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

Concept Stage | Date Prepared/Updated: 29-Jun-2017 | Report No: PIDISDSC20146

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Congo, Republic of	P161590		CG-Support to Enterprise Development and Competitiveness Project (P161590)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Oct 26, 2017	Jan 25, 2018	Trade & Competitiveness
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministere du Plan	PADE	

Proposed Development Objective(s)

Enhance SME competitiveness and economic diversification in the Republic of Congo

Financing (in USD Million)

Financing Source	Amount
International Bank for Reconstruction and Development	30.00
Total Project Cost	**30.00**

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

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Republic of Congo is a lower-middle income country located in central-sub-Saharan Africa, characterized by a limited domestic market and a heavy reliance on extractives.** Located along the Equator, the Republic of Congo (RoC) occupies an area of 342,000 square kilometers with a population of 4.6 million inhabitants. The population is primarily concentrated in urban areas (particularly Brazzaville and Pointe Noire) where close to 70% of the population lives, making the RoC one of the most urbanized nation in Sub-Saharan Africa. The Congolese economy remains highly concentrated on natural assets, with its production and exports concentrated on the oil and minerals sectors. The RoC is the fourth largest oil producer in Sub-Saharan Africa, with an output of over 100m barrels per year.[1] Over the years, the dependency on oil-derived rents has contributed to an adverse institutional and governance environment – hampering private sector led growth and competitiveness. With oil accounting for about a third in the country's GDP, two thirds of its fiscal revenue, and more than 80 percent of its goods exports, the sharp decline in oil prices since 2014 has provoked a major fiscal and economic crisis – underscoring the critical importance of the economic diversification and inclusive growth agenda.

2. **Since the end of the civil strife in the early 2000's, the country enjoyed relative political stability and growth.** High commodity prices and some structural reforms enabled growth to resume - averaging 5.5% for the period 2008-2014. This period of relative growth resulted in an increase in government spending, particularly directed toward infrastructure projects. Unfortunately, these large investments resulted in modest linkages/spillovers effects into the non-oil private productive sectors and have not reduced sector concentration significantly. At the same time social and human development indicators have not improved significantly, life expectancy remains low at 58 years, given that the average for low income countries is 66 years.

3. **More recently, growth slowed down to 1.7% in 2016, from 2.3% and 6.8% in 2014 and 2015 respectively**, **pointing to the volatile nature of hydrocarbon derived growth and revenues.** The drop in hydrocarbon prices has had a severe impact on the macro and fiscal condition of the RoC. Revenues decreased from an estimated US$4 billon to US$1 billion a year resulting in an increase in public debt to up to 75% of GDP and a budget deficit of 17% of GDP. There are some favorable prospects for 2017, as new mining projects in iron ore, which entered production in late 2013, may add as much as $1 billion to annual government revenue. Oil production is also expected to increase for 2017 by 15% due to the optimization of the Moho-Bilondo phase I field and a new production facility at the Moho-North field.

4. **Regrettably, the overall performance of the economy remains insufficient to reduce high structural levels of poverty, inequality and unemployment.** The unemployment rate is estimated at around 25% and at 42% among the youth. Poverty has decreased at a slower rate than expected from 51% in 2005 to 46.5% in 2011[2], and inequality remains high (*Gini coefficient* is 0.465). Likewise, the *Gender Inequality Index* is still high at 0.592 in 2015. In addition, disparities have increased between wealthier urban centers

[1] Congo has 1.6 billion barrels of proven oil reserves and 90 billion cubic meters of natural gas reserves.

[2] World Bank 2011 Poverty and Households survey- This is the last known survey based poverty estimates. Recent estimates based on macroeconomic modelling estimates of 2016 show a stronger decrease to 29.5%.

where poverty levels fell to 30% and rural areas where it increased to 75%. Meanwhile health indictors are considered lagging behind many countries with similar levels of development. The vaccination rates have significantly decreased to 37%, but under-5 mortality dropped from 95.3 to 52.6 deaths per 1000 live births, maternal mortality rate declined from 781 to 426 deaths per 100,000 live births between 2005 and 2012.

5. **The Republic of Congo enjoys a number of favorable natural assets,** including: (i) abundant natural resources in hydrocarbons, minerals and forestry[3], (ii) a strategic transit location to a significant regional market with the only deep sea port in the region (*Pointe-Noire*), and (iii) a significant potential in agriculture development since only 2% of the 10 million hectares of arable land is currently exploited.

6. **In the presence of abundant natural resources, the performance of the Congolese economy remains highly concentrated and vulnerable to external shocks.** The drop in oil prices observed over the last two years has constrained the government's fiscal stance resulting in a reduction of more than $1 billion in planned public spending.

7. **The Congo basin presents a significant potential to leverage connectivity and linkages between and among local and regional value chains.** The strategic location of the Autonomous Port of Pointe-Noire (PAPN) as a gateway to the Atlantic Ocean from the hinterland affords the RoC a unique position to tap into a regional market of approximately 120 million consumers, with immediate access to a market of about 15 million in Kinshasa and its outskirts, as well as a pathway to the Central African Republic, Southern Cameroun, West and North DRC, and Cabinda (Angola). However, despite its important natural endowment and favorable location, the country has not been able to fully exploit its potential and faces significant challenges in triggering the diversification process and create jobs. As a result, despite some non-oil growth observed in recent years, extractive industries continue to account for close to 90% of total exports and 75% of GDP.

8. **The growth of non-oil opportunities remains constrained across several dimensions.** They include: i) weak institutional framework in charge of enterprise growth and development; ii) the management of large public investments; iii) poor infrastructure in energy and transportation; iv) an adverse business environment (Congo was ranked 177th of 190 countries in the latest Doing Business report); and v) inadequate skills to meet private sector needs. The wide range of these constraints is indicative of the multifaceted challenges facing the diversification process, necessary to sustain a robust and more inclusive growth rate, and reduce poverty and unemployment.

Sectoral and Institutional Context

9. **A legacy of overbearing government presence has restrained private entrepreneurship and maintained sector concentration at high levels.** The performance of the private sector is reflected by low levels of non-oil private investments which have remained low averaging only about 19.4% of total investments for 2011-2016. The private sector's contribution to growth and formal employment is not significant. According to a household and employment survey[4] only about 30% of the country's 125,000 formal employees are private sector workers. In terms of its structure, the private sector is small and concentrated in the tertiary sector such as trade, retail and services, with little manufacturing aside from

[3] The Congo basin is the second largest natural forest reserve in the world after the Amazon (ADB 2015)
[4] "*Environnement de l'investissement Privé"* (ADB 2012)

light manufacturing activities in woods, food and drinks processing. Manufacturing accounts for less than 3% of activities. The private sector is composed of mostly smaller units operating along the Pointe-Noire Brazzaville corridor where 90% of firms are registered[5]. By most accounts[6], SME composition is dominated by micro units of less than 5 employees and small firms. A limited number of large firms are concentrated in Pointe Noire, the country's deep sea port where the oil industry is located.

10. The RoC will need to address significant Investment Climate challenges[7] in order to unlock its potential. Private firms continue to be constrained by several weaknesses impeding their competitiveness and growth. Chief among them are the following:
    - **A difficult business environment.**
    - **Inadequate infrastructure and logistics hamper competitiveness.**
    - **Inadequate human capital.**
    - **Institutional capacity and coordination challenges to support firm development and investment along regional and global VCs (agriculture, services, manufacturing).**

11. **Addressing the challenges described above and exploiting Congo's potential will accelerate the diversification process.** The RoC's strategic location in the south Atlantic and its access to the regional markets of the hinterland (the Republic of Congo has borders with Cameroon, the DRC, the CAR, Gabon and Angola) combined with its significant endowment in natural resources provides a considerable potential which should enable the development of the country's non-oil private sector.

12. **The Government of Congo through the Ministry of Planning has requested the renewed assistance of the Work Bank in order to provide the technical expertise and resources required to further the diversification agenda initiated under the PADE.** Given the current context characterized by a substantially deteriorated fiscal environment and sharp economic crisis, authorities are keen on deepening and sustaining a diversification drive. To this end, the proposed Support to Enterprise Development and Competitiveness Project (PADE II) will build on the experiences and achievements of the original project[8] and further strengthen the capacity of relevant institutions and stakeholders.

Relationship to CPF

13. The Project will contribute to the main objectives of the Country Partnership Framework (CPF) through selective and strategic interventions, closely coordinated with on-going and planned activities of

[5] [5] A firm census survey undertaken over the last decade estimated the total number of enterprises at 22 500 mainly composed of small and very small units (98%) operating in trade. SMEs and large enterprises accounted for 2% with a negligible number of very large firms. Enterprise creation is also concentrated in Pointe Noire (40%) and Brazzaville (55%) (ADB 2012).

[6] "*Environnement de l'investissement Privé"* ADB 2012. « The Investment Climate in Congo", World Bank 2009

[7] Several studies highlighting challenges and opportunities including: i) The World Bank 2009 Investment Climate Assessment, ii) The World Bank's 2016 Policy note on Diversification, iii) The Trade Facilitation Intervention report and, iv) Studies undertaken within the framework of the PADE I, indicate potential in logistics and transports, agribusiness, forestry, and wood transformation as well as a significant potential for regional integration. These reports will constitute an invaluable resources moving forward with project preparation activities.

[8] The PADE I is scheduled to close in December 2017. However, the lack of counterpart funding has stalled all remaining project activities. As a result, the government is requesting a Level II restructuring in order to address the financing gap necessary to complete project activities already committed and select those that will be actionable ahead of the project closing date.

development partners, and other Global Practices (notably the Agriculture and Transport and ICT GPs) which are important areas under the current program and future action plans. The proposed project is in line with the Country Partnership Strategy which underscores the importance of private sector led growth and diversification.

14. The proposed project also complements the RoC's efforts at diversifying the economy. In recent years the authorities have introduced polices and instruments in support of a more diversified economy. The National Development Plan[9] (NDP) 2012-2016 has designed detailed action plans for several sectors including two pillars dedicated to diversification based on exploiting the country's natural endowments, and on developing sectors with an identified comparative advantage such as in agriculture, forestry, transport and light manufacturing. As noted above, the proposed operation will therefore deepen the diversification drive initiated under PADE, constituting a platform to crowd in additional public (including IFC/WB and other donors) and private investment in infrastructure and high potential value chains. The proposed project will require close and sustained coordination with donors and development partners. The ongoing and proposed areas of intervention are aligned with a number of activities endorsed by donors such as the EU, and AFD. The project will also leverage IFC/MIGA expertise and instruments (including with regard to potential future SME and infrastructure finance.). IFC staff joined the project identification mission and will be involved during the next phases of project design.

C. Proposed Development Objective(s)

Enhance SME competitiveness and economic diversification in the Republic of Congo

Key Results (From PCN)

15. Key results include: i) Investment generated in targeted non-oil value chains, ii) Number of beneficiary firms accessing new regional/local markets; (iii) Increase in beneficiary MSMEs turnover. Intermediate indicators could include: i) Decrease in median transit time from the PAPN to the RDC border and the CAR border- this indicator will feature two sub indicators for the two destinations mentioned, ii) Cargo dwell time at the PAPN, iii) Regional trade and transit traffic (million metric tons), (iv) Number of policy reforms implemented, (v) Number of successful business plans launched through the BPC, (vi) Share of firm led by females supported under the project of total number of firms.

16. A more focused results framework will be designed during project preparation. In addition, the team will ensure that adequate financial and human resources are allocated to the design and implementation of a thorough M&E framework. During project preparation, a baseline survey will be carried out using a Project Preparation Fund (PPF) and will serve as a basis to agree on specific PDO and intermediate indicators with the Government. In addition, the team will consider impact evaluation to measure the impact of specific interventions.

D. Concept Description

[9] The country's economic diversification objective requires coordinated action plans such as those recognized by the National Development Plan (NDP). These coordinated actions should occur around three main axis: (i) strategies / direct actions to stimulate productive sectors, agriculture and forestry services; (ii) public investment to strengthen infrastructure and human resources ("inputs") to reduce factor costs and improve the competitiveness of the economy; (iii) strategies/actions to support economic operators ("economic actors"), including the farmers and the private sector, to improve the business environment and investment. The NDP regrouped the sectors into seven clusters and has presented investment as well as reforms needed to grow each of these clusters. (Policy Note on Diversification, World Bank 2016).

17. The proposed Project will be structured as an Investment Project Financing (IPF), funded by an IBRD loan in the amount of US$30 million over a five-year period. The Project will include three complementary/integrated components, designed to address priority policies sequentially and provide institutional and technical support to key identified sectors and related institutions. The objective will be to alleviate both regulatory/institutional and market constraints that are currently preventing the diversification of the economy. The project's components are aiming at: i) improving the business environment and fostering investment in priority sectors and value chains; ii) strengthening the performance of the transport and logistics sectors; iii) supporting SMEs in identified value chains and key growth sectors; and iv) ensuring project implementation, coordination and knowledge dissemination/management.

18. Component I: Improving the business environment and investment generation in priority sectors and value chains (US$5 million). The objective of this component is to support the development of an investment climate reform program as well as sectoral investment promotion activities that supports firms' growth and diversification in a sustainable manner.

19. Component II: Strengthening the performance of the transport and logistics sectors (US$10 millions). The objective of this component is to strengthen the competitiveness of the transport and logistics sectors. Activities in this component will foster policy reform, institutional capacity building and technical assistance to improve the competitiveness of transport and logistics providers.

20. Component III: Entrepreneurship and enterprise development (US$10 millions). The objective of this component is to promote entrepreneurship and enhance the competitiveness of Congolese SMEs in diversified sectors with a growth potential, including in transport and logistics, agri-business and agro-forestry, light manufacturing and wood processing, handicrafts and services (ICT, tourism). The component will address the operational technical and managerial capacity of beneficiary firms and entrepreneurs. *Additional features may include accessing new markets, developing new products or services, and improving the quality of products and overall increasing access to regional, local and nontraditional markets.*

21. Component IV: Project implementation and coordination (US$5 millions). The Project will be under the oversight of a Steering Committee that will include the representatives of partner ministries, the private sector with the top structures of professional value chains organizations and the civil society. A Project Coordination Unit will be placed under the direct administrative authority of the Ministry of Planning. A project pilot committee will oversee and support the preparation activities of PADE II and subsequent implementation. This will involve confirming and approving, annual budget and action plans by the project implementing agency. The Project Pilot Committee will also ensure coordination and adequate execution of project activities across sectoral stakeholders. As well as supervising the roll out and follow ups with supervisory activities (supervision missions). A secretariat will organize periodic meetings in support of its mandate. A Project Implementing Unit will be placed under the direct administrative authority of the Ministry of Planning

SAFEGUARDS

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

The project focuses primarily on the urban and peri-urban agglomerations of Pointe Noire and Brazzaville. The exact location is not yet defined.

B. Borrower's Institutional Capacity for Safeguard Policies

The management of environmental and social issues in the Republic of Congo is under the responsibility of the Ministry of Forest Economy and Sustainable Development (MEFDD). The ministry is in charge the elaboration and implementation of environmental policies, as well as providing general guidance on Environmental And Social Impact Assessments (ESIAs). However, the borrower capacity, both at the national and municipal level, to adequately implement the safeguard measures is considered weak. This is due to lack of experts in environmental and social safeguards. As it has been identified through the Bank safeguards portfolio review, there is a need for capacity building for the experts in the PIU and key ministries. The implementation of this project will be under the Ministry Planning. An in-depth capacity assessment of the Ministry and the implementing unit (created during the identification phase.) will be conducted during preparation.

C. Environmental and Social Safeguards Specialists on the Team

Lucienne M. M'Baipor, Joelle Nkombela Mukungu

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	Activities to be financed under Component III through Enterprise Development such as transport, agro-business, agroforestry, services and manufacturing may have potential negative impacts on the environment and communities. Even though the project is expecting to support initiatives in the urban areas, the exact location of activities is not yet known. Therefore, an Environmental and Social Management Framework (ESMF) will be prepared during project preparation, consulted upon and disclosed in the country prior to Board appraisal. The ESMF will provide guidance on managing environmental and social risks related to the implementation of activities.
Natural Habitats OP/BP 4.04	No	The project does not involve or affect natural habitats
Forests OP/BP 4.36	No	The project does not involve or affect natural forested area or plantation.
Pest Management OP 4.09	Yes	Among sectors with growth potential that are going to be promoted in entrepreneurship and competitiveness, there is agri-business and agro-

		forestry. In anticipation of the use of pesticides and other agro-chemical products by SMEs, an Integrated Pest Management Plan (IPMP) will be prepared to ensure that environmentally friendly methods for pest control are applied, such as biological control, cultural practices, and the development and use of varieties that are pest and disease resistant or tolerant.
Physical Cultural Resources OP/BP 4.11	Yes	In anticipation of the potential impacts on Physical Cultural Resources during project implementation, in particular, during activities related to agroforestry and agri-business, physical cultural Resources will be integrally part of the ESMF. “Chance finds” should be part of every civil work contract, even where risks are deemed low.
Indigenous Peoples OP/BP 4.10	TBD	Indigenous Peoples live in many departments of the Republic of Congo. Therefore, the policy may be triggered should some Enterprises to receive funding under Component III, intervene in rural areas, especially in the agribusiness sector. Seeing as IPs live in rural areas, a number of agricultural activities may have an impact on IPs or neglect to include IPs as beneficiaries in the project. During the identification phase, the project will identify the departments for intervention. Should the project intervene in areas with IPs, the project will prepare an Indigenous Peoples Policy Framework (IPPF) or an Indigenous Peoples Plan (IPP), which will establish the framework and plan for consultation and inclusion of IPs in the project areas. The instrument prepared will be consulted upon, and disclosed in country prior to board appraisal.
Involuntary Resettlement OP/BP 4.12	Yes	The activities planned under Component III, Enterprise Development, may indirectly induce land acquisition. Due to low population density in rural areas of the Republic of Congo however, the risk of physical resettlement is minimal, although there may be potential economic displacement or loss of assets. The project will prepare a Resettlement Policy Framework (RPF) or a Resettlement Action Plan(s) (RAP) to mitigate potential negative impacts. The instrument prepared will be consulted upon and disclosed in country prior to board appraisal.
Safety of Dams OP/BP 4.37	No	The project does not involve dams
Projects on International Waterways OP/BP 7.50	No	N/A

Projects in Disputed Areas OP/BP 7.60	No	N/A

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 18, 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

Studies will be launched between July - September 2017

CONTACT POINT

World Bank

Lorenzo Bertolini
Senior Private Sector Specialist

Borrower/Client/Recipient

Ministere du Plan
Valery Babackas
Charge de missions
vbabackas@gmail.com

Implementing Agencies

PADE
Joseph Mbossa
Coordinator
jombossa@yahoo.fr

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):	Lorenzo Bertolini

Approved By

Safeguards Advisor:	Maman-Sani Issa	29-Jun-2017
Practice Manager/Manager:	Dahlia Khalifa	30-Jun-2017
Country Director:	Djibrilla Adamou Issa	19-Jul-2017