

The Charter Cities Development Model: *Improving Governance Towards Economic Growth in the DRC*



The Future of Development

Empowering new cities with better governance to lift tens of millions of people out of poverty.

The Charter Cities Institute is a non-profit organization dedicated to building the ecosystem for charter cities by:

- ▶ Creating legal, regulatory, and planning frameworks;
- ▶ Advising and convening key stakeholders including governments, new city developers, and multilateral institutions;
- ▶ Influencing the global agenda through research, engagement, and partnerships.

Executive Summary

The Democratic Republic of the Congo (DRC) has some of the greatest mineral wealth in the world and a large and growing population. With numerous challenges ranging from the need to absorb an urbanizing population, improve its economy, and promote security, the DRC is in a position where it has far more to gain from policy experiments than it has to lose. By adopting the innovative governance system offered by the charter cities model, the DRC can not only address its development challenges, but would also demonstrate that it can also deliver on bold and innovative models of economic development for its people.

Recommendations:

1. The government of the DRC should explore the economic advantages of creating a charter city structure for designated areas in the southern DRC, evaluate whether this would be suitable in the local context, and engage with local stakeholders to assess the feasibility of this proposal.
2. The DRC's government should enable the Charter Cities Institute (CCI) to create a comprehensive economic development strategy for moving the DRC's economy up the value chain through mineral processing in the DRC and the central Africa region, including the possibility of establishing one or more charter cities in southern DRC.
3. Should the DRC choose to pursue the charter city option, the next steps are:
 - a. to create an enabling legislative and regulatory framework that allows for charter city autonomous jurisdictions;
 - b. start building a political coalition that advances the charter city project;
 - c. assemble stakeholders to delineate the scope of potential reforms in more detail; and,
 - d. contact the Charter Cities Institute for assistance.

The Opportunity

The DRC can both improve its development outcomes and the lives of its people, and show the world that it is a leader in forward-thinking governance by establishing one or more charter cities focused on mineral processing near current mining operations in the southern region of the DRC. By following the models laid out by the four “proto-charter cities” of Dubai, Singapore, Shenzhen, and Hong Kong, the DRC can create new cities to accomplish two desirable outcomes: (1) dramatically grow the DRC’s economy by becoming a mineral processing hub; and (2) serve as a governance laboratory that the DRC can use to create successful and innovative institutions, which would be introduced in other parts of the country, hence accelerating the DRC’s economic development over the next 30 years or more.

Context

Specific minerals, valued for their unique chemical properties and the fact they can’t be substituted for in industrial processes, are used by high-tech and defense industries to make advanced products. These products include, among other things, cell phones, computers, batteries used in electric cars, rocket and aircraft engines, and night vision goggles.¹ On December 27, 2017, the President of the United States issued Executive Order 13817, titled “A Federal Strategy to Ensure Secure and Reliable Supplies of Critical Minerals.”² This executive order led to the promulgation of a list of 35 critical minerals that meet three key elements: “(i) a non-fuel mineral or mineral material essential to the economic and national security of the United States, (ii) the supply chain of which is vulnerable to disruption, and (iii) that serves an essential function in the manufacturing of a product, the absence of which would have significant consequences for our economy or our national security.”³

The DRC is a significant source of six of the listed minerals: cobalt⁶, lithium, niobium, tantalum, tin, and tungsten. Furthermore, there is a suggested supplemental list of seven more mineral commodities of which the DRC is a significant source of three: copper, gold, and zinc.⁴ The DRC’s global share of some of these mineral resources is enormous, with 50% of the world’s cobalt and 32% of its tantalum. However, even the DRC’s smaller global shares of the other minerals are not insignificant, with 5% of its copper; 2% of its tin; and 1% of its gold.⁵ Despite the DRC’s enormous global share of cobalt and tantalum, as well as other minerals, the country does not refine the overwhelming amount of these minerals itself. In fact, the DRC is the producer of only 3% of the world’s refined cobalt. Instead, these higher value-added refining activities take place elsewhere.

Additionally, the DRC currently faces three trends that may also hamper DRC’s overall economic development: (1) rapid urbanization; (2) poor governance, especially when it comes to extractive industries; and (3) a lack of industrialization. Traditional development strategies have been largely ineffective at spurring sustained economic development in such a difficult domestic environment; a new approach, is called for.

First, from 2016 to 2030 the DRC’s urban population will grow at a rate of over 4% per year, meaning the country will add 1 million urban dwellers to its cities and towns every year. This rate of urban growth implies that the 30

1. Conca, J. (2019, November 19). 35 Minerals That Are Critical To Our Society. Retrieved December 05, 2020, from <https://www.forbes.com/sites/jamesconca/2019/11/19/35-minerals-that-are-critical-to-our-society/?sh=580f2a0d18bf>

2. Presidential Executive Order on a Federal Strategy to Ensure Secure and Reliable Supplies of Critical Minerals. (2017, December 20). Retrieved December 05, 2020, from <https://www.whitehouse.gov/presidential-actions/presidential-executive-order-federal-strategy-ensure-secure-reliable-supplies-critical-minerals/>

3. Ibid.

4. Final List of Critical Minerals 2018, Notice, E.O. 13817, 82 Fed. Reg. 60835 (May 18, 2018).

5. Yager, T. R. (2019, July). 2015 Minerals Yearbook: CONGO (KINSHASA) [ADVANCE RELEASE]. Retrieved December 05, 2020, from <https://prd-wret.s3-us-west-2.amazonaws.com/assets/palladium/production/atoms/files/myb3-2015-congo-kinshasha.pdf>

6. Ibid.

million urban residents the DRC had in 2016 will surge to 44 million by 2030. DRC's capital, Kinshasa, will become Africa's largest megacity by 2030 with 24 million residents, surpassing Cairo and Lagos.⁷

Historically, urbanization in now-high income countries has been associated with many development benefits: boosted incomes, the creation of higher value-added jobs in factories, increased productivity, and increased economic growth. But if urbanization is not competently managed it can bring about several downsides: crime, congestion, intergenerational urban slums, and the spread of contagious disease, among others. Today, the rapid urbanization trajectory of the DRC is arguably creating more downsides than benefits. This is an urgent policy issue that must be remedied.

Second, governance is another significant problem that makes it substantially more difficult to accommodate rapid urban expansion. This is largely because DRC is urbanizing at much lower governance levels and with weaker state capacity than most high-income countries. For example, when the US became over 50% urbanized in the 1920s, it had per capita incomes of USD\$7,500. Similarly, when China and South Korea reached over 50% urbanized, they had incomes per capita of about USD\$4,500. Conversely, DRC is careening towards 50% urbanized at per capita incomes of just over USD\$450, magnitudes lower than has historically been the norm.⁸ This means that Congolese cities and towns, while adding 1 million new urban dwellers per year, have remarkably fewer resources available to provide needed infrastructure, housing, education, hospitals, and other basic services that make cities livable. The result is that in 2018, the year with the most recent data, a staggering 78% of the urban population in the DRC lived in slums.⁹ This dire trend is likely to continue if concerted policy action isn't taken.

The governance deficit is especially evident when it comes to DRC's extractive industries. Most notably, this industry is plagued with minerals that are extracted with child labor or are used to fund conflicts. In terms of child labor, in the DRC's copper belt 13% of those working in mines are under the age of 18. Additionally, armed groups will often finance their operations through the sale of minerals.¹⁰ While there is guidance on how companies can conduct due diligence tracing the origins of the minerals that they buy, it can be difficult to effectively and accurately trace the origins of all of the minerals that a company purchases.¹¹

Third, due to the DRC's excessive reliance on natural resources, it has had a particularly difficult time diversifying its economy, by, for example, establishing a domestic manufacturing base. This is in line with the "Dutch Disease," whereby large resource exports result in the appreciation of the domestic currency, making domestic manufactures relatively more expensive (and less competitive) on international markets. Uncompetitively priced manufactures prevents a domestic manufacturing base from emerging. This lack of industrialization is problematic because urbanization without industrialization is associated with lower worker productivity, fewer productive jobs, and therefore likely has negative consequences for long-run development.¹²

These three problems—(1) rapid urbanization; (2) governance deficit, especially when it comes to extractive industries; and (3) a lack of industrialization—all beg for an innovative solution.

7. World Bank (2018). Democratic Republic of Congo Urbanization Review: Productive and Inclusive Cities for an Emerging Democratic Republic of Congo. World Bank Group: Washington, DC.

8. See 'Ed Glaeser & Paul Romer on Rapid Urbanization' here: <https://www.youtube.com/watch?v=nZGdyowWVzw&t=269s>

9. The World Bank. (2021). Population living in slums (% of urban population) - Congo, DEM. REP. Retrieved April 15, 2021, from <https://data.worldbank.org/indicator/EN.POP.SLUM.UR.ZS?locations=CD>

10. OECD, note 14, supra.

11. Ibid.

12. Gollin, D., Jedwab, R. & Vollrath, D. "Urbanization with and without industrialization." *J Econ Growth* 21, 35–70 (2016). <https://doi.org/10.1007/s10887-015-9121-4>. See also Rodrik, D. (2013). "The Perils of Premature Deindustrialization." Prague: Project Syndicate.

An Innovative Approach for Fast-tracking Development

Charter cities are the next evolution in governance technology. By developing a charter city, a host country will have a defined area within itself where it can adopt best-practice regulatory and commercial laws. All the while, the charter city can tailor these laws to its own local context, maintaining the legal traditions and institutions that often most affect the lives of the city's residents, such as family law.

Establishing charter cities in southern DRC

Establishing one or more charter cities in southern DRC would require four specific elements: (1) devolving authority to the city government; (2) empowering the city government to solve constraints to growth; (3) allowing for experimentation with policies on a local level; and (4) understanding and embracing how a charter city is different from a freeport.

Devolving authority to the city government

Establishing one or more charter cities in southern DRC will require a significant degree of authority to be devolved to those city governments. Such a devolution must be done within a legal framework, and CCI advocates that it be done within a structure that avoids causing domestic political trouble and aligns incentives between the DRC and a private urban developer (i.e., "the city developer"). The framework to do this is formed by four key legal documents: a statute passed by the DRC's parliament enabling the establishment of charter cities; a land agreement; a public-private partnership concession agreement (oftentimes the land agreement and concession agreement are combined); and a city charter.¹³ Together, these four documents will create the framework within which a charter city administration can effectively use the authority devolved to it for the benefit of the people of the DRC in accordance with the rule of law.

Empowering the city government to solve the constraints to growth

The legal framework of a charter city allows for a city administration to adopt policies that resolve constraints on growth. Empowering the city to solve constraints on growth focuses on four key areas: (1) business registration; (2) electricity and other essential infrastructure; (3) dispute resolution; and (4) investment protection and promotion.¹⁴

Allow for experimentation with policies on a local level

Closely related to empowering a charter city to solve for constraints on growth is allowing for policy experimentation on a local level. A key advantage to a charter city is that it can serve as a jurisdiction for running experiments in governance that the DRC can later transform to the national level. Notably, China successfully implemented such a system for engaging in policy experiments at the subnational level when it established its original four special economic zones in Shenzhen, Zhuhai, and Shantou in Guangdong province and Xiamen in Fujian province, in 1979. The advantage of a charter city is that it can attempt experiments with policies that would be scaled up if they are successful, but only have a limited impact if they fail. Furthermore, local institutional reform is politically often more feasible than national reform. Finally, the structure and market motivations of charter cities allow them to more quickly adopt innovative development programs, implement stop losses on failing programs, and iterate on successful programs.

13. CCI Model Legislation: <https://www.chartercitiesinstitute.org/post/model-legislation>; CCI Model Charter: <https://www.chartercitiesinstitute.org/post/model-charter>. A Model Land Agreement and a Model Concession Agreement are forthcoming.

14. CCI Risk Mitigation Guide: <https://www.chartercitiesinstitute.org/post/risk-mitigation-guide>.

Benefits

Establishing a charter city in the southern DRC will have five key benefits:

1. Attracting investment, creating jobs, and spurring economic growth;
2. Empowering small and medium enterprises (SMEs);
3. Creating linkages with knowledge sharing to the broader economy;
4. Generating international attention, and by doing so drawing positive international attention to the DRC; and
5. Producing economic and governance spillovers to the rest of the DRC and the central Africa region.

Conclusion

Charter cities are complementary to the efforts that the DRC and international development organizations have already made in improving its governance and economy, and will help the nation take advantage of the enormous potential of the region. One or more charter cities would provide a platform for the DRC to diversify its economy by moving it up the value chain through mineral processing, so that it can deal with the challenges it faces and seize the opportunities it has been given.

To move forward and pursue the charter city option, the next steps are to further explore the economic advantages of creating one or more charter cities in the southern DRC, start building a political coalition that advances the charter city project, and to assemble stakeholders to delineate the scope of potential reforms in more detail. The Charter Cities Institute stands ready to assist with creating legal and regulatory frameworks, including legislation.

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