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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT

IN THE AMOUNT OF US$100 MILLION

TO THE
DEMOCRATIC REPUBLIC OF CONGO

FOR A
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

June 7, 2018

Finance, Competitiveness And Innovation Global Practice
Africa Region

CURRENCY EQUIVALENTS

Currency Unit = US$

FISCAL YEAR
January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BDS	Business Development Services
BPC	Business Plan Competition
CAR	Central African Republic
CAS	Country Assistance Strategy
CEDAW	Convention on the Elimination of all Forms of Discrimination Against Women
CFAA	Country Financial Accountability Assessment
CFEF	*Cellule d'Exécution des Financements en Faveur des Etats Fragiles* *(*Execution Unit for Financing in Fragile States*)*
CIIP	Competitive Industries and Innovation Program
COPEMECO	*Confédération des Petites et Moyennes Entreprises du Congo* *(*Confederation of Small and Medium-Sized Enterprises of the Congo*)*
DA	Designated Account
DB	Doing Business
DFID	Department for International Development
DRC	Democratic Republic of Congo
ERR	Economic Rate of Return
ESMF	Environmental and Social Management Framework
EU	European Union
FCS	Fragile and Conflict-Affected States
FEC	*Fédération des Entreprises du Congo (*Association of Congolese Enterprises*)*
FENAPEC	*Féderation Nationale des Artisans, Petites et Moyennes Entreprises du Congo* *(*National Federation of Artisants and Small and Medium-Sized Enterprises in Congo*)*
FIAS	Facility for Investment Climate Advisory Services
FM	Financial Management
FPD	Finance and Private Sector Development
FPI	*Fonds de Promotion de l'Industrie (*Fund for Industry Promotion*)*
GDP	Gross Domestic Product
GEM	Girls Empowered by Microfranchise
GIZ	*Gesellschaft für Internationale Zusammenarbeit* (German Development Agency)
GP	Global Practice
GRS	Grievance Redress Service
GTZ	German Agency for Technical Cooperation
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFAC	International Federation of Accountants
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFR	Interim Financial Report
IGF	*Inspection Générale des Finances (*General Inspection of Finances*)*
ILO	International Labor Organization
IPF	Investment Project Financing
IPMP	Integrated Pest Management Plan

IRC	Institutional Reform Credit
ISR	Implementation Status and Results Report
JICA	Japan International Cooperation Agency
JSDF	Japanese Social Development Fund
KfW	*Kreditanstalt für Wiederaufbau* - "Reconstruction Credit Institute" (German Development Bank)
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFD	Maximize Finance for Development
MSME	Micro, Small and Medium-Sized Enterprise
NGO	Non-Governmental Organization
NVP	Net Present Value Analysis
NSDP	National Strategic Development Plan
OHADA	*"Organisation pour l'Harmonisation en Afrique du Droit des Affaires"* (Organization for the Harmonization of Business Law in Africa)
OM	Operations Manual
OPCS	Operations Policy and Country Services
OPEC	*Office de promotion de moyennes et petites entreprises congolaise* (Office of promotion for Congolese Small and Medium-sized Enterprises)
PDO	Project Development Objective
PSU	Provincial Supervision Units
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PLR	Performance and Learning Review
PMPP	Plan of Management of Pests and Pesticides
PPA	Project Preparation Advance
PPD	Promotion of the Public-Private Dialogue
PPF	Project Preparation Fund
PPSD	Project Procurement Strategy for Development
PROCOKI	*Produits de Construction de Kinshasa (*Construction Products of Kinshasa*)*
PROMINES	*Projet d'Appui au Secteur Minier (*Mining Sector Support Project*)*
RAP	Resettlement Action Plan
RCT	Randomized Control Trial
RPF	Resettlement Policy Framework
SCD	Systematic Country Diagnostic
SMART	Specific, Measurable, Attainable, Realistic and Time-bound
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SORT	Systematic Operations Risk-Rating Tool
SSA	Sub-Saharan Africa
SSRN	Social Science Research Network
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
T&C	Trade and Competitiveness
TOR	Terms of Reference
TVET	Technical and Vocational Education and Training

UCS	Use of Country Systems
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDO	United Nations Disengagement Observer Force
USAID	United States Agency for International Development
VAT	Value Added Tax
VLSA	Village Savings and Loan Associations
WB	World Bank
WBG	World Bank Group
WBL	Women Business and the Law
WDI	World Development Indicators
WeFi	Women Entrepreneurs Finance Initiative
WEDEE	Women Entrepreneurship Development and Economic Empowerment
WGPP	Western Growth Pole Project

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Congo, Democratic Republic of	DRC- SME Development and Growth Project	
Project ID	Financing Instrument	Environmental Assessment Category
P160806	Investment Project Financing	B-Partial Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[✓] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[✓] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
28-Jun-2018	28-Dec-2023
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

The project development objective is to support the growth of Micro, Small and Medium-sized Enterprises (MSMEs) and increase employment and entrepreneurship opportunities for youth and women in select areas.

Components

Component Name	Cost (US$, millions)
Component 1: Support entrepreneurship opportunities for youth and women	44,000,000.00
Component 2. SME Development	42,000,000.00
Component 3: Capacity building and Project Management	14,000,000.00

Organizations

Borrower:	Ministry of Finance
Implementing Agency:	Ministry of SME

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	100.00
IDA Credit	100.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Total Amount
National PBA	100.00	0.00	100.00
Total	**100.00**	**0.00**	**100.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	1.50	10.00	25.00	30.00	25.00	8.50
Cumulative	1.50	11.50	36.50	66.50	91.50	100.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Education, Gender, Macroeconomics, Trade and Investment

Climate Change and Disaster Screening

This operation has not been screened for short and long-term climate change and disaster risks

Explanation

Screening in progress

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial

6. Fiduciary	High
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	
10. Overall	High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09	✓	
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

Section IV. A.4. Notwithstanding Part A.1 of this Section, the Recipient shall, if the Association so requests, prepare and furnish to the Association, not later than one month after the Effective Date, an Annual Work Program and Budget covering a period other than a Fiscal Year period, and integrating details of the programs and activities scheduled for implementation in the course of the ongoing Fiscal Year, together with the estimated cost of each such program or activity, and the budget line item and source of funding corresponding to each program or activity.

Conditions

Type	Description
Effectiveness	Article IV - 4.01 The Condition of Effectiveness consists of the following, namely, that the key personnel referred to in Section I.A.4 of Schedule 2 to the Financing Agreement, namely, the Project Coordinator, administrative and finance officer, and procurement specialist, have been duly recruited.

CONGO, DEMOCRATIC REPUBLIC OF
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

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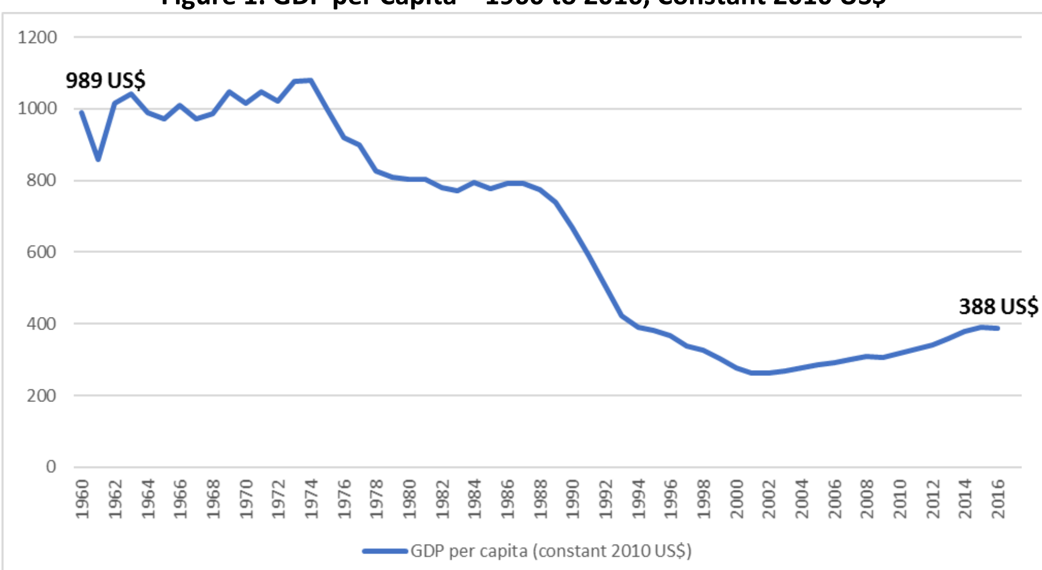
I. STRATEGIC CONTEXT

A. Country Context

1. **With a population estimated around 77 million, the DRC is the fourth largest country in Africa and the 11th largest country in the world.** The population of the DRC is expected to reach 85 million by 2020. The hydro potential of the DRC alone is estimated to be sufficient to provide three times as much power as Africa currently consumes. It also has one of the highest concentrations of mineral wealth of any country in the world, with more than 1,000 substances, including 20 strategic ores. The DRC's flora and fauna are among the richest on the continent.

2. **Intermittent civil war has led to a GDP growth collapse.** Since the time of independence in 1960, GDP per capita in real dollars has plummeted; in 2016 GDP per capita was less than one-third of its value in 1960, in constant terms (Figure 1). The country was devastated by civil wars from mid-1996 to the end of 1997 and from mid-1998 to mid-2003, and it continues to struggle with instability in the eastern Congo (Kivus) and Kasai province.

Figure 1. GDP per Capita – 1960 to 2016, Constant 2010 US$

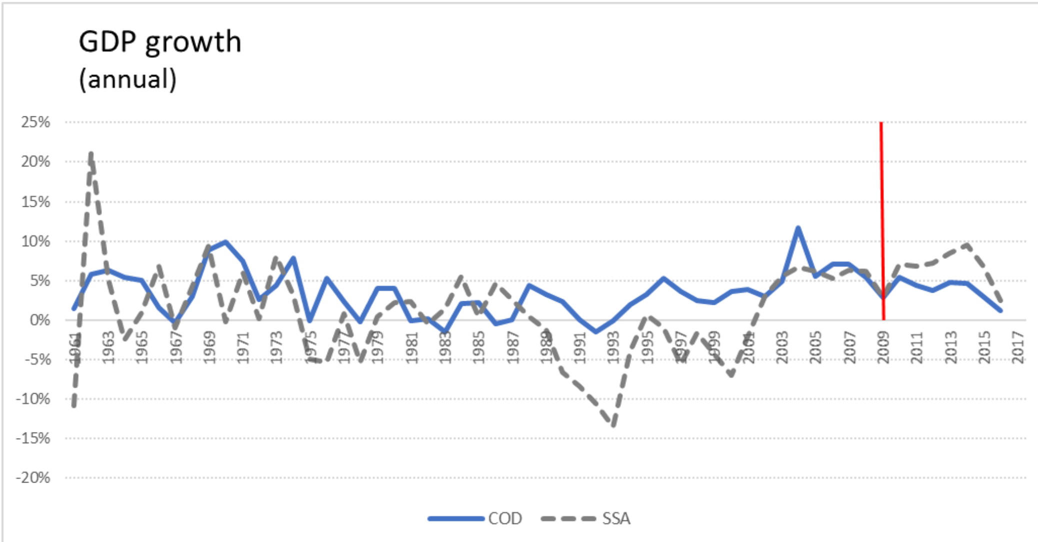


Source: WDI, WB (accessed in January 2018)

3. **Since 2003, the DRC has experienced a positive GDP growth, with acceleration above the average growth for Sub-Saharan Africa (SSA) between 2010 and 2015.** The deviation below the SSA trend only happened during the presidential election in 2005–06, a period of political, social and economic tensions, and then again in 2009. Growth decelerated to 2.4 percent in 2016 the lowest rate in 15 years - due to the commodities shock, before slightly recovering to 3.4 percent in 2017 boosted by gradual increase in commodity prices and mining production (Figure 2). Economic turmoil and persistent political tensions narrowed the contribution of private investment from 2.5 percentage points in 2016 to 0.5 in 2017 while the double-digit inflation rate reduced private consumption growth to 1.6 percent. Exports remain poorly diversified and rely mainly on copper, cobalt, and oil, which account for more than 90 percent of export

revenues.

Figure 2. GDP Growth in DRC and Sub-Saharan Africa, 2002-2017



Source: WDI, WB (accessed in January 2018).

4. **The country has been going through political turmoil since 2016, when President Kabila completed his second term.** New presidential elections that were scheduled to take place in November 2016 have been delayed following negotiations over the electoral process and changes in term limits, leading to street protests, social unrest, security concerns and an overall volatile environment. The uncertainty related to the organization of elections scheduled by end-2018 weighs on the overall investment climate, hampers investments in all sectors, and delays development partners' decision to scale up their interventions.

5. **Subsistence agriculture dominates the economic activity of the Congolese people**. In 2015, roughly 60 percent of the total employed were still in low productivity agriculture. The agriculture sector represented about 21 percent of the GDP (value added) in 2015, industry 32 percent (dominated by mining), and services 47 percent. The agro-industrial sector is limited and overall characterized by weak and fragile value chains. Most subsectors lack the organizational structure, institutional regulatory oversight, market mechanisms, and players' involvement to operate an interlinked value adding multi-stage activity sector. The manufacturing sector in DRC is quite small relative to agriculture in terms of employment and output shares. It is a segment of the tradable sector that could grow significantly under the right conditions. On current estimates, manufacturing output—including food products and beverages, tobacco, textiles, footwear, plastics, wood products and metal product—accounts for about 7 percent of GDP, which is low even by regional standards. Most factories are outdated and many have suspended operations for various reasons including high costs of electricity, administrative harassment, lack of spare parts, inputs, and skilled personnel. The rehabilitation and expansion of these factories is critical for enhancing DRC's competitiveness in all export markets, and for undoing the damage that the high import cost of food items and manufactured inputs are inflicting on the population's welfare and domestic production, respectively.

6. **Gender-based inequality is widespread in the DRC.** The family code contained for decades legal provisions that prevented married women from carrying out economic activities; signing contracts, registering

companies, opening bank accounts, or obtaining loans without the permission of their husbands. In 2016, with support from the World Bank and other donors, progress was made when the Family Code was reformed, allowing married female entrepreneurs in DRC to start formal businesses, open bank accounts, register a company and perform a host of other economic activities without interference from their husbands. The law also allows them to have a greater voice in management of the marital property and raises the legal marriage age for girls from 15 to 18. The government has signed various international and regional legal regulations and conventions for the protection of women and young girls, such as the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW). However, the laws and regulations are often not implemented. Furthermore, many women are often illegally denied pensions and right of inheritance, particularly widows. Overarching misogynistic attitudes can undermine improvements and perpetuate discriminatory practices toward women and girls; preventing them from accessing education, services, and basic rights.

7. **Looking ahead, the development challenge is big.** The war years have worsened the already bankrupt DRC economy and considerably degraded an already weak infrastructure. Poverty is high, and millions have been displaced. In 2017, approximately 60 million Congolese lived with less US$1.9 a day. The institutional environment has deteriorated. Mobutu's industrial strategy failed at a high cost for the country. The macro- as well as micro-challenges cannot be addressed by the government of the DRC alone and require external public and private partners involvement to promote economic stability and development of the country and the sub-region.

B. Sectoral and Institutional Context

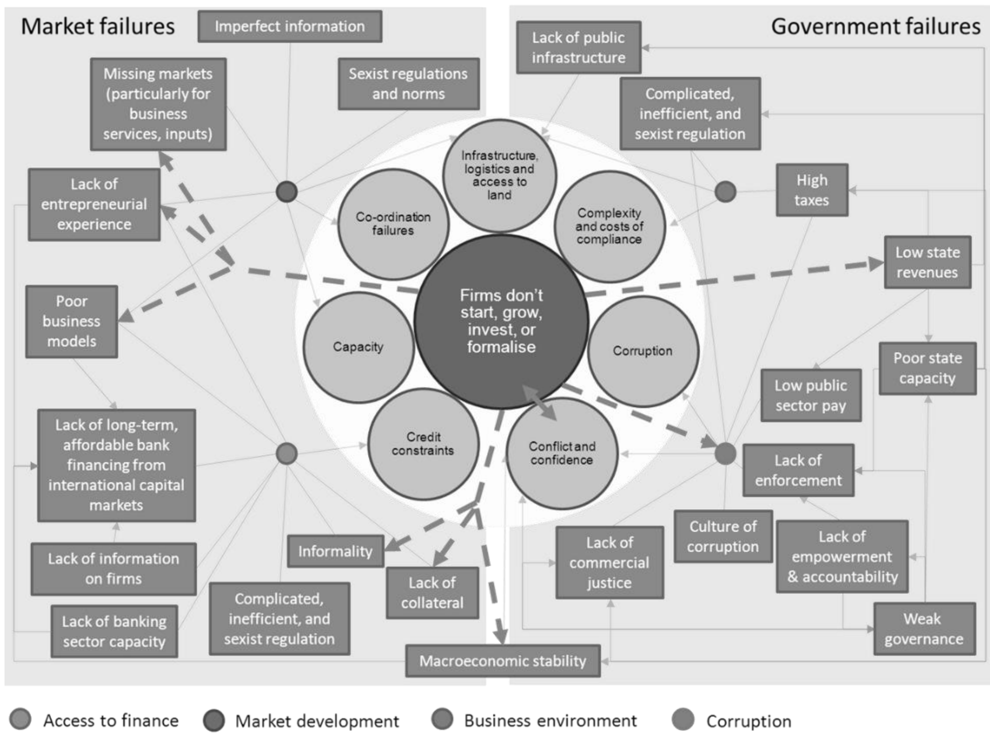
8. **The private sector is dominated by informal Micro, Ssmall and Medium-sized enterprises (MSMEs) in the DRC.** Micro and small firms constitute the bulk of the economic activity, and there are significant barriers to growth and competitiveness for firms. Over 90 percent of firms are small (1-9 employees), and nearly half of them have been on the market for less than five years. Yet, firms 6 years and older contribute with most employment in DRC (around 60%). Young firms account for over 35 percent of total employment. The share of young firms in DRC is large even in the context of fragility. When compared to other Fragile and Conflict-Affected States (FCS) for which Enterprise Survey is available, DRC comes at the top only second to South Sudan. SMEs demonstrate the strongest dynamic in creating new jobs compared to large firms. Small firms have an annual employment growth rate of 5.2 percent, and medium-size firm's is 6 percent, compared to only 1.3 percent for large firms. However, the growth rate of existing in SMEs is sluggish, and SMEs in the DRC need to improve performance as an important engine of growth and job opportunities for young skilled workers.[1]

9. **Congolese SMEs do not have much incentive to expand into high growth potential sectors, such as manufacturing, agribusiness, fishing industry, energy, mining and general/eco-tourism.** Among the factors restraining Congolese SMEs from entering these sectors are market and government failures including: (i) high barriers to entry; (ii) lack of vision and opportunism from entrepreneurs, with a tendency to imitate others; (iii) lack of capacity and skills in the overall SMEs sector; (iv) absence of national, provincial, and local strategies and mechanisms to support entry into or access to these sectors; (v) lack of specialized SME support institutions and Business Development Services (BDS); and (vi) lack of specialized

[1] Informal Enterprise Surveys for the DRC, 2014, WB.

financial institutions and/or financial instruments.

Figure 3 Barriers to growth and productivity enhancement of the MSMEs in the DRC



10. **Informality remains widespread and the DRC has a dual industrial structure characterized by many small and informal firms and a small number of large and formal firms.** Unlike the developed countries, where SMEs serve as the main engine of growth and job creation, most of the labor force in DRC is trapped in very low productivity activities, largely in the informal sector which employs 89 percent of the working population nationally (with significant geographical disparity). Most of the informal firms are poor in capital and underperforming. Around 65 percent of informal firms are active in the agroindustry and food trade, retail trade, and repair services. Informal firms with the highest capital endowment are active in transport, mining, and other primary production activities, the retrieval of raw materials, construction, and services, such as hotels and restaurants. Registering with tax authorities (formalization) increases the profits of firms with 2–5 workers and the mid-size group, but creates losses for smaller and larger informal firms. Obtaining an export permit is complex and difficult and available to formal firms, so many informal and promising micro and small firms are not able to access export markets. Similarly, the ability of firms to make large-scale domestic investments is limited by poor protections of land and lack of reliable access to courts. These barriers create financial and time costs, which favor large incumbent companies and those that have ties to government and create problems for promising SMEs to expand. Wage regulations in some industries create distortions that can hurt other industries by shifting incentives for workers.

11. **Improved coordination and integration of multi-stage value chains could reconnect SMEs in the rural and**

remote areas into the formal economy.[2] Coordination failure was accentuated after the collapse of players in key sectors—agriculture, industry, and transportation. The economic crises and wars reduced the role of large firms in facilitating supplier chains, the construction and maintenance of transport network (e.g., by coffee producers in Orientale and North Kivu), the coordination of financing mechanisms (e.g., by cotton farmers through Codenord), and the economies of scale gained by managing public goods (e.g., electricity provision through Codenord). In February 2017, a new legislation on subcontracting was adopted, making it mandatory for large firms to subcontract additional and related activities to locally owned SMEs to promote the growth of the Congolese middle class.

<u>Business Climate</u>

12. **The DRC's current business climate is lacking in almost all dimensions, even from the limited perspective of attracting the investment needed to attain poverty reduction and economic growth targets.** Despite recent encouraging sector and regulatory reforms, the DRC ranks 182th out of 190 countries for Ease of Doing Business (DB) in the World Bank's 2018 DB report. A significant challenge in the business environment is the gap between regulatory requirements (de jure) and real practices undertaken by firms on a regular basis (de facto). Uncertainty created by this gap, as well as discretion in enforcement and implementation of regulations, raises risk for small and medium firms. It affects their ability to effectively predict cost structures, and these firms have fewer resources to absorb uncertainty than large firms.

13. **Even if much has improved since 2001, the legacy of government failures remains, and for most of the private sector, state institutions are largely predatory**. Property rights and contract enforceability (rule of law) pose severe limitations to investment, particularly for new investors looking to enter the DRC market.[3] On the flip side, the cost to start a business has been significantly reduced; it is currently at 30 percent of the income per capita (almost half of the SSA average, but 10 times higher than the OECD average).[4]

14. **Every second firm in the DRC experiences at least one bribery incident or is expected to give a gift when meeting with a tax official.** Asking for bribes is done in total impunity and with every movement of people and goods across the country. Getting an import license, a construction permit, or a water connection appears to be most problematic in terms of corruption. Almost 60 percent of the formal firms in the DRC consider corruption a major constraint to their day-to-day operations.

<u>Access to credit</u>

15. **Financial illiteracy seems to be a problem, even in urban areas.** Complex procedures and the assumption that credit would not be approved are the most common reasons why firms do not apply for credit in the DRC.[5] Additionally, around 20 percent of formal firms, mostly SMEs, find loan application procedures too complex, especially in the service sector (retail, hotel, and restaurant industries).[6] Evidence shows that membership in a business association, the possession of financial knowledge, and being a man increases the probability of owning capital.

[2] DRC: A study of binding constraints, A. Ulloa, F. Katz, N. Kekeh, 2009, WB.
[3] DRC: A study of biding constraints, A. Ulloa, F. Katz, N. Kekeh, 2009, WB.
[4] Doing Business for DRC, 2018, WB.
[5] Enterprise Survey for DRC, 2013, WB.
[6] Enterprise Survey for DRC, 2013, WB.

16. **High credit risk is mainly due to missing business plans and the lack of cash flow history, thereby requiring banks to emphasize assets and liquid guarantees as collateral**. However, economic crises, lootings, and legal uncertainty of property rights have all caused difficulties to acquire land assets. Limited financing for domestic entrepreneurs in terms of size and terms is mostly due to a mal-functioning legal and regulatory framework and the low capacity of SMEs to match collateral requirements. The largest companies that are cash collateralized or benefit from offshore guarantees receive the bulk of credit or loans. Furthermore, young entrepreneurs with viable new ideas have difficulty sourcing seed capital.

Firm capabilities and skills

17. **Lack of business management skills among business owners and entrepreneurs impact Micro, Small and Medium-sized Enterprises' (MSMEs) productivity in the DRC.** There are limited services available to remedy this issue. Appropriate knowledge providers are not available in the quantity, price, and quality range required by MSMEs. Local Business Development Services (BDS) providers—which include specialized consulting firms and individuals, formal education institutions, business membership organizations, non-governmental organizations (NGOs), and firms within the value chain such as input suppliers—have limited capacity or lack the necessary skills to offer products that are appropriately tailored for MSMEs. This is particularly the case for sector-specific technical training. Most providers tend to use off-the-shelf products that are usually created for larger, more formalized businesses. On the demand side, MSMEs make little use of BDS, partly because they feel unable to afford such services and partly because they lack information about these services and their benefits.

18. **Women and youth lack important skills to make inroads in the job market.** The ratio of female to male enrollment for education is low: 88 percent for primary education, 59 percent for secondary education and 55 percent for tertiary education. Also, there is a large skills mismatch—women and youth lack the basic skills and literacy required by the job market.[7] These skills include business development for tourism and the broader services sector, addressing disruptions in marketing channels, preparation of a simplified business plan and human resource management. Soft skills, such as self-confidence, team building, results orientation, negotiation skills and others can help overcome gender discrimination. Geographically, Kinshasa has a substantially higher supply of skilled and semi-skilled workers compared to the rest of the country given the city's large tertiary sector.[8]

Gender

19. **Women face unequal treatment with respect to remuneration[9], land tenure and property ownership, leadership positions, and political representation.** Legal discrimination is a remarkably common barrier to women's entrepreneurship and perpetuates gender disparities in a number of ways. The new family law removed many constraints that affected the economic activities of married female entrepreneurs. Until

[7] Advancing opportunities for women-led SMEs in DRC, 2016, WB.
[8] Informal Sector Heterogeneity and Income inequality: Evidence from the DRC, F. Adoho, D. Doumbia, 2017, WB.
[9] Women on average earn less in DRC; on average women earn US$15/month versus men who earn US$20/month. Women are also more likely to work in precarious conditions with low salaries. Furthermore, only 2.4 percent of women have regular salaries compared to 18.4 percent of men. (Swedish Embassy (2014) - Gender Country Profile 2014 - DRC based on UNDP (2009) *'Profil resume pauvreté et conditions de vie des ménages*) and over 55 percent of informal jobs are held by women (survey of the informal economy by the Institute of National Statistics (2014)).

then, married women could not engage in any legal action, such as signing a contract, registering land or their company, going to court, etc., without the permission of their husband. However, the new law is yet to be fully implemented and disseminated across the country. Laws and regulations are often not implemented and only sometimes applied for those who can afford to pay to enjoy their rights. Women also face high legal costs when seeking access to legally mandated rights or resources. Annex 8 provides a detailed analysis of constraints faced by women-led businesses in the DRC and an account of recent reforms.

20. **For most women, entrepreneurship is a necessity—micro-business owners have no other option than to establish their own business to make ends meet and avoid unemployment.** On the flip side, individuals who have started businesses because they could not find jobs in large firms have about a 4 percent higher probability to be top performers. Men have a 5 percent greater chance than women of leading top-performing firms.[10] Women suffer from a lack of business knowledge and use informal and badly structured routes or connections to markets. This lack of knowledge and access, along with the small scale and informality of their processing units, prevents women from engaging with larger buyers further up the value chain.[11] Urban areas in the DRC provide stronger social and economic opportunities for women, although strong regional differences exist. According to a 2014 estimate of the DRC Ministry of Industry and SMEs, there were 6,000 women-led firms. Out of those, 4,000 or two-thirds operated in Kinshasa.[12] This location has influenced the choice of urban focus areas for the project, allowing for leveraging of geographic location to larger markets, commercial networks in cities and easier access to financial institutions, as well as informing the numerical targets as far as beneficiaries are concerned.

21. **Light manufacturing is mostly undertaken by women who lack the negotiation skills, business model skills, managerial skills and credit culture to engage with financial institutions.** Also, women are less likely to access capital than men. However, the microfinance sector is the fastest growing sector, having grown from 100,000 clients in 2007 to over 1.5 million clients in 2015, and achieving, on average, 45 percent of women participation.

22. **Security remains an important concern for women.** Sexual violence and harassment, whether at work or on the way to work, remains a pressing concern for women across all sectors, but mainly in agriculture and agroindustry.[13] Combined with restricted access to land and other assets, this undermines women's ability to invest time and resources into their enterprises.

<u>Infrastructure</u>

23. **Home is the most common workplace among entrepreneurs and family-owned businesses that work from a fixed place (85 percent)**. Top performers (growth oriented firms that have access to capital) and constrained gazelles (growth entrepreneurs that operate with less capital) tend to operate from fixed locations (streets, markets, shops), while survivalists (entrepreneurs who are struggling to grow) tend to operate from home and mobile selling points. Access to basic infrastructure and a fixed workplace is more

[10] Informal Sector Heterogeneity and Income inequality: Evidence from the DRC, F. Adoho, D. Doumbia, 2017, WB.
[11] Francisco Campos and Marine Gassier: White Paper – Gender and Entrepreneurship in Sub-Saharan Africa (no date).
[12] Laura Davis, Paola Fabbri and Ilot Muthaka Alphonse: Gender Country Profile 2014.
[13] Enterprise Survey for DRC, 2013, WB; Informal Enterprise Survey (IFS) for DRC, 2014, WB; Informal Sector Heterogeneity and Income inequality: Evidence from the DRC, F. Adoho, D. Doumbia, 2017, WB.

constrained among women than men entrepreneurs.[14]

24. **The transportation system has disintegrated and led to forced economic isolation of several provinces.** The transport network linking urban to rural areas collapsed, resulting in large parts of the population and SMEs to be disconnected from trade routes and services, especially in agriculture, agribusiness, and commercial farming sectors.[15] Several provinces, such as Orientale, Equateur, and Maniema, and partially Bandundu and the Kasaïs, have been affected, but the areas by river less so.

25. **Almost every fifth formal and third informal firm in the DRC points to electricity as the top operational obstacle to business.** Energy is a nationwide problem despite the DRC's colossal endowments in hydropower capacity. Manufacturing firms source almost half of their electrical power from generators, and lose, on average, 11 percent of annual sales due to electrical outages. Still, the DRC performs substantially better than its Sub-Saharan peers in getting electrical connections quickly to firms, irrespective of the sector. Specifically, it takes 16 days to obtain an electrical connection in the DRC as compared to 194 days in Ethiopia, 43 days in Kenya, 45 days in Ghana, and 40 days in Botswana.[16]

26. **The Internet penetration rate remains low, at around 2 users per 100 inhabitants.** The DRC stands behind most of its regional counterparts in access to the Internet and fixed or mobile phone services. Only around 17 percent of the formal firms in the DRC have their own website, as compared to 65 percent in Sudan, 47 percent in Kenya, and 45 percent in Malawi. Furthermore, only around 31 percent of the formal firms in the DRC communicate with clients via email, as compared to 83 percent in Togo, 80 percent in Malawi, and 73 percent in Kenya.[17] Mobile technology is also important to overcome information asymmetry, access to financial services, and e-commerce.

C. Higher Level Objective to which the Project Contributes

27. **This project aligns with the second strategic objective of the current Country Assistance Strategy (CAS) of the DRC.** The CAS was approved by the Board in April 2013 for FY2013–2016 and extended in April 2016 in the Performance and Learning Review (PLR) of the CAS until 2019. The CAS' four strategic objectives are to: (1) increase state effectiveness and improve good governance; (2) boost competitiveness to accelerate private sector-led growth and job creation; (3) improve social services delivery and increase human development indicators; and (4) address fragility and conflict in the eastern provinces.

28. **The project supports the DRC government's** strategy for SME development (*Stratégie Nationale du Secteur des Petites et Moyennes Entreprises*) adopted in 2016.

29. **The project also aligns with priorities identified in the Systematic Country Diagnostic (SCD) to leverage the private sector**. The overall objective of this project is to increase SMEs' share in the country's economy, both in terms of job creation and wealth, and thus contribute to the WBG's twin goals of poverty reduction

[14] Informal Sector Heterogeneity and Income inequality: Evidence from the DRC, F. Adoho, D. Doumbia, 2017, WB.
[15] WB ICA Survey (the survey may reflect a sample bias as the only firms that survived the war - especially those in Kinshasa where 80% of the sample is located - were firms that were not transport-intensive, but rather vertically integrated with their own transportation or using the river transportation mainly.
[16] Enterprise Survey for DRC, 2013, WB; Informal Enterprise Survey (IFS) for DRC, 2014, WB.
[17] Enterprise Survey for DRC, 2013, WB.

and economic growth. Gender is a cross-cutting theme and key element of this project.

30. **The preparation of this project benefited from IFC inputs and coordination.** The Bank and IFC are collaborating closely to support job-creation and private sector development in the DRC and have aligned their operations through the ongoing CAS. The project will further collaborate with the IFC on: (i) Supporting the capacity of public and private actors in delivering BDS, building on IFC's "Business Edge" program and the delivery of the "Supplier Development Program"; and (ii) integrating MSMEs, which are successful through the Business Plan Competition (BPC) component, into IFC's SME Ventures program (Kingkuba Fund) once they reach the growth stage. In addition, the project will explore the operationalization of "Maximize Finance for Development" (MFD) principles during the implementation phase by closely collaborating with IFC teams to leverage resources under its "Blended Finance" and "Local Currency" facilities, once IFC investments become operational in the country, and the "Creating Markets Advisory Window" to conduct diagnostic studies to better understand the reasons preventing private sector investments and SME development in key sectors.

31. **The project complements other WBG operations with activities in the targeted project areas, in particular:**
   (a) The ongoing Western Growth Pole Project (WGPP) that includes a business enabling environment sub-component focused on four Doing Business (DB) indicators. This new project uses the fiduciary capacity of the WGPP Implementation Unit (PIU), called the *Cellule d'Exécution des Financements en Faveur des Etats Fragiles* (CFEF) to execute activities in the Project Preparation Advance (PPA) until the new PIU is in place and operational.
   (b) The ongoing Financial Infrastructure and Markets Project that provides improved access to financial services through a US$15m line of credit for medium- to long-term financing for bankable SMEs nationwide.
   (c) The new Skills development project that will enhance the relevance of technical and vocational education and training in priority sectors in targeted areas.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

32. **The project development objective is to support the growth of MSMEs and increase employment and entrepreneurship opportunities for youth and women in select areas.**

B. Project Beneficiaries

33. **The key project beneficiaries are MSMEs, both formal and informal, in selected urban areas in the DRC: Matadi in the province of Kongo Central, Lubumbashi in Katanga, and Goma in North Kivu and Kinshasa.** These cities are targeted because of their supportive provincial governments, availability of infrastructure, pools of existing MSMEs, and large industrial enterprises providing opportunities for value chain creation (Annex 4).

34. **The project will target MSMEs in productive sectors that have the most potential to generate value-**

adding activities and jobs for the disadvantaged population, in particular light manufacturing, agri-processing and services (excluding general trade and import-export activities). The project will not cover agriculture, forestry exploitation, and livestock production.

35. **Within the above geographical and sectoral parameters, the project will target different segments of MSMEs with interventions that address their growth and productivity constraints.** In addition, specific project interventions will benefit women-owned enterprises and young entrepreneurs (aged 18–35 years old at the time of the grant award). The project will also indirectly benefit larger-scale investors who will benefit from an improved supplier base, and business membership organizations and other institutions through the development of their capacity and support for public-private dialogue.

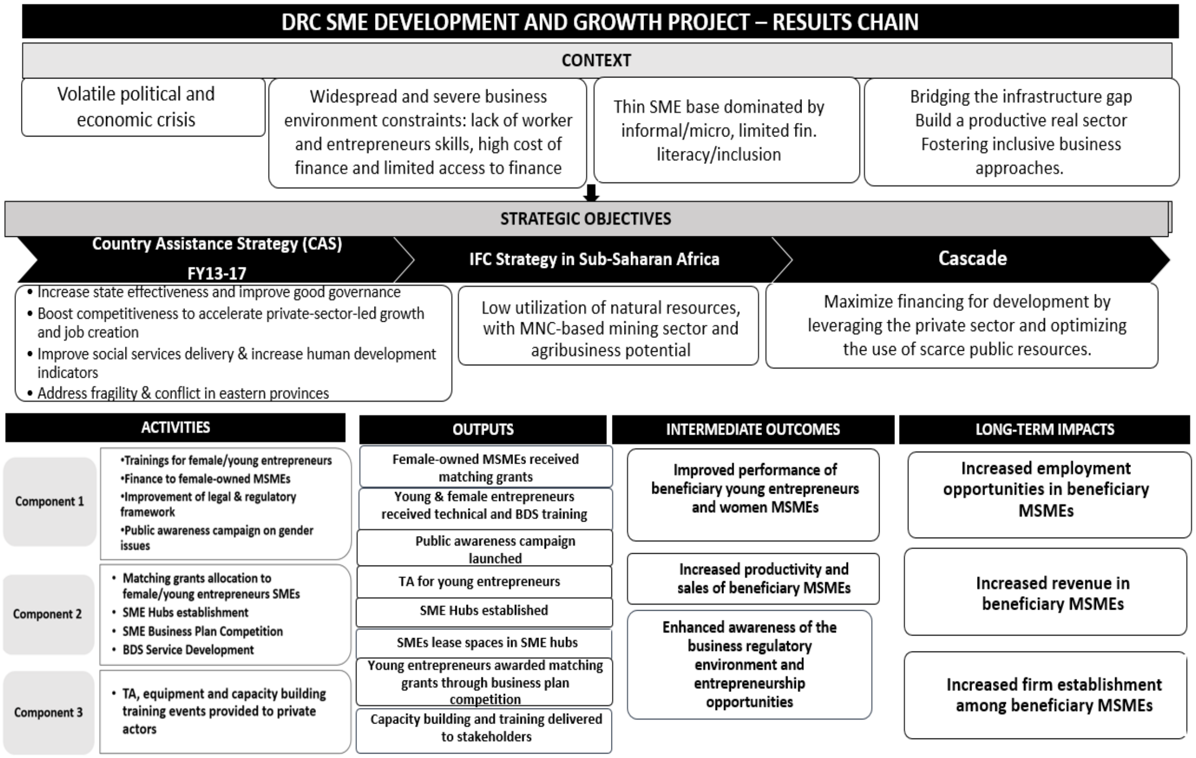
36. **During project identification, several large firms, MSMEs and private sector organizations have been consulted, and they expressed satisfaction that the proposed project design would address their capacity building, access to markets and productivity increase needs**. Expectations are high and this participative approach encouraged them and they are ready to collaborate and participate in project implementation. The private sector will also participate in business development services and project implementation at large. During implementation, extensive and constructive consultations will be designed and communication channels maintained with the private sector and other sectoral ministries.

37. Government institutions benefiting from the project will include relevant departments in the Ministry of SMEs, Ministry of Gender, technical services of provincial offices, public and private agencies in charge of delivering services to the private operators such as the *Office de promotion de moyennes et petites entreprises congolaise* (OPEC), *Féderation Nationale des Artisans, Petites et Moyennes Entreprises du Congo* (FENAPEC), *Fédération des Entreprises du Congo* (FEC) etc.

C. PDO-Level Results Indicators

38. **As presented in Figure 4's theory of change, the project's high-level goals are to contribute to economic growth and prosperity, increase resilience and stimulate job creation.** The project's PDO anticipated performance indicators are: (i) percentage increase in average revenue of beneficiary MSMEs; (ii) net full-time equivalent jobs created among beneficiary MSMEs; and (iii) number of new firms established by targeted beneficiaries (out of which are female-owned and young entrepreneurs).

Figure 4. Results chain and theory of change



39. **The detailed results framework, including project-level and intermediate-level indicators, is presented in Section VII.**

40. **A baseline survey is being carried out and will be ready by project effectiveness to inform the project on targeted beneficiaries.** The work on the baseline survey, development of project M&E tools and systems, and consultations were funded through the Competitive Industries and Innovation Program of the World Bank and the EU (*https://www.theciip.org/*).

III. PROJECT DESCRIPTION

A. Project Components

41. **The project seeks to provide a mix of interventions that support growth opportunities** for high-potential enterprises, build a pipeline of a new generation of MSMEs and entrepreneurs, as well as support resilience and coping mechanisms for a broader base of formal and informal enterprises that contribute to employment and stability, especially among disadvantaged populations including women, youth and vulnerable groups.

42. **The three project components are interconnected and their results will be mutually reinforcing.** Component 1 will create a pipeline of new companies created by women entrepreneurs (sub-component 1.1) and young entrepreneurs (sub-component 1.2). To maximize the return on investments and improve

the performance of the new startups, the project will rely on local providers of business development services, whose capacity will be reinforced under component 3.1. Component 1 will reinforce the pipeline of growth-ready MSMEs that could apply for the later stages of matching grants competition (sub-component 2.1) and possibly establish their activities under the SME Hubs umbrella (sub-component 2.2). The consultative process around the design and implementation of both components, and data generated through the application process of the BPCs will also support the Legal and Regulatory Reforms in a participatory way (sub-component 1.3). Finally, successful MSMEs funded though the BPC component could feed into the IFC's pipeline of investments and advisory services when they reach the growth stage requirements of the SME Ventures and other IFC programs. They could collaborate with partners in sectors where there are WBG lending projects, such as the mining sector, under the additional financing of the extractive industries IPF.

43. **The project approach and scalable nature of its interventions provide flexibility to adapt the design and scale of these interventions to the country context.** The nature of the activities and investments supported acknowledges the long-term challenges of governance and corruption. The project seeks to expand the opportunities and space through which MSMEs can mitigate the effects of these obstacles to their growth.

<u>Component 1: Support entrepreneurship opportunities for youth and women (US$44 million)</u>

- **Sub-Component 1.1: Support for women entrepreneurs (US$15 million)**

44. **This sub-component will support women entrepreneurs through in-kind grants and longer-term TA**. It will support women who are self-employed, subsistence entrepreneurs, and those running home-based or family-owned businesses, through TA and financing of business plans. The implementation will include five steps: (i) publicity and communication campaign; (ii) comprehensive training program for up to 4,500 women (US$5 million); (iii) simplified call for proposal and business plan competition; (iv) in-kind grants and supervision (up to 2,500 women entrepreneurs or women-led micro-enterprises, US$7.5 million total grant portfolio); and (v) networking and peer learning activities. After completion of all five steps, grantees of this sub-component will be invited to participate in BPCs supported through sub-components 1.2, 2.1, and 2.2. This component includes a 15 percent administrative cost (US$2.5 million) for implementation and supervision by a competitively hired local or international partner (firm or NGO).

- **Sub-Component 1.2: Start-up grant and TA for young entrepreneurs (US$17 million)**

45. **This sub-component will aim to build the entrepreneurial capacity of youth and a pipeline of new ventures to expand the pool of local MSMEs.** It will finance training and cash grants to young entrepreneurs (aged 18–35) with business ideas in targeted productive sectors that do not require substantial capital investments. Startups and existing MSMEs with less than two years in operations, formal or informal, will be eligible to apply. To receive funding, the enterprises will need to become registered, which will provide an incentive for formalization. Two to three rounds of competitions will include four steps: (i) outreach campaign and clinics on pitching of business ideas; (ii) evaluation of business pitches by an expert panel and a short business plan training for the top 30–40 percent of candidates; (iii) cash grants of U$20,000 for up to 750 entrepreneurs who completed training and submitted high quality business plans (US$10 million total grant portfolio); and (iv) 18 months' supervision of business plan implementation and mandatory training and mentoring. This sub-component will also assure a pipeline of proposals for subsequent calls for

proposals for matching grants targeting growth-oriented MSMEs (sub-component 2.1). This component includes a 15 percent administrative cost (US$3.4 million) for implementation and supervision by a competitively hired local or international partner (firm or NGO).

- **Sub-Component 1.3: Improvement of business environment (US$12 million)**

46. **This sub-component will support the enabling business environment for MSMEs, with a special focus on women-led SMEs and a dissemination campaign around laws that support female entrepreneurship and women's economic empowerment.** To improve policies and regulations affecting entrepreneurs and MSMEs in the DRC, the project will finance analytical studies, data collection, training and other TA activities: (i) review of the national strategy for SMEs promotion and development of an implementation action plan; (ii) review of the legal framework currently applicable to SMEs and TA to support modernization of existing regulations or the adoption of new regulations; (iii) review of the policy, institutional or other constraints and proposal of incentive-based legal framework for SMEs in growth sectors; (iv) review of the tax regime applicable to SMEs and advising on appropriate measures to increase the equity of the tax system;[18] (v) review of the subcontracting law, recommendations and support to ensure effective implementation on the ground; (vi) strengthening the institutional capacities for dispute resolution, including existing arbitration and commercial mediation centers; (vii) identification and piloting of specific tools for public-private dialogue that could be useful at provincial and local levels based on international best practices; and (viii) rollout implementation in the four locations targeted by the project.

47. **This sub-component will finance a dissemination campaign to improve awareness around the new Family Code and other women-friendly legal provisions within the Labor law, Land law and the recent Equality law**. The activities will include: (i) consultative workshops will be held with public and private partners to identify the most appropriate means of dissemination; and (ii) the dissemination campaigns will involve local partners and be carried out in synergy with other ongoing government initiatives, other World Bank Global Practices and donors.

<u>Component 2: SME Development ($42 million)</u>

- **Sub-Component 2.1. Enhancing the growth and performance of SMEs (US$37 million)**

48. **This sub-component will provide matching grants to established SMEs with a good track record that face constraints to growth that cannot be addressed in the current context because of market and institutional gaps.** Under this sub-component, the project will finance partial grants (40–60 percent of the cost) allocated through the BPC process for services (including both consulting and non-consulting services), staff salaries and goods (such as equipment and spare parts) within the scope of the business development plans and outreach, communications, consulting services and associated costs related to the delivery of these business development grants. The sub-component will target SMEs that operate in light manufacturing and service sectors excluding trade. The number of targeted beneficiaries is up to 500 SMEs, depending on uptake, with a maximum allocation of US$200,000 per SME (average allocation US$75,000 per SME, total allocation pool of US$32.5 million) for two years of supervised implementation and BDS. To encourage participation of women-led SMEs, this sub-component will establish a ratio of 40 percent matching grant allocation to women-led/owned SMEs, and women-owned/led SMEs that meet all eligibility criteria will be

[18] *Etudes sur les Ecarts Fiscaux dans la République Démocratique du Congo*, pages 26 to 28, World Bank, December 2017.

prioritized in matching grant allocation. The target is to meet or exceed the 40 percent ratio, which is much higher than the ratio of women-owned/led SMEs in the DRC (less than 20 percent). This component includes a 12.5 percent administrative cost (US$4.5 million) for implementation and supervision by a competitively hired local or international partner (firm or NGO).

- **Sub-Component 2.2. Development of ancillary SME Hubs (US$5 million)**

49. **This sub-component will aim to support growth and supply chains SMEs through collaborative arrangements with large companies using the ancillary SME Hub model.** For this project, the ancillary SME Hubs are defined as a tract of land located near existing large companies around which a cluster of SMEs can be developed to achieve economies of scale through shared public utilities, ICT, facilities, equipment and access to soft infrastructure. This sub-component will finance the TA, studies, marketing and communications activities, and BDS, including supplier development programs for four to five SME Hubs with an average capacity of 40 SMEs. The hubs will be privately managed by large companies or firms selected through a call for proposals. The SME Hubs will focus on agribusiness (mainly food processing and packaging), mining, light manufacturing and services. The SME Hubs will be associated with BDS and supplier development programs and will feed off the pipeline of MSMEs created in other project components. New hubs will be operational in year 3–4 of the project implementation, and by that time they will be able to host the MSMEs resulting from the activities of women entrepreneurs, young entrepreneurs and MSMEs supported though the project (sub-components 1.1, 1.2, 2.1).

<u>**Component 3: Capacity building and Project Management (US$14 million)**</u>

50. **The project will provide national and provincial actors (including public and private) with capacity-building opportunities to reinforce their skills and capabilities to perform support functions during program implementation.** A Steering Committee is being established to provide strategic guidance for the project and ensure achievement of objectives. It will also ensure coordination of the involved departments and capacity-development activities under two sub-components.

- **Sub-component 3.1: Capacity strengthening of public and private institutions supporting entrepreneurs and MSMEs (US$5 million)**

51. **Results-based capacity building will be provided to strengthen the capacities of targeted institutions and private and public actors delivering BDS to play a direct role in project implementation in a coordinated fashion.** The capacity building will be provided on a need basis to national and provincial technical services, using a M&E plan that outlines a systematic approach to measuring capacity and assessing the results of the capacity-building interventions in the project. The project will provide TA and equipment to the designated beneficiaries to enable them to better carry out their functions:
    - The targeted public institutions are relevant departments in the Ministry of SMEs, Ministry of Gender, technical services of provincial offices, agencies in charge of delivering services the private sector such as OPEC, FENAPEC etc.
    - The objective of building local capacity for BDS is to support market creation and growth for BDS in the DRC through training and technical support to private actors (FEC, *Confédération des Petites et Moyennes Entreprises du Congo (*COPEMECO) and others) at the provincial and local level to enable them to better deliver BDS as part of the project implementation and beyond.

The project will build upon the existing programs of the WB and IFC in BDS provision, including the SME Skills program of IFC (e.g., Business Edge), and the SME Skills toolkits developed by the WBG.

- **Sub-component 3.2: Project implementation (IDA: US$9 million)**

52. **This sub-component will finance activities related to project management, coordination, communication and monitoring and evaluation (M&E).** The project will be managed on a day-to-day basis through a Project Implementation Unit (PIU) based in Kinshasa. Once the PIU is established and becomes operational, the project will set up supervision units in the targeted provincial cities (Matadi, Goma and Lubumbashi) called Provincial Supervision Units (PSU). The technical components of the project (1 and 2) will be implemented and managed by a team from an international firm or NGO with proven experience. Their contracts will include capacity building of local partners to progressively take over administration of the BPC and provision of associated BDS and supplier development program. The international experts may also engage in activities to develop the local market of BDS and supplier development program providers where deemed necessary to respond to SME needs.

B. Project Cost and Financing

53. **The total project cost is US$100 million**. Table 1 is a summary cost table. IDA would be the main financier. The project implementation would occur over five years and is expected to close on December 28, 2023.

Table 1: Summary Cost Table for the Project

Project Components	Project Cost ($US)	IDA credit	Trust Funds	Counterpart Funding
COMPONENT 1: Support entrepreneurship opportunities for youth and women	**44**	**44**	-	-
Sub-component 1.1 Support for women entrepreneurs	15	15	-	-
Sub-component 1.2 Start-up grant and TA for young entrepreneurs	17	17	-	-
Sub-component 1.3 Improvement of business environment	12	12	-	-
COMPONENT 2 : SME Development	**42**	**42**		
Sub-component 2.1. Enhancing the growth and performance of SMEs	37	37		
Sub-component 2.2. Development of ancillary SME Hubs	5	5		
COMPONENT 3: Capacity Building and Project Management	14	14		
Sub-component 3.1: Capacity strengthening of public and private institutions supporting entrepreneurs and MSMEs	5	5		
Sub-component 3.2: Project implementation	9	9		
Total Financing	**100**	**100**		

C. Lessons Learned and Reflected in the Project Design

54. **The project design fully aligns with priority themes identified in the Bank's SME Action Plan (World Bank, 2016) and incorporates key lessons and recommendations from the IEG Report, "The Big Business of Small Enterprises" (IEG, 2014).** The IEG report was conducted on 179 WBG projects targeting SMEs during 2006–12 and analyzed 10 relevant SME projects in Africa. The report identified major needs: (i) a clear definition for the targeted SMEs; (ii) strategic sequencing of project interventions; (iii) M&E systems that allow capturing impact at the beneficiary level; and (iv) avoiding a complex project structure. Annex 5 describes these lessons in detail and how the project incorporates the recommendations. In addition, the project is designed in close collaboration and coordination with other active World Bank and IFC operations in the DRC in various sectors (education and agriculture), which allows to build on the experiences of other teams and leverage synergies across projects in the country.

55. **The project draws on lessons learned from the implementation of other projects, i.e., the Western Growth Poles Project, Financial Infrastructure and Markets Project and others in the DRC.** In designing the proposed project, some lessons can be summarized as follows:

(a) Involving non-state actors for service provision has proven to be more effective and efficient than public sector service provision, hence the project's reliance on non-state service providers while simultaneously reinforcing government capacity for key public services provision under its mandate.

(b) In low-capacity countries, it is important to start small and scale up as competence and familiarity with the project improves. Thus, the project will adopt a phased approach in implementation, gathering data on the local market gradually, piloting the proposed instruments on the ground, identifying local champions and expanding activities based on successes while learning from failures.

(c) Performance Based Contracts for PIU staff will be used, with contracts structured in such a way that performance can be evaluated more frequently against agreed deliverables, and appropriate action taken in time against sustained underperformance.

(d) Monitoring of indicators in results frameworks should be realistic in attribution and achievable during implementation. The targets set for the project should be attributable to the project's activities. They should also be achievable within the project implementation timeframe. This is a major shortcoming in many projects in fragile and conflict-affected states (FCS);

(e) Developing and applying an effective communication strategy is a key aspect of the project to manage expectations and ensure a broad outreach to expected beneficiaries. In many WB projects, due to miscommunication and misunderstanding of project implementation procedures and rules, the Bank has faced reputational risks.

(f) Good project preparation and implementation requires careful consideration of multiple factors from multiple perspectives. Drawing from other projects' experience, this should include: (i) assessing potential reputational risks and opportunity costs associated with the sectors and activities that World Bank funding supports; (ii) determining and capitalizing on the complementarities of the proposed Investment Project Financing with IFC advisory services; and (iii) ensuring timely preparation of safeguard documents to facilitate satisfactory implementation of activities within the project's timeframe.

(g) In FCS, where formal credit provision to small firms continues to be difficult, a well-thought out and targeted matching grant scheme can be effective in assisting firms to grow and increase their productivity levels.

(h) Strengthening the capacity of the client will help them address social and environmental safeguards requirements.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

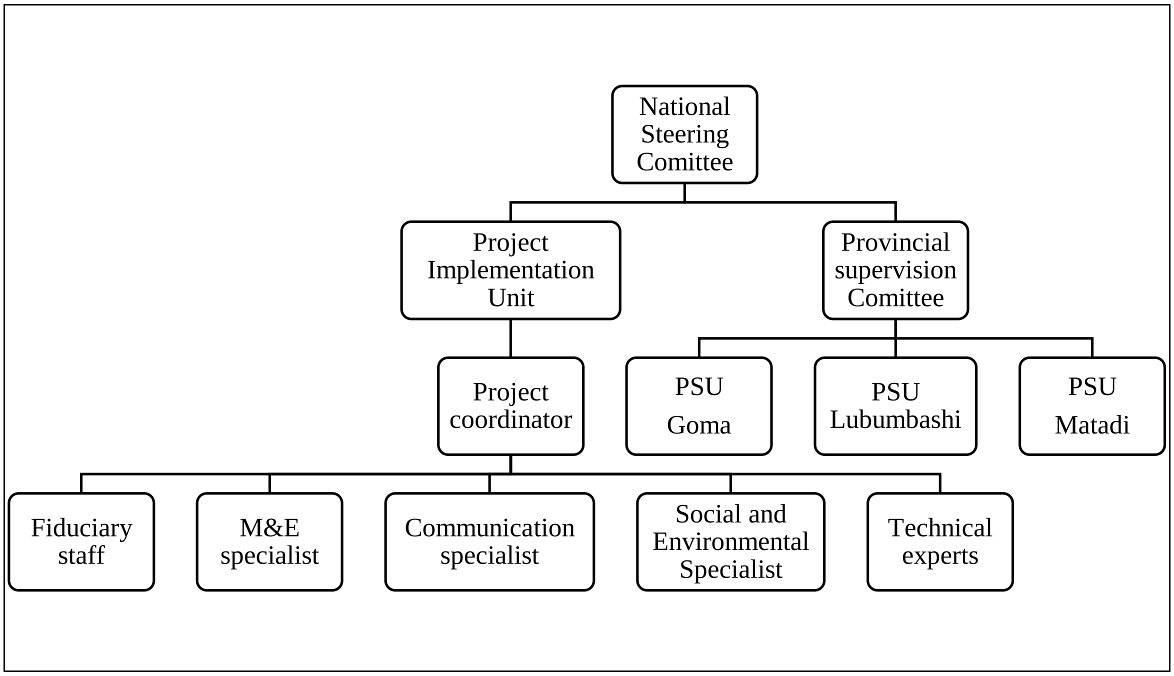
56. **A steering committee has been set up through an official decree.** It will be chaired by the Ministry of SMEs or his representative and composed of high-level representatives from across ministries (Finance, Planning, Justice, Industry, Gender and Vocational Training), public institutions, civil society and the private sector, both at national and provincial levels, and will provide guidance and advice to the PIU. The Steering Committee will meet regularly, at least twice a year, and its responsibilities are detailed in the Project Implementation Manual (PIM). A Provincial Supervision Committee led by the provincial Ministry of SMEs will be set up to oversee project implementation in each province.

57. **The PIU will be the main coordinating agency for the project at the national level**. It will be anchored in the Ministry of SMEs and responsible for day-to-day project management. The PIU will serve as the main coordination point between institutions involved in the project. The PIU staff is being recruited competitively using the PPA and will be composed of a project coordinator, fiduciary experts (financial management specialist, procurement specialist, accountant, internal auditor and treasurer), M&E specialist, environmental and social specialist, communication specialist and administrative support staff. Also, technical experts will be recruited, such as a SME specialist, legal expert and gender specialist as needed.

58. **The technical implementation of project activities under Components 1, 2 and 3.1 will be done by private firms and/or experienced NGOs that will be hired through a competitive process.** Their contracts will include capacity building of local partners to progressively take over administration of the BPC and provision of associated BDS and supplier development program.

59. **The project will consider establishing a Provincial Supervision Unit (PSU) in each targeted city (Matadi, Goma, Kinshasa and Lubumbashi).** An implementation capacity assessment will be conducted once the national-level PIU is established and operational and private implementing partners are hired. If deemed necessary, PSUs will be established to supervise program activities in their province and will report to the PIU as well as the relevant provincial ministries (Figure 5). Until these PSUs are set up and operational, the main PIU will have the responsibility to have a regular dialogue with the provincial authorities to build their ownership of the program. The execution partners that will be recruited to implement project activities will submit their progress reports first to the PSU for review before submitting the final versions to the national PIU.

Figure 5. Organigram of implementation arrangements



60. **The project will require effective cross-ministry and cross-agency coordination to ensure streamlined implementation.** Many institutions are concerned with private sector development, including ministries of SMEs, finance, trade, customs, agriculture, economy, industry, planning, mining, energy, etc., public institutions, such as OPEC, DGDA, FENAPEC, FPI, etc. and private organizations, such as FEC, COPEMECO, etc. SME development falls under the Ministry of SMEs but key services and infrastructure needed by private operators (energy, roads, water, etc.) are provided and maintained by other ministries.

B. Results Monitoring and Evaluation

61. **The project's M&E system will provide data needed for assessing program performance and guide the timely adoption of corrective measures.** The team developed the M&E framework for the program, which is described in detail in the POM and is based on the following: (i) the program results chain and underlying assumptions of theory of change; and (ii) compliance with World Bank requirements, including the selection of key core indicators as well as specific indicators for gender and civic engagement.

62. **Project outcomes and impacts will be evaluated through the PDO and intermediate-level indicators outlined in the result framework (Section VII).** An independent firm will be hired to carry out a baseline survey within three months of project effectiveness to inform the project on targeted beneficiaries. The project indicators were selected based on SMART principles with technical experts. The mid-term and final survey will also be conducted by external service providers based on the methodology established for the baseline data collection.

63. **The monitoring of program outputs will be conducted by the PIU in partnership with the various entities that will be contracted to provide specific services.** The PIU will be responsible for data consolidation,

quality control and analysis and reporting, which will be tracked through a Management and Information System. The baseline data on project beneficiaries in the four locations have been collected using the support of the CIIP TF. Survey tools, qualitative data collection methods and frameworks for analysis have been developed and tested using an international vendor (Deloitte Afrique) and a local implementation partner (Target). Using these custom-made tools, a specialized training will be provided to the hired M&E specialist to build the PIU capacity around M&E. Annual monitoring reports will ensure that the project is on track by the PIU itself when preparing the annual work plan and budget, and by the supervision missions. The PIU will also oversee communicating the monitoring information to the ministry in charge of SMEs to feed the national M&E system.

C. Sustainability

64. **Sustainability measures related to every key project beneficiary were built into the project design**. The measures to address the project's sustainability relate to: (i) building capacity of the private sector (entrepreneurs, firms and business associations) to become agents of change through the demonstration effect of opportunities and potential of entrepreneurs and MSME; (ii) an improved voice for the small business community in the DRC; and (iii) collaborating with relevant WBG projects and IFC advisory and investment to formulate a coordinated response to systemic constraints to entrepreneurship and growth of MSMEs in the DRC.

65. **Subsidies and grants to women and young entrepreneurs will help engage them in economic activities.** While only a small portion of these new ventures will succeed (an estimated 15 percent will become MSMEs that will continue their operations for more than two years), the experience and skills-building received through project support will increase employability and lead to a greater number of paid jobs, especially for youth, and improve the growth potential of surviving MSMEs by linking them to BDS providers, investors and value chains.

66. **To address market distortion and not compete with commercial finance institutions, the project will target SMEs that have growth potential but are not considered investment-ready by the banking sector.** Where possible, the project will link SME beneficiaries to commercial finance by: (i) allowing commercial loans or credits to be used as "matching" contributions; (ii) linking to the WBG Credit lines project; and (iii) engaging IFC colleagues and their clients in the design and evaluation of the matching grant program for growth SMEs to ensure that we are building a pipeline of future clients.

67. **The project heavily relies on BDS providers and private sector delivery channels to promote responsiveness to MSMEs demand and commercial sustainability**, as well as data gathered through project activities to improve targeting and cost-sharing by MSME users so that they will be more likely to continue purchasing services on their own. The project will target growth-oriented MSMEs where continued demand and willingness to pay are likely, and link the services to value chains through coordinated mechanisms to ensure pressure from upstream customers.

68. **Institutional capacity building will help improve inter-ministerial coordination of MSME policies and programs and government leadership of the MSME sector reforms through support to the inter-ministerial steering committee.** At the subnational level, training workshops, outreach and coordination activities and targeted skills building and mentoring will be provided for capacity building. These activities

will reinforce institutionalization of the project's delivery mechanisms and provide a basis for scaling up project activities.

D. Role of Partners

69. **There is no co-financing or parallel financing of the project, but meaningful partnerships will be sought with government programs supported by development partners**, such as European Union (EU), Department for International Development (DfID), *Kreditanstalt für Wiederaufbau* (KfW), ***Gesellschaft für Internationale Zusammenarbeit*** (GIZ), African Development Bank (AfDB), United States Agency for International Development (USAID), International Fund for Agricultural Development (IFAD), Belgian Cooperation, United Nations Disengagement Observer Force/United Nations Capital Development Fund (UNDO/UNCDF) and Japan International Cooperation Agency(JICA) at the national and state level (see Annex 10 for list).

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

70. **The overall risk rating for the project is high**. The main recurrent risks with a negative impact on the design or implementation of projects in FCS are outlined below.

71. **Political and governance risks are rated High:** Delays in the presidential elections, initially planned for November 2016, are affecting the DRC's political stability, slowing down delivery of information from government agencies and decision-making and delaying the development of the project activity. And the uncertainty related to the organization of elections scheduled by end-2018 weighs on the overall investment climate, hampers investments in all sectors, and delays development partners' decision to scale up their interventions. A security situation that could deteriorate at any time is one of the biggest concerns for implementation and staff security. Such risks are beyond the Bank's control and yet drive the speed and efficiency of project implementation. There is a strong possibility of continued unrest in coming months and the team will monitor the situation in collaboration with relevant UN agencies. Risk mitigation measures include a proactive watch, effective communication channels internally and with the client and quick decision-making in line with management's guidance, in order to accommodate project and implementation with the political events. Finally, complex political economy factors may lead key vested interests to resist change. Experience from other WBG projects shows that one key to success in these circumstances is to create momentum for change—that is, to address resistance to change by providing incentives to those benefiting from change and developing new capacities.

72. **Sector Strategies and Policies, and Stakeholders participation are rated Moderate:** A weak engagement of the private sector would make achieving the PDO challenging. To mitigate this risk, there will be aggressive communication at the start, with regular communication activities during the project lifecycle to ensure all stakeholders' buy-in, and an independently managed beneficiary feedback mechanism embedded to quickly pick up project shortcomings and take corrective measures. Private stakeholders were involved in the preparation stage and are aware of the selectivity and impact potential sought in the project design.

73. **Macroeconomic risks are rated Substantial:** The DRC is vulnerable to internal and external economic shocks. A particular concern is the impact of security and/or political instability on macro policies. Moreover, the country heavily relies on the mineral sector for growth, and thus, remains vulnerable to fluctuations in global commodities markets. It has been severely affected by the 2015-2016 decrease of commodity prices, with at least one large mining companies temporarily shutting down in 2016.

74. **Low institutional capacity for implementation and sustainability are rated Substantial:** The timing and coordination of project implementation, at the onset, is challenging in a fragile country like the DRC, where effectiveness, approval procedures and implementation capacities may vary. More importantly, project interventions fall under the technical supervision of the Ministry of SMEs, which is a relatively new ministry with limited experience in coordinating WB projects. To mitigate these risks, the team sought additional preparation funds from CIIP to support project preparation and early implementation more effectively. Using PPA funding, all project implementation manuals have been prepared and new PIU staff are being recruited in a competitive manner through an independent HR firm. Until the PIU becomes operational, the project will be anchored within CFEF, the existing PIU within the Ministry of Finance that has fiduciary and supervision capacity.

75. **Fiduciary risks are rated High:** Fiduciary management depends on the institutional arrangements for project implementation and creates special risks when some interventions are at locations far removed from the capital. Special attention is given to this to ensure that funds flow from IDA in an efficient manner, especially to provinces where some of the interventions will be implemented. To that effect, only one Designated Account will be opened within the national PIU, with external and internal auditing systems put in place, and as much as possible Direct IDA Payments will be made for large contracts.

76. **Environmental and social risks are rated Substantial:** Overall, the project is expected to have positive social impacts, especially through economic development and empowerment of women and youth in urban and peri urban centers in selected cities. However, given the sensitivity of issues concerning compliance with WB environmental and social policies in the DRC, careful attention has been given to these aspects. All safeguards documents were prepared following international best practices, consulted upon, approved by IDA and disclosed. A social and environment specialist is being hired to oversee these aspects in the PIU. The WB safeguards team on the ground is designing capacity building that will be provided to the new PIU. Lastly, all safeguards requirements and mitigation measures have been defined in the POM, with potential corrective measures laid out in the case of non-compliance.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

77. **This economic analysis follows the World Bank guidance note on economic analysis of investment project financing and uses an ex-ante cost-benefit analysis framework to assess and monetize costs and benefits of the implementation of the proposed project and associated externalities**. It particularly considers direct (financial) costs associated with project implementation and indirect costs, as well as the government staff and other stakeholders involved. On the benefits side, the analysis covers financial and economic revenues generated by increased SME revenues and a better business environment facilitated by the project.

78. **Rational for public intervention:** Public intervention in increasing SME development and growth in DRC is justified by constraints on SME development that the market fails to address. There are also potential opportunities that may not be grasped by domestic SMEs without public support, especially in the mining sector (over 80 percent[19] of export revenue, 23 percent of government revenue and 22 percent of GDP[20]), where domestic SMEs still fail to benefit from tremendous procurement opportunities.

79. **The project will address challenges faced by SMEs by creating a better business environment; strengthening capacities; providing financing to established, female and youth SMEs; and creating regional hubs for SMEs development.**

80. **Bank's value added:** The project design aligns with priority themes identified under the Bank SME Action Plan (World Bank, 2016), and incorporates key lessons and recommendations from the IEG Report, "The Big Business of Small Enterprises" (IEG, 2014) conducted on 179 WBG projects targeting SMEs during 2006–2012, as well as the analysis of 10 relevant SME projects in Africa. The Bank experience from the above-mentioned projects brings an important added value to the project. Additionally, the project is designed in close collaboration and coordination with other active Bank and IFC operations in the DRC working in various sectors (education, agriculture, finance and markets), which allows to build on the experiences of other teams and leverage synergies across various projects in the country.

81. **Results of the economic analysis and sensitivity test:** The cost-benefit analysis, based on a series of assumptions, available statistical data and relevant literature, established an Economic Rate of Return (ERR) of 29.88 percent for 10 years (higher than the 14.3 percent average interest rate on treasury bonds[21] in DRC in early 2018, the 12 percent discount rate used by most analysis[22], as well as the 20 percent prime rate of the Central bank of DRC). In a worse-case scenario in the present analysis, the ERR is still at 21.44 percent, also higher than the highest rate on treasury bonds and the Central Bank prime rate. Even the worst-case scenario in the present analysis shows an ERR of 15.22 percent which is also higher than the average rate on treasury bonds in DRC. The main benefits come from sustainable development of the private sector in general and SMEs in particular through the following vehicles:

- **Direct financial inflow from increased sales for SME, employment for households and VAT for the government.**
- **Indirect economic impact from the comprehensive training of 4,500 women.** A combined set of 18 case studies shows that every dollar invested in SMEs development generates, on average, an additional 12 dollars in the local economy[23].
- **Enabled business environment for all MSMEs with 10 implemented reforms and 15 recommended policies and procedures.** On average, each business regulatory reform is associated with a 0.15 percent increase in growth rate of GDP.[24]

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[19] http://www.worldbank.org/en/country/drc/overview.
[20] World bank staff calculation based on data from EITI (www.itierdc.net) and national accounts.
[21] http://www.bcc.cd/downloads/stat/moncred/indic_mon_bon_bcc_jan18.pdf
[22] Including previous World Bank projects in DRC: http://wbdocs.worldbank.org/wbdocs/viewer/docViewer/indexEx.jsp?objectId=090224b081bc5b28&respositoryId=WBDocs&standalone=false
[23] http://springhillequity.com/files/From-Poverty-to-Prosperity.pdf.
[24] Haidar, Jamal Ibrahim, The Impact of Business Regulatory Reforms on Economic Growth (May 25, 2012). Journal of the

- **Formalization of women-led SMEs, thanks to 192 awareness and dissemination events on the new regulations** allowing women to register their business without spousal permission, leading to at least 2,000 new registrations. According to studies referenced in the Annex, becoming formal increases business profits by at least 20 to 45 percent.
- **Benefits of learning good procurement and technology practices as a result of the partnership with large firms through the SME hubs component.**

82. **To test the sensitivity of the result to changes in key variables, the ERR was recalculated** by lowering the number of years of outcomes production from 10 to 7 years and lowering projected multiplier effect to 3 (vs. 5 in the baseline case or 12 in other projects). Even by changing those variables, the project still brings positive net benefits with an overall ERR established at 21 percent.

B. Technical

83. **Project financing is channeled through the Ministries of Industry and SMEs to entrepreneurs, MSMEs, BDS providers and private investors in SME Hubs.** The project, implemented in parallel with TA (CIIP-funded activities and IFC work), will help unlock the market for lending and BDS to MSMEs at all stages of growth. The project will directly provide funding (through competitively selected grants and matching grants) to MSMEs in services and light manufacturing, including early stage firms. To avoid market distortion, the MSMEs will have to meet a set of eligibility criteria to participate. These criteria will be detailed in the project's operations manual. Criteria include factors related to asset quality, capital adequacy, credit appraisal capacity, management systems and profitability. Compliance with these criteria will be closely monitored and tracked on an ongoing basis. In addition, the proposals from entrepreneurs and MSMEs will be assessed by an independent panel of experts comprising the government, business community, investors and international experts based on "additionality"—for example, funding for underserved MSME segments, such as women-owned MSMEs and youth.

84. **Among the project's foci will be the development and piloting of SME Hubs to support value chains among large firms and MSMEs.** The project will test multiple and alternative sources of financing for SME Hubs that do not rely on government subsidies. Through demonstration effects, it will encourage the introduction of such SME Hubs to increase collaboration between large firms and MSMEs and encourage private sector investments in MSME infrastructure.

85. **The disbursement and allocation of funds among various beneficiaries will be demand-driven, based on market needs and will depend on the performance of MSMEs and intermediaries (e.g., BDS providers).**

C. Financial Management

86. **The existing arrangements provide for the project's PPF to be implemented under the overall coordination of the existing CFEF of the Ministry of Finance**. The parent loan/facility will be implemented by a new PIU that is being recruited by the CFEF. It will be responsible for managing project components, overall planning, implementation, M&E and coordination with other beneficiaries and provincial PIUs.

Japanese and International Economies, Vol. 26 (3), pp. 285-307. Available at SSRN: *https://ssrn.com/abstract=2066558*.

These arrangements would ensure that the implementing entity: (i) uses project funds only for intended purposes in an efficient and economical way; (ii) prepares accurate and reliable accounts as well as timely periodic financial reports; (iii) safeguards assets of the project; and (iv) maintains acceptable auditing arrangements. The proposed financial management arrangements, including mitigation measures for this project, are considered adequate to comply with the provisions of **Bank Directive**: Financial Management Manual for World Bank Investment Project Financing Operations.

87. **Prospective financial management arrangements will be adequate, subject to meeting the following requirements:** (i) opening the designated account in a financial institution acceptable to the Bank, (ii) drafting a manual of procedures to take into account grant specificities that is already done, (iii) acquiring management accounting software and configuring it to generate financial reports for the project; (iv) recruiting a financial management specialist; (v) recruiting an accountant; (vi) recruiting an internal auditor; and (vii) recruiting an external auditor acceptable to IDA.

88. **The assessment concluded that, subject to the aforementioned prerequisites being implemented, the prospective financial management arrangements will meet the Bank's minimum requirements** under **Bank Directive**: Financial Management Manual for World Bank Investment Project Financing Operations, and **Bank Guidance**: Reference material–Financial Management in World Bank Investment Project Financing Operations. The prospective financial management arrangements are therefore adequate to provide, with reasonable assurance, accurate and timely information on the status of the project as required by the Bank (IDA). The overall financial management residual risk rating for project implementation is considered ***Substantial*.** Annex 3 provides additional details about the financial management assessment.

D. Procurement

89. **Procurement for goods, works and non-consulting and consulting services will be carried out in accordance with the "World Bank Procurement Regulations for IPF Borrowers" (Procurement Regulations),** dated July 2016 and revised November 2017 under the New Procurement Framework (NPF) and the Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits and Grants" (dated July 2016), as well as provisions stipulated in the financing agreement.

90. **The PIU, to be set up within the Ministry of SMEs, will be responsible for procurement activities under this project.** The PIU will be staffed with qualified and experienced procurement specialists recruited by CFEF. The procurement risk is rated *High* given the country context and associated risk, unproven experience of the procurement unit since it has to be set up and staffed within the PIU to be created, and that this project will be implemented in the DRC under the Bank's NPF.

91. **A Project Procurement Strategy for Development (PPSD) has been prepared with Bank support.** It aims to ensure that procurement activities are packaged and prepared in such a way that they expedite implementation, considering the market analysis and related procurement trends and the procurement risk analysis. The PPSD includes recommended procurement approaches for the project that are reflected in the approved procurement plan covering the first 18 months of project implementation (see Annex 2 for more details on procurement).

E. Social (including Safeguards)

92. **The project is expected to have positive social impacts, especially through the economic development and empowerment of women and youth in urban and peri-urban centers in selected cities.** Given the fragile environment and potential impact of private sector interventions, the proposed project is classified as a Category B project. Some activities may induce negative impacts, especially under Component 2.

93. **The Involuntary Resettlement (OP/BP 4.12) policy is triggered due to foreseen low to medium civil engineering activities related to the rehabilitation or construction of facilities.** These will not be directly financed by the project but by large strategic firms, which will finance all physical infrastructure to set up SME Hubs. The project will provide TA.

94. **To ensure that proper mitigation measures are set forth, the borrower prepared a Resettlement Policy Framework (RPF)** to guide the preparation of site-specific Resettlement Action Plans (RAPs) once such details are known. The RPF was prepared and fully consulted upon. It was approved by the Bank and publicly disclosed in the country and on the Bank's external website before project appraisal.

F. Environment (including Safeguards)

95. **The proposed project rating is Category B, owing to the nature of its foreseen environmental and social impacts, which are localized and easily manageable**. More specifically, the project triggered OP/BP 4.01 Environment Assessment, largely because the proposed activities under Component 2 are likely to lead to some environmental and social impacts that will require due safeguards attention. To comply with the policy, an Environmental and Social Management Framework (ESMF) was prepared, consulted upon and approved by the Bank. The ESMF was disclosed in the country and on the Bank's external website prior to appraisal.

96. **OP/BP 4.09 on Pest Management was triggered because the project will provide matching grants and funding and TA for SMEs in light manufacturing and agribusiness.** These activities may require the use of pesticides, fertilizers, vaccines or other chemicals, which can create negative effects on the environment. This policy supports integrated pest control approaches and identifies pesticides that can be financed under the project and develops an appropriate plan to manage the risks. To comply with this policy a Pest Management Plan (PMP) was prepared as a stand-alone instrument and consulted upon. It was approved by the Bank and disclosed in the country and on the Bank's external website prior to appraisal.

97. **OP/BP 4.11 on Physical Cultural Resources was triggered in anticipation of the potential impacts on physical cultural resources during activities related to the rehabilitation or the construction of facilities.** The Physical Cultural Resources Policy aims to protect cultural resources, to avoid any significant conversion (loss) or degradation of these resources. To comply with the policy, the project prepared as part of the ESMF a section on the management of "chance finds."

98. **To ensure compliance with the safeguard policies, the borrower prepared and consulted on an ESMF, PMP and RPF.** They were approved by the Bank and disclosed in the country and on the Bank's external website before project appraisal. The ESMF, PMP, and RPF provide essential guidance to be followed by the borrower before and during project implementation to ensure adequate monitoring and reporting of the

safeguards requirements. The ESMF also includes both an environmental and social screening form and a set of environmental and social clauses for project implementers.

99. **Nonetheless, a dedicated environmental and social safeguards specialist is being hired to provide safeguards support during the project lifecycle.** All of the safeguards instruments have been considered in the POM and serve as a due-diligence tool with which the borrower has to comply.

G. World Bank Grievance Redress

100. **Communities and individuals who believe that they are adversely affected by a Bank-supported project may submit complaints to existing project-level grievance redress mechanisms or the Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project-affected communities and individuals may submit their complaint to the Bank's Independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the Bank's Independent Inspection Panel, visit *www.inspectionpanel.org*.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

Project Development Objectives(s)

The project development objective is to support the growth of Micro, Small and Medium-sized Enterprises (MSMEs) and increase employment and entrepreneurship opportunities for youth and women in select areas.

PDO Indicators by Objectives / Outcomes	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets					End Target
					1	2	3	4	5	
Component 1: Support entrepreneurship opportunities for youth and women										
Number of new firms established by targeted beneficiaries			Number	0.00	0.00	500.00	1,200.00	700.00	600.00	3,000.00
(of which female-owned).			Number	0.00	0.00	300.00	900.00	600.00	200.00	2,000.00
(of which young entrepreneurs)			Number	0.00	0.00	300.00	900.00	600.00	200.00	2,000.00
Component 2: SME Development										
Net full-time equivalent jobs created among beneficiary MSMEs			Number	0.00	0.00	500.00	1,500.00	3,000.00	4,000.00	9,000.00
% Increase in average revenue of beneficiary MSMEs			Percentage	0.00	0.00	5.00	10.00	20.00	30.00	30.00

Intermediate Results Indicators by Components	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets					End Target
					1	2	3	4	5	
Component 1: Support entrepreneurship opportunities for youth and women										
Number of female micro-entrepreneurs who received training			Number	0.00	0.00	2,000.00	2,000.00	500.00	0.00	4,500.00
Number of female micro-entrepreneurs who received cash subsidies			Number	0.00	0.00	1,000.00	1,000.00	500.00	0.00	2,500.00
Number of young entrepreneurs who receive training			Number	0.00	0.00	200.00	200.00	200.00	150.00	750.00
Number of public awareness/dissemination events delivered			Number	0.00	0.00	48.00	48.00	48.00	48.00	192.00
Implemented reforms supporting private sector development		Yes	Number	0.00	0.00	1.00	1.00	2.00	1.00	5.00
Component 2: SME Development										
Number of SME recipients of the matching grants			Number	0.00	0.00	200.00	100.00	100.00	100.00	500.00
(out of which female-owned)			Number	0.00	0.00	80.00	40.00	40.00	40.00	200.00
(out of which young entrepreneurs)			Number	0.00	0.00	30.00	30.00	20.00		80.00
Total value of funds allocated to SME recipients of the matching grant			Amount(USD)	0.00	0.00	20,000,000.00	7,500,000.00	7,500,000.00	0.00	35,000,000.00
Number of SME Hubs established			Number	0.00	0.00	1.00	1.00	1.00	1.00	4.00
Number of SMEs renting space and operating in SME			Number	0.00	0.00	0.00	0.00	50.00	70.00	120.00

hubs										
Component 3: Capacity building and Project Management										
Percentage of grievances that were responded to (Citizen Engagement)			Percentage	0.00	0.00	100.00	100.00	100.00	100.00	100.00
Total number of participants in the capacity building/training events held			Number	0.00	75.00	100.00	100.00	100.00	100.00	475.00
Percentage of participants in the capacity building/training events held who reported that their knowledge/skills was enhanced after the training			Percentage	0.00	85.00	85.00	85.00	85.00	85.00	85.00

Indicators to be mapped	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets					End Target
					1	2	3	4	5	
Intermediate Outcome Indicators										
Share of new firms supported under the Business Plan Competition (BPC) that are still operating 24 months after receiving assistance (financial and non-financial)			Percentage	0.00	0.00	0.00	50.00	50.00	50.00	50.00

Monitoring & Evaluation Plan: PDO Indicators	
Indicator Name	Number of new firms established by targeted beneficiaries
Definition/Description	This indicator intends to count the total number of firms the project supporting establishing. It is assumed that out of the total number of MSME beneficiary firms, some will be encouraged to formally register as businesses. Data will be disaggregated to account for the total number of firms that are female-owned, and the total number of firms owned by young individuals (both male and female owned).
Frequency	Annually
Data Source	Government registry
Methodology for Data Collection	
Responsibility for Data Collection	PIU
Indicator Name	(of which female-owned).
Definition/Description	This indicator intends to count the total number of female-owned firms the project supporting establishing.
Frequency	Annually
Data Source	Government registry
Methodology for Data Collection	
Responsibility for Data Collection	PIU

Indicator Name	(of which young entrepreneurs)
Definition/Description	This indicator intends to count the total number of firms owned by young individuals (both male and female owned), the project supporting establishing.
Frequency	Annually
Data Source	Government registry
Methodology for Data Collection	
Responsibility for Data Collection	PIU

Indicator Name	Net full-time equivalent jobs created among beneficiary MSMEs
Definition/Description	This indicator intends to count the total number of full time-jobs the project contributed to creating. Given the assumption that employment generated through the project is mostly on a seasonal part-time basis, working hours will be accumulated to calculate the equivalent full-time jobs.
Frequency	Annually
Data Source	Survey
Methodology for Data Collection	
Responsibility for Data Collection	PIU

Indicator Name	% Increase in average revenue of beneficiary MSMEs
Definition/Description	This indicator intends to measure the average annual increase in revenue earnings of beneficiary MSMEs.

Frequency	Annually
Data Source	Firm-level reporting
Methodology for Data Collection	
Responsibility for Data Collection	PIU

Monitoring & Evaluation Plan: Intermediate Results Indicators	
Indicator Name	Number of female micro-entrepreneurs who received training
Definition/Description	This indicator intends to count the total number of female micro-entrepreneurs (self-employed, home-based businesses, family-owned businesses, subsistence entrepreneurs, etc.) who received training by the project.
Frequency	Annually
Data Source	Registration reports and Implementing firm annual reports
Methodology for Data Collection	
Responsibility for Data Collection	Implementing firm, PIU
Indicator Name	Number of female micro-entrepreneurs who received cash subsidies
Definition/Description	This indicator intends to count the total number of female-owned SME enterprises that received subsidies by the project.

Frequency	Annually
Data Source	M&E/PIU annual reports
Methodology for Data Collection	
Responsibility for Data Collection	Implementing Firm, M&E, PIU

Indicator Name	Number of young entrepreneurs who receive training
Definition/Description	Description: This indicator intends to count the total number of young entrepreneurs (males and females) who received training by the project.
Frequency	Annually
Data Source	Registration reports and Implementing firm annual reports
Methodology for Data Collection	
Responsibility for Data Collection	Implementing firm, PIU

Indicator Name	Number of public awareness/dissemination events delivered
Definition/Description	This indicator intends to count the total number of events delivered as part of the communications/public awareness campaign on laws and regulations that support female entrepreneurship and women's economic empowerment (Family code, Land law, Labor Law, Equality Law etc.).Potential tools for dissemination include community radio, TV programming including soap operas, posters, newspapers, comic books, other media outlets, community theatre and songs in local languages. Local media companies will be engaged to design effective campaigns and messaging at the provincial level.

Frequency	Semi-Annually
Data Source	Implementing firm annual reports
Methodology for Data Collection	
Responsibility for Data Collection	Implementing firm, PIU

Indicator Name	Implemented reforms supporting private sector development
Definition/Description	
Frequency	Semi-Annually
Data Source	**This indicator intends to count the total number of legal and regulatory recommended changes that were approved/enacted, resulting from the project's component on regulatory reforms:** 1. National strategy for SMEs promotion & action plan implementation 2. Legal framework applicable to SMEs and TA to adoption of new regulations 3. Policy and Incentive Proposal based on legal framework for SMEs 4. Tax regime applicable to SMEs 5. Subcontracting laws, recommendations to ensure effective implementation M&E
Methodology for Data Collection	
Responsibility for Data Collection	PIU, M&E Specialist

Indicator Name	Number of SME recipients of the matching grants
Definition/Description	This indicator intends to count the total number of SME enterprises that received matching grants by the project. Data will be disaggregated to account for the total number of SMEs that are female-owned, and the total number of firms owned by young individuals (both male and female owned).
Frequency	Annually
Data Source	Data from business plan competition implementation
Methodology for Data Collection	
Responsibility for Data Collection	International vendor, PIU

Indicator Name	(out of which female-owned)
Definition/Description	This indicator intends to count the total number of female-owned SME enterprises that received matching grants by the project.
Frequency	Annually
Data Source	Data from business plan competition implementation
Methodology for Data Collection	
Responsibility for Data Collection	International vendor, PIU

Indicator Name	(out of which young entrepreneurs)
Definition/Description	This indicator intends to count the total number of SME enterprises owned by young entrepreneurs that received matching grants by the project.

Frequency	Annually
Data Source	Data from business plan competition implementation
Methodology for Data Collection	
Responsibility for Data Collection	International vendor, PIU

Indicator Name	Total value of funds allocated to SME recipients of the matching grant
Definition/Description	This indicator intends to measure the total value (amount) of funds allocated to SME enterprises corresponding to matching grants received.
Frequency	Annually first three years
Data Source	BPC reporting (M&E systems)
Methodology for Data Collection	
Responsibility for Data Collection	International vendor, PIU

Indicator Name	Number of SME Hubs established
Definition/Description	This indicator intends to count the total number of SME hubs established by the Project.
Frequency	Annually
Data Source	M&E
Methodology for Data Collection	

Responsibility for Data Collection	PIU

Indicator Name	Number of SMEs renting space and operating in SME hubs
Definition/Description	This indicator intends to count the total number of SMEs who are located within the hub (leased renting space) and are operating within the hub.
Frequency	Annually
Data Source	M&E
Methodology for Data Collection	
Responsibility for Data Collection	PIU

Indicator Name	Percentage of grievances that were responded to (Citizen Engagement)
Definition/Description	This indicator intends to count the total number of grievances that received responses out of the total number of grievances received.
Frequency	Annually
Data Source	M&E
Methodology for Data Collection	
Responsibility for Data Collection	PIU

Indicator Name	Total number of participants in the capacity building/training events held
Definition/Description	This indicator intends to count the total number of individuals who participated in the capacity building and training events organized by the Project.
Frequency	Annually
Data Source	M&E
Methodology for Data Collection	
Responsibility for Data Collection	PIU

Indicator Name	Percentage of participants in the capacity building/training events held who reported that their knowledge/skills was enhanced after the training
Definition/Description	This indicator intends to measure the satisfaction rate of individuals who participated in the capacity building and training events organized by the Project.
Frequency	Annually
Data Source	M&E
Methodology for Data Collection	
Responsibility for Data Collection	PIU

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

1. This project takes as its starting point the structure of the private sector in the DRC, which is dominated by micro and small, mostly informal, enterprises. These micro and small enterprises are currently characterized by low productivity, but many of them also have good potential for growth. This project is designed to support the growth potential of MSMEs in the DRC, while recognizing the severity and multitude of constraints facing the private sector. Key among these constraints are corruption and limited access to electricity, as well as taxes, informality and limited access to finance—all within the context of a fragile and changeable political and economic environment. Accordingly, the project series seeks to provide a mix of interventions that support growth opportunities for high potential enterprises and build a pipeline of a new generation of MSMEs and entrepreneurs, as well as support resilience and coping mechanisms for a broader base of formal and informal enterprises that contribute to employment and stability.

2. The project approach and scalable nature of its interventions provide flexibility to adapt its design and scale in a manner that responds to the country context. The nature of the activities and investments acknowledges the long-term challenges of access to power and corruption and seeks to expand the opportunities and space through which MSMEs can mitigate these obstacles to their growth.

Component 1: Support entrepreneurship opportunities for youth and women (US$44 million)

- **Sub-Component 1.1 Support for women entrepreneurs (US$15 million)**

3. This sub-component will provide direct support for women entrepreneurs who are engaged in productive activities, through in-kind grants and longer-term TA. It will support women who are self-employed, subsistence entrepreneurs and those running home-based or family-owned businesses, through TA and financing of business plans. The implementation will have two phases to take advantage of first responders and more confident and established opportunity entrepreneurs, and to exploit synergies (sub-component 2.1). For example, small-scale female entrepreneurs who received support under sub-component 1.1 will be supported to collaborate with and/or sell to larger firms that will receive support under sub-component 2.1. To increase efficiency, enhance consistency (especially in relationship to the content of training programs) and minimize costs, the procurement and management of the two business plan competitions will be combined under the project.

4. The implementation will include the following steps:

(a) Step 1. Publicity and communication campaign in the four targeted locations to attract beneficiaries to the program.
(b) Step 2. A training program that will be open to all interested women (a maximum of 4,500 participants, with 1,500 in Kinshasa and 1,000 in Matadi, Lubumbashi and Goma respectively). The training will include modules on:

- General modules on basic literacy; preparation of a simplified business plan; basic financial, business and human resource management skills, along with sector-specific technical skills; options for access to finance and related requirements (e.g., information on applying for credit, recording of track record of business expansion through investing retained earnings, etc.), civil rights and legal training (the new Family Code, the Labor Code, equality law, OHADA conventions etc.).
- Life skills modules that focus on self-confidence, team building, results orientation, negotiation skills, empowerment and autonomy. etc. to help overcome more nuanced gender-discriminating socio-economic norms.
- Technology modules that include promotion of Internet-based and mobile technology to overcome asymmetry of information, access to financial services (online and mobile banking), e-commerce and future involvement in networks and peer-to-peer support, etc.
- Modules on how to establish and maintain business contacts, how to initiate collaborations with larger firms (including through local content development, e.g., in the extractives sector), and on how to strengthen existing networks, including those with business development service providers.
- Considerations for the training will be given regarding time constraints on the part of women, including assessment of safety, availability of transport and childcare support and related facilities (dependent on the time of training).

(c) Step 3. A simplified call for proposal/business plan competition for the selection of those to receive grants. Guidance and feedback will be provided to those who were not successful, including information that might make them succeed in a future round.

(d) Step 4. 2,500 enterprises (1,000 in Kinshasa and 500 in Matadi, Lubumbashi and Goma respectively) will be selected to receive in-kind grants of between US$1,000 and US$5,000. They will receive further and specialized training for development of their specific proposals and activities.

(e) Step 5. Female beneficiaries will be placed into networks and peer-to-peer support groups for up to one year after the initial training (building on modules delivered during Step 1). Spouses and family will also be involved in special events for sensitization on legal changes and reinforcement of the tenets of female economic empowerment.

- **Sub-Component 1.2 Start-up grant and TA for young entrepreneurs (US$17 million)**

5. The objective is to provide early stage financing (cash grants) to motivated young entrepreneurs (aged 18–35) who have viable new business ideas, but need seed capital, practical experience and mentoring in business practices to succeed. Focus sectors will include productive sectors (outside of trade) that do not require substantial capital investments, such as agro-processing, online and other IT services, social enterprises (education, health, waste management, etc.), event planning, beauty services, etc. Building the entrepreneurial capacity of youth and a pipeline of new ventures to expand the pool of local MSMEs in the DRC will contribute to value and job creation. This sub-component will also assure that there is a pipeline of proposals for the subsequent calls for proposals for matching grants targeting growth-oriented MSMEs (sub-component 2.1). Startups and existing MSMEs (less than two years in operations, formal or informal) will be eligible to apply. To receive funding, the enterprises will need to become registered, which will provide an incentive for formalization.

6. This sub-component will finance 2–3 rounds of competitions. The first competition will include the following steps, which could be adjusted for subsequent stages based on the implementation lessons:

   (a) Step 1. Publicity and communication campaign to attract beneficiaries to the program, and clinics for the young entrepreneurs on how to develop and present their ideas in a variety of ways (elevator pitches, video submissions, use of social media).
   (b) Step 2. Young entrepreneurs will pitch their business ideas to an expert panel and the top 30–40 percent of candidates will be invited for a business plan training (could be delivered as a 4-5-day "boot camp").
   (c) Step 3. Young entrepreneurs who will submit a quality business plan for the training competition will receive grants of US$20,000 (up to 750 enterprises; 300 in Kinshasa and 150 in each Matadi, Lubumbashi and Goma). The quality review of the business plan will be conducted by an expert panel that will comprise the local business and investors community and international experts. Grants will be allocated on "first come, first served" basis to all young entrepreneurs who passed the quality review. If the demand (quality business plans) exceeds the supply (funding available), then the grants will be randomly assigned to the pool of qualified candidates, and the remaining applications will be automatically qualified for any additional financing that would be received under this programmatic project.
   (d) Step 4. The grants will cover 18 months of operations costs (in cash), to be distributed quarterly based on the achievement of milestones defined in the business plan, along with participation in required trainings and mandatory mentoring sessions and other predefined deliverables. Training will include modules on financial, business and human resources management along with sector-specific technical skills, ways to access to finance and related requirements for accessing credit, civil rights and legal aspects, including the Family Code and Labor Code, etc. Soft skills training will also be provided on building self-confidence, negotiation, team-building, results orientation for business, etc. Support for formation and creation of business networks will also be emphasized.

- **Sub-Component 1.3 Improvement of business environment (US$12 million)**

7. This sub-component will support the enabling business environment for all MSMEs, with a special focus on women-led SMEs and dissemination campaigns around laws that support female entrepreneurship and women's economic empowerment.

8. The activities will address the general lack of awareness around the new Family Code and other women-friendly legal provisions within the Labor Law, Land Law and the recent Equality Law. Reform efforts promoted by DRC's Ministries of Gender and Justice and supported by a cross-sectoral team from IFC (Gender, Leasing and SME Ventures), Women Business and the Law (WBL) and the Bank's Finance & Markets Global Practice, led to the adoption of a new Family Code in July 2016, allowing married women in the DRC to start formal businesses, open bank accounts, get a loan, register a company and perform a host of other economic activities without the need for legal permission from their husbands. The new law also allows them to have a greater voice in management of the marital property and raises the legal marriage age for girls from 15 to 18.

9. No dissemination campaigns around these laws have occurred to date. Restrictions on women working at night and in the mining sector have now been reformed, but employers continue to be reluctant to hire women in the mining sector. The Land Law enables women to register land in their name and women no longer need their husband's permission to register land under the new Family Code. The 2015 Equality Law prohibits discrimination in access to credit for women, providing further protection for women in accessing finance. However, bank staff continue to ask prospective female applicants for loans for their husband's consent even though this contravenes the Family Code and Equality Law. The DRC is also a signatory to the CEDAW, which further bolsters women's legal equality, and key articles will be incorporated into dissemination activities.

10. Implementation of these activities will be carried out by an international consulting firm or an international NGO with extensive experience in this field and a proven track record. In the first phase, the campaigns will be launched in the four provinces targeted by the project: Kongo Central, Kinshasa, Haut-Katanga and North Kivu.

11. Consultative workshops will be held with public and private partners to identify the most appropriate means of dissemination. Potential tools for dissemination include community radio, television programming including soap operas, posters, newspapers, comic books, other media outlets, community theater and songs in local languages. Local media companies will be engaged to design effective campaigns and messaging at the provincial level.

12. The activities will involve local partners in the dissemination campaigns, such as entrepreneurs' associations, ministries of justice and family affairs at the national and provincial levels, traditional leaders and princesses, religious leaders, women's cooperatives, magistrates' associations, legal associations (*Association des Femmes Magistrats, Association des femmes Juristes, Associations des femmes Avocats)*, law schools, schools and free legal clinics run by civil society groups in each province. The project will also engage men as champions of reform. For example, the governor of Kongo Central and the provincial ministers of SMEs have already agreed to lend their voices to an awareness campaign that would help transform social norms on women's entrepreneurship. In addition to beneficiaries, it will also target awareness campaigns at agencies serving businesses such as company registries, land registries, town halls, financial institutions, etc. to inform them of changes in legislation. Training will also focus on key bank personnel, such as loan officers, so that they do not impose additional requirements on female clients.

13. Activities under this sub-component will be carried out in synergy with other ongoing government initiatives, other Bank Global Practices and donors, particularly in social protection, and ongoing work in the prevention of gender-based violence and improvement of maternal health. It will also build on the achievements of the IDA Governance Strengthening Project, which has developed centers of excellence in the DRC to train civil servants.

14. While a large part of project activities is dedicated to direct support for firms, creating a business enabling environment for all SMEs is key, to enable them to grow and play a role in country development. Based on consultations organized with national and provincial governmental authorities as well as with the private sector, the project would gain to implement reforms related to the following areas (going beyond the areas covered by the DB Report Indicators reforms currently handled by the IFC advisory DRC

investment climate project – ID#600085):

(a) National strategy for SMEs promotion. The strategy is at the starting point of any effort aimed at coordinating and supporting SME development. The project will finance its review, including identifying relevant sub-themes to be further developed, draft the action plan with milestones and indicators and identify roles and responsibilities. The final objective will be the adoption of an updated SME strategy acceptable to the entrepreneurial ecosystem actors and based on international best practices.

(b) Legal and regulatory framework for SMEs operations. This framework, from their creation to day-to-day operations until their closing, needs to be reviewed. The DRC became a member OHADA in 2012, and various OHADA laws thus became applicable. Among others, the OHADA Revised Uniform Act on General Commercial Law regulates the new status of the "*entreprenant*" (individual entrepreneur). Also, one of the OHADA Uniform Acts relates to cooperatives. Both could represent useful instruments for the development of SMEs in the DRC, including migration from the informal to formal sector. Much remains to be done, though, to help with operationalization of OHADA laws in the DRC, including dissemination. In addition, some Congolese laws may remain applicable on subjects currently regulated under OHADA and relevant to SMEs. Therefore, it is proposed to support a series of activities under the project, including: (i) a review of the legal framework currently applicable to SMEs, to identify gaps, ongoing activities and the need for reforms; (ii) where applicable, to engage assistance for the modernization of existing regulations or the adoption of new regulations; and (iii) dissemination and capacity-building activities. The project will also incorporate in its scope of work the decree on the reform of the small mining administration, whose mission has been amended to support the creation of SMEs in the mining sector and to promote mining cooperatives. The main outcome of the project's activities under this section will be an updated, predictable and incentive-based legal framework for SME;

(c) Sector-specific constraints. In addition to systemic issues, the development of SMEs may need to be looked at from a sectoral point of view. IFC Creating Market Advisory Window may be used by the project team to understand the reasons preventing private sector investments and SME development in a few key sectors such as agribusiness, construction industry, energy, infrastructure and ICT. This review will include identifying the policy, institutional or other constraints. The project will then finance the definition and implementation of facilitation or corrective measures, such as adoption of sectoral laws or policies. The expected outcomes for this activity include an incentive-based legal framework for SMEs in sectors showing a good prospect for growth.

(d) Tax regime applicable to SMEs. Taxation is a cross-cutting macroeconomic issue with important implications regarding the business environment. A too-cumbersome fiscal regime could be prohibitive for SMEs. The project will support: (i) a review of the tax regime applicable to SMEs, (ii) research and benchmarking on best international approaches (simplified regime, understandable by taxpayers, predictable, easy-to-administer); and (iii) if appropriate, preparation of a specific fiscal regime for SMEs. The objective of this activity is an updated, predictable and incentive-based fiscal regime for SMEs.

(e) Subcontracting. A recently adopted law lays down the rules applicable to subcontracting in the private sector. Regulation of subcontracting can be a useful tool to promote the development of SMEs, although it can be difficult to implement and needs to be carefully managed. This issue could be of particular relevance in the mining sector, where there is a huge potential for local SMEs creation and operation. Activities supported under the project will include a review of the subcontracting law and support to ensure effective implementation on the ground.

(f) Dispute resolution. This is also a cross-cutting business environment issue (a failing classical judicial system, not trusted and often denounced by the private sector), with a particular impact on SMEs since they are unable to support the cost and length of legal disputes. In addition to arbitration, which is already regulated by an OHADA Uniform Act, the project plans to support the promotion of mediation and conciliation as alternative ways of dispute resolution, through strengthening the institutional capacities of the two existing arbitration and commercial mediation centers and delivering trainings, awareness and dissemination activities on the best practices in arbitration, commercial mediation and conciliation. The final objective of the project's support is to foster increased use of, and access to, alternative dispute resolution mechanisms.

(g) Promotion of Public-Private Dialogue (PPD). PPD should be a privileged way for decision-making about the most relevant reforms to the private sector. A number of PPD tools have been developed through international practice, whether to promote inclusion, strengthen economic governance, improve the pace of sustainable reforms and address market failures regarding transparency, access to information, trust and capacity constraints. Experience shows that national PPD are long, arduous processes with mixed results, and probably difficult to consider in the current DRC context (weak institutional capacity, poor governance and lack of political consensus on key reforms). However, developing PPD tools could be useful at provincial and local levels, targeted at identifying and resolving key obstacles both cross-sectorally and sector-specific. The project will support a review and identification of specific PPD tools that could be useful at provincial and local levels based on international best practices, pilot testing and implementation in the provinces covered by the project scope of work.

<u>Component 2: SME Development (US$42 million)</u>

- **Sub-Component 2.1 Enhancing the growth and performance of SMEs (US$37 million)**

15. This sub-component will provide matching grants to established SMEs with a good track record that face constraints to growth that could not be addressed in the current context because of market and institutional gaps. Under this sub-component, the project will finance partial grants (typically 50 percent of the cost) for services (including consulting and non-consulting services), staff salaries and goods (such as equipment, spare parts) within the scope of business development plans. The project will also finance outreach, communications, consulting services and associated costs related to the delivery of these business development grants. The sub-component will target SMEs that operate in light manufacturing and service sectors, excluding trade.

16. The objective of the matching grants is to fill in the gaps where the formal financing system and commercial BDS market does not reach and provide growth capital and capacity support to SMEs that are nearing the growth stage. Those SMEs would include relatively mature companies that have established operations, clear leadership and a commitment to grow, but need additional financing and capabilities to reach new local or international markets or to upgrade their technology, products or talent pool. The number of targeted beneficiaries is up to 500 SMEs, depending on an uptake, with a maximum allocation of US$200,000 per SME (average allocation US$75,000 per SME).

17. The funding will be allocated through the Business Plan Competition (BPC) process. The BPC will be based

on objective and transparent criteria defined in consultation with local stakeholders, including the SME community. The criteria will include the proven capacity to implement the project submitted through BPC and demonstration of additional resources and potential impact (new jobs, investment or other socio-economic impact). To minimize the risk of capture, the awards will be decided through an independent selection process that uses pre-determined criteria, multi-stage selection and qualified evaluators representing the DRC government, local business community, investors and international experts.

18. The staged implementation will allow for learning and adjustments during the first 2-3 years of implementation, and scaling of the proven BPC and matching grants program. Design of the competitions might vary depending on the location and will be fine-tuned with participation of local stakeholders to promote ownership from the government and business community. A rigorous M&E system will allow for data collection throughout the competition cycle. The competition will have 2-3 calls for proposals to allow for adjustments and learning (year 1, 2 and possibly 3 of project implementation). Lessons of experience from implementation in each location will be benchmarked against each other and international experiences, and most successful design options will be scaled through additional financing in the existing locations and/or additional locations.

19. The implementation of all activities related to the BPC and follow-up supervision will be done by international firms and/or experienced NGOs with extensive experience on similar operations in FCS. The international firm will be responsible for building the capacity of the PUI and other local stakeholders including the local BDS providers through a "learning-by-doing" approach during design and delivery.

20. To encourage participation of women-led SMEs, this sub-component will establish a ratio of a 40 percent matching grant allocation to women-owned or -led SMEs, and women-owned or -led SMEs that meet all eligibility criteria will be prioritized in the matching grant allocation. The target is to meet or exceed the 40 percent ratio, which is much higher than the ratio of women-owned or -led SMEs in the DRC (less than 20 percent).

- **Sub-Component 2.2. Development of ancillary SME Hubs (US$5 million)**

21. The objective of this sub-component will be to support growth and supply chains SMEs through collaborative arrangements with large companies using the ancillary SME Hub model. The ancillary SME Hub is based on the concept of industrial estates for SMEs (see Annex 9). This sub-component will finance four to five SME Hubs with an average capacity of 40 SMEs.

22. The ancillary SME Hubs will be located near existing large companies around which a cluster of SMEs can be developed. Evidence has shown that collaborating with large companies whose value chains integrate large numbers of suppliers and retailers within key sectors can critically improve the reach of SMEs. For this project, the SME Hubs are defined as a tract of land with pre-built SME shells or buildings, developed according to a comprehensive plan with provision for roads, public utilities and ICT, possibly with common facilities, shared equipment and access to soft infrastructure, for lease to SMEs. The ancillary SME Hubs are those that are established in proximity and with sponsorship of a large company, which is linked to the SMEs located in the hub through an upstream or downstream value chain. The proposed SME Hubs design for the DRC is based on lessons from international experience and analysis of various types of SME facilities that already exist in the DRC (Annex 9).

23. The SME Hubs will be privately managed by large companies or firms selected through a call for proposals. Private management organizations will be responsible for management of facilities and supervision of activities, and promotion of the SME Hubs services among local entrepreneurs. The project will help define market demands, in drawing up a mapping of products and services needed by large firms and, in identifying their main priorities and requirements, including (but not limited to) the following: technical requirements, delivery times, product and service quality and compliance to standards. It will also help identify a pool of SME suppliers interested in becoming part of the supplier development program and potentially invest in the SME hubs. The project will finance TA, studies and other marketing and communications activities. Bank compliance criteria will apply for selection. The SME Hubs will focus on agribusiness (mainly food processing and packaging), light manufacturing and services.

24. SME Hubs will be associated with BDS and supplier development programs and will feed off the pipeline of MSMEs created in other project components. The hubs will be operational in year 3–4 of the project implementation, and by that time they will be able to host the MSMEs resulting from the activities of women entrepreneurs, young entrepreneurs and MSMEs supported though the project (sub-components 1.1, 1.2, 2.1).

<u>Component 3: Capacity Building and Project Management (US$14 million)</u>

25. The project will provide national and provincial actors (including public, private and civil society) with capacity-building opportunities to reinforce their skills and capabilities to perform support functions during program implementation. A steering committee is being established to provide strategic guidance for the project and ensure achievement of intended objectives. It will also ensure coordination of the involved departments. A formal decree establishing the steering committee signed by the responsible national authority needs to be published prior to project effectiveness. The implementation arrangement were confirmed during project appraisal, and took into consideration the latest political developments and weak institutional capacity. So far, the key technical counterpart for the project is the Ministry of SMEs, which is relatively new and has limited experience in Bank project management. To that effect, the project is in the process of recruiting a national-level PIU in a competitive manner and will finance capacity building to make it operational. Implementation of activities, such as BPC, grants and development of SME Hubs, will be done by international firms and/or experienced NGOs with extensive experience in similar operations in FCS.

26. This component will assure coordination and connectivity among project components. Component 1 will create a pipeline of new companies created by women entrepreneurs (sub-component 1.1) and young entrepreneurs (sub-component 1.2). Not all of these startups will survive the initial stages, but the ones supported through BDS (component 3.1) will help to maximize the return on investment and improve the performance of the new startups. Component 1 will create a pipeline of growth-ready MSMEs that can apply for matching grants (sub-component 2.1) and possibly establish their activities under the SME Hubs umbrella (sub-component 2.2). The consultative process around the design and implementation of both components, and data generated through the application process of the BPCs will also support the PPD (sub-component 1.3). Finally, successful MSMEs funded though the BPC component could feed into IFC's SME Ventures program (Kingkuba Fund) once they reach the growth stage requirements of SME Ventures.

27. This component includes two sub-components: (i) strengthening the capacity of public and private providers of technical and business development services; and (ii) project management and M&E.

- **Sub-component 3.1: Strengthening the capacity of public and private institutions supporting entrepreneurs and MSMEs (US$5 million)**

28. Results-based capacity building will be provided on a need basis to national and provincial technical service providers to strengthen their capacity to play a direct role in project implementation in a coordinated fashion (relevant departments in Ministry of SMEs, Ministry of Gender, technical services of provincial offices, investment promotion agencies, etc.). The project will provide TA and equipment to the designated technical service providers to enable them to better carry out their functions.

29. The project will also support the capacity of private and public actors in delivering BDS. In this project, BDS are defined as those non-financial services and products offered to entrepreneurs and MSMEs at various stages of their business needs. BDS are important because they can assist entrepreneurs in running their business more effectively and increase productivity by building the technical skills of their employees, improving operational and production systems, business models, etc. The objective of building local capacity for BDS is to support market creation and growth for BDS in the DRC through training and technical support to private actors (FEC, COPEMECO, FENAPEC and others) at provincial and local levels to enable them to better deliver BDS as part of project implementation and beyond. Publicly funded programs that already exist will also be supported to improve the capacity of public agencies, targeting (not to compete with market-based BDS) and efficiency of publicly-funded programs. The project will build upon existing programs of the Bank and IFC in BDC provision, including the SME Skills program of IFC (e.g., Business Edge), and the SME Skills toolkits developed by the WBG. High-quality BDS providers will:

  - Support the pipeline of quality proposals for the BDC, targeting young entrepreneurs and growth-ready MSMEs.
  - Help maximize the return on investment from grant implementation through the improved skills and business acumen of women and youth entrepreneurs and the improved organizational capacity of growth-ready MSMEs.
  - Enhance access to finance and an alternative form of “collateral” in circumstances where tangible collateral may impede meeting traditional security requirements.

30. This sub-component will also support local agencies that will participate in the delivery of the “Supplier Development Program.” The supplier development program will underpin the implementation of component 2 by assisting MSMEs in the matching grant program and in SME Hubs to enhance technical capacities, improve competitiveness and increase value-added in the output of large firms. In collaboration with the Bank project for extractive industries and IFC, this sub-component will build local capacity to implement: (i) value chain analysis; (ii) contractors’ needs analysis and selection of contractors, potential program partners; (iii) mapping of beneficiaries/SMEs subcontractors; (iv) design and rollout of specific support to SMEs and large firms; and (v) partnerships development. This project has been designed in consultation with IFC, and other organizations that deliver training to MSMEs in the DRC, including the Business Edge program. Business Edge built a network of more than 300 trainers in the DRC and the project will rely on the capacity that Business Edge created along with other successful donor and

government-funded programs.

- **Sub-component 3.2: Project implementation (IDA: US$9 million)**

31. This sub-component will finance activities related to project management, coordination, communication and M&E. The project will be managed on a day-to-day basis through a PIU based in Kinshasa, with execution provincial units in targeted cities. Given that the counterpart Ministry of SMEs is newly created and considering the overall low government capacity, the project would undertake extensive capacity building. The project will help the PIU to establish an M&E and Impact Evaluation system. The PIU will be responsible for consolidating data and for gathering data from the private agencies subcontracted for implementation (e.g., for the BPC component). The PIU will monitor the timely data collection and analysis to enable the adoption of corrective measures. Specifically, the project will fund M&E systems development, communication to project beneficiaries, a baseline and a final impact assessment, goods, hiring of staff, consultant services, workshops, training and office equipment. The technical implementation of project activities under Components 1 and 2 will be done by private firms and/or experienced NGOs that will be hired through a competitive process.

32. The BPC under sub-components 1.2 and 2.1 will be implemented and managed by a team of an international firm or NGO with proven experience. The implementation agency will report to the PIU, and its activities would involve: (i) organizing a co-design workshop with various stakeholders to fine-tune the eligibility criteria, selection process, funding amounts, evaluation arrangements and the supervision systems for matching grants implementation including M&E; (ii) designing and implementing an information campaign to raise awareness and invite proposals for new business ideas; (iii) skill-building and TA in drafting of business plans to assure high-quality proposals; (iv) selecting the winners in collaboration with stakeholders to promote buy-in and build a credible pool of awarded SMEs and entrepreneurs; (v) provision of capital (matching grants); (vi) implementation support, portfolio supervision and M&E; (vii) collaboration with local partners and coordination of the BDS provision and supplier development program (Annex 7); and (viii) capacity building of a local partner to progressively take over the administration of the BPC and provision of associated BDS and supplier development program (by year 4 of implementation at the latest). The international experts may also engage in activities to develop the local market of BDS and supplier development program providers where deemed necessary to respond to SME needs.

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

Financial Management

1. The existing arrangements provide for the project's PPA to be implemented under the overall coordination of the existing CFEF of the Ministry of Finance. The parent loan/facility will be implemented by a new PIU that is being recruited by the CFEF. It will be responsible for managing project components, overall planning, implementation, M&E and coordination with other beneficiaries and provincial PIUs. The proposed financial management arrangements, including mitigation measures, are considered adequate to comply with provisions of **Bank Directive**: Financial Management Manual For World Bank Investment Project Financing Operations, and **Bank Guidance**: Reference material–Financial Management in World Bank Investment Project Financing Operations.

Risk Assessment and Mitigation Measures

2. **The Bank's principal concern is to ensure that project funds are used economically and efficiently for the intended purpose**. The risk features are determined by two elements: (i) the risk associated with the project as a whole (inherent risk); and (ii) the risk linked to a weak control environment for project implementation (control risk).

Risks and Mitigation Measures

Risks	Risk Rating	Risk Mitigating Measures	Residual Risk Rating
Inherent Risk			
Country Level: Weak governance and slow pace of implementation of PFM reforms that might hamper the overall PFM environment.	H	Some PFM reform programs were implemented and concluded successfully, through IDA-financed projects, such as the Enhancing Governance Capacity (P104041), and Establishing Capacity for Core Public Management (P117382). Currently ongoing is the "Strengthening PFM and Accountability" (P145747) project These reforms will address the key new challenges the country is facing.	H
Entity Level: Lack of prior experience with World Bank financed projects	S	Reinforce the existing fiduciary arrangements. Provide TA to prospective PIU staff by implementing a fiduciary training plan which aims at strengthening the capacity of PIU fiduciary staff.	S
Project Level	M		M
Overall Inherent Risk: M			
Control Risk			
Budgeting: Weak budgetary execution and control inducing budgetary overspending or the inefficient use of funds.	M	Annual work plan and budget will be prepared for each year. The project FM Manual of Procedures will define the arrangements for budgeting, budgetary control and the requirements for budgeting revisions. Annual detailed disbursement forecasts and budgets	M

		will be required. IFRs will provide information on budgetary control and analysis of variances between actual and budget.	
Accounting: Risk of an increase of the FM team's workload leading to delays in the submission of the required reporting.	S	Appropriate accounting procedures are in place for the bookkeeping of the transactions such as advances and fixed assets. The members of the financial team to be recruited, must have experiences and qualifications acceptable to the Bank.	S
Internal Control: Weak compliance with FM manual of procedures and risk of circumventing internal control systems.	S	(i) Regular internal audit missions will be conducted during the project implementation with a focus on fraud and corruption risk; (ii) update the work-program of the current Internal Audit Unit to reflect the new project specificities.; and (iii) The current manual of procedures will be upgraded.	S
Funds Flow: The PIU has no direct experiences with management of IDA funds; (i) Risk of misuse of funds allocated to project objectives, (ii) Weak capacity in IDA disbursement procedures	S	- Organize frequent controls in each involved actor in order to help to prevent and mitigate the risk of diversion of funds. - Payment requests will be approved by the Coordinator and the financial management specialist prior to disbursement of funds. - Require of the FM team to ensure monthly submission of the withdrawal application. - Perform external audit.	S
Financial Reporting: Delay in the submission of Interim Unaudited Financial Reports (IFRs) to IDA due to weak capacity of the FM team.	M	Computerized accounting software - Purchase appropriate accounting software and customize it to generate the financial reports of the project.	M
Auditing: Delay in the submission of external audit reports to the IDA because of the lack of FM capacity of the project team.	M	Recruitment of independent external auditor based on agreed ToR developed in line with International Accounting Standards (including fraud and corruption).	M
Fraud & Corruption	S	Organize frequent controls of each actor in order to help prevent and mitigate the risk of diversion of funds. Payment requests will be approved by the Coordinator and the Financial Manager prior to disbursement of funds.	S
Overall Control Risk	*S*		S
Overall FM Risk	*S*		S
The overall risk rating is deemed Substantial.			

3. **Country issues.** 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) 2008 and 2012 have shown an unsatisfactory economic and financial control environment including weak budgeting preparation and control, financial reporting, external audit and human resources. As a result, the overall country fiduciary risk is still considered high. The repeated PEFA, concluded at the end

of 2012, took stock of the areas of progress and revised the existing PFM strategy plan accordingly. The new project "Strengthening PFM and Accountability" (P145747), effective since May 2014, will strengthen the Public Financial Management system both at the central and some provinces levels. The outcomes of the use of the country national PFM systems (UCS) assessment report which had been undertaken in April 2013 will be gradually implemented for the Bank-financed projects. Concerning internal and external audits, discussions will be engaged with the government to organize the working environment of the *Inspection Générale des Finances* (IGF) and the *Cour des comptes*.

4. **Governance and anticorruption considerations.** The country political situation has weakened the governance and corruption environment. In the context of the project, the following governance and anti-corruption measures will contribute to enhance transparency and accountability during the project implementation : (i) an effective implementation of the fiduciary mitigation measures should contribute to strengthen the control environment, (ii) the TOR of both internal audit unit and external auditor will comprise a specific chapter on corruption auditing, (iii) the FM manual of procedures will include anti-corruption measures with a specific safety mechanism that will enable individual persons and NGOs to denounce abuses or irregularities, (iv) measures to improve transparency such as providing information on the project status to the public and to encourage participation of civil society and other stakeholders will be strengthened during project implementation and (v) finally, an Anti-corruption action plan will be prepared in addition to the robust FM arrangements designed to mitigate the fiduciary risks.

5. **Staffing and Training.** The work-program of the Internal Audit Unit will be revised within three months after the project effectiveness to take into consideration the new project specificities. The prospective team currently being recruited, will have the overall financial management responsibility over, budgeting, accounting, reporting, disbursement, internal control and auditing. This team will receive an appropriate training prior to implementation.

6. **Budgeting.** The budgeting arrangements will include an annual work plan and budget to be prepared for each year. The project financial management Manual of Procedures will define the arrangements for budgeting, budgetary control and the requirements for budgeting revisions. Annual detailed disbursement forecasts and budgets will be required. IFRs will provide current and prospective information on budgetary control and analysis of variances between actual and budget.

7. **Accounting Policies and Procedures.** The accounting systems, policies, and administrative and financial procedures designed for the project will be adapted from that currently in use by CFEF. This manual of procedures will be revised to include the new project's specifics. The PIUs accounting software will be used after its configuration for reflecting the new project specificities. Appropriate accounting procedures will be implemented for the bookkeeping of the transactions such as advances and fixed assets. The members of the financial team to be recruited, must have experiences and qualifications acceptable to the Bank.

8. **Financial Reporting and Monitoring:** At least two sets of financial reports will be prepared by the project. The consolidated quarterly Interim Financial Reports, as required by the Bank and the Annual Financial Statements (AFS) will include the project's consolidated financial statements. The quarterly IFRs agreed upon during negotiation will be prepared and submitted to the Bank 45 days after the close of each quarter. The IFRs will be based on formats developed in the Bank's Guidelines on Financial Monitoring Reports with some adjustments. The Manual of Administrative, Accounting, and Financial procedures indicates provisions for

quarterly and yearly financial reporting, including physical progress. The quarterly reports will include a table on budget execution. The format of this report will include (i) a statement of sources and uses of funds; (ii) a table summarizing the use of funds by category, activities and components; (iii) an updated procurement plan; (iv) a report on the physical progress of activities; and (v) a summary of missions of internal audit, as well as implementation status of the recommendations of internal or external audit and supervision missions. Project accounts will be maintained on an accrual basis, supported with appropriate records and procedures to track commitments and safeguard assets.

9. **Internal Control and Internal Auditing. The work-program of the PIUs' internal audit Unit will be revised to take into** account the new project specificities. The internal auditor to be recruited will report directly to the Coordinator (and/or Steering Committee). He will undertake periodic assessments on the strengths and weaknesses of the internal control system at all levels. All control deficiencies or circumvented practices identified will be communicated in a timely manner to the overall senior management of the project for immediate corrective action as appropriate. One of each such report will also be communicated to the Bank. He will prepare relevant manuals and guidelines.

Key Weaknesses and Action Plan to Reinforce the Control Environment

Issue	Remedial action recommended	Entity Responsible	Deadline for Completion	Effectiveness conditions
1	Open a designated account in a financial institution acceptable to the Bank	PIU/DRC Government	Not later than one month after effectiveness	N
2	Acquire computerized accounting software - Purchase appropriate accounting software and configure it to generate the financial reports of the project.	PIU/DRC Government	Not later than one month after effectiveness	N
3	Review and approve the manual of procedures in order to take in account the grant specificities, as well as the Bank's Financial Management guidelines and Directives.	PIU/DRC Government	Not later than two months after effectiveness	N
4	Recruit a Chief Financial Officer,	PIU/DRC Government	Not later than two months after effectiveness	N
5	Recruit an Accountant,	PIU/DRC Government	Not later than two months after effectiveness	N
6	Recruit an internal auditor	PIU/DRC Government	Not later than two months after effectiveness	N
7	Finalize ToRs for the recruitment of the external auditor acceptable to IDA. Recruit an external auditor	PIU/DRC Government	Not later than two months after effectiveness	N

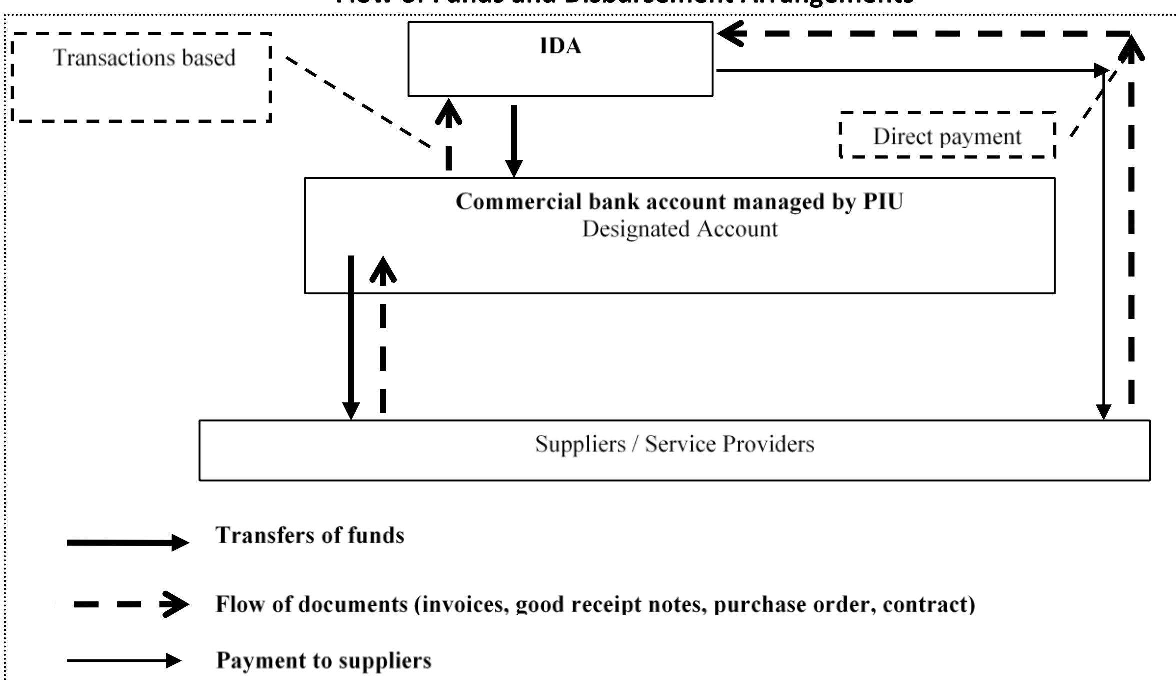
Disbursements

10. **Funds Flow and Disbursement Arrangements.** One Designated Account (DA) will be opened in a reputable commercial bank. This account will be held in USD. The Designated Accounts will receive cash advances to pay project expenses eligible for IDA financing. Any interest earned on funds deposited in the Designated Account shall be deposited into the project account. Payments will be made in accordance with the provisions of the Project Implementation Manual (i.e., joint signatures by the PIU Coordinator and Chief Financial Officer).

11. **Disbursement arrangements.** The transaction-based disbursement method will be applied for the Designated Account (DA) which will receive an initial advance of US$6,500,000. The DA will be used for all payments inferior to twenty percent of the ceiling (6,500,000US$) and replenishment will be submitted as often as possible. Funds flows for the DA are as follows:

12. **Disbursement of Funds to other Service Providers and Suppliers:** The PIU will make disbursements to service providers and suppliers of goods and services in accordance with the payment modalities, as specified in the respective contracts/conventions as well as the procedures described in the project's Manual of Administrative, Accounting, and Financial procedures. In addition to these supporting documents, the Project will consider the findings of the internal audit unit while approving the payments. The PIU, with the support of its internal audit unit, will reserve the right to verify the expenditures ex-post, and refunds might be requested for non-respect of contractual clauses. Misappropriated activities could result in the suspension of financing for a given entity.

Flow of Funds and Disbursement Arrangements



13. **Disbursements by category:** Expenditure categories to be financed by of the grant take into account the prevailing country financing parameters for the DRC in setting out the financing levels except for local expenditures which will be financed at 100 percent excluding local taxes. In accordance with Bank standard procurement requirements, contracts will continue to be approved "all taxes included" for local expenditures. The project will however, claim invoiced amounts excluding taxes. The government will take appropriate steps to cover the tax portion of contracts signed by the project with contractors and suppliers of goods and services.

Disbursement Category Table

Components		IDA / Amount of the Financing Allocated (expressed in US$)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
1	Support resilience and inclusion	44 000 000	100%
2	Investing in the growth of Micro, Small and Medium Size Enterprises	42 000 000	100%
3	Project Management and Monitoring & Evaluation	14 000 000	100%
Total Amount		100 000 000	100%

14. **External Auditing:** The project financial statements and internal control system managed by the PIU will be subject to annual audits by an independent external auditor which will be renewed every two years. The external auditor will give an opinion on the annual financial statements in accordance with auditing standards of IFAC25. In addition to audit reports, external auditor will also produce a management letter on internal control to improve accounting controls and compliance with financial covenants under the financing agreement. The project will be required to submit, not later than June 30 of each fiscal year, the annual audited financial statements. In line with the new access to information policy, the project will comply with the disclosure policy of the Bank of audit reports (for instance making available to the public without delay after receipt of all reports final financial audit, including audit reports qualified) and place the information on its official website within one month after acceptance of final report by IDA.

15. **Implementation support Plan:** FM implementation support missions will be consistent with a risk-based approach and will involve a collaborative approach with the project team. A first implementation support mission will be performed six months after project effectiveness. Afterwards, the missions will be scheduled by using the risk based approach model and will include the following: (i) monitoring of the financial management arrangements during the supervision process at intervals determined by the risk rating assigned to the overall FM Assessment at entry and subsequently during Implementation (ISR); (ii) integrated fiduciary review on key contracts, (iii) review the IFRs; (iv) review the audit reports and management letters from the external auditors and follow-up on material accountability issues by engaging with the task team leader, Client, and/or Auditors; the quality of the audit (internal and external) also is to be monitored closely to ensure that it covers all relevant aspects and provide enough confidence on the appropriate use of funds by recipients; and, (v) physical supervision on the ground; and (vi) assistance to build or maintain appropriate financial management capacity.

[25] IFAC: International Federation of Accountants

16. Based on the outcome of the financial management risk assessment, the following implementation support plan is proposed:

FM Activity	Frequency
Desk reviews	
Interim financial reports review	Quarterly
Audit report review of the program	Annually
Review of other relevant information such as interim internal control systems reports.	Continuous as they become available
On site visits	
Review of overall operation of the FM system	Annual (Implementation Support Mission
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit and other reports	As needed
Transaction reviews (if needed)	As needed
Capacity building support	
FM training sessions	Before Project starts and thereafter as needed

17. The objective of the above implementation support plan is to ensure the project maintains a satisfactory financial management system throughout the project's life.

Conclusion of the FM Assessment: The overall residual FM risk for implementation is considered Substantial. The proposed financial management arrangements for this project are considered adequate to meet the Bank's minimum fiduciary requirements under **Bank Directive**: Financial Management Manual For World Bank Investment Project Financing Operations, and **Bank Guidance**: Reference material - Financial Management in World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-GUID.02).

Procurement

18. **Applicable Procurement regulations:** The procurement of goods, works, non-consulting, and consulting services for the project will be carried out in accordance with the procedures specified in the 'World Bank Procurement Regulations for IPF Borrowers' (Procurement Regulations) dated July 2016 and revised November 2017 under the New Procurement Framework (NPF), and the World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants' (dated July 1, 2016), as well as the provisions stipulated in the Financing Agreement.

19. All goods, works and non-consulting services will be procured in accordance with the requirements set forth or referred to in the Section VI. Approved Selection Methods: Goods, Works, and Non-Consulting Services of the Procurement Regulations, and the consulting services will be procured in accordance with the requirements set forth or referred to in Section VII. Approved Selection Methods: Consulting Services of the

Procurement Regulations, the Project Procurement Strategy for Development (PPSD), and the Procurement Plan approved by the World Bank.

20. A PPSD has been prepared with the Bank support and aims to ensure the procurement activities are packaged and prepared in such a way that they expedite implementation considering (i) the market analysis and the related procurement trends, and (ii) the procurement risk analysis. The PPSD provides the basis and justification for procurement decisions, including the recommended procurement approaches for the project to market and selection methods that have been reflected in the approved Procurement Plan covering the first 18 months of the project implementation. The table and text below summarize the various procurement methods to be used for main activities financed by the proposed IDA Credit.

Table 1: Procurement methods

Type of Procurement	Selection Methods
1 - Goods	Request for Proposals, Request for Bids, Request for Quotations, and Direct Selection
2 - Non-Consulting Services	Request for Proposals, Request for Bids, Request for Quotations, and Direct Selection
3 - Works	Request for Proposals, Request for Bids, Request for Quotations, and Direct Selection
4 - Consulting Services	Quality Cost Based Selection, Fixed Budget Based Selection, Least Cost Based Selection, Quality Based Selection, Consultant's Qualification Based Selection, Direct Selection, and Selection of Individual Consultants.

21. Procurement Plan. The Procurement Plan, including its updates, shall include for each contract (a) a brief description of the activities/contracts; (b) the selection methods to be applied; (c) the cost estimates; (d) time schedules; (e) the World Bank's review requirements; and (f) any other relevant procurement information. The Procurement Plan covering the first 18 months of the project implementation was prepared and submitted to the World Bank's approval before the project negotiations. Any updates of the Procurement Plan shall be submitted for World Bank approval. The recipient shall use the World Bank's online procurement planning and tracking tools (STEP) to prepare, clear, and update the Procurement Plans and manage all procurement transactions and related documentation.

22. Institutional arrangements for procurement. The PIU is to be set up and staffed, it will be responsible for ensuring that the fiduciary aspects of the project are managed appropriately. The procurement unit within the PIU will be staffed with qualified and experienced staff who will be responsible for carrying out procurement activities of the project. As needed, the procurement staff to be recruited will benefit from the coaching and assistance of the procurement unit of CFEF. The procurement staff will be trained on procurement regulations.

23. Procurement risk assessment. Given the (a) country context and associated risk; (b) unproven experience of the procurement unit because it has yet to be set up and staffed within the PIU to be created; and (c) the fact that this project will be implemented under the World Bank's New Procurement Framework, the procurement risk is rated **high**.

24. The **prevailing** risk can be improved to substantial provided that the following corrective measures are implemented.

Table 2. Procurement Action Plan Corrective Measures

Ref	Tasks	Responsibility	Due Date
1	Recruit a well-qualified and experienced staff for the procurement unit within the PIU.	CFEF	Before effectiveness
2	Coach and assist the new recruited procurement staff.	CFEF	Before effectiveness
3	Train the new recruited procurement staff on the World Bank's New Procurement Framework (online courses and face-to-face courses) and on the use of Systematic Tracking of Exchanges in Procurement (STEP) tools, which will be used to manage all procurement transactions and related documentation.	PIU	Three months after effectiveness
4	Prepare a Project Implementation Manual that will include procurement procedures and arrangements for the project along with the standard and sample documents to be used.	PIU	Done
5	Organize a launch workshop involving all stakeholders.	PIU	Three months after effectiveness
6	Develop a contract management system to ensure that all contracts under the project are effectively and efficiently managed.	PIU	Continuously

25. **Frequency of procurement supervisions.** In addition to the prior review to be carried out by the World Bank, at least two implementation support missions will be carried out annually, including field visits to be carried out for post review of procurement actions. As agreed with the Government, contracts will be published on the web. Annual compliance verification monitoring will also be carried out by an independent consultant and will aim to (a) verify that the procurement and contracting procedures and processes followed for the project were in accordance with the Financing Agreement; (b) verify technical compliance, physical completion, and price competitiveness of each contract in the selected representative sample; (c) review and comment on contract administration and management issues as dealt with by the PIU; (d) review capacity of the PIU in handling procurement efficiently; and (e) identify improvements in the procurement process in light of any identified deficiencies.

Summary of PPSD

Institutional Arrangements

26. The oversight responsibility of Project activities and results would rest with the PCU to be set up within the Ministry in charge of SMEs. The procurement unit within the PCU will be responsible to carry out all procurement activities for this project. All staff of the PCU will be recruited on a competitive basis. The procurement staff will be trained on the NPF and on the use of STEP.

Risks and Mitigation Measures

27. Key risks with procurement have been identified and corresponding mitigations are proposed (Para 24 PAD and section 5.3 PPSD on Procurement Risk Analysis). The Project Implementation Manual is reflecting the proposed mitigations measures.

Procurement arrangements for the high or substantial risk contracts within the project in the table below:

Nr.	**Contract Title, Description and Category**	**Estimated Cost USD and Risk Rating**	**Bank Oversight**	**Procurement Approach/Competition:** • **National** • **International** • **Open** • **Limited** • **Direct** • **Sole source**	**Selection Methods:** • **Pre/post Qualification** • **SPD/(RFP/RFB)** • **Competitive Dialogue** • **Framework Agreement** • **E-Reverse Auction** • **QCBS/FBS, etc.** • **Negotiation** • **BAFO**
1	Consultant international (firme/ONG) chargé de réaliser les campagnes de communication, sélection des firmes bénéficiaires, octroi des financements, assistance technique, et évaluation de la mise en œuvre de la1ère compétition des plans d'affaires (CPA)	15,000,000	Prior	Open / International	Shortlist / FBS
2	Consultant international (firme/ONG) chargé de la sélection, de la subvention et de la formation des 4.500 PME des femmes entrepreneures	8,000,000	Prior	Open / International	Shortlist / FBS
3	Consultant international (firme/ONG) chargé de la diffusion des réformes de genre et le renforcement des	8,000,000	Prior	Open / International	Shortlist / FBS

	capacités des praticiens du droit				
4	Consultant international (firme/ONG) chargé de la sélection, subvention et formation de 3000 jeunes entreprises et mener à bien le concours de plan d'affaires pour les PME existantes.	$44,000,000	Prior	Open / International	Shortlist / FBS
5	Consultant international (firme) pour l'Assistance technique aux grandes entreprises pour le développement des pôles PME	4,800,000	Prior	Open / International	Shortlist / QCBS

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

Strategy and Approach for Implementation Support

A detailed Project Implementation Manual (PIM) and a Manual of Administrative, Financial and Accounting procedures have been prepared by the Borrower. They have been reviewed by the Bank. The POM spells out the mandates, responsibilities, governance structure, and relationship between each implementing units. The partnership agreements between the Government and the main implementing units (contracts with specialized institutions for the implementation of operational activities including private firms, civil society or development partners) will also be spelled out. It will also clarify the terms of reference of each structure which will be involved in project implementation. Semi-annual performance review meetings will be organized with all relevant stakeholders given the need for close monitoring. A more comprehensive mid-term review will be held based on project implementation performance approximately 30 months after grant effectiveness to assess progress and adopt corrective measures aimed at improving implementation and reaching project objectives.

Detailed implementation support plan for each component is included in the POM. It is summarized below:

Sequencing of Activities

Objectives	Stakeholders involved in implementation	Expected activities in 2018 – using Project Preparation Advance	During implementation
Component 1: Support entrepreneurship opportunities for youth and women (US$44 million)			
Sub-Component 1.1: Support for women entrepreneurs (US$15 million)			
Direct support for women entrepreneurs who are engaged in productive activities, through in-kind grants and longer-term TA.	• Recruited firm/NGO • Local NGOs • Women's associations • Financial institutions • National and provincial level Governments	• Procurement for the recruitment of an international firm or NGO to implement activity • Signature of contract upon project effectiveness	(f) **Step 1.** Publicity and communication campaign in the four targeted locations to attract beneficiaries to the program. (g) **Step 2.** A training program for all interested women (a maximum of 4,500 participants, with 1,500 in Kinshasa and 1,000 in Matadi, Lubumbashi and Goma respectively). (h) **Step 3.** A simplified call for proposal/business plan competition for the selection of those to receive grants. Guidance and feedback will be provided to those who were not successful, including information that might make them succeed in a future round.

Objectives	Stakeholders involved in implementation	Expected activities in 2018 – using Project Preparation Advance	During implementation
			(i) **Step 4.** 2,500 enterprises (1,000 in Kinshasa and 500 in Matadi, Lubumbashi and Goma respectively) will be selected to receive in-kind grants of between US$1,000 and US$5,000. They will receive further and specialized training for development of their specific proposals and activities. (j) **Step 5.** Female beneficiaries will be placed into networks and peer-to-peer support groups for up to one year after the initial training (building on modules delivered during Step 1). Spouses and family will also be involved in special events for sensitization on legal changes and reinforcement of the tenets of female economic empowerment.
Sub-Component 1.2 Start-up grant and TA for young entrepreneurs (US$17 million)			
To provide early stage financing (cash grants) to motivated young entrepreneurs (aged 18–35) who have viable new business ideas, but need seed capital, practical experience and mentoring in business practices to succeed.	• Recruited firm/NGO • Youth associations • Leaders and mentors • Financial institutions • National and provincial level Governments	• Procurement for the recruitment of an international firm or NGO to implement activity • Signature of contract upon project effectiveness	(e) **Step 1.** Publicity and communication campaign to attract beneficiaries to the program, and clinics for the young entrepreneurs on how to develop and present their ideas in a variety of ways (elevator pitches, video submissions, use of social media). (f) **Step 2.** Young entrepreneurs will pitch their business ideas to an expert panel and the top 30–40 percent of candidates will be invited for a business plan training (could be delivered as a 4-5-day “boot camp”). (g) **Step 3**. Young entrepreneurs who will submit a quality business plan for the training competition will receive grants of US$20,000 (up to 750 enterprises; 300 in Kinshasa and 150 in each Matadi, Lubumbashi and Goma). The quality review of the business plan will be conducted by an expert panel that will comprise the local business and investors community and international experts. (h) **Step 4.** The grants will cover 18 months of operations costs (in cash), to be distributed quarterly based on the achievement of milestones defined in the business plan, along with participation in required trainings and mandatory mentoring sessions and other

Objectives	Stakeholders involved in implementation	Expected activities in 2018 – using Project Preparation Advance	During implementation
			predefined deliverables. Training will be provided through local providers, where possible. The International Vendor will collaborate with and work through the qualified local BDS providers that were supported through subcomponent 3.1. Training will include modules on financial, business and human resources management along with sector-specific technical skills, ways to access to finance and related requirements for accessing credit, civil rights and legal aspects, including the Family Code and Labor Code, etc. Soft skills training will also be provided on building self-confidence, negotiation, team-building, results orientation for business, etc. Support for formation and creation of business networks will also be emphasized
Sub-Component 1.3. Improvement of business environment (US$12 million)			
Support the enabling business environment for all SMEs, with a special focus on women-led SMEs and dissemination campaigns around laws that support female entrepreneurship and women's economic empowerment.	• Ministry of Finance • Ministry of SME • Ministry of Gender • Ministry of Justice • Ministry of Land • Professional associations, women's cooperatives, legal associations, education centers, financial institutions etc.	• Recruitment of an international consulting firm or NGO with field experience and proven track record for dissemination of laws • Recruitment of two lawyers (International and national) to support review of existing legislation and plan advocacy work, as detailed in Annex 1 • MoUs with public institutions in charge of specific reforms	• Consultative workshops to be held with public and private partners to identify the most appropriate means of dissemination. Potential tools for dissemination include community radio, television programming including soap operas, posters, newspapers, comic books, other media outlets, community theater and songs in local languages. Local media companies will be engaged to design effective campaigns and messaging at the provincial level. • TA to support review existing legislation and provide advocacy support, as detailed in Annex 1 • Review and identification of specific PPD tools that could be useful at provincial and local levels based on international best practices, pilot testing and implementation in the provinces covered by the project scope of work.
Component 2: SME Development (US42 million)			
Sub-Component 2.1 Enhancing the growth and performance of SMEs (US$37 million)			

Objectives	Stakeholders involved in implementation	Expected activities in 2018 – using Project Preparation Advance	During implementation
To provide matching grants to establish SMEs with a good track record that face constraints to growth that could not be addressed in the current context because of market and institutional gaps. The funding will be allocated through the Business Plan Competition (BPC) process.	• National and provincial sectoral ministries (SMEs, Industry etc.) • Professional associations of firms (FEC, COPEMECO etc.) • BDS providers	• Procurement for the recruitment of an international firm and/or experienced NGO with extensive experience on similar operations in FCS • Signature of contract upon project effectiveness	(i) Step 1. Publicity and communication campaign to attract beneficiaries to the program, and clinics for the existing SMEs on how to develop a business model. (j) Step 2. Presentation of business models to an independent selection panel (k) Step 3. SMEs that are selected will receive a maximum allocation of US$200,000 per SME (average allocation US$75,000 per SME), with up to 500 SMEs total expected). (l) Step 4. The project will finance partial grants (typically 50 percent of the cost) for services (including consulting and non-consulting services), staff salaries and goods (such as equipment, spare parts) within the scope of business development plans. A list of qualified local BDS providers that were supported through subcomponent 3.1. will be provided to assure high quality of TA and BDS received by firms. Training areas could include modules on financial, business and human resources management along with sector-specific technical skills, ways to access to finance and related requirements for accessing credit, civil rights and legal aspects, including the Family Code and Labor Code, etc. Soft skills training will also be provided on building self-confidence, negotiation, team-building, results orientation for business, etc. Support for formation and creation of business networks will also be emphasized.
Sub-Component 2.2 Development of Ancillary SME Hubs (US$5 million)			
To support growth and supply chains SMEs through collaborative arrangements with large companies using the ancillary SME Hub model.	• FEC • COPEMECO • BDS providers • Ministry of SMEs • Ministry of Industry • Large firms	• Call for proposals • Partnership contracts signed with interested firms	(a) Definition of market demands, in drawing up a mapping of products and services needed by large firms and, in identifying their main priorities and requirements, including (but not limited to) the following: technical requirements, delivery times, product and service quality and compliance to standards. (b) Identify of pools of SME suppliers interested in becoming part of the supplier development program and potentially invest in the SME hubs

Objectives	Stakeholders involved in implementation	Expected activities in 2018 – using Project Preparation Advance	During implementation
Support development of four SME hubs in targeted areas.			(c) Provision of TA, studies and other marketing and communications activities
Component 3: Capacity building and project management (US$14 million)			
Sub-component 3.1: Strengthening the capacity of public and private institutions supporting entrepreneurs and MSMEs (IDA: US$5 million)			
To build capacity of public and private providers of technical and business development services	Professional associations (FEC, COPEMECO and others) Ministry of SMEs Provincial offices Ministry of Gender Ministry of Justice etc.	• Identification of key private and public actors to receive capacity building • MoUs signed with key beneficiaries	• Provision of TA and equipment to the designated technical service providers to enable them to better carry out their functions. • Definition of performance targets. • Collaboration with the International Vendors on implementation of BDS activities under Components 1 and 2.
Sub-Component 3.2. Project implementation (IDA : $9 million)			
To provide project management, coordination, communication and monitoring and evaluation (M&E).	PIU Steering committee	• A steering committee set up • Core PIU staff recruited: a project coordinator, FM specialist, M&E specialist, procurement specialist, an accountant, an internal auditor and administrative support staff. • M&E framework developed • Communication plan developed	• Equipment and capacity building provided to PIU • Technical experts to be recruited, such as a SME specialist, legal expert and gender specialist. • If needed - Provincial Execution Unit set up in each targeted city (Matadi, Goma, Kinshasa and Lubumbashi) at end-year 1 of project effectiveness • Implementation of M&E framework • Possibly carry out an impact evaluation (if funding available) • Implementation of communication activities around project in targeted areas.

ANNEX 1: GEOGRAPHIC DIFFERENCES IN THE DRC

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

1. **There are five major economic regions in the DRC, where most resources and economic activities are concentrated**: (a) the economic zone of Western DRC, centered on the Kongo Central-Kinshasa-Kikwit agro-industrial corridor; (b) the Bandundu-Mbandaka-Kisangani timber and agro-industrial corridor of the Congo-Basin; (c) the Bunia-Goma-Kalémie agro-industrial corridor of Eastern DRC; (d) the Kolwezi-Lubumbashi mining corridor of the Katanga region; and (e) the Central diamond mining and agricultural zone of the Kasais.

2. **Western DRC**: This is the largest of the five regions and straddles the larger parts of the three provinces of Kongo Central, Kinshasa, former Bandundu (Kwango, Kwilu and Mai-Ndombe provinces). It has a combined population of about 18 million and includes the ports of Boma and Matadi (in Kongo Central). As the national capital, Kinshasa has relatively heavy concentration of high school and college graduates. It also has a relatively well-developed transport sector, including an international airport, a domestic airport, several private transport companies, a public city train, three public railway lines, a major river port which connects the city to dozens of ports upstream, and a railway to the country's only seaport in Matadi. The ports of Boma and Matadi are important parts of the region's economy and that of Kongo Central within it, which has a population of three million and is the only province in the country with direct access to the sea. Services, mining, construction material, the Inga hydro-electric complex, and transport are all major contributors to the province's economy. The region's growth potential lies in the production of food crops and traditional export crops, livestock and meat processing and labor-intensive manufacturing (food and beverages, packaging, wood work etc.). The Western DRC region has the largest market potential of all five economic zones. It has the largest population of all regions; the highest concentration of business establishments; and greater connectivity to other regions through the Kinshasa–Kisangani river transport corridor. These advantages increase the access of domestic suppliers to markets in Equateur province and Eastern Congo. The region also has superior access to foreign markets and suppliers through the port at Matadi and the Kinshasa international airport, and through its greater proximity to the relatively affluent neighboring countries of Angola, the Republic of Congo, and Gabon.

3. **Congo Basin**: This economic region is centered on the former provinces of Equateur in the North West of the DRC (now divided into: Equateur, Nord Ubangi, Sud Ubangi and Tshuapa) and Province Orientale in the North East of the DRC (now divided into: Tshopo, Haut Uele, Bas Uele and Ituri). The former province of Equateur is located on the Congo River and is linked to Kinshasa by ferry services and by air. The province shares borders with the Republic of the Congo and the Central African Republic and is immensely rich in tropical forest resources with a sizeable timber industry. Its economy is dominated by both traditional farming of food crops such as maize, cassava and rice, and commercial farming of export crops such as rubber and cacao. It has the potential to become a major agriculture production center serving Kinshasa. Kisangani is the capital of the former Orientale province is among the most economically important and vibrant cities in the country. Located in the vast Congo Basin, it is the farthest navigable point upstream of the Congo River, and is the country's second largest inland port after Kinshasa. Because of its strategic location, it is a major river and land transport hub, and a distribution and commercial center for the northeastern part of the DRC. The

main growth industries of the region are: food crops; traditional export crops; timber, and manufacturing (in and around Kisangani).

4. **Eastern DRC:** This economic region encompasses the city of Bunia in the Ituri province, the cities of Goma and Bukavu in the Kivus, south all the way to Kalemie, and the western side of Lake Tanganyika. Bunia is a city of about 330,000 and is located 25 miles from the Uganda border. It is an important market center for internal trade and for cross-border trade with Uganda. Goma, the capital of North Kivu province, has an estimated population of 500,000 and is located in the eastern part of the country, bordering Rwanda. It was the center of the Congo wars and, despite several peace agreements signed over the last decade, remains unstable, with sporadic fighting. Its infrastructure is severely degraded, but its economy is showing recovery, due mainly to the growth of the mining industry in the Kivus. The city has also the potential to be one of the country's main transport hub linking west DRC to the port of Mombasa in Kenya. The city of Bukavu is the capital of South Kivu province. It is located on the south- eastern shore of Lake Kivu and has a population of about 250,000. Like Goma and Bunia, it has been severely affected by the war in human terms and the damage done to its economy and physical infrastructure. Prior to the civil war, the city was a transport hub and gateway to East Africa. Bukavu' s proximity to the relatively good road network of East Africa, the Trans-African Highway to Mombasa, and the Lake Tanganyika ports of Bujumbura and Kalundu-Uvira also gives it an advantage over many other cities in terms of foreign market access. Kalemie is a port city of about 146,000 on the western shore of Lake Tanganyika. The port was built to connect the Great Lakes rail line to the Tanzanian lake port at Kigoma, from where the Tanzanian Central Railway Line runs to the seaport of Dar-es-Salaam. Lake Tanganyika is an important natural resource for the city and the region. It is the second largest freshwater lake in the world and touches on four countries—Burundi, Tanzania, Zambia, and the DRC— which possesses 45 percent of the lake. The lake is an important mode of cross-border transport via passenger and freight ferry services. In addition, rivers flowing into the lake have significant hydroelectric generation potential. The lake holds a large variety of fish and supports about 100,000 people, operating from some 800 fisheries. The main growth industries of the region are: food crops, fisheries, and mining (cassiterite and coltan in the Kivus and gold in Ituri). All three industries are expected to benefit from the combined market potential of the three largest cities. In addition, Goma and Bukavu are gateways to international and regional markets due to their location on international borders and their access to international waterways.

Southern DRC: This economic region is centered on Lubumbashi, the capital of the former Katanga province and the second largest city in the country, with a population of 4.2 million. It is connected to Kolwezi, population 420,000, one of the most important centers of copper and cobalt production. Lubumbashi's economy includes a sizeable manufacturing sector, including the production of textiles, food products and beverages, printing, and bricks. The city has a relatively modern international airport and is connected by railway to neighboring provinces and with relatively stable neighboring countries. It is also linked to the port of Durban in South Africa and the port of Maputo in Mozambique, both along the North-South Corridor. The province of Katanga shares land borders with Angola and Zambia and is enormously rich in mineral resources including diamonds, cobalt, copper, tin, zinc, radium, coal and uranium. It is home to Gecamines, the state-owned mining company. It is also rich in agricultural resources and had a rich tradition of commercial farming prior to the war, in the course of which about 280 farms operating on 1.7 million ha land were abandoned. The region appears to have the best growth potential in the country in: mining (copper and cobalt), manufacturing, and livestock and meat processing. The relatively large market potential of the region arises from its high economic density and its superior foreign market access across the borders with Angola, Zambia and the rest of Southern Africa and the port of Durban, which gives the region more foreign market and supplier access than any other part of the country, including Kinshasa and Kongo Central. The region will also be well connected to the Kasais and the Kivus once the railway network is rehabilitated.

5. **Central DRC**: This is the central diamond mining region of the Kasais. This region centers on two major cities—Kananga, the capital of West Kasai, and Mbuji-Mayi, the capital of East Kasai. Kananga has a population of 1.1 million and lies near the Ilebo–Lubumbashi railway line. Mbuji-Mayi, with a population of 1.5 million, is a bit farther from the line but still close enough for easy access. Both cities are centers of the diamond trade, and the two provinces of which they are capitals have the largest accumulation of industrial diamonds in the world. The region also offers significant potential in the production of food crops. The economic density of the two cities is a critical source of local domestic market access for farmers and firms in the region. The cities' access to the Ilebo-Lubumbashi railway line also increases the market access and supplier access of producers based in the region by connecting them to the relatively prosperous Kolwezi-Lubumbashi corridor to the South and, through that, to Southern Africa.

ANNEX 2: LESSONS LEARNED FROM WBG OPERATIONS

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

1. The project design is based on the lessons learned and recommendations from "The World Bank SME Action Plan" (World Bank, 2016), which identifies six priority themes for the SME agenda in developing countries (four are listed here): (i) designing policies and programs to foster high-growth entrepreneurs; (ii) facilitating SME internationalization to connect SMEs with multinational enterprises; (iii) strengthening women-led SMEs; and (iv) promoting innovation and early-stage financing. In addition, the project reviewed the following:

a. **"The Big Business of Small Enterprises" Report** (IEG, 2014) that reviewed the results of 179 World Bank Group projects targeting SMEs during 2006–2012 time period.
b. **10 Bank lending projects** targeting SMEs in Africa in 2006–2016 (see Table 2).

2. The project design aligns with priority themes for SME development (four out of six themes covered) and incorporates key lessons and recommendations from the IEG Review and analysis of the relevant SME projects in Africa that are described below.

3. **Lesson 1. Need for a clear definition of targeted SMEs.** The IEG review highlights the importance of clear definition of the targeted segment(s) of the SME sector supported by measurable criteria (e.g., number of employees, annual revenues etc.). The targeting should be based on evidence that identifies market failures and constraints specific for a particular group of SMEs, which could be defined based on size, ownership, age, sector, etc.

4. The proposed project adopts the targeting principles, with some limitations stemming from the lack of quality data on SMEs in the DRC. The proposed target groups of SMEs include: (i) established SMEs with a good track record that face capital and capacity constraints to growth; (ii) young entrepreneurs and micro-enterprises that need seed capital and skills to test their ideas and gain access to markets; and (iii) women-entrepreneurs that need funding and technical support to increased production, value addition The and improve marketing of their products.

5. The funding for all the beneficiary groups will be provided on a competitive basis using clear, open, and transparent criteria for the selection of specific beneficiaries. This approach is aligned with the experiences of two recent SME projects in Mali (P145861)[26] in 2014 and in Zambia (P156482)[27] in 2016. Each project has a detailed description for each specific target SME group in every project component.

6. **Lesson 2. Strategic sequencing of project interventions.** The IEG report recommends building basic institutional capacities and legal frameworks, especially in low-capacity countries like the DRC, in order to ensure a reasonable opportunity for success of the targeted interventions. Experience based on another SME project implemented in Guinea (P128443)[28] in 2013 shows that innovative approaches in fragile countries benefit from being managed through a step-by-step process. Minimizing the risks by testing the

[26] Skills Development and Youth Employment Project, Mali (P145861).
[27] Zambia Agribusiness and Trade Project, Zambia (P154682).
[28] MSME Development Project, Guinea, P128443.

implementation through a sequenced approach found to be the most solid approach. A similar approach was also incorporated in the design of a project in Nigeria (P126964)[29] in 2013 where the project activities implemented in a specific sequence in order to ensure that program management teams at the state-level put in place all the necessary systems and implementation arrangements before the project interventions take place.

7. We address the challenge of the sequencing in two ways: (i) adoption of a programmatic lending approach that will reduce the risk of project design and implementation in a volatile political environment exacerbated by a post-economic crisis context and a low institutional capacity; (ii) a two stage approach to implementation which will rely on a competitively selected local or international contractor for components 1 and 2, while also building the local implementation capacity through component 3. Additionally, the project is designed in collaboration and coordination with other World Bank and IFC operations in the DRC (P124720[30], P149689[31], P145554[32]), which allows to build on experiences of other teams and leverage synergies across various projects.

8. **Lesson 3. Building of M&E systems that allow capturing impact at the beneficiary level.** The IEG review of the Implementation Completion Reports (ICRs) of SME projects demonstrates the widespread shortcomings of project-based M&E in capturing impact at the beneficiary (SME) level even when the data tracking exists. Many indicators used by the project M&E systems are not obviously relevant to the project's impact, and often they stop at output level. Indicators and evaluations measure benefits to a limited group of SMEs but do not address the project impact on underlying market failures that the project claimed to be addressing. The importance of setting the right M&E framework was clearly highlighted in the ICR of relevant projects in Uganda (P083809)[33], Kenya (P085007)[34] and Rwanda (P057295)[35].

9. In recognition of these findings, the Project will ensure to capture the effect of project interventions at the beneficiary, client, and broader market level. As incorporated in the design of a similar operation in Nigeria (P126964) in 2013, the proposed project established an M&E system that will collect data in a timely manner in order to enable the adoption of corrective measures. The project outcomes will be evaluated through the PDO and intermediate level indicators that have been defined in the result framework against baseline indicators. The project indicators have been selected based on the SMART principles (specific, measurable, attainable, realistic and time-bound) with the technical experts. The mid-term and final survey will be conducted by external service providers.

10. **Lesson 4. Avoidance of a complex project structure**. The IEG evaluation concluded that the majority of the WBG SME projects are restructured and/or cancelled which is due to overambitious and complex design, lack of economic evaluation of costs and benefits in the project appraisals, overoptimistic time-frames for implementation, weak conceptual treatment of market failure and inconsistencies in linking project design to specific market failures. Projects with too many components tend to have unsatisfactory outcomes (66 percent of projects with more than nine sub-components had unsatisfactory outcomes). Similarly, projects

[29] Nigeria Youth Employment & Social Support Operation, Nigeria, P126964.
[30] Western Growth Poles, DRC, P124720.
[31] Social Cohesion and Livelihoods Support Project in Province Orientale, DRC, P149689.
[32] Financial Infrastructure and Markets, DRC, P145554.
[33] Second Private Sector Competitiveness Project, Uganda, P083809.
[34] Micro, Small, and Medium Enterprise Competitiveness Project, Kenya, P085007.
[35] Competitiveness & Enterprise Development Project, Rwanda, P057295.

with more than two implementing entities had unsatisfactory outcomes (this was the case for 82 percent of them). As a result, a significant trend in the Africa FPD portfolio had the need to restructure to simplify their design. Furthermore, interventions in low-income and weak-capacity countries like the DRC also bring additional challenges. This key lesson has been incorporated in the design of a similar SME projects in Guinea (P128443) in 2013 and in Senegal (P146469) in 2017 where the project components are kept simple and consolidated under only two to three main activities.

11. The proposed project has three components, which includes the overall project management and M&E. The project has only one PIU (Ministry of SME at the national level) with project execution units that will be established in targeted provincial capitals. As mentioned earlier, the project is designed as a programmatic lending which addresses two key challenges of the SME sector in the DRC: the need for expansion of a dynamic SME sector, and the need to increase resilience of the traditional businesses. The proposed design allows for rebalancing of the project focus between high-growth SMEs and vulnerable groups of entrepreneurs, especially women if political or economic situation shifts. The project also proposes a design that can be replicated in several provinces across the DRC and could lead to additional financing if the project demonstrates early signs of success.

Table 3. List of relevant Bank lending projects reviewed for the lessons of experience

Project ID	Project Name	Country	Status	Approval FY	Closing FY	PDO
P057295	Competitiveness & Enterprise Development Project	Rwanda	Closed	2001	2011	To establish an enabling environment for private sector-led economic growth and poverty reduction in Rwanda
P085007	Micro, Small, and Medium Enterprise Competitiveness Project	Kenya	Closed	2004	2012	To increase productivity and employment in participating micro, small and medium enterprises (MSMEs)
P083809	Second Private Sector Competitiveness Project	Uganda	Closed	2005	2013	To create sustainable conditions for enterprise creation and growth that responds to local and export markets
P103499	Growth & Employment	Nigeria	Active	2006	2018	To increase firm growth and employment in participating firms in Nigeria
P104881	Competitiveness & Integrated Growth Opportunity	Benin	Active	2008	2017	To foster entrepreneurship and investment in high potential value chains and public-private partnerships
P128443	MSME Development Project	Guinea	Active	2013	2018	To support the development of MSMEs in various value chains and to improve selected processes of Guinea's investment climate
P126964	Nigeria Youth Employment & Social Support Operation	Nigeria	Active	2013	2020	To increase access of the poor and vulnerable, using improved social safety net systems, to youth employment opportunities in all Participating States and to provide Targeted Cash Transfers to the poor, vulnerable and internally displaced people (IDPs) in the North East States.
P129267	Gabon Investment Promotion & Competitiveness	Gabon	Active	2014	2019	To contribute to the improvement of the investment climate and to foster enterprise development in Gabon

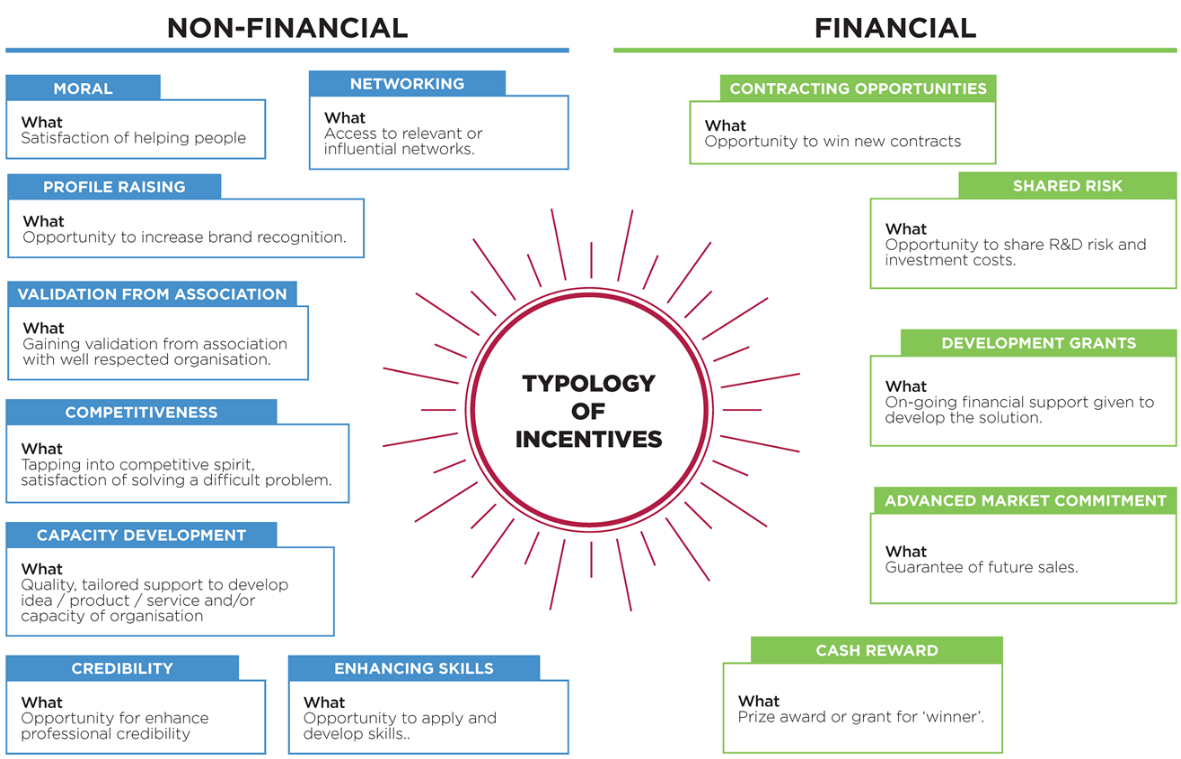
	Project					
P145861	Skills Development and Youth Employment Project	Mali	Active	2014	2020	To support education and training for employability and private-sector led job opportunities for youth in Mali
P156492	Zambia Agribusiness and Trade Project	Zambia	Active	2017	2022	To contribute to increased market linkages and firm growth in agribusiness sector in Zambia
P146469	Senegal Tourism & Enterprise Development Project	Senegal	Pipeline			To create conditions necessary to increase private investment in tourism in select areas and strengthen enterprise development in Senegal.

Annex 3: Business Plan Competition—Lessons from the WBG projects in Africa

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

1. Business Plan Competitions (BPC) is a term commonly used to describe a competitive process of identification of high potential entrepreneurs or firms. BPC is one of the broader tools of competitive support to SMEs. A defining characteristic of the BPC is that the intake mechanism is based on the submission of a business plan – a statement of business goals and plans for reaching them. Depending on the goal and target beneficiaries, BPCs can be stand-alone or programmatic and offer a variety of incentives (Figure 1) and support mechanisms for the participants and winners. Support system provided by the BPC programs often combines non-financial incentives (e.g., TA pre- and/or post- competition) and funding for implementation of the business plan.

Figure 1: Typology of Incentives



Source: Agapitova, Natalia and Ertekin, Ergun. 2016. The Art of Crowdsourcing. A Planning Guide for Development Practitioners

2. There is a growing body of literature documenting BPCs as effective mechanisms to support early stage ideas, firms or innovations. According to the evaluation of "Youth Enterprise with Innovation" (YouWIN,

Box 1) in Nigeria[36]:

a. BPC led to greater firm entry, higher survival of existing businesses, higher profits and sales, and higher employment, including increases of over 20 percentage points in the likelihood of a firm having 10 or more workers. The selected firms were substantially more likely to launch, survive, make profits, and, most importantly, to generate new jobs. BPC provided evidence how direct policy action can spur the growth of such firms.
b. BPCs can be successful in identifying entrepreneurs with the potential to use the large amounts of capital offered as prizes, and that these individuals appear to be otherwise constrained from realizing this potential. They are an effective tool for identifying entrepreneurs with much greater scope for growth than the typical microenterprise and the prize money generates employment and firm growth that would not have otherwise happened.
c. To maximize the impact of the BPC on job creation, it is important to cast a wide net. Job creation impact from BPC targeting start-ups and scale-ups appear similar. Broad targeting of BPC allows capturing relevant and high-impact ideas from across the SME spectrum.

Box 1: "Youth Enterprise with Innovation" (YouWIN) in Nigeria

The program was a partnership between the Nigerian Ministry of Finance, the UK's Department for International Development (DFID) and the World Bank. The Ministry of Finance paid for the grants, DFID contributed US$2 million for administrative costs and the World Bank funded a large impact evaluation. The government encouraged all Nigerians younger than 40 and interested in creating a new business or expanding their existing one to submit an application. The competition was launched with much fanfare and 24,000 applications came in from across the country. 85 percent of these applications were for new businesses and 15 percent for existing ones. The vast majority came from men. Random assignment was used to select some of the winners from a pool of semi-finalists, with US$36 million in randomly allocated grant funding providing each winner with an average of almost US$50,000.

3. Although YouWin was the largest BPC delivered as part of WBG lending operation, the World Bank was one of the first development agencies that funded entrepreneurs through BPC through its Development Marketplace program. Since 1998, Development Marketplace awarded a combined pool of WB and partner funding of USD 132 million in competitive grants that financed implementation of business plans submitted by grassroots entrepreneurs. In Africa Development Marketplace competitions were held at the regional (Lightning Africa 2007, West Africa 2006) and country level in Cameroon in 2011, Ghana, Rwanda, Zambia, Zimbabwe, and Malawi in 2005, in South Africa in 2004, in Ethiopia and Sudan in 2003, and in Burkina Faso in 2002.

Development Marketplace 1998-2016

- 80 countries, 18 years, 60+ competitions
- Funding: WBG USD 52M, Partners USD 80M
- 1200+ social enterprises funded
- 250+ received capacity support
- Portfolio success rate 60-90%
- Funding span: USD10,000-150,000
- Competition: 6-12 months
- Implementation: 1-2 years
- Brand adaptation, e.g. Vietnam
- Contributed to USD 3+ billion WBG lending

4. The 2014 evaluation of the Development Marketplace program

[36] Identifying and Spurring High-Growth Entrepreneurship Experimental Evidence from a Business Plan Competition David McKenzie, 2015.

concluded that[37]:

a. <u>BPC can achieve broader impact as part of a programmatic approach closely aligned to the countries' development priorities</u>. Although BPC could be effective as a stand-alone tool for awareness raising about the potential of entrepreneurs and can have a "crowding in" effect on SME community by stimulating business idea generation, it is most impactful when it is embedded as part of the longer-term development strategies, often in combination with other instruments for SME support, like BDS.
b. <u>Incentives provided by BPC need to be aligned with the needs of the target beneficiaries and cost-effective in addressing market and institutional constraints</u>. Incentives can range from non-monetary awards, small prizes, and larger investment grants that require supervision at implementation and could be associated with BDS. Awards and prizes have lower implementation costs and quicker feedback cycles[38], while investment grants are more effective in building longer terms capabilities of entrepreneurs and firms, and survival rate of the funded ventures. The so-called "fund and forget" model was only marginally successful in achieving meaningful effects on firm survival and performance (in terms of profits and job creation). On the other hand, even small grants (USD 25,000–50,000) combined with capacity development and a communication campaign after the BPC award, helped generate additional financing for 80 percent of DM grantees in the year following the award.

5. Findings from YouWin in Nigeria and the Development Marketplace experience resonate with the lessons learned from other WB projects:

a. <u>Cote d'Ivoire</u> (through InfoDev and Technoserve programs): (i) demand-driven approaches are essential; (ii) selectivity is needed to ensure success and have a demonstration effect that can have positive spillover to the target group; (iii) there is a need to address risks associated with implementation, including governance; (iv) provision of after care services to entrepreneurs to access addition financing, in addition to coaching, mentoring and advice leading up to the award; and (v) extensive promotion of the competition before and after helps to generate positive spillover and the crowding-in effect.
b. <u>Kenya[39]:</u> Institutional bottlenecks may introduce significant delays in the process (i.e. selection of the contractor to run the BPC finalized 5 years after Board approval in P085007). For the successful implementation of a BPC in low capacity settings, it is of crucial importance to set up a rigorous selection process implemented by professional management companies. Additionally, delivering the grant from the BPC in tranches helped ensuring accountability and minimizes risks of misuse of funds.
c. <u>Rwanda[40] and Uganda:</u> the success of the BPC component in enabling potential entrepreneurs was attributed to supporting services provided to participating SMEs (mentoring and hand holding to conceptualize their business ideas and prepare bankable projects). Providing access to training for business plan and pitch development can improve the quality of the business plans and their success rate.

[37] World Bank. 2014. Evaluation of the Development Marketplace Program 2009-2013. Internal Report.
[38] Everett, B., 2011. Evidence Review: Environmental Innovation Prizes for Development.
[39] Kenya Micro, Small, and Medium Enterprise Competitiveness Project (P085007), Kenya Youth Employment and Opportunities (P151831).
[40] Competitiveness & Enterprise Development Project, P057295.

d. Nigeria and Kenya: it is crucially important to target youth up to 35 years of age as job creators because the highest likelihood to be an entrepreneur occurs between the ages of 29 and 35 years and these young entrepreneurs are especially likely to hire youth under 29 years of age.

Annex 4: Supplier Development Program

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

1. Evidence has shown that partnering with large companies whose value chains integrate large numbers of suppliers and retailers within key sectors can critically improve the reach of SMEs. The sectors can range from priority sectors (agribusiness, construction, mining, telecoms, etc.) to other potential sectors such as tourism, energy, services. The project will facilitate the linkages of SMEs with a few large companies operational in the DRC in the rollout of SME solutions (skills development, appropriate finance instruments, etc.) that can lead SMEs to more capacities, better access to finance and to market. This entails supporting large companies in the analysis of their value chains' needs as well as of the constraints they face in their own operations. Where fiscal advantages are deemed necessary for the uptake of business linkages, the project will work with the relevant institutions and partners to explore opportunities available.

2. The new legislation on subcontracting, which came out February 2017, made mandatory the subcontracting of large firms' additional and related activities to locally/Congolese-owned SMEs with the view of promoting the emergence of a Congolese medium class. It's in this line that the Round Table of SMEs organized by the *Fédération des Entreprises du Congo*/FEC (FEC is the principal business membership organization and chamber of commerce in the DRC with such members as the vast majority of large firms and banks operating in the DRC, regardless of their domains of concentration) end March 2017 has stressed the need for the Government, the donor community and the private sector to support SMEs to increase their capacities if this new law is to be successful.

3. The objective of the "Supplier Development Program" in the DRC will be to support the vertical integration by assisting SME to enhance technical capacities, improve competitiveness and increase value-added in the output of large firms. It will support the following activities spread in five phases: (i) value chain analysis, (ii) contractors' needs analysis and selection of contractors, potential program partners, (iii) mapping of beneficiaries/SMEs subcontractors, (iv) design and roll out of specific support to SMEs and large firms and, (v) partnerships development.

4. **Value Chain analysis**: the focus will be on value chains with high concentration of SMEs and where there exists companies whose value chains integrate (or have the potential to) large numbers of suppliers. This will be led by an international consultant whose primary objectives will be the selection of priority value chains, analysis of supplier development opportunities and, pre-identification of potential lead contractors willing to engage in the program.

5. The mapping exercise the WBG DRC SME Pilot went through in June 2016 and the Pre-identification mission in January-February 2017 have initially identified potential contracting operations in (i) oil, gas and mining in Katanga, North-Kivu and Province Orientale; (ii) in agribusiness with breweries in many Kinshasa, Kongo Central, South-Kivu and with flour mill companies in Kongo Central and Katanga and sugar production in Kongo Central; (iii) in manufacturing, manly with three cement plants in Kongo Central.

6. **Contractors' needs analysis and selection of contractors, potential program partners**: this will also be led by an international consultant who will assist in defining the market demands, in drawing up a mapping

of products and services needed by contractors and, in identifying the contractors' main priorities and requirements, including (but not limited to) the following: technical requirements, delivery times, product and service quality, compliance to standards.

7. **Mapping of suppliers (key beneficiaries of the sub-component, SMEs subcontractors).** The sub-component achievements will critically depend on the quality and commitments of the selected suppliers. A mapping of potential SME suppliers per value chain and location will be carried out by local consulting firms under the leadership of an international consultant and necessary events (workshops, etc.) organized to help match up contractors' requirements and suppliers' profile.

8. **Design and roll out of specific support to SMEs and large firms**: the program will provide support and funding for the following: (i) contractors will be assisted to improve their supplier engagement strategies and to set support programs to SMEs (nature of support, provision of technical support, availability of technical expertise, etc.), (ii) drafting, signature and follow up of contractors-subcontractors agreements where needed, (iii) SMEs' self-Adjustments: development of business plans, (iv) setting up of relevant intermediaries: a network of consulting firms specialized in supporting business linkages (capacity building on a cost-sharing basis culminating in the certification of the most performing ones), a network of partnering Government agencies (OPEC, Tax Administrations), (v) support to SMEs: training (including training development products) and, on-site supports and products.

9. **Partnerships development**: The program will partner with FEC for the overall implementation. Through a TA, the sub-component will assist the Government to set up and integrate a "Supplier Development Strategy" into its National SME Strategy and to progressively develop a set of tax incentives policy aimed at encouraging new investments (through tax administrations) and existing businesses to systematically envisage a local content component in their operations. A mapping of all partners working on SME Supplier Program will be undertaken with the view of facilitating resource mobilization and coordination of operations.

10. **Implementation**: The program will be implemented by an international contractor with relevant experience in supplier development programs implementation, as part of Component 1: Sub-Component 1.1. Targeted support to MSMEs to improve performance and stimulate growth. The contractor will help set up a network of local consulting firms with relevant technical expertise in each of the selected value chains and will also help link the supplier development program to the relevant SME Hubs.

Annex 5: Women-led SME Opportunities and Lessons Learned

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

1. A recent World Bank white paper by the Africa Gender Innovation Lab[41] dedicated to gender and Entrepreneurship in Sub-Saharan Africa has provided a wealth of insight into the interventions that have been seen to consistently impact business outcomes of female-led enterprises. Most critical for the design for this intervention was the overall finding that in the case of Sub-Saharan Africa they found "only a small number of interventions that have consistently impacted the business outcomes of women-owned firms: providing access to savings accounts and in-kind/large grants" Campos and Gassier (n.d). It is important that the underlying constraints faced by women that shape their entrepreneurial choices are considered. Additionally, they tend to adopt fewer advanced business practices and largely operate in sectors where profits are lower. Currently women's entrepreneurial activities are generally defined by lack of business knowledge in regard to targeted markets which impacts strongly on emergence of branding strategies and market penetration. Other characteristics include informal and unstructured routes and connections to markets and informal and small scale processing units, which make it hard to demonstrate a track record or commercial viability to engage with larger buyers such as supermarkets or exporters. Major refinements in the areas of production processes to increase volume and meet standards, quality control systems, product enhancement, conservation, packaging, storage and transportation are all required[42].

2. Specific challenges that are faced by female entrepreneurs have been identified and taken into consideration in design of inclusion elements of the project.

3. ***Formalization.*** In 2012, the urban informal sector was identified as 81.5 percent of employment in the DRC[43]. Providing female-led enterprises with opportunity to formalize it is hoped will lead to efficiency gains and high income, including through women's increased control over assets and resources, and expanded access to financial services and networks. However, it has been shown that business formalization can be a difficult and cumbersome process, due to both limited knowledge of its related benefits and also to complex procedures and regulatory requirements, along with the resulting (and often burdensome) fiscal obligations. Two of the geographic areas identified for the program however, Kinshasa and Lubumbashi, have one stop shops for formalization.

4. ***Necessity v. Opportunity entrepreneurs***. Little research has been done into the differences between opportunity and necessity entrepreneurs, i.e. those who report starting a business because they saw a market need/opportunity versus those who do so to earn money. The larger group in the DRC fall under the latter category, especially in the case of women, thus targeted support is needed to reduce their poverty levels, meet their specific business and training needs, and help them graduate into more stable and profitable entrepreneurship On the other hand, for opportunity entrepreneurs, the need is for improvement in the overall ecosystem for entrepreneurship and increase in the number of jobs available, along with increased opportunities for access to finance and market linkages.

[41] Francisco Campos and Marine Gassier: White Paper – Gender and Entrepreneurship in Sub-Saharan Africa, no date.
[42] World Bank: Advancing Opportunities for Women-led SMEs in the DRC (August 2016).
[43] Adoho F and Doumbia D, Informal Sector Heterogeneity and Income inequality: Evidence from the Democratic Republic of Congo.

5. ***Access to financial services/loans***. Women typically experience difficulties in accessing financial services and loans due to lower levels of business training and limited financial literacy, reduced access to professional networks and the business world, lack of knowledge about financial institutions (FIs), and limited availability of dedicated financial strategies and ad-hoc products that meet the specific needs of female entrepreneurs or underserved segments of society. Poor control over assets within the household, and especially land, also hinders women's ability to access finance: whilst those assets are more likely to be controlled by men, the prevalence of traditional customs over statutory law in property and inheritance matters often limits women's opportunities for inheriting and owning land, especially for young girls in rural areas.

6. ***Rural v urban realities.*** Urban areas in general are more likely to provide the environment for more appealing entrepreneurship opportunities, but a country like the DRC still lacks basic infrastructure in most areas. In this sense, public transportation and logistical considerations, along with appropriate safety measures, will play a role in the design of project activities specifically targeting female entrepreneurs, regarding both costs (in the rural context) and overall safety and access.

7. ***Sectors.*** Three main economic sectors will be the focus of the business plan competition (BPC) planned under sub-component 2.1, to enhance synergies with other project activities and also to maximize opportunities for business success and sustainability: agriculture/agri-business, services and mining.

a. **Agriculture**. Women perform much of the planting, harvesting and trading: a recent stakeholder mapping conducted by the Bank in the DRC indicated that several women-led SMEs in surveyed areas trade in basic foodstuff, fresh produce, and staples, among other commodities[44]. The National Agency for Investment Promotion has set priorities for those products that can be industrialized (coffee, cocoa, tea, cinchona, hevea, sugar, palm oil, cattle, swine and poultry); those with strong potential for industrial development (maize, cassava, rice and soybeans); and those with socio-economic importance to local communities (fishing and fish farming). Including women at levels further down the value chain including processing, transformation and marketing has interesting potential and should be encouraged, allowing for increased production value from their heavy representation at the production and distribution levels.

b. **Services.** The services sector is an important source of livelihoods and revenues for female entrepreneurs in the DRC: in about 7-15 percent of the cases, according to the stakeholder mapping, women work as hairdressers, operate beauty salons, or trade in education, cleaning or sewing services, among others. Female service traders often operate in informality, due to a variety of factors including widespread poverty, high costs of formalization, and complex bureaucracy, and may be subject to abuse and harassment, both on the workplace and at the borders they cross[45]. Small trading is not enough regulated and often women end up in a situation with no legal protection as they are small scale informal traders (85 percent of cross border traders are estimated to be female in the DRC[46]).

c. **Mining/Extractives**. Extractive industries critically contribute to the economy of the DRC. They also present unique opportunities for female entrepreneurship and women economic empowerment – however, at the moment women do not enjoy the same opportunities as men in this sector. Female

[44] World Bank: Advancing Opportunities for Women-led SMEs in the DRC (August 2016).
[45] Dihel, N. and Grover, A.: ''The Unexplored Potential of Trade in Services in Africa'', World Bank Group, 2016.
[46] World Bank: Advancing Opportunities for Women-led SMEs in the DRC (August 2016).

workers are involved in a range of activities, yet are often excluded from direct mining because of tradition or superstition. Thus, they are usually more engaged in mining-related service activities such as restaurants, hotels, and small businesses, as well as sex workers. The latter aspect is particularly worrying: recent research revealed that one in four women in mining towns self-identified as sex workers, and that 4 in 10 women reported having to trade sex simply to gain access to work or basic goods[47].

8. ***Risk Perception.*** Lessons learned from other projects show that flexibility to include rolling recruitment may be worth considering as it allows for those more reluctant to benefit from seeing first responders (perhaps more likely to be the opportunity entrepreneurs) to benefit.

9. There are several lessons learned from various interventions to inform the proposed project's sub-component 2.1 "Support for women's economic development" which aims to provide direct support for women entrepreneurs who are engaged in productive activities. Questions considered included the type of assistance (bundled suite or standalone), socio-culture norms to be overcome and value chain linkages in identified priority sectors etc.

10. ***Savings.*** Evidence suggests that secure (private) individual savings accounts, including in the form of commitment accounts and liquid savings accounts, have positive economic outcomes for women across different countries and situations. A Randomized Control Trial (RCT) in the Philippines showed that savings accounts that froze deposits via a commitment feature were particularly attractive to less-empowered women and improved their decision-making authority in the family[48]. Another RCT in Kenya subsequently demonstrated that access to individual savings accounts increased savings rates, business investments and incomes among women entrepreneurs[49].

11. Another field experiment, also in rural Kenya, found that labeling group savings for a specific purpose and a soft commitment device (such as a lockbox and key) generated significant increases in health savings for poor members of informal savings and credit groups (74 percent women members). This result suggests that mentally labeling the use of money makes it less available for other uses, including pressures to share monies with relatives, to which women are particularly susceptible. A second field experiment in Kenya further supports the idea that women want secure savings accounts that enable them to more easily resist pressures of funds transfers. Automated Teller Machine cards with reduced fees, but also reduced security (since husbands could use the cards), were not used by women and had no impact on female-owned individual accounts, showing that a technology meant to make financial services more accessible to the poor can have unintended effects when individuals (women) are subject to outside demands on their resources[50]. These results are in line with those of another experiment performed by Campos, Goldstein and McKenzie in Malawi, which found that accessing business bank accounts on top of formalization has significant impacts for women's usage of a set of financial services and for separating household and business money, although these

[47] World Bank: Advancing Opportunities for Women-led SMEs in the DRC (August 2016).
[48] Ashraf, N., Karlan D. S., and Yin W. *"Household decision making and savings impacts: Further evidence from a commitment savings product in the Philippines."* Yale University Economic Growth Center Discussion Paper, no. 939, 2006.
[49] Dupas, P., and Robinson, J. *"Savings constraints and microenterprise development: Evidence from a field experiment in Kenya."*American Economic Journal: Applied Economics 5, no. 1, 2013: 163-192.
[50] Schaner, S. *"Do opposites detract? Intra-household preference heterogeneity and inefficient strategic savings.*" American Economic Journal: Applied Economics 7, no. 2 (2014): 135-174.

impacts are not statistically different from those of men[51].

12. All these experiments suggest that providing women with access to secure savings mechanisms can be effective in helping women entrepreneurs overcome their lack of control over their income, a critical element to reduce the biases in the allocation of household resources.

13. ***Bundling of services/assistance.*** Results from the World Bank WomenX program in Pakistan and Nigeria provide many lessons that can be applicable to Component 1.1. In particular, combining business education, access to networks and mentoring to deliver a suite of services saw an exponential increase in intellectual, social and financial capital. In these projects, 28 days of business education training was delivered over five months with one-to-one business advisory. Alongside the training, a six-month mentoring program took place with access to networks and markets (domestic and global) across the life of the project.

14. The research report commissioned by the UN Foundation and Exxon Mobil," Promoting Women's Economic Empowerment"[52] which is based on 136 empirical evaluations and 18 research efforts shows that:

a. Capital alone, as a small loan or a grant, is not enough to grow women-owned subsistence-level firms, but pairing with specific business training and follow-up technical visits can help grow and increase earnings. While providing, more services is often expensive up front, it leads to a greater standard of living and is also cost- effective over time.
b. Another set of studies examining the impact of providing business training along with capital grants to female-owned micro-enterprises in Tanzania and Sri Lanka (Berge et al., 2011; de Mel et al., 2012) finds that the business training combined with cash grants may increase the profitability of female-owned businesses, but this effect may not be long-lasting which is an important aspect to pay attention to and mitigate for.
c. For self-employed women in subsistence-level work, relatively large capital transfer, if paired with income generation training and follow-up technical visits, can transform occupational choices of very poor women and can be cost-effective. A randomized evaluation of BRAC ultra-poor programs in India and Bangladesh, which bundled a large productive asset transfer (e.g., a cow or goats) with intensive training, TA, a cash stipend and access to savings, showed that very poor women changed occupational choices from casual day labor to self-employment and increased earnings by 34 percent relative to baseline.

15. ***Cash grants.*** Six randomized control trials[53] conducted on multifaceted graduation programs targeting the poorest segment of the populations in various countries (i.e. Ethiopia, Ghana, Honduras, India, Pakistan, and Peru), which provided productive asset grants along with training, life skills coaching, and temporary cash consumption support showed increases in self-employment income and improvement of the economic status of the extreme poor in a relatively short intervention period of three years.

16. Support for self-employment in Uganda (Blattman et al., 2014)[54] has also found that programs

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[51] Campos, F., Goldstein M., and McKenzie D. *"Short-Term Impacts of Formalization Assistance and a Bank Information Session on Business Registration and Access to Finance in Malawi."* World Bank Policy Research Working Paper, 2015.
[52] A Roadmap for Promoting Women's Economic Empowerment, UN Foundation, Exxon Mobil, November 2016.
[53] A. Banerjee, et all A multifaceted program causes lasting progress for the very poor: Evidence from six countries (2015).
[54] C. Blattman, E. Green, J. Annan, J. Jamison, The returns to cash and microenterprise support among the ultra-poor: A field experiment. Columbia Univ. Work. Pap. (2014) and C. Blattman, N. Fiala, S. Martinez, Generating skilled self- employment in developing countries:

providing relatively large grants (equivalent to 42 times the median monthly income) toward a non-farming self-employment activity along with training and follow-up guidance to poor women in conflict-affected regions increased non-farm self-employment, consumption, cash earnings and labor supply. At the same time, the programs that provided the same to youth also increased business assets by 57 percent, work hours by 17 percent, and earnings by 38 percent. Under the WINGS program in Northern Uganda[55] results indicate that after four days of business training and individual start-up grants of $150 with regular follow up by trained community workers' earnings had nearly doubled with a 33 percent increase in household spending, increased wealth and durable assets and savings tripled. Additional components of the project included formation of participants into support groups, self-support and spouse including training and support. The main difference between this context and others appears to be that the grants were large enough to shift the whole economy, have an effect on prices, agricultural wages and distribution of income. In this case it was considered that empowerment was not an outcome of the project.

17. In addition, according to the analytical work conducted in the DRC on youth employment outcomes by the World Bank, the support for self-employment and entrepreneurship appears to be encouraging if it combines several measures and includes capital injection. The recent assessment of job creation programs in poor and fragile countries has found that the most promising interventions are those involving capital injection, preferably in the form of cash or grants. Contrary to the fears, this type of "charity" does not develop a dependency syndrome if accompanied by other measures such as training, counseling and follow-up activities.

18. Work done in 2016[56] on enhancing productivities of women owned enterprise further confirmed that the positive effects of cash grants in some cases were seen to be short in duration and increased profitability vanished after the second year.

19. The World Bank Africa Gender Innovation Lab pointed to evidence that for cash grants to be effective, the size of the grant matters. In a Nigerian business plan competition grants, as large as the equivalent of six years of sales, and averaging $50,000, were required to see significant positive impacts, especially in terms of the likelihood to operate a firm for women, thus suggesting that women are indeed capital constrained[57].

20. ***In-kind grants.*** The returns to capital associated with in-kind grants seem to be positive for women entrepreneurs when this support is provided to the right group and/or through an adequate mechanism. Providing in-kind grants in Ghana – assistance in buying inventory or machinery - led to large profit impacts for women-owned firms, but only for those with larger businesses to start with[58]. On the other hand, providing small cash grants (equivalent to two months of profits for the median firm) to a similar group of entrepreneurs had no impact for women.

21. Further evidence of the little impact generated by (small) cash grants emerged from an experiment in Tanzania, which found no effects of cash grants on business performance for male or female micro-

Experimental evidence from Uganda. Q. J. Econ. 129, 697–752 (2014).

[55] WINGS, Enterprises for Ultra Poor Women After War.

[56] A De Haan, Enhancing the productivity of women owned enterprise, 2016.

[57] McKenzie, D., and Woodruff, C. - "*Business Practices in Small Firms in Developing Countries*", World Bank Policy Research Working Paper, Washington DC, 2015.

[58] Fafchamps, M., McKenzie D., Quinn S., and Woodruff C. - *"Microenterprise Growth and the Flypaper Effect: Evidence from a Randomized Experiment in Ghana",* Journal of Development Economics 106: 211–26. 2014.

entrepreneurs[59]. Another example from Sri Lanka showed that male micro-entrepreneurs invested and earned returns on small and large grants, while women invested only the large grants, and earned no return, on average, on those investments[60].

22. In-kind grants/ purchasing of equipment for example can also have wider poverty implications as those that are most vulnerable will be able to use that equipment for the personal as well as business use. For example, improved stoves for those involved in catering activities will improve both business activities and also the wellbeing of the individual's household.

23. ***Micro-franchising.*** Projects undertaken in Uganda[61] followed a micro-franchising model with young women being provided with links to pre-planned business models that they would then replicate. Start-up capital along with basic training in business and life skills was provided along with on-going mentorship through the business from which they would develop a micro-franchise. Income increased seven to ten months after the end of the program, but not beyond year two. In this instance it is believed that the young women were generally subsistence/necessity entrepreneurs rather than opportunity entrepreneurs and so lacked the ability and inclination to substantially expand.

24. The Nike Foundation and IRC undertook microfranchising in 2011-2013 for US$1 million under the Girls Empowered by Microfranchise (GEM) project in Kenya. 2,000 women and girls developed and ran microfranchises with technical support and facilitated relationships between franchisors and local banks. An average increase in income of $24 per month per girl was recorded in year one and income had tripled by year two. 90 percent of business had diversified and 80 percent had engaged in savings. 36 girls had used earning to return to school or go to college. The high attrition rate (42 percent) was linked to lack of mobility and commitment and it was identified as an inappropriate model for younger girls for this reason.

25. ***Loans and Savings and Loans Associations.*** Several examples exist of linkages with financial institutions rather than direct cash transfers. Case studies for the United Nations Secretary-General High-Level Panel on Women's Economic Empowerment provides examples of projects in Tanzania – the Women's Entrepreneurship Development and Economic Empowerment (WEDEE) partnership with Equity Bank, and the ILO Fanikisha project where loans were disbursed with complimentary non-financial business development services including access to entrepreneurship skills trainings, financial education, advisory and mentorship and linkages to SMEs and other corporate clients. Flexible collateral and repayment periods were offered along with opportunities to attend international trade fairs and a series of motivational talks etc. 1,500 women were trained, with 1,150 applying for and receiving loans from 100,000 to 10,000,000 Tanzanian shillings (US$ 50- 5,000).

26. UNWomen in collaboration with CARE International undertook a project from November 2013- March 2017 of US$1.15 million to target poor and marginalized women in rural communities in Egypt through Village Savings and Loan Associations (VLSAs). The design of the project allowed for better management of household

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[59] Berge L., Bjorvatn K., and Tungodden B. – *''Human and financial capital for microenterprise development: Short-term and long-term evidence from a field experiment in Tanzania''*, 2012.
[60] De Mel - *''Are Women More Credit Constrained? Experimental Evidence on Gender and Microenterprise Returns''*, American Economic Journal: Applied Economics, Vol. 1 n. 3, July 2009, pp. 1-32.
[61] A Brundevold-Newman et al, A Firm of One's Own: Experimental Evidence on Capital Constraints and Occupational Choice, World Bank Policy Research WP7943, January 2017

cash and ability for investment in income generating activities to secure and stabilize cash income. There was a recorded dramatic impact in building of self-respect and social capital of the women involved. 713 groups were formed in 3 regions made up of 12,739 members of which 95 percent were women. Total savings of US$528,474 was generated and US$277,909 in loans disbursed. 5,755 women received training in financial literacy and 4,744 in social empowerment. The strength of VSLAs lie in the foundation on traditional informal practices of rotated savings and the ability to reach areas that may not easily be covered by more orthodox microfinance-based projects.

27. ***Support to cooperatives.*** Support and encouragement of individuals into cooperatives would offer the opportunity to benefit from economies of scale through the pooling of expertise, collective ownership of equipment and funds and access to inputs and distribution networks. From the perspective of the design of this project, cooperatives would also allow for creation of an internal mechanism to reduce abuse of in-kind grants through peer-to-peer accountability.

28. Recent work by the ILO and International Co-operative Alliance[62] outlined the opportunities provided by cooperatives as a sustainable and participatory form of business with emphasis put on job security, improved working conditions, payment of more competitive wages, promotion of additional income through profit-sharing and dividend distribution and support to community facilities and services (health clinics and schools). Cooperatives have also proven to be more resilient in the face of economic and financial crises.

29. Agricultural cooperatives in particular are recognized for poverty reduction and there are global examples of cooperatives expanding women's opportunities to participate in local economies and societies. In East Africa, there is evidence of increasing participation in and formation of cooperatives. Cooperatives have helped producers to get better produce prices and access to capital, increase opportunities for self-employment and opportunities to contribute to social inclusion and empowerment. Cooperatives have also been shown to be transformative in revitalizing struggling sectors and helping in recovery of crisis-stricken economies by, among other things, increasing returns to producers and service providers across value chains.

[62] ILO and International Co-operative Alliance (no date), Cooperatives and the Sustainable Development Goals: A Contribution to the Post-2015 Development Debate.

ANNEX 6: CONCEPTUAL UNDERPINNINGS AND ADAPTATION OF THE SME HUBS DESIGN IN THE DRC

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

1. **The objective of this sub-component will be to support growth and supply chains SMEs through collaborative arrangements with large companies using the ancillary SME Hub model.** The ancillary SME hub is based on the concept of industrial estates for SMEs described in the Box 1. For the purpose of this project, the SME Hubs are defined as a tract of land with pre-built SME shells/buildings developed according to a comprehensive plan with provision for roads, public utilities and ICT, possibly with common facilities, shared equipment and access to soft infrastructure, for lease to SMEs.

Box 1: The Concept of SME Hubs

Starting around 1970s industrial estates for SMEs – or SME hubs - have been employed as an instrument for development of depressed regions in a number of developing countries (e.g. India, Turkey, Palestine). Evidence from these initiatives demonstrates that access to good infrastructure, often coupled with additional security measures that shelter SMEs from crime and government harassment, can potentially help firms overcome constraints associated with size, promote technological development and productivity enhancement, and improve their ability to compete in local and global markets.

There are different types of the SME Hubs that could flexibly fit local conditions:

- Ancillary hub (e.g. in the vicinity of a MNC or large national company who can contract out services or procure inputs locally, support from the management of the large company/MNC is critical for success)
- General purpose hub (composite services to accommodate a variety of sectors, often services and/or light manufacturing)
- Functional hub (e.g. common production facilities, bulk purchases and quality control services for MSMEs engaged in production of the same or allied services/products that could reach economy of scale from proximity and collaboration effects)
- Nursery hub (e.g. facilities and services to transform artisans into SME ventures).

SME Hubs often have agglomeration effects on the SME community, but evidence also shows that infrastructure investment in developing countries does not suffice:

- Good management is vital for the success of the SME hubs. Low institutional capacity often leads to poor implementation and maintenance of facilities that results in decaying of investments prior to achieving full benefits from them. Additionally, to maintenance of facilities and supervision of activities, the SME hubs management needs to actively promote the services offered by the hub among local entrepreneurs.
- Physical infrastructure alone is not sufficient to improve performance of SMEs, and many SME Hubs offer additional service functions (soft infrastructure): BDS, shared equipment, wholesale spaces, shared vehicles, matchmaking with investors, and employee training centers.
- Local SME involvement in the development and maintenance of infrastructure around the SME Hubs has proved very successful in terms of sustainability. For example, the SME Hubs helped to aggregate demand for services to SMEs and created markets for energy provision by private SMEs in remote areas.
- SME hubs may serve as a step towards more advanced industrial infrastructure such as industrial zones, export processing zones or techno-parks. SME hubs are not industrial zones, the key distinction being that they are targeted to MSMEs rather than larger firms, would not incorporate heavy industry or be at a scale that would allow for customized, large-scale building of factories, and are located in or near urban areas where SMEs are likely to operate and with proximity to power and roads.

2. **A key design element of the proposed SME Hubs based on international experience is that they be privately owned, developed, and managed.** This will help ensure that the location, type, size, and level of service provides in the SME Hubs respond to demand and are economically viable.

3. **The proposed SME Hubs design for the DRC is also based on consultations with the local stakeholders and the analysis of the SME facilities that already exist in the DRC** (Box 2 below).

Box 2: Existing and Planned SME Hubs in the DRC

There are four models for SME Hubs already existing or planned in the DRC. Most of the SME Hubs in the DRC are ancillary hubs and general-purpose SME Hubs. Their origins and type of ownership vary, but the level of demand for this type of fee-based services in the DRC and the number of public providers indicate a strong potential for expansion. The mapping of the SME Hubs was conducted based on consultations with local business associations and field visits. Below are some typical examples of the SME Hubs in DRC.

SME Hubs using the infrastructures of large firms. These could be ancillary hubs to firms with existing operations of Hubs established by large companies which have ceased their activities and have converted into renting of commercial or industrial and commercial facilities. Typical infrastructure includes warehouses (rehabilitated or not for SMEs activities); with access to roads, provision of electricity, water and in some cases waste management; and an acceptable level of security. BDS are typically not offered. These types of hubs are privately owned and managed, and host 10-50 SMEs: For example, in 2000, PROCOKI (*Produits de Construction de Kinshasa*) converted its plant into a business of rental of offices, industrial and commercial buildings. PROCOKI hosts SMEs and is planning to develop incubators for startups and youth entrepreneurship (Congo Call Center). Although many inactive large firms in DRC still own infrastructures that can convert into SME Hubs, most of this infrastructure is rapidly dilapidating and will require significant investments for rehabilitation. A high potential for supporting market creation is to build SME Hubs around large companies who could support SME Hubs for a variety of reasons: to promote engagement and foster stability in local communities often as part of their CSR, and to build local supply chains to reduce costs of inputs. Several large companies (e.g., the leading cement producers CILU and PPC Barnet) indicated options for shared infrastructure with SME Hubs (water, waste management, energy, roads), but highlighted the issue of land shortage near large companies cites.

NGO and charity-driven SME Hubs often use their land as an income source to sustain their charity operations. The land and often office/production space are often located on the premise or in the vicinity of social infrastructure (churches, schools, hospitals). BDS services are rarely offered, but technical training is offered in some locations (e.g., artisanal production, textile). The typical examples are: (i) The Salvation Army has erected buildings in Kinshasa, commune of Kasa-Vubu, which is occupied by SMEs of several sectors (50+ SMEs,) in general trade and services (hardware store, carpentry, etc.), (ii) the College Boboto parcel (Catholic Church in Kinshasa-Gombe), there are SMEs that have erected their own infrastructures (amusement park), others have either occupied existing infrastructures (arts and sculpture, restaurant, etc.) or brought their own tent (for event managements/rental of meeting and ballrooms).

Functional SME Hubs established by private investors. There are many SME Hubs that are emerging around specific sectors that serve clusters of SMEs, and often micro-enterprises, grouped around common production facilities, bulk purchases, shared security services and other agglomeration effects. These SME Hubs exist in all locations targeted by the project: Goma, Matadi, Kinshasa and Lubumbashi. For example, the Artisans and Artists of Binza (AAB) SME Center, located in Kinshasa (Commune of Ngaliema) is a typical example of this model. It was launched by a small group of SMEs and grew up progressively to 150 MSMEs. Another example, is a new hub specialized in agri-processing which is being built along the Kinshasa- Matadi road. This SME Hub will provide infrastructure, pre-built SME premises, and shared equipment on a site built for about 40 SMEs.

4. **Based on the demand assessment and the pipeline of the WBG operations, the project will finance 3-4 ancillary SME Hubs near existing large companies around which a cluster of SMEs can be developed.** Evidence has shown that partnering with large companies whose value chains integrate large numbers of suppliers and retailers within key sectors can critically improve the reach of SMEs. The project will help define market demand (Box 3), in drawing up a mapping of products and services needed by large firms and, in identifying their main priorities and requirements, including (but not limited to) the following: technical requirements, delivery times, product and service quality, compliance to standards. It will also help identify a pool of SME suppliers interested in becoming part of the supplier development program and potentially invest in the SME Hubs.

Box 3. Pre-project survey for the SME Hubs

The pre-project survey will help determine the SME Hubs incentives structure, implementation capacity of private developers, and the optimal combination of location, size and selection of industries.

1. Location. The target areas are already determined in the project, and they will align with the activities of other WB projects including PROMINES Project and the new Skills Development Project. The aim of the survey will be to select the best partner (large company) and location for the ancillary hubs within the parameters of the involved projects. This will include the analysis of: Population and availability of labor; number and nature of MSMEs; level of entrepreneurship; local resources; markets (current and potential); utilities and transport; telecommunications, banking and other services; social infrastructure; site and environmental issues.
2. Type. Specific design of SME Hubs may vary by location and will depend on the level and composition of MSMEs in the neighborhood, types of materials available, etc. The pre-project survey should reveal possible sectoral specialization of the SME hub, taking account the value chain analysis and the market survey. In the long term, specialization might be beneficial for creating linkages and improving performance of the MSMEs in the hub.
3. Property and service arrangements will analyze land and property related issues, and various aspects of services and contracting between the SME Hub and hosted MSMEs: SME Hubs services and related regulation and legislation (own, lease, rent); common production and service facilities, and other amenities (e.g., hotels, canteens, retail/wholesale space)
4. Financing aspect will include assessment of capital and recurrent expenses, and the level of incentives required for the private investors including large companies to step in.

ANNEX 7: MATRIX OF DEVELOPMENT PARTNER INTERVENTIONS

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

Donor / Dev. Partner	Project & Partners	Activities	Amount	Intervention Zone	Period
DFID	ESSOR (executed by PWC)	Support to investment climate reforms: formalization, DB agenda, Expansion of One-Stop-Shops, Fight against corruption.		Kinshasa, Lubumbashi and Goma	2015-2025
		Support to the development of key value chains (transport, energy, agriculture).		5 provinces	
		Support to microfinance development, with FPM SA.			
		Pilot to support women and young entrepreneurs through coaching and training.		Kinshasa	
	ELAN (executed by Adam Smith)	Support expansion of mobile money in rural zones.	USD 43.4 million	National	2015-2025
		Training of financial institutions (FIs).			
		Support to FIs to develop specific financial products for SMEs, through FPM SA.			
KfW		Support to private sector development in sectors promoting sustainability such as water and agro-forestry.		Katanga and Kivu	
	FPM SA (Fonds pour l'inclusion financière en République Démocratique du Congo)	Lines of credit deployed through FIs (Pro Credit, Advans and Finca) and support to financial literacy.	USD 13 million	National	2014
GIZ	BCC	Program to support financial education and banking supervision with the Central Bank of Congo.		National	
		Program for microfinance system development: Stabilizing the financial sector and enhancing the capacity of the central bank and competence of customers (better access to sustainable and demand-oriented financial services).		National	2012-2021
		Stabilization of the local economy in the province of Maniema (SELMA) through functional literacy, agricultural production and support to the MSMEs for their formalization.		Maniema	2015-2017
AfDB		Support to financial inclusion, through TA to Advans Bank, Procredit and FINCA.		National	
	Access (FEC)	Support to entrepreneurs on demand through the Access program.			
		Support for the setting up of OXUS with PROPARCO.			

Donor / Dev. Partner	Project & Partners	Activities	Amount	Intervention Zone	Period
IFC	CASA Initiative - SME finance	Line of credit made available to select FIs Rawbank, Procredit, Advans Bank, and XLMS (equity finance).		National	
	CASA Initiative - SME finance	Capacity building of FIs on SME financing, value chain financing, agriculture financing and mobile banking.			
	Business Edge	TA program for SMEs and business linkages.			
	The MasterCard Foundation, FINCA	Expanding access to credit and digital financial services for low-income earners and small-scale entrepreneurs.	USD 1 million		2017 -
USAID		TA to FIs to develop agriculture financing and a partial guarantee scheme developed with Procredit and FINCA.		Kivus and Katanga	
		Africa Lead DRC Agriculture Policy Support Project.		National	2015-2017
	Development Alternatives, Inc.	Capacity Building for Responsible Minerals Trade: Reforming of the legal and policy frameworks to support a responsible, economically productive small-scale and artisanal mining sector.		National	2014-2017
	Winrock International	FTF DRC Kingabwa Rice Intensification Project II (PIRK II): Supporting the development of local enterprises, including a woman led rice seed multiplication business, a composting company and the rice marketing cooperative.		Kinshasa	2015-2018
	International Organization for Migration (IOM)	Responsible Minerals Trade: Infrast. and Regulatory Reform: Establishing conflict-free supply chains, promotes civilian control of the minerals sector, ensuring that vulnerable populations are protected, and supporting regional auditing and monitoring of conflict-free minerals, in coordination with other U.S. government agencies, the Congolese government, international donors, the private sector, and civil society.		Goma, Kalemie, Lubumbashi, Kamina, Kindu	2012-2018
IFAD		TA to FIs to develop services in rural areas in agriculture sector.			
		North Kivu Agriculture Sector Support Project: Improve food security in the country and to increase the incomes of the smallholder farmers in the participating territories. The project builds the capacity of the farmers, farmer's organizations and provincial agricultural services involved in maize, rice, potato and Arabica coffee value chains. Smallholder farmers targeted by the project are those who typically cultivate less than 1 ha, own less than five heads of livestock, own rudimentary transportation and are widowed or women heads of households. The project will develop criteria to involve women who are victims of gender based	USD 33.8 million	Beni, Lubero, Rutshuru, Nyiragongo and Masisi in the province of North Kivu	2015-2024

Donor / Dev. Partner	Project & Partners	Activities	Amount	Intervention Zone	Period
		violence. In total, 28,400 rural households will benefit directly from the project activities.			
		Kinshasa Food Supply Centre Support Programme (PAPAKIN): Improving the productivity and incomes of smallholder farmers in the western part of DR Congo. The goal of the program is to expand the production of vegetable gardens and staple food crops, as well as their supply to urban markets. The program supports community-based producers' organizations, helping them improve their management and provide their members with technical services for the production, processing and marketing of cassava, grain legume, Tenera palm and garden vegetables. In addition, the program plans to: Link unions and farmers' organizations with providers of financial services; Increase farmers' access to market information; Support the rehabilitation and maintenance of roads and other rural infrastructure.	USD 68 million	Peri-urban area of Kinshasa and 14 targeted sectors of Kwilu district in Bandundu Province	2012-2017
		Integrated Agricultural Rehabilitation Programme in Maniema Province (PIRAM): Rehabilitating agricultural production, opening up markets and improve the incomes and well-being of poor rural households.	USD 23.3. million	Maniema Province in east-central DR Congo	2008-2017
Belgian Cooperation		Contribution to the PASMIF II via UNDP/UNCDF.			
		Support to professional associations (APROCEC, ANIMF) including of women entrepreneurs.			
	FPM ASBL	TA to COOPEC, microfinance institutions and banks through FPM ASBL.			
	BIO	Support to investments of Procredit and BOA banks.			
		Small program to support women entrepreneurs		Kinshasa	
		Support for Technical Education and Vocational Training in the District of Tshopo (EDUT):Ttechnical and vocational training, both formal and non-formal, in response to the region's employment or self-employment prospects to find or create a sustainable livelihoods.	Euro 10 million	Kisangani and the Tshopo district	2014-2020
		Support Program for Technical Education and Vocational Training in the Mongala and South Districts Ubangi in Ecuador - EDU-MOSU: Improving the quality of training (especially practical training) for better integration into the labor market, home economics and self-employment, in the interest of students And learners, with particular attention to girls.	Euro 10 million	Southern Ubangi and Mongala provinces	2014-2021

Donor / Dev. Partner	Project & Partners	Activities	Amount	Intervention Zone	Period
		Support Program for the Technical Education and Vocational Training (VET) Sector in the Mbuji Mayi Employment Area (EDUKOR): Improving the access of young people to quality training and the match between training and employment.	Euro 10 million	Mbuji Mayi	2014-2021
		Support for technical education and vocational training in Katanga (EDUKAT):): technical and vocational training, both formal and non-formal, in response to the region's employment or self-employment prospects to find or create a sustainable livelihood.	Euro 10 million	Mutshatsha - Lubudi Kolwezi - Likasi - Lubumbashi - Sakania	2013-2019
UNDP/ UNCDF	Ministry of SMEs	Program to support the national SME strategy with Ministry of SMEs	<1 m	National	2015-2016
	Making Access Possible (MAP), BCC	Support to BCC on financial literacy, national strategy on access to finance (MAP), consumer protection.		National	
	World Bank, Microfinance Institutions, *Banque Centrale du Congo, Fonds d'Equipement des Nations Unies (FENU), Coopération technique belge (CTB), Banque allemande de développement (KFW), Fonds de Promotion de la Microfinance (FPM), Coopération internationale suédoise (SIDA)*	TA to microfinance institutions in remote areas.	USD 8.9 million	National	2010-2014
	Youth start program, FINCA	Program to support young entrepreneurs in accessing finance with FINC			
		Partnership with private companies to develop CSR			
JICA		Program to support startups with FINCA and INPP	100,000$	Kinshasa, Kongo Central	
		Project on Strengthening the Capacity of the National Institute of Professional Preparation (INPP): Providing training facilities and equipment for the National Institute of Professional	Yen 3.25 billion (USD 29 million) grant	INPP / Katanga in Lubumbashi,	2015-2020

Donor / Dev. Partner	Project & Partners	Activities	Amount	Intervention Zone	Period
		Preparation (INPP) in Lubumbashi, Haut-Katanga Province, which plays an important role in training human resources for business and industry in the region. The project will also promote gender equality by putting a special focus on support for female trainees among the young. Specifically, the project proactively collected information on female workers in its research and analysis on the training needs of the private sector. In supporting job-hunting and entrepreneurial activities, the project also encouraged the participation of women. The scope of the capacity building for trainers at INPP includes those at INPP's school in Goma in conflict-stricken North Kivu Province, setting an eye also on the promotion of peacebuilding through vocational training in the region. In this way, this project. addresses the country's key needs, such as the development of industrial human resources, gender equality, and peacebuilding.		Haut-Katanga Province	
		Le Projet d'Aménagement de la Direction Provinciale de *l'Institut National de Préparation Professionnelle au Katanga/ Lubumbashi.*		Katanga / Lubumbashi	2016

Annex 8: Economic and Financial Analysis

COUNTRY: Congo, Democratic Republic of
DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT

I. Overview

This economic analysis follows the World Bank guidance note on economic analysis of investment project financing and uses an ex-ante cost-benefit analysis framework to assess and monetize costs and benefits of the implementation of the proposed project (the Project) and associated externalities. It particularly considers direct (financial) costs associated with implementation of Project and indirect costs associated with the PIU as well as the government staff and other stakeholders involved. On the benefits side, the analysis covers financial and economic revenues generated by increased SME revenues/better business environment and facilitated by the Project. The analysis arrives at an ERR of 29.88 percent for 10 years (higher than the 14.3 percent average interest rate on treasury bonds[63] in DRC in early 2018, the 12 percent discount rate used by most Bank analysis[64], as well as the 20 percent prime rate of the Central bank of DRC[65]). In a worse-case scenario in the present analysis, the ERR is still at 21.44 percent, which is still higher than the highest rate on treasury bonds and the Central Bank prime rate in DRC. Even in the worst-case scenario in the present analysis, the ERR is 15.22 percent, which is also higher than the 14.3 percent average interest rate on treasury bonds[66] in DRC in early 2018.

II. Rationale for public sector support

Public intervention in increasing SME development and growth in DR Congo is justified by constraints on SME development that the market fails to address, as well as potential opportunities that may not be grasped by domestic SMEs without public support, especially in the mining sector (over 80 percent[67] of export revenue, 28 percent of government revenue and 22 percent of GDP[68]), where domestic SMEs still fail to benefit from tremendous procurement opportunities. The current business climate in the DRC is lacking in almost all dimensions, even from the limited perspective of attracting the investment needed to attain poverty reduction and economic growth targets. There also are significant barriers to firm growth and competitiveness while a new legislation on subcontracting makes mandatory the subcontracting of large firms' activities to locally/Congolese-owned SMEs. On the financing side, high transaction costs and risks of small-size lending as well as high share of NPLs in banks' portfolio lead to high collateral requirements that constrain lending to SMEs and rural entrepreneurs. This project will address those issues that would otherwise not be addressed by the market.

III. World Bank's value added

[63] http://www.bcc.cd/downloads/stat/moncred/indic_mon_bon_bcc_jan18.pdf
[64] Including previous World Bank projects in DRC: http://wbdocs.worldbank.org/wbdocs/viewer/docViewer/indexEx.jsp?objectId=090224b081bc5b28&respositoryId=WBDocs&standalone=false
[65] *http://www.bcc.cd/downloads/pub/autdoc/rap_poliq_mon_17.pdf* (page 43)
[66] http://www.bcc.cd/downloads/stat/moncred/indic_mon_bon_bcc_jan18.pdf
[67] http://www.worldbank.org/en/country/drc/overview
[68] https://eiti.org/democratic-republic-of-congo

The project design is fully aligned with the priority themes identified under the World Bank SME Action Plan (World Bank, 2016), and incorporates the key lessons and recommendations from the IEG Report "The Big Business of Small Enterprises" (IEG, 2014) conducted on 179 World Bank Group projects targeting SMEs during 2006 – 2012 time-period, as well as the analysis of the 10 relevant SME projects in Africa. The WBG experience from the above-mentioned projects brings an important value added to the Project. Additionally, the project is designed in close collaboration and coordination with other active World Bank and IFC operations in DRC working in various sectors (Education, Agriculture, Finance & Markets), which allows to build on the experiences of other teams and leverage synergies across various projects in the country. Thus, the project draws on lessons learned from the experiences gained from the implementation of other projects in DRC and elsewhere, as well as the coordination of WBG interventions in relevant sectors.

IV. Project stakeholders

The analysis is carried out from the national perspective of DRC. The stakeholders of this project are:

1. **DRC taxpayers** since reimbursement of the World Bank's loan allocated to the Project would be financed from the state budget, Congolese taxpayers are thus affected by the increased tax burden for the loan reimbursement while they will benefit from diversification of the economy, increased competition on the goods and services market, creation of new jobs and future increase in the tax base, including from formalization of MSMEs supported through the project.
2. **SMEs** will benefit from capacity building, better business environment, increased access to finance to undertake new initiatives and/or broaden the products or services range, and/or improve the existing product quality and production efficiency. The impact is expected to be especially important in underdeveloped regions of the country, especially where the four hubs will be located.
3. **Congolese public institutions related to the project** will bear indirect expenditures in the form of increased workload of the personnel and/or direct expenditures to hire new employees to maintain activities in the frame of the Project. However, the recruitment of a PIU will reduce to the minimum possible this workload and will rather build capacities for the public staff, both at the local and central governments level.
4. **DRC based providers of business advisory services, other companies and individuals** involved in the design and the implementation of the project would receive benefits in in short and medium term in form of rents and salaries, and capacity building; and in the longer term from increased demand for their services from an expanded customer base of local MSMEs.
5. **Large corporations based in DRC, particularly in the mining sector** will benefit from increased efficiency of local suppliers, thus reducing the cost of their procurements (costs and imports reduction).
6. **Financing institutions operating in DRC** will benefit from improved pipeline of bankable proposals from local MSMEs and increased credit worthiness of the MSMEs supported through the project.

V. Assumptions

The economic analysis will consider the costs and benefits of the project based on the following assumptions:

7. Each component will be assessed by estimating its ERR calculated from its direct estimated financial outcomes and economic externalities and other indirect outcomes.

8. The data on sales, sales growth as well as employment and employment growth are from the 2010-13 DRC Enterprise Surveys and researches estimating the impact of similar programs on SME growth, productivity and changes in wages. The analysis uses the data on sales from the Enterprise Surveys, however the financing provided by the project to a given SME must be equal to its annual sales at least. Therefore, when the annual sales happen to be lower than planned financing from the project, the planned amount of the projected loan/grant by the project is the value of the annual sales.
9. Regarding the project implementation cost, it will be divided among different components of the project proportionally to their respective sizes. The costs of the labor provided by the Government will not be significant as part of the implementation costs, given that the project already includes four PIU that will be fully taken in charge by the funding.
10. The base case considered by the cost-benefit analysis will take 12 percent discount rate (the interest rate on medium term treasure bonds in DRC and used by most previous bank's projects in DRC). For the sensitivity analysis, the overall project's ERR will be compared to 14.3 percent interest rate (the average rate on treasury bonds in DRC) and 20 percent interest rate (the Central Bank Prime Rate), both being reference rates for borrowings by the government of DRC. The timeline of the analysis is limited to 10-year period of FY 2018-2028 (except the hubs sub-component that makes only 5 percent of the project, for which a 15-year timeline is considered). The time period will be reduced to 7 years in the sensitivity analysis as described below.
11. The above-mentioned assumptions will be altered to calculate net benefits in the pessimistic case and a worse-case scenario for the sensitivity analysis. In addition, for sensitivity and prudence purposes, the analysis assumed that the entire project expenses will incur the first year, thus increasing the financial costs in the analysis.

VI. Calculation of Costs and Benefits

The potential costs and benefits of the SME Development and Growth project can be divided into two groups: 1) direct costs and benefits associated with the implementation of the project and 2) side effects (externalities) of the project. These are presented in Table 1.

Table 1. List of potential costs and benefits of the project

Component 1: Support entrepreneurship opportunities for youth and women (US$44 million)		
Sub-components	**Costs**	**Benefits**
Sub-component 1: Support for women entrepreneurs (US$15 million)	- Direct financial outflows on in-kind grants and longer-term TA for women-led SMEs - Administrative expenses incurred by SMEs for preparing business plans and performance reports (mostly outweighed by gain in experience)	- Direct benefits for 4,500 trained Women led SME and 2,500 SMEs receiving in-kind grants - Revenue (Economic) growth generated by creation of new and formalized SMEs, improved access to finance of SMEs, increased availability of goods and services, increased employment in private sector - Services procurement opportunities for capacity building institutions and business trainers (benefits)
Sub-component 2: Start-up grant and TA for young entrepreneurs (US$17 million)	- Direct financial outflows on startups grants and TAfor young entrepreneurs - Administrative expenses incurred by SMEs for formalization and preparing business plans and	- Direct benefits for 750 young entrepreneurs receiving grants - Revenue (Economic) growth generated by creation of new SMEs, improved access to finance of SMEs, increased availability of goods and services, increased employment in private sector - Spillover effects in terms of technology transfers, entrepreneurship culture change, demonstration effect,

	performance reports (mostly outweighed by gain in experience)	financial literacy, increase in business survivability, etc. were not considered in the multiplier in this analysis due to the lack of relevant estimation - Services procurement opportunities for TA providers and business trainers
Sub-component 3: Improvement of business environment ($12 million)	- Direct financial outflows on conducting strategic assessment, analytical studies, data collection, training, policy recommendations, capacity building, law dissemination, workshops - Indirect expenditures in form of increased workload of personnel for local government and other donors	- Increased capacity of local research institutions, benefit to economy from better-informed policies. - strengthened institutional capacities for dispute resolution including identified and piloted specific tools for public-private dialogue - improved awareness around the new Family Code and other women-friendly legal provisions within the Labor law, Land law and the recent Equality law, consultative workshops - NB: such benefits will be estimated in terms of economic benefits via the literature review - Increased institutional capacity for SME support - Enabled business environment for all the MSMEs with a special focus on women-led SMEs and dissemination around laws that support female entrepreneurship and women's economic empowerment - Performed analytical studies, data collection, training, policy recommendations
Component 2: SME Development ($42 million)		
Sub-component 1: Enhancing the growth and performance of SMEs (US$37 million)	- Direct financial outflows on grants and supervised BDS for established SMEs - Administrative expenses incurred by SMEs for preparing business plans and performance reports (mostly outweighed by gain in experience)	- Direct benefits for 500 established SME receiving grants - Revenue (Economic) growth generated by creation of new and formalized SMEs, improved access to finance of SMEs, increased availability of goods and services, increased employment in private sector - Services procurement opportunities for capacity building institutions and business trainers - Spillover effects in terms of technology transfers and multiplier (benefits not taken into account in the analysis)
Sub-component 2: Development of ancillary SME Hubs (US$5 million)	Direct financial outflows related to operating costs of establishing and running the four regional hubs	- Increased TA, studies, marketing and communications activities, and BDS for 160 SMEs - Increased institutional capacity for SME support - Services procurement opportunities for the large companies or private firms hired for managing the hubs - Better and more efficient local procurement opportunities for large companies

Component 3: Capacity building and Project Management (US$14 million)		
Sub-component 1: Capacity strengthening of institutions supporting entrepreneurs and MSMEs (US$6 million)	Direct financial outflows on institutional capacity building	- Increased institutional capacity for SME support - Services procurement opportunities for capacity building institutions (benefits) - Strengthened capacity of local agencies delivering the "Supplier Development Program" - Strengthened capacity of private actors (FEC, COPEMECO, and others) at provincial and local level to enable them to better deliver BDS
Sub-component 2: Project implementation (US$10 million)	- Direct financial outflows on impact evaluation and monitoring frameworks - Indirect expenditures in form of increased workload of public servants	- Capacity building for central and local governments staff working with different PIUs
All components	Indirect expenditures in form of increased workload of public servants working on the project	Revenue (Economic) growth generated by creation of new SMEs, improved access to finance of SMEs, Increased availability of goods and services, increased employment in private sector

Calculation of Costs

The computation of costs by components does not present any important estimation as direct costs are already defined in the PAD. However, the Project implementation cost (US$9 million) will be split as indirect cost among different components weighed by the monetary size of each component.

Calculation of benefits

The benefits of each component will be determined in terms of financial benefits (for direct impacts) as well as economic benefits (indirect impacts). The below table explains the methodology used for each subcomponent for the determination of the economic/financial benefits.

Table 2. Explanations of economic/financial benefits of the Project's subcomponents

Component 1: Support entrepreneurship opportunities for youth and women (US$44 million)	
Sub Component 1: Support for women entrepreneurs (US$15 million)	- Direct discounted financial inflow from increases sales for SME, employment for households and VAT for the government - Spillover effects in terms of technology transfers and multiplier (benefits not considered in the analysis) - Indirect economic impact from the comprehensive training of 4,500 women: A combined set of 18 case studies shows that every dollar invested in SMEs development generates, on average, an additional 12 dollars in the local economy[69]. We will rather use a multiplier of 5 instead for externalities.
Sub Component 2: Start-up grant and TA for young SME (US$17 million)	- Direct discounted financial inflow from increases sales for SME, employment for households and VAT for the government - Spillover effects in terms of technology transfers and multiplier (benefits not considered in the analysis)

[69] http://springhillequity.com/files/From-Poverty-to-Prosperity.pdf.

Sub Component 3: Improvement of business environment ($12 million)	- Enabled business environment for all the MSMEs: a paper[70] establishes that, on average, each business regulatory reform is associated with a 0.15 percent increase in growth rate of GDP - Formalization of women-led SMEs thanks to 192 awareness/dissemination events, leading to 2,000 new registration: according to studies[71], becoming official increases business profits by at least 20 to 45 percent
Component 2: SME Development ($42 million)	
Sub Component 1: Enhancing the growth and performance of SMEs (US$37 million)	- Direct discounted financial inflow from increases sales for SME, employment for households and VAT for the government - Spillover effects in terms of technology transfers and multiplier (benefits not considered in the analysis)
Sub Component 2: Development of ancillary SME Hubs (US$5 million)	- Direct discounted financial inflow from increases sales for SME, employment for households and VAT for the government - Spillover effects in terms of better procurement for big corporations, technology transfers and multiplier (benefits not considered in the analysis)
Component 3: Capacity building and Project Management (US$14 million)	
Sub Component 1: Capacity strengthening (IDA: US$5 million)	- 10 implemented reforms and 15 recommended policies/procedures: a paper[72] establishes that, on average, each business regulatory reform is associated with a 0.15 percent increase in growth rate of GDP
Sub Component 2: Project implementation (US$9 million)	- Cost to be split among other subcomponents

Calculation of Net Present Value of the Project

1. The project aims **to support the growth of Micro, Small and Medium-sized Enterprises (MSMEs) and increase employment and entrepreneurship opportunities for youth and women in selected geographical areas in the Democratic Republic of Congo**. The project will comprise the following three Components (i) **Support entrepreneurship opportunities for youth and women**, (ii) **SME Development** and (iii) **Capacity building and Project Management**.
2. The estimated ERR reflect the value for money of the investments under these components. They account for benefits accrued from greater sales and employment in firms, as well as the multiplier effects and the increase in the government fiscal revenue. The long-term benefits of some activities (particularly the business climate reforms and the capacity strengthening of institutions) will be estimated by using available economic studies. The opportunity cost of World Bank funds is estimated at 12 percent. Since the ERR exceeds this percentage (and other relevant rates for DRC) for a ten-year period projection, the

[70] Haidar, Jamal Ibrahim, The Impact of Business Regulatory Reforms on Economic Growth (May 25, 2012). Journal of the Japanese and International Economies, Vol. 26 (3), pp. 285-307. Available at SSRN: *https://ssrn.com/abstract=2066558*.
[71] *http://citeseer.ist.psu.edu/viewdoc/download?doi=10.1.1.607.8986&rep=rep1&type=pdf* and https://books.google.com/books?id=4q1YR1ApLMQC&pg=PA69&lpg=PA69&dq=Fajnzylber,+Maloney,+and+Rojas+2006&source=bl&ots=MD1dZEZmS_&sig=hTpy4T6gzSq5u-7WZzzupNOOaYg&hl=en&sa=X&ved=0ahUKEwipxpOX-YTYAhVJON8KHfV0CeMQ6AEITjAI#v=onepage&q=Fajnzylber%2C%20Maloney%2C%20and%20Rojas%202006&f=false.
[72] Haidar, Jamal Ibrahim, The Impact of Business Regulatory Reforms on Economic Growth (May 25, 2012). Journal of the Japanese and International Economies, Vol. 26 (3), pp. 285-307. Available at SSRN: *https://ssrn.com/abstract=2066558*.

value of the Project activities outweighs the opportunity cost of using these funds for other investments in DRC or a similar country.

3. Regardless the direct/indirect relationship between the project activities and their expected benefits, the economic and financial analysis will be performed by components/subcomponents. Then, the analysis will follow the order presented in the Project Appraisal Document.
4. A sensitivity analysis will be made by altering initial assumptions with more pessimistic case and a worse-case scenario such as shorter period and lower economic impact (multiplier effect).

A. **Component 1: Support entrepreneurship opportunities for youth and women**

- **Subcomponent 1: Support for Women entrepreneurs**

The Subcomponent 1.1 will provide financial and TA to women owned SMEs. Access to finance is a persistent barrier for women-owned SMEs in DRC. Women are less likely to hold a bank account and save or borrow in countries with legal discrimination[73], such as the requirement in DRC that married women obtain spousal permission to obtain a bank account and seek loans. Many women in DRC instead go to credit and savings cooperatives, which themselves are financially fragile and may lack effective management[74].

Women-owned SMEs are marked by high self-employment and lower median sales than any other group in the analysis. For this Sub Component, the number of beneficiaries is estimated at 2,500 women for the grant and 4,500 for the comprehensive training. The cost for this component is $ 15 million (equally split between training and grant) to which is added USD 1.5 million as the share of the subcomponent in the implementation cost. The analysis related to women entrepreneurs is divided into two parts. The first one related to the direct grants (USD 7.5 million) and the second one related to the training (USD 7.5 million).
The TA and the comprehensive training for women-owned SMEs is estimated to have an economic benefit of USD 37 million (undiscounted and computed from the multiplier of 5) while the combined grant part will generate USD 26 million (in present value with 12 percent discount rate) from increased sales, job creations and incremental tax revenues for the government. Overall, the subcomponent has an ERR of 52,58 percent for 10 years.

This is based on the following additional assumptions:

- A firm has at least one female owner, has fewer than five employees, and is not a subsidiary of another firm.
- Project support is expected to increase the sales growth rate growth from 12.6 percent to 15.6 percent. Also, employment growth of 1 employee every 4 years is assumed for 25 percent employment growth assumption.
- The government will collect VAT taxes on sales at a rate of 16 percent. The analysis did not include other taxes (employment tax, rental tax, land tax, income taxes, etc.) for many reasons[75] including the existence

[73] Demirguc-Kunt and Klapper (2003).
[74] DRC: Getting the Business Climate Right (2015): 78.
[75] The reasons also include the fact that forgone taxes from other sources might be partially compensated by a light overestimation of the sales tax because some MSMEs might not collect sales tax due to their size (annual sales must exceed USD 50,000 for MSMEs to collect sales tax, while startups and some women led SMEs may not reach such sale level and may, therefore, not collect VAT). See VAT at *http://www.dgi.gouv.cd/tva/tva-expliquee.html*.

of multiple exemptions[76] on such taxes (for local MSMEs investing over USD 10,000) and the variability in their tax bases (which renders the forecasting much complicated).

- **Subcomponent 1. 2: <u>Start-up grant and TA for Youth entrepreneurs</u>**

The Subcomponent 1.2 targets youth entrepreneurs selected through a business plan competition and will provide financial and TA to the beneficiaries. The number of beneficiaries is estimated at 750 youth. For this subcomponent, given that the failure rate issues that go with new SMEs' survival and growth, we assumed that about 80 percent of the SME will survive, compare to 40 percent according to studies[77]. We took a higher survival rate based on the fact that beneficiary SMEs will receive technical and financial assistance, thus increasing their probability to survive, as low managerial capacities are among the key barriers to survival[78]. Then, the ERR is positive and higher than the 12 percent discount rate, the rate on treasury bonds and the central bank prime rate (22.72 percent).

This is based on the following assumptions:

- Youth beneficiaries are starting or have just started new formally registered firms.
- Youth beneficiaries who are selected through the business plan competition in this project will achieve similar results to youth in similar competitions (e.g., the YouWiN! competition in Nigeria – a 23 percent increase in sales and is assumed to result from participation in the project[79]). However, we rather took a 3 percentage points increase compared to the baseline sale growth (16.6 percent instead of 12.6 percent). An increase of 1 employee on average every four years, or the equivalent of 25 percent employment growth, is also assumed.

The actual ERR for the youth subcomponent would be higher if it included network and peer effects, learning effects, demonstration effects, spillovers and tax benefits (excluding the VAT). It would also be higher if its improvement benefits accrued from greater material well-being and lower risk of poverty and engagement in criminal activities and violence.

- **Subcomponent 1.3: <u>Improvement of business environment, including awareness and dissemination about the new family law</u>**

The Subcomponent 1.3 will finance activities to build awareness and the dissemination of information about the new Family Code, which has removed some constraints on married women related to business activities. Benefits from this Subcomponent will come from perceptive and behavioral change related to female participation in economic activities, greater empowerment of women including through the case for business ownership and registration, and demonstration, network and peer effects. For the other reforms and activities planned in that subcomponent, such as the National strategy promotion and other regulation/legislation, benefits will come from better coordination of economic activities as well as the business climate improvement in general.

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[76] http://www.dgi.gouv.cd/fiscalite-congolaise/regime-du-code-des-investissements.html
[77] *http://www.ijsrp.org/research-paper-1214/ijsrp-p3618.pdf*, page 1
[78] http://ir-library.ku.ac.ke/bitstream/handle/123456789/6055/Bernadette%20Mungai.pdf;sequence=3 : According to Rosa (1996), training also ensures that greater efficiency is achieved through the production of goods and services with a realistic profit margin. In doing so, the entrepreneur in turn is assured of his survival. P39.
[79] McKenzie (2015).

Assuming that half of the amount allocated to this subcomponent will be spent on the dissemination of laws about women empowerment and looking at the economic impact of the formalization of women-led SME, we estimated below the ERR by looking at the economic impact of business formalization (see table 3 below). Regarding the other half of the expenditure in the business environment improvement, applying the multiplier of 5 yields an economic impact of over USD 30,000,000 (see table 4). Thus, the ERR for the whole sub-component is 49.57 percent.

Table 3: Economic impact of Women led SME formalization

Average yearly business registration in DRC (2013-2016)	**6,571**
Average percentage of women led SME registration in DRC (2013-2016)	**22.6 percent**
Average percentage of women led SME in Ivory Coast	**43 percent**
Intervention impact on the average percent of women led SME registration	**20.4 percent**
Yearly number of new registered women led SME due to intervention	**1,340**
Number of formalized women led SME in five years due to intervention	**6,702**
Annual sales (from enterprises surveys)	**$3,333**
Annual profit (estimated at 25 percent of the sales)	**$833**
Profit increase thanks to SME formalized	**$ 5,584,791**
Sales increase by SME formalized (profit times 4) in 5 years	**$ 22,339,165**

B. Component 2: SME Development ($42 million)

- **Sub Component 2.1: <u>Enhancing the growth and performance of Existing SMEs (US$37 million)</u>**

The Subcomponent 2.1 targets existing SMEs using matching grants, to alleviate medium- and long-term financing constraints which limit substantial capital investment for a firm. This component will cost $37,000,000, and the estimated benefits are expected to accrue from increased sales growth, government tax revenues and employment growth. The number of beneficiaries is estimated at 500 existing SMEs and the project will fund 40-60 percent of their financing needs. The ERR for this component is expected to be 25.19 percent ERR for 10 years.

This is based on the following additional assumptions:

- Targeted beneficiaries are existing SMEs with between 5-99 employees, with sales below the median, and which have similar characteristics to the small and medium size firms in 2013 DRC Enterprise Surveys.
- Constant sales and employment growth are assumed for the 7 and 10-year period.
- The project intervention will increase the baseline growth rates for sales by 3 percentage points and employment in the existing SMEs is assumed to be 14.1 percent growth rates.

The actual ERR for established SMEs would be higher if it included benefits related to firm investment (enabled by the matching grants), greater value chain participation, spillovers, and tax benefits (excluding VAT).

- **Sub Component 2.2: <u>Development of ancillary SME Hubs (US$5 million)</u>**

The Subcomponent 2.2. will create four SME Hubs, located in cities in central, southern, western and eastern regions of DRC. The hubs will alleviate ICT, logistics, electricity and related constraints, which are consistently among the top barriers to business operations, as reported by firms (DRC Enterprise Surveys, 2013, 2018). Enabling location-based hubs will increase sales and employment growth for participating SMEs by lowering costs which would otherwise have to be internalized.

The analysis for the SME Hubs accounts for expected benefits related to sales and employment growth. The actual ERR is likely to be higher because of effects related to job creation and stimulation of local industry related to development, building, more efficient procurement for big corporation, and the staffing of these hubs.

The ERR of this subcomponent is 15.17 percent for a 10-year period and 20.91 percent for 15 years. It would be higher if it included network and demonstration effects, peer effects, productivity expansion and greater value chain integration, benefits from firm investment in growth-oriented activities, as well as lower local procurement costs for big corporations. It would also be higher if it included benefits related to job creation and stimulation of local industry related to the development, building, and staffing of the hubs.

This is based on the following assumptions about the SME Hubs and participating SMEs:

- Although 5- and 10-year projections are made for other components for the analysis, the SME hubs are analyzed using 10- and 15-year projects, assuming that it will take several years for hubs to be built and filled up.
- The SME beneficiaries will be small (5-19 employees), with sales below the median. SME beneficiaries will not be a subsidiary of another firm.
- Hubs are assumed to create constant gains in sales and employment growth for the firms, as firms that graduate will be replaced by similar firms at the time they entered the hub.

C. Component 3: Capacity building and Project Management (US$14 million)

- **Sub Component 3.1: <u>Capacity strengthening of public and private institutions supporting MSMEs</u>**

The subcomponent 3.1. will build/strengthen capacities of selected public and private institutions on results/need-basis at a cost of US$5 million and will lead to benefits from more effective and responsive institutions providing support to the private sectors. Experience shows that stronger institutions help promote and implement broader environmental reform as well as identify and prioritize business environment reforms. The strengthening of the institutions that identify and tackle such red tapes and facilitate feedbacks and monitoring will improve the regulatory framework and the business climate in the country.

This results-based capacity-building can also substantially improve the ability of public agencies to support the project and create a knowledge base for future project development and implementation. Capacity building is necessary across public activities in DRC as the country consistently ranks among the worst performers across governance indicators in the World Governance Indicators. Capacity building is needed especially in the Ministry in charge of SMEs which is newly created.

In addition, those institutions that will benefit from this subcomponent address governance challenges related to corruption. More than 50 percent of managers considered corruption as a major or severe obstacle to business expansion[80]. Informal payments cost firms an average of 3.1 percent of revenue annually[81], which cuts into firm spending on other activities as well as the public revenue base. This can generate benefits in the long-term in the form of more effective business environment reform and more conducive broader governance environment.

By using the multiplier effect of 5, the ERR 108.75 percent for 10 years.

The below table uses the multiplier effect to estimate the economic impact of this subcomponent, as well as the one in subcomponent 1.1b (comprehensive training of 4,500 women) and 1.3 (Improvement of business environment).

Table 4. Explanations of economic benefits of the 3 subcomponents by using the multiplier effects

Activities	Measure	Computation formula	Undiscounted Economic Benefit
Comprehensive training of 4,500 women (section of subcomponent 1.1)	Multiplier of 5	USD 7.5 Million x 5	USD 37,500,000
Improvement of business environment (Sub Component 1.3)	Multiplier of 5 (instead of 0.15 GDP growth rate)	USD 7[82] Million x 5	USD 35,000,000
Capacity strengthening of public and private institutions supporting entrepreneurs and MSMEs (Sub Component 3.1)	Multiplier of 5 (instead of 0.15 GDP growth rate)	USD 5 Million x 5	USD 25,000,000

- **Sub Component 3.2: Capacity strengthening (public, technical services), Project management, and M&E**

The Subcomponent 3.2. will finance activities for project management, coordination, communication and M&E It helps the PIU in Kinshasa coordinate with provincial units in targeted cities and support the development of an effective M&E and impact evaluation system. Lack of effective data and knowledge management can reduce responsiveness of PIUs during a project, and limit knowledge which can be applied in future project design and implementation. This component will reduce such risk. However, for a deeper and safer economic and financial analysis, the cost of this subcomponent was divided among the other sub-components and taken as additional cost for them (see the below table).

Table 5. Weighed distribution of the project's implementation costs between subcomponents

Components/Subcomponents	Direct Cost	implementation cost	Indirect cost
Component 1: Support entrepreneurship opportunities for youth and women	**$44 million**	**48.35 percent**	**$4,350,648**
Sub Component 1: Support for women entrepreneurs	15	16.48 percent	$1,483,000
Sub Component 2: Start-up grant and TA for young entrepreneurs	17	18.68 percent	$1,681,000

80 This is almost twice the level reported across SSA as a region (DRC: Getting the Business Climate Right, 2015).
81 Enterprise Surveys – DRC (2013); see DRC: Getting the Business Climate Right (2015).
82 Considering that USD 5 million of the subcomponent were spent in the women friendly regulation dissemination.

Sub Component 3: Improvement of business environment	12	13.19 percent	$1,186,000
Component 2: SME Development	**$42 million**	**46.15 percent**	**$4,153,846**
Sub Component 1: Enhancing the growth and performance of SMEs	37	40.66 percent	$3,659,341
Sub Component 2: Development of ancillary SME Hubs	5	5.49 percent	$494,505
Component 3: Capacity building and Project Management	**$14 million**	**5.49 percent**	**$494,505**
Sub Component 1: Capacity strengthening of public and private institutions supporting entrepreneurs and MSMEs	5	5.49 percent	$494,505
Total	**90**	**100 percent**	**$9,000,000**

VII. Sensitivity Analysis

To test viability and the sensitivity to shocks of the project, all the assumptions and results above will be altered to calculate net benefits in the pessimistic case and a worse-case scenario.
Although the base case calculations show about an ERR of 28.92 percent at 10 years, this figure may change in following scenarios:

a) **A shorter period:** One scenario is entitled "**Pessimistic Case**" and includes only lowering the expected number of years during which occur the project outcomes from 10 to only 7 years
b) **Lower Multiplier and shorter period:** the second scenario is entitled "**Worse Case**" includes lowering the expected number of years to 7 and reducing the multiplier to 3 instead of 5 in this analysis (or 7 to 13 in many other analysis).

Results of the alternative scenarios are presented in the table 6 below.

Table 6: Impact of alternative scenarios on the ERR

Project Subcomponents	**Base case** (10year period and multiplier of 5)	**Pessimistic case** (*7-year period* and multiplier of 5)	**Worse case** ***(7-year period and multiplier of 3)***
Sub Component 1.1: Support for women entrepreneurs (US$15 million)	ERR: 52.58 percent	ERR: 45.39 percent	ERR: 25.38 percent
Sub Component 1.2: Start-up grant and TA for young entrepreneurs (US$15 million)	ERR: 22.72 percent	ERR: **9.95** percent	ERR: NA (no multiplier used)
Sub Component 1.3: Improvement of business environment ($12 million)	ERR: 49.95 percent	ERR: 49.57 percent	ERR: 26.97 percent
Sub Component 2.1: Enhancing the growth and performance of SMEs (US$37 million)	ERR: 25.19 percent	ERR: 14.19 percent	ERR: NA (no multiplier used)
Sub Component 2.2: Development of ancillary SME Hubs (US$5 million), 15-year period assumption	ERR: 15.17 percent	ERR: 1.33 percent	ERR: NA (no multiplier used)

Sub Component 3.1: Capacity strengthening (IDA: US$5 million)	ERR: 108.75 percent	ERR: 105.93 percent	ERR: 71.90 percent
Total Project	**ERR:** 29.88 percent	**ERR:** 21.44 percent	**ERR:** 15.224 percent

As seen from the Table 6 above, the project brings positive net benefits in case of lower number of years and lower multiplier effect. However, the ERR is below the 20 percent for only the subcomponent Development of ancillary SME Hubs (US$5 million), both in the base scenario and the alternative ones. As explained above, not only this subcomponent has the smallest size in terms of allocations in the project (making only 5 percent), but also the other components still make enough benefits that would outweigh the loss if the bad scenarios were to happen. In addition, the initial assumption was that a 15-year period would be considered for this subcomponent which will take several years for its hubs to be built and filled up. At 15 years, the subcomponent shows and ERR of 20.91 percent.

Overall, the ERR is 29.88 percent for the base case, 21.44 percent for pessimistic case and 15.22 percent for the worse case.