Report Number: ICRR0022660

1. Project Data

Project ID	Project Name
P145554	DRC:Financial Infrastructure and Markets
Country	**Practice Area(Lead)**
Congo, Democratic Republic of	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-H9260	31-Dec-2020	26,722,506.69
Bank Approval Date	**Closing Date (Actual)**	
18-Mar-2014	31-Dec-2020	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	30,000,000.00	0.00
Revised Commitment	30,000,000.00	0.00
Actual	26,722,506.69	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Antonio M. Ollero	J. W. van Holst Pellekaan	Christopher David Nelson	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to the Financing Agreement (page 5), the project development objective of the Democratic Republic of Congo (DRC) Financial Infrastructure and Markets Project was "to modernize the payments infrastructure and increase the availability of term financing to micro, small, and medium enterprises (MSMEs)."

For the purpose of this ICR Review, the project objective is parsed into two parts:

- To modernize the payments infrastructure.
- To increase the availability of term financing to micro, small, and medium enterprises.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had three components.

Modernization of Payments Infrastructure for Inclusive Finance (US$7 million estimated at appraisal, US$9.3 million disbursed by closing) supported the modernization of the country's financial market infrastructure through the establishment and implementation of: (a) an Automated Transfer System (ATS) – an integrated system with both real-time gross settlement (RTGS) and automated clearinghouse (ACH) capabilities to clear and settle all interbank electronic payments; (b) a Central Securities Depository (CSD) – a facility to hold securities which would enable securities transactions to be processed by book entry (the facility might additionally incorporate comparison, clearing, and settlement functions); (c) the Network Infrastructure – the telecommunications network to process payments between all parties to the payment system; and (d) a National Payments Card Retail Switch – a platform to process and clear electronic payments, providing interface and inter-operability among all financial institutions. In addition, this project component would provide technical assistance, training, and advice to the central bank, *Banque Central du Congo* (BCC), to support the implementation of the technologies and functionalities of the physical infrastructure supporting the national payments system.

Technical Support to Financial Market Development (US$7 million estimated at appraisal, US$7.5 million disbursed) supported the provision of technical assistance to three sets of institutions to help develop selected sectors in the country's financial system: (a) the BCC – to implement a robust intervention and resolution framework for microfinance institutions (MFIs), employ the core banking system in data management and analysis for the supervisions of MFIs, and organize apex institutions of MFIs and networks of cooperatives in each province for better surveillance and regulation; (b) the non-government organization *Fonds pour l'Inclusion Financiere en Republique Democratique du Congo - Association sans but Lucratif* (FPM ASBL) – to finance capacity-building at MFIs, financial cooperatives, and commercial banks that service MSMEs and entrepreneurs with a special focus on the agribusiness sector and underserved areas as well as on gender balance and youth employment); and (c) the government – to implement the recommendations of the joint Bank-International Monetary Fund (IMF) Financial Assessment Program (FSAP) on building a sustainable mechanisms for MSME financing, including by restructuring the development bank *Societe Financiere de Developpment* (SOFIDE) into a viable intermediary financial institution capable of raising new funds for long-term lending and supporting the Ministry of Finance (MOF) to implement reforms in the financial sector.

Line of Credit for Medium to Long Term Finance (US$15 million estimated at appraisal, US$9.9 million disbursed) supported the pilot phase (first phase) and the scale-up phase (second phase) of a line of credit to intermediary financial institutions for medium-term and long-term on-lending to private MSMEs for capital investment and capacity expansion projects.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The project was estimated to cost SDR19.6 million (US$30 million equivalent) at appraisal. Actual total cost was US26.7 million.

Project Financing. The project was financed by an International Development Association grant of SDR19.6 million (US$30 million equivalent) to the Democratic Republic of Congo. The amount of US$26.7 million was disbursed.

Borrower Contribution. There was no financial contribution to the project from the government

Dates. The project was approved on March 18, 2014, became effective on September 3, 2014, and closed as scheduled on December 31, 2020.

Restructuring. The project was restructured twice. The first restructuring in August 2016, with US$7.9 million disbursed, changed the results framework for the project. The second restructuring in June 2018, with US$16.4 million disbursed, changed the project components and costs and reallocated the project funds across disbursement categories.

3. Relevance of Objectives

Rationale

Relevance to Country Challenges. The project development objective was relevant to development challenges in the DRC with respect to a national payments system, MSME finance, and banking and microfinance institutions.

- The DRC lacked a basic financial market infrastructure. The national payments system was the least developed among African countries and could not reliably settle accounts, clear payments, and process funds between traders, businesses, investors, banks, and the government. Cash remained the most widely used payment medium by consumers, accounting for 70 percent of most transactions. Stand-alone automatic teller machine (ATM) services were offered by most banks, but there was no inter-operability between delivery channels and customers. Credit cards issued by international financial firms were supported by only a few banks, and the few point of sale (POS) services in the country were available only in large retail outlets. Domestic interbank transactions within the capital could take 3-4 weeks to clear checks and wire transfers; the transactions were fraught with erroneous settlements, delayed payments, and fraud. Overall, the poor national payments system hampered efficient commerce and finance.
- The ability of MSMEs, which dominated the private enterprise sector, to spur activity, boost incomes, and generate employment was hampered by access to finance problems. Access to finance was cited as the biggest constraint to business growth by 54 percent of all firms in the *DRC Enterprise*

Survey - 2013. Only 9 percent of small enterprises (with 5-19 workers) and 13 percent of medium enterprises (with 20-99 workers) had a bank loan. Only 7 percent of small enterprises and 11 percent of medium enterprises had access to a bank to finance their working capital needs and only 3 percent of small enterprises and 7 percent of medium enterprises had access to a bank to finance their capital investment plans.

- Financial intermediation remained largely under-developed. Banks, which dominated the financial system (18 banks accounted for 95 percent of the financial system), were relatively small and principally engaged in rudimentary operations, collecting mostly demand deposits in US dollars from corporates and providing mostly short-term financing to the same corporates for short-term needs and export-import activities. Albeit small, the microfinance sector – consisting of two banks specializing in MSME lending, 119 savings and loan cooperatives, and 23 microfinance institutions – was growing fast, collecting US$294 million of deposits, providing US$162 million of loans, and serving over one million clients by 2013. Still, the majority of the country remained under-served by banks, much less by microfinance institutions.

Relevance to Government Priorities. The project development objective was consistent with the government's priorities.

- The *Republic of the Congo Growth and Poverty Reduction Strategy Paper 2011-2015* (GPRSP2) advanced four "strategic pillars" for the country's development – strengthening governance and peace; diversifying the economy, accelerating growth, and promoting employment; improving access to basic social services and strengthening human capital; and protecting the environment and fighting against climate change. This project's development objective was consistent with the first strategic pillar of the GPRSP2 (pages 56-58), specifically with the goals to "improve the business climate," "promote the private sector," and "improve financial intermediation."

Relevance to Bank Strategy. The project development objective was aligned with the Bank Group strategy in the DRC.

- The *Country Assistance Strategy for the Democratic Republic of Congo for the Period FY2013-FY2016* (CAS) committed Bank Group support to the country's development agenda organized around four "strategic objectives" – to increase state effectiveness and improve good governance, to boost competitiveness to accelerate private-sector-led growth and job creation, to increase access to social services and raise human development indicators, and to address fragility and conflicts in the eastern provinces. The project development objective was aligned with the second strategic objective of the CAS, specifically with the target outcome for "an enhanced business environment for private sector development." According to the CAS (pages 29-30), the Bank Group would provide analytical and advisory services "strengthening the capacity of SMEs to take advantage of business opportunities and to effectively and efficiently manage their existing businesses" and financing to "relaunch the private sector, increasing SME's access to finance and supporting the development of the financial sector."

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To modernize the payments infrastructure.

Rationale
Theory of Change/Results Chain. The construction and activation of an ATS, RTGS, ACH, CSD, network infrastructure, and National Payments Card Retail Switch would lay down the basic infrastructure for a modern national payments system in the DRC. The development, deployment, and adoption of an effective national payments system – the set of instruments, banking procedures, and interbank transfer systems that ensure the circulation of money – should help improve financial intermediation, financial inclusion, and the conduct of monetary policy. The results chain for this outcome (depicted in Figure 1 in the ICR) assumed that: (a) the financial institutions would be willing to integrate their systems in a coordinated manner into the national system and be guided under the supervision of the BCC; and (b) the settlement of transactions denominated in US dollars and other foreign currencies would remain feasible under international rules and standards.

Outputs. The project fully achieved two, partially met another two, but failed to meet one of the five output targets defined for the objective to modernize the payments system before the project closed.

- A National Payment System (NPS) Department is operational, meeting the target. The NPS Department was established, its staff trained, and equipment purchased with the support of the project.
- An Automated Transfer System (ATS) is operational, meeting the target. The ATS was operational beginning in March 2017.
- The number of banks and other financial institutions connected to the ATS/CSD of the National Payment System (NPS) was 16 by project closing, partially meeting the target of 22.
- A National Payments Card Retail Switch company was not established, failing to meet the target. The *Société Monétique Interbancaire du Congo* (SMIC), which was designed to manage the National Payments Card Retail Switch, was not operational by the project closing date, although the project supported the development of the laws and the work plans and financed the purchase of equipment for the new organization. Meanwhile, the BCC established an interim team to manage the National Payments Card Retail Switch.
- The number of financial institutions and mobile network operators connected to the National Payments Card Retail Switch was 11 by the project closing date, partially meeting the target of 23. Of the 11 banks connected to the system, five banks had system connections that were fully operational, while six banks had system connections that were still in the testing stage.

Outcomes. The project achieved three and partially met one of four outcome targets defined for the objective to modernize the payments system.

- The number of annual transactions denominated in US dollars that were made through the RTGS was 80,351 the year before the project closing date, exceeding the target of 70,800. The number of transactions represented operations of the RTGS only between March and December 2019. The BCC stopped the settlement of US dollar transactions through the RTGS in December 2019, upon the request of the U.S. Department of the Treasury. Investigations by local and international non-governmental organizations revealed that Congolese banks were exposed to international money laundering schemes used to conceal the proceeds of corruption in the mining industry.
- The number of annual transactions denominated in Congolese francs (CDF) that were made through the RTGS was 361,021 by the project closing date, exceeding the target of 144,216.
- The number of annual transactions denominated in US dollars that were made through the ACH was 105,435 the year before the project closing date, failing to meet the target of 6,352,666. The number of transactions represented operations of the ACH only between March and December 2019. Like in the RTGS, the BCC stopped settlement of US dollar transactions through the ACH in December 2019, upon the request of the U.S. Department of the Treasury. Investigations by local and international non-governmental organizations revealed that Congolese banks were exposed to international money laundering schemes used to conceal the proceeds of corruption in the mining industry.
- The number of annual transactions denominated in CDF that were made through the ACH was 4,540,635.by the project closing date, exceeding the target the target of 458,080.

By the project's close the domestic and international payments infrastructure had been modernized. The extent to which Objective 1 was achieved is rated substantial.

Rating
Substantial

OBJECTIVE 2
Objective
To increase the availability of term financing to micro, small, and medium enterprises.

Rationale
Theory of Change/Results Chain. The provision of a line of credit, supported by long term Bank funds, to intermediary and participating financial institutions would enable the financial institutions – commercial banks, financial cooperatives, and microfinance institutions – to extend term financing to MSMEs for productive projects. In addition, the provision of technical assistance to the financial institutions, as well as to the monetary authority and financial supervisor, would help develop the institutional and regulatory framework for MSME finance and hence help sustain term lending to MSMEs. This results chain assumed that: (a) creditworthy MSMEs were seeking but not receiving long-term credit from the formal financial system, (b) financial institutions were not providing long-term credit to MSMEs because of the lack of long term funding and restrictive prudential liquidity rules that reflected the high level of dollarization of the economy, and (c) other constraints, including high credit risk and high collateral requirements, were not as binding as liquidity constraints or were being addressed by other interventions.

Outputs. The project fully achieved four and partially achieved one of five output targets defined for the objective to increase the availability of term financing to MSMEs.

- The portfolio review of SOFIDE was completed, meeting the target. The organizational and financial audit of the SOFIDE was completed in 2016. The audit confirmed the findings of the joint Bank-IMF DRC FSAP which concluded that the SOFIDE was not viable as a development finance institution.
- The portfolio-at-risk at microfinance institutions and cooperatives improved from 12.4 percent in the baseline to 8.8 percent by the project closing date, exceeding the target of 9 percent. The improvement reflected two developments: (a) the implementation of BCC Instruction No. 44 which ordered microfinance institutions to restructure credits, while the central bank suspended certain prudential requirements; and (b) the decisions by microfinance institutions to constrain credit in the second quarter of 2020 when the economic downturn peaked, thus moderating credit risk problems.
- The percentage of MFIs and cooperatives that provided information on their portfolio-at-risk rose from 87.8 percent in the baseline to 96 percent by the project closing date, meeting the target of 95 percent.
- The percentage of microfinance institutions and cooperatives that provided quarterly regulatory financial statements (balance sheets and profit and loss accounts) rose from 82.4 percent in the baseline to 96 percent by the project closing date, exceeding the target of 90 percent.
- The volume of loans to MSMEs disbursed under the project was US$10.5 million by the project closing date, partially meeting the target of US$24 million. According to the ICR (page 32), the shortfall against the target (US$24 million) reflected the limited levels of fund recycling so far. The ICR also warned that it would be difficult if not impossible to collect data on second and subsequent rounds of lending to verify progress against the target after the project closing date.

Outcomes. The project achieved the two outcome targets defined for the objective to increase the availability of term financing to MSMEs.

- The number of MSMEs that received a loan through the project was 2,531, exceeding the target of 2,500.
- The share of women-owned MSMEs that received a loan through the project was 68 percent, exceeding the target of 50 percent.

At the project's close the availability of term financing to micro, small and medium enterprises had increased and the two outcome indicators were achieved. The extent to which Objective 2 was achieved is rated substantial.

Rating
Substantial

OVERALL EFFICACY

Rationale

The project fully achieved two, partially met another two, but failed to meet one of the five output targets and achieved three and partially met one of four outcome targets defined for the objective to modernize the payments system. The project fully achieved four and partially achieved one of five output targets and achieved the two outcome targets defined for the objective to increase the availability of term financing to MSMEs.

The overall efficacy with which the project's PDO was achieved is rated substantial

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency. The Project Appraisal Document (pages 27-28) did not compute an economic rate of return (ERR) for the full project or for the first and second project components, but estimated an ERR of 15.8 percent for the line of credit, the third project component accounting for 50 percent of the project cost.

The ICR did not estimate an ERR for the full project either, or for any of the project components noting that "Economic benefits arising from the line of credit are difficult to quantify given the limited information about the impact of sub-projects financed by the line of credit" (Annex 4, paragraph 3). On the other hand, the ICR considered cost effectiveness and provided the following information (Annex 4, paragraph 2): (a) the first project component, the national payments system modernization (US$9.3 million), cost more than other recent payments system modernization projects such as in the Azerbaijan Capital Markets Modernization Project (US$7.7 million), the Kyrgyz Republic Payments and Banking System Modernization Project (US$4.5 million), and the Sierra Leone Financial Inclusion Project (US$3.9 million) but this project in the DRC had a much larger scope than the comparator projects; and (b) the financial rate of return (FRR) for the third project component, the line of credit, was 4.1 percent, computed as the weighted average interest rate charged by the intermediary financial institutions in their loans to the participating financial institutions. The FRR cited by the ICR was, of course, not comparable to the ERR estimated by the PAD.

Operational Efficiency. Some 89 percent of the project funds in US dollar terms was disbursed. The project closed as scheduled.

Evidence regarding the efficiency of this project was weak. The assessment of the cost-effectiveness of the improved payments system was not convincing. The national payments modernization projects used as comparators had varying scopes of work. No metric of cost efficiency was used or proposed. And, a high disbursement rate is not necessarily an indicator of efficiency. This ICR Review therefore rates the efficiency of this operation as modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	15.80	50.00 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project development objectives were relevant to the country's development challenges with the national payments system, the financing for MSMEs, and financial intermediation by banks and microfinance institutions. The project objectives were also consistent with the government's priorities and the Bank's country strategy in the DRC. The overall efficacy of the project was substantial. The degree of achievement of the first objective to modernize the payments infrastructure was substantial, with the project fully achieving three and partially meeting one of four outcome targets. The degree of achievement of the second objective to increase the availability of term financing to MSMEs was also substantial, with the project fully achieving two outcome targets. The efficiency of the project was modest. There was little evidence in the ICR to judge the economic efficiency of the project.

There were moderate shortcomings in the project's achievement of efficiency and, therefore, the overall outcome of this project is rated moderately satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The risks to the sustainability of the development outcomes of this project are assessed as substantial-to-high across a wide array of risk categories.

Security Risk. The DRC remains in a medium-intensity conflict situation, and is listed as one of 39 states and territories in the Bank's *List of Fragile and Conflict-Affected Situations for FY22*. The DRC is only slowly emerging from long periods of strife, including two civil wars over 1996-2003 and numerous conflicts since then, that have devastated the nation, the economy, and society. Violence and rebel activity still threaten stability, with sizable portions of the eastern part of the country largely under the control of various militia groups. There is distrust of the security forces and the international peacekeeping mission.

Political Risk. The new coalition government of 24 political parties formed in 2019 remains fragile, as coalitions and alliances have always been shaky in the DRC. Jockeying for political advantage ahead of the presidential elections in 2023 is expected to intensify. A draft bill that seeks to alter the rules for presidential candidacy risks dividing the coalition into opposing factions ahead of the elections.

Institutional Capacity Risk. Institutional capacity risk is typically high in FCV-affected countries in both the public and private sectors, and the DRC is not an exception. The SMIC was designed as a partnership between the BCC and private financial institutions to manage the National Payments Card Retail Switch. The SMIC has not become operational, while the BCC, which was tasked to supervise the system, has stepped in as the interim operator, a function that conflicts with its role as supervisor. Meanwhile, the *Fonds pour l'Inclusion Financière en République Démocratique du Congo* (FPM SA), which acted as the intermediary financial institution that managed the line of credit in its pilot phase, provided short-term rather than long-term loans and did not supply the data required in the partnership agreement to assess the impact of the line of credit operations. FMP SA was dropped as the intermediary financial institution in the scale-up phase, and its function was assumed by the BCC.

Macroeconomic Risk. The DRC economy was severely impacted by the COVID-19 pandemic in 2020, with non-mining GDP contracting by 1.3 percent and the fiscal deficit reaching 2.1 percent of GDP. Monetary financing of the deficit caused an exchange rate depreciation of 13.2 percent between April and August 2020 and pushed inflation to 15.7 percent in August 2020. The DRC obtained approval of a three-year US$1.52 billion Extended Credit Facility (ECF) arrangement from the IMF in July 2021, with an immediate disbursement of US$216.9 million to shore up the country's international reserves. The arrangement supports the government's medium-term reform program aimed at maintaining macroeconomic stability, increasing fiscal space, and promoting a sustainable and private sector-led economic growth. According to the IMF, the near-term economic outlook remains uncertain and dependent on the evolution of the pandemic as well as on a stable political environment.

Anti-Money Laundering/Combating the Financing of Terrorism (**AML/CFT) Risk.** The offshore system for the settlement of US dollar payments that was developed by this project would be of limited use if the DRC does not improve its AML/CFT system. The settlement of US dollar payments is not typically a key feature of national payments systems, but differs in the DRC, where the US dollar is the primary currency used in settling financial transactions. However, the BCC stopped settlement of US dollar transactions in the RTGS and ACH in December 2019, upon the request of the U.S. Department of the Treasury (see Section 4). The country's current AML/CFT regime presents significant deficiencies and is not compliant with the 2012 Financial Action Task Force (FATF) standards, according to the mutual evaluation report prepared by the *Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale* (GABAC).

Banking Sector Risk. The DRC's financial system remains small (assets are equivalent to only 11 percent of GDP) and financial institutions continue to face considerable risks when lending to MSMEs. Commercial banks are challenged by low profitability, high non-performing loan ratios, and deficiencies with banking supervision. The volumes mobilized by the project addressed a small fraction of the overall financing needs of MSMEs. The ability of MSMEs to secure term financing from formal financial institutions are hampered by banking sector risks.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytical Foundations. The project design was informed by the findings of the joint Bank-IMF FSAP conducted in 2013 and discussed in, among others, the IMF DRC Article IV Consultation of 2014. Drawn from the FSAP, the IMF *DRC Financial Sector Stability Assessment Report* of 2014 called for more progress in developing the payments system, facilitating the use of financial services, and consolidating and strengthening the microfinance sector.

Lessons from Earlier Operations. The project aimed to strengthen the early gains made by the DRC Private Sector Development and Competitiveness Project (PSDCP) (P0117744) with the national payments system, bank governance, and microfinance development.

- The PSDCP (2003-2014) had initiated the development of the national payments system to strengthen financial intermediation. This Financial Infrastructure and Markets Project would finance key elements of the system infrastructure – the ATS, RTGS, ACH, CSD, network infrastructure, and National Payments Card Retail Switch.
- The PSDCP had collaborated with Germany's Kreditanstalt fur Wiederaufbau and the United Nations Development Programme to establish the FPM ASBL as a non-profit organization that would deliver technical assistance to financial institutions. For this Financial Infrastructure and Markets Project, the FPM ASBL would act as the executing agency for technical assistance activities that aimed to build the institutional capacity of MFIs, financial cooperatives, and commercial banks to service MSMEs.

Technical, Operational, and Safeguards and Fiduciary Plans. The Bank made adequate plans for the implementation of the project that were described in sufficient detail in the PAD (Annex 3 - Implementation Arrangements, pages 57-73) and incorporated in the Financing Agreement.

- As detailed in the Financing Agreement (page 19), a Project Operations Manual specified: (a) the work program for the first year of project implementation; (b) the M&E indicators to be used; (c) disbursement arrangements for the project funds; (d) the procedures for procurement of goods, works, consulting and non-consulting services; the processing of payments for operational costs; and the conduct of training and workshops, financial management, and audits; and (e) the functions and responsibilities of the Project Coordination Unit.
- As detailed in the Financing Agreement (page 18), a Line of Credit Operations Manual prescribed the eligibility criteria for the intermediary financial institution and participating financial institutions; the positive and negative list of MSME projects that could be financed by the line of credit; and templates for the partnership agreement (between the government and the intermediary financial institution) and the on-lending agreements (between intermediary financial institution and participating financial institutions).
- As detailed in the PAD (Annex 3), the institutional and implementation arrangements were fairly specific at project design, taking into account weak capacities and previous coordination failures in the DRC public sector: (a) the project would be anchored within the MOF; (b) a Steering Committee chaired by the Minister of Finance and with representatives from the BCC, the Association of Congolese Banks, FPM ASBL, the selected intermediary financial institution, the private sector, and civil society would provide strategic guidance; (c) the *Cellule d'Exécution des Financements en Faveur des Etats Fragiles* (CFEF) under the MOF would serve as the Project Coordination Unit and be responsible for overall project coordination, M&E, and financial

management; (d) the *Cellule de Gestion des Projets et des Marchés Publics* (CGPMP) under the MOF would be in charge of procurement; and (e) the BCC would be the executing agency for the first project component; the BCC, FPM ASBL and CFEF, for the second; and the selected intermediary financial institution, for the third.

Risk Assessment and Mitigation Measures. The PAD (Annex 5 - Operational Risk Assessment Framework, pages 83-86) assessed the operational risks to the project and recommended mitigation measures that were adequate to address the risks.

- Stakeholder risk was considered substantial – civil servants who were key to project implementation lacked performance incentives. To mitigate the risk, a project terms of reference with clear deliverables and responsibilities was prepared. To cultivate a "performance culture", annual evaluations were to be conducted with a focus on individual and organizational performance.
- Institutional capacity risk was assessed as substantial – the implementing agency lacked the technical capacity to implement the project activities in a timely manner. To mitigate the risk, the project coordination unit at the MOF that was established with the assistance of the African Development Bank and that previously managed the DRC Western Growth Poles Project (P124720) would act as the project coordination unit for this project. Procurement and financial management specialists were appointed; a Project Operations Manual was drafted; and capacity building workshops were organized early on.
- Project design risk was rated substantial – the project was relatively complex due to the large number of activities and the large number of stakeholders, which created coordination risks. To mitigate the risk, experts from development partners, non-government organizations, and the private sector were tapped to support the implementation of the project.
- Project monitoring risk was considered substantial – monitoring capacities were weak overall. To mitigate the risk, an M&E system that could quickly collect data to enable the adoption of corrective measures was established. A mid-term review was planned to assess progress toward the project objectives and offer recommendations and corrective measures to improve results delivery.

Some Deficiencies. There were some shortcomings at appraisal.

- Many results indicators were not defined and the cost of the National Payments Card Retail Switch was under-estimated. These were to be addressed at restructuring.
- The willingness of all financial institutions to integrate into the National Payments Card Retail Switch was not verified ex-ante. During project implementation, banks that owned the private payment switch *Multiplay* were reluctant to cooperate with the integration, delaying the adoption of the new switch and the organization of the SMIC. The banks have since submitted to system integration testing.
- The continued settlement of US dollar transactions was readily assumed. As noted earlier, the BCC halted US dollar transactions in the RTGS and the ACH in December 2019 upon the request of the U.S. Department of the Treasury.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

The Bank supported the implementation of the project through regular implementation support missions.

The Bank filed 11 Implementation Status and Results Reports (ISRs) over the six-year duration of the project, or about two a year, the average for Bank projects.

The Bank conducted the mid-term review (MTR) in June 2017.

According to the ICR (page 20):

- The implementation support missions provided "timely guidance" to the government to address project implementation challenges. The Bank requested more frequent meetings with the government after the implementation performance (IP) rating was downgraded from satisfactory to moderately satisfactory in mid-2015.
- Following the MTR, the Bank requested the MOF to improve the project implementation arrangements to address two pressing problems, with positive results: (a) the CFEF had not allocated sufficient resources to the project – the second restructuring increased the amount of project funds for project management; and (b) FPM SA, which acted as the intermediary financial institution for the pilot phase of the line of credit, had extended short-term rather than long-term loans and had not supplied the data required under the partnership agreement – an audit was conducted of the pilot phase, following which the FPM SA was dropped as the intermediary financial institution for the scale-up phase of the line of credit.
- The Bank acted proactively to restructure the project twice, the first time in August 2016 to change the results framework and the second time June 2018 to change the project components and costs (see Section 2.D).
- Changes to the Bank task team leadership were managed well. In the two cases of leadership changes, the incoming task team leader was provided sufficient time to familiarize himself with the project and to engage with the government's development partners.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The Project Appraisal Document (pages 32-38) identified nine output indicators and six outcome indicators to measure the degree of achievement of the project objectives. However, the PAD failed to define seven of the nine output indicators and one of the six outcome indicators.

The Project Coordination Unit at the MOF was responsible for the project M&E, assisted by the Project Executing Unit at the BCC. For this purpose, the Project Coordination Unit would employ an M&E specialist.

b. M&E Implementation

The restructuring of August 2016 revised the results framework of the project to better align the choice of results indicators with data availability and the M&E capacities of the executing agencies – the final results framework had ten output indicators and six outcome indicators. While improved, the results framework still lacked indicators to measure vital aspects of the project, according to the ICR (page 18), including indicators to measure: (a) the cost and the time to process payments in the national payments system; (b) the maturities of the MSME loans granted from the line of credit – to verify the provision of term financing to MSMEs; and (c) loan repayments – to indicate the quality of bank intermediation.

According to the ICR (pages 18-19), M&E implementation was overrun with problems.

- It took the Project Coordination Unit some time to set up the M&E system.
- It was difficult to collect the M&E data from the FPM SA which acted as the intermediary financial institution for the pilot phase of the line of credit (see Section 7).
- The BCC did not enforce the requirement that disbursement requests be supported by the list of MSME projects to be financed.
- Hence, M&E data could not be reported until the second half of project implementation, after the BCC replaced the FPM SA as the intermediary financial institution for the scale-up phase of the line of credit (see Section 7).
- And, the government could only submit annual rather than bi-annual reports as required in the Financing Agreement.

Monitoring and evaluation was rated unsatisfactory in the ISRs until October 2018. It was upgraded to moderately satisfactory in March 2019 and through to the last ISR in June 2020.

c. M&E Utilization

According to the ICR (page 19), the Project Coordination Unit could only report on annual rather higher-frequency data early on. Hence, it took time for the M&E data to be useful as a management tool. The M&E data were, however, ultimately useful for the preparation of the ICR.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Environmental and Social Safeguards. According to the Project Appraisal Document (page 29), this project was not expected to have adverse environmental and social impacts overall. The first and second project components focused on institutional support and did not include direct investments in infrastructure or in land acquisition that could induce adverse impacts. For the third project component, however, the line of credit to MSMEs could involve land acquisition through third-party (MSME) investments. Consequently, the Bank would apply International Finance Corporation (IFC) performance standards in lieu of Bank safeguard policies, following *OP 4.03 - Performance Standards for Private Sector Activities* which allowed the Bank to apply the IFC standards to project components that were designed, owned, constructed or operated by a private entity. The project was classified as an environmental assessment category FI-2 based on "the anticipated knowledge that the on-lending activities under the third project component may lead to sub-projects that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures." The following IFC performance standards would apply: Performance Standard 1 (Assessment and Management of Environmental and Social Risks and Impacts); Performance Standard 2 (Labor and Working Conditions); Performance Standard 4 (Community Health, Safety, and Security); and Performance Standard 5 (Land Acquisition and Involuntary Resettlement). To implement the standards, the executing agencies would assess the environmental and social risks of transactions and require borrowers and investees to comply with these standards.

According to the ICR (page 19), the Project Coordination Unit prepared an Operations Manual that subscribed to the IFC performance standards and which guided environmental and social risk management during project implementation. However, the Project Coordination Unit was not able to hire an environmental and social risk management specialist until mid-2018. Hence, the Bank lacked the information to assess the effectiveness of the environmental and social risk screening of MSME sub-projects. Compliance with safeguards was not rated for this project.

b. Fiduciary Compliance

Procurement. The Financing Agreement required the procurement of goods, works, and non-consulting services to follow the Bank's *Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers*, dated January 2011. Procurement of consultant services would follow the Bank's *Guidelines: Selection and Employment of Consultants under 1BRD Loans and IDA Credits and Grants by World Bank Borrowers*, also dated January 2011. According to the ICR (page 19), the project did not face any significant procurement issue during project implementation. Procurement was rated moderately satisfactory in the last ISR (June 2020).

Financial Management. The Financing Agreement required the disbursement procedures to follow the *International Development Association General Conditions for Credits and Grants*, dated July 2010. Moreover, the government would have to submit to the Bank quarterly interim unaudited financial statements for the project not later than forty-five days after the end of each calendar quarter. The government would also have its annual financial statements audited and submit the audited financial statements to the Bank not later than six months after the end of each fiscal year. According to the ICR (page 19), the project did not face any significant financial management compliance issue during project implementation. Financial management was rated moderately satisfactory in the last ISR (June 2020).

c. Unintended impacts (Positive or Negative)

---

d. Other

---

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Moderately Satisfactory	This Review rates the efficiency of the project as modest, as there is little evidence in the ICR to assess economic efficiency.
Bank Performance	Satisfactory	Moderately Satisfactory	This Review considers the quality of the project's design to have been only moderately satisfactory because of design shortcomings at appraisal.. Shortcomings during supervision also resulted in a moderately satisfactory rating.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the Implementation Completion Report (page 21), with some adaptation.

Dollarization presents an opportunity to leverage Bank funds to mobilize private capital for lending to micro, small and medium enterprise. In this project, the US dollar line of credit was highly valuable to banks and other financial institutions in the Democratic Republic of Congo, where the US dollar is the primary currency used in settling financial transactions. The Bank could have used this opportunity to require co-financing by the participating financial institutions in the line of credit operation that aimed to provide term financing to micro, small and medium enterprises. The strategy would have been feasible, according to the Implementation Completion Report, because of the high level of dollarization of the economy. This project, however, did not require co-financing by the participating financial institutions which could have mobilized savings in the economy, including

US dollar savings, for term lending to micro, small and medium enterprises..

Adherence to international Anti-Money Laundering/Combating the Financing of Terrorism standards is vital to the successful operation of national payments systems, particularly payments systems that process multiple currencies. In this project, the Banque Central du Congo halted the settlement of US dollar transactions in the real-time gross settlement system and the automated clearinghouse system upon the request of the U.S. Department of the Treasury. The mutual evaluation report prepared by the Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale, based on a mission in August 2018, found the Democratic Republic of Congo to be non-compliant with 15 of 40 Financial Action Task Force recommendations. According to the report, the country's Anti-Money Laundering/Combating the Financing of Terrorism system remained relatively ineffective, despite the commitment of the political authorities – there were notable shortcomings in the implementation of key mechanisms including national coordination, the definition of a supervision policy emphasizing the risk-based approach, and the supervision of financial institutions and designated non-financial businesses and professions. Future fulfillment of the Financial Action Task Force recommendations could help unlock the real-time gross settlement and automated clearinghouse systems to US dollar transactions settlement.

The costs of complex information technology systems for a national payments infrastructure can be easily under-estimated and must be rigorously calculated and evaluated. In this project, the cost of the National Payments Card Retail Switch was far higher than originally estimated. The number of institutions that had to be connected to the system and their willingness and capacity to conduct the system integration activities were easily overlooked. The much larger scope of the customization that was required raised the cost of developing and deploying the information technology infrastructure.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

Consistency with Guidelines. The ICR was prepared consistent with OPCS guidelines, with complete sections and adequate coverage of topics as required by the guidelines.

Conciseness. The account of the project's performance is well informed and concisely presented. The discussions are comprehensive but to the point.

Results Orientation. The assessment of efficacy of the project was outcome-oriented and based on the degree of achievement of the results and outcome targets. The assessment was also candid – the settlement of US dollar transactions in the RTGS and ACH was halted due to AML/CFT issues; the SMIC, tasked to manage the National Payments Card Retail Switch, was not operational; and the FPM SA, selected to intermediate the line of credit, performed poorly in the pilot phase and was replaced by the BCC.

Quality of Evidence. The ICR cites three shortcomings at appraisal, meriting a rating for Bank performance at entry of moderately satisfactory. The ICR cites five shortcomings with M&E implementation, which deserved only a modest rating. These ratings were well-based on the evidence available.

Quality of Analysis. The quality of analysis was substantial and candid. Recent adverse macroeconomic developments, the rudimentary state of the banking system and AML/CFT issues, governance and institutional capacity problems, and the dollarization of the economy and the complexity of IT projects affected the implementation of the project.

Lessons. The lessons were based on evidence and analysis. The lesson on co-financing was drawn from the analysis of the efficacy of the second objective, the lesson on AML/CFT, from the analysis of key factors during implementation, and the lesson on IT costs, from the analysis of significant changes during implementation.

a. Quality of ICR Rating

Substantial