PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA884

Project Name	Dem Rep Congo - Western Growth Poles (P124720)
Region	AFRICA
Country	Congo, Democratic Republic of
Sector(s)	General agriculture, fishing and forestry sector (30%), General industry and trade sector (30%), General transportation sector (20%) , Telecommunications (10%), General finance sector (10%)
Theme(s)	Infrastructure services for private sector development (60%), Micro, Small and Medium Enterprise support (40%)
Lending Instrument	Specific Investment Loan
Project ID	P124720
Borrower(s)	Democratic Republic of Congo
Implementing Agency	Ministry of Finance
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	25-Apr-2013
Date PID Approved/Disclosed	14-May-2013
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Decision	

I. Project Context

Country Context

The Democratic Republic of Congo (DRC) 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 country's mineral resources endowment is huge. DRC has the world's largest diamond reserves, and major reserves of other minerals, including copper, gold, cobalt, rare earths, cassiterite, and columbite-tantalite (coltan). With over 80 million ha of fertile and arable land and 52 percent of all fresh water resources in SSA, the country could potentially feed one billion people if the existing agricultural potential were fully exploited. With 16,000 km of waterways, the country has a potential hydroelectric generation capacity of 100,000 MW that could power most of the continent.

Despite its rich endowments, DRC is one of the world's poorest countries with a 2011 per capita gross national income (GNI) of US$190. More than 70 percent of its population, which is estimated at 71 million, lives in poverty (under the US$1.25-a-day poverty line (2006). The country's Human Development Index (HDI) ranks it last among 187 countries. Moreover, poverty in DRC poses gender issues and geographical disparities: 28 percent of women have never attended school, compared to 14 percent for men; poverty affects more rural areas (75.7 percent) than urban areas (61.4 percent) and the percentage of people in the poverty trap is 35 percent in rural areas compared to 26 percent in urban areas (World Bank, 2007). Food insecurity affects the majority of the population, while more acute in rural areas.

The country is emerging from a long period of conflicts, which have had devastating impacts on the economy and the population. The country suffered two civil wars that claimed more than three million lives and continues to severely affect both economic and social developments. Although recovery has been slow and uneven, the country managed to hold two legislative and presidential elections in 2006 and 2011 respectively, the latter being marred by violence and disputed results. President Kabila was reelected for a second term. Elections at the provincial and local levels have been delayed because of lack of financial support and need to reform the electoral system. The security situation is getting stabilized in most of the country except in few areas of the Eastern provinces which have been affected by recurrent violence for decades. The signing of a peace, security and cooperation framework for DRC by 11 countries on February 24, 2013 was an important step toward a sustainable and peaceful solution to the conflict in the East.

Although the DRC is now recovering, it continues to face the challenges of a country exiting from war and instability. Among these are: (i) huge infrastructure deficit; (ii) limited economic diversification; (iii) limited public capacity to provide public goods and/or support to private sector-led inclusive growth; (iv) weak governance systems and structures; (v) predatory culture of rent seeking; and (vi) limited judicial protection of investments that all together dilute prospects for resource-based inclusive growth and sustainable jobs creation.

DRC’s economy has been growing rapidly since 2010, but the robust economic growth has not been inclusive enough to deliver sustainable and reasonably well paying jobs. This situation poses significant risks to social cohesion and stability. The country's economic growth was cyclical and relatively weak between 2007 and 2009. However, since 2010, economic growth has exceeded the average for SSA by two percentage points with a growth rate averaging 7 percent (Annex 13). The strong economic growth witnessed in recent years has not benefited the majority of the population. The high unemployment rate (estimated at 58 percent in 2009) is a major concern for the Government.

Approximately one-third of the food consumed in the country is imported, and the net trade balance in agriculture is negative. Statistics on agriculture are limited, but data from Bank 2012 Country Economic Memorandum (CEM) and the 2010 Diagnostic Trade Integrated Study (DTIS) indicates a production deficit estimated at 800,000 and 50,000 tons respectively for maize and palm oil. For cassava, the production deficit is estimated at 2,000,000 tons (CEM, 2012). The deficit for rice, fish, and meat were estimated at 24,000, 50,000 and 600,000 tons respectively in 2008.

Sectoral and institutional Context

Reviving the agriculture sector will require stronger private sector participation and better infrastructures. The private sector is indeed needed to support the development of value chains and commercial agriculture in partnership with small holder farmers. However, this effort is constrained by several factors, which fall into four broad categories: deficient infrastructure (energy and transport), poor governance and business regulations, lack of skilled workers, and high cost of financing. The paragraphs below briefly discuss these constraints.

Lack of reliable power supply is recognized as a major constraint to economic recovery in every part of the country. Access to electricity is extremely limited, reaching fewer than 9 percent of households. Of the country's potential production capacity of 100,000 MW, only 2,400 MW (or 2.4 percent) are developed, with only 700 MW of these available.

In addition to power supply, the poor development of the transport network seriously impedes productive activities and access to markets. The integration of various provinces to foster trade and economic linkages is difficult at this stage as a result of a deficient and dysfunctional transport system. For example, Kinshasa is only connected to five provincial capitals (Bandundu, Kananga, Matadi, Mbandaka and Mbuji-Mayi) by road, to one provincial capital (Kisangani) by river and air, and to four provincial capitals (Bukavu, Goma, Kindu, and Lubumbashi) by air only. The performance of the railroad and river transport systems is poor in terms of time, cost, quality, safety and reliability, and this affects the country's ability to exploit its huge growth potential. Overall, poor infrastructure has locked down productivity, inhibited private investment in inputs and outputs marketing, and affected poverty. Studies have shown that a 10 percent reduction in transportation costs could increase agricultural productivity by 6 percent (CEM 2012).

Poor business environment and governance are not conducive to the development of private investments. DRC was ranked 181st out of 185 countries in the 2013 World Bank Doing Business report. The 2012 CEM also stressed that poor governance (including quality of expenditures, ineffective public service delivery, administrative harassment, informal tax payments, insecurity, and non-systematic enforcement of rules and laws) is a major area of concern that is affecting economic performance and private-sector-led growth.

Low productivity level of the labor force and shortage of professional skills. In 2010, nine percent of formal enterprises perceived skills as a problem, compared to 1 percent in 2006. As indicated in a 2009 World Bank report on education and training, the “formal secondary education and technical and vocational education and training (TVET) system is characterized by low efficiency, poor quality and irrelevance, and only caters to the formal sector”. The TVET system does not provide skills training that are relevant for rural areas or the informal sector, despite the fact that the majority of the labor force is employed in the agricultural and informal sectors.

The embryonic financial sector in DRC shows potential for growth though hampered by weak policies and infrastructure. Although the number of banks and non-bank financial institutions has almost doubled since 2007 to reach 25, the country’s financial sector is one of the weakest in Sub-Saharan Africa in terms of the bank penetration rate (around 5.7 percent). Apart from micro-credit, over 80 percent of bank loans are short-term loans to corporate clients and large companies or loans that have cash collateral or offshore guarantees. The development of mobile banking has been slow due to lack of the necessary infrastructure.

For large agro-industrial enterprises, which usually have the capacity to directly address critical infrastructure constraints such as rural roads or power, the poor availability of secured land can be considered a major constraint. In practice, the land market is characterized by: (i) a high risk of disputes caused by the dualism of the land regime (written law vs. oral customary law); (ii) slow access to land due to burdensome administrative procedures; and (iii) the lack of a rural land registry.

II. Project Development Objectives

The proposed Project Development Objective (PDO) is to increase productivity and employment in selected value chains in target zones.

III. Project Description

Component Name

Agriculture Value Chains Development in Bas-Congo

Special Economic Zone of Maluku

Proactive Business Development

Coordination, Monitoring and Impact Assessment Project

IV. Financing *(in USD Million)*

Total Project Cost:	114.70	Total Bank Financing:	110.00
Total Cofinancing:		Financing Gap:	0.00

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	4.70
IDA Grant	110.00
Total	114.70

V. Implementation

The design of the institutional and implementation arrangements takes into account lessons learned, the weak capacity as well as coordination failures within the Congolese public sector which need to be addressed for the project to reach its development impact. All the relevant institutions of the public and private sectors as well as the civil society which have contributed to the project preparation continue to support project implementation. Their capacity will be strengthened through the recruitment of consultants, training and workshops. The implementation design of the project has been prepared as part of the Master Plan. Each entity involved in project implementation will report to the Project Coordination Unit (FEF), which is under the Ministry of Finance.

Given the multi-sectoral nature of this project, coordination among the various ministries would be critical. This will require the involvement of the Prime Minister's Office. Overall, the arrangements will include a high-level steering committee, the Ministry of Finance as the coordinating ministry, the Office of the Governors of targeted provinces, relevant national ministries, the private sector, and civil society.

Public Disclosure Copy

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	

Safety of Dams OP/BP 4.37		×
Projects on International Waterways OP/BP 7.50	×	
Projects in Disputed Areas OP/BP 7.60		×

VII. Contact point

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