Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 31-May-2017 | Report No: PIDISDSC20568

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Congo, Democratic Republic of	P160806		DEMOCRATIC REPUBLIC OF CONGO- SME DEVELOPMENT AND GROWTH PROJECT (P160806)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Nov 20, 2017	Feb 28, 2018	Trade & Competitiveness
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of SME	

Proposed Development Objective(s)

The project development objective is to enhance the growth and competitiveness of targeted micro, small and medium sized enterprises in the Democratic Republic of Congo.

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	70.00
Total Project Cost	**70.00**

Environmental Assessment Category	Concept Review Decision
B-Partial Assessment	Track II-The review did authorize the preparation to continue

Note to Task Teams: End of system generated content, document is editable from here.

Other Decision (as needed)

B. Introduction and Context

Country Context

The Democratic Republic of Congo is a resource rich country with considerable potential for development. With a land surface area of 2.3 million km2, it is the largest country in Sub-Saharan Africa (SSA). The DRC remains a fragile country with tremendous needs in terms of reconstruction, economic growth, and governance. The security situation is improving but remains tense, particularly in the eastern provinces. Peacebuilding and economic recovery efforts are being carried out in a challenging social context. After an economic slump in 2009 that brought the growth rate down to 2.8 percent due to the global financial crisis, the DRC posted an annual average economic growth rate of 7.4 percent during 2010-2013 and of 8.7 percent in 2014, both of which are well above the average in Sub-Saharan Africa. The DRC has a population estimated of 77 million. Despite an impressive economic growth rate and a reduction in the poverty rate from 71 percent in 2005 to 63 percent in 2012, the poverty rate remains high in the DRC. The country ranks second to last on the Human Development Index (186 out of 187 countries), and its per capita income, which stood at US$220 in 2012, is among the lowest in the world. The United Nations estimates that there are some 2.3 million displaced persons and refugees in the country and 323,000 DRC nationals living in refugee camps outside the country.

Sectoral and Institutional Context

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 growth targets. Despite recent encouraging sector and regulatory reforms, DRC ranks 184th of 189 countries for Ease of Doing Business (DB) in the World Bank's 2017 DB report. The business climate remains unfriendly to the private sector, public institutions are dysfunctional, and businesses face an enormous infrastructure deficit as mentioned above. According to the 2013 DRC Enterprise Survey, 56 percent of business managers believe that expensive and unreliable power supply is a major obstacle to business growth. About half as many businesses complained about the lack of access to serviced land and about expensive and unreliable transport, while one in five were constrained by expensive and unreliable telecommunication services. Problems raised by small business owners included the difficulty of gaining access to an effective court of law, power shortages, poor tax administration, fiscal harassment, lack of Business Development Services (BDS) and challenges in gaining access to finance. Large businesses mentioned, among others, excessive business regulation, poor licensing and permit administration, poor transport facilities, skills shortages, and corruption.

The private sector is dominated by micro and small businesses. Indeed, while smaller firms have traditionally played an important role in the economy, most manufacturing labor force is trapped in very low productivity activities, largely in the informal sector. 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 firms 6 percent, compared to only 1.3 percent for large firms. However, 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.

It is estimated that up to 90 percent of all business activities in DRC take place 'below the radar'. The high level of informality is due to the fact that it is difficult to pursue business in the DRC. For an overwhelming majority of informal enterprises, 88.4 percent, the main form of capital funding is through individual savings. Given the lack of savings due to a missing savings culture, enterprises are inadequately funded.[1] An important characteristic of this segment is that many micro-business owners are not necessarily entrepreneurs by choice. On the contrary, in most cases they have no other option than to establish their own business to make ends meet. The Congolese micro and small entrepreneurs is thus driven much more by fighting for survival then by seeking profits.

There are a few high growth potential sectors that are currently exploited in a limited manner by Congolese SMEs in general, such as manufacturing, agribusiness, fishing industry, energy, mining, and general/eco-tourism. Among the factors restraining Congolese SMEs, both men and women-led, from entering these sectors are the following: (i) high barriers to entry, (ii) lack of vision from entrepreneurs, opportunism and tendency to imitate what exist and what others undertake, (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/access to these sectors, (v) lack of specialized SMEs support institutions and BDS, (vi) lack of specialized financial institutions and/or financial instruments.

Relationship to CPF

The current Country Assistance Strategy (CAS) of the DRC was approved by the Board in April 2013 for the period FY2013-FY2016 and was extended in April 2016 to FY17 in the Performance and Learning Review (PLR) of the CAS. The CAS has four strategic objectives: (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. This project is fully aligned with its second strategic objective to boost competitiveness to accelerate private-sector-led growth and job creation. It also supports the second pillar of the Government's strategy of diversifying the economy to accelerate growth and create employment. Gender is a cross-cutting theme of the CAS and key element of this project. In addition, the project will contribute to the achievement of the Government's goals as spelled out in the strategy for SME development adopted in 2016. 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 World Bank Group's twin goals of poverty reduction and economic growth.

C. Proposed Development Objective(s)

The project development objective is to enhance the growth and competitiveness of targeted micro, small and medium sized enterprises in the Democratic Republic of Congo.

Key Results (From PCN)

[1] KfW: Access to Finance Forum in the Democratic Republic of Congo, April 22, 2016.

As presented below in the theory of change, the SOP'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) Increased activity of beneficiary firms (measured through revenues); (ii) Number of new firms established (out of which youth-owned and female-owned/managed).

Intermediate key outcome indicators would be: (i) number of beneficiary firms of business plan competition implementing their business plans; (ii) number of SME hubs established; (iii) number of youth and female entrepreneurs completed specialized training to enhance entrepreneurship; and (iv) number of PPD reform actions enacted/ implemented.

D. Concept Description

This series of projects takes as its starting point the structure of the private sector in the DRC – a large, low-productivity informal micro/ small enterprise sector and a small number of small/ medium formal enterprises with greater potential for growth. It also recognizes the severity and multitude of constraints facing the private sector. Key among these are corruption and limited access to electricity, as well as taxes, informal sector, 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 entrepreneurs as well as support resilience and coping mechanisms for a broader base of enterprises that contribute to employment and stability. The series of projects approach and the scalable nature of the interventions themselves provide flexibility to adapt the design and scale of these interventions in a manner that responds to the country context**.** The nature of the activities and investments supported acknowledges the long-term nature of the key challenges of access to power and corruption, and seeks to expand the opportunities and space through which MSMEs can mitigate the effects of these obstacles to their growth.

Component 1: Investing in the growth of Micro, Small and Medium Size Enterprises (US$53 million)

Sub-Component 1.1. Targeted support to MSMEs to improve performance and stimulate growth (US$40 million)
This sub-component will provide targeted support to two types of beneficiaries: (i) Established SMEs with a good track record that face capital and capacity constraints to growth; and (ii) Young entrepreneurs that need seed capital and skills to test their ideas and gain access to markets. The funding will be allocated through the Business Plan Competition (BPC) process using transparent selection criteria and funding instrument targeted specifically to each of the two groups of beneficiaries. To minimize the risk of capture, the awards will be decided through an independent and transparent selection process that uses qualified evaluators, clear criteria, and to the extent possible, anonymity of applications and random selection among well-qualified applicants. The implementation these activities will be done by international firms and/or experienced NGOs with extensive experience on similar operations in FCS countries.

Sub-Component 1.2. Location-based interventions (US$13 million)
The objective of this sub-component will be to support growth of SMEs by providing cost-effective infrastructure and communal services, based on the concept of SME hubs.

Component 2: Support resilience and inclusion (US$15 million)

Sub-Component 2.1 Support for resilience of women entrepreneurs ($12 million)

This sub-component will provide direct support for women entrepreneurs who are engaged in productive activities (self-employed, home-based businesses, family-owned businesses, subsistence entrepreneurs, etc.). It will provide technical assistance and financing of business plans. It will also finance awareness building and dissemination about the new family law for Congolese policy makers, financial institutions, and legal workers including magistrates and judges, beneficiaries and others.

Sub-Component 2.2 Strengthen public-private dialogue (US$2 million)
PPD tools will be introduced 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. The project will include specific activities that will lay the ground for strong economic governance.

Component 3: Project Management and Monitoring & Evaluation (US$8 million)

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 will be established to provide strategic guidance to 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 will be refined during project preparation, taking into consideration the latest political developments and weak institutional capacity. So far, the key technical counterpart for the project is the Ministry of Small and Medium Enterprises, which is relatively new and with limited experience in WB project management, but the team will engage with other Ministries such as Ministry of Finance and the Ministry of Industry during project preparation to finalize institutional arrangements. The implementation of activities such as BPC, cash transfers and development of SME hubs will be done by international firms and/or experienced NGOs with extensive experience on similar operations in FCS countries. This component includes two sub-components: (i) Capacity strengthening of public and private technical services; and (iii) Project management and Monitoring and Evaluation.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will mainly intervene in urban centers such as Matadi, Kinshasa and Lubumbashi in this first series of projects. It will primarily provide technical assistance, small grants and matching grants to Micro, Small and Medium enterprises to increase their productivity. In addition, the project will support the development of privately run SME hubs through TA and minor infrastructure works around the hubs (road connections, access to electricity and water). It does not intend to build major infrastructure but rather complement private investments in an opportunistic manner by making available the necessary public infrastructure.

B. Borrower’s Institutional Capacity for Safeguard Policies

The main project counterparts will be the Ministry of Finance and the Ministry of SMEs. Capacity building will be carried out extensively, and the team is recommending the recruitment of two safeguards specialists in the PIU to cover social and environmental risks separately.

Although the private sector is expected to implement a majority of the activities, the PIU will assume the responsibility of safeguards supervision and management due to limited social and environmental implementation capacity of the private sector. Therefore, in this first phase, the project will not apply the Bank Performance Standards (OP 4.03), but will instead trigger the Bank Policies (OP/BP 4.01, 4.11, and 4.12) to ensure safeguards compliance and to build the Client capacity (Ministry of SMEs). During implementation, the project will ensure that contractors provide Environmental and Social Management Plans (ESMPs) as part of the proposals and bidding documents prior to award of contracts/funding. This would be a contractual obligation for various contracts issued not only for basic physical infrastructure and for civil works, but also any associated facilities funded through IDA, including the Hubs and private sector activities inside the Hubs.

C. Environmental and Social Safeguards Specialists on the Team

Lucienne M. M'Baipor, Social Safeguards Specialist
Grace Muhimpundu, Social Safeguards Specialist
Joelle Nkombela Mukungu, Social Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The project will finance basic infrastructure rehabilitation or construction around the SME hubs, such as roads, access to electricity. No infrastructure will be financed directly by the project inside the hubs. The precise scope and siting of most of the planned investments remain to be determined. Therefore, the implementation of project activities are for now governed by the framework approach, which will lead to the preparation of sub-project-specific safeguard instruments following the screening process, during which detailed information about the sites, scope, and scale of sub-projects will become available. An Environmental and Social Management Framework (ESMF) will be prepared during project preparation, consulted upon and disclosed in-country before prior to Board approval. The EMSF will serve as a guide for developing the ESIAs and ESMPs as needed, when the exact sites of sub-projects are known. In particular, the ESIA will include a diagnostic of the project areas, potential environmental adverse impacts, including potential issues related to labor influx, and mitigation measures to manage properly expected adverse impacts. The ESIA will highlight specific provisions that need to be included in construction/installation contracts to ensure that contractors' ESMPs address relevant

		mitigation measures.
Natural Habitats OP/BP 4.04	No	The project is not expected to interfere or have a direct impact on natural habitats.
Forests OP/BP 4.36	No	
Pest Management OP 4.09	Yes	The project will provide matching-grants/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 the integrated pest control approaches, and identifies pesticides that can be financed under the project and develop an appropriate plan of pests to manage the risks. To comply with this policy a Plan of Management of Pests and Pesticides (PMPP) will be prepared as a stand-alone instrument.
Physical Cultural Resources OP/BP 4.11	Yes	The project will finance physical infrastructure such as roads, waste management, and electrification, these activities may have an impact on some cultural resources (historical structures, cultural relics, or graves). 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 will prepare as part of the ESMF a chapter on Physical Cultural Resources Framework (PCRF).
Indigenous Peoples OP/BP 4.10	No	Indigenous Peoples are found on a large part of the DRC’s territory, but mainly in rural areas. As this project will be implemented in urban areas (Lubumbashi, Matadi and Kinshasa) and the activities will be implemented only in these three cities, the OP. 4.10 should not be triggered.
Involuntary Resettlement OP/BP 4.12	Yes	To mitigate potential social impacts, such as land acquisition, loss of livelihoods and economic activities as a result of the rehabilitation and construction of basic infrastructure around the SME hubs, the project will prepare a Resettlement Policy Framework (RPF) that will be consulted upon and disclosed in country and on Infoshop prior to project appraisal. It will outline the overarching framework through which potential resettlement issues will be addressed. The RPF provides the principles and procedures for resettlement and compensation for project affected populations (PAPs), establishes standards for identifying, assessing, and mitigating negative impacts,

		and introduces a livelihoods restoration measures for vulnerable PAPs. It will also guide the preparation and implementation of site-specific Resettlement Action Plans (RAPs) for each individual investment that triggers Involuntary Resettlement (OP 4.12).
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Sep 08, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

During the period April-July 2017.

CONTACT POINT

World Bank

Alain Tienmfoltien Traore, Milaine Rossanaly
Senior Private Sector Specialist

Borrower/Client/Recipient

Ministry of Finance
Henri Yav Mulang
Minister of Finance
cabfinances@minfinrdc.com

Implementing Agencies

Ministry of SME
Eugène Serefuli
Minister of SMEs
cabfinances@minfinrdc.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Alain Tienmfoltien Traore, Milaine Rossanaly

Approved By

Safeguards Advisor:	Maman-Sani Issa	03-Jun-2017
Practice Manager/Manager:	Dahlia Khalifa	04-Jun-2017
Country Director:	Yisgedullish Amde	09-Aug-2017

Note to Task Teams: End of system generated content, document is editable from here.