Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 16-Feb-2022 | Report No: PIDC33470

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Congo, Democratic Republic of	P178176		Empowering Women Entrepreneurs and Upgrading MSMEs for Economic Transformation and Jobs in DRC (P178176)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA EAST	Mar 21, 2022	Jun 14, 2022	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministere des Finances	Ministry of Middle Class, Small and Medium Enterprises and Handicraft (Ministry of SMEs)	

Proposed Development Objective(s)

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

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	300.00
Total Financing	300.00
of which IBRD/IDA	300.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	300.00

IDA Credit	150.00
IDA Grant	150.00

Environmental and Social Risk Classification	Concept Review Decision
Substantial	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Democratic Republic of Congo (DRC) is one of the large (89.5 million population)[1] and poorest (73 percent live in extreme poverty) countries and has been in a state of conflict and fragility for almost forty years.** Due to abundant and diverse natural resources, a strategic location bordering 9 countries, and a young and growing population, the DRC has considerable economic potential. However, poor governance, weak fiscal institutions, mismanagement of the natural resources sectors, and protracted and cyclical conflict and violence have led to limited progress in building human capital and infrastructure and resulted in economic underperformance and high levels of poverty.

2. **DRC experienced its first peaceful transfer of power in 2019, after two years of political crisis and violence, but the country remains vulnerable to drivers of fragility and violence.** According to the Risk and Resilience Assessment (RRA), drivers of fragility include: (i) the non-diversified and poorly redistributive economy strongly favors elite interests and is kept in place by a continuously renegotiated political settlement based on competition for natural resource capture; (ii) high levels of exclusion and an utter lack of economic opportunities keeps an extremely poor and young population with very low education levels trapped without prospects for social mobility, creating fertile ground for youth to seek out illicit alternatives or to resort to violence; and (iii) a legacy of trauma from armed conflict resulting in the normalization and commodification of the use of violence, including sexual and gender-based violence, has eroded social cohesion (World Bank, 2021a[2]).

3. **Low and unsustainable GDP growth is a key driver of high poverty rates.** In the 1990s, GDP contracted at an average of 5.5 percent annually. The end of the war in 2002 and the ensuing re-engagement of the international community, which also coincided with a recovery of mineral and metal prices globally, led to a reversal of this trend and an expanding economy, with GDP growth averaging six percent per year between 2003-2007. The channeling of private investments to extractive sectors, as well as poor sector governance that resulted in limited conversion of resource rents into productive public spending, constrained diversification, and reinforced commodity dependence. Limited diversification led to continued growth volatility, as felt in 2009, 2016,

[1] Oct. 2021 DRC MPO
[2] RRA

and 2019 when GDP growth declined sharply due to a drop in commodity prices. In 2020, the economy grew by 1.7 percent (World Bank 2021c[3]) but COVID-19 will likely exert long-lasting impact and affect future growth. The brunt of the pandemic will be particularly felt in services and in mining, which were the most dynamic sectors before the pandemic.

4. **The worldwide demand shock following the COVID-19 crisis has added to the numerous challenges the country has been facing in recent years, underlining the urgent need for economic reform**. Private sector growth should be considered in this context as a potential response to strong drivers of fragility. Given the 3.3 percent annual growth, the population could reach 400 million in 50 years, making Kinshasa the largest city in Africa alongside Lagos. There is, therefore, an urgent need for the country to adopt a strong, sustainable growth path. This will require a growing private sector to meet the country's needs (World Bank 2021b[4]).

Sectoral and Institutional Context

MSMEs are uncompetitive and face constraints to growth

5. **The private sector is comprised of extractive industries dominated by foreign investors and SOEs, low productivity agriculture, a small formal private sector and a large number of informal MSMEs that employ 89 percent of the working population.** The agriculture sector represented 20 percent of GDP in 2017, extractive industries 17.4 percent, manufacturing 19.7 percent (dominated by food and beverages), and services 37.8 percent. Although DRC attracted significant FDIs in the mining sector and other extractive industries, they have limited technology and productivity spillovers. The government's effort to promote backward linkages through the 2017 Subcontracting Law did not achieve the desired results because of the underdeveloped local SME sector and deficiencies in the legislation.

6. **Micro, Small, and Medium-sized Enterprises (MSMEs) dominate the private sector of the DRC.** MSMEs are one of the strongest drivers of economic development and employment that could serve as an engine of growth and job opportunities for the country. MSMEs constitute the bulk of the economic activity, but their formalization, growth and competitiveness face severe constraints.[5] 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 60 percent employment in DRC. 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), DRC comes at the top only second to South Sudan (Enterprise Survey). 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, while medium-size firms' rate is 6 percent, compared to only 1.3 percent for large firms. However, the growth rate of existing SMEs is sluggish. The improved performance of SMEs would enable them to play their role as an important engine of growth and job opportunities for young skilled workers.

7. **There are sectoral differences in the growth patterns**. The extractive and resource-based industries are the main drivers of GDP growth, but the job creation takes place mostly in urban services, especially in higher income provinces and large cities. Community and social services are also the most dynamic from the perspective of new firm creation and productivity increase (27 percent of companies experienced an increase in

[3] CPF

[4] CPSD

[5] Enterprise Survey 2013 and the SME Ecosystem Survey 2019

2019), followed by the primary sector (15 percent). The sectors where companies saw less growth in terms of sales are the mining sector and the electricity, gas, and water production and distribution sectors, as well as financial and professional services.

The MSMEs have a short time horizon and remain largely informal because of the challenging ecosystem

8. **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.** Most of the labor force in DRC is trapped in very low productivity activities, mainly in the informal sector, which employed 88.6 percent of the working population in 2019 (with significant geographical disparity).[6] Informal firms are younger, smaller in size, have lower productivity, low levels of employment, and lower levels of manager education and experience, and are less likely to apply for and obtain loans than the small formal firms. Most of the informal firms are poor in capital and are 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.[7] 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 favor large incumbent companies and those that have ties to government and impede growth of promising SMEs. Wage regulations in some industries create distortions that can hurt other industries by shifting incentives for workers. About 5.4 percent of the informal firms produce or sell under a contract, compared to 15.1 percent in the rest of Africa.

9. **Because of the factors of fragility and the challenging ecosystem, most firms remain informal and engage in activities they believe are lower-risk and / or offer a higher short-term return.** The challenging context reinforces the belief that success in business in the DRC depends more on ability to rely on networks (social, political, and other connections) and bribery than on entrepreneurial skills and competitiveness.

Gender biases limit opportunities for women entrepreneurs

10. **International experience demonstrates that gender equality is associated with greater resilience and growth,[8] but gender inequalities are persistent among entrepreneurs**. For most women in the DRC, entrepreneurship is a necessity—they have no other option than to establish their own business to make ends meet and avoid unemployment. 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. However, the laws and regulations are often not implemented, and women continue facing discriminatory practices. For example, the analysis of the SME Ecosystem in the DRC reports that women pay a higher share of production costs for purchases of inputs: 40 percent of costs for woman versus 28 percent for men for the same sector of activity.[9] Women also complain more often than men that they receive poor quality

[6] CPF

[7] Informal Enterprise Survey 2016

[8] Women, Business and the Law and World Development Indicators databases

[9] World Bank. 2019. Scaling Up Ecosystems for Small Businesses in the Democratic Republic of Congo : Analysis Based on Data from Kinshasa, Lubumbashi, Matadi, and Goma. https://openknowledge.worldbank.org/handle/10986/33470

raw materials and inputs from their suppliers, particularly in the agricultural and agri-food sector. This is attributed to a higher level of negotiation power by men-owned MSMEs. Women entrepreneurs also face more difficulties accessing funding, and most financial institutions in DRC do not have lending instruments and financial services catering to the needs of women.

11. **Women entrepreneurs in DRC have systematically lower levels of business capital – including equipment, inventory, property, and other firm assets – relative to male peers.** The gap in the level of capital investment exceeds 70% in the DRC even after accounting for the sector of operation and other firm and entrepreneur characteristics (World Bank, 2019).[10] This plays a central role in explaining the gender gap in business performance. Yet studies also show similar average returns to capital and labor between male and female-owned firms, suggesting that women have the potential to perform as well as men if they have access to the same resources. A pilot study launched by the World Bank Group in 2016 to examine women-led small businesses further discovered that only 3.6 percent of women-led firms have a bank loan, compared to 10.2 percent of male-led firms. This discrepancy was partially explained by the restrictions imposed by the old Family Code but was also attributed to women's lower levels of business training and financial literacy, as well as their limited access to professional networks. Additionally, the study found that only a small number of financial products were tailored to the needs of women entrepreneurs in growing sectors like light manufacturing and agribusiness.

12. **Barriers to women's participation are not only structural (economic, legal, institutional) but also behavioral (biases, mental models, gender norms).** Women suffer from a lack of business knowledge and use informal and badly structured connections to markets. In order to succeed, women must acquire skills that go beyond traditional entrepreneurship skills a need to be trained to overcome social gender roles and aversion to risk. 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. Urban areas in the DRC provide stronger social and economic opportunities for women, allowing access to larger markets and commercial networks, easier access to financial institutions that rarely operate in rural areas, improved security and better infrastructure. Evidence from the ongoing SME Growth and Development project and other WB operations in the Africa region (e.g. Togo, Ethiopia) shows that behavioral barriers can be addressed through interventions combining "hard" business skills with "soft" initiative skills such as framing, simplification, promoting women's agency, and using alternative spaces to communicate with them.

Access to finance is restricted by demand and supply-side constraints

13. **The Congolese financial system has made progress in the past decade but remains underdeveloped**. A decade ago, the financial sector of the DRC was ranked among the most poorly performing in the world, reflecting many of the weaknesses of the DRC economy and political system. In recent years, several initiatives (including joining OHADA, beginning the process to improve AML controls, and expanding the micro-finance sector) have strengthened the system and the DRC financial sector has been expanding, more than doubling from a very low base of 7 percent of GDP in 2018 to almost 20 percent of GDP today. Comprised of 14 banks, the system, however, remains severely restricted in its ability to intermediate with the broader population. Less than 10 percent of the population have access to a bank account and there are just 0.14 bank branches for every 1,000 square kilometers. The banking sector suffers from structural vulnerabilities that have limited its effectiveness, and which have been exacerbated by the Covid-19 pandemic. Non-bank financing is very limited, with the DRC having virtually no capital markets other than occasional government bonds, a nascent

[10] World Bank. 2019. Profiting from Parity: Unlocking the Potential of Women's Businesses in Africa : Main Report (English). Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/501971553025918098/Main-Report

insurance sector, and almost no leasing. The microfinance institutions (MFI) and Savings and Credit Cooperative Organizations (SACCO) has been growing, now with 21 MFIs and 69 SACCOs active in the DRC. However, given the limited uptake of digital financial services, the sector still reaches a limited proportion of the population and remains concentrated in three geographical areas. This sector seems to have been particularly hard hit by the pandemic with SACCOs especially suffering losses. DRC's financial sector lacks digital monetary connection, with no cross-border mobile services and only one bank connected to the SADC Integrated Regional Electronic Settlement (SIRESS). Penetration of mobile money accounts is only 24 percent (2020), hampering trade and the delivery of social services. Non-performing loans in the banking sector, up from 7 percent in 2014 to 19 percent in 2020, might deteriorate further due to COVID-19.

14. **Financial intermediation is hampered by weaknesses in the enabling environment, which also prevent it from expansion**. Key constraints include: (i) a weak judiciary, (ii) limited and unreliable financial information with a poorly functioning credit reporting system, (iii) a dearth of capital market instruments hindering longer-term financing options and (iv) a poor physical and ICT infrastructure. Furthermore, the high levels of dollarization, the extreme economic concentration, and the overall poor physical, regulatory, and information infrastructure outside the core, serve to further limit the spread of financial intermediation. The system's loan to deposit ratio registers consistently below 50 percent and even lower for the leading banks. The country's vast liquidity, from the extractive industries and from second tier businesses and individuals, is largely placed overseas and not recycled domestically. The sector remains overly concentrated in the leading corporates linked to the core mineral economy, with little retail or small business financing. Most credits are targeted at high-end clients close to this economic core. The surge in commodity prices and the impact of the COVID-19 pandemic on the retail and small businesses have exacerbated existing trends. The high credit risk and lack of enabling environment have pushed banks to reduce their support to the economy.

15. **Access to finance in the DRC is limited, and the cost of credit is high.** According to the SME Finance Forum, the market size for SME finance in the DRC is estimated at USD 9.75 billion with a financing "gap" (i.e., demand for financing vs supply of financing) estimated at US$ 9.3 billion (95.38 percent)[11]. Credit to the private sector as a percentage of GDP was 7.2 percent in 2020. The majority of Congolese MSMEs responding to MSME Ecosystem Survey[12] identified access to finance as the most serious challenge they faced in establishing a business (79 percent). High Inflation and FX volatilities have resulted in high nominal interest rates[13] showing difficulties faced by domestic borrowers to reimburse their loans following an exchange rate depreciation and a slowing economy. These average rates mask significant differences depending on the counterparts as microfinance institutions can charge interest rates as high as 4 percent per month. Most loans are short term and unlikely to be used for productive investments. DRC's small business owners are held back by a 'missing middle' financing problem that has been exacerbated by the COVID-19 pandemic.

16. **MSMEs with growth ambitions tend to find themselves in a market segment that is not served adequately by either MFIs or commercial banks**. A high percentage of firms in the DRC use their own funds and a smaller percentage use credit from suppliers and advances from customers (21.2 percent in Rest of Africa vs. 10.9 percent in DRC), microfinance institutions (2.9 vs. 4.7 percent) as well as banks (1.1 vs. 4.7 percent). MFIs primarily provide loans to informal entrepreneurs, and the amounts they offer—typically capped at around US$1,000—tend to be too small for growing firms that seek to make substantial capital investments. At the same time, small businesses tend to find it difficult to 'graduate' from MFIs to commercial banks, which prefer to lend to larger, less risky clients and are reluctant to issue loans below US$50,000. Even when MSMEs have a

[11] www.SMEFinanceForum.org
[12] http://hdl.handle.net/10986/33470
[13] Average effective interest rates in December 2021 were 23.3 percent on domestic and 22.8 percent on foreign currency loans.

bankable project, collateral requirements (where immovable property is preferred), are often a constraint, as there is no movables collateral registry that would enable MSMEs use their movable assets as guarantees for loans. This is even more acute for women-owned MSMEs as women are less likely to own landed property. This is exacerbated by information asymmetry due to the lack of a modern credit reporting system – the public credit registry is inefficient and there is no private credit bureau. Recently, the Government of the DRC created a credit guarantee and entrepreneur fund (FOGEC) aimed at facilitating the access of MSMEs to formal lending through the provision of credit guarantees that mitigate the risk of non-repayment. This fund is being operationalized with technical assistance from the World Bank-funded SME Development project. However, for the fund to meet its objectives, balance sheet constraints, especially for MFIs, must be addressed - in the short- to medium-term, this could be addressed via the provision of lines of credit to eligible MFIs. The problem is the same with equity financing: venture capital is still a niche phenomenon in DRC, with the notable example of an IFC investee private equity firm.

Despite improvements, the business environment remains unfriendly to entrepreneurs and MSMEs

17. **The weak business environment imposes a high burden on Congolese enterprises**. A complex regulatory and fiscal framework constrains MSME activity and growth. Based on the consultations with the private sector, the most important shortcomings include: (i) lack of SME-specific provisions in the tax code that protect owners of small businesses from being taxed twice on their personal income and profits of their businesses; (ii) lack of transparency regarding new legislation on MSMEs, which is not well disseminated; (iii) multitude of legal and illegal taxes that are being imposed on MSMEs by authorities at different levels, and (iv) ineffective judicial system with limited capacity for contract enforcement and conflict resolution and systemic bureaucratic corruption. Some of the constraints currently not perceived as binding could quickly become important as the infrastructure hurdles are overcome. The weak business environment weighs even more on women-owned businesses who have to pay more bribes and suffer from harassment.

Lack of infrastructure increases production cost and limits access to local and regional markets

18. **Access to local and regional markets is constrained by lack and poor quality of infrastructure.** Infrastructure gaps are prevalent throughout the country and most SMEs lack basic amenities such as water, sanitation, electricity and ICT connectivity. Constraints are major or severe in many areas of the DRC particularly the lack of reliable electricity supply, with a 19 percent electricity access rate[14]. Inadequate transport also increases the cost of doing business and hinders the integration of the national economy[15]. On key trade routes, including in the border regions high costs and unsuitable infrastructure limits MSMEs market access. In addition, the lack of a secure and transparent environment, including lack of lighting and surveillance systems enables corruption and harassment. Finally, high internet access costs and poor infrastructure and networks result in a low internet penetration that prevents the creation and growth of digital MSMEs'. Without consumers able to easily access the internet and without reliable internet access available, entrepreneurs face many challenges that limit their market and potential to develop innovative solutions.

19. **Properly functioning production facilities and quality infrastructure that could support value adding activities in agribusiness, manufacturing and services are also missing.** 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

[14] Access Governance & Reform for the Electricity and Water (EAU) Sectors project (P173506), November 2020
[15] CPSD, November 2021

that operate with less capital) tend to operate from fixed locations (streets, markets, shops), while necessity entrepreneurs tend to operate from home and mobile selling points. Access to production facilities and a fixed workplace is more constrained among women than men entrepreneurs. Improving quality standards is essential part of sectoral transformation, especially for perishable agricultural or manufactured products or services. In DRC, achievement of higher quality in these sectors will require improvements in quality infrastructure that establishes and implements standardization, including conformity assessment services, metrology, and accreditation. The institutions for conducting inspections, supporting testing, and implement certification of SMEs are currently inadequate and require upgrading in capacity and infrastructure. Most notably, the few certification bodies and testing labs operating in the country need capital investment and capabilities building.

Private sector-led growth is a priority for the Government

20. **The DRC government recognizes the importance of a strong private sector for inclusive and sustainable growth that will lead to poverty reduction.** The National Strategic Development Plan (*Le Plan national stratégique de développement* 2019-2023) includes economic growth, diversification and economic transformation as its strategic priorities (under Pillar III). Specific objectives under this pillar include (i) economic diversification and development of trade, industry, SMEs and entrepreneurship; (ii) improved business climate and governance; (iii) capacity building for technology adoption and upgrading; (iv) improved industrial infrastructure and facilities; and (v) improved competitiveness and access to markets. The Ministry of SMEs worked with the World Bank on the preparation of the National Entrepreneurship Development Program (*Programme National de Développement de l'Entrepreneuriat au Congo* or PRONADEC) whose core objective is to support MSMEs, entrepreneurs and artisans to improve their competitiveness, job creation and integrate them in the formal economy. The proposed project is directly linked to these strategies.

Relationship to CPF

21. **The proposed project aligns with the key aim of the forthcoming CPF[16] to reduce poverty—and hence boost shared prosperity—and in parallel to address the key FCV drivers.** The project is aligned with the CPF's objective to "Strengthen economic diversification through increased agricultural productivity and a stronger MSME operating environment" under Focus Area 3: Strengthen economic governance for increased private sector investment. The project will also focus on the CPF's cross-cutting themes including Climate & Environment, and Gender.

22. **The proposed project would contribute to several policy commitments of the IDA19 Gender and Development and Jobs and Economic Transformation Special Themes**. Project activities directly contribute to IDA19's objective to target gaps in economic opportunity and will deepen the implementation of the World Bank Group Gender Strategy in the DRC. The project will work to remove constraints for women economic empowerment by supporting women entrepreneurs, building technical and behavioral skills and increasing opportunities to access financial services at various stages of enterprise growth for women-led SMEs. The project will have components dedicated exclusively to women entrepreneurs and particular constraints facing women entrepreneurs will be also addressed throughout the project.

23. **The project also aligns with priorities identified in the Systematic Country Diagnostic (SCD) and the Risk and Resilience Assessment (RRA) to leverage the private sector.** The SCD for DRC (March 2018) highlights the importance of investment climate reforms and strengthening market institutions as one of the five priority areas for policy action and quick wins to sustain inclusive growth and foster resilience. The 2021 RRA

[16] The planned Board date for the CPF is Feb. 22, 2022.

includes the economic governance as one of its strategic recommendations, stating that the economic diversification, particularly in sectors that generate significant employment, will improve inclusions and resilience to external shocks. The project also aligns with two IDA20 themes including climate change and gender and the WBG's "Maximizing Finance for Development" (MFD) principles. The project design builds on the recommendations of the CPSD and DE4A reports, and the programmatic ASA on Financial Markets.

C. Proposed Development Objective(s)

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

Key Results (From PCN)

24. **Success in achieving the PDO will be measured by the PDO-level outcome indicators.** Particular efforts will be made to track the project impact on women. Baseline data will be collected by the client during project preparation.

- Increased access to finance by firms operating in the DRC (number of MSMEs receiving loans in the targeted geographies), of which female owned MSMEs (percentage);
- Percentage increase in average revenue of beneficiary MSMEs, of which female owned MSMEs (percentage);
- Net full-time equivalent formal jobs created by beneficiary firms in the targeted sectors (number of full-time jobs equivalent), of which jobs for youths and women (percentage)
- Improved business enabling environment (reduced time to register and operate a business, reduced time and cost of settling commercial disputes)

25. **The project will target three well-defined groups of beneficiaries through direct interventions** and **will benefit a broader population of firms through systemic reforms targeting business environment and by creating a more dynamic and competitive core of entrepreneurs and SMEs in the target locations.** The key beneficiary groups include:

- Women-entrepreneurs and new startups to promote women empowerment and business creation.
- SMEs, in particular those owned by women, that have the potential to contribute to economic transformation, address gaps in service delivery (e.g. social enterprises) and generate value-added and jobs but lack access to finance and need to improve their internal capabilities.

26. **Government institutions benefiting from the project will include relevant departments in the Ministry in charge of Entrepreneurship and SMEs, Ministry of Gender, BCC, technical services of provincial offices, public and private agencies in charge of delivering services to the private operators.** These include the Central Bank of Congo, the newly created Agence Nationale de Developpement de l'Entreprenariat (ANADEC – former OPEC), Féderation Nationale des Artisans, Petites et Moyennes Entreprises du Congo (FENAPEC), Fédération des Entreprises du Congo (FEC) etc.

27. **Further targeting criteria will include geographic and sectoral parameters**. Target sectors will include service industries (excluding retail), light manufacturing and agribusinesses, with priority given to sub-sectors contributing to creation of value added and diversification. The geographic selection will build on the experiences of the PADMPME project and continue focus on urban areas in the three of the four previously targeted locations (including Goma, Kinshasa and Matadi), and additional locations (Bunia; Bukavu; Mbuji-Mayi and Kananga) that have been pre-identified based on the following criteria:

- Opportunities for reducing fragility by supporting local entrepreneurship and estimated demand (population of potential beneficiaries). For example, there are strong indications of demand from entrepreneurs and SMEs in South Kivu and support for a replication of PADMPME is expressed by the provincial authorities.
- The Government's strategic priorities and alignment with the priorities of the WB, particularly in the country partnership framework (CPF) and the potential for positive impact in areas of poverty.
- Potential impact on women empowerment, as well as environmental and social safeguard aspects.
- Synergies with other WB projects, for example the National Agricultural Development Program.
- Feasibility of interventions and ease of implementation, considering the infrastructure gaps and security risks which are the main concerns of investors. It should be noted that some high-risk areas (North and South Kivu) have a high level of entrepreneurship and SME activities despite the security risks.
- Existence of a province level private sector development strategy aligned with the CPF.

D. Concept Description

28. **This project builds on the premise that increased creation of new firms, improved capabilities and market access for women entrepreneurs, expanded access to finance for MSMEs and better business environment could stimulate diversification, technology upgrading and productivity gains that drive economic transformation**. The focus on women economic empowerment and MSMEs that operate in high poverty areas would help to extend the jobs opportunities to the low-income and under-employed segments of the population. The project will strengthen the key elements of the private sector ecosystem to address the binding constraints identified by the CPF, CPSD, DE4A, the recently conducted financial sector diagnostic and the MSME ecosystem diagnostics. The guiding principle of this project is to promote and strengthen women entrepreneurship, increased access to finance and growth for MSME and startup creation hence contributing to economic transformation.

29. **The proposed project builds on the design and lessons of experience of the SME Growth and Development project (PADMPME, P160806) with the ambition to significantly expand the reach and impact on MSMEs, especially women.** Approved in 2018, the PADMPME provides capacity development and grants to women entrepreneurs, young entrepreneurs, and growing SMEs to increase profits and employment. As of December 2021, 3,025 women entrepreneurs and 1,395 young entrepreneurs received training; 3,750 women entrepreneurs and startups received subsidies to implement business plans for new firm creation or expansion of existing business activities in higher value adding areas (Component 1 – Support entrepreneurship opportunities for youth and women), and 436 growth-stage SMEs received matching grants (Component 2 – SME Development). The project has made strong progress towards its PDO: 3,729 new jobs have been created by the beneficiary firms, which is 62 percent of the final target. PADMPME has charted a path for similar initiatives in other countries, including the Burundi Skills for Jobs: Women and Youth Project (P164416). The overall rating on progress towards achievement of the PDO is Satisfactory and overall implementation progress is rated Satisfactory as of January 15, 2021 and the project remains compliant with all loan covenants and requirements for procurement, safeguards, and financial management (FM). The mid-term review of PADMPME made the following recommendations for the design of the new operation:

- <u>Scale up the successful instruments where the implementation exceeded the target goal and the demand exceeds the project's funding capacities or does not align with the targeted geographic areas.</u> Those include: the Personal Initiative training for women entrepreneurs (PI training), the STEP training (action-based training for startups); business plan competition and in-kind subsidies for women entrepreneurs in value-adding sectors.

- Include support for MSMEs to access financial services (in particular credit, but also transaction accounts, digital payments, insurance etc.) and support to MFIs to expand reach and improve sustainability.
- Improve selection of implementation partners building on lessons learned and maximize local capacity development by integrating provisions for ecosystem support and further support to the market development for business development services.
- Strengthen the upfront support to improve the pipeline of quality startups and scale up support during implementation of business plans, specifically for women entrepreneurs and on safeguards aspects.

30. **With regards to access to finance, TRANSFORME builds on the lessons learned from the recently closed DRC Financial Infrastructure and Markets (PDIFM) project which are relevant to and can inform this project.** These include**:**

- Support to the capacity building of the DRC financial sector is still essential. This is relevant for banks but most importantly for the microfinance sector, as well as for the central bank's supervisory function.
- The provision of credit lines helps DRC financial institutions (FIs) deal with balance sheet constraints while providing vital financing for productive investments (see Box 1 for details). The project complements existing IFC credit lines, bottom-of-the-pyramid (BOP) facilities, as well as guarantee programs (SLPG) in the country.
- In a country with vast expanses of the national territory without a financial institution, digital financial services shall play the important role of bringing financial services closer to the population, with the potential to increase inclusion and access to finance for women and other vulnerable groups. Appropriate financial consumer protection regulations that set clear rules of conduct for financial institutions regarding their retail customers are also important. These rules should be enforceable through supervision to avoid not only over-indebtedness by borrowers but also the abuse of the latter by financial institutions which overcharge borrowers by incorporating additional 'hidden' costs. The DRC HiFi ASA has contributed to building the foundation for the adoption of DFS in the DRC via support to the development of the legal and regulatory framework. This project will build on that and implement relevant recommendations of the HiFi ASA.

1. Description

31. **The project seeks to provide a mix of interventions that (i) strengthens the pipeline of a new generation of MSMEs and entrepreneurs, especially women, (ii) improves access to finance to support growth opportunities for well-performing SMEs, including those that will graduate from the grant programs funded by ongoing WB operations, and (iii) continues supporting business environment reforms and improvements in the entrepreneurship ecosystem.** These three project components are interconnected, and their results will be mutually reinforcing:

- Component 1 will expand the pipeline of new companies created by women and startups of young entrepreneurs. With time some of these entrepreneurs could apply for funding with the partner financial institutions (PFIs) strengthened through component 2.
- Component 2 will address the supply-side constraints affecting access to finance for MSMEs.
- Component 3 will help improve sustainability of results (in terms of firms' survival and growth) through improvements in the business environment and expansion of the shared infrastructure to further stimulate technology adoption and facilitate access to markets.
- Component 4 is a CERC. The project approach and scalable nature of its interventions provide flexibility to adapt the design and scale of these interventions to the country context.

Component 1: Support women entrepreneurs, firm creation and SME upgrading (indicative amount: US$160 million)

Sub-Component 1.1: Support professionalization of women entrepreneurs (indicative amount: US$60 million)

32. **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) communication and recruitment campaign; (ii) comprehensive training program for up to 30,000 women based on the successful experience of the Personal Initiative training through PADMPME (US$25 million); (iii) support with preparation of simple business plan with specific focus on technology adoption, access of new markets, diversification and value creation, collaboration, partnerships and reaching of economies of scale); (iv) in-kind grants and implementation support (up to 7,500 women entrepreneurs or women-led micro-enterprises, US$20 million total grant portfolio); and (v) networking and peer learning activities.

Sub-Component 1.2: Training and competitive grants for creating new firms (indicative amount: US$50 million)

33. **This sub-component will aim to build the entrepreneurial capacity of youth, especially young women, and strengthen the pipeline of new ventures to expand the pool of local MSMEs.** This sub-component will finance training and provide startup capital (financial subsidies) for motivated entrepreneurs who have business acumen and viable business ideas in targeted productive sectors but need the initial capital and mentorship in business practices to succeed. Preference will be given to women applicants. 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.

Sub-Component 1.3: Matching grants for SMEs upgrading (indicative amount: US$60 million)

34. **This sub-component will provide matching grants to established SMEs in target sectors (light manufacturing, processing and packaging, agribusiness and service sectors, excluding inventory or working capital for trade or retail activities) with a good track record that face constraints to growth that cannot be addressed in the current context because of the effects of the COVID-19 pandemic and systemic market and institutional gaps.** The objective is to incentivize investment in long-term growth projects that lead to productivity enhancements, technology upgrading, increased capacity in packaging or processing, diversification and creation of quality jobs by beneficiary MSMEs.

Component 2: Financial Inclusion and Sustainable Access to Finance (indicative amount: US$ 65 million)

35. **This component will support financial inclusion and access to finance for entrepreneurs and SMEs** via (i) strengthening the credit infrastructure of the DRC (through the development of relevant instruments); (ii) incentivize banks and nonbank financial institutions in the DRC to get into the SME market, especially women entrepreneurs, and (iii) support for the uptake of digital financial services (DFS) including through the digital transitioning of non-bank financial institutions (NBFIs) and financial consumer protection.

Sub-Component 2.1. Strengthen Credit infrastructure (indicative amount: $US4 million)

36. **This sub-component shall finance the development of a movables collateral registry and support the implementation of a modern credit reporting system in the DRC**:

- Development of a Centralized Electronic Collateral Registry for movable securities (TA and operationalization). This activity aims to finance technical assistance and the acquisition of equipment to assist the authorities of the DRC to design and operationalize a Centralized Electronic Collateral Registry for movable securities, including the supporting legal framework for Secured Transactions to increase access to credit to the private sector in in the country.
- Support to the operationalization of the DRC credit reporting system. This activity shall entail financing the recommendations of the technical assistance provided by the IFC to the Central Bank of the Congo on improving the credit reporting system. The objective is to reduce borrower information asymmetry and enhance access to credit for MSMEs, as well as modernization of the public credit registry.

Sub-Component 2.2: Support to MSME access to finance (indicative amount: US$50 million)

37. **This sub-component shall finance the funding of an SME window in the DRC partial portfolio credit guarantee fund (PPCG fund), as well as technical and financial assistance to strengthen non-bank financial intermediation**. This activity shall fund an SME window in the PPCG Fund (under development with TA provided under the DRC SME Growth and Development project). The aim is for the PPCG Fund to contribute to the expansion of SME finance and generate positive externalities by encouraging banks and nonbank financial institutions in the DRC to get into the SME market, thus improving the institutions' lending technologies and risk management systems. It is envisaged that 50 percent of the SME Window facility shall be dedicated to supporting loans to women-led MSMEs.

Sub-Component 2.3: Support to the uptake of Digital financial services (indicative amount: US$6 million)

38. **This sub-component shall finance the following activities**:

- Core-banking systems and API for connection to the National Switch. This activity shall finance the acquisition of core banking systems (back-end systems with deposit, loan, and credit processing capabilities, with interfaces to general ledger systems and reporting tools), as well as the application programming interface (API) required for these NBFIs to connect to the National Switch and become interoperable within the DRC financial system.
- Support to MFI agency banking (including the acquisition of POS terminals. This activity shall finance technical assistance and the acquisition of equipment by NBFIs with the aim of assisting viable microfinance institutions and SACCOs expand their operations via digital financial services by hiring, training, and equipping a network of banking agents (generally viable small businesses operating in communities where the FIs do not have brick-and-mortar structures). This activity shall equip banking agents with point-of-sale (POS) terminals and solar panels (in localities with limited or no access to electricity), enabling the MFIs to offer payments, savings, and loan products to customers in remote areas - even offline, where there is no internet service.
- Support to financial consumer protection. Building on the technical assistance provided under the DRC HIFI ASA, this activity shall finance the acquisition of a supervision platform (by the Banking Supervisor) that would make information on the overall effective rate ('taux effectif global" or TEG – interest rate, repayment frequency, application fees, compulsory credit insurance, and other commissions) available to borrowers, allowing them to make informed choices. It would also enable the Banking Supervisor to receive, manage, and monitor customer complaints in an effective manner. Similar platforms for the management of complaints are being used, for example, by the Central Banks of Ghana and Madagascar.
- Support to Anti Money Laundering/Countering Financing of Terrorism (AML/CFT). This activity shall finance (i) Strengthening the understanding of the country's exposure to ML/FT risks and preparing an

appropriate national strategy; (ii) Building up economic and financial intelligence networks to detection illicit financial flows; (iii) Enhancing the detection of illicit financial flows within the private sector by improving compliance with AML/CFT obligations; (iv) Preventing the use of informal financial services by increasing financial inclusion and transparency.

Component 3: Entrepreneurship Ecosystem Development (indicative amount: US$60)

Subcomponent 3.1: Business environment reforms and institutional capacity building to catalyze investment (indicative amount: US$20 million)

39. **The objective of this subcomponent is to support the Government of Congo to undertake and implement policy and institutional reforms to promote SME development and private investment.** This will include support for operationalization of reforms to improve the business environment, and reforms specific to the value chains supported by the project. This component is informed by the recent CPSD and as well as the GoC priority Reform memorandum prepared with support of the world bank. The reform areas and activities have been selected based on their synergies with the other project components and on their readiness for implementation. The selection of reforms considered also the initiatives supported by PADMPME to maximize complementarities. Eligible expenses for all activities in this component include consulting services, non-consulting services, equipment (office equipment and IT equipment), technology acquisition and training.

Subcomponent 3.2: SME access to infrastructure (indicative amount: US$40 million)

40. **This subcomponent will improve the access to "hard" infrastructure (such as production premises, trade infrastructure and equipment) and "soft" infrastructure (e.g., logistics, market information, training, mentoring and consulting) in the targeted locations to increase productivity, value added and competitiveness of SMEs in the local and regional markets.** This sub-component will finance:

- SME Centers, in addition to the 4 that are being piloted under PADMPME. SME centers are privately managed and serviced workspace for lease to SMEs that provide cost-effective infrastructure and communal services. The SME Centers will respect the norms and requirements of environmental and social safeguards of the WB including condition GBV prevention measures, accessibility to people living with disabilities, etc. The activities could include the following: Cold chain logistics (e.g., Mobile Packing Units), processing centers, product testing facilities (specialized equipment and machinery required to meet international standards), certification centers and basic production facilities; Accompanying services to address SME skill gaps, such as soft skills, technical skills, digital skills, marketing, etc.
- Provision of logistics and other support services in the locations targeted by the project. The project will support SMEs that provide services for market access in border regions to improve value chain integration in the regional markets, in conjunction with the Great Lakes Trade Facilitation and Integration Project (GLTFIP, P174814).

Component 4: Project Implementation

This sub-component will finance activities related to project management, coordination, communication, monitoring and evaluation (M&E) and possible scaling up activities to additional geographic locations. The project will be managed on a day-to-day basis through a Project Implementation Unit (PIU) based in Kinshasa. The existing PIU for the PADMPME will be strengthened to assure the implementation of the TRANSFORME project. Provincial Supervision Units (PSU) will be set up in all the targeted locations. These arrangements will leverage economies of scale based on the ongoing experience of PADMPME and will identify and pursue cost-effective solutions for the project management. This sub-component will finance:

- Operating costs of the PIU.
- Monitoring and evaluation of Project activities, including impact evaluations.
- The communication of Project activities to different audiences.
- The hiring of staff, goods, consultant services, workshops, and training.
- This sub-component could also finance baseline studies, and preparation activities for expanding or scaling up the proposed project in existing of new locations in the context of current and future operations.

Component 5: CERC

41. **A Contingency Emergency Response Component (CERC) with zero allocation will be created to allow the Government to respond quickly in case of an eligible emergency.** Particular attention would be paid to ensuring the best possible alignment of the approaches and instruments used under CERC with those rolled out by the Project. Should an eligible emergency occur, the inclusion of this component would provide a conduit for the use of uncommitted funds from the unallocated expenditure category and/or allow the government to request the World Bank to re-categorize and reallocate financing from other Project components to partially cover emergency response via implementation of key activities by the appropriate agencies to respond to the emergency. The CERC could also be used to channel additional funds should they become available because of an eligible emergency.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

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