I. Introduction and Context

Country Context

The Democratic Republic of Congo (DRC) is emerging from post-conflict status, but progress is slow and uneven. The civil war ended in 2002 having destroyed the country’s infrastructure and social fabric. National Parliamentary and Presidential Elections were held in 2006 and 2011, the latter marred by violence and contestations of the results. While progress has been made towards peace, armed conflicts continue to simmer in the East of the country. Enormous challenges remain, with over 70 percent of the population living in poverty, unemployment rates exceeding 45 percent, and all the MDG goals set for 2015 projected to be missed. In addition, state institutions remain weak and implementation capacity for much needed reforms is insufficient.

The business environment in DRC is one of the worst in the world. The 2014 Doing Business Report ranks the DRC among the most difficult countries to do business in the world, with a rating of 183 out of 189 countries studied, and consistently poor comparative performance across all
indicators. The country faces a major challenge in youth employment. More than 70% of those aged 15 to 24 have no jobs, particularly in urban areas, and there is no viable policy yet to deal with this problem. Shortage of jobs causes growth of the informal sector and, due to weak supportive structures, many youth to turn to a life of crime. In addition, majority of women, despite being main providers to their households in most of the country and especially in rural areas, are not yet part of the private sector development effort due to customary laws that force them to get their husband’s authorization before entering into specific activities such as signing contracts, purchasing property, incorporating businesses or filing lawsuits.

**Sectoral and Institutional Context**

DRC has been left vulnerable to global economic shocks and concerns about food crisis due to a non-diversified economy dependent largely on primary extractive industries, where virtually all processed food products are imported despite ample production of primary agricultural goods, has left DRC. However, despite a destabilizing military conflict in the eastern regions, DRC’s economy is currently recovering at high rates due to improvements in political and economic governance since the 2011 elections, as well as the strong commitment to reforms in private sector development and public administration. The financial sector, among the least developed in Sub-Saharan Africa, has recovered from financial crisis in 2008-10 and been recapitalized. And yet, while domestic credit to the private sector has been growing since 2006 levels of US$170 million to current $1.4 billion, less than 5 percent of the population has a bank account in a country of over 70 million inhabitants, compared to 24 percent in Sub-Saharan Africa. The total assets of the banking sector amount to over 40 percent of GDP (US$3.6 billion), and are about 90 percent dollarized.

Continuing uncertainties about the business environment and economy restrain banks from lending to micro, small and medium-sized enterprises (MSMEs) at affordable terms to all but the best established enterprises with highly securitized financing proposals. Legacy of lax supervision enforcement by the Central Bank of Congo (BCC), albeit improving since 2011 with IMF assistance, has also raised caution among investors, creditors, and development partners when contemplating financial intermediation using existing institutions. Consequently, while access to finance is improving, it remains one of the major constraints for private sector development.

It is commonly agreed that the main source of future employment growth and competitiveness will come from MSMEs in the agriculture sector, and especially through greater value addition from processing and marketing of the final products. However, potential growth is constrained by lack of catalytic finance to entrepreneurs and business that are unable to implement their projects due to mismatch between their needs for longer term, cheaper capital and what is currently available in the Congolese financial system. Furthermore, lack of skilled lending services and innovativeness among Congolese financial institutions when it comes to financing what they perceive to be high risk ventures in agriculture, combined with their reticence to deal with unfamiliar borrowers or unsecured transactions, cripples the achievement of potentially much higher rate of economic growth and employment in the country. Lagging reforms of the insurance sector, and introduction of alternative methods of financing, such as leasing, factoring, hire-purchase, and the lack of functional institutions dedicated to development finance, housing finance and agriculture finance, also cause drag on capacity of financing the most promising drivers of economic growth- the agriculture value chains.

The Bank has provided assistance in improving economic development and high rates of economic growth through projects such as the Private Sector Development and Competitiveness Project.
(PSDCP), whose focus on fundamental institutional reforms has been instrumental in delivering improvements in enterprise and banking governance, investment climate, bank and microfinance regulation, and financial payments infrastructure. Subsequently, the Bank and partners have turned to launching initiatives to promote employment growth through private sector competitiveness, focusing largely on assistance to the agribusiness sector, and in particular on the development of value chains— for which specialized and innovative forms of finance are still lacking in DRC. Among these are the Western Growth Poles Project, the Agriculture Development Project (PARSSA), and a number of similar initiatives currently under preparation. In addition to addressing existing unmet needs from a growing economy, the proposed project will support these investment operations, by capitalizing and expanding on the achievements of the PSDCP to strengthen the financial sector platform for enabling the financing of MSMEs, especially those involved in competitive value chains.

**Relationship to CAS**

This project is an integral part of the Bank’s FY13-FY16 Country Assistance Strategy (CAS) and directly contributes to Strategic Objective Two, to “boost competitiveness to accelerate private-sector-led growth and job creation”.

### II. Proposed Development Objective(s)

**Proposed Development Objective(s) (From PCN)**

The project development objective is to increase access to financial services to MSMEs development across value chains.

**Key Results (From PCN)**

The PDOs will be achieved through (i) payment system modernization, (ii) scaling up of microfinance, (iii) value chains finance to support SMEs development, and (iii) promotion of financial inclusiveness and gender balance.

The measurable outcome indicators include: (a) volume of transactions settlement/time to settle transactions; (ii) expansion of MFI sector to underserved and rural regions of DRC; (iii) increase in total domestic credit to MSMEs, particularly in agricultural value chains including rice, cassava and palm oil (as baseline model value chains); and (iv) increased formal participation of women in entrepreneurship.

### III. Preliminary Description

**Concept Description**

The financial system of the DRC has been expanding from a very low base since 2004 and continues to improve and modernize. The Bank is currently engaged in the modernization of the DRC National Payment System (NPS) and is financing the microfinance promotion fund along with technical assistance, including the strengthening of the regulatory capacity, through the ongoing Private Sector Development and Competitiveness Project (PSDCP). However, access to finance remains difficult, in particular for SMEs along the integrated value chains. The project aims to supplement and complete the modernization of the NPS and support the implementation of a National Payments Switch for interoperability of electronic funds transfer across the economy, with connectivity to mobile forms of payment and banking as well as a credit information registry. In addition, the project will provide sustainable and inclusive value chain financing solutions to support MSMEs development, and continue to strengthen the microfinance sector by expanding
access to MFIs to secondary cities and underserved areas, through the use of financial intermediary institutions, while providing financial and technical support to the regulatory authority at the BCC, with a view of achieving greater inclusiveness.

IV. Safeguard Policies that might apply

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td></td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td></td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td></td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td></td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td></td>
<td>✗</td>
</tr>
</tbody>
</table>

V. Financing (in USD Million)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost:</td>
<td>30.00</td>
</tr>
<tr>
<td>Total Bank Financing:</td>
<td>30.00</td>
</tr>
<tr>
<td>Financing Gap:</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Financing Source</strong></td>
<td></td>
</tr>
<tr>
<td>BORROWER/RECIPIENT</td>
<td>0.00</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30.00</td>
</tr>
</tbody>
</table>

VI. Contact point

**World Bank**

Contact: Steven R. Dimitriyev  
Title: Senior Private Sector Development Specialist  
Tel: 473-7327  
Email: sdimitriyev@worldbank.org

**Borrower/Client/Recipient**

Name: Ministry of Finance  
Contact:  
Title:  
Tel:  
Email:  

Implementing Agencies
Name: Central Bank of Congo
Contact:
Title:
Tel:
Email:

VII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop