Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 15-Apr-2018 | Report No: PIDISDSA23887

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Congo, Republic of	P161590	CG-Support to Enterprise Development and Competitiveness Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	12-Apr-2018	30-May-2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Congo	Ministry of Plan, Statistics and Regional Integration	

Proposed Development Objective(s)

The project development objective is to foster MSME competitiveness in targeted sectors and geographic areas of the Republic of Congo.

Components

Policy, Regulatory and Institutional support to strenghten the Enabling Environment for Private Sector Development
Direct support to MSMEs to enhance the development and competitiveness of Selected Value Chains
Project Coordination and Implementation

Financing (in USD Million)

Financing Source	Amount
International Bank for Reconstruction and Development	25.00
Total Project Cost	**25.00**

Environmental Assessment Category

B - Partial Assessment

Decision

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Republic of Congo is a lower-middle income country located in central-sub-Saharan Africa, characterized by a heavy reliance on extractives, a limited domestic market, and representing a strategic transit conduit to the regional market.** Located along the Equator, the Republic of Congo (RoC) occupies an area of 342,000 square kilometers with a population of 4.6 million inhabitants. The population is primarily concentrated in urban areas (particularly in the cities of Brazzaville and Pointe Noire) where close to 70 percent of the population lives, making the RoC one of the most urbanized nations in Sub-Saharan Africa. The economy enjoys several assets, including: (i) abundant natural resources in hydrocarbons[1], minerals and forestry, (ii) a strategic transit location to regional markets through the only deep-sea port in the region (Pointe-Noire) integrated within a multimodal platform (railway, road, river transport)[2], and (iii) significant agriculture development potential.[3]

2. **The country has not been able to fully exploit its potential and faces significant challenges in increasing economic diversification and creating jobs.** Over the years, the dependency on oil-derived rents has contributed to an adverse institutional and governance environment – hampering private sector led growth, competitiveness and diversification. The RoC's economy remains highly concentrated in natural assets (with its production and exports concentrated in the oil and minerals sectors) and vulnerable to external shocks. Despite some non-oil growth observed in recent years, extractive industries continue to account for close to 90 percent of total exports and 75 percent of GDP. Between 2010-2015 non-oil investments have remained under 10 percent of GDP, though a 2.9% increase in FDI has been registered in the extractive sectors. Beyond the immediate impact of fluctuations in oil prices on spending, economies that are highly dependent on extractive industries such as the RoC have historically demonstrated a tendency for a weak management of oil revenues, particularly when implementing large infrastructure projects. The oil sector – by its very nature capital intensive - has a limited capacity to generate employment[4] and has diverted resources from labor intensive toward extractive activities. The banking sector is highly concentrated and lags compared to regional peers. Banking penetration remains in the five-to-seven percent range. High intermediation costs and high collateral requirements limit the pool of customers to well established firms, particularly in the oil sector.
3. **Since the end of the civil strife in the early 2000s, the country enjoyed relative political stability and growth — however the overall performance of the economy was insufficient to reduce high structural levels of poverty, inequality, and unemployment.** High commodity prices and some structural reforms enabled growth to resume - averaging 5.5 percent for the period 2008-2014. This

[1] RoC has 1.6 billion barrels of proven oil reserves and 90 billion cubic meters of natural gas reserves, and is the fourth largest oil producer in Sub-Saharan Africa (with an output of over 100m barrels per year).
[2] The multi modal platform of the Port of Pointe-Noire provides the RoC a unique position to tap into a regional market of 110 million consumers, with immediate access to a market of 12 million in Kinshasa, as well as a pathway to the Central African Republic and Southern Cameroon, through key regional trade corridors (Pointe Noire – Brazzaville - Kinshasa; Pointe Noire – Cabinda; Brazzaville – Ouesso - Douala; Brazzaville – Bangui; Pointe Noire – Dolisie – M'binda - Franceville).
[3] Only 2 percent of the 10 million hectares of arable land is currently exploited, whereas the RoC's basin presents a significant potential to leverage connectivity and linkages between and among local and regional value chains.
[4] The oil sector employs less than one -percent of the population.

period of relative growth resulted in an increase in government spending, particularly directed toward public investment and infrastructure projects. However, the effective planning and absorption capacity of institutions in charge of large public investment did not translate to efficient disbursements, causing implementation delays and overspending, and therefore generating an additional drag on economic activities. Ultimately, these large investments resulted in modest linkages/spillover effects into the non-oil private productive sectors and have not led to a significant reduction in sector concentration.

4. The unemployment rate is estimated at around 25 percent (42 percent among the youth.) Poverty has decreased at a slower rate than expected from 51 percent in 2005 to 46.5 percent in 2011[5], and inequality remains high (*Gini coefficient* is 0.465). Likewise, the *Gender Inequality Index* is still high at 0.592 in 2015 — reflecting existing challenges for women, in reproductive health (high maternal mortality), relatively low women empowerment, including inadequate political representation and unequal access to economic opportunities (reflecting involvement in informal trade and agriculture sectors). In addition, disparities have increased between wealthier urban centers where poverty levels fell to 30 percent and rural areas where it increased to 75 percent.

5. **Following persistent low oil prices since end-2014 ROC's economy continued to depress in 2017.** With oil accounting for about a third of the country's GDP, two thirds of its fiscal revenue, and more than 80 percent of its goods exports, the sharp decline in oil prices since 2014 has provoked a major fiscal and economic crisis – underscoring the critical importance of the economic diversification and inclusive growth agenda. Congo's economic fundamentals were weakened by persistently low oil prices, due to the lack of economic diversification. GDP growth contracted 4.6 percent in 2017 from a -2.8 percent in 2016. Non-oil activities sharply decreased by 9.2 percent in 2017 as a tight financial situation following accumulation of government arrears forced many companies to reduce activities and staff. The decrease in demand triggered a deceleration in inflation at 0.5 percent in 2017. Revenues decreased from an estimated US$5.4 billion in 2014 to US$2 billion in 2017. Non-oil fiscal deficit reached 19.3 percent of GDP in 2017 as oil revenues declined from a high of 68.6 percent of non-oil GDP in 2014 to 14.7 percent of non-oil GDP in 2017. International reserves fell and stood at only at less than one month of imports. The country's pro-cyclical public investment scale-up has led to a rapid increase in debt-to-GDP ratio from 20 percent at end-2010 when ROC reached the HIPC Completion Point, to an estimated 118.8 percent at end-2017, setting it at debt distress. There are some favorable prospects for 2018, with the proposed fiscal adjustment and as new mining projects in iron ore, which entered production in late 2013, may add as much as $1 billion to annual government revenue. Oil production is also expected to increase for 2018 due to the optimization of the Moho-Bilondo phase I field and a new production facility at the Moho-North field. Economic growth is projected to slowly recover at 0.7 percent in 2018. However, persisting instability localized particularly in the Pool region, has hampered the reliability of existing transport infrastructure (rail, road) between Pointe Noire and Brazzaville – limiting the outlook for private sector growth.

Sector and Institutional Context

6. **A legacy of overbearing government presence has restrained private entrepreneurship and**

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

maintained industrial sector concentration (on extractives). The performance of the private sector is reflected by low levels of non-oil private investments which have remained low averaging only about 19.4 percent of total investments for 2011-2016. The private sector's contribution to growth and formal employment is not significant (representing 5 percent of GDP compared to 14 percent for Sub-Saharan Africa, and only about 30% of the country's 125,000 formal employees.[6]

7. **The private sector is structured as follows:** (i) an expatriate well organized segment with significant human and financial resources, operating mainly outside the sphere of government influence – with limited spillover and knowledge sharing with local MSMEs; (ii) a relatively well organized local and connected private sector, relying on government contracts and subject to public procurement vagaries (these arrangements have an adverse impact on transparency, competition and regulatory certainty, and constitute barriers to the entry of competitors in the sectors in which the connected firms operate); (iii) a growing but unstructured private sector that operates mostly informally, in several sectors including retail and wholesale trade, micro industries, agriculture and services (particularly transport). The MSME promotion and development law (046-2014) formally categorizes enterprises as follows:

	Turnover (FCFA)	Number of Employees
Micro	25,000,000	9
Small	100,000,000	20
Medium	2,000,000,000	100

8. **Data on the Congolese private sector is scant and not centralized.** In terms of its structure, the private sector is small and concentrated in the tertiary sector such as trade, retail and services, with little manufacturing aside from light manufacturing activities in wood, food and drinks processing. The private sector is composed of mostly smaller units operating along the Pointe-Noire Brazzaville corridor where 90 percent of firms are registered. A census survey estimates the total number of enterprises at 22,500 mainly composed of very small units of less than 5 employees (98 percent) operating in trade. [7] SMEs and large enterprises account for 2 percent (with a negligible number of very large firms), whereas enterprise creation is concentrated in Pointe Noire (40 percent) and Brazzaville (55 percent). Women's entrepreneurship represented a total of 3,592 units. A limited number of large firms are concentrated in Pointe Noire, the country's deep-sea port where the oil industry is located. A mapping of industrial activities undertaken under PADE 1 revealed close to 78 firms (both foreign and local) mostly operating in Pointe Noire (55%) and Brazzaville (27%).

9. **Economic diversification is constrained across several economy-wide dimensions, including**: (i) adverse business environment and weak MSME ecosystem; (ii) inadequate financial sector; (iii) insufficient trade-related and industrial infrastructure; and (v) lack of skills to meet private sector needs. The wide range of constraints is indicative of the multifaceted challenges required to unlock sustained private sector led growth and economic diversification:[8]

[6] *Environnement de l'investissement Privé* (ADB 2012)
[7] *Environnement de l'Investissement Privé (*ADB 2012)
[8] Several studies highlighting challenges and opportunities include: i) The World Bank 2009 Investment Climate Assessment, ii) The World Bank 2016 Policy note on Diversification, iii) The 2015 World Bank Trade Facilitation Intervention Report and,

- ***Adverse business environment and weak MSME ecosystem.*** Private sector activity is constrained by a cumbersome regulatory framework and poor public–private consultation mechanisms. The government adopted the decree No. 2017-42 of March 28th, 2017 creating the interministerial Committee for the investment climate improvement chaired by the Prime Minister, but this has not resulted in concrete impact on the ground yet. The RoC was ranked 179th out of 190 countries in the 2018 Doing Business Report. Problematic areas include: (a) paying taxes and other administrative fees (*parafiscalité*); (b) trading across borders; (c) starting a business; (d) enforcement of contracts. MSMEs are constrained by the lack of basic managerial skills and are unable to adequately prepare business plans, cash flow predictions or even basic bookkeeping[9]. Existing support from business development services and market enabling institutions is insufficient and lacks coordination.

- ***Inadequate financial sector.*** Major sector constraints identified by the Financial Sector Strategy (2017) include: i) weak intermediation mechanisms, ii) high sector concentration in oil, and iii) an absence of credit information. These conditions mean that banks do not find a buoyant market that would allow them to serve the SME segment. Borrower credit information is non-existent, collateral requirements from the applicants are substantial and recovery mechanisms are weak. The financial sector is dominated by the banking sector (comprising 11 banks, mostly foreign owned.) Most banks operate as financial intermediaries for mining and oil companies, their suppliers and outsourcing parties. Loans and credits to the private sector only account for 32% of GDP. The financial sector is risk averse and not responsive to MSMEs, with limited potential to support diversification in agriculture and other sectors with growth and innovation potential. About 12-15% of MSMEs have access to bank finance (as opposed to 22% in SSA), and the great majority (85%) confirm that despite demand, access to credit is hampered by high costs, complex procedures and lack of credit information. The negative impact of the recent oil price shock is felt by the banking sector through direct or indirect exposure to Government spending and adverse effects on increasing non-performing loans are (15% in 2016 from 2.5% in 2015).

- ***Insufficient trade-related and industrial infrastructure.*** Better performing trade-relatd and industrial infrastructure would enable the RoC to leverage on its strategic location in the south Atlantic, its access to the regional markets of the hinterland (the Republic of Congo has borders with Cameroon, the DRC, the CAR, Gabon and Angola) and improve the country's competitiveness and attractiveness for non-oil investments.[10] The Port of Pointe-Noire was ranked as one of the least competitive ports in the region. This is reflected in the country's Logistics Performance index which ranks the RoC at the 125th place out of 160 countries (down from 119th place in 2010), with poor performance on the infrastructure sub-index (2.0 out of 5.0) and the low performance in the Doing Business "Trading across Borders" indicator (it takes 397 hours to comply with border

iv) Studies undertaken within the framework of the PADE I, indicate potential in logistics and transports, agribusiness, forestry, and wood transformation as well as a significant potential for regional integration.

[9] According to the World Bank's 2009 Enterprise Survey, only 17 percent of SMEs had a line of credit in a bank. This is confirmed by the INS in 2017 that 80 percent of companies use self-financing for the development of their activities.

[10] The contribution of infrastructure to RoC's per capita growth over the past decade averaged a mere 0.5 percentage points (considerably lower than sub-Saharan Africa, where infrastructure contributes 0.99 percentage points on average.).

import compliance at a cost of US$ 1,581[11], with a ranking of 184 out of 189 countries.) While significant public investment in recent years has been allocated to trade related and industrial infrastructure investment (including the Pointe Noire – Brazzaville highway and the construction of new industrial parks) weak planning combined with inefficient management and maintenance, hamper improvements in infrastructure services and access to industrial land. While the Port of Pointe Noire is mobilizing significant investment (including with support of AfD and EU) the Port of Brazzaville is not operational all year round and suffers from aging handling equipment and irregular port maintenance.) CFCO, the national railway company, is facing a chronic state of technical and financial disarray – requiring massive infrastructure investment and institutional reform to reinstate minimum operating standards. Despite significant investment in the energy sector over the last decade ($2 billion), institutional inefficiencies and poor maintenance result in low and unreliable access to electricity – inflicting additional costs on users and firms. To circumvent these infrastructure shortcomings and to improve companies' competitiveness, the Government is planning four Special Economic zones (SEZs) across the country.

- ***Inadequate supply of human capital:*** 51 percent of the firms surveyed by the World Bank *Enterprise Survey* considered the inadequacy of their workforce's skills a major obstacle — reflecting a perceived gap between market requirements and the skills provided by training and learning institutions. In addition, private firms do not emphasize training and suffer from inadequate managerial skills (planning and financial management).[12]

10. **In addition to addressing the economy-wide challenges noted above, an effective diversification strategy will need to support the emergence of an MSMEs ecosystem clustered around non-oil sectors showing potential for growth. Key opportunities include:**

    - ***Agriculture and agribusiness:*** RoC's untapped endowment of arable lands, favorable climate, and transit infrastructure, provide the country with a strategic advantage in agriculture and food processing vis-à-vis its neighbors.[13] Manufacturing potential is mainly in the light consumer goods (including agro-based products, and wood processing)[14], taking advantage of the regional market. However, commercial agricultural is constrained by a multiplicity of factors: (i) agricultural production is performed primarily by smallholder farmers (81 percent average on 2 hectars per farm); (ii) lack of connectivity and coordination among key value chain components (processing and distribution); (iii) predominantly informal distribution and retail practices. The World Bank's Commercial Agriculture Project approved in July 2017 supports supports improved food and nutrition security, import substitution, increased exports, and poverty reduction.

    - ***Transport, Logistics, & ICT:*** The services sector experienced an average growth rate of 10 percent over 2001-2010, driven mainly by transport and telecommunications. There is still

[11] The time and cost for border compliance include time and cost for obtaining, preparing and submitting documents during port or border handling, customs clearance and inspection procedures. See the WB 2018 DB report.
[12] Country Partnership Framework (CPF) 2013-2016
[13] "*Trade Intervention in the Congo*, World Bank 2016
[14] RoC's forests cover over 22 million hectares, or 65 percent of the land area. In 2010, the forestry sector provided 11,000 direct and 5,000 indirect jobs, contributing to 5.6 percent to RoC's GDP and 10 percent to the country's exports.

opportunity for growth especially in regional transit services and ICT tapping into the unrealized potential of the deep-sea port of Pointe Noire. Beyond transport and logistics, there is the potential for further development of ICT related services. With demand continuing to increase, the RoC has embarked on large national and intra-regional projects to expand the existing telecommunications network and establish intra-regional connections with neighboring countries. These developments leverage existing infrastructure such as the undersea fiber optic cable and foster infrastructure development of the national and regional backbone (initiated through the World Bank Central Africa Backbone Project.)

- ***Tourism.*** Owing to its strategic regional location and its vastly unexploited natural assets, Republic of Congo presents several opportunities to develop niche tourism products (forest, parks, beaches) as well as those related to business tourism (conferences, events) which are the heart of the recently prepared National Tourism and Sustainable Development Strategy (2017). However, the sector faces significant constraints related to access and connectivity, an adverse investment and private sector environment, and gaps in branding and image. The Government is keen to leverage its assets, and attract private investors for the development of the sector. Strategic assistance is sought to strengthen the enabling environment and improve the management of hospitality, sports and conference facilities investments – particularly around Brazzaville.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

11. The project development objective is to foster MSME competitiveness in targeted sectors and geographic areas of the Republic of Congo.

Key Results

12. **Theory of Change.** The project provides: (i) policy, regulatory and institutional support to strengthen the enabling environment for private sector development and (ii) direct support to MSMEs to enhance their competitiveness in selected sectors (identified under the National Development Plan, including agriculture and agribusiness, tourism, transport/ICT.) The achievement of the expected outputs from this project will contribute to the intermediate and long-term outcomes including promotion of the competitiveness of MSMEs and improvement of the business climate to increase investments in the targeted sectors. Improved competitiveness and business climate will ultimately play an important, foundational role to the longer-term objectives of enhancing economic diversification, create jobs and move towards overall reduction of poverty and inclusive growth in RoC.

13. **The proposed key result indicators that will be used to measure the achievement of the PDO are:**

    - Number of Investment Climate reforms approved and implemented.

- Share of beneficiary firms under the Support to Enterprise Development grant facility demonstrating an increase in annual turnover.
- Share of new firms supported under the Business Plan Competition (BPC) that are still operating 24 months after receiving assistance (financial and non-financial).

D. Project Description

14. **Project structure.** The project is structured by three components: (i) Policy, regulatory and institutional support to strengthen the enabling environment for Private Sector Development (US$10m); (ii) Direct support to MSMEs to enhance the competitiveness of selected value chains (US$12m); (iii) Project coordination and implementation (US$3m).

Component 1: Policy, regulatory and institutional support to strengthen the enabling environment for Private Sector Development (US$10m)

15. The objective of this component is to promote investments particularly in the priority sectors targeted by the project and to strengthen the enabling environment for Private Sector Development - accelerating the adoption of reforms launched under the PADE project (through stronger stakeholder coordination and high-level engagement). The component is divided into three sub-components, as follows:

16. ***Sub-component 1.1: Investment climate reform and public private dialogue (US$3m).*** This sub-component aims to bring about new momentum to accelerate the pace of implementing business climate reforms. Based on the lessons learned from the PADE I, the project will focus on both sector specific and cross-cutting reforms. The sub-component will support: (i) the identification of critical policy, institutional or other constraints and a timebound reform action plan; and (ii) the definition and implementation of facilitation or corrective measures such as adoption of sectoral laws or policies to streamline and simplify procedures (reflecting four sectoral studies to stimulate investments in priority sectors identified under the National Development Plan -- agriculture and agribusiness, tourism, transport, ICT.) The expected outcomes for those activities include an incentive-based legal framework in sectors showing a good prospect for growth.

17. The project will support cross-sectorial SMEs reforms related to the institutional, legal and regulatory framework, from their creation to their day-to-day operations. The cross-sectorial approach will enable to reach other SME operating out of the priority sectors. As such, the project will support reforms in selected Doing Business (DB) indicators, including: (i) business startup; (ii) dealing with construction permits; (iii) access to electricity: (iv) property transfer; (v) paying taxes; and (vi) trading across borders. The project will support: (a) the government and the thematic groups responsible for proposing, drafting or improving reform texts in five out of six DB areas; (b) the review, implementation and operationalization of the OHADA legal framework. Indeed, RoC is an OHADA Member State and a significant part of its business climate regulations come from the OHADA legal framework, one of the primary objectives of which is to ease doing business for MSMEs, including the informal sector.

18. A key objective of this sub-component is also to support the improvement of the Public Private

Dialogue as an indispensable participatory tool for accelerating the identification and implementation of reforms envisaged in sub-component 1. To date, the HCDPP has not produced the expected results due to lack of commitment and weak operationalization. A restructuring of the HCDPP is underway and will require technical assistance to integrate best practices and avoid common pitfalls associated with high-level PPD structures. The restructuring involves the establishment of an interdepartmental committee headed at the highest level by the Prime Minister with a permanent secretariat based on thematic groups and departmental committees. The HCDPP will be responsible for organizing the dialogue between the public and private sector by adopting a strategy of consultation at the level of sectors and territories. The anchoring of the PPD process at the highest level of government is important to gain the trust from the private sector in a country with weak capacity institutions. However, it is within territories and sectors that the problems will be identified as well as the sketches of solutions. These will be submitted by the Permanent Secretariat to the Monitoring County for formalization by thematic groups. This hybrid approach will allow, on the one hand, for work on the more complex and time-consuming process of developing the national PPD structure, while, on the other hand, starting to operationalize more easily the PPD through specific working groups by sectors and regions. This should be an incremental process whereby one identifies the pockets of excellence and the champions within the government structure willing to move forward. This two-pronged approach can function independently or, ideally, be integrated into the national structure once operational. The project will provide adequate technical support to design or improve the institutional architecture of the PPD structure and operationalize the solutions-oriented PPD process.

19. ***Sub-component 1.2: Targeted Promotion, Facilitation and Aftercare for Domestic and Foreign Investment (US$2m).*** This sub-component aims to build capacity of institutions involved in facilitating investments and enterprise development. These institutions are required to address existing market failures due to information asymmetries (e.g. existence of investment opportunities, market linkages), provide public goods (e.g. licensing, permits, etc.) and decreasing coordination costs within targeted value chains. Consequently, the size of FDI, regional and national investments and trade in the economy is bound to increase.

20. This sub-component will mainly support a capacity building program for the *Agence pour la Promotion des Investissements* (API), and connected sectoral agencies (Ministry of Tourism) in the development and implementation of a business plan that will focus on targeted investment promotion, facilitation and aftercare focusing on the priority sectors (agriculture/agribusiness, tourism, ICT, transport). It will also support the development of specific sector and project profiles to catalyze market testing and targeted promotion with anchor investors and developers.

21. The subcomponent will also support the operationalization of the *Agence de Development des PME* (ADPME) strategic plan aimed at fostering: (i) the capacity of the ADPME to improve the supply of services to a standardized level; (ii) support the networking of private firms and business and professional associations with public institutions ; (iii) the creation of a database of MSMEs with the possibility of being consulted by the API, the chambers consular organizations or COSPECO for the creation of partnerships or the exploitation of investment opportunities.

22. ***Sub-component 1.3. Strengthening transport sector and industrial infrastructure management and development (US$5m).*** The objective of this sub component is to enhance the management and

development of transport and industrial infrastructure sectors, through targeted policy and regulatory reform, institutional capacity building, investment planning and mobilization.

- Policy and regulatory reform activities will include:

  i. Support to strengthening the legal framework for industrial infrastructure development, with a focus on SEZ development
  ii. The operationalization of the GUOT IT platform (one stop-shop for trans-border trade) and the implementation of the 'BLD" "Bordereau de Livraison Directe" (The Multimodal Bill of Lading) which will streamline cross-border procedures and foster improved coordination and cooperation between Government agencies involved in the Port Platform.
  iii. the feasibility study for the creation of a multimodal transport observatory as a means of promoting the production, diffusion and advocacy of multimodal transport solutions, fostering the fluidity of transit through the PAPN platform and trade corridors. This will also include targeted outreach to key public and private stakeholders to promote the implementation of the CEMAC transit regime.

- Capacity building to strengthen industrial infrastructure investment planning along the Pointe Noire – Brazzaville corridor. This would focus on providing:

  i. Support to the Ministry of SEZs and the Ministry of Grands Travaux to design and develop the institutional framework for SEZs.
  ii. Build capacity to develop an integrated investment planning / asset management strategy.
  iii. Build capacity to conduct good practice pre-feasibility analysis (including site analysis, environmental and social safeguards, demand and market testing, etc.) for industrial infrastructure and tourism development.

Component 2 – Direct support to MSMEs to enhance the development and competitiveness of selected value chains (US$12m)

23. The objective of this component is to promote entrepreneurship and enhance the development and competitiveness of MSMEs in priority sectors identified by the National Development Plan (Agriculture and agri-business, Transport/ICT, and Tourism). Weak entrepreneurial activity and support systems for MSME are identified as a significant challenge preventing their growth, development and competitiveness. Component 2 will provide direct technical support and financial grants to MSMEs as follows: (i) business development services (BDS) to MSMEs operating in identified high-growth sectors, which will comprise three windows: (a) a non-financial technical support to MSMEs; (b) grants for equipment; and (c) support to Value Chains and related associations; and, (ii) an Entrepreneurship Promotion and Development facility that will include the roll out of a nationwide Business Plan Competition (BPC) and relevant support services to entrepreneurs. Both facilities will be managed with support of a private service provide (SP).

24. ***Sub-component 2.1 Entrepreneurship Promotion and Development Grants (US $4m)***. Sub component 2.1 will finance the roll out of a nationwide BPC which will help aspiring and existing

entrepreneurs achieve their potential to build linkages with large investors. Among others, linkages will be strengthened by improving the suppliers' capacity to deliver quality input, facilitating bulk buying by groups, or providing key information on input supply sources. The facility will create the conditions for aspiring and existing entrepreneurs, as well as for newer firms to improve their product/services and access national and regional markets. This will be achieved through the implementation of a BPC and relevant support service as follow: (a) offering entrepreneurs financial (in the form of grants) and non-financial support services; (b) promoting the culture of entrepreneurship particularly among youth, female entrepreneurs and cooperatives; and (c) building local capacity to deliver business development services for newly created firms, and the informal sector.

25. The entrepreneurship facility will provide capacity building for entrepreneurs and new firms, or those in the early stages of activity or formalization. The assistance will start at the conceptual stage and continue until the firm is operational and has begun to reach maturity. The BPC activities will include: (i) an awareness and outreach campaign; (ii) support for the design of bankable business plans and delivery of services such as training /mentoring; (iii) attribution of seed financing to laureates and; (iv) aftercare and technical assistance to help turn new firms and projects into sustained operations.

26. The facility will rely significantly on training and mentoring to diffuse knowledge in business management (coaching & mentoring), support for the development of business skills and operationalization of new firms. The assistance will be implemented over stages covering the pre-selection, selection and aftercare of selected candidates, after which a final selection of 100 entrepreneurs will be retained to receive seed financing and technical assistance.

27. ***Sub-component 2.2 Support and Development Grants for MSMEs (US $8m).*** The grants will provide BDS and technical assistance support to approximately 200 MSMEs and up to 10 associations/cooperatives (otherwise known locally as GIEs[15]) of firms with the goal of enhancing their operational and technical capacities. The fund will include three windows as follow:

    - Window A will provide Business Development Services to MSMEs including training for management and personnel.
    - Window B will provide tangible assets such as equipment used in the production process as well as infrastructure.
    - Window C will provide technical assistance to help organize and structure identified value-chains and associations (GIE), and promote linkages with large buyers.

28. The Support and Development Fund grants will cater to micro, small and medium firms (MSMEs) and associations by providing co-financed BDS services, training, and equipment available through a matching-grant scheme and relevant technical assistance activities. Eligible activities will feature any activities that improves and sustains the productive capacity of the firms, including but not restricted to: preparation of quality business plans, improving managerial capacity, personnel and management training, improving standards and quality certification, product development, trade promotion, marketing support, and support for technology upgrading. Smaller firms will receive more basic services such as coaching/mentoring, financial training and improving accounting practices, cost

[15] *Groupement d'Intérêt Economique.*

evaluation skills as well as some marketing. Linkages will be given special emphasis -and activities managed through the fund will include fostering linkages between SMEs and big buyers to further build capacity of beneficiary SMEs and facilitate access to financial services. The incentive scheme will reflect lessons learned from the previous PADE[16] project and the challenging institutional and macro-economic environment. For instance, the subsidies coverage ratios will be larger than the previous scheme (between 95 percent to 80 percent for BDS depending on firm size, and 50 percent to 75 percent for the provision of equipment). A single private provider will implement both the MSME and Entrepreneurship facilities; it will enjoy significant fiduciary and operational autonomy (see annex 1 detailed project description.)

Component 3: Project implementation and coordination (US$3m).

29. This component will support the operating costs of the project's institutional and governance arrangements. These include facilitating the activities of the Project Steering and Technical Committee, setting up and managing a dedicated Project Management Unit (with key staff including a coordinator, a fiduciary team, technical experts on investment climate and private sector development, environmental and social safeguards, and Monitoring & Evaluation and communication specialist), facilitating stakeholder outreach and communication, and undertaking project evaluation and monitoring. The Project will be under the oversight of a Steering Committee that will include the representatives of partner ministries, the private sector (associations, value chains organizations) and the civil society. A Project Management Unit (PMU) will be placed under the direct administrative authority of the Ministry of Planning. A project pilot committee will oversee and support the preparation activities of PADE II and subsequent implementation. This will involve confirming and approving annual budget and action plans by the project implementing agency. The Project Steering Committee will also ensure coordination and adequate execution of project activities across sectoral stakeholders, and World Bank implementation support missions. A secretariat will organize periodic meetings in support of its mandate.

E. Implementation

Institutional and Implementation Arrangements

30. The proposed institutional arrangements for this project drawing from the structure developed under PADE 1, under the supervision of the Ministry of Planning, Statistics and Integration, includes the following oversight and implementing bodies: (i) a steering committee; (ii) a project management unit (iii) technical work groups and service providers for Components 1 and 2 (public, private, NGOs); and (iv) partner associations and financial institutions (banks, MFIs, guarantee institutions).

[16] An evaluation report assessing the performance of the FACP from the previous PADE 1 project has recently been finalized. Lessons are reflected in the design and implementation of the new facility. Further information on initial lessons learned from PADE I and integrated into the design of PADE II can be found in an annex at the end of this report.

31. Steering Committee: A steering committee will be officially set up before project effectiveness. It will be chaired by the Minister of Planning, Statistics and Regional Integration and will also include representatives of the Prime Minister's Office and those of key ministries (Ministry of Economy and Finance, Ministry of Tourism, Ministry of Transport, Ministry of SMEs, Ministry of Commerce, Ministry of Grands Travaux, Ministry of SEZ, private sector and civil society), public agencies (API, ADPME, PAPN), and private sector (Chamber of Commerce, UNICONGO). The Steering Committee will be responsible for the strategic direction, operational oversight, communication and overall governance of the project. It will be supported by a technical monitoring committee.

32. Project Management Unit (PMU): Project implementation will be led by a Project Management Unit (PMU) whose staff will be recruited on a competitive basis. The current PADE PMU has experience in project management acquired during the first phase of the Support Project for the Diversification of the Economy. The performance rating of the implementation of the project is considered satisfactory at the last supervision mission of October 2017. This justifies why the implementation of Phase 2 of the said project should be entrusted to the same PMU. The PMU will be strengthened to include adequate functional (coordinator, financial management, procurement, accountant, SME specialist, transport specialist, IC specialist), and geographic coverage with offices in Brazzaville and antennas in Pointe Noire and Ouesso as appropriate. Financial and accounting management and procurement will be provided by the PMU. They will be in accordance with the loan agreement, the project operations manual and the World Bank guidelines. Procurement will be in accordance with the World Bank's new procurement framework of July 2016. The project's fiduciary team will receive technical assistance from the World Bank for effective implementation of the framework. Dedicated environmental and social safeguards specialists will be hired to provide needful safeguards support during the project life cycle. Communication expert will implement the communication strategy validated by the steering committee and developed with all the stakeholders. The current implementation structure and core personnel will therefore be maintained for the most part, but will be strengthened considering the changes in scope and focused areas of interventions.

33. Technical Working Groups and service providers for Components 1 and 2: The implementation of Component 1 will be supported by Technical Working Groups (TWG) created for each DB indicator. TWGs will be in charge of identifying and formulating the reforms in the short, medium and long term. A Committee of "*Directeurs de Cabinet*" will group all the heads of staff of the ministries involved in the IC reforms. They will review the reform proposals made by the TWG from a technical point of view before transmitting them to the Interministerial Committee for the investment climate improvement. The Interministerial Committee for the investment climate improvement has been created by the decree No. 2017-42 of March 28th, 2017. It groups together the Ministers involved in the IC reforms implementation and is chaired by the Prime Ministers. The Committee will be the highest structure for IC reforms validation and implementation monitoring.

34. With regard to Component 2, a Grant Facility technical committee will be set up and co-chaired by the head of the PCU and the chamber of commerce of Pointe Noire and Brazzaville and will be composed of independent experts from the private sectors, including commercials banks, entrepreneurs, industry professionals, investors and chambers of commerce of Brazzaville and Pointe Noire. Its main task is to provide strategic oversight on the implementation of the component, review

applications, pre-select firms and finalize selection processes of eligible firms. The PMU will recruit a service provider (SP) for the implementation of activities under component 2 (grant facility and BPC for beneficiary MSMEs). To the extent possible both grant facilities will be supported by a single SP if satisfactory competency can be demonstrated in the supervision and management of both tasks. The SP will be a competitively selected private consultancy firm with its own management team composed of a coordinator and experts recruited from the private sector with experience in the provision of BDS for MSME, training, sector specific experience in the targeted industries. One key objective of this institutional arrangement will be to reduce bureaucratic delays which have plagued the former fund (FACP) and leverage international experience in this area. Procedural, governance and internal controls procedure will be designed to reduce redundant steps associated with the clearance of subsidies. In the previous scheme, the process of reimbursing eligible firms took several months. These types of issues will be addressed early on in order to avoid unnecessary and detrimental delays and ensure smooth and efficient roll out the service. Other types of activities under the management team will include promotion and marketing of the grant facility itself and initiatives designed to leverage the direct assistance provided to beneficiary firms. The same principle will apply to the Business Plan competition facility. Proceeds from the PADE II loan will finance the day to day operations of the grant facility - management team and technical team, the acquisition of material and equipment related to the operation of the management team such as the acquisition of hardware and technical support will be monitored and subject to the PMU and Bank's approvals.

35. In addition, resources will be allocated to ensure adequate monitoring and evaluation of the output and results of component 2 in order to track the following, but not limited to:

    i. Sales of beneficiary firms
    ii. No of beneficiary firms
    iii. Satisfaction survey of beneficiary firms
    iv. Improvement/ introduction of new Product
    v. Acquisition of new markets
    vi. Partnership between beneficiary firms and larger strategic buyers / investors

.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will provide technical assistance to strengthen the institutional, policy, and regulatory environment for private sector development, and mobilize direct support (financial and technical) to micro enterprises and SMEs to increase their productivity. The project focuses primarily on MSMEs mainly located in the urban and peri-urban agglomerations of Pointe Noire and Brazzaville (which boast the great majority of private sector enterprises in the country). Very few MSMES are expected to be targeted in other agglomerations, situated along the PN-Brazzaville-Ouesso corridor.

G. Environmental and Social Safeguards Specialists on the Team

Lucienne M. M'Baipor, Social Safeguards Specialist
Grace Muhimpundu, Social Safeguards Specialist
Aurelie Marie Simone Monique Rossignol, Environmental Safeguards Specialist
Joelle Nkombela Mukungu, Environmental Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	Activities to be financed under Component 2 (Direct Support to MSMEs in sectors such as transport, agro-business, agroforestry, services, tourism and manufacturing) may have potential negative impacts on the environment and communities. Even though the project is expecting to support initiatives mainly in the urban and peri-urban areas of Brazzaville and Pointe Noire, the exact location of activities is not yet known. An Environmental and Social Management Framework (ESMF) has been prepared during project preparation, consulted upon and disclosed in-country before prior to appraisal. The ESMF provides guidance on managing environmental and social risks related to the implementation of activities, with a particular attention to risk related to gender based violence, labor influx, children work, and occupational health and safety.
Natural Habitats OP/BP 4.04	No	The project does not involve or affect natural habitats
Forests OP/BP 4.36	No	The project does not involve or affect natural forested area or plantation.
Pest Management OP 4.09	Yes	The project will provide a grant-facility for MSMEs in sectors such as transport, agro-business, agroforestry, services, tourism and manufacturing.) In anticipation of the use of pesticides and other agro-chemical products by SMEs, an Integrated Pest Management Plan (IPMP) has been prepared to ensure that environmentally friendly methods for pest control are applied, such as biological control, cultural practices, and the development and use of

		varieties that are pest and disease resistant or tolerant.
Physical Cultural Resources OP/BP 4.11	Yes	In anticipation of the potential impacts on Physical Cultural Resources during project implementation, in particular, during activities related to agroforestry and agri-business, physical cultural resources is integrally part of the ESMF. “Chance finds” should be part of every civil work contract, even where risks are deemed low.
Indigenous Peoples OP/BP 4.10	No	The policy will not be triggered as the project will not intervene in zones with IPs.
Involuntary Resettlement OP/BP 4.12	Yes	The activities planned under Component II, Direct Support to MSMEs, which include agroforestry, agro-business, services and manufacturing, may indirectly induce land acquisition. However, due to low population density in rural areas of the Republic of Congo however, the risk of physical resettlement is minimal, although there may be potential economic displacement or loss of assets. The project prepared a Resettlement Policy Framework (RPF) as the specific areas are not known. The RPF outlines the overarching framework through which potential resettlement issues will be addressed. It will guides the preparation and implementation of site-specific Resettlement Action Plans (RAPs) for each individual MSME grants that trigger Involuntary Resettlement (OP 4.12). The RPF was prepared, consulted upon, and disclosed in country prior to appraisal.
Safety of Dams OP/BP 4.37	No	The Project will not finance any dam construction or rehabilitation.
Projects on International Waterways OP/BP 7.50	No	None of the intervention sites concern International Waterways
Projects in Disputed Areas OP/BP 7.60	No	None of the intervention sites are in disputed areas.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Activities to be financed under Component II (direct support to SMEs in transport, agro-business, agroforestry, services and manufacturing) may have potential negative impacts on the environment and communities. Among sectors with growth potential that are going to be promoted in entrepreneurship and competitiveness, there is agri-business and agro-forestry -- with potential use of pesticides and other agro-chemical products by SMEs.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
The activities planned under Component II may indirectly induce land acquisition. Due to low population density in rural areas of the Republic of Congo however, the risk of physical resettlement is minimal, although there may be potential economic displacement or loss of assets.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
The Borrower prepared an Environmental and Social Management Framework (ESMF), which upon consultations has been published in the country prior to appraisal. An Integrated Pest Management Plan (IPMP) was prepared and published to ensure that environmentally friendly methods for pest control are applied, such as biological control, cultural practices, and the development and use of varieties that are pest and disease resistant or tolerant. As the specific sites of MSME activities are not yet known, the borrower prepared and published a Resettlement Policy Framework (RPF) which outlines the overarching framework through which potential resettlement issues will be addressed. It will also guide the preparation and implementation of site-specific Resettlement Action Plans (RAPs) for each individual MSME grants that trigger Involuntary Resettlement (OP 4.12). The RPF has been prepared, consulted upon, and disclosed in country prior to appraisal.

The management of environmental and social issues in the Republic of Congo is overseen by the Ministry of Forest Economy and Sustainable Development (MEFDD). The Ministry is in charge the elaboration and implementation of environmental policies, as well as providing general guidance on Environmental and Social Impact Assessments (ESIAs). However, the borrower capacity, both at the national and municipal level, to adequately implement the safeguard measures is considered weak. This is due to lack of experts in environmental and social safeguards. As it has been identified through the Bank safeguards porfolio review, there is a need for capacity building for the experts in the project implementation units and key central and sector ministries.

The implementation of this project will be under the Ministry of Plan with the support of a dedicated project implementation unit (PIU). The ESMF provides an assessment of the existing institutional capacity and identifies required capacity building measures that will be supported by the project. One Environmental Specialist, and one Social Safeguard specialist will be recruited by the PIU to help oversee and ensure that the safeguards due diligence are implemented. The environmental and social safeguards specialists will be hired prior to the project effectiveness in order to facilitate their understanding of relevant project activities and procedures, and ensure that required environmental and social safeguards are applied as of project mobilization. A Bank safeguards specialist based in country will be able to facilitate this process by providing guidance to the PIU with regards the recruitment of qualified social and environmental specialists as well as to provide training to the PIU and the recruited Environmental and Social Specialists as needed. The Safeguards Specialist based in country will ensure that relevant aspects of the CGES, ESMF and IPMP frameworks will be adequately reflected in the project operations' manual.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
To ensure compliance with the safeguard policies, the borrower has prepared and consulted upon an ESMF, IPMP, and RPF. They have been validated by the Bank and published in-country and in the Bank External Web Site before project

appraisal. The ESMF, IPMP, and RPF provide essential guidance to be followed by the borrower before and during project implementation to ensure adequate monitoring and reporting of the safeguards requirements.

Nonetheless, one environmental safeguards specialist and one social safeguards specialist will be hired to provide needful safeguards support during the project life cycle. During the implementation of this operation, further steps will be taken to strengthen the Government's overall technical capacity on safeguards TA and training. All the safeguards instruments will be considered in the development of the PIM, which will guide project implementation, as well as serve as a due-diligence tool with which the borrower has to comply.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
10-Jan-2018	10-Apr-2018	

"In country" Disclosure

Congo, Republic of
10-Apr-2018

Comments

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank	Date of submission for disclosure
10-Jan-2018	10-Apr-2018

"In country" Disclosure

Congo, Republic of
10-Apr-2018

Comments

Pest Management Plan

Was the document disclosed prior to appraisal?	Date of receipt by the Bank	Date of submission for disclosure
Yes	12-Jan-2018	10-Apr-2018

"In country" Disclosure
Congo, Republic of
10-Apr-2018

Comments

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
No

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?
Yes

Is a separate PMP required?
Yes

If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?
Yes

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?
Yes

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?
Yes

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

CONTACT POINT

World Bank

Lorenzo Bertolini
Senior Private Sector Specialist

Borrower/Client/Recipient

Republic of Congo

Implementing Agencies

Ministry of Plan, Statistics and Regional Integration
Benoit Ngayou
Coordinator PADE
bengayou@yahoo.fr

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Lorenzo Bertolini

Approved By

Safeguards Advisor:	Maman-Sani Issa	12-Apr-2018
Practice Manager/Manager:	Rashmi Shankar	12-Apr-2018
Country Director:	Djibrilla Adamou Issa	16-Apr-2018