. The bulk of discussion during the two day meeting focused on this and the STR was of obvious relevance and importance to the traders from the region.

One aim of inviting selected traders is the expectation that they will subsequently inform their peers, colleague and business contacts about the STR. This aim was reinforced through the use of radio programmes and newspaper articles, which highlighted the STR and trade fair. Both could serve as a key means of communication with traders in the region in future.

COMESA has prepared a full report on the STR component of the forum.<sup>4</sup>

## **2.2 The Cross-Border Trade Fair**

The trade fair took place after the above meeting, on June 12<sup>th</sup> 2008. It was held near the meeting venue, some miles from Bujumbura city centre on the road leading to the border crossing with DRC. Sixty traders took part, including those at the meeting from DRC and Burundi plus others primarily from the central market in Bujumbura and from the border-towns of Gatumba and Uvira (on the DRC side).

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<sup>3</sup> Facilitation du Commerce Transfrontalier: Régime commercial simplifié du COMESA, 2008

<sup>4</sup> See Annex 17: Rapport sur l'atelier de travail lié au Régime Commercial Simplifié.



Photo @ International Alert

On sale were clothes, beauty products, fresh and dry foods, timber from Congo, beer and soft drinks, various minerals and some traditional medicines, amongst other goods. The traders appreciated the opportunity to exhibit and sell their goods at the trade fair. For example, there was a Congolese potter who said he had sold a pot for the first time ever outside his own village (see photo below). He was eager to return to his village and tell others about his experience.



Photo @ International Alert

The traders had two suggestions for future fairs: they should take place nearer urban centres to attract more customers and they should last more than a day, telling one journalist they would have liked a four-day fair.<sup>5</sup> While that would be difficult for the organisers to arrange, the possibility of a two-day fair in Goma is under consideration.

### 2.3 The Thematic Module

The final part of the forum brought together 39 people from the public and private sectors in Burundi, the DRC and Uganda, as well as COMESA and DFID officials and NGOs (see list Annex 3), to discuss financial flows and trade in the region. This thematic module took place in the afternoon of the July 12<sup>th</sup> and the morning of July 13<sup>th</sup>, 2008. There were presentations on various financial themes, two break-out group discussions and a plenary discussion followed by concluding remarks from the Chair.

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<sup>5</sup> *Le Renouveau*, Burundi, 13/6/09

### 2.3.1 Plenary Presentations

The thematic meeting began with a presentation by Charles Nihangaza, Director of the PTA Bank. He described the PTA Bank, COMESA's financial arm, which gives financial and technical assistance to the 16 COMESA countries that have chosen to join the Bank, including Burundi, Rwanda and Uganda.<sup>6</sup> The DRC has not yet joined. The PTA Bank can lend from USD 500,000 to USD 20,000,000 per transaction and also supports joint ventures and co-financing. The speaker noted the intense amount of cross-border trading between Great Lakes countries with the general population usually relying on informal financial arrangements with money-lenders and others, resulting in high interest rates. One reason for this, he said, was the weakness of financial institutions, from simple lack of banks and micro-credit institutions to the need for a legal base for micro-finance to operate in the region. Fiscal systems at the local and national level in many countries are inadequate for supporting small businesses, which often consider the costs of using the formal financial system too high and thus inaccessible.

It was also noted that the PTA bank is becoming increasingly interested in supporting small business enterprises on a co-financing basis with local banks. It is considering lowering the amount it can lend from the current level of USD 500,000, which it considers too high for post-conflict countries. This would allow it to more easily reach small businesses and women's groups. It can also help capacity training for MFIs and has already provided a guarantee fund to a Burundian MFI, as mentioned below.

The speaker was asked if the PTA could help to open a bank in Uvira, which currently does not have any formal financial institutions, despite its importance for the cross-border economy. He replied that it could assist with a guarantee fund for such an initiative.

The background to the research on financial flows in the Trading for Peace project was presented next by Hilary Sunman, Senior Economist, DFID. Based on the trade in Congolese minerals and timber exported eastwards, the study shows that the informal marketing system, using pre-financing, leads to gross inequalities in the distribution of revenues from the sales, with many thousands of miners and wood-cutters being used almost as indentured labour, at the mercy of those who finance them. This is exploitation on a grand scale. Corruption is rife and a parallel financial system operates out of the control of government, which loses tax revenue as a result, an important point to make with political leaders and decision makers. It is estimated that only about 30% of DRC exports are officially recorded with as little as 10% only for gold. The financial losses for government tax revenue are enormous.

The topic of mineral and timber trading from the DRC was further elaborated upon by the presentation of a study of financial flows relating to natural resource products, and banking services in the DRC, which forms part of phase 2 of the Trading for Peace research programme.<sup>7</sup> Laura Collinson, from Coffey International, with the support of Omoneka Musa, the researcher for the report, presented the key findings from this research. The plethora of official and unofficial taxation and related charges along the export value chain for cassiterite

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<sup>6</sup> Presentation on PTA Bank by Charles Nihangaza (Annex 10)

<sup>7</sup> Draft discussion paper, DFID and EPSDS (April 2008): *Financial flows and Banking related to the Trade of Natural Resources and other Commodities in the Democratic Republic of Congo* (Annex 5).

and gold gave graphic examples of why so much trade goes through unofficial channels. Among the recommendations made were rehabilitating the banking system in DRC, especially the Central Bank (BCC) to allow it to disburse more credit and oversee financial institutions, and helping those without a bank account to have access to mobile banking, an issue to which the meeting returned the next day.

There were many interventions from the floor after these presentations, and great interest in the issue of banking systems in general and in particular of opening banks in Eastern Congo. One speaker, a banker, said he had proposed to colleagues putting together a fund to open a bank in Uvira but, though a feasibility study had been carried out, no further action was taken. Another spoke of a meeting of business people from DRC, Rwanda, Burundi and Uganda also with regards to opening a bank in eastern Congo. He regretted the fact that it was so difficult to trade in Congo due to the lack of banks and thus the availability of money, as well as the risk of robbery with nowhere safe to deposit cash. It was pointed out that Kalemie and Uvira are both important ports with no banking facilities. The DRC is not a member of the PTA Bank but its representative said he was hopeful that the DRC would join.

There followed a presentation on a newly established Burundian MFI, WISE, a savings and loans group which aims to make credit available particularly to women entrepreneurs and traders in the country.<sup>8</sup> The presentation was made by L. Kamikazi, President of WISE. She noted that in Burundi 80% of credit currently go to men, despite the large number of women traders. WISE has received USD 500,000 from the PTA Bank, an example of a regional financial institution helping finance a non-profit local agency. Among issues discussed were the rate of interest which, though high at 3% per month, is still much less than that asked by money-lenders, some of whom charge in kind, asking for a sack of rice for every two sacks harvested. The speaker said that often the availability of credit was more important than the rate of interest charged and that the cost of running WISE made high charges necessary. On repayment rates to WISE, it was too early to know how good they were as the first loans had only been made some months ago.

The speaker was asked why WISE did not apply to commercial banks for a fund to support its work. She replied that WISE preferred to have the PTA guarantee fund as some commercial banks had closed due to lack of funds.

A summary of key themes regarding micro-credit noted the cost of credit as well as access to it, the challenge of making credit available in rural areas and ensuring that money can safely be transferred. The issue of how to get more regional financing for trade was also mentioned. The need for training of people administering MFIs and also of educating the public about micro-credit and savings was also emphasised.

The final presentation in the thematic meeting concerned mobile banking.<sup>9</sup> This is a relatively new system of banking that could, if widely used, herald a major breakthrough in financial services in Africa. It was described as a technological leap that could allow traders to instantly send and receive money using their mobile phone, obviating the need for intermediaries, money-lenders and perhaps even of banks (where they work). Payments using cash are replaced by 'virtual cash' transferred by phone.

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<sup>8</sup> Annex 11

<sup>9</sup> Presentation prepared by Johann Bezuidenhout, presented by Hilary Sunman, Annex 12

If successful, this could change the terms of trade in favour of the producer/trader and ensure that a larger proportion of the profit is secured by those working at the bottom of a given value-chain. The experience in Kenya and elsewhere with M-PESA and similar companies has been positive and widespread.<sup>10</sup> Indeed, there are already over 100,000 m-banking customers in Africa. These services make it possible to transfer one currency to another and allow users to have instant access to their account details. The technology offers a huge range of opportunities, stopping for example the barter system that sees gold exported to China from DRC in exchange for motor bike parts which the buyer cannot check before buying.

Questions were asked about the technology available in the DRC for m-banking. The UN has used it to pay demobilised soldiers with reportedly mixed results due to technological problems. Celpay, a company working in DRC with mobile banking said in 2006 that it had over 3 million transactions a month in the country.<sup>11</sup> Among other problems are regulatory concerns regarding cross-border capital flows and of how to involve mobile phone users who do not have a bank account. Would they need to go through the formal banking gateway? This and other questions need further research.

### **2.3.2 Small-Group Discussions**

The key themes of the day were identified and two were selected for further discussion in smaller groups. The topics were as follows:

- The cost of and access to finance in the region, including the benefits and/or drawbacks of pre-financing systems
- Regional approaches to finance, including cross-border and regional financial services

A cross-cutting issue of change in consciousness and mindset vis-à-vis savings was also identified. The two break-out discussion groups were tasked with the identification of key issues and challenges associated with their discussion topic and the articulation of ways forward and recommendations.

Group one discussed the first topic on cost and access to finance in the region. On pre-financing, the difference by country was made clear. In Uganda the government controls the pre-financing system and it is structured, thus allowing peasant farmers and traders access to credit in an organised way. In Arua for example there are five MFIs (all legal entities) and ten banks providing micro-finance and all overseen by the Bank of Uganda. To use these services, the formation of cooperatives and peasant associations, plus training for producers and traders, has been important.

In Burundi there are informal lenders (Solidarité Mutuelle Kazoza – Tontine SMK – was mentioned) which provide credit at 3% per month. This type of lender needs more training and support (such as computers). There are also some formal groups like WISE.

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<sup>10</sup> For more details on mobile banking, see article in the Guardian, June 16, 2008 (Annex 15).

<sup>11</sup> Celpay Zambia upgrades technology to directly answer African population requirements, internet article, 9/1/06

In the DRC, however, pre-financing is not structured and lenders charge any rate they wish. In the case of miners in DRC they are totally dependent on whoever gives them tools and money. They have no freedom of choice regarding who they sell their produce to, thus depriving them of any bargaining power. The power of mining intermediaries needs to be broken and the need to put in place structures capable of extending credit to producers was again noted, whether it be banks, MFIs or cooperatives, with outreach to rural areas.

Group two discussed regional approaches to financial services. The group emphasised that regional dynamics are critical in the Great Lakes and given the close economic connections between both Burundi and Rwanda and eastern DRC, financial services also need to be regional.

The PTA Bank could provide financial services, provided the DRC joined. The possible revival of the Banque de Développement des Grands Lacs (BDGL), the former financial arm of the CEPGL<sup>12</sup>, was discussed. Business people in the region have been pressing for it to re-open, during for example the January 2008 Goma conference on peace and security where the business community from North and South Kivu were represented as well as Rwanda and Burundi.<sup>13</sup> The infrastructure of the BDGL is still in place, making its re-opening easier than it would otherwise be. Donors could have a role in this: the EU has committed funding to the CEPGL Secretariat so could be involved in the debate if approached. The re-establishment of this bank could help in better regulation of interest rates (as the PTA Bank has done by entering into agreements with international banks regarding such rates).

The group recognised that the CEPGL is a political organisation and that political will in all countries involved would be needed for the BDGL to become functional again. Business people and business associations will need to pressure governments to help achieve this.

Mention was made of the need for a study to look at the challenges to opening banks in the Kivus, where decision-taking on this matter lies with Kinshasa. Transferring this power to the Governors of North and South Kivu could facilitate decision-making.

Regarding regional financial services the group noted that partnerships need to be created between regional banks, commercial banks and MFIs which are more able to reach clients at the bottom end of the value chain. Financial services need to be brought closer to areas of production. Agricultural trade cannot be promoted without such services in rural areas.

## **2.4 General conclusions and next steps**

The importance of looking at the Great Lakes as a region was made clear throughout the thematic module. This applies particularly to regional financial services to support agriculture, forestry and mining. These are key to development and stability for the whole area. Extensive trading links already exist but at the moment these links are largely informal and dominated by elites, with few benefits going to the majority of the population. Trade could significantly be enhanced by improved formal financial services, which would benefit

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<sup>12</sup> Communauté Economique des Pays des Grands Lacs.

<sup>13</sup> *Rapport de la Fédération des Entreprises du Congo à la Conférence sur la Paix, la Sécurité et le Développement dans les Provinces du Nord et du Sud Kivu*, FEC, 2008, Annex 16

governments (through greater income from taxes) and also agricultural producers. The issue of exploitation of miners and foresters needs separate consideration.

#### A. Banking in the DRC

Various components for further study and ways forward came out of this meeting. The whole issue of banking is a major challenge, in particular the need to open banks again in eastern Congo. This point was mentioned time and again during the discussions.

Action is needed at two levels:

1. The DRC government should be approached to discuss ways of making decisions more easily than at present, where permission to open banks has to come from Kinshasa. Devolving this power to the Governors of North and South Kivu Provinces would facilitate decision-making but would require a concerted lobbying effort by all interested parties. In this the decentralisation strategy of the Government, based on the Constitution, should be invoked. Could COMESA via the PTA Bank also be involved (along perhaps with officials from the CEPGL)?

2. At the regional level, the details of how operationally to open a bank are already under discussion. Various meetings have taken between the Burundi Enterprise Network, the Chamber of Commerce in Bukavu and Pole Institute regarding opening a bank in Uvira (one such meeting took place during the Bujumbura Forum). As noted above a feasibility study has also been carried out but remains confidential. The PTA Bank representative mentioned the possibility of financial support through a guarantee fund for such a bank. This should be further explored.

There was support at the meeting for encouraging the DRC to join the PTA Bank.

#### B. Role of regional banks

The role of regional banks (including but not limited to the PTA Bank) in financing MFIs and local businesses should be encouraged. The possibility of re-opening the BDGL should be examined.

#### C. Commercial banks in the region

In countries other than the DRC a problem with commercial banks is that decision-taking often relies on head offices in Europe, slowing down the flow and speed of transactions. This was noted but no ideas for follow-up were discussed.

The question of the legal framework for making regional commercial banking possible is an issue that requires further study. Could banks and MFIs involved with traders and producers on both sides of borders be legally empowered to work in more than one country? Would COMESA as a regional institution have a role to play in producing a legal framework of this type?

#### D. M-banking

The potential for mobile phone banking created great interest at the meeting. Opportunities of m-banking should be further studied as it would be one way of making financial flows much quicker, easier and safer and could help small producers and miners. The possibility of

Burundi and the DRC working together to develop this further was mentioned. Burundi already has 80% of the country covered by mobile networks. With decentralisation in DRC underway, the eastern provinces might gain the power to create necessary regulations for collaboration with Burundi on this matter.<sup>14</sup>

#### E. MFIs and cooperatives

MFIs and cooperatives are institutions that have outreach to producers in rural areas and there is experience with them in the region, especially in Uganda, Rwanda and Burundi. WISE is still too new an organisation to draw lessons from but a cautionary note re Burundi should be mentioned: only a few years ago an MFI, Burundi Direct, which had micro-credit and savings branches in many provinces of the country, went bankrupt, causing many to lose their savings. Staff training and active supervision by banking authorities are needed.

The issue of pre-financing in the mineral and forestry trade in the DRC should be considered apart. Breaking the grip of those pre-financing the miners will be long-term and involve both infrastructure improvement (roads especially), the provision of micro-credit and savings alternatives for miners and foresters, and a sustained effort by development agencies. This is a huge undertaking but over time it could allow producers more choice in who they sell their produce to.

#### F. Regional cooperation in the coffee industry

Although coffee was not a focus of the module, it is a key regional product and was mentioned on several occasions, regarding the experience with coffee cooperatives in Uganda and Rwanda, and a strong association of coffee farmers in Burundi which has more than 105,000 members. Coffee is also economically important in eastern Congo (in some areas it is second only to minerals), but infrastructure (roads, washing stations etc.) is weak and there is a need to know more about how coffee is produced and marketed in the DRC, including the functioning of coffee farmer associations. It was mentioned that regional cooperation in the coffee industry might be a strategic in-road, as coffee is less controversial than the mineral trade but is an economically important industry in the whole region, with scope for developing cooperation for mutual economic benefit. The possibility of more regional cooperation on coffee might usefully be explored at the next meeting in Goma.

#### G. The dynamism of the private sector

The dynamism of the private sector was clear from the meeting. Business people and their associations should continue to be involved in cross-border meetings and they appreciated the chance to discuss common problems and seek solutions together. The value of linking them up with COMESA and other regional bodies to lobby governments on financial issues should not be underestimated.

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<sup>14</sup> An article in the Guardian, 16 June 2008, described the impact of mobile phone banking in Africa (see Annex 15). It mentions the DRC and Burundi as countries where companies are aiming to expand their m-banking services, including for micro-credit.

### Post-script

In terms of immediate follow up to the Bujumbura forum, DFID has commissioned further research into the areas of pre-financing and cross-border banking. Draft Terms of Reference for the two pieces of research were circulated at the subsequent Goma forum and will be taken forward in the coming months.