Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Mar-2022 | Report No: PIDA33733

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Congo, Democratic Republic of	P178176	Empowering Women Entrepreneurs and Upgrading MSMEs for Economic Transformation and Jobs in DRC	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA EAST	21-Mar-2022	29-Apr-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 enhance growth of new and existing MSMEs, especially women-owned, and promote job creation particularly for women in select geographic areas.

Components

Support women entrepreneurs, firm creation and SME upgrading
Financial Inclusion and Sustainable Access to Finance for Women Entrepreneurs
Entrepreneurship Ecosystem Development
Project Implementation
CERC

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

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Democratic Republic of Congo (DRC) is one of the largest (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 40 years.** Due to abundant natural resources, a strategic location bordering nine countries, and a young and growing population, the DRC has considerable economic potential. However, poor governance, weak fiscal institutions, mismanagement of the natural resources sector, and protracted and cyclical conflict and violence have led to limited progress in building human and physical capital and resulted in economic underperformance and high levels of poverty.

2. **Low and unsustainable gross domestic product (GDP) growth is driving the high poverty rates.** 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 an expanding economy, with GDP growth averaging 6 percent per year between 2003–07. 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—in 2009, 2016, and 2019, GDP growth sharply declined due to a drop in commodity prices. Growth in 2021 is expected to rebound to 5.4 percent despite uncertainties related to COVID-19 (IMF Country Report No. 22/3).

3. **Economic growth patterns differ by sector**. Extractive and resource-based industries are the main drivers of GDP growth, but formal job creation takes place mostly in urban services, especially in higher income provinces and large

[1] October 2021 DRC Macro Poverty Outlook, World Bank.

cities. Community and social services are the most dynamic from the perspective of new firm creation and productivity increase (27 percent of companies experienced an increase in 2019), followed by the primary sector (15 percent). The sectors where companies saw less growth in terms of sales are the mining sector; electricity, gas, and water production and distribution sectors; and financial and professional services sector.

4. **A rebound in non-extractive activity will drive growth in 2022.** Non-extractive activity is expected to rebound to its pre-COVID-19 level in 2022, alongside expansion projects that will increase production capacity. However, such estimates remain medium-term based on the latest mining project announcements and are vulnerable to any downturn in the pandemic's evolution. While mining products remain favored by high prices and strong global demand, price volatility still significantly contributes to the vulnerability of the DRC economy due to external shocks and its high dependence on the sector. To mitigate these vulnerabilities, the Congolese authorities' reform agenda supports diversifying sources of growth, job creation, and more inclusive and sustainable growth (IMF 2022). The 2019–23 National Strategic Development Plan addresses five adjoining pillars: human capital and social inclusion; governance and peace; economic diversification; and cross-sectoral infrastructure and environmental.

5. **Twenty years after the official end of the Congo Wars, DRC remains vulnerable to drivers of fragility and violence.** According to the 2021 World Bank Risk and Resilience Assessment (RRA), current drivers of fragility in DRC include: (i) the non-diversified and unequal economy strongly favors elite interests and is kept in place by a continuously renegotiated political settlement based on competition for natural resources capture; (ii) high levels of exclusion and a chronic lack of economic opportunities keep an extremely poor and young population at very low education levels trapped without prospects for social mobility, creating fertile ground for youth to seek out illicit alternatives or 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 (GBV), has eroded social cohesion (World Bank 2021a). With a weakly integrated economy over a vast territory, local vulnerabilities in the DRC have a strong spatial dimension, for example, a high number of poor in the Kasai and Kivus, Ebola and conflict in the Kivus, 400,000 refugees coming from Angola, or regional dimensions of the political fight for power.

6. **The DRC is vulnerable to natural hazards, including volcanic eruptions, earthquakes, floods, and droughts, which are exacerbated by poverty and political insecurity**. The DRC experiences extreme weather and climate variability, resulting in high exposure to floods and droughts that are projected to increase in frequency and severity due to climate change. The country is exposed to natural disasters, which can result in land and infrastructure degradation due to erosion or landslides, a rise in livestock and crop diseases, direct crop failure due to floods and heavy rains, and possible nutrient leaching and fungal growth due to high humidity. The agricultural sector is one of the sectors with the highest vulnerability to climate change, and small-scale farmers are among the most climate change-vulnerable people in the country, next to the urban poor[2]. In urban areas, targeted by the project, increasing population density combined with erratic rainfall may lead to water stress as lifeline services fail to keep up with demand. Efforts to promote climate resilience in these key natural asset-based sectors will have important longer-term effects on food security and livelihoods. The private sector and especially MSMEs could be key contributors to climate change mitigation and adaptation efforts, particularly in urban areas where they can develop sustainable solutions. In the agribusiness sector, the private sector can also adopt farm and industrial management strategies informed by the impact of climate on productivity that can contribute to building a more sustainable economy.

[2] SIDA (2008); BBC World Services Trust (2010)

7. **The DRC ranked 175th out of 178 countries in the 2021 United Nations Gender Inequality Index, which benchmarks national gender gaps using economic, political, education, and health criteria.** Similarly, the Gender Development Index is currently 0.845, indicating women's human development is about 84 percent that of men's (UNDP 2020). Across the DRC, girls and women face profound and interconnected disadvantages compared to men. National-level indicators of the World Bank's Africa Human Capital Strategy show that girls and women in the DRC are highly disadvantaged in terms of empowerment and agency over life choices; access to enhanced health services to enable family planning; education, particularly at the secondary level and beyond; and employment, in terms of labor market participation and earnings. In climate change issues, women are more severely affected than men: they are more vulnerable to climate change due to stronger dependency on climate-related resources (through their responsibility to provide or produce water and food). At the same time, their adaptive capacity is low because of limited mobility, restricted access to education, credit and banking, land ownership arrangements, combined with low female involvement in formal sector employment (30 percent) and political positions (20 percent)[3].

8. **COVID-19 highlighted the health sector shortcomings and the overall lack of crisis preparedness, further emphasizing the need for private sector mobilization to increase resilience.** Private sector growth should be considered in this context as an important response to strong drivers of fragility and the key driver for economic transformation, service delivery and job creation for the rapidly expanding population. Given the 3.3 percent annual population growth, the population could reach 400 million in 50 years, making Kinshasa the largest city in Africa alongside Lagos. To capitalize on the expanding human resources, nourishing a potential pipeline for dynamic growth, the DRC urgently needs to adopt a strong, sustainable growth path. This will require a growing private sector to meet the country's needs (World Bank 2021b)

Sectoral and Institutional Context

9. **The private sector is composed of extractive industries dominated by foreign investors and state-owned enterprises, low productivity agriculture, a small formal private sector, and informal MSMEs that employ 89 percent of the working population.** In 2017, the agriculture sector represented 20 percent of GDP, extractive industries 17.4 percent, manufacturing 19.7 percent (dominated by food and beverages), and services 37.8 percent. Although the DRC attracted significant foreign direct investment (FDI) in the extractive industries, they have limited technology and productivity spillovers. The government's effort to promote backward links to jobs and local business-to-business through the 2017 Subcontracting Law did not achieve the desired results because of the underdeveloped local SME sector and deficiencies in the legislation. High rate of unemployment further highlights the country's need to develop the ecosystem for entrepreneurship (World Bank 2021b).

10. **Micro, small, and medium enterprises (MSMEs), mostly informal, dominate the DRC's private sector.** MSMEs are one of the strongest drivers of economic development and employment globally. MSMEs do not have an official definition in the DRC; previous analytical and lending operations used a definition that accounts for employment size, annual turnover, and total assets (**Error! Reference source not found.**). This definition is based on a diagnostic of the SME sector conducted as part of the discussions with the Ministry of SMEs and reflects various legislations and charters signed with business associations in the DRC. Based on this definition and available statistics, MSMEs constitute the bulk of economic activity, but their formalization, growth, and competitiveness face severe constraints.[4] Over 90 percent of firms are micro (1–10 employees), and nearly half of them have been on the market for less than five years. Yet, firms six years and older contribute to 60 percent of employment in the DRC. Young firms

[3] World Population Review – DRC. http://worldpopulationreview.com/ countries/dr-congo-population/

[4] World Bank Enterprise Survey 2013; SME Ecosystem Survey 2019.

created in the last two years account for over 35 percent of total employment. The share of young firms in the DRC is large even in the context of fragility. 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 and large firms is only 1.3 percent. However, the growth rate of existing SMEs is sluggish. The improved performance of SMEs would enable them to better serve as an important engine of growth and job opportunities.

Table 1. Definition of MSMEs used in this project

Size of enterprises	Employment (full-time equivalent)	Turnover (year) (US$)	Total Assets[5] (US$)
Micro enterprises	1–10	< 10,000	< 10,000
Small enterprises	11–50	10,000–80,000	10,000–150,000
Medium enterprises	51–200	80,000–400,000	150,000–350,000

A challenging ecosystem constrains formalization and growth of MSMEs, particularly those led by women

11. **Despite improvements, the weak business environment remains a high burden to Congolese entrepreneurs and MSMEs.** A complex regulatory and fiscal framework constrains MSME activity and growth. Based on private sector consultations, the most important shortcomings include the multitude of legal and illegal taxes imposed on MSMEs by authorities, and ineffective judicial system with limited contract enforcement and conflict resolution and systemic bureaucratic corruption. The weak business environment weighs even more on female-owned businesses that have to face more obstacles, including from social prejudice, prevailing gendered norms that still place the man as the primary breadwinner and do not approve of women working outside the home, to gender education gaps [6]and more family responsibilities for females as compared to males[7].

12. **Formalization is a significant challenge for Congolese enterprises.** Registering with tax authorities increases the profits of firms with 2–5 workers and the mid-size group but creates losses for smaller and larger informal firms.[8] Obtaining an export permit is complex and available to formal firms only, 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 the growth of promising SMEs.

13. **As a result, 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.** Because 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 perception that success in business in the DRC depends more on the ability to rely on networks (social, political, and other) and bribery than on entrepreneurial skills and competitiveness. Most of the labor force in the DRC is trapped in low productivity activities, mainly in the informal sector, which employed 88.6 percent of the working population in 2019 (with significant geographical disparity)

[6] The gender gap in literacy is 22 percent. Only 49.9 percent for women have completed primary school and 36.7 percent have completed secondary school, compared to 78.4 percent and 65.8 percent of men.
[7] Reforms to enhance gender equality in the Democratic Republic of Congo: From advocacy to implementation. World Bank 2022.
[8] Informal Enterprise Survey 2016.

(World Bank 2021c). Informal firms are younger and 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 small formal firms. Most informal firms operate as home-based or family-owned businesses and are poor in capital and underperforming. About 65 percent of informal firms are active in the agroindustry, trade, and other 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 hospitality services.

14. **Regulation giving women equal access to key formalization measures is recent.** 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 the 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 to face discriminatory practices, especially since for most, entrepreneurship is a necessity to make ends meet and avoid unemployment.

15. **The underdeveloped entrepreneurial culture and its insufficiently valued opportunities reflect gender biases that limit opportunities for women entrepreneurs.** While international experience demonstrates that gender equality is associated with greater resilience and growth[9], gender inequalities persist in the DRC. There is no universally accepted definition of a female-owned enterprise, so this project will use the definition of IFC's targeted sectors methodology that defines a female-owned firm as one with majority women ownership (≥51 percent of assets owned by woman/women)[10]. In operational practice, the analysis of the SME ecosystem in the DRC reports that women owners pay a higher share of production costs for purchases of inputs: 40 percent for woman versus 28 percent for men for the same sector of activity (World Bank 2019). Women also complained more often than men that they receive poor quality raw materials and inputs from their suppliers, particularly in the agricultural and agrifood sector. This is attributed to male-owned MSMEs possessing a higher level of negotiation power.

16. **Women entrepreneurs in the DRC have systematically lower levels of business capital—including equipment, inventory, property, and other firm assets—relative to male peers.** The gap in capital investment exceeds 70 percent in the DRC even after accounting for the sector of operation and other firm and entrepreneur characteristics (World Bank 2019). This plays a central role in the gender gap in business performance. Yet studies 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.

17. **Barriers to women's participation are structural (economic, legal, institutional) and behavioral (biases, mental models, gender norms).** Women suffer from a lack of business knowledge and connections to markets which prevents them from engaging with larger buyers further up the value chain. To succeed, women must acquire skills that help them overcome social gender roles and rik aversion. Evidence from the ongoing SME Growth and Development project and other World Bank operations in the Africa region (such as Togo or Ethiopia) shows that behavioral barriers can be addressed through interventions combining "hard" business skills with "soft" skills, such as framing, simplification, promoting women's agency

[9] Women, Business and the Law and World Development Indicators databases.
[10] The IFC Targeted Sectors also provides an alternative definition of women-owned enterprise that is ≥ 20 percent owned by woman/women, has ≥ 1 woman as CEO/COO/President/Vice President; and has ≥ 30% of the board of directors composed of women, where a board exists. However, the latter definition is not applicable to the beneficiaries targeted by the proposed project.

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

18. **The Congolese financial system made progress in the past decade but remains underdeveloped**. A decade ago, the DRC's financial sector was ranked among the most poorly performing in the world, reflecting many of the weaknesses of the country's economy and political system. The banking sector, comprised of 14 banks, suffers from structural vulnerabilities that limited its effectiveness and were exacerbated by COVID-19. Less than 10 percent of the population have access to a bank account. Non-bank financing is limited, with the DRC having no capital markets other than occasional government bonds, a nascent insurance sector, and almost no leasing. Microfinance institutions (MFIs) and Savings and Credit Cooperative Organizations (SACCOs) have grown, with 21 MFIs and 69 SACCOs now active. 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. Despite beginning the process to improve anti-money laundering and countering the financing of terrorism (AML/CFT) controls, the DRC is at risk of being put on the Financial Action Task Force grey list, which would put it at risk of losing correspondent bank relationships and other links with the international financial system (which would push up the cost of payments and financing for firms).

19. **Given the limited uptake of digital financial services, the DRC's financial sector still reaches a limited proportion of the population and remains concentrated in four geographical areas (Kinshasa, Lubumbashi, Goma, Matadi).** There are no cross-border mobile services and only one bank connected to the Southern Africa Development Community Integrated Regional Electronic Settlement (SIRESS). Penetration of mobile money accounts is only 24 percent (2020), hampering trade and the delivery of social services.

20. **Weaknesses in the enabling environment hamper financial intermediation.** 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 information and communications technology infrastructure. Further, the high levels of dollarization, economic concentration,[11] and overall poor physical, regulatory, and information infrastructure outside the core further limit the spread of financial intermediation. The sector remains overly concentrated in the leading corporates linked to the core mineral economy, with little retail or small business financing. The high credit risk and lack of enabling environment pushed banks to reduce their support to the economy.

21. **Access to finance in the DRC is limited, and even more acute for women.** According to the SME Finance Forum,[12] the market size for SME finance in the DRC is estimated at US$9.75 billion with a financing "gap" (that is, demand for financing versus supply of financing) estimated at US$9.3 billion (95 percent). Credit to the private sector as a percentage of GDP was 7.2 percent in 2020. The DRC's female entrepreneurs control fewer assets than men, affecting their capacity to invest in their business and access large enough loans. The gap in the level of capital investment exceeds 70 percent in the DRC even after accounting for the sector of operation and other firm and entrepreneur characteristics (World Bank 2019). With smaller asset ownership, women struggle to get loans of the same size as men, a factor that likely fuels the capital investment gap. 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 was exacerbated by COVID-19.

[11] The economic concentration here refers to a small number of large firms that account for a large proportion of DRC economic activity

[12] See www.smefinanceforum.org

22. **Access to finance for women remains restricted by regulation, a lack of suitable financial products, and insufficient financial education.** A pilot study launched by the Bank Group in 2016 to examine female-owned small businesses discovered that only 3.6 percent of female-owned firms have a bank loan compared to 10.2 percent of male-led firms. This discrepancy was partially explained by restrictions in the old Family Code but was also attributed to women's lower levels of business training and financial literacy and their limited access to professional networks. In addition, the study found that only a small number of financial products were tailored to the needs of women entrepreneurs in growing sectors, such as light manufacturing and agribusiness.

23. **The country does not have a movables collateral registry that would enable MSMEs to use their movable assets as guarantees for loans.** In other words, even when MSMEs have a bankable project, collateral requirements (where immovable property is preferred), are often a constraint. This is even more acute for female-owned MSMEs since women are less likely to own property or land. This constraint 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.

24. **Recently, the government created an entrepreneurship guarantee fund (FOGEC) to facilitate the access of MSMEs to formal lending through the provision of credit guarantees that mitigate the risk of non-repayment**. Venture capital is still a niche phenomenon in the DRC, with the notable example of an IFC investee private equity firm.

Weak infrastructure increases production costs and limits market access

25. **The lack and poor quality of infrastructure constrains access to local and regional markets.** Infrastructure gaps exist throughout the country, and most SMEs lack basic amenities, such as water, sanitation, electricity, and information and communications technology 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.[6] Inadequate transport also increases the cost of doing business and hinders the integration of the national economy (World Bank 2021b). On key trade routes, including in the East and South border regions high costs and unsuitable infrastructure limit MSMEs' market access. In addition, the lack of a secure and transparent environment, including lack of lighting and surveillance systems both at border posts and in general, enables corruption and harassment. High internet access costs and poor infrastructure and networks result in a low internet penetration[13] that prevents the creation and growth of digital MSMEs. Without consumers able to easily access the internet and reliable available internet access, entrepreneurs face challenges that limit their market and potential to develop innovative solutions.

26. **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 SMEs 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 an essential part of sectoral transformation, especially for perishable agricultural or manufactured products or services. In DRC, achieving higher quality in these sectors will require

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

[13] 12,5% of the population was using internet in 2019 compared to 29% average in Sub-Saharan Africa and 38% of the population had a Mobile Cellular Subscription, in 2020 compared to 87.9% for Sub-Saharan Africa

improvements in quality infrastructure that establishes and implements standardization, including conformity assessment services, metrology, and accreditation. The institutions for conducting inspections, supporting testing, and implementing certification of MSMEs require upgrading in capacity and infrastructure. The few certification bodies and testing labs operating in the country need capital investment and capacity building.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

27. The project development objective is to enhance growth of new and existing MSMEs, especially female-owned , and promote job creation particularly for women in select geographic areas. The project is expected to achieve the PDO by addressing three critical constraints to private sector jobs and economic transformation:
    1. Firm capabilities: Professionalize women entrepreneurs, promote the creation of new formal firms (startups), and support value-added activities and technology upgrading of MSMEs, including the use of digital technologies.
    2. Access to finance: Strengthen financial sector capacity and improve access to finance for MSMEs, particularly female-owned businesses.
    3. Business environment: Reduce regulatory and administrative barriers to MSMEs, in particular female-owned, foster competition, and encourage private sector investments in shared productivity infrastructure.

Key Results

28. **Success in achieving the PDO will be measured by PDO-level outcome indicators.** Efforts will be made to track the project's impact on women's economic empowerment through increased employment and female-owned MSME earnings. Each PDO-level indicator will be disaggregated by: (i) female-owned MSMEs; (ii) new formal firms created because of the project's interventions; and (iii) existing SMEs that received support through the project. The PDO-level focus will be on capturing impact in terms of growth and jobs (**Error! Reference source not found.**). The job creation will be counted in terms of full-time equivalent, which will allow to account seasonal, part-time and unpaid (such as auto-entrepreneurs, family businesses). Working hours will be accumulated to calculate the equivalent full-time jobs.

Table 2. PDO indicators

Impact area	PDO indicators	Disaggregated by gender
Growth of MSMEs	Additional annual revenue generated by supported MSMEs	Additional annual revenue generated by supported female-owned MSMEs
	Number of supported MSMEs generating additional annual revenue	Number of supported female-owned MSMEs generating additional annual revenue
Job creation by MSMEs	Additional jobs created by supported MSMEs	Additional jobs for women created by supported MSMEs
	Number of supported MSMEs creating additional fulltime jobs	Number of supported MSMEs creating additional fulltime jobs for women

D. Project Description

29. **This project builds on the premise that (i) increased creation of new firms, (ii) improved capabilities and market access for women entrepreneurs, (iii) expanded access to finance for established MSMEs, and (iv) better business environment, productivity infrastructure, and quality and certification services will stimulate diversification, technology upgrading, and productivity gains that drive economic transformation.** The focus on women entrepreneurs and MSMEs that operate in high poverty areas will contribute to economic empowerment of women by increasing their ability to make strategic decisions and achieve better economic outcomes. The project will address constraints to women's economic empowerment and implement specific activities to close gender gaps identified in the sectoral context section. The project will also help extend job opportunities to low-income and under-employed segments of the population, including women. The project will address binding constraints identified by the CPF, SCD, CPSD, DE4A, a recently conducted financial sector diagnostic, and MSME ecosystem diagnostics. It will also contribute to the country's climate change mitigation and adaptation agenda by incentivizing MSMEs adoption of clean technologies and climate-smart practices, especially in urban areas where the impact of climate change is exacerbated, in the agribusiness sector which is directly impacted by climate change and in helping women to be more resilient to climate change and to become a driver of mitigation and adaption.

30. **The project seeks to provide a mix of interventions that: (i) strengthen the pipeline of a new generation of MSMEs and entrepreneurs, especially women; (ii) improve access to finance to support growth opportunities for SMEs, including those that will graduate from the ongoing World Bank operations; and (iii) continue supporting improvements in the entrepreneurship ecosystem.** These project components (**Error! Reference source not found.**) are interconnected and align with the World Bank guidance on SME development approaches.[9] In the meantime, the project is focused on women but will also work with men entrepreneurs and men-led SMEs and include gender awareness activities for all, which will ultimately lead to greater women empowerment as men's attitudes and behavior towards women will be critical to the kinds of change women are able to achieve.

31. **The results of these components are mutually reinforcing (Figure 1).** They are intended to trigger systemic changes by supporting (i) exit of underperforming firms (through improved business environment reforms); (ii) entry of new firms, especially female-owned (through capacity development and startup capital); (iii) performance improvements of existing firms (professionalization of women entrepreneurs and upgrading of existing SMEs); (iv) ability of firms to face climate change challenges and adopt climate-friendly technologies; and (v) government capacity for reforms:
    (a) Component 1 (US$ 170 million) will *Support women entrepreneurs, firm creation, and SME upgrading*. It will professionalize women entrepreneurs, expand the pipeline of new companies, especially those created by women, and improve performance of existing SMEs by incentivizing modernization and technology upgrading. With time some of these entrepreneurs could apply for funding with the participating financial institutions (PFIs) strengthened through component 2.
    (b) Component 2 (US$ 60 million) be dedicated to *Financial inclusion and sustainable access to finance for women entrepreneurs*. It will address the supply-side constraints affecting access to finance for MSMEs and support innovative financial solutions to expand access to finance for women entrepreneurs.

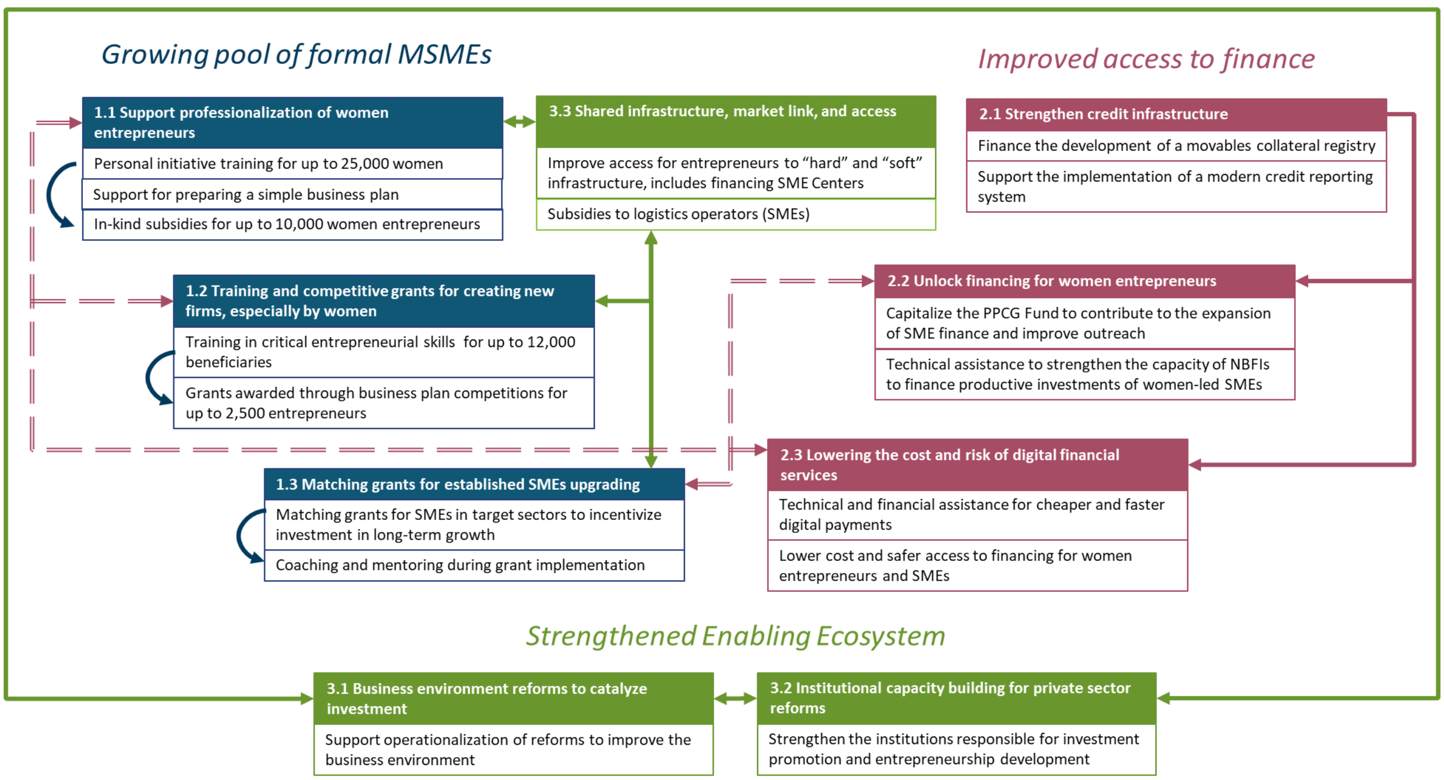
[9] Operational Guidance Note on Strengthening World Bank SME-Support Interventions, March 2021.

(c) Component 3 (US$ 60 million) will be dedicated to *Entrepreneurship Ecosystem Development*. It will help improve the sustainability of results in terms of firm survival and growth by improving the business environment and expanding the shared infrastructure to further stimulate technology adoption and facilitate access to markets.

(d) Component 4 (US$ 10 million) will be dedicated to *Project management*, coordination, communication, monitoring and evaluation (M&E), and possible scaling up of activities to additional geographic locations.

(e) Component 5 is a *Contingency Emergency Response Component - CERC* (US$ 0 million) with zero allocation will be created to allow the government to quickly respond in case of an eligible emergency.

Figure 1 Synergies across project components



c. .

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

32. **Environmental and social risks and impacts are deemed Substantial.** The Environmental and Social Risk Classification conducted under the new ESF rated the Project's overall environmental and social (E&S) risk as Substantial on both the Environment and the Social risks. The Substantial environmental risk rating is related to the following aspects: (i) low capacity of recipients of use of proceeds of the project, at national and provincial level, which include the Ministry of SMEs, the Central Bank of DRC, the existing PIU, the international partner or NGOs, MSMEs, and Financial Intermediaries to manage risks and impacts consitent with the objectives of the ESSs; (ii) Absence of an Environmental and Social Management System within FPM SA; (iii) lack of knowledge on the scale and complexity of the SME's operation, the geographic context and specific risks of the FI sub-projects covered by the guarantee. Additionnaly, in the current context of COVID-19, the project may increase its spread for workers, beneficiaries and communities during project implementation if appropriate measures are not be taken. Social impacts are mostly expected under Components 1, 2, and 3. Under component 1, social risks are likely to include inadequate stakeholder engagement (to inform intended project beneficiaries of the project and selection criteria for them to benefit from the various capacity building activities and grants available through the project), and inaccessible grievance redress mechanisms where these targeted individuals/businesses could report (i) perceived lack of fairness or transparency of in the process, (ii) exclusion factors based on gender, age, education level, disability, ethnicity, sexual orientation/gender identity or any other particularity, or (iii) any additional charges the FI might subject them to in order to benefit from these interventions. The project also presents a risk of SEA/SH to potential female beneficiaries during selection processes under component 1 and 2, and training activities under component 3. Other activities, which are meant to support financial inclusion and access to finance for entrepreneurs and MSMEs, might also carry downstream E&S risks that could be mitigated by ensuring that all relevant FI (through review of Terms of Reference) are consistent with the ESF. In addition to these risks, activities under component 3, which are meant to improve selected economic infrastructures will likely have impacts associated with the eventuality of civil works that could (i) lead to economic or physical displacement, (ii) include risks associated with the potential influx of workers into peri-urban communities that might be hosting these facilities (Social conflict, SEA/SH, etc.), (iii) include labor issues, etc. Similarly, those under Component 1, which are meant to support the growth of MSMEs are also likely to carry E&S impacts that are unknown at this stage. Security Due Dilligence assessments carried out by the Bank in 2021 have indicated that security issues could affect Bank funded operations in some of the provinces targeted under the project, notably Ituri (Bunia), Nord Kivu (Goma), and Sud Kivu (Bukavu). The project will required to carry out Security Risk Assessments (SRA) prior to the start of activities and prepare eventual Security Management Plans (SMPs) to address these potential risks.

33. **Environmental and social risk management instruments.** A draft Environmental and Social Management Framework (ESMF) has been prepared to address the assessment and management of environmental and social risks and impacts, including a sexual exploitation, abuse, and harassment (SEAH) action plan oriented to prevent, mitigate, and respond to those risks of the subprojects consistent with Environmental and Social Standards (ESS1). The ESMF will be disclosed, consulted upon and adopted prior to the end of the Project appraisal. In addition to the ESMF, an Environmental and Social Commitment Plan (ESCP), a Stakeholder Engagement Plan (SEP), Labor Management Procedures (LMP), and Sexual Exploitation and Abuse/Sexual Harassment Action Plan have been prepared.

E. Implementation

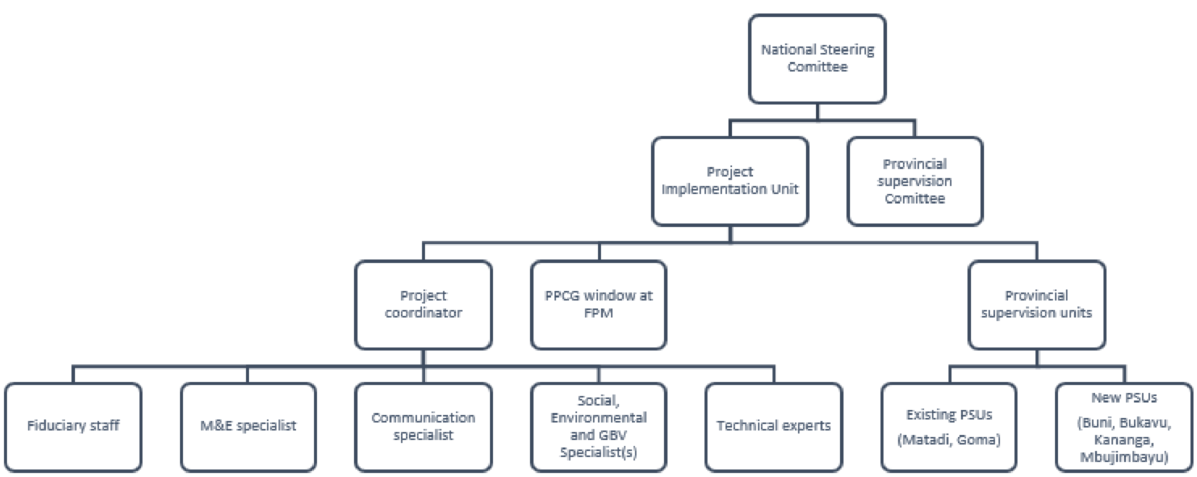
Institutional and Implementation Arrangements

34. **The Ministry of Small and Medium Enterprises and Entrepreneurship (Ministry of SMEs), which oversees the implementation of the SME Growth and Development Project will be the line ministry for the project and act as the borrower's representative.** The Ministry will ensure that executing institutions carry out their respective responsibilities. Although the Ministry of SME has a good track record in collaborating with the World Bank, its existing structures at central and decentralized levels do not currently have the required capacity to manage the project. Therefore, project implementation arrangements ensure the proposed activities and build public sector capacity to sustain efforts over the medium to long term.

35. **The National Steering Committee and Provincial Supervision Committees will ensure project oversight**. The steering committee of PADMPME will be expanded to the Central Bank (BCC) and governors of targeted provinces to serve as a committee for TRANSFORME. The Committee will be charged with defining the strategic orientation of the project and will be assisted by Provincial Supervision Committees set up to oversee project implementation in each province and led by the governors of beneficiary provinces and including private sector business associations, public institutions, and women associations.

36. **Project Implementation Unit.** The PADMPME PIU, whose core staff will remain in place to oversee the continued execution of PADMPME, will strengthen their capacity to assure high quality supervision and reinforce their team to be supported at the technical level by expert advisors, and will be responsible for project implementation and management of all components. The Provincial Supervision Units will be set-up in all target locations and their capacity will be strengthened in collaboration with the FCV team. Implementation arrangements will take into account regional specificities in terms of security (for Bunia and Bukavu) and differing business environment (especially in the Kasai). The PIU will oversee the activities of the implementation partners, who will be responsible for technical implementation of project activities under Components 1 and 3.3. The organigram of the project is presented in Figure 2.

Figure 2 Organigram of implementation arrangements



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