

Jobs Study:

THE CENTRAL AFRICA SME FUND, DEMOCRATIC REPUBLIC OF CONGO

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Key results (between 2012 and 2017)

CASF'S impact in DRC

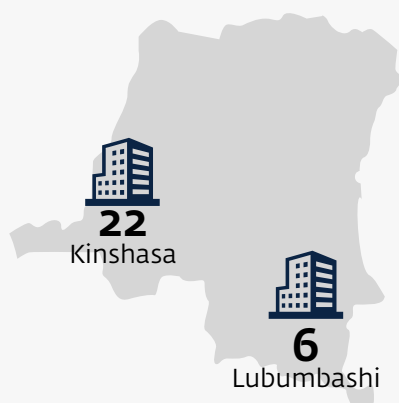
Investment activity

PORTFOLIO OVERVIEW

\$15.8m	\$1.0m
Invested	TA disbursed



SMES IN PORTFOLIO



RESULTS

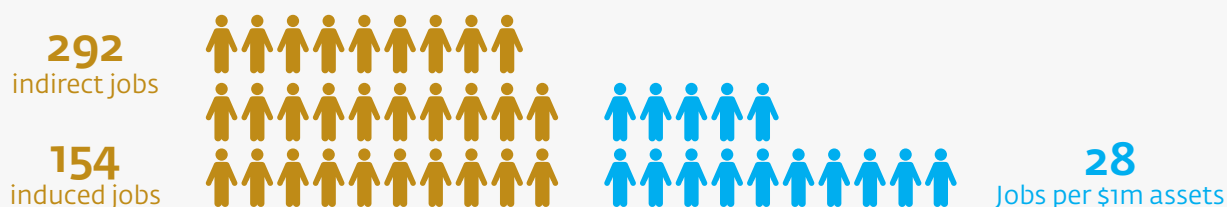
2017		△ since YOI (Nominal)
\$51.7m	Revenues	+20%
\$9.1m	EBITDA	-7%
958	Direct Jobs	+45%



Localness of value chains



Employment effects



Fragility Linkages

FRAGILITY SMES

-\$8.5m	=	18%
revenues		of total
-330	=	34%
direct & indirect jobs		of total

SMES → FRAGILITY

400	=	60%
revenues		of total
\$7,420	=	2.8x
median annual salary		average formal sector



Executive summary

The Small and Medium Enterprise (SME) Ventures Program of the International Finance Corporation (IFC) invests in funds targeting International Development Association (IDA) fragile and frontier countries where acute development needs persist. The Central Africa SME Fund (CASF) is one of the funds to which IFC has committed risk capital and technical assistance (TA). CASF has a fund size of \$19.2 million and provides private equity, long-term debt and management expertise to SMEs in the Democratic Republic of Congo (DRC) and the Central African Republic (CAR).

This study gives insight into the employment effects of CASF's investments in SMEs in the fragile state context of the DRC. The study is based on a sample of 11 portfolio SMEs located in Kinshasa. Results have been obtained by combining data from the fund's management information system (MIS), interviews, and statistical databases.

The economic and political climate in the DRC is challenging

The DRC has a history of conflict and violence, and is considered one of the most fragile countries in the world, ranking just after CAR, Syria, Yemen, Somalia, and South Sudan on the Fragile States Index. Between 2010 and 2015, the country experienced steady growth (above 6% annually), largely due to the global demand for natural resources available in the DRC (e.g. copper and cobalt). However, the DRC's economy is currently decelerating, driven by a drop in commodity prices and increased political tensions.

Primary sector activities (i.e. agriculture and extractives) account for 43% of the DRC's GDP and informality is ubiquitous. The private sector consists predominantly of micro and small businesses. These companies have strong potential to create jobs and contribute to economic growth, but growth rates have been sluggish. In the World Bank's *Doing Business 2018* report, the DRC ranked 182nd out of 190 countries. Firms face many hurdles to doing business, including inconsistent energy availability, lack of access to credit and financing, political instability, high informality, corruption, deficient administrative services, and poor infrastructure for production and transport.

Despite the difficult business environment, CASF managed to invest in 28 local SMEs

CASF has been operating in the DRC since 2010. The fund has invested at a steady pace in a variety of sectors, mostly in Kinshasa-based companies. It has disbursed \$15.8 million (97% debt) to 30 entities in the DRC, of which 28 are SMEs and two personal loans. The fund has carried out one partial and two full exits.

CASF offers SMEs more favourable financing conditions than banks by providing a grace period, longer loan tenures, and lower interest rates. The fund reaches mainly small companies and helps these to professionalise. To assist CASF with this, IFC set up a TA grant to build the capacity of XSML, a fund manager investing in

frontier markets in Central and East Africa, and portfolio SMEs. and portfolio SMEs. The most important focus areas of the TA for SMEs were technical and operational improvements and investment preparation.

Since the year of investment, 12 of the 28 SMEs have increased their revenues and eight of these SMEs grew both their revenues and earnings before interest, tax, depreciation, and amortisation (EBITDA). The top five best-performing SMEs had the following in common: they provided their services at international standards for reasonable prices targeting the Congolese middle class, they are located in close proximity to the fund manager in Kinshasa, and they received TA funding. The remaining SMEs showed either stable revenues (1 SME), a decline in revenues (5 SMEs), or data were insufficient to assess results over time (10 SMEs). As of June 2017, 15 of the 30 entities in the DRC (28 SMEs and 2 personal loans) that received funding were over 30 days in accounts receivable (A/R). In 2017, total direct jobs at the 28 portfolio SMEs added up to 958 full-time workers.

Local sourcing by SMEs is hampered by the DRC's limited industrial base

About 42% of sourcing expenditures by the 11 sample SMEs relate to local products, generating \$6 million in revenues for other Congolese businesses. SMEs source almost all services locally, and reap the benefits of the DRC's large agricultural sector. However, most industrial goods need to be imported. Key hurdles to local sourcing are a lack of availability, low product quality, and lack of scale. The significant imports generate additional supply chain challenges for SMEs such as currency risk, long lead times and reduced supply chain control.

On top of the 958 direct jobs supported by the 28 portfolio SMEs, the 11 sample SMEs supported about 292 indirect jobs and 154 induced jobs

In 2017, sample SMEs supported about 292 indirect jobs at suppliers, mainly in the food and beverage, and services sectors. Another 154 jobs were related to the spending of salaries by employees of the sample SMEs and their suppliers. Indirect and induced jobs significantly increased since CASF's year of investment. When comparing jobs supported per sample SME with the total assets of these companies, we found that SMEs supported about 28 jobs per million dollars of capital.

The high level of fragility in the DRC poses challenges to investors and SMEs

Investors need to tailor their investment approach to the fragile state context of the DRC: CASF excludes sectors with heavy government involvement, targets companies with relatively simple, controllable value chains and keeps strong oversight.

SMEs are severely hampered by the increased political instability following the postponed elections. The 11 sample SMEs indicated that it costs them up to \$8.5 million annually, equal to 18% of their revenues. The revenue loss means that fewer people are needed in operations and fewer inputs are procured from suppliers, leading to an estimated 330 fewer direct and indirect jobs supported, equal to 34% of total jobs supported by sample SMEs. Furthermore, tax harassment and corruption are pervasive, while illicit trade and unfair competition pose serious problems as well.

Results are inconclusive on the extent to which CASF SMEs affected the drivers of conflict: jobs at SMEs seem decent but might have substituted other jobs, and working conditions in SME supply chains are uncertain

Job creation could positively influence the drivers of conflict by reducing grievances related to under- or unemployment and/or increasing opportunity costs of conflict. In contrast, job substitution, or deplorable working conditions could adversely affect the drivers of conflict.

Results on the extent to which CASF SMEs positively affected grievances and opportunity costs of conflict remain inconclusive. Sample SMEs seem to provide decent jobs, with wages almost three times above the formal sector average, while other working conditions meet or exceed national standards as well. However, jobs predominantly benefit relatively stable areas, and the labour status of most employees interviewed did not change. Furthermore, it is likely that part of the jobs created at sample SMEs substituted jobs at companies outside their value chains. Moreover, working conditions in the value chains of SMEs, in particular for agency workers, are uncertain.

Investing into businesses owned by ethnic Congolese could reduce grievances among the Congolese community of feeling excluded from the economic system in their country. This is of crucial importance in developing countries like the DRC where investors tend to allocate a significant share of their capital in companies with foreign ownership. Of the 28 SMEs, 17 were owned by ethnic Congolese citizens. These entrepreneurs set a positive example for the Congolese community, showing that it is possible to get access to finance and start your own business.

Conclusions and recommendations

This study shows there is a viable SME investment opportunity in fragile state environments, if a basic level of trust exists between business people on which to build relationships, and if fund managers tailor their investment approaches to the market characteristics.

There are separate roles that CASF and IFC can play to materialise these opportunities. CASF, as an investor, proves that investing in these markets can be done. IFC, as a development finance institution, supports investors venturing into this environment. The report presents a number of recommendations for CASF and IFC:

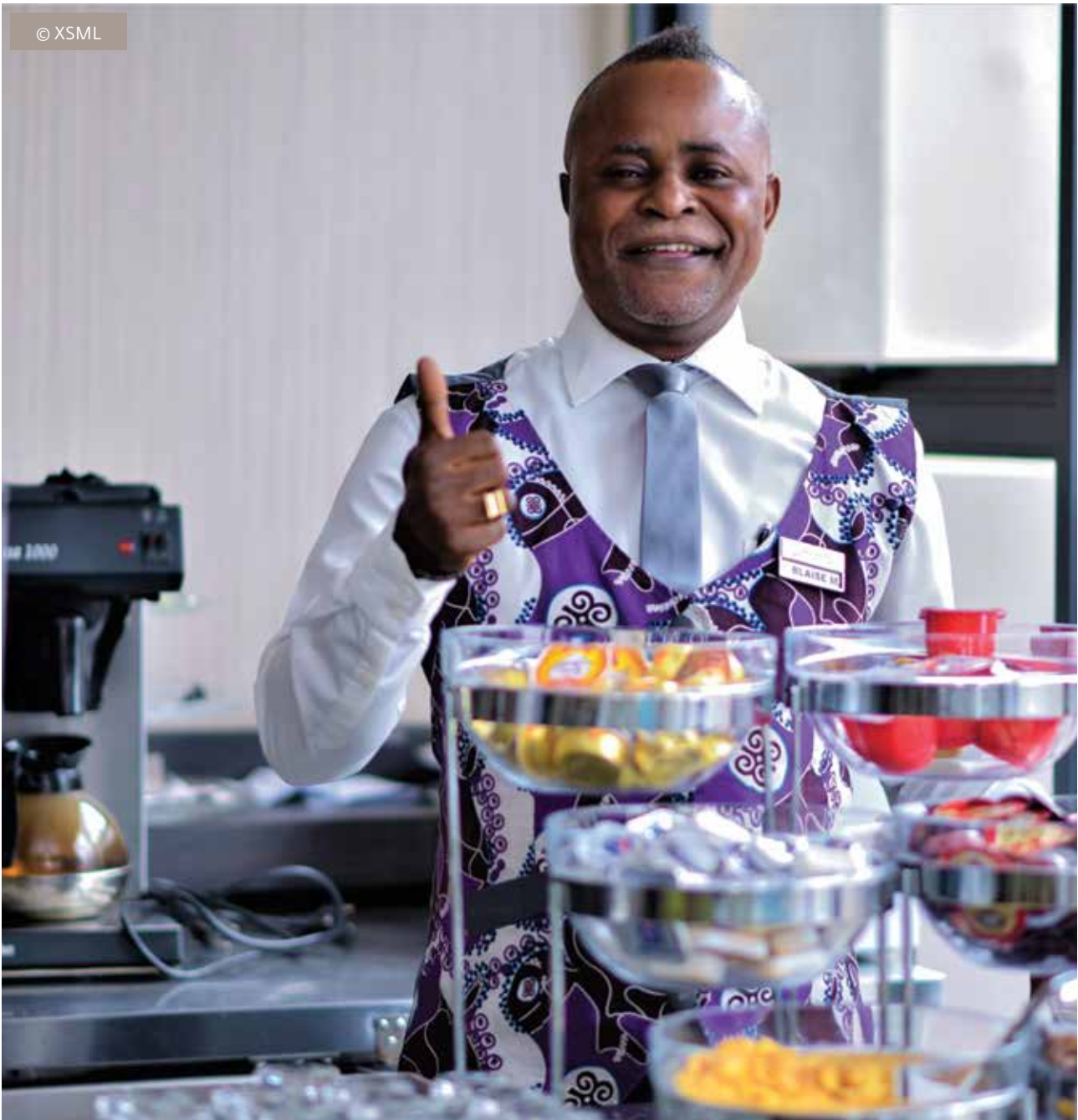
RECOMMENDATIONS FOR CASF

- CASF could enhance synergies between value chains of portfolio SMEs by (i) exploring whether local and foreign goods and services common to multiple SMEs could be sourced together; and by (ii) building capacity of, or investing in, suppliers of local and foreign goods and services linked to multiple SMEs.
- CASF could assess risks related to working conditions for agency workers, and may want to request its portfolio SMEs to collaborate with an agency that meets a minimum standard.
- To mitigate risks related to fragility and enhance its positive effects, CASF could explore investing in less stable areas, into market research agencies generating data that can be used in investment decision-making, and into companies targeting the growing market segments.

RECOMMENDATIONS FOR IFC

- IFC could improve local supply in the DRC, particularly by developing the local manufacturing sector, and by investing into quality improvements (TA for skills development) and availability (financing for production). Furthermore, IFC could unlock other private sector capital by developing risk mitigation instruments for manufacturing investments.
- IFC could consider collaborating with market players like authorities and sector associations to improve the working conditions at agencies, and investing in agencies that show best practices.
- IFC could look for opportunities, together with partners, to invest in the more unstable, rural markets where jobs could be provided to people who are now either unemployed or employed under poor working conditions.

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1. Introduction

1.1 Background

For small and medium enterprises operating in the DRC, access to finance is a challenge which hampers their growth and ability to generate new jobs.¹ IFC is tackling this challenge through its SME Ventures programme. It has invested in five SME funds in six countries, including the DRC.

SME Ventures provides both risk capital and TA to entrepreneurs and fund managers in the world's most challenging markets. The need for risk capital is enormous in fragile and frontier countries where acute development needs persist, often compounded by the devastating effects of conflict. SMEs in these countries have the potential to drive much-needed job creation and economic growth – but they have poor access to the capital they need to thrive. They also face other challenges, such as a lack of management skills or industry knowledge.²

XSML is an independent private equity firm, founded in 2008, that seeks to bridge the gap between investors interested in entering emerging markets and SMEs seeking capital. XSML currently has two funds under management: the Central Africa SME Fund and the African Rivers Fund (ARF). Between the two funds, total assets under management are \$69 million. CASF (vintage year 2010) was XSML's first fund under management and has a fund size of \$19.2 million. CASF's Limited Partners are IFC (\$12.5 million), Dutch Development Bank FMO (\$5 million) and the Lundin Foundation (\$1.5 million).³ CASF provides private equity, long-term debt and management expertise to SMEs lacking financing in the DRC and CAR. To date, \$16.7 million, or 87%, of committed capital has been invested and CASF has a total of 33 entities in portfolio, of which 30 are located in the DRC and three in the CAR.

1.2 Objective

The objective of the study is to provide insight into the employment effects of CASF's investments in SMEs in the fragile state context of the DRC. More specifically, the study aims to generate insight into:

- The localness of value chains of CASF SMEs
- The indirect and induced jobs associated with the local value chains of CASF SMEs
- The interplay between the high level of fragility in the DRC and CASF's activities.

¹ World Bank Group defines SMEs as registered businesses with fewer than 300 employees. See IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction. January, 2013.

² SME Ventures, www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Funds/Priorities/SME+Ventures/

³ IFC Implementation Plan SME Ventures – CASF & ARF. July 25, 2016.

1.3 Scope

This study uses a case-study approach. We selected 11 SMEs ('sample SMEs') out of the 33 entities in CASF's portfolio. Table 1 provides an overview of these sample SMEs, while full company profiles can be found in the Company Profiles booklet (separate document). To select the SMEs we implemented the following criteria:

1. **Location of entities in the DRC.** The scope of the study is limited to the DRC. This reduced the number of possible entities that could be included in the study from 33 to 30.
2. **SME:** The study focuses on the value chains and related employment effects of SMEs. Personal loans have therefore been excluded, reducing the number of companies from 30 to 28.
3. **Location of SMEs in Kinshasa.** Companies outside Kinshasa could not be reached for logistical reasons such as poor roads and a short time frame. Moreover, the deteriorating security situation limited travel within the DRC. This narrowed down the number of possible companies from 28 to 21.
4. **Good working relationship between XSML and the SMEs, and willingness to cooperate.** The study methodology required collaboration from SME owners, and their staff and suppliers. XSML indicated which companies it considered willing to cooperate. XSML excluded companies (significantly) overdue with loan repayments, as well as a partially exited company, and a personal loan. This brought the number of suitable companies down from 21 to 11.

Due to the limited number of observations, our learnings are company-specific and cannot be generalized to sectoral level. Names of companies are known to the researchers and IFC, but anonymised in this report for reasons of confidentiality.

TABLE 1: LIST OF SAMPLE COMPANIES

SECTOR	COMPANY NAME	DESCRIPTION
HOSPITALITY SERVICES	Hotel A	Hotel offering affordable hospitality services at international standards
	Restaurant A	Italian restaurant with a good reputation for affordable, high-quality food
	Restaurant B	Chain restaurant that serves local Congolese cuisine and baked goods, caters, and hosts conferences, seminars and workshops in the restaurant's party hall
HOUSING SERVICES	Property manager A	Real estate business, and importer of Vlisco fabrics (side business)
TRANSPORT SERVICES	Transporter A	Transport and logistics company providing road transport
	Transporter B	Transport and logistics company providing both river and road transport.
IMPORTING SERVICES	Consumables trader A	Importer and distributor of fast-moving consumer goods brands like Mars and Puratos (bakery products)
	Fuel trader A	Independent fuel distribution company
OTHER SERVICES	Hospital A	Private hospital providing high-quality healthcare at affordable prices
	Call centre A	Professional call centre
	Print shop A	Modern digital printing company

1.4 Structure of report

The structure of this report is as follows:

- Chapter 2 discusses the study's approach, data sources and limitations
- Chapter 3 introduces the macro-economic context of the DRC, as well as CASF and its portfolio
- Chapter 4 presents the results of the value chain analysis of sample SMEs
- Chapter 5 provides insights into indirect and induced jobs related to sample SMEs
- Chapter 6 discusses how fragility in the DRC affects CASF's activities, and vice versa
- Chapter 7 presents the study's conclusions and recommendations.

The report also has several Annexes which provide more detailed information on our methodology and results.

For detailed information on the sample SMEs and their value chains, we refer to the Company Profiles booklet, which is submitted separately.



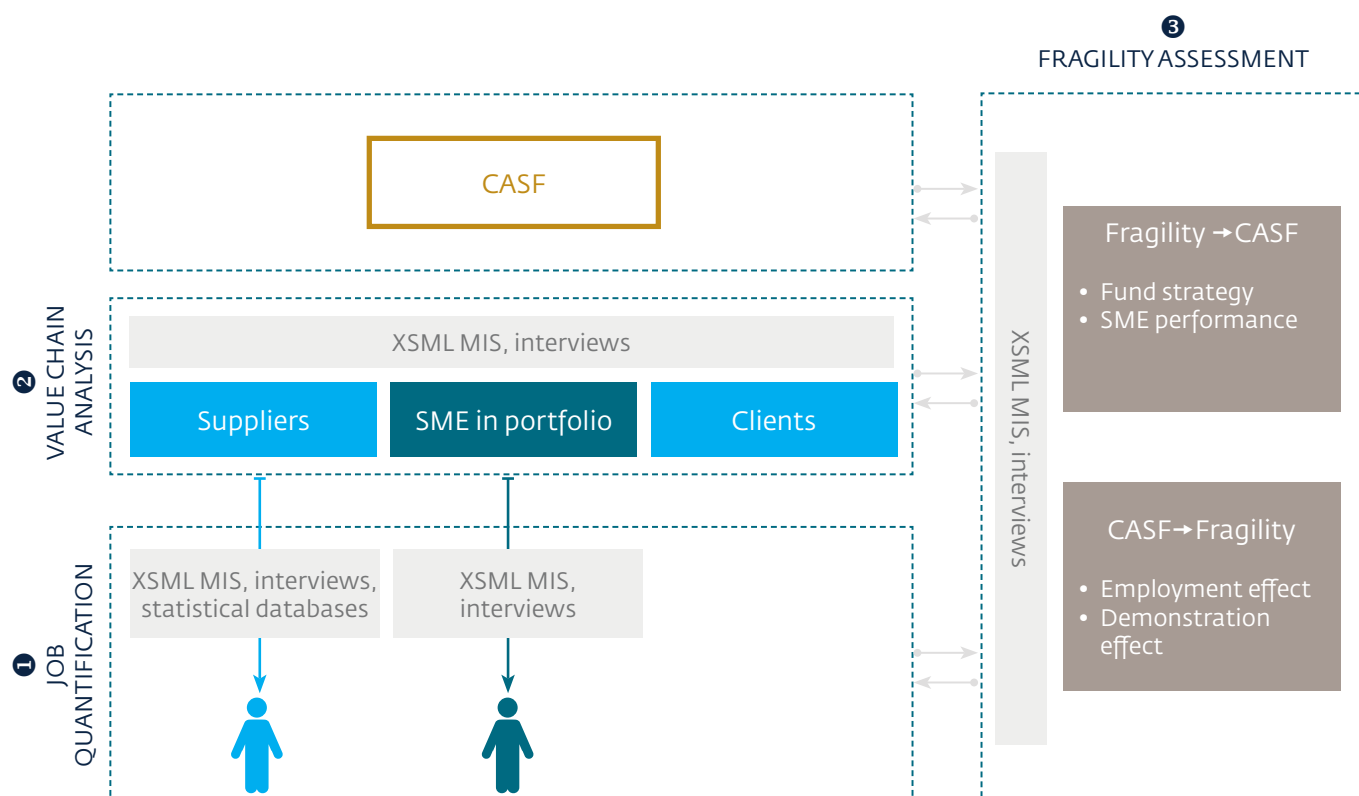
2. Methodology

Exhibit 1 below summarizes the approach of the study. The next sections describe each step of the approach in more detail, as well as the data sources and limitations of the study.

2.1 Value chain analysis

We analysed the sourcing practices of sample SMEs and developed 'value chain maps' depicting these practices. Furthermore we assessed local sourcing opportunities and constraints.

EXHIBIT 1: **STUDY APPROACH**



Value chain maps

Value chain maps graphically illustrate the core products and financial flows related to a company. The maps depict the (expenses on) key products that sample SMEs source from their suppliers, as well as the (revenues from) key products they deliver to clients. The maps distinguish between local and imported products.

We carried out the following steps:

1 — Categorising financial flows related to sample SMEs

XSML shared the financial (profit and loss) statements of sample SMEs. Based on the description of the line items in these financial statements, we categorised the revenues of SMEs into revenues per key client or product type (depending on the type of company). Furthermore, we categorised SME expenses into supplier expenditures and value-added categories (i.e. salaries, taxes, and net profits). Source: MIS XSML (financial statements)

2 — Analysing expenses on local and imported inputs

We asked sample SMEs to break down their supplier expenditures into key product categories, and to indicate whether these were local or imported products. We summarized the key local and imported product categories in value chain maps for each of the sample SMEs. Source: interviews (sample SMEs).

3 — Assessing hurdles and opportunities in sample SMEs' value chains

We discussed key hurdles to local sourcing and importing, and opportunities to increase local sourcing with sample SMEs. Source: interviews (sample SMEs)

4 — Mapping linkages between different sample SME value chains

We asked sample SMEs to provide a list of top 10 local and foreign suppliers and clients. Subsequently we mapped linkages between different sample SME value chains, and between sample SMEs and economic sectors in the DRC and abroad. Sources: interviews (sample SMEs).



2.2 Job quantification

We quantified the indirect and induced jobs supported by sample SMEs in 2017, and the change in these jobs between the Year of Investment (YOI) and 2017.

Definitions

Indirect jobs: full-time employment at the direct (and indirect) suppliers of the portfolio SME, related to the portfolio SME's activities.

Induced jobs: full-time employment related to the spending of salaries earned by employees of the portfolio SME and its suppliers.

Jobs supported: full-time jobs during any given period of time (e.g. the last full year for which data are available), related to the portfolio SME's activities.

Jobs change supported: the change in full-time jobs during any given period of time compared to the baseline (e.g. current jobs compared to jobs at the time of investment), related to the portfolio SME's activities.

INDIRECT JOBS

We quantified indirect jobs by combining local supplier expenditures of sample SMEs (i.e. the revenues of the supplier related to the sample SME) and labour productivity ratios (LPRs). LPRs depict the revenues at a company generated per employee.

Labour Productivity Ratios

LPRs used in this study are based on:

- **Actual company data ('company LPRs'):** total revenues (i.e. output) divided by total full-time employees of a company. Source: MIS XSML, interviews (sample SMEs and value chain partners of sample SMEs).
- **National statistics ('statistics LPRs'):** total output divided by total employment per economic sector in the DRC. Source: statistical databases (BCC and INS).

DERIVING LPRS

For a few suppliers we could develop company LPRs based on actual data provided by sample SMEs (and verified with XSML investment officers and suppliers during interviews).

However, for the majority of suppliers we could not develop an LPR based on actual data. For expenses related to these suppliers, we developed proxy LPRs per product category. We applied the following rules to derive the proxies:

- If multiple company LPRs were available for the product category, we took the average of these ratios

- If one company LPR was available for the product category, we took this single ratio
- If there were no company LPRs available for the product category, we took the statistics LPR (for industry products only).

We preferred company LPRs over statistics LPRs as these are less aggregated and based on companies in Kinshasa instead of on companies throughout the country.

QUANTIFYING INDIRECT JOBS

- **Indirect jobs supported in 2017:** we multiplied local SME expenses in 2017 per supplier and product category (as identified in the value chain analysis; see the previous section) by their corresponding company and proxy LPRs.
- **Change in indirect jobs supported between the YOI and 2017:** we first calculated the percentage change in SME revenues between 2017 and the YOI based on information from XSML's systems. Subsequently we applied this percentage change to the local SME expenses per supplier and product category in 2017, assuming the share of local sourcing by SMEs remained stable over time. Finally, we multiplied the change in local SME expenses per supplier and product category with their corresponding company and proxy LPRs.

INDUCED JOBS

We quantified induced jobs by combining direct and indirect salary payments related to sample SMEs (i.e. the revenues of local companies related to the sample SME) and LPRs.

ESTIMATING NET SALARIES RELATED TO SAMPLE SMES

We quantified direct and indirect salary payments related to sample SMEs:

- **Direct salaries:** net salary payments reported by sample SMEs. Source: MIS XSML.
- **Indirect salaries:** from national statistics we could derive for each product category the share of revenues companies pay on average on salaries. Subsequently we multiplied these percentages with the local expenses of SMEs per product category. Source: statistical databases (GTAP).

ASSESSING NET SALARY EXPENSES PER PRODUCT CATEGORY

From national statistics we could derive the spending pattern of an average household in the DRC. We multiplied the percentages households spend on each key product category by the net salaries related to sample SMEs. Source: statistical databases (GTAP)

QUANTIFYING INDUCED JOBS

- **Induced jobs supported in 2017:** we multiplied total salary expenses per product category in 2017 with the proxy LPRs for each product category (see the previous section).
- **Change in induced jobs supported between the YOI and 2017:** we first calculated the percentage change in salary expenses between 2017 and the YOI based on the change in jobs taken from XSML's systems. Subsequently we applied this to the salary expenses per product category. Finally, we multiplied the change in salary expenses per product category with their corresponding proxy LPRs.

More details on LPRs, SME expenses and calculations are provided in Annex 2.

Contribution versus attribution

We describe the results that XSML and IFC have contributed to through their investment without making a claim about the precise quantity of results that can be attributed to XSML or IFC. However, where possible, we attributed results by allocating the job effects to CASF based on its proportion of total capital invested (assets) in the portfolio SME in the year before investment.

The simplicity of this rule is both a strength and a weakness of measuring attribution. It is on the one hand quantitative and objective (like financial ratios), but on the other hand omits a number of relevant factors, such as catalytic effects, or the impact of advisory services. Prorating this way, at best, paints a simplified picture of the investor's role.

Reference: Steward Redqueen, 2017. *Attribution in Results Measurement: Rationale and Hurdles for Impact Investors*

2.3 Fragility assessment

We assessed how CASF's activities are affected by the high level of fragility in the DRC, and how CASF's activities could potentially positively or negatively contribute to fragility. Our approach is depicted in Exhibit 2.

The vicious cycle of conflict and fragility

The DRC often ranks high on indexes and lists of fragile states, where the term 'fragile' state is used interchangeably with 'weak' or 'failed' state. Universally agreed definitions do not exist, but a useful description is provided by the World Bank, which refers to these states as sharing "a common fragility, in two particular respects: state policies and institutions are weak in these countries, making them vulnerable in their capacity to deliver services to their citizens, to control corruption, or to provide for sufficient voice and accountability. They face risks of conflict and political instability. (...) Erosion of state capacity or accountability eventually results in failure to mediate competing interests, generate economic growth or provide services in an inclusive and accountable way, creating the space for political instability or conflict. Conflict in turn erodes state institutional strength and draws resources away from the productive sector and human development."

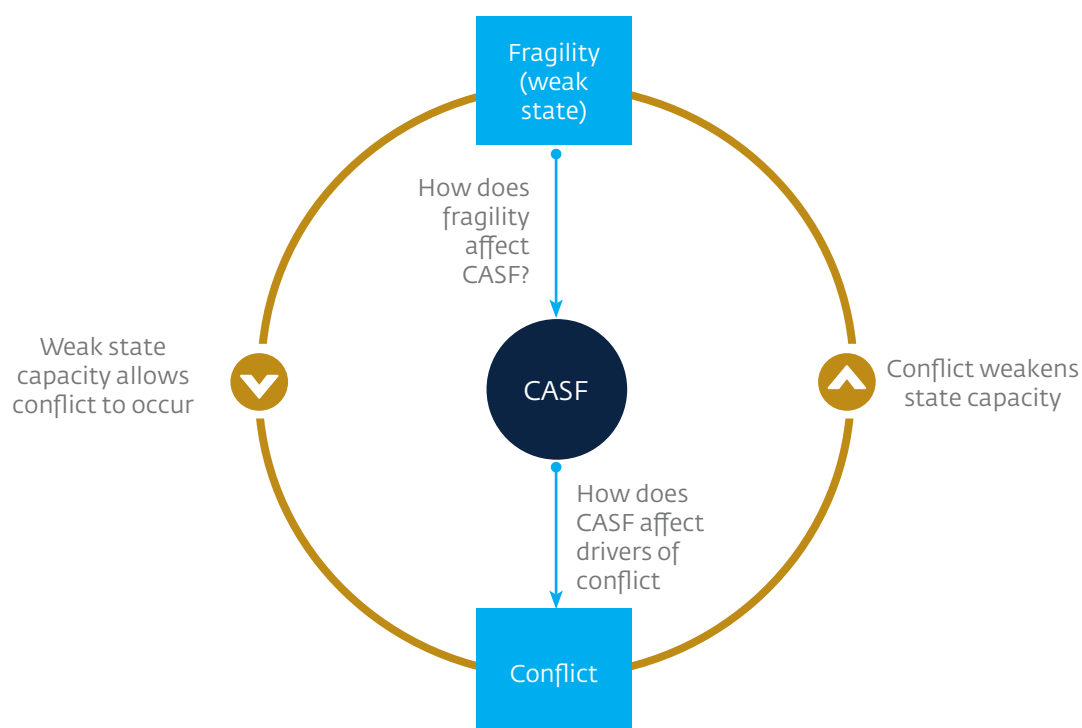
States often get stuck in a vicious cycle of conflict and fragility: weak state capacity translates into weak growth and low incomes, low incomes lower the cost of conflict, and conflict in turn undermines state capacity. Interventions, e.g. with the aim to create employment, could potentially break this vicious cycle by positively affecting the drivers of conflict.

Drivers of conflict

There is a substantial body of literature on drivers of conflict, often stressing the dynamic nature of the factors and processes that contribute to conflict. The three drivers most prevalent in literature are:

- Contact: negative perceptions among groups drive conflict
- Grievance: real or perceived injustices between groups drive conflict
- Opportunity: adverse economic circumstances drive conflict.

References: www.crisisgroup.org/global/fragile-states-and-conflict; documents.worldbank.org/curated/en/907971468327613700/Fragile-states-good-practice-in-country-assistance-strategies; *Jobs AID Peace, A Review of the Theory and Practice of the Impact of Employment Programmes on Peace in Fragile and Conflict-affected Countries*, Tilman Brück, Neil T. N. Ferguson, Valeria Izzi & Wolfgang Stojetz, September 2016.

EXHIBIT 2: **RECIPROCAL EFFECT BETWEEN CASF AND THE VICIOUS CYCLE OF FRAGILITY & CONFLICT****LINK BETWEEN FRAGILITY AND CASF**

We assessed how fragility affected CASF's activities by carrying out the following steps:

- 1 — Analysing how fragility affects the fund's strategy

We discussed with the fund manager to what extent the fragile state environment in the DRC affected investment criteria, and the monitoring practices and investment opportunities of CASF. Source: interviews (XSML)

- 2 — Assessing how fragility affects SME performance

We asked SMEs to rank and explain their key business obstacles (in line with the World Bank Enterprise Survey (WB ES)). Source: interviews (sample SMEs)

LINK BETWEEN CASF AND FRAGILITY

We assessed the potential effects of CASF's activities (in terms of its employment and demonstration effect) on drivers of conflict, specifically grievances and opportunity costs.

Potential link between CASF's activities and the drivers of conflict

- **Employment effect:** on the one hand, creating decent jobs could reduce grievances related to under- or unemployment and/or increase the opportunity costs of conflict. On the other hand, destructing jobs or creating jobs with deplorable working conditions could adversely affect grievances and opportunity costs.

- **Demonstration effect:** investing in businesses owned by ethnic Congolese could reduce grievances among the Congolese community of feeling excluded from the economic system in their country, while investing in companies owned by foreign entities or citizens could enhance these grievances.

We carried out the following steps:

1 — Analysing the link between CASF's employment effect and drivers of conflict

We analysed net job creation by sample SMEs. Furthermore, we discussed elements of decent work with employees of sample SMEs, including such topics as incomes, social security, working hours, and personal development.⁴ We also asked employees whether they were employed before, and if so, how working conditions at their current job differed from their previous job. Source: interviews (employees of sample SMEs)

2 — Assessing the link between CASF's demonstration effect and drivers of conflict

We asked the fund manager to indicate which portfolio SMEs are owned by ethnic Congolese entrepreneurs. Source: interviews (IFC and XSML)

2.4 Data sources

MIS XSML

From XSML's MIS we collected the following data:

- **Key Performance Indicator (KPI) Reports:** a fund document containing the latest financial data, company information, and recent events of portfolio SMEs. We received these for all sample SMEs.
- **Financial statements:** annual reports provided by portfolio SMEs that include data on company financial performance, balance sheets, statement of cash flows, and profit and loss statements. We received these financials for all SMEs, except for two. The level of detail of the financials varied widely across individual SMEs.
- **Impact dataset:** non-financial indicators, such as female and youth employment, the number of supplier organizations, and beneficiaries of companies in healthcare or education, that are collected on an annual basis by XSML for all portfolio SMEs. The exhaustiveness and quality of data provided vary across individual SMEs, years, and indicators.
- **Investment proposals:** a fund document that lays out the investment thesis and expectations for a potential portfolio SME. These were available for all SMEs.
- **Fund investor update reports:** presentation-style reports, updated quarterly, explaining SME performance, recent challenges, and the outlook of the portfolio and the SMEs.

⁴ The International Labour Organization defines decent work as "opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives, and equality of opportunity and treatment for all women and men." www.ilo.org/ankara/areas-of-work/dw/lang--en/index.htm

INTERVIEWS

During two country visits (December 2017 and April 2018) we carried out the following interviews:

- **IFC:** with IFC's resident representative for the DRC and one of the World Bank's senior operations officers we discussed the current business environment in the DRC, the objectives of IFC's SME Ventures Programme, TA provided, lessons learned, and the outlook for IFC's work in the DRC.
- **XSML management and investment officers:** we interviewed one managing partner at XSML and four investment officers to discuss the fund's objectives, strategy, investment criteria, monitoring mechanisms, reporting templates, TA activities, portfolio SME performance, business hurdles, potential positive and negative contributions to fragility, and lessons learned.
- **Management of sample SMEs:** we interviewed 11 owners/managers of sample SMEs. We discussed the data obtained from XSML's MIS, and obtained qualitative insight into the localness of and hurdles in their value chains, top 10 clients and suppliers, human resources policy, and fragility linkages.
- **Employees of sample SMEs:** we interviewed 15 employees of sample SMEs. We asked questions related to their education and work experience, compensation, level of satisfaction, situation outside of work, and how they were affected by political instability.
- **Management of sample SME value chain partners:** we interviewed four clients and six suppliers. With each value chain partner we discussed questions related to their work history with the sample SMEs, the added value of the sample SMEs, employee working conditions, and business hurdles.

The main questionnaires can be found in Annex 7.

STATISTICAL DATABASES

We used national macro-economic statistics to put results into national and regional context and to fill data gaps. We collected these from the following databases:

- **World Bank DataBank:** statistics on total GDP (2012-2016) and the labour force (2012-2017); part of the World Bank Development Indicators (WBDI).⁵
- **WB ES:** an array of economic data (including main business obstacles) on 529 firms in the DRC interviewed from August 2013 through May 2014.⁶
- **Banque Centrale du Congo (BCC):** statistics on GDP per sector (2015) and GDP growth (2017)⁷
- **Institut National de la Statistique (INS):** statistics on the formal and informal labour force per sector (2012), and average salaries.⁸
- **Global Trade Analysis Programme (GTAP) database:** information on GDP, output, and sector and household spending patterns for 57 economic sectors. These statistics only partly represent the DRC, as the dataset is combined with statistics on Angola. The base year of GTAP data is 2011.⁹

⁵ World Bank Development Indicators

⁶ World Bank Enterprise Survey DRC 2013

⁷ BCC Rapport Annuel 2015, Tableau I.11

⁸ Institut National de la Statistique, RDC. Section 2.2.9 Emploi, Tableau 1.5.4

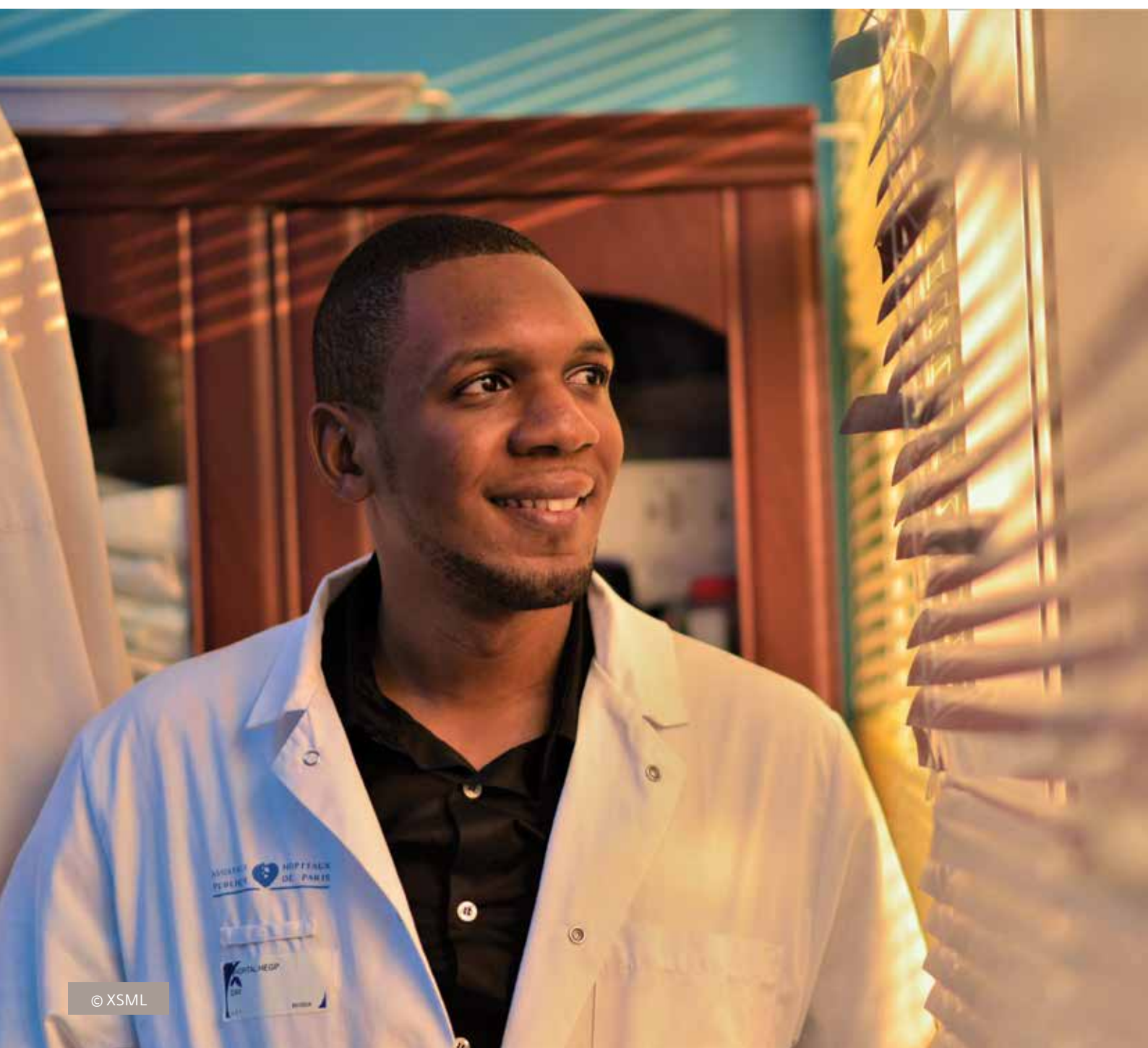
⁹ GTAP, Purdue University

2.5 Limitations

The methodology used in this study has several limitations:

- **Bias towards success stories:** data availability depended on the willingness of SME owners to collaborate and their relationship with XSML. XSML data on portfolio SMEs are more complete and of higher quality for companies with whom relationships are good. Furthermore, the positive relationship with XSML was an important criterion in case-study selection. As shown by Table 9 in Annex 3, sample SMEs were all among the best-performing companies in CASF's portfolio.
- **Bias towards Kinshasa-based companies:** we were geographically limited to interviewing SMEs in Kinshasa and have not been able to verify to what extent results were representative for companies located in other areas of the DRC.
- **Incomplete SME data:** collecting actual SME data on all value chain partners of an SME has proven to be difficult. Although SMEs could provide high-level insights into products locally sourced and imported, they found it hard to provide detailed information, such as expenses per product category, employees at suppliers, etc. Some, but not all, data gaps have been filled during in-person interviews in Kinshasa.
- **Unknown quality of SME data:** while we did crosschecks, we could not fully assess the quality of data provided by SMEs. We noted discrepancies between the supplier expenditures collected by XSML as part of the impact data and our estimates of supplier expenditures based on the profit and loss statements. In case of discrepancies we used the following data hierarchy: 1. interviews; 2. financial statements; 3. impact data.
- **Use of proxies limits the accuracy of results:** where LPRs of suppliers were not available, we relied on proxies based on other suppliers/portfolio SMEs providing the type of product, or on national macro-economic statistics. It is unclear to what extent the proxies are a fair substitution for the missing supplier data.
- **National macro-economic statistics used do not perfectly reflect the current economic environment of the DRC:** (i) the GDP and employment statistics used to develop statistics LPRs are a combination of detailed statistics of a single, older year and high-level statistics of more recent years; and (ii) the GTAP dataset used to identify household spending patterns combines data for the DRC and Angola.
- **Limited scope of job effects:** we only quantified jobs at direct suppliers of SMEs and not at their indirect suppliers. Data have proven to be difficult to collect, while we expect jobs supported at indirect suppliers to be limited. SMEs indicated that their suppliers source few of their inputs locally. Most of their suppliers are service providers (e.g. of cleaning services, security services or employment agencies) who predominantly rely on labour and/or on imported goods. For example, transport companies import all fuel, trucks, tires and most spare parts, and network providers import all transmission equipment. Similarly, suppliers of food products indicated that their main cost was labour, and they used imported feed for their livestock.
- **Crowding-out effects are not taken into account:** we did not look into job destruction due to the economic activity of the SMEs (also see Section 6.2).
- **No hard proof for causal relation between CASF's activities and drivers of conflict:** isolating the relationship between fragility in the DRC and CASF's activities is not possible given the number of factors that influence fragility and the small number of firms in the sample.
- **Fragility assessment is limited to grievance and opportunity drivers of conflict:** we did

not address the 'contact' driver of conflict, as this would mean we would need to break down results per specific identity group, e.g. per indigenous group. From interviews with the IFC representative in the DRC, the fund manager, and employees of sample SMEs we understood that questions related to identity groups were sensitive and likely not to be fairly answered. We therefore decided not to investigate that further.



3. CASF in the DRC

3.1 DRC

The DRC is one of the most fragile countries in the world

The DRC has a history of conflict and violence. The country is considered the 6th most fragile state in the world, ranking just after the CAR, Syria, Yemen, Somalia, and South Sudan on the Fragile States Index.¹⁰ The DRC is slowly recovering from what is called the Second Congo Civil War, which officially ended in 2003. However, as can be seen in Exhibit 3, many regions are still plagued with violence, especially Kivu, and recently Kasai. The United Nations (UN) has estimated that more than two million Congolese are displaced. Poverty is also pernicious. The DRC was ranked 176 out of 188 countries worldwide on the UN's Human Development Index, meaning the level of human development is among the lowest in the world. According to the latest estimates, 77% of the population live on less than \$1.90 per day – the global poverty line (adjusted for local price levels).

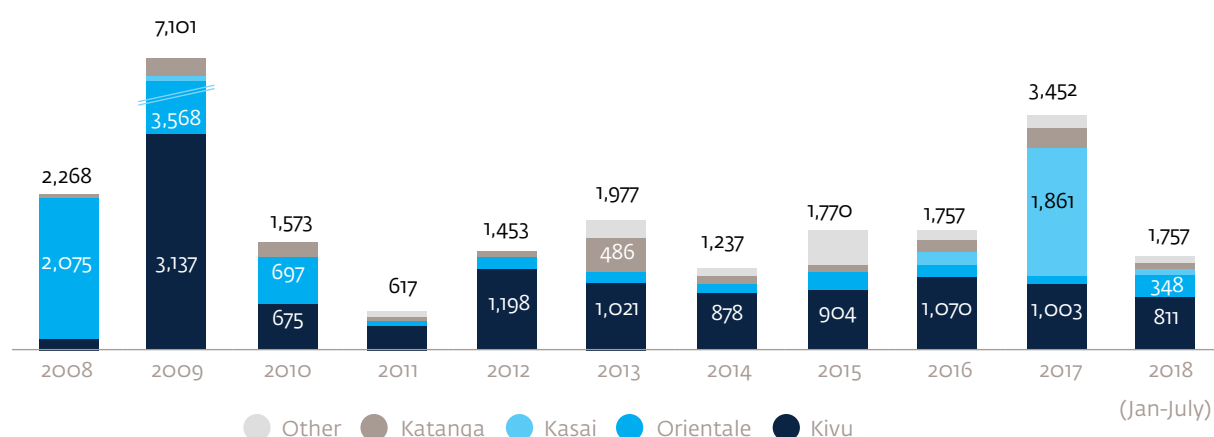
"The DRC faces both grievance-induced and opportunity-driven violence. For example, human rights grievances frequently spill over into violence, while the DRC's rich resources provide an opportunity to finance and/or sustain rebellion. The current violence in DRC can be traced back to the 1994 genocide in Rwanda. Hutu's fled to eastern DRC and formed armed groups, triggering the rise of opposing Tutsi and other opportunistic rebel groups. Congolese government forces, supported by Angola, Namibia and Zimbabwe, fought these rebel groups backed by Uganda and Rwanda until a peace deal was signed in 2003. Despite this deal, armed groups continue to exist across the country. Factors contributing to the ongoing conflict include general weak governance and lawlessness, the mineral trade, which provides the financial means for groups to operate, and the low level of economic development that leaves many people unemployed.¹² Social unrest has been exacerbated by Joseph Kabila's refusal to step down as president at the end of 2018. As shown in Exhibit 3, fatalities rose significantly in 2017, and this trend has continued in the first seven months of 2018.

¹⁰ Fragile States Index 2018, Fund For Peace. Accessed June 2018. fundforpeace.org/fsi/

¹¹ World Bank Development Indicators

¹² Reyes Aterido, Alvaro Gonzalez, Dino Merotto, Carly Petracco, and Javier Sanchez-Reaza. 2017. "Democratic Republic of Congo: Jobs Diagnostic." World Bank, Washington, D.C. License: Creative Commons Attribution CC BY 3.0 IGO.

EXHIBIT 3: FATALITIES PER REGION IN DRC 2008-2018



After years of steady growth, the DRC economy is decelerating

Between 2010 and 2015, the country experienced steady growth (above 6% annually), largely due to the global demand for natural resources (e.g. copper and cobalt) available in the DRC. However the DRC's economy is currently decelerating. Real GDP growth dropped to 3.7% in 2017.¹³ The recent slowdown can be explained by a decline in commodity prices (especially the prices of copper and oil), high inflation rates, devaluation of the Congolese Franc, and the lack of diversity in the DRC's economy. In 2017, inflation rose approximately 47%, weakening household purchasing power, while the Congolese Franc depreciated by a third against the dollar, making imports much more costly.¹⁴ However, the price of copper (and oil) is rising again and demand for other minerals such as cobalt is increasing. If upward trends in commodity prices continue, GDP growth is estimated to reach 4.3% in 2018.¹⁵

The DRC economy has a limited industrial base and a high level of informality

Primary sector activities (agriculture and extractives) account for 43% of DRC's GDP, the remainder comprises the services (35%) and industrial (22%) sectors.¹⁶ Industry in the DRC is predominantly composed of agro-processing activities (70% of industry) and lacks other higher-value-added manufacturing activities. The DRC's dependence on the natural resource sector, which is capital intensive and has limited linkages with other sectors, impedes the country's ability to increase its productive capacity, making companies reliant on imports.

¹³ African Economic Outlook 2017: Entrepreneurship and Industrialization. African Development Bank. Part III Country Notes, p. 254.

¹⁴ Indice des Prix à la Consommation des Ménages. Institut National de la Statistique, RDC. <http://ins-rdc.org/>

¹⁵ BCC Statistical Bulletin March 2018; AEO 2017, p. 254.

¹⁶ BCC, Annual Report 2015. Accessed April 2018: www.bcc.cd/downloads/pub/rapann/Rapport_annuel_integral_2015.pdf.

Informality is ubiquitous. 89% of employed individuals work informally and the informal economy represents 53% of GDP.¹⁷ A consequence of the high level of informality is a narrow tax base, which aggravates tax pressure on companies operating in the formal sector and limits the government's ability to effectively govern.

Of the entire DRC labour force in 2012 (the most recent year for which data are available), approximately 53% were actively employed, 42% were inactive, and 4% were unemployed workers.¹⁸ Of the actively employed people, 70% were in the agricultural sector.¹⁹ Although national unemployment is remarkably low, it is much higher for young people between 15 and 24 years (13.5% in 2016, according to the ILO) and confined to urban areas.²⁰

The private sector faces many hurdles to doing business

The private sector in the DRC consists predominantly of micro and small businesses. Over 90% of firms employ fewer than 10 workers, and almost half of the firms are less than five years old. Many of these business owners started their business to make ends meet and are not necessarily entrepreneurs by choice. However, they do have strong potential to create jobs and contribute to economic growth; SMEs demonstrate higher annual employment growth rates than large firms (5.2% to 6% versus 1.3%).²¹ Unfortunately they are strongly impeded by the business climate in the DRC.

In the World Bank *Doing Business 2018* report, the DRC ranked 182nd out of the 190 countries included globally and 43rd (out of 48 countries) in Sub-Saharan Africa. The main constraints to private sector development, based on the 2013 World Bank Enterprise Survey in the DRC, are inconsistent energy availability, lack of access to credit and financing, political instability, high informality, corruption, deficient administrative services, and poor infrastructure for production and transport. Nearly 40% of firms in the DRC identify access to finance as a major constraint and 14% of firms report that access to finance is their biggest obstacle.²²

Businesses in the DRC not only encounter internal economic challenges but also external ones. Low oil prices weakened neighbouring Angola's economy, which is heavily dependent on oil production, and decimated the country's foreign currency reserves. The result was a sudden surge in cheap Angolan products entering the DRC, with the intention of acquiring dollars and undercutting Congolese businesses. In response to complaints by Congolese business people who struggled to compete, the DRC government banned Angolan imports in 2017.²³

¹⁷ INS (2014). Resultats de l'enquete sur l'emploi, le secteur informel et sur la consommation des menages / 2012; IMF (2015). Democratic Republic of the Congo, Selected Issues. *IMF Country Report* No. 15/281.

¹⁸ A person is economically inactive if he or she is not looking for work, a student, retired, engaged in family duties, or not yet old enough to work. An individual is unemployed if he or she is above a specified age, without work, available for work and actively seeking work. (OECD Glossary of Statistical Terms); *Annuaire Statistique* 2015. Published March 2017. Institut National de la Statistique, RDC. Section 2.2.9 Emploi, Tableau 2.161, p. 260.

¹⁹ Resultats de l'enquete sur l'emploi, le secteur informel et sur la consommation des menages 2012. Published September 2014. Institut National de la Statistique, RDC. Tableau 1.5.4, p. 66.

²⁰ Reyes Aterido, Alvaro Gonzalez, Dino Merotto, Carly Petracco, and Javier Sanchez-Reaza. 2017. "Democratic Republic of Congo: Jobs Diagnostic." World Bank, Washington, D.C.. License: Creative Commons Attribution CC BY 3.0 IGO.

²¹ World Bank (2017). Democratic Republic of Congo – SME development and growth project (P160806): <http://documents.worldbank.org/curated/en/610151502304081524/pdf/ITM00184-P160806-08-09-2017-1502304076949.pdf>

²² Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank; World Bank *Doing Business 2018*. Accessed June 2018: www.doingbusiness.org/

²³ The Economist. August 31, 2017. "Congo and Angola: a tale of two kleptocracies".

These challenges aside, Congo's potential is massive.²⁴

The country has the world's largest reserves of cobalt, significant quantities of diamonds, gold and copper, and a river which could potentially power much of the African continent.²⁵

EXHIBIT 4: **POOR ROADS IN THE DRC**²⁶



3.2 CASF investments

Table 9 in Annex 3 provides an overview of all portfolio SMEs, including their location, sector, financial and technical support received from CASF, and revenue, EBITDA and employment numbers for the YOI and 2017. The sections below summarize key insights from the table and provide corresponding qualitative insight.

Since inception, CASF has invested at a steady pace in a variety of sectors, mostly in Kinshasa

In 2012, CASF committed its first capital in the DRC to seven entities. Since then, \$15.8 million (97% debt) has been committed to 30 entities in the DRC. 28 of these entities are SMEs, while another two are personal loans. CASF has had two full exits (Logistics provider A and Restaurant A) and one partial exit (Pharmaceuticals producer A). All loans are scheduled to be repaid by end-2020. CASF invested in a range of companies, from start-ups to companies more than 25 years old. The median age of SMEs at the time of investment was 6.5 years.

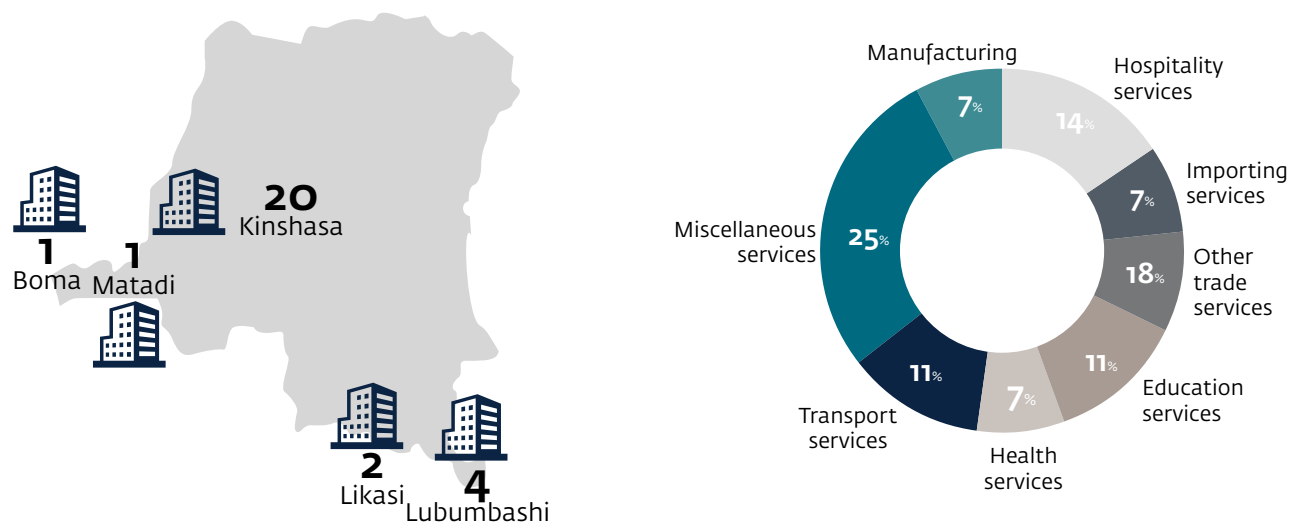
Exhibit 5 shows that most SMEs are located in or around Kinshasa, and operate in the areas of transport, hospitality, importing and other trade services, manufacturing, education, health, and miscellaneous services.

²⁴ The Economist. February 15 2018. "Congo's war was bloody. It may be about to start again".

²⁵ Idem

²⁶ Photo shared by Transporter B, April 2018.

EXHIBIT 5: LOCATIONS AND SECTORS OF CASF SMES



CASF provides financing to small companies and helps them to professionalise

CASF disburses small amounts, ranging from \$100,000 (Restaurant A) to \$1.3 million (Consumables trader A). It selects relatively small companies (most generate less than \$1 million in revenue at investment) and makes investments of \$100,000 to \$500,000. SMEs have used the financing provided by CASF as working capital to cover ongoing business expenses and/or to expand their business.

"XSML supported me in setting up the financial back-bone for my company. They introduced a new way of financial thinking that I did not have before."

Owner of Print shop A

According to XSML, these small companies are a challenging target group, as entrepreneurs are often inexperienced in managing and administrating a business, and have not yet proven themselves as a formal business entity. The entrepreneurs often require strong support from XSML to scale, professionalise, and develop to formal, bankable companies.



CASF offers more favourable financing conditions than banks

Most companies indicated they would have been able to find capital elsewhere, but with less favourable conditions than those of CASF. Benefits of CASF's financing are:

GRACE PERIOD	LONGER LOAN TENURE	LOWER INTEREST RATE
While XSML works with a grace period of about one year, local banks often require SMEs to start repaying the loan immediately.	While XSML provides SMEs with long-term financing (>4 year tenures), banks are often only willing to provide loans of up to three years.	SMEs mentioned the interest rate of XSML was slightly lower than the interest rates offered by banks (15% versus 16-20%).

A TA grant from IFC was set up to build the capacity of XSML and portfolio SMEs

When CASF was set up in 2010, IFC provided XSML with \$3.7 million in TA funds.²⁷ These funds were split in two parts: (i) a GP grant of \$2.4 million to support fund management expenses for CASF; and (ii) an SME TA grant of \$1.3 million to support portfolio SMEs in building operational capacity. Of the total SME TA budget, \$1.1 million have been disbursed to portfolio SMEs, either as a loan (45%) or as a grant (55%). More than half (64%) of the TA budget was used for companies in the DRC.

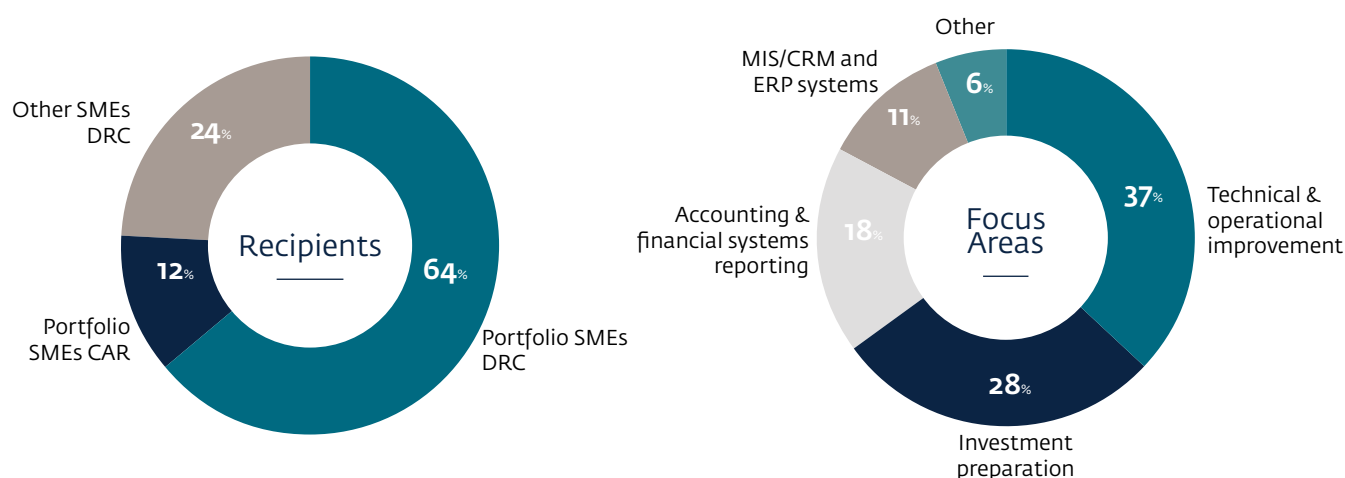
"We could have gotten our loan from a bank, but only with a 2-year tenure. CASF offers us much longer tenures and more importantly they are an understanding and flexible business partner, which is very different from our experience with local banks."

Owner of Call centre A

A small part of SME TA funds are used prior to investment for feasibility studies, but the majority of funds are used post-investment. Based on a needs assessment of the company's organizational capacity at due diligence, XSML and the portfolio SME agree on a plan with concrete measures for improvement that are eligible for TA funding. As shown in the chart on the right in Exhibit 6, the most important focus areas of the TA are technical and operational improvements (capacity-building and skills development), investment preparation (feasibility studies), support with accounting and financial systems reporting, and training on the use of business software systems.



EXHIBIT 6: TOTAL TA \$1.1 MILLION



Specialist knowledge and resources take company performance to the next level

With precise deployment of knowledge and resources, XSMF aims to improve specific flaws in the portfolio SMEs' operations. This requires hiring experts who help companies acquire the skill(s) and knowledge necessary to achieve results. The TA funds help to build stronger companies, which ultimately sustain jobs in the DRC economy, either directly or indirectly. Examples of such help are:

- **Print shop A** received assistance from a retired printing specialist from the Dutch senior experts' network PUM on the maintenance of printing machines. His expert knowledge helped the company gain insight into efficient maintenance practices and lowered operational costs.
- **Hotel A** hired a Belgian hotelier to provide advice on professional hotel management (reservation systems, hospitality services, etc.). He helped the company run a high-quality and efficient hotel business. This helped reduce costs and attract clientele.

"The Academy of Advanced Life Support training really helped to get our life support care up to international standards."

Owner of Hospital A

- **Hospital A** received advice from a medical specialist on implementing profitable and sustainable scaling models. The advice was needed to help the company operate using the business model that CASF was looking for at the time of investment. The model that the consultant proposed helped scale up the company.
- **Fuel trader A** contracted an environmental and social specialist to set up environmental, social and governance (ESG) protocols for the company's operating procedures. This specific advice was provided by a DRC-based specialist and helped Fuel trader A to create a safer working environment for its staff and surrounding communities.

TA benefits from SME contributions, but beware of the threshold

Alongside the TA grants and loans provided by CASF, some companies directly contributed their own money in a TA project. In the DRC, 11 of the 28 SMEs received TA. Eight of these companies directly contributed to the TA budget (adding up to \$0.17 million). Hotel A, for example, received \$47,000 in grants and loans for its TA project and contributed \$27,000 itself. This flexible combination was a successful approach to TA funding for numerous projects: the grant helps the business owner to agree to the project, while the loan and direct contribution ask them to put 'skin in the game' (which is requested by IFC). It is important to note though that a reasonable threshold should be applied to the TA loan sum. As XSML pointed out, loans of \$2,000 sometimes do not justify the effort required to retrieve funding from the portfolio SME. According to XSML, a more appropriate threshold would be \$5,000; for smaller amounts a grant should be possible. Of the 25 loans that have been provided to companies in the DRC (some companies received multiple loans), four loans were below \$5,000.

3.3 Portfolio SMEs

Despite the decelerating economy, about a quarter of the SMEs grew both their revenues and EBITDA

Out of the 28 portfolio SMEs, 12 SMEs increased their revenues, and eight SMEs grew both their revenues and EBITDA. Our study did not point to generalizable success factors for the SMEs. SMEs are different: years of investment vary, they operate in different sectors, firms are located in different cities, and each received different forms of TA support (or none at all). However, the top five best-performing SMEs (in terms of revenue and EBITDA change) do have some common denominators:

1. They provide their services at international standards for reasonable prices targeting the Congolese middle class:
 - **School A** fills a gap in high-quality education at affordable tuition fees.
 - **Hospital A** provides international standard healthcare at medium-range prices.
 - **Hotel A** offers medium-range room prices at international standards.
 - **Print shop A** is the first modern digital printing company in the DRC.
 - **Call centre A** operates the only professional call centre in the DRC.
2. They are located in close proximity to the fund manager in Kinshasa, allowing for frequent interaction with XSML team members.
3. They received TA funding, allowing for expert advice on their business.

It should be noted that Hotel A was only operational for a few months in 2016, compared to a full year of operations in 2017.



SMEs struggle to build their businesses and repay their loans

The remaining SMEs showed either stable revenues (1 SME), a decline in revenues (5 SMEs), or data were insufficient to assess results over time (10 SMEs). Many challenges faced by the portfolio SMEs are the result of the deteriorating economy. Companies in and around Lubumbashi have been hit particularly hard due to the falling prices of mining commodities. Examples are:

- **School B** faced lower/delayed payments of school fees by parents due to a decrease in purchasing power of the mining communities.
- **Transporter C** received fewer orders from mining companies.

Other companies faced issues related to their financial and/or operational management. For example:

- **Advertising services A** and **Consumables producer B** never executed the projects for which they received CASF financing.
- **Dry cleaner A** and **Consumables trader C** experienced 'overstretch' due to other business activities of the business owners.

The lower growth rates of portfolio SMEs led to the restructuring of a number of loans. As of June 2017, 15 of the 30 entities (28 SMEs and 2 personal loans) in the DRC were over 30 days in A/R. One third of these entities had an A/R of more than 180 days. This resulted in lower-than-forecast 2017 cash flows for XSML.

Portfolio SMEs created at least 130 direct jobs

Between the YOI and 2017, the 28 CASF SMEs created at least 130 new employment opportunities. This represents a total increase of 45% since the YOI, and an annual average growth rate of 6% (based on 17 SMEs for which data were available). The latter is double the DRC average labour force growth of 3%.²⁸ In 2017, total direct jobs added up to 958 full-time workers. About a quarter of these workers were employed at one of the SMEs interviewed. Other large employers within CASF's portfolio are the two schools (School C and School B). Of the 958 people employed at the 28 CASF SMEs, at least one third (312) were women.

The next sections provide more detail on the job effects of the 11 sample SMEs that have been selected as case studies.

²⁸ World Bank Development Indicators 2012-2017

4. Localness of value chains

4.1 Value chain maps

We develop 'value chain maps' that graphically illustrate the revenue and expenditure flows of a sample of 11 SMEs in CASF's portfolio. The purpose of the value chain maps is to depict the connections between sample SMEs and other companies in the DRC that relate to their value chain. This provides insight into the localness of the SMEs' value chains.

In this section we discuss value chain maps of two SMEs, Restaurant B and Fuel trader A, in detail. The value chain maps of the full sample of SMEs are included in the Company Profiles booklet, and are summarised in subsequent sections. Restaurant B and Fuel trader A represent two extremes in CASF's portfolio in terms of value chain localness: Restaurant B is a Congolese restaurant that sources a significant amount of its ingredients from domestic suppliers, while Fuel trader A is a fuel importing company with few domestic suppliers.

The value chain maps should be read from right to left, in line with the money flows from clients to the portfolio company, and subsequently to suppliers. The maps distinguish between local and imported product categories. We consider a product local when *(part of) the value of the product has been generated in the DRC*. For example, chicken breasts from chickens that are bred in Belgium but raised and slaughtered by a company in the DRC are considered local. Most of the value of the chicken breast has been generated in the DRC. However, spare parts imported and traded by a Congolese company are considered imported products as no value has been added to these spares in the DRC. Additional guidance on how to read the value chain maps can be found in Annex 4.



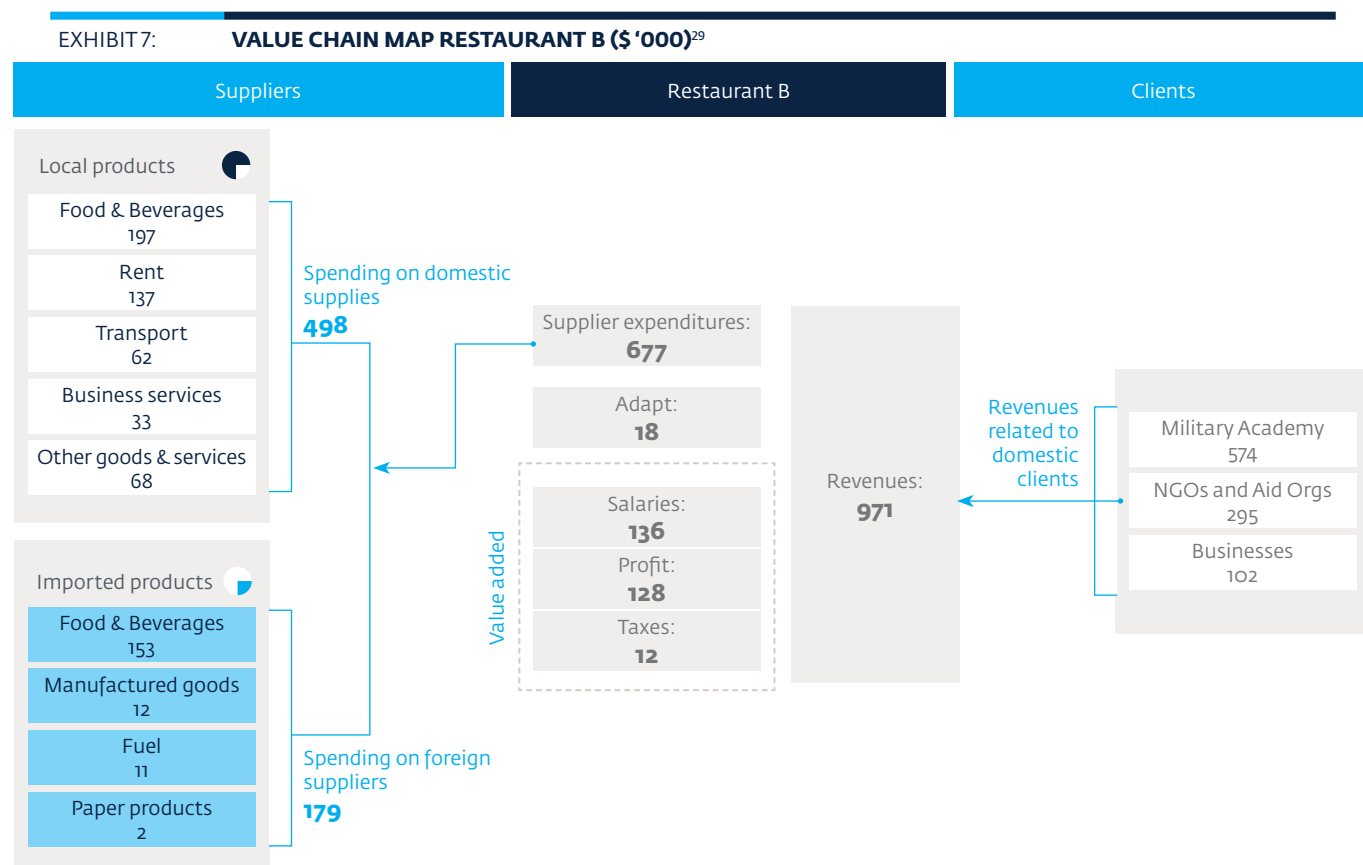


Exhibit 7 illustrates the value chain of Restaurant B. Restaurant B receives revenues (\$971k) from various clients, including the military academy, NGOs and aid organizations, and other businesses. With this revenue, Restaurant B purchases goods and services from suppliers (\$677k), generates value added in the form of salaries (\$136k), profits (\$128k) and taxes (\$12k), and accounts for adaptations (\$18k). Restaurant B spends more on domestic suppliers (\$498) than on foreign suppliers (\$179k). Food and beverages, and rent and transport services are the largest purchases from domestic suppliers. The largest purchases from foreign suppliers are foreign food and beverages, various manufactured goods, and fuel.

²⁹ Numbers might not add up due to rounding.



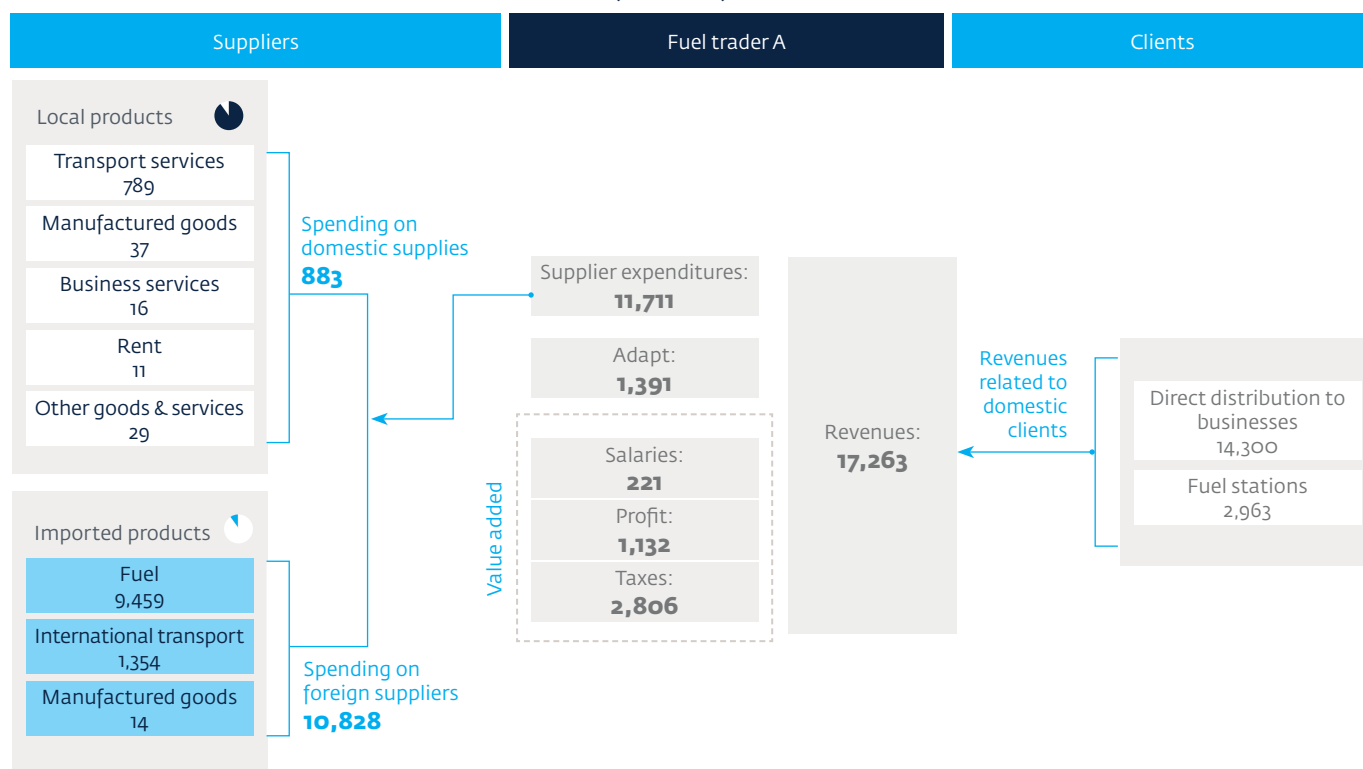
EXHIBIT 8: **VALUE CHAIN MAP FUEL TRADER A ('000 USD)³⁰**

Exhibit 8 illustrates the value chain of Fuel trader A. Fuel trader A receives revenues (\$17,263k) from the businesses it distributes fuel to and the sales generated at fuel stations. Fuel trader A spends its revenues on suppliers of inputs (\$11,711k), generates value added in the form of salaries (\$221k), profits (\$1,132k) and taxes (\$2,806), and accounts for adaptations (\$1,391k). Fuel trader A's inputs are almost entirely sourced from foreign suppliers (\$10,828k), but some inputs are sourced locally (\$883k). The largest locally sourced inputs are domestic transport services, various manufactured goods, and business services. The largest inputs from foreign suppliers are fuel, international transport services (shipping costs) and various manufactured goods.

³⁰ Numbers might not add up due to rounding.



4.2 Value chains in the DRC

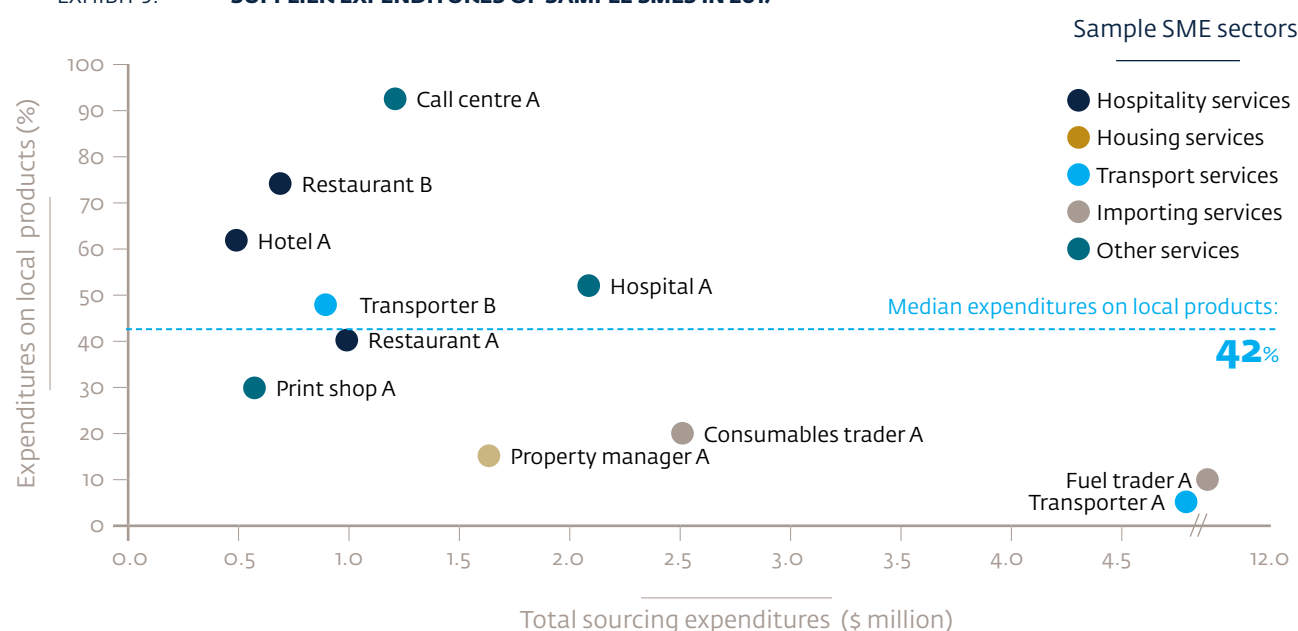
This section presents key insights into the localness of value chains of sample SMEs that can be derived from the value chain maps.

About 42% of sourcing expenditures by sample SMEs relate to local products, generating \$6 million in revenues for other Congolese businesses

By sourcing local goods and services, SMEs generate incomes for other Congolese companies. Exhibit 9 shows the total supplier expenditures of the 11 sample SMEs, and the share of these expenditures SMEs spent on local products.



EXHIBIT 9: SUPPLIER EXPENDITURES OF SAMPLE SMES IN 2017



About 42% (median) of sample SME expenditures on goods and services relate to local products (average: 22%).³¹ This means that of the total \$27.5 million supplier expenditures in 2017, \$6 million are revenues for domestic suppliers, and \$22 million are revenues for foreign suppliers. As can be seen, hospitality and 'other services' companies source a relatively large share of their inputs locally. Call centre A in particular has a high local sourcing share: the call centre predominantly needs services inputs (e.g. telecommunication, staff transport services, and cleaning), which can all be sourced locally. Transport, housing and importing companies on the other hand import most of their inputs. Only Transporter B spends a relatively large share of its total sourcing expenditures on local products. These expenses relate to day workers the company hires from a local agency to help with offloading boats and trucks.

In comparison, firms in the WB ES (2013) indicated that 70% of inputs and supplies are of domestic origin (median: 100%). In the Sub-Saharan Africa region, the percentage is similar, at 68% on average (median: 90%). The definition of local inputs used by the WB ES is similar to our definition (both consider the origin of the product, not the location of the supplier).³² The gap between percentages reported by sample SMEs and WB ES respondents may be explained by:

³¹ We used the median, as the size of supplier expenditures varies widely across sample SMEs. The average is strongly influenced by an importing company with revenues more than twice as high as the second-largest company in terms of revenues (a transportation SME).

³² Definition WB ES: percentage of material inputs and/or supplies of domestic origin. The origin of the inputs, supplies, materials, or goods, matters regardless of whether the establishment directly imports them or not. www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Methodology/ES_QuestionnaireManual_2019.pdf

INTERPRETATION OF 'LOCAL INPUTS'	DIFFERENCE IN SAMPLE	CHANGE IN POLITICAL SITUATION
The definition of 'local inputs' used by the WB ES survey respondents could be different from the official definition. Half of the respondents indicated all of their inputs were of domestic origin. Based on economic activity in DRC, and insights from interviews, this seems unlikely. For example, any companies that use generators, for which they need fuel. DRC imports all of its fuel.	The WB ES tries to capture a representative sample of manufacturing companies from various sub-sectors, of different size and in multiple regions throughout DRC. Our sample is biased towards Kinshasa-based services companies. Furthermore, with three out of the 11 sample SMEs being involved in importing activities, importers seem to be overrepresented in our sample.	Since the most recent WB ES was completed in 2013, the political situation deteriorated. This might have affected the availability of local products.

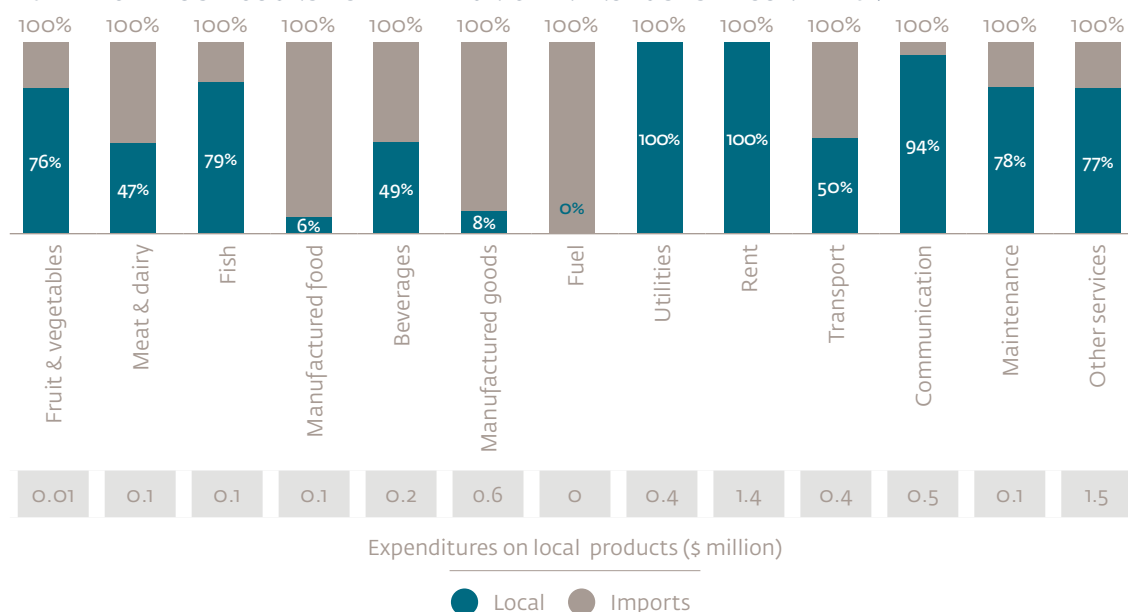
SMEs reap the benefits of the DRC's large agricultural sector, and source almost all services locally

As shown by Exhibit 10, sample SMEs source raw agricultural products (e.g. fruit, vegetables, meat, and fish) and services (e.g. communication and maintenance) predominantly from domestic suppliers. This is in line with expectations, given the breakdown of the DRC's GDP. The DRC's economy heavily relies on primary activities, followed by agro-processing and different types of services activities (also see Section 3.1).

SMEs indicated raw agricultural products offered on the local market are generally of good quality. SMEs buy food products from suppliers producing in the Kinshasa or Goma (east-DRC) areas. In interviews, SMEs mentioned that agricultural companies in the Goma area are generally more professional and offer products for a better price, despite higher transport costs. Whereas a significant share of processed beverages (e.g. soft drinks and beer) can be sourced locally, most processed food products (e.g. chocolate, puratos and Italian products) need to be imported.

Most services can be sourced close to the premises of SMEs, except for specialist services tasks such as maintenance of advanced equipment. For these types of activities, SMEs need to hire international service providers. Transport services are only partly sourced locally as companies use both domestic (road and water) transport as well as international shipping.

EXHIBIT 10:

SME LOCAL SOURCING EXPENDITURES PER PRODUCT CATEGORY IN 2017***Restaurant B targets local, organic suppliers***

Restaurant B is a chain restaurant based in Kinshasa that serves local Congolese cuisine and baked goods. The restaurant owner is actively looking for local, organic products. She sources all vegetables, flour, pork, and part of the fish and dairy products used from Congolese artisanal farmers or at the local market.

The owner has her own portion of land where she grows vegetables such as aubergine and tomatoes. About five to six people work on the land to grow the vegetables, both for own use and for the restaurant.

One of Restaurant B's suppliers is a farm located just outside of Kinshasa. The owner of the farm deploys polyculture farming, which is more time-consuming than monoculture, but avoids soil degradation. Restaurant B buys vegetables, fish, manioc, bananas, and other local products from them, despite their somewhat higher prices.

4.3 Value chain hurdles**Local sourcing is hampered by the DRC's limited industrial base and high informality**

As mentioned in Section 3.1, the DRC economy strongly depends on primary activities. Local industry struggles to survive. Local manufacturers face relatively high production costs due to electricity cuts, high import and transport costs, limited economies of scale due to low purchasing power, and competition from illegally imported products.³³ All of these hamper local production and limit the opportunities for local sourcing.

³³ Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank.

Hurdles to local sourcing highlighted by sample SMEs are:

LACK OF AVAILABILITY	LOW QUALITY	LACK OF SCALE
All manufactured goods, such as kitchen supplies, furniture, spare parts, printers and medical equipment, need to be imported. These products are relatively complex and cannot be produced locally.	Local available industrial products are often not up to SME standards. For example, one of the hospitality SMEs and one of the health SMEs import their construction materials and medicines as they do not trust the locally available products.	Local SMEs, especially agricultural suppliers, are often small, informal sector companies that are not always able to deliver the same quantity each week or month.

Importing increases supply chain risks

Dependency on imports poses several challenges to SMEs, such as risk management, planning, stock keeping, and oversight of supply chains. Key challenges reported by sample SMEs are:

CURRENCY RISK	LONG LEAD TIMES	REDUCED CONTROL
Since the beginning of 2016, the Congolese Franc lost one third of its value vis-a-vis the dollar, which significantly increased import costs for sample SMEs.	Most sample SMEs import their products by sea freight which takes about two to six months. As big cargo ships cannot go on the Congo River, containers are offloaded at Point Noire and transferred to smaller ships to enter Matadi port.	Sometimes goods are looted from containers during transport, or SMEs find them broken as goods are not always handled with care. Transporter 2 indicated that about 8% to 10% of stock is gone when the imported container arrives.

Due to the underdeveloped business-to-business market in the DRC, SMEs are forced to either import manufacturing goods themselves or purchase them in local supermarkets. This leads to significant inefficiencies. On the one hand, custom clearance is time consuming, and importing small quantities increases the already long lead times (companies wait until they can fill an entire container).

"Since I started buying products from Consumables trader A instead of importing myself, I reduced my costs by 40%."

Owner of Supermarket B

On the other hand, buying the products in local supermarkets is inconvenient since the variety of products is limited, prices are high and packaging quantities are not geared towards professional use. There is a strong need for companies such as Consumables trader A and Consumables trader E to offer importing services to the professional market.

Consumables trader E jumped at the opportunity to develop the business-to-business market

Consumables trader E is a spin-off from Restaurant A. As one of the most successful restaurants in Kinshasa, Restaurant A kept receiving requests from professional clients to supply to them products that Restaurant A imports for its business. Few establishments go through the hassle of importing their goods themselves; they mostly purchase their products in local supermarkets. This gave the owner of Restaurant A the idea to create an importing company, Consumables trader E. Consumables trader E is currently a supplier of several CASF portfolio companies, and is supported by XSML through ARF.

4.4 Value chain linkages

Hospitality and other services sample SMEs are the most interlinked with other local sectors

The challenge for the DRC is to move from a traditional economy dominated by primary activities into a more complex economy, generating higher-value-added activities. This would help reduce the country's dependency on commodity price fluctuations, and at the same time deliver higher-quality employment. Typically economies diversify by moving toward products that are close to what they already produce, for example by combining the existing capacities of different sectors.

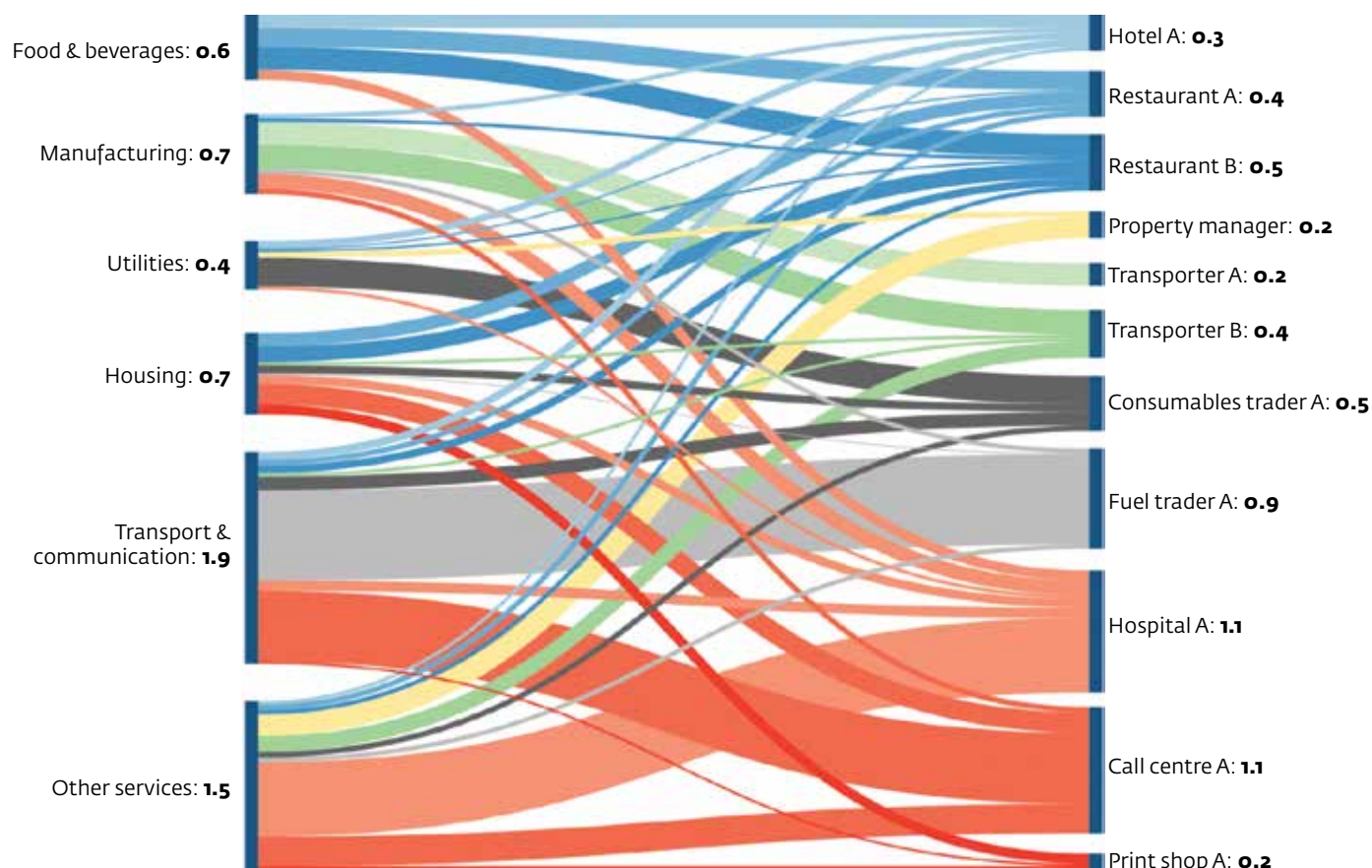
Through their local sourcing, sample SMEs can play an important role in the diversification of the DRC economy. Local sourcing creates linkages between companies within CASF's portfolio. These linkages facilitate knowledge transfers between sectors, which can help 'push' a country towards producing more complex products. The stronger and more diverse the linkages the SMEs generate, the stronger their potential contribution to the diversification of the DRC economy.

Exhibit 11 depicts the interlinkages between sample SMEs and sectors in the DRC. The lines represent money flows from the CASF SMEs to the different sectors. The thicker the line is, the higher the value of the money flow.

© XSML



EXHIBIT 11: **LINKAGES BETWEEN SAMPLE SMES AND OTHERS SECTORS IN DRC (USD MILLION)**³⁴



The left side of the exhibit shows that hospitality SMEs and Hospital A have the most diverse linkages with other local sectors as they source from all other sectors in the local economy. They buy vegetables (food and beverages), uniforms (manufacturing), electricity (utilities), rent (housing), internet (transport and communication), and security services (other services). Call centre A and Hospital A on the other hand create the strongest linkages. They spend the most in absolute terms on other sectors in the local economy.

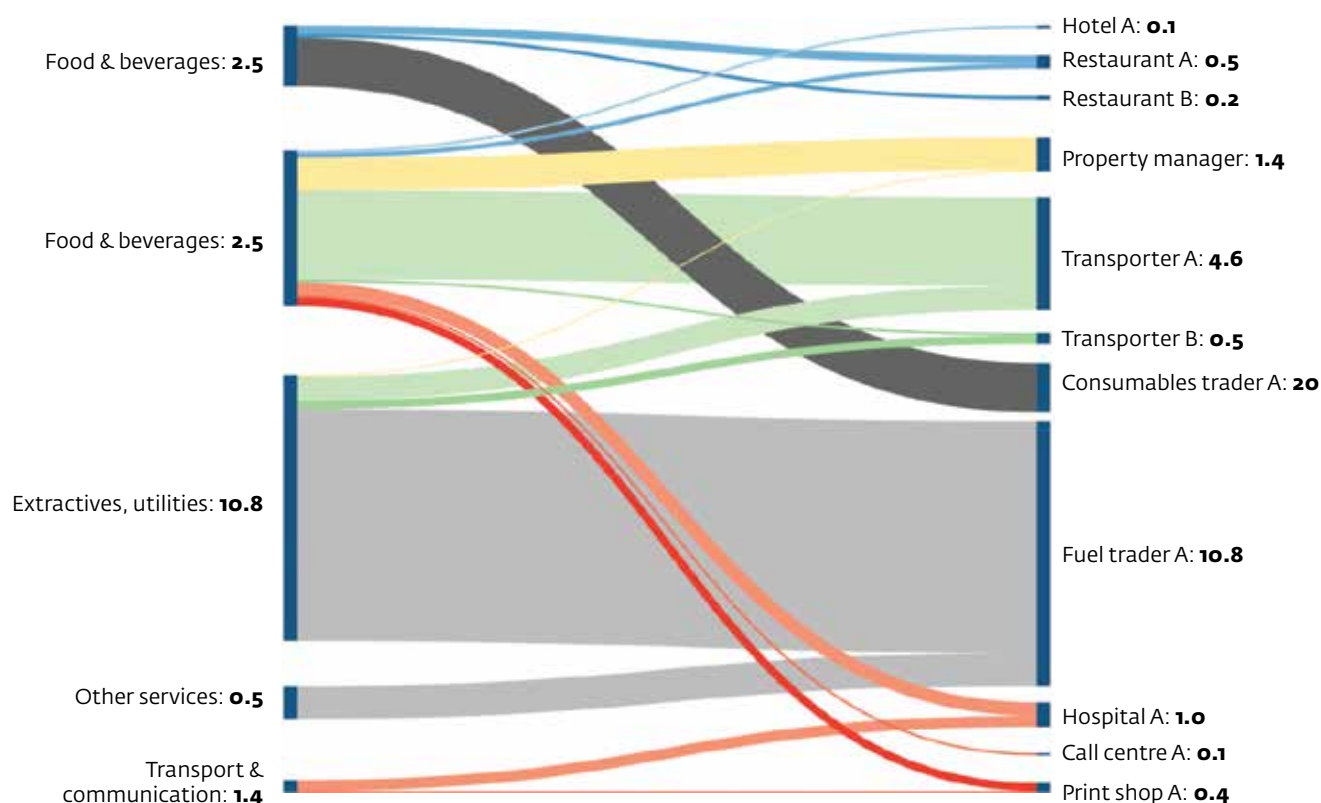
Transport and importing companies are the most dependent on sectors abroad

Exhibit 12 depicts the interlinkages between sample SMEs and sectors outside of the DRC. As can be expected, the importing companies Consumables trader A and Fuel trader A have the strongest linkages with sectors abroad. Other significant outflows relate to fuel and spare parts imported by Transporter A and Transporter B, and to textiles imported by Property manager A as a side business.

³⁴ Food & beverages include agriculture and manufactured food and beverages; manufacturing includes all other manufactured products and maintenance; other services includes security, financial, business, health, and education services.

As shown in Exhibit 12, fuel makes up the largest share of import costs. The large expenses on fuel show that CASF's SMEs are vulnerable to oil price shocks. Most of the fuel costs relate to Fuel trader A, which trades fuel and operates a few petrol stations. Transporter A and Transporter B need fuel for their trucks and boats, while most of the other CASF SMEs need fuel for their generators. Although it would be impossible to avoid the outflow of money related to fuel altogether, fuel costs could significantly be reduced if electricity supply in the DRC was more reliable.

EXHIBIT 12: **LINKAGES BETWEEN SAMPLE SMES AND SECTORS ABROAD (USD MILLION)³⁵**



³⁵ Food & beverages include agriculture and manufactured food and beverages; manufacturing includes all other manufactured products and maintenance; services includes communication, transport, security, financial, business, health, and education services.



© XSM

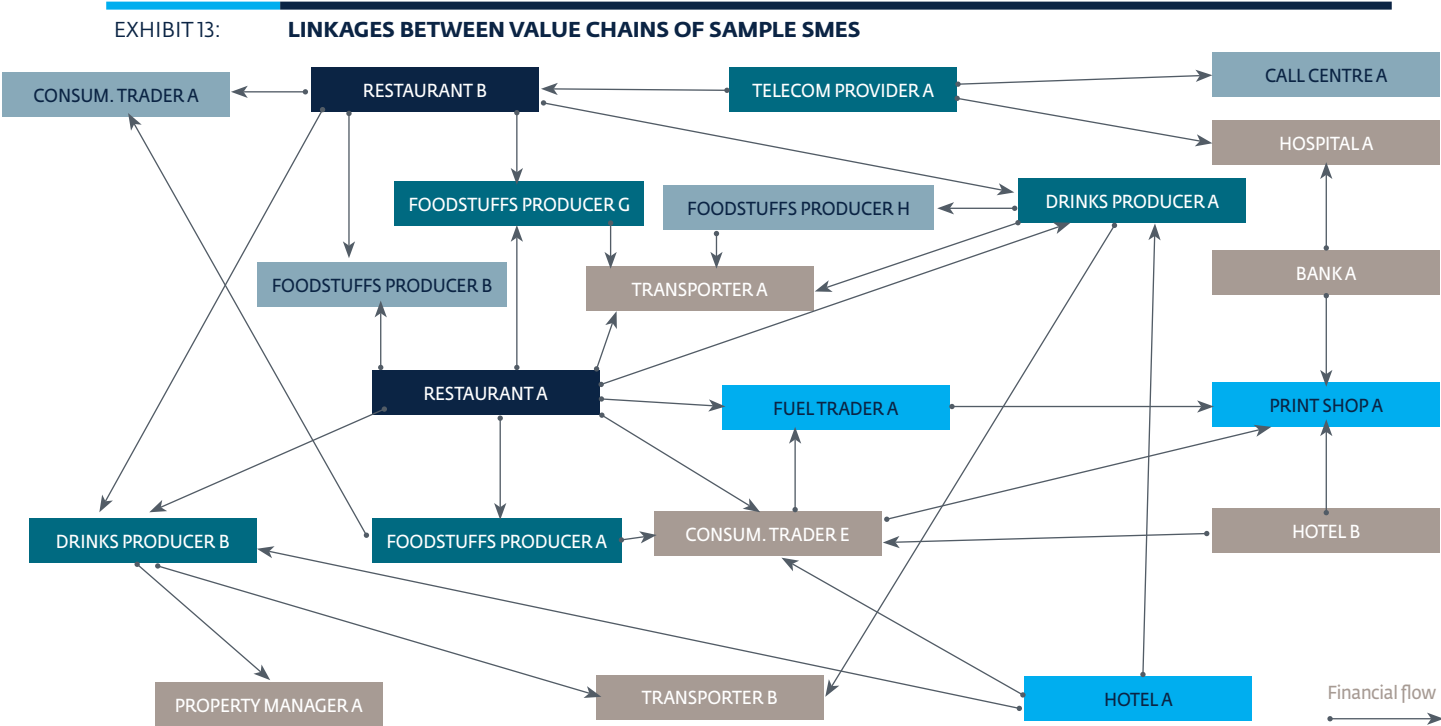
The high interconnectivity between different sample SME value chains creates synergies, but beware of weak spots

Exhibit 13 shows the linkages between different sample SME value chains. It depicts all sample SMEs (in blue) and suppliers and clients (in grey) linked to at least two sample SMEs. The darker colours represent more interconnections. The map is based on supplier names provided by Hotel A, Restaurant A, Hospital A, Print shop A, Transporter A, Consumables trader A, Restaurant A, and Consumables trader E.

Value chains of different sample SMEs are highly connected. As shown in Exhibit 13, the value chains of all sample SMEs except Property manager A are connected through one or multiple companies. Restaurant B and Restaurant A are the most connected sample SMEs, while Drinks producer A and Consumables trader E are the most connected external companies.

Strong interconnections could create positive synergies across CASF’s portfolio: if a company increases its revenues, several other companies in CASF’s portfolio will likely increase their revenues as well. However, strong interconnections could also pose a risk, as they could work the other way around.

The exhibit shows where an intervention of CASF could have the strongest positive synergies across its portfolio. If CASF chooses to provide (additional) support to a strongly connected company (inside or outside of its portfolio), this could boost the performance of its entire portfolio. The exhibit also shows which companies could potentially have a strong negative effect on the performance of CASF’s portfolio.



5. Job effects

5.1 Indirect jobs

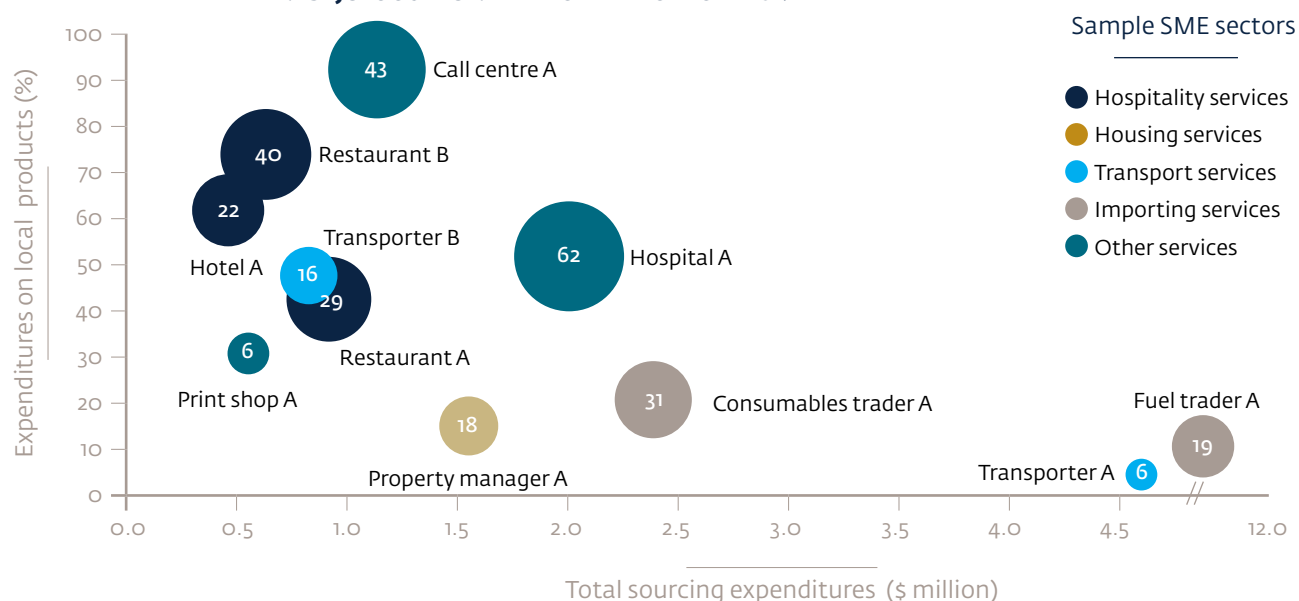
Sample SMEs supported about 292 indirect jobs in 2017, an increase of 46% since YOI

On top of their direct workforce, sample SMEs supported an estimated 300 jobs at suppliers by sourcing part of their products and services locally. The key drivers of these indirect jobs are:

SOURCING EXPENDITURES	LABOUR INTENSITY OF PRODUCT	LOCAL SOURCING SHARE
The more the company spends on sourcing of goods and services, the higher the company's potential to support indirect jobs.	The higher the labour intensity of the product sourced, the higher the company's potential to support indirect jobs.	The more the local products the company buys, the higher the company's potential to support local indirect jobs.

As shown in by Exhibit 14 Hospital A supports most indirect jobs, followed by Call centre A. Both companies have relatively high sourcing expenditures (above \$1 million), and procure more than 42% (median of CASF sample SMEs) of their inputs locally. Nevertheless, the labour intensity of the products sourced by Call centre A and Hospital A varies. The labour intensity of telecommunication services sourced by Call centre A is lower than that of health services sourced by Hospital A. Transporter A (together with Print shop A) supports the least indirect jobs. Transporter A has high sourcing expenditures, but sources very few products locally. A detailed breakdown of indirect jobs supported by sample SMEs is provided in Table 10 of Annex 5.

EXHIBIT 14: INDIRECT JOBS SUPPORTED BY SAMPLE SMES IN 2017



Indirect jobs supported by CASF's sample SMEs grew by almost 100 jobs since the YOI, which represents an overall growth of 46% and an annual average job growth of 14%. The latter is significantly higher than the DRC average labour force growth of 3%.³⁶

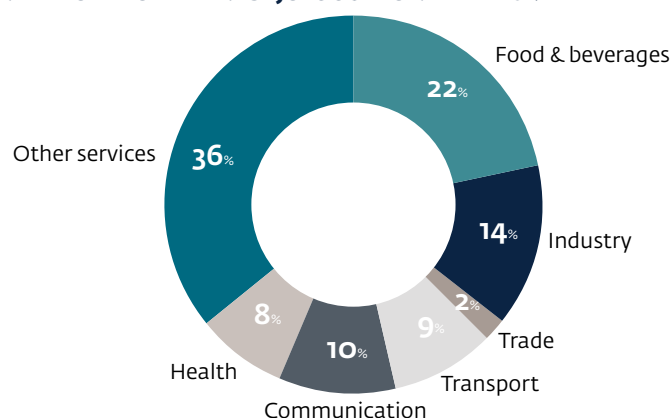
Hospital A, Call centre A, Hotel A and Print shop A contributed the most to the change in indirect jobs due to a significant increase in their revenues. In this study we assumed that if SMEs grew their revenues, supplier expenditures (and related jobs at suppliers) grew at the same pace.

Suppliers in food and beverages, and services sectors benefit most of the SMEs

Exhibit 15 shows that most of the indirect jobs supported in 2017 accrued in different types of service sectors. A large share of these jobs is in 'other services'. These are workers hired through employment agencies for security or cleaning, or jobs for specific chores such as offloading of trucks. The jobs in the communication sector mostly relate to Call centre A's use of the network of local telecommunication providers, while the indirect health services jobs relate to Hospital A's outsourcing of medical services (especially in ophthalmology). Sample SMEs support a relatively large number of jobs in the food and beverages sector as well. These are jobs in the farming of vegetables, fruit and livestock, as well as jobs at beverage producers. Most of the industry jobs relate to maintenance activities carried out for Transporter A and Transporter B.

The jobs supported mainly benefit the Kinshasa area: the sample SMEs are themselves located in Kinshasa and predominantly source from suppliers close to their premises. The food and beverages jobs are an exception; these jobs also accrue in the Goma area eastern DRC.

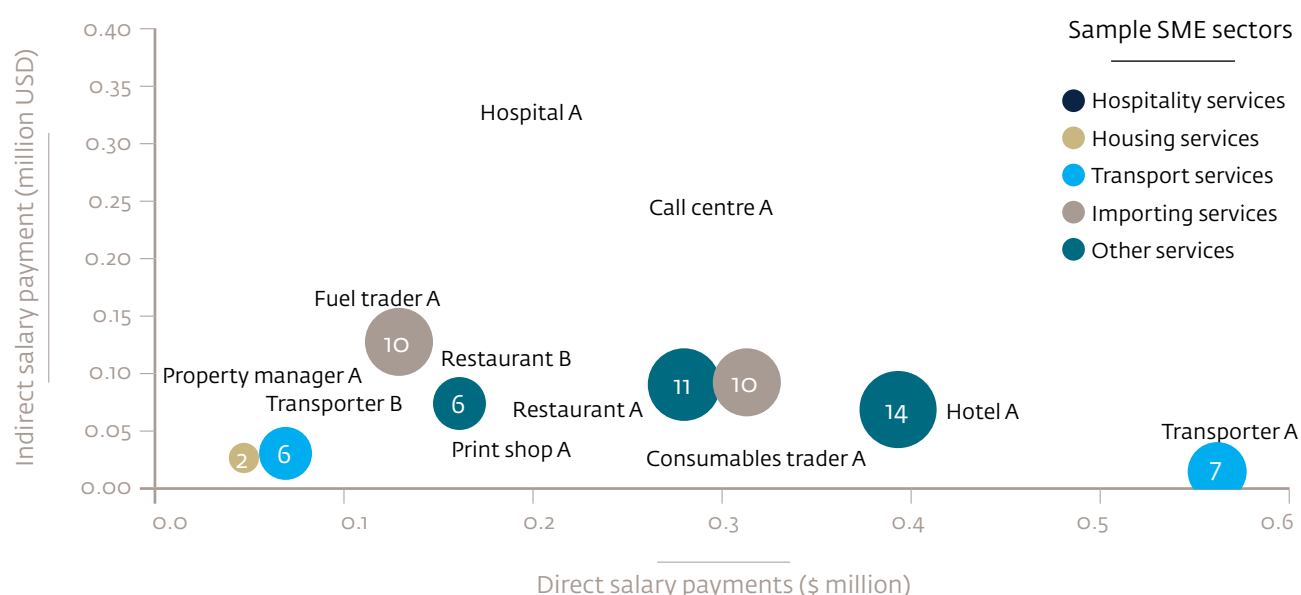
³⁶ World Bank Development Indicators 2012-2017. Excludes Hotel A as indirect jobs in the YOI are not based on a full year of operations.

EXHIBIT 15: **SECTOR BREAKDOWN OF INDIRECT JOBS SUPPORTED IN 2017**

5.2 Induced jobs

In 2017, salaries earned in value chains of sample SMEs supported about 154 induced jobs, an increase of 100% since YOI

By spending their salaries in the local economy, employees at CASF SMEs and at suppliers of CASF SMEs support induced jobs. These jobs relate to expenditures of households on housing, food and beverages, education for their children, utilities and other household costs. Exhibit 16 provides an overview of the induced jobs supported per sample SME.

EXHIBIT 16: **INDUCED JOBS SUPPORTED BY SAMPLE SMEs IN 2017**

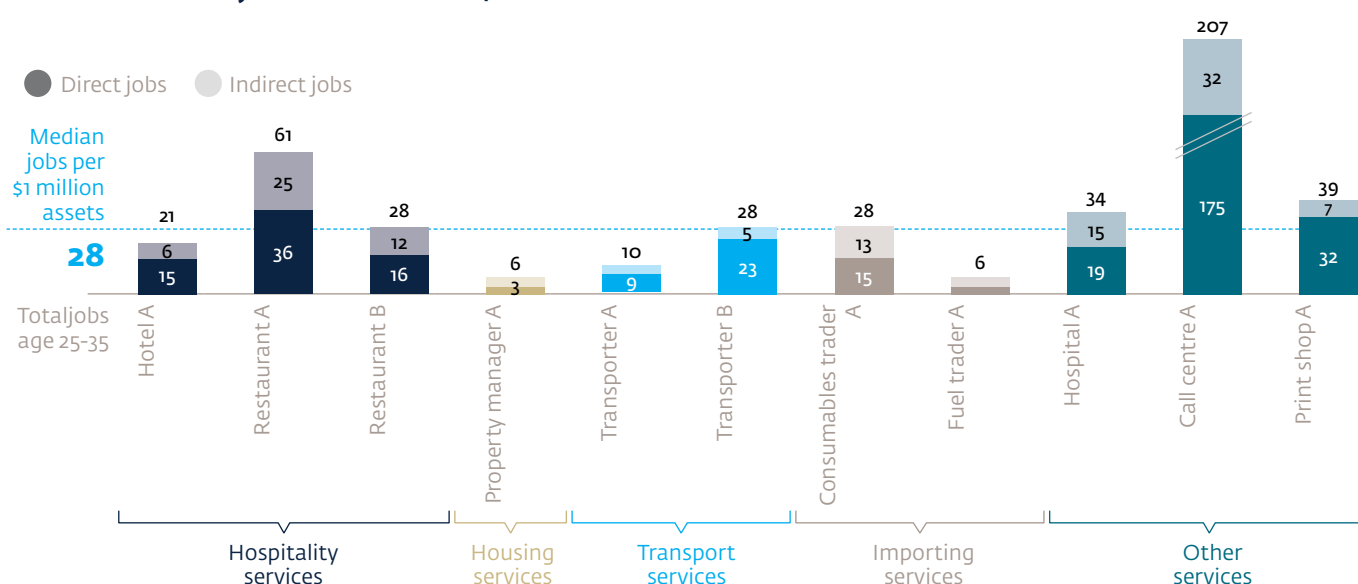
The salaries earned by employees of sample SMEs and their suppliers supported a total of 150 jobs in 2017, which is an increase of 100% compared to the YOI. The key drivers of induced jobs are direct and indirect salary payments. As shown in Exhibit 16, Hospital A supports the most indirect salaries (indirect health services jobs supported by Hospital A are relatively well paid), while Transporter A supports the most direct salary payments. A detailed breakdown of induced jobs supported per sample SME in the YOI and 2017 is provided in Table 10 in Annex 5.

5.3 Job multipliers

Each \$1 million of capital in CASF's sample SMEs supports about 28 direct and indirect jobs

Exhibit 17 shows the job multipliers (jobs supported per million dollars of capital) of sample SMEs in 2017. It shows that sample SMEs supported six to 207 direct and indirect jobs per \$1 million of assets, with a median of 28 jobs. These results are somewhat lower than the results of the IFC Jobs Study for Ghana carried out in 2012. The Ghana study found that \$1 million of capital provided to services companies in Ghana supports an estimated 50 direct and indirect jobs.³⁷ However, results are not fully comparable due to the small and less representative sample of this study.

EXHIBIT 17: **JOBS SUPPORTED PER \$ MILLION OF CAPITAL**³⁸



Job multipliers differ greatly between CASF's services sector companies. The high number of jobs per \$1 million of capital at Call centre A can be explained by the high labour intensity of call centre work. With relatively little assets, the company generates a high number of jobs. Fuel trader A, however, with its fuel trucks and stations, has a capital-intensive business, with relatively few employees. Of the services companies, Hotel A supports the least jobs. Just like Property manager A, Hotel A owns real estate, which leads to a relatively high asset value.³⁹

If we apply the assumption that CASF's capital has the same capital productivity as the SMEs' total capital shown in Exhibit 17, CASF could attribute about 300 jobs to its investments. Most of these jobs are related to CASF's investments in Call centre A and Hospital A due to high capital productivity at these companies.

³⁷ IFC Jobs Study (2013), Assessing private sector contributions to job creation and poverty reduction: https://www.ifc.org/wps/wcm/connect/0fe6e2804e2c0a8f8d3ba-d7a9dd66321/IFC_FULL+JOB+STUDY+REPORT_JAN2013_FINAL.pdf?MOD=AJPERES. Results are available for Ghana, Tunisia and Jordan, but only compared with Ghana as this country is most similar to the DRC.

³⁸ For Hospital A, Transporter A, Property manager A, Consumables trader A and Print shop A, asset data for 2017 were not available. For these companies jobs have been compared with the most recent asset data available.

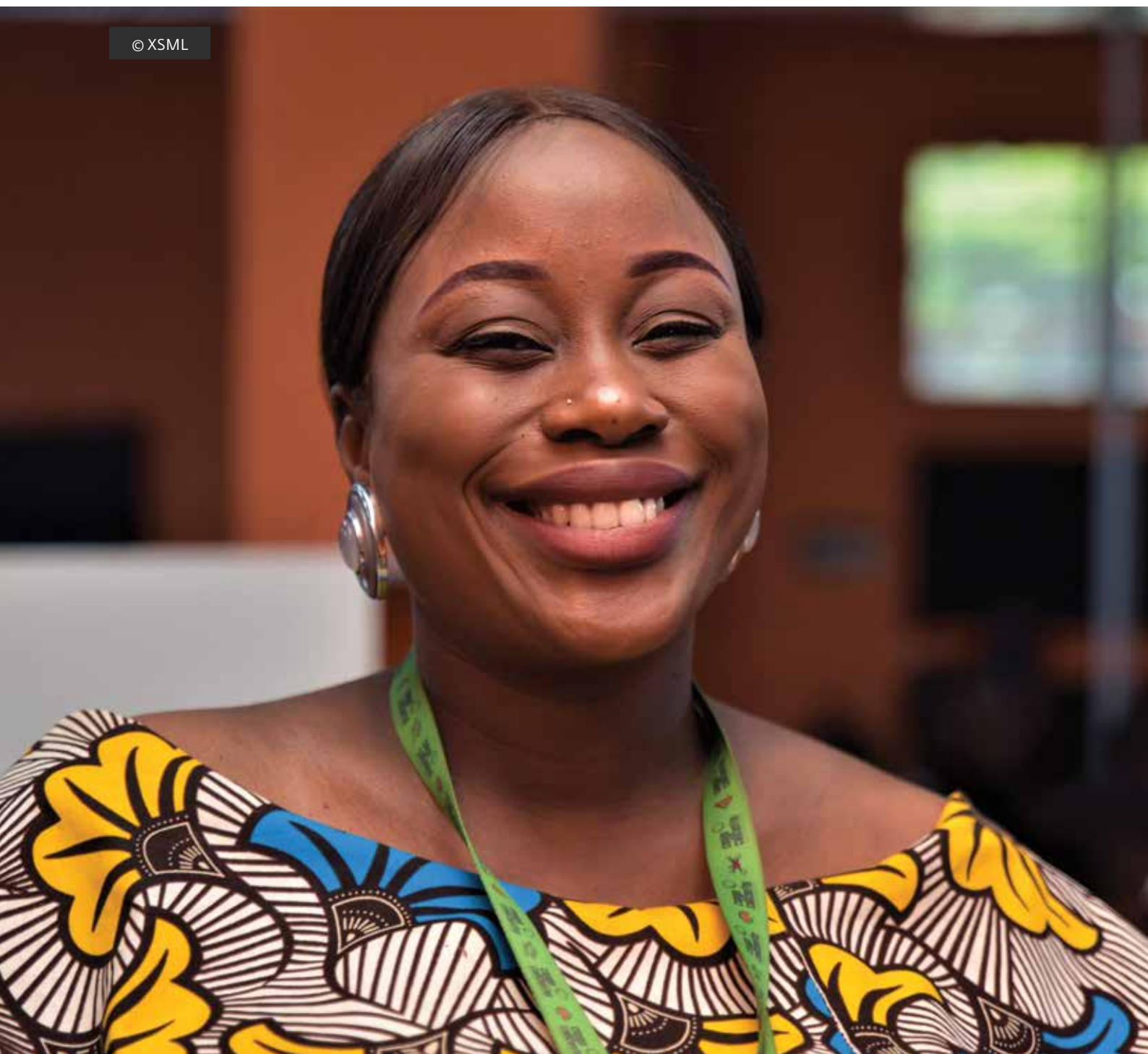
³⁹ Due to data gaps we have not been able to analyse how capital productivities have changed since the year before investment.

Attribution of impact to invested amounts

There is still much discussion about how investments lead to additional revenue and subsequently to additional jobs. Ideally one would know the marginal capital intensity of a company: how much additional revenues does the company generate per dollar of (new) capital invested. However, marginal capital intensities are often not available, as revenue changes are the result of many coinciding factors which are difficult to track down.

An often-used approach is to apply constant capital productivity ratios, assuming that each new dollar of capital generates as much revenues as existing capital. This could, however, lead to an overestimation of effects. For example, if (part of) the new capital is used to replace existing capital, revenues are sustained, but they do not necessarily grow.

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6. Fragility effects

6.1 Link between fragility and CASF

FUND STRATEGY

There is a minimum level of stability, security, and market size required for viable investing into fragile states

Despite a similar level of fragility in CAR and the DRC (ranking 5th and 6th on the Fragile States Index respectively), XSML indicated that investments in the DRC are economically viable, whereas in the CAR they are not. According to XSML, this can be explained by the absence of a basic feeling of security and trust in the CAR, which creates an explosive situation whereby people have little to lose and are not open to building business relationships. In the DRC, XSML indicated that the moderate level of security is sufficient to support entrepreneurship, even in the east where violent incidents are relatively frequent.

However, XSML pointed out that low purchasing power in fragile states makes it hard to find critical mass. The fund manager therefore only invests in urban areas. In the DRC, all portfolio companies are located in and around Kinshasa and Lubumbashi; with about 11 million and two million inhabitants respectively, these are the most populated cities in the DRC. The cities serve as the country's official capital and the mining capital respectively, and income levels are relatively high. Average salaries in Kinshasa are about 1.5 times higher than in other urban areas, and 3.6 times higher than in rural areas.⁴⁰

XSML combines universally applicable investment criteria with fragility-specific criteria

XSML selects its investments based on universally applicable criteria. These can be summarised in the following four questions, which should be answered with 'yes', in order of importance:

1. **Does the entrepreneur have the right skillset?** The entrepreneur should be well equipped to grow its company.
2. **Is the entrepreneur willing to cooperate?** In the due diligence phase, XSML identifies a range of elements the entrepreneur could improve to grow its company. The entrepreneur should be open to XSML's assistance, and to work on the improvement potential.

⁴⁰ INS, 2012.

3. **Does CASF's investment size match the needs of the entrepreneur?** CASF's maximum investment size for the first round is \$500,000, which limits the possibilities for the fund to a specific set of companies.
4. **Is the company operating in a growth sector within XSML's investment scope?** XSML specifically targets growth sectors such as consumer-related products. It further follows the IFC exclusions list, and avoids over-exposure to certain sectors.

XSML indicated that although these criteria are universally applicable, they are more important in the DRC's fragile state environment because business hurdles for entrepreneurs are greater than in other countries.

On top of these general investment criteria, XSML implements three other conditions specifically related to the fragile state context. These can be summarised in the following three questions:

1. **Is the company operating in a sector without heavy government involvement?** XSML does not invest in sectors dependent upon concessions from government, or sectors that carry out services for the government. An example is waste collection and processing. Investments in this sector are strongly needed as there is no functioning waste system in the DRC and waste regularly blocks the drainage system, which causes flooding. However, this is typically a sector with direct links to the DRC government, and XSML therefore does not invest in this sector.
2. **Is the value chain of the company simple and manageable?** XSML tries to avoid additional complexity on top of the fragile state context. It therefore targets companies with relatively simple, controllable value chains that deliver products and services directly to consumers. This helps XSML to avoid/reduce dependency on changes in commodity prices and on suppliers and/or customers in the informal sector.
3. **Is the company located in proximity of the fund management team?** XSML pointed out that strong oversight is important in fragile contexts such as the DRC, both in managing the fund and in managing portfolio companies. The fund manager needs to put a lot of effort into building trustworthy relationships with entrepreneurs, and in educating them on fund reporting and repayment practices.

The lack of a functioning state presents investment opportunities

The government in the DRC does not adequately provide public goods. While this on the one hand hampers the private sector, it also provides opportunities. Two examples are:

- **Education:** in the DRC, primary school is compulsory and public education is in principle free. However, the education system in the DRC is plagued by low coverage and poor quality. This leaves a gap in the market that is serviceable by private schools, especially in urban areas where purchasing power is higher. For example, in Kinshasa, only one third of the schools are public schools.⁴¹ CASF used this opportunity and invested in four schools, both in Kinshasa and Lubumbashi.
- **Healthcare:** the Congolese health system is in a deplorable state. An estimated 70% of the Congolese population have little or no access to healthcare, while hospitals lack personnel

⁴¹ <http://www.irinnews.org/report/94196/drc-millions-miss-out-basic-education>

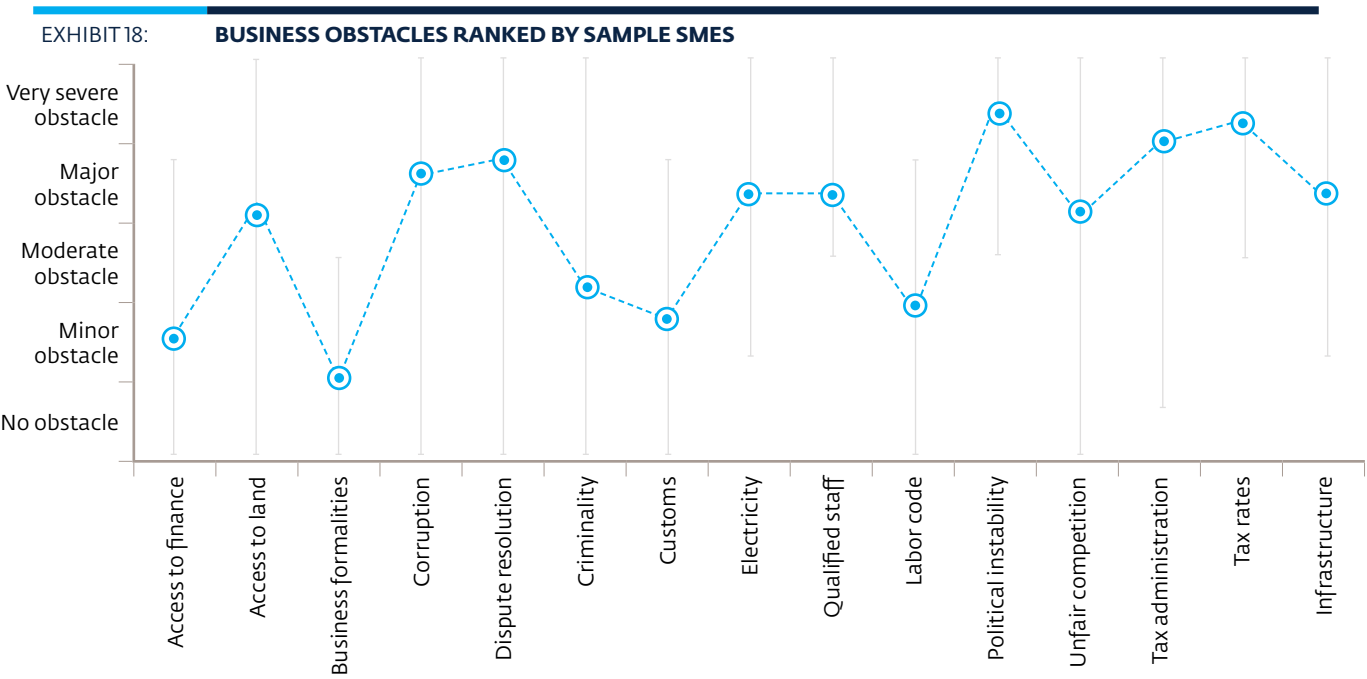
and equipment.⁴² Also in Kinshasa, quality healthcare at reasonable prices is hard to find. CASF recognised this gap and invested in Hospital A. The investment helped the owners grow from only providing medical emergency services to developing a major healthcare clinic offering consultations, surgery, and hospitalization to private and corporate clients.

SME PERFORMANCE

Political instability is the main business obstacle of SMEs, costing them up to \$8.5 million annually, equal to 330 fewer jobs supported

As shown by Exhibit 18, all SME owners report that political instability is a moderate to severe business obstacle. Furthermore, seven out of 11 sample SMEs indicate that political instability is their most severe obstacle. In 2018, political tensions due to the delayed presidential and parliamentary elections rose, and anti-government protests were taking place regularly throughout the country. During these protests, and the days before and after, the government intentionally shut down internet access, public transport was disrupted, and people hardly left their homes. This directly affects portfolio SMEs:

DROP IN REVENUES	PROBLEMS WITH STAFFING	DISRUPTION OF SUPPLY
Businesses and other organizations cancelled and/or postponed projects in DRC, and local consumption dropped.	SMEs faced problems with their staffing as employees could not get to work using public transport on the days protests were scheduled.	Disruption of transport led to delivery problems and subsequent shortages.



⁴² <https://www.usaid.gov/democratic-republic-congo/global-health>

SMEs estimate that political instability costs them approximately 3% to 70% of their annual revenues. SMEs estimated their lost revenues as follows:

- The **hospitality SMEs** based their estimates on the decline in real revenues compared to projected revenues for the months September to December in 2017, when the political tensions heightened. Hotel A received fewer hotel room bookings and/or cancellations, while Restaurant A received fewer guests in its restaurant.

"In the weeks of anti-government protest, cancellations significantly increased."

Owner of Hotel A

- **Print shop A's** estimates are based on forced closure of three days per month during September to December 2017 due to planned and real demonstrations.
- The owner of **Property manager A** based her estimates on the reduction she implemented in apartment rent following the drop in purchasing power.

"Several contracts have not been renewed as companies face significant difficulties due to the current political instability."

Owner of Hospital A

- **Transporter A** and **Hospital A** considered the drop in client contracts/orders following the political tensions.
- **Transporter B** and **Call centre A** based their estimates on their envisaged market potential if clients, banks and consumers would invest instead of keeping their money in their pocket.

In 2017, the revenues lost by the 11 sample SMEs added up to about \$8.5 million, equal to 18% of total sample SME revenues. A loss of revenues means that fewer people are needed in operations and that fewer inputs are procured from suppliers, leading to an estimated 330 fewer direct and indirect jobs supported, equal to 34% of total jobs supported by sample SMEs.⁴³

Tax harassment is pervasive in the DRC

Next to political instability, sample SME owners identified tax administration and/or tax rates as major business obstacles. They interpreted these categories to be part of what is often referred to as 'harcèlement des fonctionnaires publique'. Sample SMEs indicated that the current political instability makes public officials more greedy than they were previously.

"If you want to operate in this country you cannot oblige the law."

Owner of Fuel trader A

SME owners complained that the Congolese tax system is not transparent and is time consuming. Tax laws and rates are unclear, leaving much over to interpretation of public officials, who will do all they can to charge extra tax payments.

⁴³ Calculation per sample SME: revenues lost * direct & indirect jobs supported per dollar of revenue. The latter ratio could be derived by dividing the direct and indirect jobs supported by a sample SME in 2017 by the total revenues of the sample SME in 2017.

For example:

- Tax officials often do not believe that revenue declines take place. They keep on taxing the SME at the same rate applied to higher revenues.
- Tax officials often increase taxes when profits and/or revenues are high, even if all official taxes are already paid.

To mitigate this risk, SMEs often have two sets of books: one for the fiscal authorities and one for management purposes. The revenues and profits in the books for fiscal authorities are usually lower than in the management books, to avoid problems later on if revenues drop. To avoid any personal involvement in tax harassment, the owner of Print shop A has outsourced all tax administration to a fiduciary office.

Corruption is the 'modus operandi' and costs CASF SMEs at least \$0.5 million annually

Some SMEs consider corruption a major business obstacle and others do not. However, the arguments of both groups are the same: corruption is part of daily life in the DRC, and SMEs are used to dealing with it. Examples of how corruption is part of the normal 'modus operandi' can be described by the following observations:

"On a daily basis, employees of NGOs and banks ask me to put a higher amount on the invoice than what is actually paid. If I don't accept this, I am out of business."

Owner of Print shop A

"As soon as a truck leaves our warehouse the driver will be stopped. Although all documents are in good state, the driver has to pay a fee. Each week I pay the highest ranked officer down the road \$100, and the lowest ranked one \$50. Total corruption payments per month add up to \$1,000."

Owner of Transporter B

Illicit trade and unfair competition pose serious problems

The DRC faces persistent problems with border porosity, which leads to booming illicit trade. Furthermore, the country's large informal sector and various tax exemptions create unfair competition. According to CASF's sample SMEs, these problems are aggravated due to the political instability in the DRC. For example, Fuel trader A faces strong competition from illegally imported fuel. People buy the fuel in Angola where it is heavily subsidized, and subsequently sell it for half the official selling price on the Congolese market. Print shop A also indicated that unfair competition is pervasive. The company mentioned some of its competitors do not pay taxes and import at a lower price.

Unfair competition in transport

Transporter A that transports goods from the Matadi and Boma ports for its clients has noticed a strong decline in vessels arriving in Matadi. The owner of Transporter A partly ascribes the drop to an increase in illicit trade over land, which reduces shipping imports through official canals. Furthermore, the company

reported unfair competition from Chinese transport companies. According to Transporter A, the Chinese arranged a deal with the government to receive tax reductions for Chinese companies in return for their support with building roads. As Chinese companies do not pay toll fees and import taxes, they are able to reduce their prices, which resulted in a price war between transporters. Transporter A reduced its margins from 8% to 2%.

Business hurdles identified by sample SMEs differ from the results of the WB ES. Sample SMEs indicated that political instability is their main business hurdle. However, companies participating in the WB ES in the DRC in 2013 predominantly chose electricity as the biggest business hurdle, followed by access to finance. These differences can be explained by the difference in sample and changes in the political situation (see Section 4.2). Furthermore, our sample is biased towards companies for which access to finance is not an obstacle (they all received capital from CASF). The sample SMEs indicated that although access to finance is not a problem for them, they do see it is a problem for other companies in the DRC.

6.2 Link between CASF and fragility

DECENT JOBS CREATED

Creating decent jobs could positively influence the drivers of conflict by reducing grievances related to under or unemployment and/or increasing opportunity costs of conflict.⁴⁴ While high grievances and low opportunity costs of conflict are pervasive across the DRC, they are particularly pressing for youth and in conflict-affected areas (e.g. Kivu, Kasai, see Exhibit 3).⁴⁵

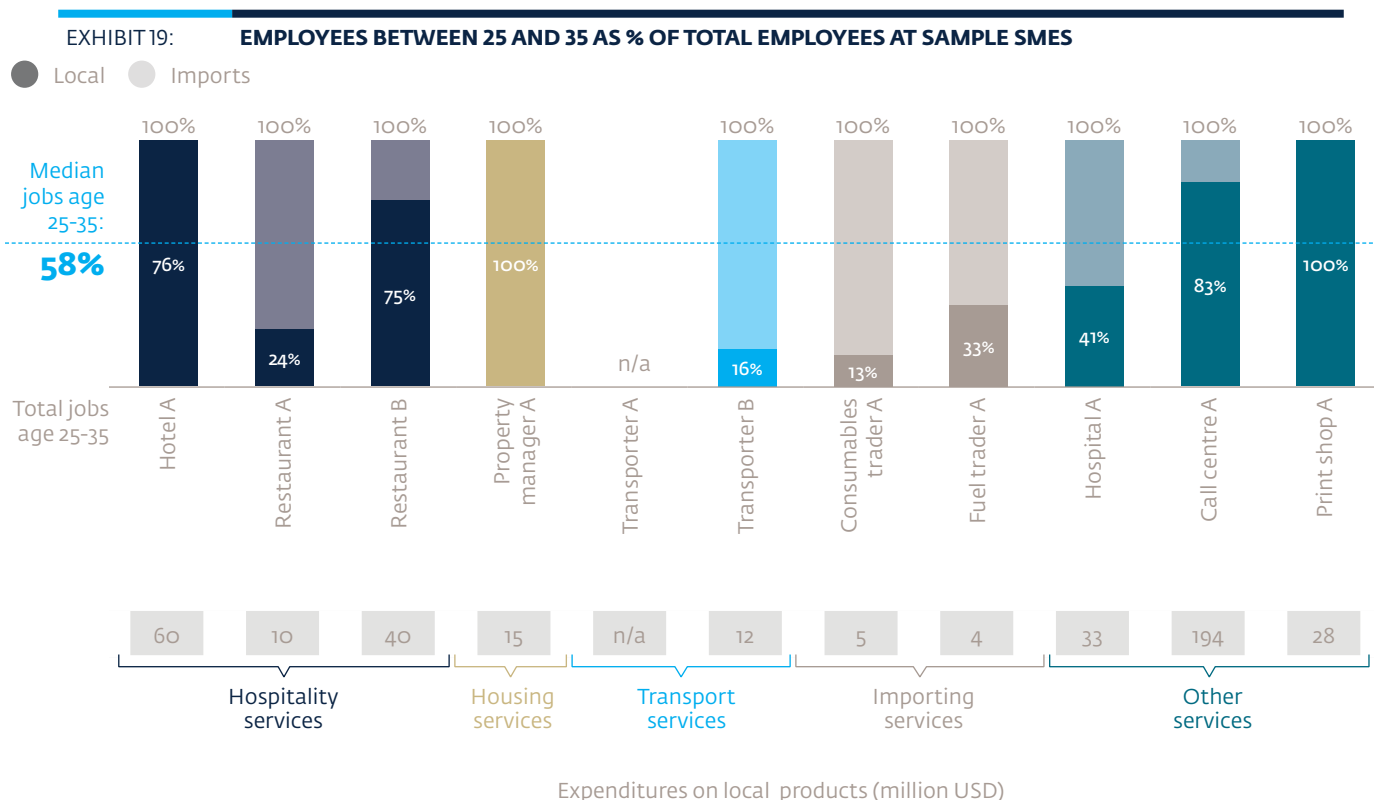
Sample SMEs employ a total of 690 workers, among which 400 are young people

As was shown in Table 10, since year of investment, seven sample SMEs have been able to grow their workforce, one kept the same staff, and three SMEs reduced their personnel. The total increase in jobs (+338) is much higher than the total decrease in jobs (-84), leading to a net positive change of 254 jobs (58%). This could point towards an overall positive contribution to the drivers of conflict, despite a negative change for some people.

Out of the 690 workers employed by the 11 sample SMEs in 2017, 400 are between 25 and 35 years old. As is shown by Exhibit 19, some companies only employ young people. Transport and trading companies employ the fewest young people.

⁴⁴ Jobs AID Peace, A Review of the Theory and Practice of the Impact of Employment Programmes on Peace in Fragile and Conflict-affected Countries, Tilman Brück, Neil T. N. Ferguson, Valeria Izzi & Wolfgang Stojetz, September 2016

⁴⁵ In DRC, unemployment is a major problem that disproportionately affects young people. The number of young people (aged 25-35) as a share of the total inactive population rose by about 5% from 2005 to 2012. Sanchez-Reaza, Javier. 2018. Jobs diagnostic: Democratic Republic of Congo (English). Jobs Series; issue no. 12. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/822881517551920780/Jobs-diagnostic-Democratic-Republic-of-Congo>



Work conditions of employees on the payroll of SMEs meet or exceed national standards

Although there are laws in the DRC defining labour conditions such as the duration of a standard workweek (between 45 to 72 hours), minimum wage (\$1.83 per day) and occupational health and safety standards, many employers do not respect these provisions. Law monitoring and/or enforcement mechanisms are weak.⁴⁶ This places a responsibility on companies to put in place their own structures to ensure good business practices.

To the extent assessed in this study, most CASF SMEs implement good business practices. People employed at CASF SMEs typically work 48 hours, from Monday to Saturday, in line with the national standard workweek. Except for Restaurant B and Hotel A employees, all employees interviewed had a permanent contract with the CASF SMEs. The employees at Hotel A were hired through an employment agency, while the employees at Restaurant B did not have a contract at all. The employees who were on a contract with the CASF SMEs all received the government-mandated benefits such as medical coverage and travel expenses. On top of the government-mandated benefits, some CASF SMEs provided additional benefits to their employees. For example, an employee of Restaurant A received a contribution to the school fees of his children, while an employee of Transporter A received a contribution to his wedding costs. In interviews employees did not express grievances related to occupational health and safety (OHS) standards. Nevertheless there might be concerns. For example, CASF noted in its ESG risk assessment that noise levels at Call centre A were higher than the admitted threshold, which could lead to hearing damage. Hence, OHS standards remain a point of contention.

⁴⁶ <https://www.export.gov/article?id=Congo-Democratic-Republic-Labor-Policies-Practices>

"I feel my employer is really involved with the well-being of employees. Due to the additional support I received for school fees, I can send my children to a good school."

Employee of Restaurant A

"In the past nine years at Transporter B I climbed up to Operational Manager. When I retire, the company will help me buy a plot of land to build my own house."

Employee of Transporter B

"The only good employees come from other companies who trained them. Other transporting companies continuously 'steal' employees from us."

Owner of Transporter A

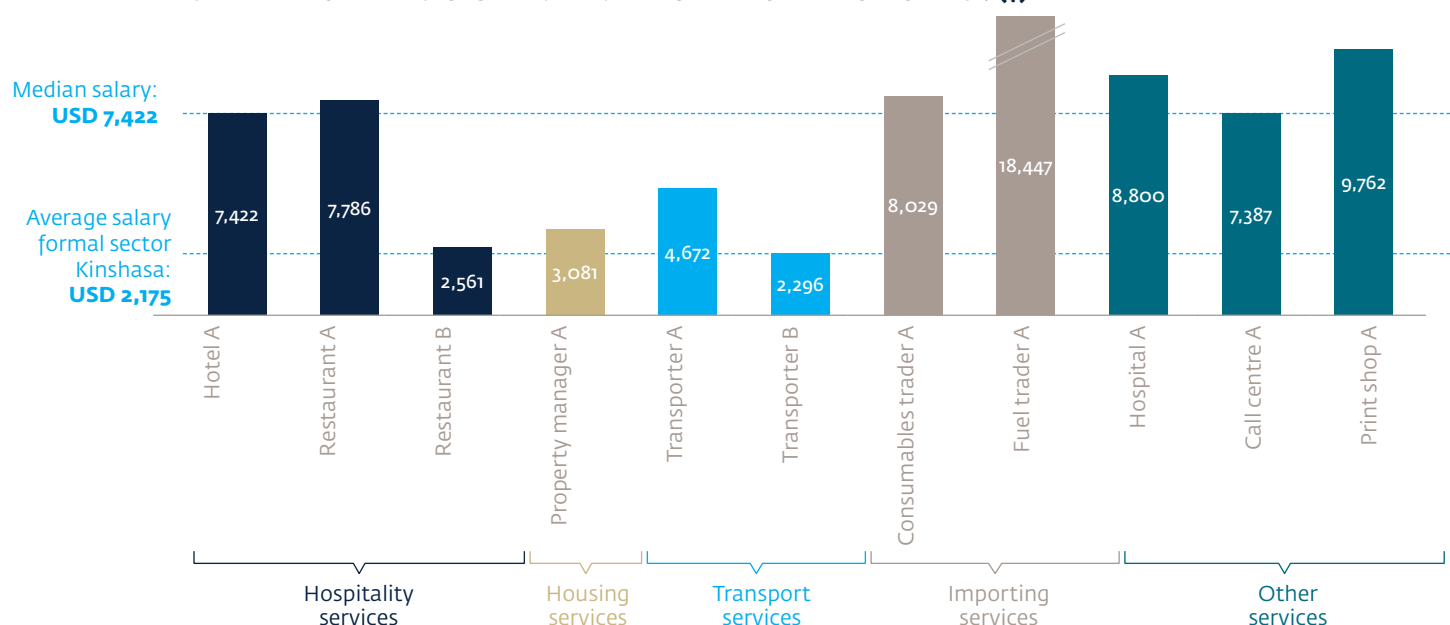
All company owners indicated that it was very hard for them to find loyal and qualified employees. They invest significantly in their staff. Almost all employees indicated that they received on-the-job training. In addition, a few employees (e.g. at Print shop A and Fuel trader A) received external training. The on-the-job training includes sales training, IT training and project management, while the external training covered health and safety standards (Fuel trader A) and advanced printing skills (Print shop A).

Salaries earned by employees at sample SMEs are above the formal sector average

As shown by Exhibit 20, average yearly salaries per employee at sample SMEs vary from \$2,300 at Transporter B to \$18,450 at Fuel trader A. Salaries at Restaurant B, Property manager A and the transport companies Transporter A and Transporter B are relatively low as they typically employ lower-skilled workers (e.g. waiters, cleaners and drivers respectively) and only a few managers. Compared to Restaurant B, salaries at Hotel A and Restaurant A are relatively high due to high salaries for the owner and management at Hotel A, and high salaries for expatriates at Restaurant A. Fuel trader A's high average is also strongly influenced by the expatriate salaries. The average salaries at sample SMEs are more than the average in the formal sector in Kinshasa.⁴⁷ The difference between the lowest and highest pay is the highest at Consumables trader A with a ratio of 1:22, while Transporter B has the lowest ratio (1:3). The ratios between the lowest and highest paid staff of CASF SMEs are generally low. For example, disclosed ratios of publicly traded companies worldwide reach up to 1:265 in the US, 1:180 in South Africa and 1:58 in Japan.⁴⁸

⁴⁷ INS, 2012. While wages have gone up since 2012 due to inflation, we expect the increase in wages in dollar values to be limited.

⁴⁸ Ratios are not fully comparable. The ratios of publicly traded companies compare CEO compensation with the average compensation of workers, while CASF ratios compare compensation of higher management with the lowest compensation of workers. <https://www.bloomberg.com/quicktake/executive-pay>.

EXHIBIT 20: ANNUAL AVERAGE SALARY PER EMPLOYEE AT SAMPLE SMES IN 2017 (\$) ⁴⁹

The extent to which the jobs at CASF SMEs positively affected grievances and opportunity costs of conflict for their employees remains uncertain

To the extent assessed, the direct jobs at sample SMEs are decent jobs: working conditions meet or exceed national standards and salaries are above formal sector average. However, it is not possible to determine to what extent the employment opportunities reduced grievances or increased opportunity costs of the workers. The following should be considered:

- **Employees consider salaries insufficient to sustain a living.** Most employees support more than five family members with their salaries. Besides their children, they usually also support parents, siblings and/or other family members. They all complained that costs of living have gone up significantly in the last year. Their main costs are rent, alimentation and school fees for their children. Furthermore, despite the relatively high average salary at all sample SMEs, some individual employees earn less than the formal sector average salary in Kinshasa. For example, cleaners at Property manager A, earn only \$1,200 per year.
- **Employees were previously employed under similar working conditions.** Except for two employees who just finished their education, all employees were employed before they started working at the CASF SME. Most of the employees indicated working hours and general working conditions at their previous job were similar to the working hours at the CASF SME. However, most employees indicated their current salary is higher.
- **CASF SMEs predominantly provide job opportunities in relatively stable areas.** The employment effects related to CASF SMEs predominantly benefit the areas in and around Kinshasa and Lubumbashi which are relatively stable. As shown in Exhibit 5, most SMEs are located in or around Kinshasa and Lubumbashi. Although the two big cities are plagued by political tension and demonstrations, these are among the most stable areas in the DRC, where grievances are likely to be relatively low compared to other areas in the DRC.

⁴⁹ DRC annual average for the formal sector in Kinshasa: INS.

JOBS SUBSTITUTED OR POOR JOBS

While the creation of decent jobs might positively contribute to the drivers of conflict, job substitution, or deplorable working conditions could adversely affect these.⁵⁰

Jobs at sample SMEs might have substituted other jobs, while working conditions in supply chains might be poor, particularly for agency workers

Growth of sample SMEs could have substituted jobs outside their value chains. For example, XSML mentioned that Print shop A took away some business from other local print shops, and that one of its schools took away some teachers and students from the nearby public school.

SMEs hire a significant number of employees through agencies, mostly for specific tasks such as security, cleaning, construction work or development of communication materials. However, Hotel A also hires its core staff through an employment agency (e.g. staff working at the reception), while Transporter B hires daily labour to load and offload its ships and trucks. This allows companies to be flexible in their staffing. To what extent employment agencies adopt good business practices is uncertain. The Hotel A employees interviewed who worked for an employment agency had less favourable working conditions than the employees on a contract with a CASF SME. They had a temporary contract for one year instead of a permanent contract, and indicated that they did not receive medical coverage (although it was in their contract). This shows that not all employment agencies hired by SMEs implement national labour standards in their daily practices. This can be especially precarious in jobs where health and safety risk are high (e.g. in construction).

DEMONSTRATION EFFECT

The 17 portfolio SMEs owned by ethnic-Congolese citizens set a positive example for the Congolese community

Investing into businesses that are owned by ethnic Congolese could positively affect the grievances and opportunity drivers of conflict. Starting with the latter, the opportunity costs of conflict increase for entrepreneurs when an investment is made. They benefit from a stable market to grow their company and thus have an incentive to avoid conflict. This is a direct and positive effect, yet of course is limited to the relatively small number of companies that a fund can support.

A much greater impact can be achieved by demonstrating to a wider audience that investments are being made in local businesses, owned by people they identify with. It shows that they, or the community they belong to, have access to finance if they are successful entrepreneurs. That demonstration effect signals that they are not excluded from the economic system in their country and can therefore reduce their grievances. This is of crucial importance in developing countries like the DRC where investors tend to allocate a significant share of their capital to companies owned by foreign entities, foreign citizens or Congolese citizens of foreign descent.

⁵⁰ Jobs AID Peace, A Review of the Theory and Practice of the Impact of Employment Programmes on Peace in Fragile and Conflict-affected Countries, Tilman Brück, Neil T. N. Ferguson, Valeria Izzi and Wolfgang Stojetz, September 2016.

As Table 10 shows, of CASF's 28 portfolio SMEs in the DRC, 17 companies are owned by ethnic Congolese, while the others are owned by Congolese of foreign descent or by foreign citizens. This means the fund increased opportunity cost for at least 17 people to engage in conflict. It is hard to estimate how many people from the wider audience were positively influenced in terms of grievances by CASF, but it is certain that the fund's demonstration effect is used at two levels:

1. **At the level of the portfolio SMEs:** the business owners show to the people in their professional and social surroundings that a member from their community can have access to finance if they have a business with potential.
2. **At market level:** both XSMIL and IFC use CASF's demonstration effect in their conversations with stakeholders (e.g. international funders, local fund managers, and government authorities) to convince them of the business case for investing in local businesses.

TABLE 2: **OVERVIEW OF OWNERSHIP OF SMES**

PORTFOLIO SMES OWNED BY ETHNIC CONGOLESE		PORTFOLIO SMES OWNED BY CONGOLESE OF FOREIGN DESCENT OR FOREIGN CITIZENS	
1. Hotel A	10. School B	18. Fuel trader A	26. Retailer B
2. Restaurant B	11. Restaurant C	19. Transporter B	27. Rental car company A
3. Hospital A	12. Land developer A	20. Restaurant A	28. Consumables producer B
4. Call centre A	13. Retailer A	21. Transporter A	
5. Property manager A	14. Logistics provider A	22. Consumables trader A	
6. Transporter C	15. Advertising services A	23. Print shop A	
7. Consumables producer A	16. Dry cleaner A	24. School A	
8. Logistics provider C	17. Logistics provider A	25. Pharmaceuticals producer A	
9. School C			

7. Conclusions

This study shows there is a viable SME investment opportunity in fragile state environments, if a basic level of trust exists between business people on which to build relationships, and if fund managers tailor their investment approaches to the market characteristics.

There are separate roles that CASF and IFC can play to materialise these opportunities. CASF, as an investor, proves that investing in these markets can be done. IFC, as a development finance institution, supports investors venturing into this environment.

Based on our research as to (i) the localness of value chains of CASF SMEs; (ii) the indirect and induced jobs associated with these value chains; and (iii) the link between fragility in the DRC and CASF's activities, we come to the following conclusions and recommendations:

CASF's sample SMEs use their potential to source locally, but hurdles in the domestic market impede them to do more

Conclusions

- Any company ideally sources from the local market. Unless local supply does not meet a company's requirements, there is no reason not to. Local sourcing limits currency risk, reduces lead times and improves supply chain control.
- About 42% of sourcing expenditures by the 11 sample SMEs relate to local products, in line with expectations given economic activity in the DRC. Positive outliers are the hospitality and services sectors which source up to 93% of their goods and services locally.
- The low local sourcing share can be explained by the DRC's limited industrial base. The sample companies in this study indicated that a lack of availability and scale, and low quality of manufactured goods were key hurdles for them to source locally, which led these companies to import from foreign suppliers. If these companies were to source more from the domestic market, the domestic market first needs to improve its industrial base in order to meet sourcing requirements.

Recommendations

Ideally this study would point to particular sectors where capital can have the largest employment effects. However, the sample of 11 companies is too small to generalize conclusions. Despite this limitation, we identified the following opportunities:

- CASF could enhance synergies between value chains of SMEs by (i) exploring whether local and foreign goods and services common to multiple SMEs could be sourced together (e.g. fuel, tires, vegetables, cleaning services); and by (ii) building capacity of, or investing in, suppliers of local and foreign goods and services linked to multiple SMEs (e.g. Seafood supplier A). This could improve supply chain quality and efficiencies, while reducing costs for portfolio SMEs.
- At a higher level, there is an opportunity for IFC, together with its partners, to improve local supply in the DRC, particularly by developing the local manufacturing sector. The manufacturing sector is often an important engine of economic growth and strongly interlinked with other sectors in an economy. Furthermore, sample SMEs disclosed significant demand for local manufactured goods. IFC could support the local manufacturing sector by investing into quality improvements (TA for skills development), and availability (financing for production). IFC could also try to unlock other private sector capital by developing risk mitigation instruments. Private sector investments into manufacturing are impeded by the DRC's fragile state environment and history of looting, which makes investments into sectors heavily relying on capital assets risky.

The jobs associated with CASF investments seem to meet or exceed national standards, but the jobs at employment agencies are a point of contention

Conclusions

- On top of the 960 direct jobs supported at all 28 portfolio SMEs, sample SMEs supported an estimated 300 indirect jobs and 150 induced jobs. The food & beverage and services sectors benefit most from these effects. In terms of capital productivity ratios, each \$1 million of capital supports 28 direct and indirect jobs which somewhat lower than studies in other regions (Ghana).
- Looking at the quality of the jobs supported, the sample SMEs seem to provide jobs of decent quality as company owners uphold national standards to the working conditions of their employees. Examples of those conditions are provision of government mandated health coverage and transport fees. Some employees provide additional benefits such as a contribution to school fees (Restaurant A) and to land acquisition (Transporter B). In addition, the employees receive an average salary which is higher than the national formal sector average in Kinshasa.
- The situation is different for flexible staff that portfolio SMEs hire from third-party agencies. Among all sample SMEs, the working conditions for these staff members appeared weaker. For example, agency employees received lower pay or lacked medical coverage. Although SME owners do not ignore the situation, they choose – in light of the long list of challenges they face on a daily basis – not to prioritize and act on the matter. Although this situation seems common practice among many employment agencies, it may lead to a risk of increased grievance among agency workers, which could negatively influence relations with the companies they work for. For IFC, this may result in reputational risk if its labour standards are not met.

Recommendations

- For CASF, it would make sense to assess the extent to which the working conditions for agency workers pose an operational risk to the portfolio SMEs or reputational risk to the fund itself. If there is a significant risk, XSML may want to request its portfolio SMEs to collaborate with an agency that meets a minimum standard.
- As an influencer in the DRC market, IFC may want to consider collaborating with market players like authorities and sector associations to improve the working conditions at employment agencies. Another option would be to support or invest in agencies that show best practices.

Sample SMEs are clearly affected by the fragility of the DRC's market, but the extent to which the companies positively influenced the drivers of conflict remains uncertain

Conclusions

- Based on the feedback from the sample SMEs, it can be concluded that the private sector suffers from the fragility in the DRC. The companies indicate that political instability and tax harassment are the most dominant challenges that result in a direct loss of revenues (on average 35%).
- However, it is not possible to determine to what extent the employment opportunities reduced grievances or increased opportunity costs of the workers. This is because (i) employees still consider their salary insufficient to sustain a living; (ii) they were already employed before they landed their current job; and (iii) the jobs are provided in regions of the DRC where conflict is less present. Furthermore, jobs at sample SMEs might have substituted job opportunities outside the value chain of these SMEs.

Recommendations

- CASF could explore investing in less stable areas (e.g. around Goma) to reduce drivers of conflict in regions where they are most prevalent. Furthermore, to avoid potential negative effects due to job substitution, CASF could consider investing in companies targeting growing market segments (e.g. the Congolese middle class and health services). If demand for products and/or services is high and supply is low, growth at one company will less likely reduce revenues of another company.
- Like CASF, IFC could explore investment opportunities outside the relatively stable and prosperous urban areas. IFC could look for partners (e.g. digital finance providers) that target unstable, rural markets where jobs can be provided to people who are now either unemployed or employed under poor working conditions. Furthermore, IFC could carry out market studies to help investors in targeting the right sectors and in avoiding job substitution.

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Annex 1:

Glossary

Adapt(at)ions	The remainder of company revenues less expenditures and value added. Components vary; the values may include stock movements, depreciation, amortization, and other unspecified costs. Parts of these costs are likely related to (local or imported) products from suppliers.
Capital productivity	The rate at which output is produced given an amount of assets (machinery, funds, etc.) i.e. output per (million) dollar(s) of capital.
Direct job(s)	Full-time employment at the portfolio SME itself.
Domestic clients	An organisation or individual, based in the DRC, that buys from a portfolio SME.
Domestic suppliers	An organisation or individual that sells local products.
Foreign client	An organisation or individual, based outside the DRC, that buys from a portfolio SME.
Foreign supplier	An organisation or individual that sells imported products.
Imported product	A good or service of which the value has been generated outside of the DRC.
Indirect job(s)	Full-time employment at the direct (and indirect) suppliers of the portfolio SME, related to the portfolio SME's activities.
Induced job(s)	Full-time employment related the spending of salaries earned by employees of the portfolio SME and its suppliers.
Job multiplier	The ratio of the number of direct and indirect jobs supported to the total amount of assets i.e. total jobs supported per million of capital.
LPR	Labour productivity ratio: the rate at which output is produced given an amount of employment i.e. output per worker.
Local product	A good or service of which (part of) the value has been generated in the DRC.
(Net) Profit	Remainder of portfolio SME revenues after the cost of goods sold, salaries, interest expenses, depreciation and amortization, and taxes are removed.
Product (category):	Any tangible or intangible good or service that is the result of a process and that is intended for delivery to a customer or end user.
Revenues	Income from clients to the portfolio SMEs from the sale of goods and services. Revenues can be broken down into expenditures, salaries, taxes, profits and adaptations.
Supplier expenditures	Money spent by portfolio SMEs on products of domestic or foreign suppliers.
(Net) Salaries	The amount of money paid to employees of portfolio SMEs for their labour input less payroll taxes, and health and transport fees.
SME	Registered businesses with less than 300 employees.
Taxes	Payments by portfolio SMEs to the government. Tax payments include, among others, corporate income tax, sales tax, payroll tax, and import tax.
Value added	The sum of salaries, profits and taxes paid by portfolio SMEs. Value added is the amount that portfolio SMEs contribute to Gross Domestic Product (GDP) in the economy. GDP and value added are often considered equivalent.

Annex 2:

Job quantification

Calculations

Labour productivity ratios

- Company LPR = [company revenues 2017 / company full-time employees 2017]
- Statistics LPR = [total output of sector 2017 / total employees in sector 2017]

Indirect jobs

- Indirect jobs supported in 2017 = [local SME expenses in 2017 per supplier * supplier LPR] + [local SME expenses in 2017 per product category * product proxy LPR]
- Change in indirect jobs supported between YOI and 2017:
 - *Change in local SME revenues between YOI and 2017 = [SME revenues 2017 / SME revenues YOI]*
 - *Change in local SME expenses per supplier and product category = [change in SME revenues between YOI and 2017 * local SME expenses in 2017 per supplier and product category]*
 - *Change in indirect jobs supported between YOI and 2017 = [change in local SME expenses per supplier * supplier LPR] + [change in local SME expenses per product category * product proxy LPR]*

Salary expenses

- Indirect salary payments in 2017 = [local SME expenses per product category in 2017 * share of revenues companies spent on salaries per product category]
- Salary expenses per product category = [direct & indirect salary payments in 2017 * households pending pattern]

Induced jobs

- Induced jobs supported in 2017 = [salary expenses per product category * product proxy LPR]
- Change in induced jobs supported between YOI and 2017:
 - *Change in jobs supported between YOI and 2017 = [direct & indirect jobs supported in 2017 / direct & indirect jobs supported in YOI]*

- *Change in salary expenses per product category = [change in jobs supported between YOI and 2017 * salary expenses per product category]*
- *Change in induced jobs supported between YOI and 2017 = [change in salary expenses per product category * product proxy LPR]*

Portfolio SME expenses on local products

TABLE 3: **PORTFOLIO SME EXPENSES PER SUPPLIER AND PRODUCT CATEGORY IN 2017⁵¹**

SUPPLIER	EXPENSES (\$)	PRODUCT CATEGORY	EXPENSES (\$)
Catering A	15,082	Agriculture (fruit & vegetables)	59,747
Cleaning services A	9,780	Agriculture (meat & dairy)	96,827
Cleaning services B	9,200	Agriculture (fish)	92,312
Drinks producer A	9,600	Manufactured food	76,072
Drinks producer B	24,000	Manufactured beverages	116,992
Foodstuffs producer A	3,423	Miscellaneous food & beverage products	33,525
Foodstuffs producer B	12,000	Extractives (fuel)	-
Foodstuffs producer C	12,000	Utilities (electricity, water, gas)	427,329
Foodstuffs producer D	6,000	Manufactured goods (textiles)	3,877
Foodstuffs producer E	10,595	Manufactured goods (wood, paper products)	33,348
Foodstuffs producer F	8,748	Manufactured goods (pharma, chemical products)	-
Medical services provider A	11,500	Manufactured goods (minerals, steel, metal products)	72,285
Security agency A	9,600	Manufactured goods (electronics)	3,605
		Manufactured goods (cars, car spare parts)	327,575
		Maintenance services	120,236
		Miscellaneous manufactured goods	149,810
		Housing services (rent)	724,126
		Hospitality services	17,702
		Transport services	1,396,982
		Other services (communication)	482,122
		Other services (security)	92,087
		Other services (financial)	16,993
		Other services (education)	-
		Other services (health)	641,124
		Other services (business)	707,818
Total	141,528	Total	5,683,205

⁵¹ MIS XSML; interviews (sample SMEs)

Labour productivity ratios

TABLE 4: COMPANY LPRS IN 2017 (\$/JOB)⁵²

COMPANY NAME	LPR	PRODUCT CATEGORIES	COMPANY NAME	LPR	PRODUCT CATEGORIES
SMES			SUPPLIERS		
Property manager A	176,563	Housing services	Cleaning services A	978	Other services (business)
Restaurant A	49,154	Hospitality services	Cleaning services B	1,840	Other services (business)
Restaurant B	18,321	Hospitality services	Consumables trader E	301,563	Importing services (miscellaneous)
Hotel A	27,357	Hospitality services	Drinks producer A	240,000	Manufactured beverages
Transporter A	130,145	Transport services	Drinks producer B	320,000	Manufactured beverages
Transporter B	22,213	Transport services	Foodstuffs producer A	17,117	Agriculture (meat & dairy)
Transporter C	3,806	Transport services	Foodstuffs producer B	8,000	Agriculture (all)
Print shop A	51,192	Other services (business)	Foodstuffs producer C	2,400	Agriculture (fruit & vegetables)
Call centre A	14,494	Other services (business)	Foodstuffs producer D	6,000	Manufactured food
Hospital A	52,746	Other services (health)	Foodstuffs producer E	3,363	Manufactured food
School B	2,034	Other services (education)	Foodstuffs producer F	3,181	Manufactured food
School C	3,836	Other services (education)	Medical services provider A	3,016	Other services (health)
Consumables trader A	140,090	Importing services (miscellaneous)	Security agency A	2,400	Other services (security)
Fuel trader A	1,438,608	Importing services (extractives)			

⁵² MIS XSML, interviews (sample SMEs, value chain partners).

Table 5: **PRODUCT PROXY LPRS (\$/JOB)**

PRODUCT CATEGORY	PROXY	BASED ON	
Agriculture (fruit & vegetables)	5,200	Company	Foodstuffs producer B, Foodstuffs producer C
Agriculture (meat & dairy)	12,558	Company	Foodstuffs producer A, Foodstuffs producer B
Agriculture (fish)	8,000	Company	Foodstuffs producer B
Manufactured food	4,182	Company	Foodstuffs producer D, Foodstuffs producer E, Foodstuffs producer F
Manufactured beverages	280,000	Company	Drinks producer A, Drinks producer B
Miscellaneous food & beverage products	61,988	Company	Foodstuffs producer A, Foodstuffs producer B, Foodstuffs producer C, Foodstuffs producer D, Foodstuffs producer E, Foodstuffs producer F, Drinks producer A, Drinks producer B
Utilities; manufactured goods; maintenance services	33,171	Statistics ⁵³	Industry
Housing services (rent)	176,563	Company	Property manager A
Hospitality services	25,973	Company	Hotel A, Restaurant A, Restaurant B, Catering A
Importing services (extractives)	1,438,608	Company	Fuel trader A
Importing services (miscellaneous)	154,724	Company	Consumables trader A, Consumables trader E
Transport services	52,055	Company	Transporter A, Transporter B, Transporter C
Other services (security)	2,400	Company	Security agency A
Other services (communication, financial, business)	17,126	Company	Cleaning services A, Cleaning services B, Call centre A, Print shop A
Other services (education)	2,935	Company	School B, School C
Other services (health)	27,881	Company	Hospital A, Medical services provider A

⁵³ BCC, INS, WBDI.

Salary expenses

TABLE 6: SME SALARY EXPENSES IN 2017⁵⁴

SME NAME	DIRECT SALARY PAYMENTS (\$)
Call centre A	273,342
Consumables trader A	261,629
Fuel trader A	172,185
Hospital A	712,772
Hotel A	445,303
Print shop A	221,365
Property manager A	46,220
Restaurant A	319,224
Restaurant B	135,716
Transporter A	1,721,258
Transporter B	289,051

⁵⁴ MIS XSML, interviews (sample SMEs)



Table 7: SHARE OF REVENUES SPENT ON SALARIES PER PRODUCT CATEGORY ⁵⁵

PRODUCT CATEGORY	SALARY %	PRODUCT CATEGORY	SALARY %
Agriculture (fruit & vegetables)	33%	Manufactured goods (cars, car spare parts)	6%
Agriculture (meat & dairy)	30%	Maintenance services	3%
Agriculture (fish)	16%	Miscellaneous manufactured goods	6%
Manufactured food	4%	Housing services (rent)	6%
Manufactured beverages	4%	Hospitality services	17%
Miscellaneous food & beverage products	6%	Importing services	17%
Extractives products	11%	Transport services	15%
Utilities	13%	Other services (communication)	17%
Manufactured goods (textiles)	8%	Other services (security)	8%
Manufactured goods (wood, paper products)	10%	Other services (financial)	19%
Manufactured goods (pharma, chemical products)	6%	Other services (education)	38%
Manufactured goods (minerals, steel, metal products)	8%	Other services (health)	38%
Manufactured goods (electronics)	6%	Other services (business)	8%

Table 8: HOUSEHOLD SPENDING PATTERN ⁵⁶

SECTOR	
Manufactured food & beverage products, manufactured goods, utilities, maintenance services, housing services	38%
Hospitality services	2%
Other services (health, education)	20%
Other services (transport, communication, security, financial, business)	8%
Excluded from study: agricultural products produced by households themselves, imports	32%

⁵⁵ GTAP

⁵⁶ GTAP

Annex 3: Portfolio overview

TABLE 9:

CASF PORTFOLIO OVERVIEW⁵⁷

NAME	CITY	YOI	INVESTMENT (\$ MILLION)		REVENUES ((\$ MILLION))				EBITDA ((\$ MILLION))				DIRECT JOBS			
			CAPITAL	TA	YOI	2017	ANNUAL CHANGE	TOTAL CHANGE	YOI	2017	ANNUAL CHANGE	TOTAL CHANGE	YOI	2017	ANNUAL CHANGE	TOTAL CHANGE
School A	Kinshasa	2012	0.60	0.05	0.05	1.34	89%	2334%	0.01	0.31	126%	5813%	38			
Hospital A	Kinshasa	2012	1.11	0.12	0.41	4.27	60%	950%	0.06	1.42	87%	2187%	16	81	38%	406%
Call centre A	Kinshasa	2012	0.70	0.11	0.94	3.38	29%	261%	0.07	0.39	43%	492%	36	233	45%	547%
Transporter B	Kinshasa	2012	0.50	0	1.62	1.67	1%	3%	0.26	0.48	13%	87%	30	75	20%	150%
School B	Lubumbashi	2012	0.70	0	0.61	0.19	-21%	-69%	0.14	(0.11)	-195%	-179%	90	93	1%	3%
Print shop A	Kinshasa	2013	0.75	0.06	0.28	1.43	50%	411%	(0.01)	0.56	147%	3838%	14	28	19%	100%
School C	Likasi	2013	0.50	0	0.18	0.44	25%	145%	0.11	0.04	-23%	-65%	35	114	34%	226%
Consumables trader A	Kinshasa	2013	1.25	0.03	3.26	5.04	11%	55%	1.03	0.92	-3%	-11%	39	36	-2%	-8%
Transporter A	Kinshasa	2013	0.50	0	6.54	7.29	3%	11%	4.58	1.65	-23%	-64%	120	56	-17%	-53%
Retailer A	Boma	2013	0.60	0.05	0.50	0.50	0%	-2%	0.08				16	22	8%	38%
Transporter C	Likasi	2013	0.49	0	3.47	0.07	-62%	-98%	0.77	0.02	-59%	-103%	30	19	-11%	-37%
Logistics provider A	Lubumbashi	2014	0.50	0	0.81	1.50	23%	85%	0.23	0.27	6%	18%	18	15	-6%	-17%
Fuel trader A	Kinshasa	2014	1.00	0	18.24	17.26	-2%	-5%	1.11	1.53	11%	38%	7	12	20%	7%

⁵⁷ All financials are in nominal values.

NAME	CITY	YOI	INVESTMENT (\$ MILLION)		REVENUES (\$ MILLION)				EBITDA (\$ MILLION)				DIRECT JOBS			
			CAPITAL	TA	YOI	2017	ANNUAL CHANGE	TOTAL CHANGE	YOI	2017	ANNUAL CHANGE	TOTAL CHANGE	YOI	2017	ANNUAL CHANGE	TOTAL CHANGE
Property manager A	Kinshasa	2015	0.50	0	2.13	2.65	11%	24%	0.14	0.18	11%	24%	15	15	0%	0%
Restaurant A	Kinshasa	2015	0.10	0	2.48	2.02	-10%	-19%	0.99	0.67	-18%	-32%	36	41	7%	14%
Restaurant B	Kinshasa	2015	0.33	0.01	0.83	0.97	8%	16%	0.30	0.20	-18%	-33%	70	53	-13%	-24%
Consumables producer A	Kinshasa	2015	0.29	0	0.53	0.05	-70%	-91%	0.08	n/a			35	5	-62%	-86%
Hotel A	Kinshasa	2016	0.80	0.05	0.30	1.64	445%	445%	0.03	0.62	1751%	1751%	53	60	13%	13%
Pharmaceuticals producer A	Kinshasa	2012	0.43	0.04	0.25				n/a				39			
Logistics provider B	Matadi	2012	0.25	0	0.45				0.34				20			
Retailer B	Kinshasa	2013	0.88	0	4.71				0.32				93			
Restaurant C	Kinshasa	2013	0.24	0.02	0.17				0.02				18			
Advertising services A	Kinshasa	2013	0.30	0	0.42				0.27				20			
Land developer A	Lubumbashi	2014	0.50	0									100			
Consumables producer B	Kinshasa	2014	0.50	0												
Logistics provider C	Kinshasa	2015	0.04	0									5			
Dry cleaner A	Lubumbashi	2015	0.40	0												
Rental car company A	Kinshasa	2016	0.75	0.08												
Personal loan A	Kinshasa	2016	0.21	0												
Personal loan B	Kinshasa	2015	0.13	0												
Several	n/a	n/a	n/a	0.19												
Total ⁵⁸	n/a	n/a	15.8	0.8	43.2	51.7	n/a	20%	9.8	9.1	n/a	-7%	660	958	n/a	45%

⁵⁸ Total sums up results for the companies for which data are available for both the YOI and 2017; empty cells mean data are not available.

Annex 4:

Value chain map reading manual

Figure 1 provides a template for reading the values chain maps. The value chain maps should be read from right to left, in line with the money flows from clients to the portfolio company, and subsequently to suppliers. The letters indicate the following:

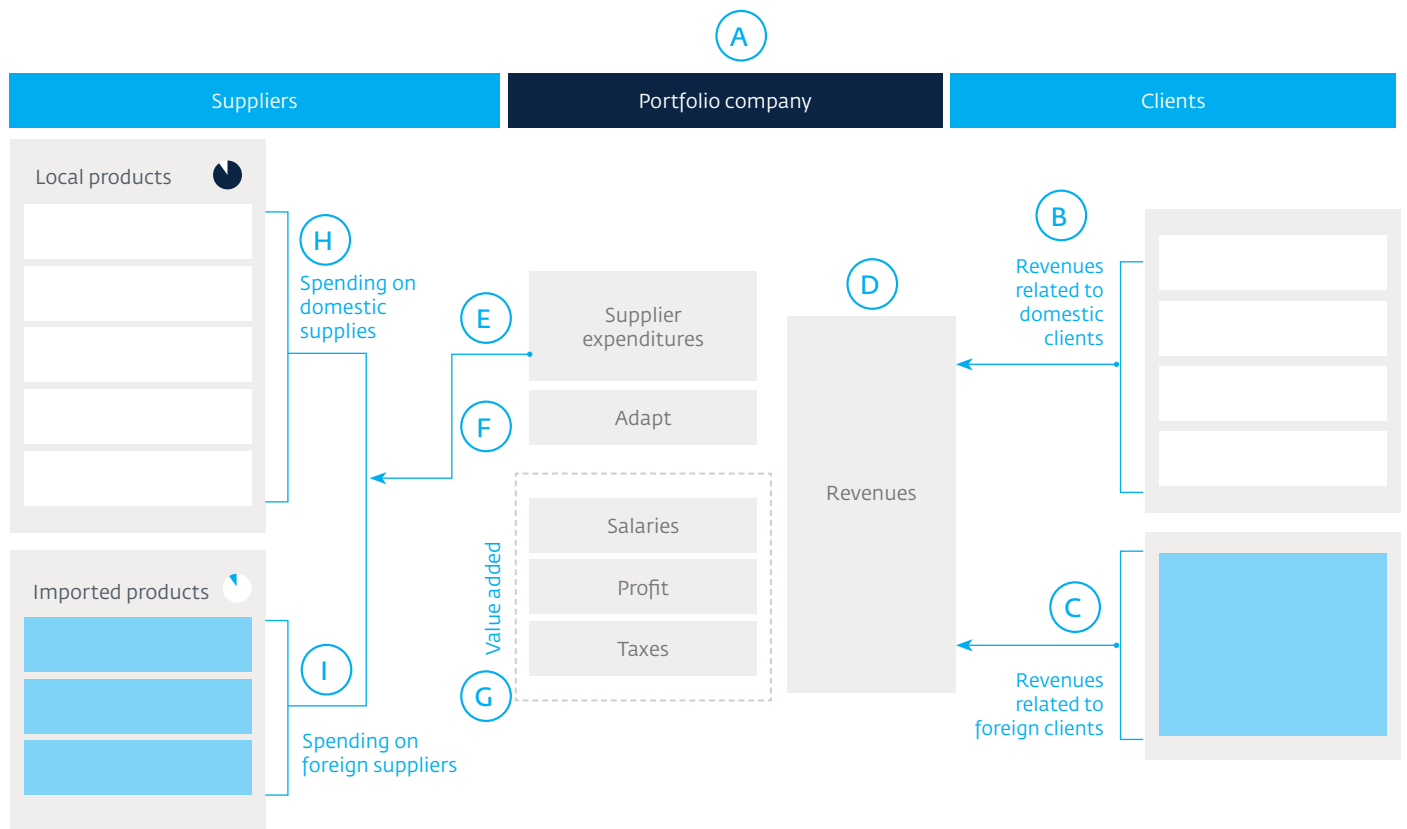
- A. Key agents along the value chain.
- B. The key types of domestic clients of the portfolio company, and revenues earned by the portfolio company from these clients.
- C. The key types of foreign clients of the portfolio company, and revenues earned by the portfolio company from these clients.
- D. B and C sum up to the total portfolio company revenues (D).
- E. Total revenue of the portfolio company for the most recent year available. This value can be broken down into supplier expenditures (E), adaptations (F), and value added (G).
- F. Supplier expenditures. This value can be broken down into spending on domestic suppliers (H) and spending of foreign suppliers (I).
- G. Adapt(ation) is the remainder of revenues less expenditures and value added. Components vary; the values may include stock movements, depreciation, amortization, and other unspecified costs. Parts of these costs are likely related to (local or imported) goods and services from suppliers.
- H. Value added of the portfolio SME, which is the sum of salaries, net profits, and taxes.
- I. Supplier expenditures on domestic suppliers, broken down into key products and services sourced from these suppliers.
- J. Supplier expenditures on foreign suppliers, broken down into key products and services sourced from these suppliers.



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The pie symbols in H and I indicate the proportion of the total value of inputs that are imported or local.

FIGURE 1: **VALUE CHAIN MAP TEMPLATE**



Annex 5:

Indirect and induced jobs

TABLE 10: INDIRECT AND INDUCED JOBS RELATED TO SAMPLE SMES

COMPANY NAME	YEAR OF INVESTMENT	INDIRECT JOBS				INDUCED JOBS			
		YOI	2017	ANNUAL CHANGE	TOTAL CHANGE	YOI	2017	ANNUAL CHANGE	TOTAL CHANGE
Hotel A	2016	4	22		445%	11	14		31%
Restaurant A	2015	68	29	-34%	-57%	8	11	21%	45%
Restaurant B	2015	35	40	8%	16%	9	6	-21%	-38%
Hospital A	2012	6	62	60%	950%	4	28	49%	640%
Call centre A	2012	12	43	29%	261%	7	51	48%	605%
Print shop A	2013	1	6	50%	411%	4	9	23%	128%
Property manager A	2015	14	18	11%	24%	3	2	-11%	-20%
Transporter A	2013	5	6	3%	11%	15	7	-16%	-51%
Transporter B	2012	15	16	1%	3%	2	6	24%	197%
Consumables A	2013	20	31	11%	55%	9	10	5%	22%
Fuel trader A	2014	20	19	-2%	-5%	4	10	39%	169%
Total		200	292		49%	74	154		107%



Annex 6: Business obstacles

TABLE 11: BUSINESS OBSTACLES IDENTIFIED BY SAMPLE SMES⁵⁹

BUSINESS OBSTACLES		SAMPLE SMES											
	1 = NO OBSTACLE/ 5 = SEVERE OBSTACLE	HOTEL A	RESTAURANT A	RESTAURANT B	HOSPITAL A	CALL CENTRE A	PRINT SHOP A	PROPERTY MANAGER A	TRANSPORTER A	TRANSPORTER B	CONSUMABLES TRADER A	FUEL TRADER A	TOTAL
	Access to finance	2	1	3	1	2	1	3	3	3	1	4	24
	Access to land	5	4	3	2	5	1	3	2	5	4	5	39
	Business licensing and permits	2	3	2	1	2	2	2	1	2	n/a	1	18
	Corruption	1	1	4	4	5	3	5	5	5	4	5	42
	Dispute resolution in courts	5	n/a	n/a	3	4	1	5	5	5	n/a	4	32
	Crime, theft, and disorder	1	4	2	1	3	2.5	5	3	3	1	4	30
	Customs and trade regulations	2	1	4	2	3	3.5	3	1	3	1	3	27
	Electricity	4	5	5	3	3	2	3	5	3	3	4	40
	Inadequately educated workforce	3	4	4	3	3	5	3	4	4	3	4	40
	Labour regulations	4	4	2	1	3	2	2	3	3	1	2	27
	Political instability	5	5	3	5	5	4	5	5	4	5	4	50
	Informal sector competitors	2	3	4	3	4	5	2	5	4	1	5	38
	Tax administration	5	5	4	5	4	1.5	5	4	4	4	4	46
	Tax rates	5	5	4	5	5	3	4	5	4	4	4	48
	Infrastructure	5	5	4	3	3	2	4	5	3	3	3	40
	Revenues lost due to political instability	13%	25%	n/a	35%	70%	4%	15%	41%	30%	n/a	n/a	
	Revenues lost due to corruption	n/a	4%	n/a	5%	n/a	n/a	0.1%	2.1%	0.7%	n/a	0.3%	

⁵⁹ N/a if owner was not in a position to judge a business hurdle or not able to make an estimate of the revenues lost due to a business hurdle.

Annex 7:

Questionnaires

Company questionnaire

Company background

XSML portfolio companies only:

1. **At time of investment, was XSML the first formal long-term (>1 year) finance provider to your company?**
[Yes | no]
2. **What would have happened if you would not have received financing from XSML?**
[We would have raised the capital from another financier: commercial bank | another commercial fund | a development finance institution
We would have raised the capital as a grant from a non-profit organisation
We would not have been able to replace that missing capital, but would still be able to execute our growth strategy
We would not have been able to replace that missing capital, and not have been able to execute our growth strategy]
3. **Did you attract other long-term (>1 year) external finance after XSML's investment?**
[No | yes, and XSML's investment helped us attract this finance | yes, but XSML's investment did not play a role in attracting this finance]
4. **Besides finance, did you receive other assistance from XSML?**
[No | yes, technical assistance | yes, other advice...]

Did the advice contribute to:
[Your company's financial performance | (corporate) governance, environmental or social practices | product development and offering | administration and systems | employee skills | other]
5. **How does your company distinguish itself from other companies in the same sector?**
[Please explain]

Suppliers of XXML portfolio companies only:

6. How many people do you employ?
[Number]
7. What are your total annual revenues?
[USD]
8. Since when do you work together with the [portfolio company]?
[Year]
9. How important is the [portfolio company] for you in terms of revenues?
[% estimate] OR [among smallest clients | average client | among biggest clients]
10. Does the [portfolio company] help with any form of assistance?
[No | yes, development of new products | yes, improvement of business processes | yes, improvement of employee skills | yes, in client development | other]
11. What could the [portfolio company] improve in the relationship with you?
[Price | quality | reliability of supply | logistics | other, please specify]

Customers of XXML portfolio companies only:

12. How many people do you employ?
[Number]
13. Since when do you work together with the [portfolio company]?
[Year]
14. Do you work with other companies providing the same services/goods as the [portfolio company]?
[Yes | no]
15. If yes, how important is the [portfolio company] for you as a supplier?
[among smallest suppliers | average supplier | among biggest suppliers]
16. If no, did you work with another company before working with the [portfolio company]?
[Yes | no]
17. How does the [portfolio company] distinguish itself from other companies in the same sector?
[Price | quality | reliability of supply | logistics | other, please specify]
18. What could the [portfolio company] improve in the cooperation with you?
[Price | quality | reliability of supply | logistics | other, please specify]

Local value chain and sourcing

XXML portfolio companies only:

With reference to the excel: top 10 suppliers of locally produced and imported products and/or detailed financials:

1. For each supplier of local and imported products and services:
 - a. Verify data provided
 - b. What is the key reason to source these products/services from this supplier? [local availability | price | quality | reliability of supply | logistics | other, please specify]
 - c. For domestic suppliers: what inputs does the supplier itself source locally (and from whom/where), and what inputs does the supplier import? [Please explain]

General:

2. What other products/services (not included in the top 10) do you source locally?
[Please explain]
3. Would you like to source more inputs locally?
[Please explain]
4. Overall, what is the biggest obstacle related to local sourcing faced by your business?
[Availability | price | quality | reliability of supply | logistics | other, please specify]
5. Overall, what is the biggest obstacle related to imports faced by your business?
[Availability | price | quality | reliability of supply | logistics | other, please specify]
6. Are contracts with suppliers established in dollars or in local currency?
[USD | CDF | Please explain]

Suppliers of XXML portfolio companies only:

7. What are your key suppliers? Per supplier:
 - a. Supplier name
 - b. Location of supplier [country]

If location is the DRC:

- c. Location in the DRC [city name]
- d. Expenses on supplier [annual/monthly average estimate]
- e. Key product supplied [product name]
- f. Total employment at supplier [jobs at supplier]
- g. Share in total revenues of supplier [USD]

Employee profiles and working conditions

1. Do you employ workers directly or hire them through an agency?
[Directly | agency | please explain]
2. How difficult is it to find qualified employees?
[Very difficult | difficult | easy | very easy]

[If (very) difficult, please explain which qualifications in particular are hard to find]
3. Are salaries determined in dollars or in local currency?
[Please specify]
4. What is the lowest and highest monthly salary at your company?
[Number lowest salary; number highest salary]
5. Do you provide training to your employees?
[No | yes, on the job | yes, from an external party]
6. If yes, what are the topics of the training?
[Health and safety | hygiene | language | technical skills | management skills | other, please specify]
7. Do you provide the following benefits to your employees:
 - a. Pension [Yes | no]
 - b. Health services [Yes | no]
 - c. Transport [Yes | no]
 - d. Other [Please explain]
8. How many family members do employees on average support with their salary?
[None | 1-3 | 4-6 | more than 6]



Fragile business environment

1. With reference to the list below: to what degree are the following elements of the business environment an obstacle to your business?

	NO OBSTACLE	MINOR OBSTACLE	MODERATE OBSTACLE	MAJOR OBSTACLE	VERY SEVERE OBSTACLE	DON'T KNOW	DOES NOT APPLY
Access to finance							
Access to land							
Business licensing and permits							
Corruption							
Courts							
Crime, theft and disorder							
Customs and trade regulations							
Electricity							
Inadequately educated workforce							
Labour regulations							
Political instability							
Practices of competitors in the informal sector							
Tax administration							
Tax rates							
Transport							

In addition to the business hurdles in the list, to what extent is tax harassment a business hurdle?

[No obstacle | minor obstacle | moderate obstacle | major obstacle | very severe obstacle | don't know | does not apply]

2. Which of the listed elements of the business environment currently represents the biggest obstacle faced by your business?

[Obstacle from list, please explain] [if tax harassment is biggest business hurdle, please ask interviewee also to select an obstacle from the list]

With regards to the **biggest business hurdle**:

3. What were the estimated losses as a result of [obstacle from previous question] faced by your business, if any?

[% of total annual sales or as total annual losses]

[Please explain how you estimated this: same month previous year | projections versus real activities | other]

4. Do you implement measures to mitigate risks related to this business hurdle?

[Please explain]

*With regards to **political instability**:*

5. To what extent does this influence your business in the form of:

- a. Revenues
- b. Costs (e.g. related to inflation, depreciation)
- c. Investments
- d. Personnel (e.g. employees do not get to work)
- e. Other [Please explain]

If political instability was not the biggest business hurdle:

6. What were the estimated losses as a result of political instability faced by your business?

[% of total annual sales or as total annual losses]

[Please explain how you estimated this: same month previous year | projections versus real activities | other]

7. Do you implement measures to mitigate risks related to political instability?

[Please explain]

With regards to corruption:

8. Have you ever been asked for gifts or informal payments to public officials to 'get things done'? [Yes | No]

If corruption was not the biggest business hurdle:

9. What were the estimated payments related to corruption faced by your business? [% of total annual sales, % of total tax payments, or as total annual payments]

[Please explain how you estimated this: same month previous year | projections versus real activities | other]

10. Do you implement measures to mitigate risks related to corruption?

[Please explain]



Employee questionnaire

Background

1. How old are you?
[Number]
2. Where do you live? And where you also born there?
[Name of city]
3. Did you go to school?
[Yes | no]
4. If yes, for how long?
[1-5 years | 4-6 years | 7-9 years | more than 9 years]
5. How many years have you been working at the portfolio company?
[1 year or less | 2-3 years | 4-5 years | more than 5 years]

Employment situation

1. Do you have more than one job?
[Yes | No]

Portfolio company employees should answer these questions with regards to their job at the portfolio company.

2. How many hours do you work on average per week?
[Less than 20 hours | 20-40 hours | 40 hours | more than 40 hours]
3. Do you have a permanent or temporary contract?
[Permanent | temporary]
4. Are you on a contract at the portfolio company?
[Yes | no]
5. How often do you get paid, and how much on average?
[Daily | weekly | monthly | annually]
6. [Number]
7. Is your salary determined in dollars or in local currency?
[Please specify]
8. Is the salary sufficient to cover costs of housing, food and clothing?
[Insufficient | sufficient | more than sufficient]
9. Did you receive training at your job?
[No | Yes, on the job | Yes, from an external party]

10. If yes, what were the topics of the training?

[Health and safety | hygiene | language | technical skills | management skills | other, please specify]

11. If yes, how has the training helped you?

[Please explain]

12. Does your employer provide you with other benefits such as:

- a. Pension [Yes | No]
- b. Health services [Yes | No]
- c. Transport services [Yes | No]
- d. Other [Yes | No | if yes, please specify]

13. Do you have an opportunity to move to a different position/promotion within the company?

[Yes | No]

14. Did you have a job before you started working at the portfolio company?

[Yes | No]

If yes, what is the difference between your previous job and your current job in terms of:

- a. number of working hours: at current job, working hours are [less | same | more] than at previous job
- b. salary: at current job, the salary is [lower | the same | higher] than at previous job
- c. working conditions: at current job, working conditions are [worse | the same | better] than at previous job
- d. contract type: previous job [permanent | temporary | other]

General questions

1. How are you affected by the political instability in the country?

[Income | price level | security | other, please explain]

2. How many family members do you support with your salary?

[0 | 1-3 | 4-6 | more than 6]

3. What is the share of your salary in the total household income?

[%]

4. For your household, could you indicate the share of expenses on:

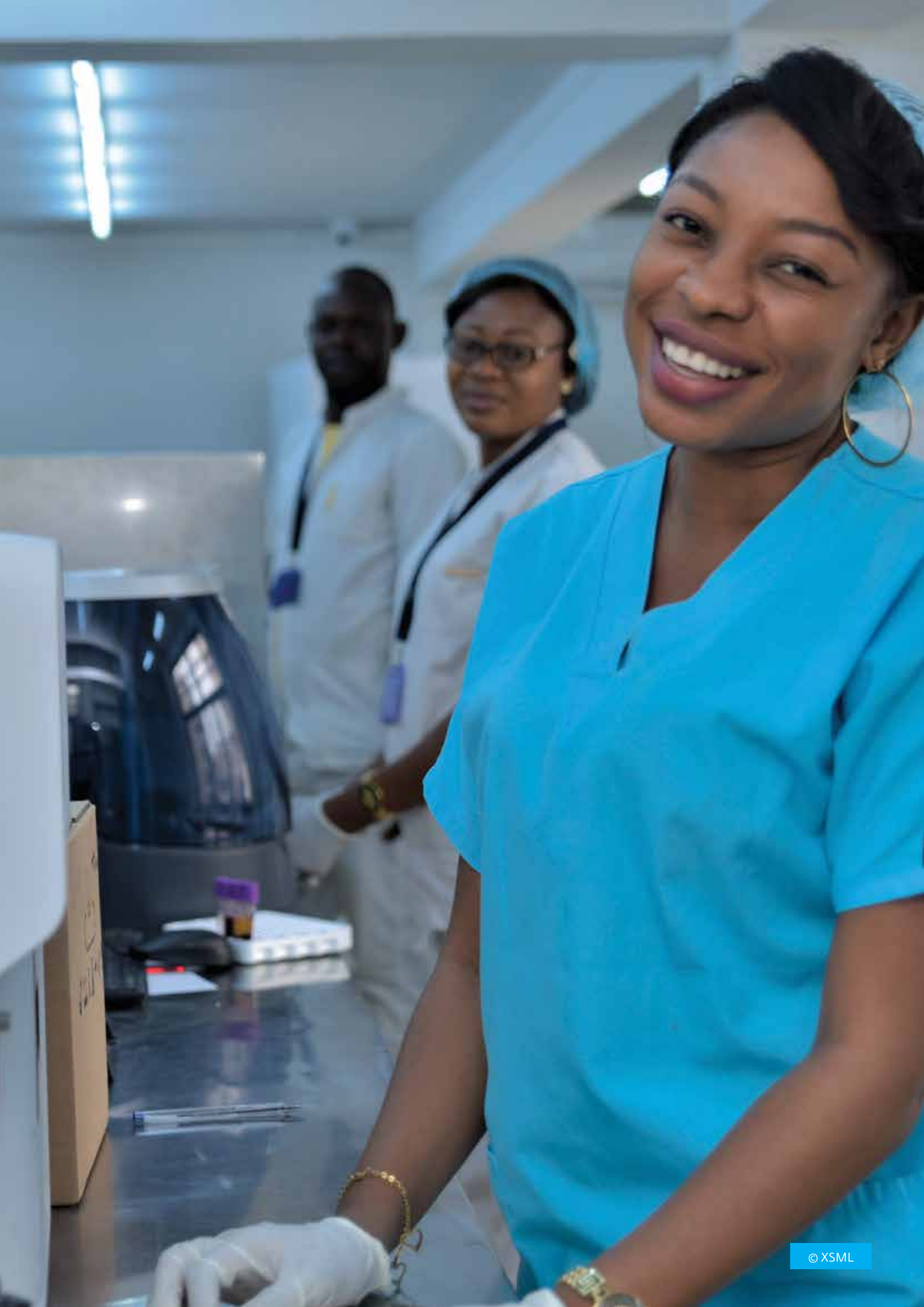
- a. Food
- b. Rent
- c. Education for children
- d. Other

5. Do most of your friends and/or family members have a job?

[Yes | No]

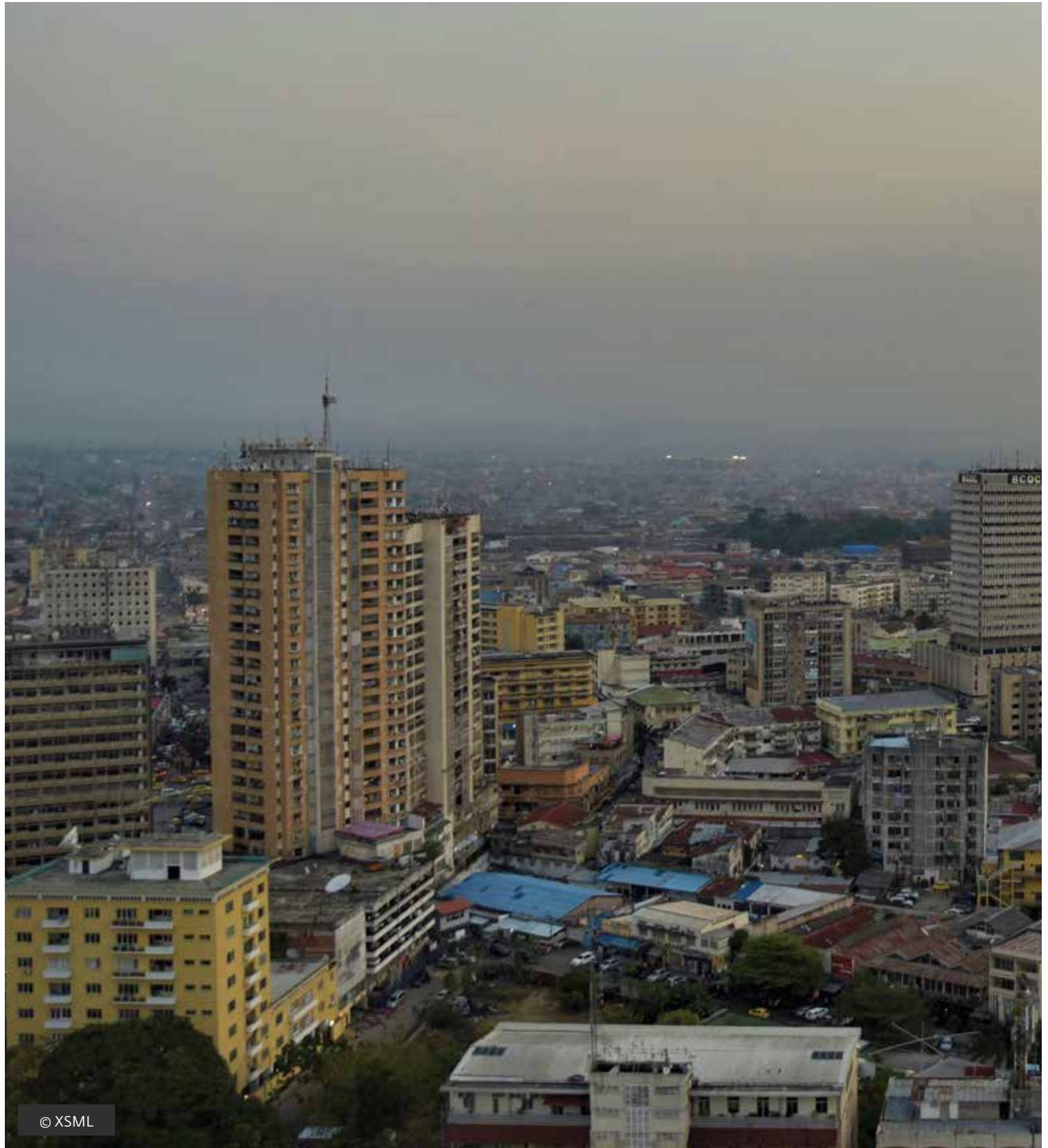
6. Do they on average earn more or less than you?

[Less than me | the same as me | more than me | I do not know]









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Creating Markets, Creating Opportunities

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