

# Entrepreneurs' Challenges to Access Credit in the Democratic Republic of Congo



EXPERIENCES FROM FINANCIAL COOPERATION

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## ABBREVIATIONS

DFI	Development Finance Institutions
DGI	Direction Générale des Impôts
DGRAD	Direction Générale des Recettes Administratives et Domaniales
DRC	Democratic Republic of Congo
EU	European Union
FI	Financial Institution
IFI	International Finance Institution
KfW	German Financial Cooperation
MSME	Micro, Small and Medium-sized Enterprises
SME	Small and Medium-sized Enterprises
WB	World Bank

## ABSTRACT

Financial Institutions' (FIs') interest in working with Micro, Small and Medium-Sized Enterprises (MSMEs) is well documented; MSMEs articulate a need to use banking services and particularly to access credit. Still both sides (offer and demand) are not matching their interests as financiers and entrepreneurs confirm. The objective of this qualitative study is to characterise the obstructive factors on the demand-side. Therefore the bulk of the study consists of two dozen qualitative interviews with entrepreneurs in Kinshasa. The findings indicate that management capacities are sometimes rudimentary and often do not meet the requirements of Financial Institutions. At the same time, it has been found that a group of entrepreneurs avoids loan application because of certain prejudices with respect to financiers. We conclude that training and information-sharing facilities as well as coaching measures for the entrepreneurs would be a helpful contribution to reduce the information asymmetry between the entrepreneurs and the financiers and to improve the management capacity of the entrepreneurs.

## 1.

# A BRIEF SUMMARY ON THE MARKET BEHAVIOUR OF FINANCIAL INSTITUTIONS AND MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

In the last years the absolute number of Financial Institutions (FI) active in the Democratic Republic of Congo (DRC) as well as the number of FIs offering loans to Micro, Small and Medium-sized Enterprises (MSME) increased. FIs traditionally focused on corporates only started to offer loans to small and medium-sized enterprises (down-scaling) and some MFIs started to target the SME segment (upscaling) in addition to their micro-enterprise clients. Under free and transparent market conditions this should lead to stronger competition among the FIs and, consequently, to an improvement of credit conditions on the demand side. This however presumes that MSMEs have all the information and skills necessary to review the market. It also presumes that MSMEs can freely choose the FI that offers loans at conditions most convenient to them. Given the increased competition, this would finally presume that MSMEs could, to a certain extent, impose their own conditions on the FIs or make the FIs adapt to their needs.

### 1.1. The demand side

On the demand side, the following barriers were found which prevent MSMEs from behaving according to this rationale. MSMEs:

- Do not sufficiently understand the FI's point of view.
- Do not know the FI's criteria for providing loans.
- Think they have to pay high taxes and expose themselves to bribery if they get a loan equal to or larger than USD 10.000.<sup>1</sup>
- Do not seek the "best deal"; i.e. do not undertake an effort to compare the FIs and identify the FI with the best conditions for them.
- Think they do not have an option to access loans other than with one FI.
- Think they will not receive a loan from a FI that does not know its account transactions and that it takes at least 6 months of membership with a FI before being considered for a loan.
- Lack information on the FIs' products and especially on credit conditions.
- Feel subordinate to the FIs.
- Feel that FIs privilege bigger companies.
- Feel that the FIs take advantage of them when profits are high and that they let MSMEs down in more difficult situations.
- Do not try again to obtain a loan, once a loan has been refused.
- Lack understanding of financial terminology.

The FIs on the other hand want to find SME clients who are most suitable to receive loans. As more suppliers come to the market, presumably FIs have to offer more com-

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<sup>1</sup> For making a transaction in the bank account equal or larger than USD 10.000 USD, a company needs a licence. Once it has a licence it is registered with the Central Bank. The state then becomes aware that the company transacts certain amounts of money and the company feels exposed to bribery because of this.

petitive credit conditions to gain customers. As the fight for customers becomes fierce, they supposedly have to be more flexible and adapt to the MSME's needs.

## **1.2. The supply side**

On the supply side, the following barriers were found that prevent FIs from behaving according to this rationale:

- FIs' managers admit there is a huge disconnect between the offer of loans and the demand. Demand is estimated as being extremely high. Therefore, FIs affirm they will be able to increase credit portfolios in spite of conditions perceived as unfavourable by the MSMEs.
- The SME segment implies high costs for loan analysis and administration and lower credit volume, which is less attractive to the FIs than a big company.
- FIs do not regard an SME whose loan had been rejected once as a potential client in the future (do not follow-up; lose track).
- FIs have low tolerance for negotiating with MSMEs or adapting to their needs.
- The amount of credit provided to MSMEs is too insignificant to make the FIs adapt to the clients' needs.
- Lack of transparency of credit conditions on the FIs' side. Specifically FIs give no reason for rejecting loan applications and delaying the MSMEs, or give an explanation which is not clear to the MSMEs.

*The demand side is not able to impose its needs on the FIs. This is partly because the amounts asked for in MSMEs loan applications are too small. FIs' managers admit: "There is still too much demand of MSMEs for loans to be able to provoke a change of the credit conditions".*

## 2. FINANCIAL INSTITUTIONS PERSPECTIVE ON THE MSMEs AND WHY MSMEs ARE JUDGED “UNBANKABLE”

### 2.1. The Financial Institutions

In total, four local leading FIs were interviewed. Interviews were carried out with the General Managers of three FIs and with the Heads of Credit of two of the FIs. In addition, one of the FI's loan officers was interviewed to learn about the direct intervention level between the FI and the entrepreneur.

The target groups of the FIs differ and there are no comparable criteria for client group distinction other than credit volume. Credit refusal rates range from 25 % up to 50 %. However, the refusal rates cannot be easily compared among the FIs since each FI has a different methodology for approaching the entrepreneurs.

One FI, for example, describes its clients as “a little below the small companies”. The FI sends its loan officers to the companies supported with marketing materials such as flyers.. Evaluation of the MSMEs and the subsequent decision on whether a company can obtain a loan or not is based on cash flow and cash flow projections. The FI has decentralised loan operations: decentralised loan committees decide on whether the loan will be provided to the MSME.

Another FI has been targeting big clients but is now focusing on medium and small companies. The FI also sends its loan officers into the field. Company analysis is realised at the enterprises' facilities. The most important criteria on whether loans will be provided are the turnover and the assets. Loan officers try to assemble a balance sheet based on the entrepreneurs' answers and what they observe at the companies.

One FI with 1.700 clients and a total credit volume of USD 3,5 million (approx. USD 2.000 average loan size) is targeting MSMEs. The criteria for providing loans are if the FI can determine whether the MSMEs businesses are profitable and that the loan amount is proportional to the business turnover.

Another FI targets MSMEs with larger credit volumes. The FI rarely provides loans less than USD 2.000 per company. The decision for providing loans is taken based on the guarantee and that the business activity is 'regular', which means that the MSMEs have to have more than one client and a stable turnover. If a credit applicant is guarantor for a company whose credit reimbursement is delayed, the credit applicant cannot get a credit but can apply again after 6 months.

Some of the FIs say they have different methodologies of accessing the MSMEs. Others highlight they have different products as compared to the competition. All FIs confirm that there is no way to monitor or know if an entrepreneur has already taken several loans out in parallel from other FIs at the moment of a credit application.

### 2.2. Difficulties of entrepreneurs according to the Financial Institutions

Neither the FIs' target groups nor the reasons they mention for denying credit applications are identical.

FIs identify three main difficulty levels regarding the MSMEs' access to credit:

- Management behaviour
- Regulatory environment
- MSMEs attitude according to FIs

### **2.2.1. Management behaviour**

All FIs agree that MSMEs lack management capacity. MSMEs would invest one or several loans into an activity which grows rapidly. However, managerial capacity would not likewise grow. "We have many clients who had 4 or 5 loans with us and paid back and suddenly the activity declines and they do not pay anymore." MSMEs would often not know how much debt their companies can absorb. Further, the lack of management capacity implies that companies cannot sufficiently assess the risk of their investment behaviour.

Management capacity is mostly referred to as management of financial information, especially turnover, assets, net profit and expenditures. Further, several FIs mention management of the stock, business planning, marketing and human resource management as the MSMEs' critical management deficits.

Referring in detail to the symptoms of management deficiencies, the FIs describe that companies sometimes do not have enough net profit to pay back the loan. This is partly because they maintain a very simple and insufficient bookkeeping system. It was found that many record their turnover, but frequently forget to note their expenses. In commercial retail activities entrepreneurs are often not aware of their costs. For example, they calculate the price of importation, but do not consider transport costs and other fees, such as bribery costs. Likewise, they calculate the purchase prices at the wholesalers as costs, but do not take electricity or water into account. The company's capacity to anticipate is judged to be very low by the FIs.

In general, entrepreneurs would confuse personal and business expenses. Many companies would apply for credit amounts unproportional to the business activity, which for the FIs is another sign of insufficient management. Often, companies are involved with one activity and suddenly find that another is more attractive. If the new activity is not providing the expected revenues quickly enough, entrepreneurs often start to reduce investments in the first activity and invest everything into the new activity. According to the FIs, usually no business plan has been prepared before starting the new activity.

One FI mentions that it separates the credit purpose of 'investment' from 'working capital'. Another FI mentions that it will develop a tool in the future, similar to a standardised industry code. It will indicate average revenues, expenses and net profit of the industry. Client information could then be compared to the industry standard to get "a picture" of the MSMEs situation.

*Most of the FIs mentioned that they do not have a tool to classify companies according to their management capacity and potential ability to pay back loans.*

Two FIs mention they would like to partner-up with an organisation that provides financial and business education to MSMEs, but have not found any so far. One IFI started

implementing "Business Edge"<sup>2</sup>, a business education programme for MSMEs which identifies and offers training to MSME suppliers of larger companies. Some FIs state they would be interested in meeting up with the MSMEs to offer their products once those have been trained.

FIs assert that financial and business education is what MSMEs mostly need.

### 2.2.2. Regulatory environment

FIs agree that MSMEs face a difficult business environment in the DRC. Many companies are involved in commerce: they continuously import and sell. On average it takes 6 weeks to import for which bribing is expected to accelerate customs procedures.

Some FIs maintain that the informality of MSMEs poses a problem to accessing credit. Formalisation is commonly understood as "having documents", i.e. a patent (USD 3 per month) or, for an activity with a turnover equal to or more than USD 10.000 a year, registering with the registry of commerce (approx. USD 350 one time fee).

FIs argue that they need to know how much turnover a company actually has. Smaller informal businesses usually have a very simple bookkeeping system. Small to medium sized informal companies often have a double bookkeeping system, one real and one for the state in which they underestimate their turnover. The latter is of course not acceptable for FIs. At the same time, some FIs mention that MSMEs do not want a loan because this would oblige them to formalise, which would expose them to higher taxation.

One FI highlights that it does not use informal versus formal operations at all as a criterion for deciding whether to provide a loan to companies. Formalising would actually not have disadvantages for the company as far as taxation is concerned, except for one: if it is a commercial company and it imports, it has to have a licence as soon as it transfers USD 10.000 or more to the FI account. With the license, the state can find out the true turnover of the company, exposing the company to bribery. FIs however highlight that they can deal flexibly with companies' concerns and offer solutions to the MSMEs by distributing amounts greater than USD 10.000 among several FI accounts.

*It is not clear if bribery fees for the informal companies actually exceed the taxes they would have to pay as formalised companies. As the tax situation is not transparent, nobody could really make a determination. In this case, companies would be better off if they formalise. Formalising has the advantage of clearly separating the company's private from company assets. Since assets serve as guarantee for the FIs when providing loans, a company can use this to increase its chances of obtaining a loan.*

In any case, formalisation, as understood by the FIs and companies, does not concern getting registered with the registry of commerce, but rather having a deposit equal or greater than USD 10.000 on the account.

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<sup>2</sup> Business Edge: In the context of this programme, a larger company identifies some of its suppliers/sub-contractors in order to link them up with training service organisations. Small companies are visited to identify training needs. On this basis, the MSMEs go through training. Training costs are shared between the larger company and the supplier companies. After training, banks contact the companies to present their products and services. However, if the big (client-) company is not located in DRC - which is the situation of commercial retail SMEs who import their merchandise from other countries - it is difficult for it to provide education/ management training to Congolese MSMEs. Since many of the MSMEs import they might have difficulties accessing the Business Edge programme.

### **2.2.3. MSMEs' attitudes according to Financial Institutions**

Some FIs mention a very large distrust on the part of the enterprises. "Entrepreneurs are scared of FIs." This is explained by the recent appearance of loans in the DRC. "MSMEs think if they do not have money, they cannot receive a loan."

Other FIs state that some MSMEs think the FIs would inform the Tax Office (Direction General des Impôts) about their transactions, which could imply increased taxation for the MSMEs.

Some FIs also believe that small and micro-enterprises in particular are afraid of taking out loans because they think if they cannot pay them back, FIs will send them to prison. One FI said it developed a product costing between USD 100 and USD 1.000 for micro-enterprises. 15 % of this amount will be retained by the FI and deposited there. If something prevents the entrepreneur from paying back the loan, the FI will access the deposited money. In general, FIs find that MSMEs lack financial education.

### **2.2.4. Reasons for refusing loan applications**

When the FIs were asked for the most frequent reasons for refusing loans they first highlighted "the lack of guarantees". In the second place, FIs refuse loans if the entrepreneur has been guarantor for a third party whose credit reimbursement is delayed. The third most often mentioned reason is the unsustainability of the MSMEs' operations, meaning that the net profit of the MSMEs is too small to repay the credit.

One FI highlights that the likelihood of providing a loan to a company grows if it provides accurate financial information to the FI. Especially for loans equal to or less than USD 20.000, a FI confirms it would approve the loan if the profit situation of the company is transparent, even without asking for guarantees.

Other reasons for refusal which were mentioned include the continuous changes MSMEs make from one activity to another without being aware of the risk, the lack of visibility, the irregularity of an activity (for example only one client), the short duration of an activity – most FIs insist that business activities have to exist for longer than 1.5 years in order to provide a loan – as well as debt, concealed information and an application for an unreasonable credit amount compared to the activity.

While MSMEs difficulties in accessing loans - according to the FIs - are internal to the enterprises, such as lack of management capacity, planning, bookkeeping and others, the reasons for loan refusal are mostly external to the companies, such as lack of guarantees and being a guarantor for a third party who failed to pay back the loan on time.

Finally, the geographic distances to the Congolese provinces are judged to be a major reason for the inaccessibility of credit.

## **Key findings**

1. In summary, it becomes clear that FIs perceive the lack of management capacity as the biggest challenge for MSMEs to access loans and to grow. At the same time, very often entrepreneurs are told that their loan application is refused due to the lack of guarantees. This is to some degree inconsistent with the main difficulties that MSMEs face in accessing loans, as indicated by FIs.

2. Whether or not a company is formalised does not determine the FI's decision on providing credit. As the FI's main concern is the borrower's capacity to repay the loan, it has mechanisms to get the information from companies, as long as they cooperate in delivering adequate financial information.
3. Most FIs have no instrument or tool for classification in order to distinguish companies according to their management capacity and potential ability to repay loans.
4. FIs perceive a huge distrust on the demand side because banks are a very recent development and they feel that MSMEs lack financial education.

### 3.

## THE DRIVERS OF MSMEs' MANAGEMENT BEHAVIOUR

### 3.1. The companies

To identify entrepreneurs, the number of employees and the turnover were prevailing criteria. Also, the entrepreneurs were chosen from different industries. The interviewed MSMEs had a range of 5 to 120 employees and a turnover between USD 24.000 and 4 million per year.<sup>3</sup>

In the following, companies with less than 20 employees will be referred to as small companies and companies exceeding 20 employees as medium sized companies. During the interviews with entrepreneurs it was found that 20 employees is a critical company size and growth limit. Companies with more than 20 employees were different in terms of structure, growth prospects and management capacities from those with less than 20 employees.

In 20 out of 21 cases the interviews were carried out with the entrepreneurs themselves and only in one case with the financial and administrative manager of the company, whom the entrepreneur had left in charge due to absence. The interviews were carried out in French.

The initial strategy for gaining access to the companies was to ask the FIs for their support. FIs were asked to provide contact details of MSMEs whose loan application had been rejected, assuming that this was the appropriate target group to find "non-bankable" cases and learn about deficiencies on the demand side.

One FI provided a list of 10 enterprises who had applied for a loan, 8 of which were rejected for different reasons, and two of which had received the loan and were classified as having a "good activity". Three interviews were provided by another bank, but without regard to the entrepreneur's credit situation.

MSMEs were called on the phone and kindly asked for an interview. They were told that a consultant, sub-contracted by a DFI, was interested in talking to them in order to understand their business situation and needs for growth, as well as to learn about their experiences with Congolese FIs. They were told that the DFI cooperates with some of the local FIs to explain how the entrepreneurs were identified.

Although entrepreneurs agreed to the meetings, some of them demonstrated a certain irritation. They either thought the interviewers (the author and a local assistant) to come from local FIs or assumed the interviewers could influence the FI's decision to provide

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<sup>3</sup> According to Congolese legal provision, a MSME is defined as having a yearly balance lower than 400.000 USD and less than 200 employees. According to the IFC's criteria, MSMEs have less than 300 employees, a turnover of less than USD 15 million per year and a balance of less than USD 15 million per year. The criteria were deemed to be quite broad by the interviewees from the FIs, each of which has its own criteria. The dominating criterion for FIs is credit size. One FI, for example, distinguishes a very small company's credit reaching from USD 2.000 to USD 30.000, a small company's credit from USD 30.000 to USD 100.000 and a medium sized company's credit from USD 100.000 upwards. An NGO which implements MSME training in the DRC uses three categories, to differentiate the companies according to management abilities:

- Micro enterprises: 0-5 employees, less than USD 10.000 per year;
- Small enterprises: 5-10 employees, between USD 10.000 and USD 60.000 turnover per year
- Medium sized enterprises: more than 10 employees, over USD 60.000 turnover per year.

them with a loan; or they assumed the interviewers were otherwise related to an FI and would share information with it. As this may have influenced the straightforwardness of some of the interviewees, half of the group of entrepreneurs were identified through private contacts.

The interviews were conducted in a qualitative format because the objective of this study was to find out the characteristics and particularities of the existing enterprises and not to attain statistical representativeness. In general, open questions were asked to get as much information as possible from the entrepreneur. In cases of an insufficient answer to an open-ended question, the question was raised again in a closed format. For example: Question: "Which services would help you to obtain a loan from the bank?" Answer: "I just need the money". Question: "Would you appreciate an advisor to support you in presenting your company to the bank?" If the entrepreneur answered yes: "How would this service look exactly?" All of the entrepreneurs agreed to having the interviews recorded.

### **3.2. Drivers of MSME behaviour**

The reasons why MSMEs may want to maintain the above mentioned characteristics will be discussed on the same previous three levels plus the level of culture:

- Management behaviour
- Regulatory environment/business regulations and taxes
- MSMEs attitude towards FIs
- Cultural drivers

#### **3.2.1. Management behaviour**

The majority of the interviewed enterprises change activities quickly. This behaviour has different causes: most of the entrepreneurs say they changed from one activity to another, or added an activity to their business because "the new activity will bring more profit margin", and/ or "it will be an additional supporting pillar to my overall business."

*Whether the purpose is to increase profit or to reduce risk, it is clearly part of the business behaviour of many companies to manage several business activities in parallel.*

In commercial retail activities, one reason for this behaviour is that the product life cycles are very short: once a product is imported and successfully delivered to the market, other companies would step in to copy the activity. As entry barriers do not exist – the only barrier is the import procedure, which is the same for every company – competitors step in quickly and prices slowly trend downwards. The entrepreneurs from commercial activities which were interviewed feel that they cannot do anything to differentiate themselves from the competition. On the other hand they do not feel it is necessary because "the market is big enough for everybody." Therefore, they argue, it makes sense to find a new "opportunity". From the perspective of most of the companies, the only way to be profitable over time is to change activities frequently and more quickly than the others. An entrepreneur who sells vehicle spare parts explains: "My objective is to import bigger amounts of spare parts, especially motor oil, tires and batteries, because in Kinshasa those are rarely offered." Asked how he will manage to sell the larger quantity to his clients considering that competition will become fierce, he answered that the moment competition steps in he will have sold his spare parts already.

In service and productive activities entrepreneurs behave similarly. They explain they need to diversify their core activity in order to grow. Many of them describe they have seen other entrepreneurs being successful in an activity and simply started the same activity.

As this behaviour is predominant, it is not easy to find business activities which exist for more than 1,5 years. Since most of the FIs only provide a loan for an activity which has been stable for 1,5 years or longer, a large number of entrepreneurs are excluded. They may have run a business for longer than 1,5 years, but spent less than 1,5 years with their most recent activity. If they apply for a loan for their most recent activity, the FI would deny the loan.

### 3.2.2. Regulatory environment

From the FIs' perspective, the capacity of an informal enterprise to pay back a loan is more difficult to understand because the MSME has no appropriate bookkeeping system.

Many companies highlight that they prefer to avoid a licence (formalisation) because they are afraid of excessive taxation.<sup>4</sup> Another drawback of the licence from the companies' perspective is that they would leave a money trail through the FI account. In the DRC, business mostly works on a cash basis. Many of the entrepreneurs frequently carry around suitcases with cash. They feel this provides more control over the money.

In the DRC, the following authorities are in charge of taxes:

- Government (MoEconomy, MoEnvironment, MoHandicapé),
- Tax Authority (Direction Générale des Impôts, DGI)
- DGRAD (Direction Générale des Recettes Administratives et Domaniales)

There are three basic tax regimes that are applicable to businesses, namely:

- Impôts Réels
- Impôts Cédulaires sur les Revenus and
- Impôts sur le Chiffre d'Affaires

Taxes are charged at 4 different government levels:

- Central Government
- Provincial government
- Local government
- Public corporations

According to a World Bank study, around 700 business related taxes exist in the DRC.<sup>5</sup>

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<sup>4</sup> A license is required once companies transfer USD 10.000 or more to their bank account. The state would then become aware of a company's turnover and send tax agents for collection.

Most of the Congolese public sector works on cash as well. Salaries of public employees are paid in cash. This provides room for corruption. In theory, a Head of Department could indicate that he has to pay salaries for 55 employees, of which 5 may have already died or do not even exist. Insiders confirm this is common practice in the military, too. This is why the public sector is hesitant to make its payments through bank accounts because then payments leave traces.

<sup>5</sup> World-Bank Study : ECOPA ; Incitations Fiscales A L'investissement: Analyse et Recommandations, Avril 2008, (p. 13: "Les recettes parafiscales sont normalement recouvrées par la Direction Générale des Recettes Administratives, Judiciaires, Domaniales et de Participation (DGRAD). Il s'agit d'environ 700 taxes qui représentaient une valeur de 91 et 125 milliard de C.F. respectivement en 2005 et 2006 – soit respectivement 23 % et 24 % du revenu budgétaire total de la RDC."

Companies mention that it is common practice to be visited by tax agents from different government bodies and levels. Each tax agent is assigned a geographic area. As there is no transparent tax law and definition as to which activities are taxable, tax officers frequently abuse this situation and demand excessive taxes from the MSMEs. The MSMEs feel obliged to negotiate the tax amount to reduce their burden. As a result of the negotiation MSMEs feel they pay somewhat less than requested by the tax agent and somewhat more than they really have to. The tax agents put the difference into their own pockets. Some entrepreneurs admit they can not even be sure if the tax agent is authentic.<sup>6</sup>

One entrepreneur found dubious ways to avoid taxes: "Since my wholesaler recently started to compete with me by installing a shop next to mine and selling at wholesale prices, I focussed on the smaller commercial clients. However, the local government started to close down all the small pirate businesses. Then they increased the taxes and at the same time electricity shortfalls cost me USD 100 to USD 150 of petrol per day. Since I implement some social activities, I decided to turn my company into an NGO. The only condition I have to fulfil is show that I am involved in some humanitarian activities and organise one event per month for humanitarian purposes. He emphasises: "before I had to pay USD 950 in taxes, now I pay USD 100 to USD 200 for such an event, and save around USD 800 tax per month!"

In the light of this non-transparent tax system, it becomes clear that companies are motivated to avoid formalisation because they want to "keep themselves out of trouble." Entrepreneurs mention that even if the monthly results are negative, tax agents come by to collect taxes. On the other hand, it is not evident that the tax burden increases with formalisation. As a matter of fact, every MSME struggles against real and false tax agents, independent of their level of formalisation. From this point of view there is no disadvantage to the MSMEs formalising. Rather it is a question of the individual company's perception and prejudice that lead formalisation to be seen as implying excessive taxation.

Business laws are non-transparent too, and only the medium sized companies with financial reserves can afford to go to court in case of violation of their property or business affairs. Entrepreneurs stress that legal issues are generally resolved very slowly and cost them a large amount of money.

*In general, most of the MSMEs are not aware of the advantages and disadvantages that formalisation implies. Information on this subject would support MSMEs decision-making and definitively encourage them to approach a FI and apply for a loan. Clearly, the reason why many entrepreneurs still keep cash outside of the FIs is because they fear harassment by the state, be it through increasing tax collections or obscure laws to constrain their activities. It would help the MSMEs if they knew that FIs treat their financial affairs confidentially. FIs could contribute to increasing the trust of MSMEs in this respect by working on their image and pro-actively providing information on their role.*

### **3.2.3. MSMEs' attitudes towards Financial Institutions**

The interviews cannot confirm the FIs' perception that MSMEs are afraid of them or of receiving a loan, because they worry they would not be able to pay it back. MSMEs

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<sup>6</sup> The findings of this study regarding the difficulties of doing business, paying taxes and trading across borders in the DRC match the findings of IFC's "Doing Business 2011" report.

generally demonstrated an open-minded attitude towards the FIs and some highlighted that they have been treated in a friendly and professional manner, even when the loan was refused.

Some companies however mention that their reservation towards FIs derives from in-acceptable credit conditions, be it because of excessive interest rates, immediate repayment as of the date credit is approved or a credit repayment term that is too short. In some cases entrepreneurs said that they feel FIs are extremely inflexible when considering providing credit to companies to help them compensate short-term cash flow.

#### **3.2.4. Cultural drivers**

Training organisations who deal with the day-to-day management issues of micro- and small companies highlight that their biggest challenge is standing up to their family's demands. It is common practice that the family expects the entrepreneur to pay for living expenses, health issues, accidents and emergencies of any kind. The concept of family implies the larger family, which comprises parents, sisters and brothers, cousins, uncles and aunts. Often, up to 15 family members depend financially on the entrepreneur.<sup>7</sup>

Training organisations confirm that especially among the small and micro enterprises around 2/3 of the entrepreneurs maintain this role as a "family provider". Only 1/3 opt for developing the company. While the first type mostly stays small and even shrinks, the latter type achieves growth targets by clearly establishing barriers regarding family influence.

The reason for financial mismanagement among this 2/3 of companies can partly be explained by family pressure. When an emergency arrives and family expectations rise, the entrepreneur simply transfers part of his turnover to the private pocket. As this is what he feels he is obliged to do, but not necessarily what he prefers, he may not maintain a strict bookkeeping system for this kind of expense.

*Family pressure may lead the entrepreneur to pursue the objective of satisfying the bigger family with his company, instead of developing and growing it.*

Apart from family pressure, sickness and the death of a family member often lead to stagnation and downturn of MSMEs, too. In these cases, the entrepreneurs rarely have contemplated anybody to replace them and the company is often abandoned.

Another important cultural factor which partly inhibits long-term business planning is the absence of a western concept of inheritance. Although having many children is socially celebrated and expected, it is very uncommon for entrepreneurs to mention that they want their children to inherit the company. Only two of the 21 interviewed entrepreneurs had inherited the company from their fathers. Parents of both these entrepreneurs had lived for many years in foreign countries and had sent their sons abroad to study. FIs confirm that very rarely had their MSME clients inherited the company.

On one hand, many of the entrepreneurs found inheritance is not a relevant issue to their business affairs. Consequently, it is very rare that they leave a last will. On top of this, family constellations are often complex. Parents on average have more than 6

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<sup>7</sup> As a local MSME training organisation highlights, it is common practice in micro and small businesses that family members put the entrepreneur under pressure and he is not able to establish a limit and keep the money for the business.

children. A right to inheritance is given to the legal family, which comprises sisters and brothers besides children from other women than the spouse. It is not rare that in case of the entrepreneur's death the wider family monopolises the company's assets to spread them among family members. A local businessmen's association confirms that the death of the entrepreneur often literally implies the death of the company. Asked if he would appreciate it, if his son mentioned the question of inheritance to him, an entrepreneur answered that he would feel threatened to death by such a proposal.

*As inheritance is judged 'not relevant' by some entrepreneurs and appears to be a socially discriminated matter for others, it can be interpreted as the absence of an incentive for an entrepreneur to organise the continuation of his company after his death and consequently to exercise long-term business planning.*

### **3.2.5. Reasons for credit refusal**

MSMEs confirm that the most frequent explanation for credit refusal is a lack of guarantees. Even some companies who have never taken out a loan explain they will try to avoid doing so in the future because they had heard that FIs request excessive guarantees. This message spread and created an inaccurate image of the FIs. Most of the companies take it as a fact that: "you have to have money and assets to get a credit." This is certainly a prejudice which prevents many companies from even approaching FIs. It might at the same time be a miscommunication on the part of FIs. If the FIs told the entrepreneurs why they refuse a loan, in case the reason is a management deficit, the entrepreneurs would at least be aware of the FIs judgement. In the best case, the entrepreneurs would undertake efforts to improve their management. The FIs' role could be to encourage MSMEs to work on their management capacity instead of avoiding to tell them something "personal" or in some cases even 'hiding' behind corporate policies.

As an example, a leading FI that had suggested MSMEs for interviews had a list of the reasons for rejecting 8 entrepreneurs including:

- absence of guarantees: three companies
- entrepreneur is guarantor for another company who is late in repaying: three companies
- irregular activity: one company
- hospitalization, arrears of repayment, death of family member: one company

In most of the cases loan rejection was communicated to the companies as described above. This implies that companies do not know that an internal deficiency such as lack of management capacity was the reason for rejection.

From the companies whose loan application had been rejected by the bank, two asked directly how they were identified for an interview and expressed surprise when the interviewers told them that the reason was the rejection of their loan application. They seemed to be hearing this for the first time. Even when the rejection of the credit application was not brought up by the interviewers, some companies stated that they were still waiting for an answer from the FI and that they did not understand why they had not received an explanation from the FI for the delay. None of the companies seemed to be aware of the rejection. As this group of companies did not know that it has been judged "un-bankable", there was no awareness on management deficiencies on the company side.

In cases of provided loans, entrepreneurs expressed discontent about the unproportional sizes of imposed guarantees as compared to the credit amount. A hospital manager states: "We urgently needed USD 15.000 to complete the building and keep the hospital working. The FI claimed as guarantee the whole building, worth USD 200.000, plus our equipment. This is not balanced. We will try to avoid taking out another loan in the future!"

### Key findings

1. Miscommunication, lack of information or prejudice spread the message that "FIs are not interested in small companies and give only to those who have already." The described communication practices go against the FIs' image. It would be helpful for FIs to reassess their communication practices and work on their image to emphasise interest and (re)attract their MSME target group.
2. It is part of the business behaviour of many companies to manage several business activities in parallel, whether the purpose is to increase profit or to reduce risk.
3. In general, most of the informal MSMEs are not aware of the advantages and disadvantages that formalisation implies. Information on this subject would support MSMEs decision making and definitively encourage them to approach a FI and apply for a loan. Clearly, the reason why many entrepreneurs still keep cash outside the FIs is because they fear harassment by the state, be it through increasing taxes or obscure laws to constrain their activities. It would help the MSMEs if they knew that FIs treat their financial affairs confidentially. In this respect FIs could contribute to creating trust on the part of MSMEs by working on their image and proactively providing information on their role.
4. The FIs perception that MSMEs are afraid of them or of loans cannot be confirmed from the interviews.
5. Family pressure is often the reason why entrepreneurs satisfy the demands of the bigger family using the turnover of the company, instead of reinvesting the funds.
6. As inheritance is judged 'not relevant' by some entrepreneurs and appears to be a socially discriminated matter for others, there is no strong incentive for an entrepreneur to organise the continuation of his company after his death.

## 4. MSMEs MANAGEMENT CAPACITY AND SERVICE DE- MAND TO ACCESS CREDIT

### 4.1. MSMEs internal organisation and governance

#### 4.1.1. Industries

Interviewed companies work in the following industries:

Production:

- agriculture
- egg production

Commerce:

- frozen foods
- foods, supermarket (2)
- cement
- mobile phones
- cold storage
- pharmaceuticals
- vehicle spare parts

Services:

- private school
- transport
- hotel, gastronomy (2)
- hospital (2)
- clearance services
- marketing and public relations
- computer training
- cyber cafe
- handcraft

Most of the interviewed companies work in services and commercial retail. The majority of the entrepreneurs have more than one business activity. Three, four and even five parallel activities are frequent. Some of the entrepreneurs, especially those with university background, such as lawyers, medical doctors, economists and civil engineers, are employed in parallel at a company, a hospital or in the public sector while they manage their own company. They feel that they compensate for unstable periods at their enterprises by having a continuous income. However, all of them plan to dedicate themselves full time to their enterprises in the future.

#### 4.1.2. Working processes

Usually the entrepreneurs assign tasks to their employees in a very intuitive way. It is more important to most of the entrepreneurs that employees do what they have been told rather than increase their abilities and knowledge.

In commercial activities employees are simply expected to be friendly to the customers. Only very few enterprises had stable and defined working processes, such as for example a clearing company that has strictly defined processes for the arrival, control and receiving of goods which arrive by ship, lorry or plane through a decentralised management system.

Some of the medium sized companies have processes of quality control in place: "If I sell 1.000 medicaments today I can tell exactly which doctor they went to." This is however the exception.

#### **4.1.3. Management style**

Most of the entrepreneurs take all of the managerial decisions on their own. "Everybody here has his role. Things are done like I think they should be done and it works for us." In some cases the wife is a shareholder in the company. In the absence of the husband, in cases of business trips or illness, the wife takes over control. If both are travelling, a "manager" replaces but is strictly controlled by the entrepreneur: Decision taking and responsibility are usually not delegated. "When I was in Dubai, my manager had to call me every day at the same time to receive my instructions." "During the first 4 years I did not take vacation because things do not work if I am not here."

Only two medium sized companies with more than 30 employees had clear delegation policies in place. "I have three area directors and each one has his own tasks and responsibilities. I do not interact with the other employees. I only hold the three directors responsible. I cannot do everything. I started training them once we reached a certain company size. This system is very efficient and the three directors feel motivated because they have responsibilities."

Companies with more than one establishment usually have a "manager" for each one, however asked about their tasks; the entrepreneurs admit that the managers basically control the others. Rarely do the entrepreneurs leave management to somebody who is not from the family. They carefully organise their times of absence, "because you cannot trust anybody." In general entrepreneurs distrust their employees: "In DRC, there is a problem with trust." Asked if they wanted to train a selected employee in management skills, most of the enterprises answered: "No, management happens at my level."

#### **4.1.4. Management of staff**

Most of the entrepreneurs are proud that their employees stay many years with them. They say the main motivation for this is regular payment of salaries, rather than a high salary. Many highlighted that they expect their employees to make sacrifices for the company whenever necessary and that employees would do so: "The African culture is on our side. We kept the employees during hard times. In return, although not well paid, they show more solidarity in times of crisis."

In almost all of the visited companies employees were hired on a permanent basis. Besides a permanent salary they receive a yearly or also monthly bonus depending on sales. On top of the permanent staff, collaborators and workers are hired on a fee basis depending on the income of the companies, such as for example in the agricultural and health industries. Very rarely the entrepreneur subcontracts all of his workers and pays them based on a percentage of daily turnover. Salary costs are mostly very low. Depending on their qualification, workers rarely earn more than USD 50 to USD 150 a month. Nevertheless, entrepreneurs express that the most important motivation for their

staff is the salary. Some provide their personnel with additional benefits such as transport fees and regular food.

*In summary, entrepreneurs tend to monopolise management decisions. Only very few of the medium sized companies delegate responsibility and decisions.*

#### **4.1.5. Training for the entrepreneurs**

In response to the question of what would help them grow their company, most of the entrepreneurs did not mention training. However, when they were asked if training adds value to their business, the majority answered positively. Especially the medium sized companies were ready to pay for "good" training. They stressed that it all depends on the quality and duration of the training. Reflecting on what they would be willing to pay, they cited current and past trainings as benchmarks. The different types of training which entrepreneurs realise currently and/or would find useful in the future are:

##### **4.1.5.1. Training in technical domains**

- Agriculture: training in technical treatment of plants and animals; pays for a training of 3 months for USD 60.
- Clearing company: training on the most recent customs regulations, pays for a training of 3 days, 4 hours a day for USD 200.
- Hospital 1: specialised training for medical doctors and nurses pays for a training of 6 to 10 months at USD 100 per month.
- Hospital 2: medical training in a foreign country and pays USD 1.000. Would like to send employees, especially nurses, to foreign countries for training and says this costs the same amount. However, admits she has difficulties investing in this.
- Pharmaceutical: trains his employees in accounting himself. Would appreciate sales training for his staff. Would like to have technical training on plastic materials but would always carefully check the results before paying. If the investment in training provides good results, he is ready to pay USD 1.000. Prefers practical training; "traditional" training, i.e. listening to trainer and taking notes, has no value for him.
- Marketing/ public relations: would pay USD 3.000 for international standard marketing training. Would pay USD 15.000 to get his team to Europe for marketing training.
- Computer training: would pay what his company charges for project management training with MS Project, i.e. USD 600.

##### **4.1.5.2. Training in enterprise management**

- Hospital: computerised administration for hospitals; would pay in the future what they pay for medical doctor and nurse training: USD 100 per month.
- Cold storage: would appreciate training on enterprise management in the future, would like training for 4 hours, once a week, either after 7 p.m. or on Saturdays. Does not want to say what he would pay.
- Handcraft: says he "would not refuse" business management training. Does not say what he would pay.
- Mobile phones: would appreciate management training in the future, would like to take training 4 hours once a week during the weekend, says he would pay

USD 100 for one month; pays for an accountant who comes in once a week for "accounting and control of documents". Pays USD 750 a month for this service and finds it too expensive; wants to train personnel to do the accounting.

- Supermarket: would appreciate training in marketing and negotiation abilities in the future to learn how to convince suppliers from Europe and successfully import their goods. Does not say how much he is willing to pay.
- Cement: would appreciate business management training and wants to learn how to use MS Excel in the future. Does not say what he is willing to pay.
- Frozen foods: took accounting training for free, even received a free pencil and working materials. For a good accounting training she would pay 3 USD or even more per day.
- Egg production: would appreciate management training for somebody to replace him in the future. He is looking for a well prepared business manager and is willing to pay up to USD 2.000; would not pay for training outside the DRC.

#### 4.1.5.3. Other training

- Vehicle spare parts: pays for computer and language training: USD 45 for 3,5 months.
- Handcraft: would like to take English language classes to be able to negotiate with European companies when buying machines in Europe, does not say what he is willing to pay.
- Mobile phones: currently pays for computer training for 4 employees, USD 100 per person for 6 months.
- Egg production: a company from Belgium required him to complete a one week training in order to import chickens.

*For most of the medium sized companies, technical training in their business domain was the priority among the different types of training. For this training they were open to pay between USD 60 at the lower end - for subsidised training on plant treatment - to USD 3.000 at the upper end - for training in the latest marketing techniques. Even if one tried to compare the different expectations entrepreneurs have regarding duration and quality of training, it is clear that the range of what they are willing to pay is too broad to deduce an appropriate standard price.*

*Surprisingly, it was not the well educated entrepreneurs of medium sized companies who found managerial training indispensable for their business. Most of those felt they are well experienced and educated in management issues. The other companies, mostly small ones, found managerial training important. However, they were not willing to indicate what they would pay for such training. The prices ranged from USD 3 to USD 2.000, depending on duration and quality. Similar to the technical training, the price range is too wide to conclude a reasonable average.*

*The majority of the companies who expressed a need for technical or managerial training in the future said they do not think that such training exists in Kinshasa. However, when asked if they had searched for a training company they admit that they had not.*

Especially among the small companies many said that they can get training for free. The training market in Kinshasa is dominated by NGOs who focus on micro and very small enterprises and during the last years technical skill training as well as management training had been offered free of charge, or at very low prices ranging from USD

10 to USD 30 for a module. This is not an optimal precondition for introducing training services that have fees into the market, unless they are highly differentiated from the free offerings.

#### **4.1.6. Training of staff**

Almost all of the entrepreneurs highlight the importance of well qualified personnel. At the same time, they are not willing to pay a company for staff training and mostly train their staff themselves. In many cases training is referred to as instructions on how to behave: "he should learn that he may not touch anything in the house. He cannot sleep in the garden during the night." In commerce, the importance of sales and helping the customer in a friendly way is highlighted.

Among the medium sized companies an awareness of the importance of training exists. Those companies are willing to spend USD 1.000 US up to even USD 2.000 for an appropriate training, be it managerial or technical. Two medium sized companies said they want to be market leaders in Kinshasa and admitted this will not work without educating and training their employees. The same entrepreneurs highlight the importance of showing their employees how their job is done in a foreign country. In their opinion, this would help the employees to open up their horizons and to improve the way they are doing things at home.

The main reason employees are fired is theft.

Some entrepreneurs admit that training is a must but it does not serve to motivate. Some hesitate to contract training for their staff because "as soon as they receive it they will leave the company." Medium sized companies highlight that technical training is important for the staff to grow with the companies, such as training for nurses (hospital), agricultural workers (farmer), treatment of chickens (egg production).

#### **4.1.7. Recruitment of staff**

Some medium sized companies hire their staff from temporary employment agencies ("Société intérim") and pay one to two monthly salaries. The agencies that provide the personnel perform regular follow-ups and send weekly reports to the entrepreneur.

The majority of the entrepreneurs find their staff by asking for a reference from friends or business partners. Some entrepreneurs highlight that they use their religious networks for recruitment "I do not hire just anybody. It is not possible. I go to the priest and ask him for his opinion."

### **4.2. MSMEs management capacity, vision and growth strategy**

#### **4.2.1. Entrepreneurial biography**

Most of the entrepreneurs started their business from scratch 1 to 15 years ago. Only two medium sized companies had inherited the business from their parents. At the beginning of the 1990s looting had destroyed most of the businesses in the DRC and led to an economic downturn.

While the entrepreneurs of the medium sized companies benefitted from university education, the entrepreneurs of the small companies were mostly "self-made-man" without higher or any formal education. They had started an activity which at the mo-

ment of the interviewer's visit they had already abandoned again. All of them started their business spontaneously because "there was an opportunity".

"My brothers and I started with a little pharmacy and sold medicaments. We then decided to import and sell chemical products, but then we found computers are more profitable. While for some time we did all of this in parallel, we discontinued selling medicaments in 2003 to instead import and sell mobile phones. We started to buy them for USD 25.000 in Dubai. Today we have 4 shops." Asked for why he began purchasing mobile phones, the entrepreneur responded: "they were new in the DRC and the profit margin was higher than with medicaments." Although he still made profit with medicaments, he abandoned the activity and opted for mobile phones.

"I started with cement sales but now the factory supplies me only after 5 to 6 months. So I launched myself into transport and bought a lorry which I am renting. Then I decided to buy minibuses." When asked for the reasons for changing the activities, he explained: "because my expenditures are lower for minibuses than for the lorry." He did not compare minibuses and lorries in terms of turnover and profit.

"My family sold diamonds in Angola and gave me the money to take care of it. I hide it well and they were thankful and gave me USD 1.000. This is how I started selling vegetables. Then the local government obliged me to remove my container. I thought it makes sense to go back to my neighbourhood, where everybody knows me. I bought a shop and continued selling but the government determined that in my zone only frozen foods may be sold. So I have been selling frozen foods since then. Then I thought there are a lot of people around here and they are thirsty, so I started selling water. One day I recognised the women on the market need chairs to sit and tables to sell, so I bought chairs and tables and rent them out. This pays automatically. My core business is still the frozen foods, but in the future I want to invest in real estate".

Many businesses especially in commerce find themselves exposed to an unfriendly regulatory environment. Apart from the real and false tax agents, the national and local governments imposed restrictive laws on business activities instead of facilitating them. Several entrepreneurs highlight that there is a law that prohibits marketing activities. A medium sized company mentioned: "I cannot avoid improving our front wall appearance. If I do not impose certain improvements, we will always stay mediocre. So I negotiate with the tax agents and pay what needs to be paid."

Even if this law would not exist, in the perception of the entrepreneurs it does exist and therefore it determines their attitude and investment decisions regarding marketing. As marketing is an important means to differentiate their own activity from the competition, to abandon it does clearly reduce the company's prospects.

When asked about the most difficult situation for their business and how they managed to find a solution, especially the small companies report on a downturn in business activities because they are sick or a family member dies. In the absence of health, company and credit insurance, their companies are extremely vulnerable. Their management is mostly conducted intuitively and their business activities unstable.

Even among the medium sized businesses, quick changes from one industry to another occur and often lack clear reasoning: "I arrived from Belgium where I had a minibus transport company. I continued this activity in DRC but it did not work out. There were many problems with the drivers. A woman told me that I have to stop with the transport

activity and should start importing chickens because there is a massive market for this here. I did so.”

“I studied customs management and have worked in this area since 1989. In 2008 together with 5 friends we created this company. It took us two years to get all the necessary permits together, among those, a security deposit of USD 30.000 for the public customs institution. Business is very complicated but we are successful. We are also active in trade and food activities.”

*When asked why they are taking the risk of moving into activities completely unknown to them, most of the entrepreneurs answer that it is actually their strategy to reduce risk. Others highlight that the profit margins in the new area are higher. However, if they are asked for barriers of entry for potential competitors, they simply answer that the market is big enough for everybody. This may have been true some years ago for many imported goods, such as for example vehicle spare parts and mobile equipment, but is not true anymore. Competition grows fast and in the centre of Kinshasa there are blocks of little mobile phone shops one after another. Asked for their exit strategy most companies said they have none and rely on the income of parallel business activities.*

#### **4.2.2. Vision and growth strategy**

Considering the difficult legal and regulatory environment and the experiences with looting and theft in the 1990s, entrepreneurs' flexibility and creativity to deal with barriers is admirable. Asked if they want to grow, all of the companies said yes. Only one company admitted it wanted to improve, but not to grow. However when the entrepreneurs were asked to describe how their company will have grown in 1 year and 3 years, it turned out they had different understandings of what growth means to them.

##### **4.2.2.1. Entrepreneurial growth type 1**

From the interviews, three different entrepreneur types were identified in reference to their understanding of growth.<sup>8</sup>

For some companies growth usually meant the increase of their purchase and sales capacity. Asked where they see their company in one year and in three years, many answered: “I want to become a wholesaler with the help of the bank”. They want to sell higher amounts of the existing stock because they feel this will allow them to generate higher income.

They all have additional activities which are often not related to the main activity. They often switch from one activity to the next. For example:

- from cement to transport;

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<sup>8</sup> As this is a qualitative study, the objective was to find out the characteristics of the existing enterprises and not to attain statistical representativeness. For the interviews entrepreneurs were identified according to superficial differences, such as industries, number of employees and turnover. Structural similarities have been identified among the MSMEs beyond the superficial differences. These similarities say much more about the MSMEs' success or failure than the superficial differences. For example, the above identified entrepreneur type 1 and type 2 have a similar planning capacity despite a different educational background, a different number of employees and different turnovers. The dimension of “entrepreneurial personality”, namely the entrepreneurs' genuine planning capacity, is the most relevant criterion for explaining the company's success. The above described typology should be understood as a rough trend. Additional entrepreneurial types with more refined characteristics may exist. To determine how many of each of the SME types actually exist in Kinshasa or the DRC, it would be necessary to conduct a quantitative survey.

- from vegetables to frozen foods and water and furniture rental;
- from computer to transport and agriculture;
- from frozen foods and cold storage to real estate and events;
- from medicaments to chemical products to mobile phones
- from potatoes to a cyber café
- from hospital to private school and transport
- from real estate rental to champagne to chicken import and local egg production

#### Entrepreneur Type 1

For entrepreneurial type 1, growth means generating more income by selling higher amounts of the same good, in other words: increasing quantity within the same and/or with additional business activities. This category of companies is not prepared to confront change. As their management is very intuitive, change generally surprises them.

This is characteristic of the small commerce companies who are involved in purchasing or import and sales. There is little or no company structure. The company is an aggregation of isolated activities. The motivation for growth is: "making more money", however sometimes the money is symbolic for being able to provide for the family or simply surviving. It is not automatically the case that profit is reinvested in the company. There usually is no crisis management and business activities decline when the entrepreneur is sick or a family member dies. In case of emergencies, small companies have no reserves or insurance and thus directly transfer company cash flow to their private pocket. Most entrepreneurs are not aware this behaviour threatens their business.

This group of companies usually has 5 to around 20 employees and mostly works in commercial retail. With 20 employees the companies usually reach a critical growth limit. Only one company of the same type had 21 employees, but still the same characteristics of the group. This group does not have a clear vision as to where their companies are going. Those who have ideas on the development of their business activities mostly have unrealistic assumptions, do not know which step and activity they will prioritise, or simply are not clear which steps they will take in the near future. Their book-keeping is simple and most of them have little booklets in which they write down sales and expenses every day. Sometimes more than one person writes into one booklet or several salespersons have a separate booklet. Some of these companies confuse financial language, such as for example "turnover" and "profit". They only have a diffuse picture of possible training needs or services to grow their business.

Half of the small companies did not have a clear idea of how to manage sales of larger amounts of goods. In general, no additional staff was planned for higher sales. Asked about how they will find additional clients they said they are convinced that the clients will find them. Sometimes contradictory to their own experiences, they feel the market is big enough for potential competitors. One entrepreneur said his competitive advantage is that he will be quicker than the others in importing tires, batteries and motor oil. This may work one or two times, but it is not clear how he will sustain his position in the long run. This group of companies does not have a strategy to differentiate itself from the competition because it feels it is not necessary. Entrepreneurs are not prepared for a changing scenario and only react subsequent to change.

Many of the small companies admit their business activity is profitable and they have saved some money. At the same time, their business size has not changed during the last years. Two businesses even shrunk. When asked what impedes them from grow-

ing step by step with their own savings and some profit from their business, they say they would like to do so but have no vision and no planning as to how to grow. In general the small commercial companies have neither a long-term and nor even a medium term perspective. Money is not the only obstacle that impedes their growth, but planning capacities are missing as well. Even simple scenario planning does not exist. Consistent with this, if asked where they see their business in 6 months, they generally say they will sell larger amounts of goods. Asked where they see their business in 3 years, they offer no consistent answer and, clearly, for them 3 years is too far in the future.

Likewise, some of these companies do not have a strategy for moving from one activity to another. For example, one entrepreneur plans to move from frozen foods to real estate, this is very risky as it is completely unclear how and with what she will accomplish this. She had experience moving from vegetables to frozen foods, but she did not seem to be aware that the move from frozen foods to real estate is a different challenge in terms of experience in the field, management capacity and capital. The same applies to an entrepreneur who moved from cement sales to transport. Some entrepreneurs put the whole group of activities at risk if they do not remain with the activity they have experience with and which is their principal income source. Even though they could have increased their sales by making some small savings and partnering with other companies in the industry – which some companies confirm they did – some still did not manage to grow.

In addition to the absence of planning capacity, another reason for stagnation may well be the difficulty in preventing a larger family from taking money from the business activity.

#### **4.2.2.2. Entrepreneurial growth type 2**

A second group of entrepreneurs has already been growing and investing money into their business. This group wants to continue growing and has ideas of what it wants to achieve. However, similar to the smaller commerce companies, it has no clear vision on how to get there. Some entrepreneurs have difficulties talking about a timeframe of three years. None of them has started an activity with a market study or a business plan. Similar to the smaller companies, some of them have developed a core business over many years. They likewise start other activities in parallel. In some cases the boundaries as to which activity is part and which is not part of the core business are vague. The core business may also change without a clear reasoning into a new activity. Other than the small businesses, this group of entrepreneurs is more conscious of the consequences of its investment decisions. Even if there is no planning, some companies conduct trial and error "exercises": they first try activities on a small scale before they make big investments in a new activity. However, the conclusions they draw from small to large scale investments often seem risky and not fully thought through. This lack of planning leads to irresponsible investment decisions, even within their industry.

Without a market study, one entrepreneur had invested in alcohol sales and became the exclusive representative of a champagne brand. Then he became aware that he had to invest in marketing and organise tasting events to sell the champagne. Because: "a very successful woman in the industry told me I should do it", he changed to egg production. However, before importing a larger number of chickens he tested the market with 500 chickens imported from Belgium. "With my wife we had studied the chick-

ens on the Internet. After three months they started to produce eggs. Each day I have 15 panels of eggs. I sell each for USD 5, which is USD 2.250 per month. There are no marketing costs. I am sold out by the early afternoon.”

After he had tested the market, he imported 5.000 chickens. When the interviewers visited him, the 5.000 chickens were in the garden of his private house. He had invested USD 60.000 into chickens and chicken food production. He urgently needed to rent land and build fences for the chickens but admitted he had no more financial resources. He feels it is obvious that sufficient clients will arrive at his house to buy 10 times as many eggs as before. There is only one road to his house which is in a precarious condition.

### Entrepreneur Type 2

This entrepreneur invests in his core activity, in complementary or in new activities. This group, however, at least has a company structure in its core activity. Business expenses are usually separated from private expenses. Entrepreneurs are involved in production and service activities, which is a more complex challenge than the monotonous purchasing/ import and sales activities of the small commerce companies. Although they test an activity on a small scale before they undertake a serious investment or business decision, they draw unrealistic conclusions. They have no clear vision of their company and find it difficult to explain the steps in order to realise their ideas. Like the smaller companies, they lack genuine planning capacity.

Some companies also reach a critical point where a larger step towards industrialised production or importation is needed, but they lack not only the financial resources but also the knowledge and skills to penetrate new and foreign markets. Others decide to keep growing step by step but likewise have no clear priorities on the next steps. Growth becomes a vague idea: “we want to have as many personnel as possible.” Or: “we want to double or triple our clients” is stated as a growth objective.

A farmer for example, who has been growing his vegetable, fruit and fish production business now wants to produce 800.000 papayas per month but has no plan how to get those to the market. His production is not industrialised. He has not developed a step-by-step approach as to how he will sell the papayas. In two years he wants to invest in the tourism industry. Asked how the tourists will find him, he says they will find him by word-of-mouth advertising and he will launch a website.

Another entrepreneur with an engineering background reflected: “I did transport and suddenly had some money and so I bought a piece of land and started to build a hospital. In the meantime I thought, a hospital needs a lot of up-front investment. So I turned the building into a school.”

One entrepreneur describes how he made the decision to invest in real estate: “A friend of my wife had a house. We thought we would try to rent it out to the UN staff that arrived for the election process. I discussed this with the UN. They said: First, we have to pay a guarantee to rent a house in your country which we never get back. Second, we have no services at the houses. So I promised to pay back the guarantee, give them flexibility (with period of rental) and assure good range of services: a driver, gardener, cook, cleaning support. I have contracts with house owners for a fixed period of several years. I modernised the houses. I had 265 employees renovating and servicing 50 houses. After the elections, the UN removed a lot of staff. Then I was stuck with the fixed contracts with house owners.. Now I have only one house left. I asked a bank for

credit at that time, but they denied it." The entrepreneur had not targeted other clients to replace the UN staff on time, nor was he prepared for another scenario. He could have assumed that the UN staff would be removed, since it had arrived with the purpose of supervising the election process.

In another example, an owner of three food markets wants to open a shop with luxury goods in the suburbs of Kinshasa because, as he highlights, such an offering does not exist there. He wants to bring something new to his clients and achieve this by importing luxury goods. While he wants to stick to his core business – purchasing and selling food – he also wants to import luxury goods such as female costumes, perfumes and jewellery from foreign countries. However, he is not clear on how to access the markets nor does he have experience with luxury goods.

*These examples reflect that even some of the medium sized enterprises lack planning capacity and often take decisions arbitrarily. They hardly anticipate market trends. They are easily convinced to change to a new activity if profits are or seem to be high, or if they heard somebody else succeeded in that activity.*

#### **4.2.2.3. Entrepreneurial growth type 3**

A third group of entrepreneurs wants to grow the business with a strategic goal. Some of the medium sized and only one of the small businesses – a start-up marketing and public relations company - are found in this group. Except for the latter, this group has already grown during the last years and has overcome serious difficulties. The entrepreneurs were able to learn from the difficulties and adapt to change but never left their core business and objectives. Instead, they strengthened their customer relationships and many of them improved their position in the value chain.

They know their customers and have marketing approaches to keep permanent customers and win new ones. They have a strategy to differentiate themselves from their competitors and to care for the relationship with their providers.

When asked for their vision in 1 year and 3 to 5 years, they know where they want to be and how to get there. They usually have a good planning capacity and have already developed different options in case "we do not get a credit from the bank". They have experiences with different FIs and have taken out and repaid credits in the past. Clearly these companies have a strategic direction and know how to combine growth in turnover, profits, personnel and added value to their products/services. Some of them describe persuasively how they plan to be among the most successful companies in their industry in the future.

The entrepreneurs of this group usually have university education. They studied law, business administration, economics, civil engineering or medicine, mostly in Europe or the US. These companies conduct scenario-planning and know their options as far as additional financing is concerned. They all admit that training for their employees is important, be it a technical specialisation, marketing, management or sales abilities. As for themselves, some admit they would like to improve their business planning and marketing abilities. They confirm having their bookkeeping up to date and know their turnover, expenses and earnings before and after tax at the end of each month. They all had mechanisms in place to make the company work in times of their absence, be it by delegating to a partner or an employed manager.

### Entrepreneur Type 3

For type three, growth means growing their company's structure by doing things in a new and more efficient and effective way.

An example is a pharmaceutical company which grew considerably in the past. The entrepreneur built a factory and wants to start local production of plastic bottles for medicaments in 6 months. During the past years the company had established a brand image which stands for certain medical standards. While currently generating 20 % of the turnover from local medicament production, the company wants to increase its medicament production in the DRC. In 5 years, 80 % of turnover is to come from local medicament production. The profits from medicament production with the Indian laboratories, which also carry the brand name, will support local medical research and solutions for typical illnesses. Basic resources for medicaments will still be imported. Distribution throughout the DRC will work through a franchise system. If the FIs do not provide capital, the entrepreneur is considering either a partnership with a medicament production firm from another country or a financial partner.

In another example, a hospital manager explained her strategy and had established clear growth limits, in contrast to the other companies. She plans to increase the size of the hospital building through insurance contracts with companies and through savings. Negotiations with the owner of the building are ongoing. She wants to increase the hospital's services and add specialisations through new cooperations with medical specialists. The plan is to grow from 15 to 45 beds: "because we cannot manage more than 45. With 45 beds, a critical point of growth will be reached for us." The growth project is clear, decisions well considered and the entrepreneur is aware of how much growth the company can absorb.

In summary, three entrepreneurial types were identified. For type 1, growth means generating more income by selling higher amounts of the same good. The entrepreneur is not prepared to confront change. As his management is very intuitive, change generally surprises him. Entrepreneur type 2 tests an activity before undertaking a serious investment or business decision, but draws unrealistic conclusions. Like type 1, he has no clear vision of the company's future and lacks genuine planning capacity. For entrepreneur type 3, growth means growing the company's structure by doing things in a new and more efficient and effective way.

### **4.3. MSMEs market positioning, products and customer service**

Products and services of the interviewed companies are:

- Company 1: sales of vehicle spare parts
- Company 2: cold storage and real estate
- Company 3: handcraft and gardening
- Company 4: sales of mobile phones
- Company 5: small supermarkets
- Company 6: sales of cement and renting lorries
- Company 7: sales of frozen food, water, renting tables and chairs, selling drinks
- Company 8: medical consulting, operations, several medical specialisations
- Company 9: agricultural production (vegetables, fruits)
- Company 10: medical consulting, operations, several medical specialisations
- Company 11: clearance services and foods trade

- Company 12: hotel and event management
- Company 13: import of chicken for local egg production, renting real estate
- Company 14: transport
- Company 15: import and local production of medicaments and packaging
- Company 16: private school and transport
- Company 17: hotel and complementary services
- Company 18: marketing and public relations
- Company 19: computer training and hosting services
- Company 20: cyber café
- Company 21: small supermarket with regional specialisation

#### 4.3.1. Small companies

Asked what they do to ensure that their clients stay with them and do not buy from the competition, entrepreneurs respond that this is due to their pricing and quality of goods: "Price and quality. If you have both, you win!" There is however little reflection on how to manage pricing. Some entrepreneurs simply seem to decide to offer a lower price than the competition, even if this implies losses for some time. Asked how they know that they have the best price, some admit they regularly send somebody to the competition to compare prices. Small service companies confirm that quality and price are the most important elements for them: "I offer excellent quality products and the clients appreciate it." In addition, bringing something new to the clients is an element of distinction used by some entrepreneurs.

Commercial companies highlight as their strength that they know how to talk to their clients. It is because of "good talk" and because they give them good advice that clients come back: "I give good buying advices to my clients. I do not sell them just anything but rather what they really need, and they appreciate it." Some entrepreneurs mention that they give little gifts in addition to the purchased merchandise in order to keep customers.

Most of the small companies, especially in sales, do not use any marketing at all. Asked how they conduct marketing, they answered that marketing implies additional taxes and therefore they do not even think about it. Others state that marketing is prohibited by law. Most of the companies highlight that they find themselves faced with huge demand. In addition they mention that more than 50 % of their clients are permanent.

Asked how they find new clients, many of the small entrepreneurs say that their products sell automatically and, therefore, marketing is not necessary. In services, entrepreneurs state:

"I go from house to house, knock on the door and make offers. Clients then give me different tasks." Or: "I am here for a long time, since 1996. People know me already."

Asked how they know that their clients are satisfied, entrepreneurs say that the clients sometimes say something positive. None of the companies proactively asks their clients if they were satisfied with what they bought. "When the people buy I just know they are satisfied with the quality and they promote me by word-of-mouth advertising."

Only very few small companies use a brand image to promote their products. There is no consistent branding: some entrepreneurs developed a brand for one of their products but the others are not sold under the same brand. One explains: "I have a brand

for water, but not for the other products, because for the other products I need documents and this means I will be taxed."

If marketing exists at all, it is implemented in a very simple way: "I put some panels outside on which clients can see the products and the prices." Or: "We did marketing on TV but it was too expensive. Now we have a lot of children that we send around with boxes of mobile handsets. We also send them to the wholesaler. They do publicity for us. If they sell something, they receive USD 1." Only one of the small commercial companies had established a brand with a consistent message: "We already have a brand, it is the 'tree of life' with a lot of things below which represent my merchandise. The Congolese people understand it."

Otherwise the approaches to marketing and sales are poor. Most of the small companies have no idea at all how and why they should differentiate their products from their competitors, which is consistent with their assumption of eternal demand. Asked what they plan to do to be different from their competitors very few recognised this need at all and plan to: "sell larger amounts than the competitor and sell quicker. Before he has imported, I will have already sold my goods."

In particular small commercial companies are frequently confronted with a situation of scarcity on the supplier side. This happens because wholesalers are prevented from delivering goods due to poor road infrastructure, electricity shortfalls or delays because of customs procedures. Entrepreneurs generally feel like victims in these situations. Only one company explained it had a policy of maintaining extremely good relationships with wholesalers in order to have an advantage over the competition when there are stock shortages.

Instead of adapting their ideas, many of the companies described in their vision of growth that they want to leave retail and become a wholesaler, assuming that the wholesaler is in control. However, they have not looked at the pros and cons of their position in the value chain and what advantages and disadvantages each position implies.

None of the entrepreneurs of small businesses were aware of the different life cycles of their products. They assume what sells once will sell forever. As competition increases and the price of the product decreases they usually wait and continue doing the same thing. Since the Congolese market in many industries is far from being saturated and has been growing during the last years, this behaviour did not have an important impact on companies' activities as of today, or, if it did, companies switched to another activity. Once even more competition arises - and this is already the case in the activities of the interviewed companies - sales start to flatten and profits will decrease. The small sales companies are not prepared for this and the only option for them is to spontaneously change to another activity once profit goes down, until profit in this activity goes down too.

Similar to the small companies, some of the medium sized companies also explain that they find their clients by word-of-mouth advertising: "We are more serious than the competition, we know how to do our business and people talk about it." Asked about their marketing activities, some companies confirm that "in our industry marketing is prohibited by law."

#### 4.3.2. Medium sized companies

In contrast to the small companies, most of the medium sized companies have a strategy to distinguish their products and services from the competition. Of these companies each had a clear idea as to how their pricing relates to quality. They rarely compete only on price:

"We try to hire very experienced personnel. Our medical doctors are specialists in their fields and we always work with the same doctor in one field. (...) Patients tell us that we are cleaner than other hospitals and the people appreciate it."

"I produce vegetables and fruits without chemical ingredients (...) in this area of Kinshasa other farmers produce only for their family. I am the only one who produces manioc for the community. I started producing papaya because there are very few and I know at which price and quantity I can sell them."

"Today we are the only company among our 20 competitors who tells their clients to bring back a medicament which had expired less than three months ago. (...) Our competitors' strategy is doing what we did before: import, sales, import, sales etc. (...) Today we have three different types of products: medicaments produced by us with our brand name, medicaments produced in our two Indian laboratories and licensed by us, and the exclusive brands of foreign generic firms. (...) Our brand image represents confidence and high quality. We were successful in differentiating ourselves from the mediocre quality of Chinese and Indian medicaments. (...) We have a medical and a commercial team who visit our clients – hospitals and pharmaceutical wholesalers – and explain the medicaments respectively. We have a lot of competition that use unfair practices. They paint the medical doctor's house to sell their goods. We do not do this. We stay ethical. We defend our price by quality."

"We always seek out goods that make the people stay with us. Pregnant women only pay for the first consultation if they come back within the next three days. In other hospitals they pay for each consultation. We give them a cloth for their baby for free. (...) We try to grow our medical specialisations by cooperating with additional medical doctors."

"We are serious. There are a lot of adventurers in our industry. I respect my word. We do not compete on price. We prefer maintaining our higher price and stick to the price and date of delivery of the client's imported goods. For example, we charge USD 10.000 for our customs services and the competition charges USD 7.000. Then our competitor calls his client from the airport and says he needs another USD 5.000 USD even if the merchandise is already gone!"

"We invested into event management services in 2005 and today organise 70 % of all larger events in Kinshasa. The clients like dealing with only one person for both the hotel and events. (...) 50 % of our clients visit us because of our 25-year-old brand name. New clients arrive through word-of-mouth advertising. (...) We differentiate ourselves through our reception desk, where everybody is received in a very friendly way."

Asked how they know that their clients are satisfied, only two of the companies had a process in place: "We ask the clients directly. Sometimes it happens that they are not satisfied. So we can improve. How should we learn otherwise? I am open. I talk to anybody. I ask new clients why they come here and how they have heard about us."

Some of the medium sized companies have marketing activities in place. They are however still simple. Asked about what they do, they describe the sales activities instead: "Our marketing officer gets in contact with potential clients, presents our service, our prices, invites the people for a coca cola, a coffee. We target the responsible person in each company."

"We do not have a website, but we have our publicity on other websites. We do not have a marketing policy. If our clients come again, we reduce the price. (...) At the end of each year, our clients get a little gift. We also have drinks with company clients."

*In terms of market positioning, two different types of companies can be distinguished: the smaller retail companies, which have no plan on how to improve products/ services, how to protect themselves from the competition, how to pro-actively attract new clients, and keep permanent ones. They are generally in a vulnerable position because once the demand for their product is big, massive competition comes in and sales flatten. They have no strategy to adapt or differentiate themselves and mostly move on to another activity. Even very simple marketing can make a difference for them.*

*The medium sized companies are not very different regarding their attitude towards marketing. Only two companies had consistent marketing in place, i.e. different activities to build a brand and make their company known to customers. Still this group of companies is aware that they have to do something to keep their customers, that customer feedback is important to improve their activities and to gain new customers. They make a difference by establishing quality standards for their products and services and usually defend their pricing. For the most part, they have a differentiation strategy in reference to the competition.*

#### **4.4. MSMEs financials, quality of info and profitability**

##### **4.4.1. Quality of financial information**

The financial information the companies gave was generally limited. This may have been due to distrust or because they did not have it. The small companies sometimes confused financial terminology. When asked for their monthly turnover, some of the companies did not understand the term. They used the term "sales".

Asked if they know their profit at the end of each month, most of the entrepreneurs answered positively. However when it came to details, some used similar calculations as the following: "I have 30 % of taxes on my net profit plus 20 % of electricity costs and 20 % of expenses for staff. I keep only 30 % of the profit. That is risky." It can either be interpreted that he loses 70 % of his net profit, which makes no sense, because electricity and staff expenses are business expenses and not part of net profit. Or 70 % of his turnover is spent on taxes, electricity and staff. Either way, he confuses the financial terms and it is not clear what the actual profit is.

Some of the small companies have a little booklet in which they write their sales and expenses every day. They are usually in charge of the bookkeeping themselves, which works for them. Some have however one person in charge of the bookkeeping for each product and activity: one booklet for frozen food, one booklet for water, and one for renting out chairs and desks. This implies that the entrepreneur has to monitor the booklets of two or three different people. Asked if this is efficient for them they answer positively.

On the other hand entrepreneurs with several business activities often think they will increase their overall turnover with an additional activity, but they actually take the money away from one activity to support the other: "I have USD 500 in income from renting out little shops, in 6 months I will have USD 3.000. I put this money aside to buy more frozen foods. If I have more frozen foods I can give it to more women in the area for sales. Then I will have an overall greater income and my profit will increase. Then I can invest in the construction of additional shops."

The greater income will still only come from the frozen foods, not from the renting of shops, since he had shifted it from shop rentals to frozen foods. This is assuming he increases income and profit from frozen foods and then invests it into construction. Does this make sense? He could have directly reinvested the income from shop rentals into the construction of new shops. Besides, with which money is he going to buy frozen foods once the stock is sold out?

Some entrepreneurs seem to confuse their private with their business expenses. Several entrepreneurs describe that they have a monthly profit of USD 2.000 for example. At the same time they admit they cannot afford a very important machine, which costs USD 4.000, and this prevents them from growing their business. If profits were reinvested in the business activity, it would take the entrepreneur only two months of savings to complete this purchase. Consequently, profit is used at least in part for private expenses.

Generally the small companies explain that their accounting system consists of writing down goods sold every day. Some did not seem to write down expenses or costs of goods sold. In their absence, a representative records the sales and the entrepreneur monitors this. Asked how they monitor, they said by checking the stock levels and looking at the receipts. At some of the little shops, however, the stock levels seemed to be very difficult to control.

In the medium sized companies accounting is either carried out by the entrepreneur, by an employed accountant or outsourced. It is common, too, to take money from the business to use for private expenses. The difference with smaller companies is that the entrepreneur is conscious of this and money transfers are reflected in the books: "If I buy something, I give the bill to Mme XX. I put some money into my purse, but I need to monitor this."

Some of the companies may well have exaggerated their turnover. One or two said they could not say exactly. Even in the medium sized companies, entrepreneurs interpret financial terms in a special way: A hotel owner explained that he sometimes offers rooms free of charge to some company representatives to attract the companies but records the rooms as if they were rented for money. The entrepreneur still records the rented rooms as turnover even though there is none.

Another entrepreneur mentions that: "it is difficult for me to know the profit at the end of the month. I cannot balance my books. When I try to balance it, sometimes it is not accurate because some companies still have not paid health insurance for their employees to us." The entrepreneur could calculate the profit based on the actual account transfers. She feels that outstanding payments are part of the profit and does not balance this, even if outstanding payments are frequent in the business.

Half of the medium sized companies highlight that they have their expenses under control. Some would appreciate a loan from an FI, but do not feel that the rejection of a

loan application limits their business activities. All of the medium sized companies and most of the small companies had already obtained loans from one or several FIs. Some admit they have ongoing loan applications with several FIs. However, most of the medium sized companies do not feel limited to this option of financing and developed a different scenario: "My priority is obtaining credit from the bank, but most likely they do not want to give me the amount I need. If I will not like the credit conditions, I will look for a financial and technical partner. (...) Years ago, I wanted 100 % of this company, but today I really don't care. If I get 20 % and we make USD 5 million in turnover, I will agree."

"We wanted to obtain credit from the bank, but the guarantees they imposed were just too demanding. We had to use our building which is worth USD 200.000 as a guarantee to get a credit of USD 15.000. This is not proportional. In this case we were obliged to take the credit in order to keep on generating income and we had to pay back 20 % within one year. We have repaid it and do not want a credit at the moment. We prefer to grow step by step through health insurance contracts with larger companies. When the hospital is overbooked we will grow step by step."

#### **4.4.2. Profitability**

It was difficult to judge the profitability of the visited companies, especially as the interviewers did not have access to financial documents. As a criterion for such a judgement the entrepreneurs' information on turnover and profit – if they revealed it – can be taken into consideration. In the shops, the number and movement of clients was another good indicator. One of the entrepreneurs had recently added transport to his core activity of cement and he was found in an empty shop. He mentioned that his supplier did not deliver, but as other shops in the suburb had cement it was hard to imagine that his activity would be regular again.

In the hospitals the number of waiting patients, occupied beds and working medical doctors served as indicators. Similarly in the hotel, the number of clients at the hotel bar and reception desk helped to measure profitability.

Some entrepreneurs were interviewed while currently changing to a new activity or maintaining several activities at the time. One entrepreneur had left his former real estate activity and maintained only a minimum effort in that activity to create some profit for co-financing his new chicken import activity. With the chicken import, he had just started and generated only a third of the profit he has left from the real estate activity. Is his business profitable? It is clearly unstable.

Another entrepreneur sells frozen foods and water, and rents out chairs and tables at the same time. Selling water and renting furniture were additional business activities which were later added to the core activity of frozen foods. Another few activities had been abandoned in the meantime. Is it a profitable business? It has existed since 1996. The examples are representative for at least 30 % of the interviewed companies. They also show how much the survival of the business activity depends on the entrepreneur.

From the description of the activity, some of the entrepreneurs had profitable businesses in the past which declined. Mostly the entrepreneurs indicated that this decline was due to the absence of clients and suppliers, old machinery, or difficulties in the regulatory environment. However, mismanagement was found to be an additional important reason. One transport company had applied for a loan of USD 1 million to buy 5

new lorries. The FIs had delayed its response for many months. Upon visiting the lorry garage and talking to the entrepreneur it became apparent that he had not reinvested on time for a new vehicle, and now suddenly needed new 5 vehicles to meet customer demand. The entrepreneur could have anticipated that this would happen. In general, some companies failed to make investments, diversify their clients, or adapt to a different client segment.

#### 4.4.3. MSMEs' views on Financial Institutions

The entrepreneurs who were contacted through one of the FIs for an interview were not aware that their credit applications had been rejected, in other words did not know that they were judged to be "un-bankable". Some of them mentioned they had one or more loans with the same FI before and had repaid them fully in due time.

Generally, the majority of the entrepreneurs highlight they had already obtained loans from the FIs or were in the middle of one or several loan application processes. The following statements were made by the entrepreneurs – in order of frequency - when asked about their experiences and relationship with FIs.

Positive:

- "Good relationship with the bank. Good personnel" (3)<sup>9</sup>
- "Bank is still the best alternative to access money" (1)
- "I understand the bank has to reduce risk." (1)
- "Because of my mother's death and my hospitalisation, I did not manage to pay my credit back. I am always in contact with the bank to fulfil their requirements."(1)

Critical:

- "After my credit application, the bank never responded to me."(5)
- "Interest rates are too high"<sup>10</sup> (4)
- "They offered me only a small percentage of the credit amount I applied for. Not interesting to satisfy my needs." (4)
- "Credit duration is too short!"<sup>11</sup> (4)
- "Never told me why my credit application was rejected."(3)
- "In these countries FIs do not support companies to grow but provide credit to companies who have money."(2)
- "We had to give too many guarantees to obtain credit. The guarantee was not proportional to the credit amount." (2)
- "Are very indiscreet. Ask too many questions." (2)
- "Let me wait for hours. Bad service." (2)
- My credit application was rejected. I will invest through my own means and will grow step by step. (2)
- "FIs have prejudices regarding our industry." (2)
- My credit application was rejected. I will now sell some of my assets and this way invest in my new business activity, because I know it will be successful.(1)

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<sup>9</sup> Number of entrepreneurs who have a similar opinion.

<sup>10</sup> Most of the entrepreneurs indicate their interest rate was 20% to 30%.

<sup>11</sup> Entrepreneurs stated they were allowed to get loans for a period of 1 or sometimes a maximum of 2 years.

- "FIs are very happy if our business is good, but if we are in trouble they abandon us."(1)
- "Some FIs are not credible, or are very complicated." (1)
- "The loan came too late. I had to wait too long. Now I do not know what to do with the money and will invest it in other activities."(1)
- We will not take out another loan. Conditions are not interesting. We prefer to grow step by step by our own means. (1)
- "One bank is not ready to give me any money at all and another gives me huge amounts, there are no clear criteria." (1)
- "As a guarantor, I tried to pay back part of a loan in arrears, but the bank would not accept my money!" (1)
- "Once I obtained a loan, I had to start repayment the same month without having used the loan at all!"
- "Among us, if you know somebody in the bank it helps in successfully obtaining credit."(1)
- "Bank employees need to be educated." (1)
- "We go to the restaurant and invite our contact at the bank for a meal. He always says you have to wait, the bank is still evaluating."

In summary, entrepreneurs feel that FIs are not completely open with them regarding their decision criteria for providing loans. Generally credit conditions are perceived as extremely strict. Clearly the image of FIs is more negative than positive.

#### **4.5. Services needed as articulated by MSMEs**

As detailed above, most of the companies feel that the quality of their business management is not related to the FIs' decision to provide loans. Consequently, asked what they need in order to grow and/or access loans many companies gave little to no response.

##### **4.5.1. Services needed to grow the company**

Asked what they need to grow, most of the companies answered:

- "Money from the bank!"
- "A bank that finances us!"
- "I have to invest in machines and equipment."
- "I need an office with a secretary."
- "A new building."

When changing the question to: "Which services or information would help you to grow?", entrepreneurs answered:

- "There is always information lacking in my technical field."
- "We would like to provide more medical information to our clients." (hospital)
- "I need information on the access to finance, especially on high investment quality."
- "I need additional information on the FIs' conditions."
- "I need a person who helps me with technical issues of my project, an architect and an agronomist" (agricultural activity)
- "The latest findings in marketing and enterprise management."

- "I need to increase our capacity to receive a higher number of students" (private school).
- "I need a technical and a financial partner."
- "I need somebody who helps me to develop my two additional business activities."
- "I need a computerised hospital management system to improve the monitoring of our stock levels."
- "Sometimes medicaments are just rare. It is how our country is. There is scarcity everywhere, because medical centres only distribute small amounts of medicaments."
- "We need better information on the latest marketing trends. We have somebody in charge of marketing. He visits our clients."
- "I would appreciate an information hub. There are little information centres here in Kinshasa but the quality of their service is very low."
- "An information centre would be very useful. I know how information is distributed here today: a friend calls you to ask you something and you call another friend, who calls another friend. 5 to 6 people may be involved and we are all losing a lot of our time."
- "I would be very interested in information concerning tax exemption. I import a lot of products and pay unnecessary taxes because I do not know better."
- "I would appreciate an information hub. Everybody would. Because what we do? We hire a lawyer and they are expensive. I would pay for a scheduled information or service, for example per hour."

#### **4.5.2. Services needed to access credit**

Asked if they had tried to compare the interest rates and real costs of credit at different FIs, 80 % of the entrepreneurs said they had not.

In response to the following question: "Would you appreciate more information on the different products and conditions of the FIs?" 80 % of the companies said yes.

In response to the question: "Which kind of specific information would you appreciate?" entrepreneurs answered:

- "I need to know which FI provides the best service and the quickest credit."
- "I want information on long term credits."
- "Each client should have the possibility to access his file to know what the FI thinks about him."
- "Information on the lowest interest rate and guarantees."
- "Today I learned that the bank retains a little percentage of my money when I remove it from my account. I was surprised. I have to know how the bank operates."
- "For me it would be ideal to have a bank that does not change its conditions."
- "I think there is no good information or training service here in Kinshasa. My wife wanted to open one"
- "You need to negotiate credit with the bank. For this, more information is useful."
- "It will be difficult for me to get USD 5.000 from them. If they did, I would then define which machine or material I would buy with it."

Asked what they would be willing to pay for the different information, entrepreneurs found the question abstract and admitted the information provider would have to define it for them. Some used benchmarks as examples:

- “We pay USD 15 a month to an NGO who gives us some information on taxes and the law.”
- “For appropriate information I would pay the same as for a good book: about USD 50”.

Asked what would help them in accessing credit, most of the companies did not understand the question. Others admitted: “I just have to fulfil the bank’s credit conditions!”

Changing the question to “Which are possible services and information that would help you obtain credit from the bank?” Only very few started to think and develop some service models, as will be described below.

If the question was further changed to: “Would you appreciate a consultant or intermediary to help you present your project to the FI and succeed with the loan application”? 80 % answered positively and 20 % said that they do not need this.

Asked on how such a service should look, entrepreneurs stated:

- “This person should be my intermediary with the bank.”
- “I need a partner, somebody who invests into my business and gets his return on investment. I do the work. He has to invest on time. It would be excellent to me if that person could also accompany and support me in technical and administrative issues. It may well be somebody from the bank.”
- I would mostly appreciate support on the business plan. The business plan is the most important issue. I really want to create an activity in local production and I need that help.”
- “There may be two different service phases: 1. The consultant prepares the file for credit application, according to my instructions. 2. The consultant presents and negotiates with the bank.”
- “I can see a support on project preparation and another support for the negotiation phase with the bank.”
- “This is not very common here to have such a person.”
- “We need to find a way to establish a particular relationship with the bank.”
- “Once the banks understand that you are credible, they come here and offer us a credit.”
- “We can present our company ourselves. Sometimes the bank rejects an application because they just do not want to give the credit.”
- “A consultant who is at my side to support my credit application is a good thing.”
- “An intermediary would be necessary for me, I am aware that there are a lot of advantages I could have with the bank, if only I knew more about it. As a consequence, I lose opportunities. First of all, I would like to understand how far I can go with the banks. For example: Are the interest rates negotiable?”
- “For the analytical part of my business presentation to the bank, I am obliged to contract somebody’s services.”
- “Many people do excellent business with the bank. I want to know how they do it.”
- “If there was a service to know when and how to present my application to the bank, that would be very useful. I lose a lot of time for my application prepara-

tion. I even let other people and activities wait to complete this application. It would have been very useful if somebody had told me before that my application would not be accepted by the bank."

- "But I prefer a win-win situation."
- "I would appreciate somebody who prepares the financial information with me."
- "I would prefer that somebody from the bank shows up here regularly. This disciplines me and strengthens the relationship between the bank and the company." (small company)
- "I need a feasibility study. Once this is done, I can show the bank what I really want to do."
- "I have to talk to my wife on this!"
- "I am afraid an intermediary between the bank and myself could misinterpret me."
- "I need somebody to support me with the bank. OPEC does this for us. It is a service free of charge. I even get a pencil and papers for free."
- "I would appreciate a consultant. I would pay a percentage of the obtained credit."

Asked how much they would be willing to pay for the service, most of the smaller companies hesitated to give an indication, whereas the medium sized companies highlighted that it would have to be a "win-win situation". They would rarely pay for such a service on a fee basis, definitively not as a salary, nor as a monthly membership, but as a percentage of the credit amount:

- "For instance, if I need USD 150.000 and the consultant prepares all the information the bank requires and in addition negotiates with the bank, I pay USD 15.000 if we succeed."
- "I would be willing to pay 10 % of the credit amount, if the consultant succeeds in getting credit."
- "The amount the person earns depends on the interest rate he is able to negotiate with the bank. If the bank wants 25 % and he is able to negotiate 20 %, he can have 2,5 % and we will take the other share."
- "I would give a symbolic amount as appreciation."
- If the person manages to negotiate a good interest rate for me, his benefit will be a percentage of the rate. For example, if the rate is 25 % and he negotiates it down to 15 %, I would give him 5 % of the credit amount.
- "For the preparation of my business project I would pay the consultant 0,1 % of the credit amount. For a successful negotiation with the bank I would pay 1 % to even 5 % of the amount. In case of rejection, I would not pay anything."
- "I would pay on a fee basis, but only according to good results."
- "If a consultant helps me to access credit I would pay him something between 1 % and 10 % of the credit amount. Anyway this service has a high value for me. It is appreciable to have good ideas, but you need to know how to present them to the bank."
- "A good financial person is important and expensive. Somebody who brings results within one year, ok, I would pay USD 1.000 each month. The person would do something comparable to an audit with us. He should determine how much credit we are able to ask for. I pay him USD 1.000."

- “A consultant who supports me with the bank and helps me to get a certain amount, I would pay 10 % of the amount.”
- “The bigger the credit amount, the more I pay.”
- “A consultant at my side is a good idea. I would pay 5 % to 8 % of the obtained credit amount for that.
- “I would like to demand USD 50.000 from the bank and would pay 3 % of this amount for an intermediary if he succeeds.”

The MSMEs above cited service demand will be discussed in the following chapter.

### Key findings

1. In summary, entrepreneurs tend to monopolise management decisions. Only very few of the medium sized companies delegate responsibility and decisions.

2. For most of the medium sized companies, technical training in their business domain was the priority among the different types of training. The range of what entrepreneurs are willing to pay for this training is however too broad to deduce an appropriate standard price. It was mostly the small companies who gave priority to managerial training. They were not willing to indicate what they would pay for such training. The majority of the companies who expressed a need for technical or managerial training in the future said they do not think that such training exists in Kinshasa.

3. For many MSMEs it is a strategy of reducing risk to move into activities completely unknown to them. Others highlight that the profit margins in the new area are higher. At the same time no barriers of entry for potential competitors exist and competition grows fast which makes the MSMEs vulnerable.

4. Three entrepreneurial types have been identified. For type 1, growth means generating more income by selling higher amounts of the same good. The entrepreneur is not prepared to confront change. As his management is very intuitive, change generally surprises him. Entrepreneur type 2 tests an activity before undertaking a serious investment or business decision, but draws unrealistic conclusions. Like type 1, he has no clear vision of the company's future and lacks genuine planning capacity. For entrepreneur type 3, growth means growing the company's structure by doing things in a new and more efficient and effective way.

5. In terms of market positioning, two different types of companies can be distinguished: the smaller retail companies, which have no plan on how to improve products/services, how to protect themselves from the competition, how to pro-actively attract new clients, and keep permanent ones. Even very simple marketing can make a difference for them. The medium sized companies are not very different regarding their attitude towards marketing. Still they make a difference by establishing quality standards for their products and services and usually defend their pricing. For the most part, they have a differentiation strategy in reference to the competition.

6. Regarding profitability, some MSMEs demonstrated unstable activities. At the same time most of the MSMEs exist for more than 10 years which shows they have been successful. The survival of the MSMEs highly depends on the entrepreneur himself.

7. Entrepreneurs feel that FIs are not completely open with them regarding their decision criteria for providing loans. Generally credit conditions are perceived as extremely strict. Clearly, their image of FIs is rather negative.

8. Most of the companies feel that the quality of their business management is not related to the FIs' decision to provide loans. Consequently, asked what they need in order to grow and/or access loans many companies gave little to no response.

## 5. AN ASSESSMENT OF THE SUCCESS PROBABILITY OF THE MSMEs' WISH LIST

Measures requested by the MSMEs were mentioned on the following three levels:

- Training
- Information
- Consulting

In the following the success probability of the MSMEs' "wish list" will be discussed at these levels.

### **5.1. Training**

#### **5.1.1. Technical training**

For most of the companies, technical training in their business domain was the priority among different types of training. For this training they would be willing to pay between USD 60 and USD 3.000. Although entrepreneurs have their own expectations on the length and quality of training, it is clear that the range of what they are willing to pay is too wide to deduce an appropriate standard fee.

There is however a difference between the small and medium sized companies who would pay a fee in the upper range. In the health industry, the hospitals and the pharmaceutical company for example are willing to pay around USD 1.000. The amount of USD 3.000 is rather an exception at the upper end. At the lower end, the smaller companies do not mention technical training at all as a means to improve or grow their business. One entrepreneur is willing to pay USD 60.

#### **5.1.2. Managerial training**

Surprisingly, it was not the well-educated entrepreneurs of medium sized companies who found managerial training indispensable for their business. Most of those felt they are well experienced and educated in management issues. Rather it was the other companies, mostly small ones, which found managerial training important. However, they were not willing to indicate what they would pay for such training. The acceptable prices ranged from USD 3 to USD 2.000, depending on length and quality. Similar to the technical training, the price range is too wide to conclude a reasonable average.

In general, it was difficult to gain information on the entrepreneurs' thoughts regarding their own management capacity. They were reluctant to speak about it and it is likely they would judge it as a weakness to ask for support in management.

#### **5.1.3. Other training**

For other training, such as language and computer training, companies indicated they were willing to pay a fee ranging from USD 45 to USD 100. The entrepreneurs who asked for language training expressed that the training is crucial for their business activities: one is a Nigerian entrepreneur in DRC who does not speak French fluently; the other one is a Congolese entrepreneur who wants to seek wholesalers in Europe (other than France and Belgium) and therefore needs to learn English.

Many of the small companies mention that they had training experiences, mainly in managerial training, which they had received free of charge. In addition, they had obtained paper and pencils and other little give-aways for their motivation to participate. The training providers were NGOs, which receive their financing from European countries. One NGO highlighted that it offers management training at 10 % of the overall costs. This situation does not particularly encourage small companies to pay for training. It is not clear if those who had received training felt that it added value to their business.

The statement made by many entrepreneurs that: "training does not motivate our employees, only money does" may suggest that what they say about their employees is valid for themselves, too. At the same time, entrepreneurs prefer to train their employees themselves because they feel they know their business best and also believe they know how to transfer the knowledge adequately to their employees. Only one entrepreneur questioned her own abilities as a trainer.

*The entrepreneurs' interest in training as a means to grow their businesses or access finance is low. Offering management or technical training to MSMEs would not only require a considerable marketing effort, but also an intrinsic motivation from the entrepreneurs to participate. The latter can not be concluded from the interviews. To succeed, training and learning contents would need to be applicable in the entrepreneurs' day-to-day operations and the entrepreneurs' would need to clearly perceive a concrete added value for their businesses.*

## **5.2. Information**

The majority of entrepreneurs appreciate information services. Asked what kind of information would help them to grow, they mainly mention technical information, such as medical information for the hospital, information on marketing trends for the pharmaceutical company and others. A second type of information referred to the FIs, such as information on the access to finance, on the FIs' conditions, etc. A third need entrepreneurs expressed was an 'information hub' or centre, in which they could get updated information on several subjects depending on their need, such as information on tax exemption, on the FIs' conditions and on how to find technical personnel. A fourth type of "information" finally suggests consulting services, such as the need for "somebody who helps me to develop my two additional activities", "information on how to increase our capacity to receive a higher number of students", "a person who helps me with technical issues of my project."

Asked exactly what information they would appreciate about FIs and possibilities to access loans, the majority of the entrepreneurs had very specific information requests on credit conditions, such as information on long term credits, on the lowest interest rate and guarantees, and on which bank services are free of charge. Another group of entrepreneurs articulated their needs for information in a normative way, such as: "Each client should have the possibility to access the application to know what the FI thinks about him." (This can be translated into: 'I would like to access my loan application to know what the bank thinks about me.')

Or: "For me it would be ideal to have a bank that does not change its conditions." And: "You need to negotiate credit with the bank. For this, more information is useful."

*Behind these statements entrepreneurs express a need for more transparency on the FIs' side.*

Generally there is a low willingness to pay for information. This is because it is not common practice to do so. As there were no clear benchmarks available, entrepreneurs hesitated to mention an acceptable price and found the information provider would have to define it. Only one entrepreneur accepted the price of a book as a benchmark and confirmed he would be willing to pay USD 50 for accurate information.

As information does not behave like other goods in the market, pricing is very complex. Information only adds value if it is delivered in an accurate and timely way to the entrepreneurs. If it comes too late, it may have lost its value. If it comes too early, it may have not yet gained any value for the entrepreneur. If it comes in an unsuitable format, it is useless.

*It would clearly add value to the MSMEs to have frequent access to an information hub on general business information, including business law, taxes, information on FIs and many others. This could work via the Internet, as a hotline and as a physical information centre. If such an information hub would exist physically, entrepreneurs could choose for themselves when which kind of information is valuable to them and directly request it. Alternative ways to access information make sense, since not every entrepreneur has Internet access all the time. If a physical location exists, it may be interesting for the MSMEs to combine visiting the FI with visiting the information hub. Since transport is generally difficult and time consuming, a hotline seems a useful third option.*

### **5.3. Consulting**

The demand for service can be principally divided into two parts: a demand for a clearly defined consulting service or product (business plan, financial sheets, etc.), and the demand for a personal advisor or a sparring partner.

Asked if they would appreciate a consultant to help them present their project to the FIs in order to succeed with the loan application, and how such a service should look, most of the entrepreneurs asked for support on management issues. Services such as:

- financial planning and administration,
- preparation of the application for the FI,
- business analysis and presentation,
- support on the business plan,
- a feasibility study

are highly desired. Some entrepreneurs state that the consultant could be somebody from the FI, which may show a certain confidence of the MSMEs in the FIs' services.

*Clearly, most of the entrepreneurs articulate in some way that they would like to have a partner to help them understand the FIs' point of view. All of them expressed a lack of experience with FIs. Some even feel they miss opportunities because of this. In relation to the desire for an advisor or partner, they have directly or indirectly expressed a high demand for negotiation skills. The majority of the entrepreneurs highlighted that they would clearly appreciate support for interaction with the bank.*

In terms of the demand for support services as expressed above, entrepreneurs demonstrate to a certain extent that they lack the skills and experiences to carry out the corresponding tasks themselves (business analysis, presentation of the business, planning etc.). All of the services are highly relevant for the entrepreneurs to succeed,

not only with their loan application, but also with the management and growth of their company.

Entrepreneurs however did not request these services in connection with the growth of their company, nor in relation with training. There is a high likelihood that the services are more acceptable as consulting services than through another format. While the invitation to training may be perceived as referring to deficit of entrepreneurial skills, consulting services can be understood as something external to the company, and are comparable, for instance, to a lawyer's service. The important challenge will be to convince the entrepreneurs that the consultant or coach is a sustainable solution for them to improve their management abilities and learn something about the FIs, and not only a means to access loans.

As to the value consulting services have for the entrepreneurs, interestingly all of them imagine a fee based on success. For the most part the fee is expressed as a percentage of the obtained loan that entrepreneurs would be willing to pay to the consultant. Other entrepreneurs are disturbed by the increased costs and propose a percentage of the negotiated interest rate, expecting that the consultant will be able to reduce the interest rate for them.

This "win-win-situation", as the entrepreneurs call it, is clearly different from the delivery of a final product or service, and entrepreneurs thus value it differently. While they feel the product, for example a business plan or presentation of the company to the FI, is worth around USD 1.000, they want to keep any other payment to the consultant attained through the negotiations.

### Key findings

1. One interpretation of the entrepreneurs' willingness to pay for the services is that they are only willing to do so because the FIs expect it, and not because the services may increase the companies' profit in the future. It is not very sustainable for the company if the entrepreneur pays for a business plan he will forget the moment he obtains a loan. Also, it is meaningless for the entrepreneur to pay somebody to manage the relationship with the bank if he is not the protagonist in this relationship.
2. Further, it makes little sense particularly for the small entrepreneurs to pay a percentage of the obtained credit amount to a consultant in addition to their loan costs - which usually range from 20% up to 30%.
3. For a medium sized company, service packages with a fixed cost as well as consulting support for their relationship with the FIs can be useful. Even if the entrepreneurs request the service only as a means to access a loan, it is fair to recognise that they are willing to do something to obtain the loan and pay for it. This can be directed in a positive way. To guarantee that the entrepreneurs themselves get involved and take advantage of services, such as developing genuine planning abilities, the model of a coach may be more appropriate. The purpose of working sessions with a coach is for the entrepreneur to obtain planning abilities which he can use to make a real impact on his business and not just to satisfy the FIs' expectations. The coach would then, for example, prepare the entrepreneur for a meeting with an FI, accompany him possibly one or two times and provide corresponding feedback. This would encourage the en-

trepreneur to develop the skills for himself that he seeks in an advisor. It would also keep the costs low for the entrepreneur.

4. The service could be advertised by the FIs. However, there is a greater likelihood of it succeeding if it is advertised and presented by an organisation independent from the FIs.

## 6.

### AN ASSESSMENT OF WHAT THE MSMEs NEED

#### 6.1. Needs of the Three Entrepreneurial Types

As to the vision of their companies, three entrepreneurial types have been distinguished above.

For Entrepreneurs Type 1, growth means generating more income by selling higher amounts of the same good, in other words increasing quantity and/or starting additional business activities which function likewise. They have little company structure. The small commerce companies, with 5 to 20 employees, can be mainly found in this group.

Entrepreneurs Type 2 grow by investing in their core activity, complementary or new activities. They have a company structure - at least in their core activity - and separate business from private expenses. They are involved in commerce, but also production and service activities, which is a more complex challenge than the monotonous purchase/import and sales activities of the small commerce companies. Although they usually test an activity before they make a serious investment, they draw unrealistic conclusions and consequently take risky business decisions. They have no clear vision of their company and lack planning capacity.

For Entrepreneurs Type 3, growth means growing their company's structure, by doing things in a new and more efficient and effective way. Their business has a strategic direction. They usually have a good planning capacity and have developed different scenarios and options to achieve their business objectives.

In the first group scenario planning does not exist. The entrepreneurs seem to live from one day to the next. This can partly be explained with the recent historic experience of war, depredation and scarcity. A general lack of faith exists that the business environment will remain stable and business development will continue in the future. It is essential for this group of entrepreneurs to introduce basic market observation and scenario planning<sup>12</sup> in their business. Before changing to a new activity, the entrepreneur does not evaluate and assess it. The decision to change is taken because entrepreneurs have nothing more than an assumption that it is more profitable than what they currently do. It is generally assumed by the entrepreneurs that they will be as successful as others have been. This lack of risk awareness leads to irresponsible business decisions. Although in the DRC the market is far from saturated, fierce competition is growing rapidly in several industries.

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<sup>12</sup> Scenario planning differs from most other forms of long-range planning in terms of the actual production of the scenarios. Scenario planning starts by dividing knowledge into two broad domains: (1) things we believe we know something about and (2) elements we consider uncertain or unknowable. The first component – trends – casts the past forward. For example, assumptions can be made about the demand for a product or service, the number of items sold per day and perhaps the price. The second component – true uncertainties – involve for instance inflation, outcomes of political elections, rates of innovation, fashions in markets, and others. Scenario planning is about blending the known and the unknown into a limited number of consistent views of the future that span a very wide range of possibilities. At its most basic level, scenario planning is relatively simple and follows six steps:

1. Decide drivers for change/assumptions
2. Bring drivers together into a viable framework
3. Produce 5-8 initial mini-scenarios
4. Reduce to 2-3 scenarios
5. Draft the scenarios
6. Identify the issues arising

As long as Entrepreneur Type 1 is not able to develop original strategies to differentiate himself from the competition, he finds himself a victim of the product life cycles of the activity. Original differentiation strategies can be very simple: special attention to a permanent customer, ideas on how to attract new customers and creativity in sales and marketing would add value to the entrepreneur's activity. Once prices and profits decline, the entrepreneurs hectically search for something new. They find themselves reacting to circumstances instead of determining their business development themselves.

The second group also lacks forecasting. The interviewed entrepreneurs have invested in new activities without a market study, simple scenario planning or a business plan. However they are more conscious about the consequences of their decisions. Most of them learnt from experiences and they usually try a product on a small scale before they make a larger investment decision. In terms of their educational background, they compare to the third group of entrepreneurs who completed university studies in foreign countries. In terms of their entrepreneurial practices, however, they have similarities with the first group, especially in their planning capacity. Both groups lack the ability to assess risk.

For Entrepreneur Type 2 knowledge on how to develop a step-by-step planning process to achieve an objective and to implement a simple market study would add value. As to the educational background of the entrepreneurs, more sophisticated planning methods would also make sense. However, it is important that the methods do not lose connection to the entrepreneurs' day-to-day needs and the application context. In this respect, a business plan may be too elaborated compared to the reality of the entrepreneur's business.

At the same time it seems vitally important that knowledge is transmitted in a practical format. As mentioned above, the learning content needs to have practical relevance for the entrepreneur's business. The same is valid for group 1. The most appropriate training question for both groups is how to approach short-term objectives through small steps. This "exercise" can be supported by some simple marketing, sales and scenario planning techniques as well as a very basic profit and loss or cash flow statement.

Entrepreneur Type 3 has no shortcomings that might prevent him from implementing his growth projects. Concerning his experiences with FIs, in many cases he did not obtain the financing he had expected and if he did, he often complains about high costs of loans, too short repayment periods and other conditions as mentioned above. Characteristic for the behaviour of this type is that he does not perceive the FI's decision on providing a loan as a barrier to his business activities. One entrepreneur's statement summarises this attitude: "If I have USD 10.000, I do what I need to with that. If I had a USD 100, I do it with this."

Particularly for the medium sized companies (group 2 and 3) service packages with a fixed cost as well as coaching support for their interaction with the FIs can be extremely useful, as long as the entrepreneur is the protagonist of this interaction. During the interviews it was apparent that entrepreneurs feel they lack information on the bank, do not clearly understand the FI's point of view and are not sure about the criteria for obtaining credit.

In summary, most of the entrepreneurs feel abandoned in their relationship with the FIs and would appreciate support. As discussed before, even if the entrepreneurs value the

objective (the loan amount) more than the means (the consultant), they clearly confirmed that they are prepared to do something to access a loan.

## 6.2. Entrepreneurs' learning attitudes

The three groups can be roughly assigned to the following three types of (learning) attitudes:

### Key findings

Type 1: the entrepreneurs lack management skills, especially planning capacity. They are not conscious of the consequences of their decisions on the business. In short: they do not know that they do not know.

Type 2: the entrepreneurs lack management skills, especially planning capacity. However, they are more conscious of the impact of their decisions on the business. In short: they know that they do not know.

Type 3: the entrepreneurs know how to confront and overcome difficulties. They know what they need in order to solve problems. In short: they know.

The three types of attitudes do not exactly match the three company groups. Some of the medium sized enterprises of the second group belong to the first type. The distinction is useful however for determining learning mechanisms which suit the entrepreneur's attitude and management style.

For the first type, it is essential to overcome the barrier that "he does not know he does not know". In other words: as he is convinced that he has all necessary elements to successfully manage his enterprise, he has no need for any support such as training or consulting services, for instance.

In order to convince the entrepreneur that such services would add value to his business, a simple diagnostic instrument could be used: the entrepreneur should be invited to fill out a questionnaire – preferably in an electronic format – in which he is asked how he would perform tasks and decide things in different day-to-day business situations. Questions or statements relate to different management areas, such as business planning, inventory management, marketing, sales, human resources, finances and others. Once the entrepreneur has completed the questionnaire, the results will be returned to him immediately and discussed together with a coach or trainer. This type of instrument has proven successful<sup>13</sup> because the entrepreneur accepts his own appraisal. The exercise can be judged successful if the entrepreneur changes his attitude and admits that he has managerial deficiencies.

Such a diagnostic instrument is also useful for the second type of entrepreneur. As was found in the interviews, some of the entrepreneurs in this group think their deficiency is in a technical area, whereas it actually is related to planning capacity.

The diagnostic instrument may be advertised through the FIs. Once the entrepreneur visits the FI, he may receive an invitation to take a "management test". To increase

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<sup>13</sup> Such a diagnostic instrument has been applied successfully to SMEs in 10 Latin American countries by the Swiss SME foundation FUNDES (Fundación de Desarrollo Sostenible de la PyME).

acceptance of the test's results, it would be preferable for the test itself to be implemented in another location and if necessary by another organisation than the FI.

Once the entrepreneur has discussed the results of his test with a coach or trainer, the coach should offer him solutions to specific managerial challenges. While it makes sense for the diagnostic instrument to be a free service, subsequent services should principally have a fee. It is commonly known that services free of charge are less appreciated than services for a fee. In addition, entrepreneurs clearly expressed their willingness to pay for a service if it fits their needs.

### **6.3. Format of services**

Whether for consulting, coaching or training, it is highly important that the service is not presented in a traditional way, namely the entrepreneurs sitting down like students and taking notes on what a professor teaches about flashy business planning. As has been expressed directly and indirectly by the entrepreneurs, it is crucial that they assimilate the knowledge in a context which enables them to incorporate their own experiences into the learning process. Secondly, the entrepreneurs need to steer this learning process, i.e. decide what is useful for them. Third, the learning content has to have a practical relevance and needs to be applicable to the entrepreneur's day-to-day business routine. The learning content has to be useful to solve practical problems.

Consequently, coaching, moderation and/or mediation are the key competencies of the service providers. The coaching may occur in a one-to-one situation after the entrepreneur receives the results of his diagnostic test and decides that he wants to participate. As this is costly, an alternative is a monthly group session among entrepreneurs who share similar characteristics.

Entrepreneurs should preferably not be mixed in groups with managerial employees. This is because entrepreneurs have different motivations from employees. They carry different responsibilities and have to take different decisions. In summary, they learn differently.

The role of the coach is to create a learning atmosphere in which entrepreneurs are encouraged to exchange management experiences in a structured format. The coach only determines the subject of the session and supports the exchange process among the entrepreneurs.

A step-by-step application of knowledge is the best way for entrepreneurs to initiate and implement change in their company. Each time after a training session it would be therefore useful that a coach or consultant accompanies the entrepreneur to his company. The purpose is to motivate the entrepreneur to apply the newly gained knowledge to the business, by reminding him of the issues discussed in the training session. Ideally, the entrepreneur leaves the group session each time with a concrete "action plan" for his business, entailing activities or routines he can implement in a short time frame.

Sending a coach to each company would imply considerable costs for the entrepreneur. Instead, a trainee or intern could follow-up by applying the entrepreneur's action plan on site. The purpose of the subsequent group session will be to exchange experiences among entrepreneurs on the application of the action plan and introduce a new management subject which leads to a following action plan.

## 7. SUSTAINABLE SUPPORT FOR MSMEs: LOANS OR GRANTS?

For the interviewed entrepreneurs it has been found that every one is potentially capable of obtaining loans. As a matter of fact, almost all of them, including the small companies, had repaid one or several loans in the past. Most of them have operated their companies for many years, although not necessarily with the same activity, and have endured a difficult business environment and unstable conditions. Therefore, they can be judged to be successful.

Despite this, entrepreneur type 1 and 2 would make their business activities more sustainable if they accepted services to develop in particular their planning capacity.

It does not seem to make sense to provide grants<sup>14</sup> to any type or group of entrepreneurs. If entrepreneurs are not able to generate and increase profit by using a loan, how will they improve their business with a grant?

Support services for the entrepreneur need to have a price, too. It has been proven that payment for a service increases the commitment of entrepreneurs, in other words, what is not paid for is generally not valued. Another negative aspect of free services is that entrepreneurs for the most part suspect that the services are not actually free of charge, but rather that somebody is pursuing a hidden objective with the free offer. Even support services for small micro sized companies should at least consider charging the entrepreneur a fee for the service costs.

In addition, paid support services help to develop local providers of business development services, which is more sustainable than donor-financed subsidized services.

Forms of payment for the services should however vary and be flexibly adapted to match the entrepreneur's capabilities. Payment in increments is possible. For instance, if the price for training is USD 200, the entrepreneur may be offered to pay 10 increments of USD 20 each during a determined period.

Specifically, companies who are evaluated as not profitable by a FI and consequently do not obtain a loan should have the chance to get support in specific management areas. Ideally, the FI communicates to the entrepreneurs which management deficiencies exist from its point of view. In case of loan refusal, the entrepreneur should be able to examine his management skills using a diagnostic tool with an independent provider, as proposed above. On this basis, the entrepreneur can choose services, such as training or coaching, to work his weaker management areas. However, the services should by no means be a condition for access to loans.

To motivate the entrepreneur to engage such services, the FI should clearly communicate that the door is open to re-evaluate the company's creditworthiness within a time-frame of 6 months for instance. It is in the FI's interest to follow-up on the entrepreneurs' development by asking questions to estimate their creditworthiness.

It would be certainly desirable if entrepreneur type 1 and 2 sought services to improve their management not just because of denied loans, but because it would help them to

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<sup>14</sup> In the context of this discussion, grants are understood as subsidies.

be more profitable in the long run. However, this does not seem very realistic at the moment. In the majority of the cases, it is more likely that the FIs refusal of a loan is the crucial factor "motivating" MSMEs to engage support services.

In addition, "Business Edge" programme provides hints for engaging MSMEs in training services: a large company that is interested in improving its MSME provider's management capacities shares training costs together with the MSMEs. The MSME has a motivation to engage in training because it is interested in a long-term relationship with the large company. In addition, the large company's purpose is transparent to the SME.

*In summary the most sustainable support for the MSMEs is the opportunity to access credit. Neither grants nor free support services contribute to the MSMEs development from the author's point of view.*

## 8. CONCRETE ACTIONS BY DEVELOPMENT INSTITUTIONS TO IMPROVE THE MSMEs' "BANKABILITY"

The following concrete actions are recommended to improve the MSMEs' "bankability".

### 8.1 The entrepreneurs' side

- Training
- Coaching
- Information
- MSME Service Centre

The results of the interviews give a clear direction: besides access to finance, basic and advanced planning skills are most urgently needed. In addition managerial knowledge in finance, marketing and sales would add value to the entrepreneurs' management skills.

#### 8.1.1 Training

Training modules could be offered in a training centre at a central location in Kinshasa/Gombe, ideally with one or two agencies in other city districts. Although advertising could be initiated by the FIs, it is important to separate management services from the FIs' services in order to create an independent appearance of the management services. The message to the entrepreneurs should be transparent: management services are for the entrepreneurs and are designed to improve their business, whether they want to apply for a loan or not.

Specifically, a diagnostic instrument for entrepreneurs could be advertised at a stand outside the FI. The stand should carry a different brand or logo than the FIs'. FIs are a practical location to advertise the diagnostic instrument because most of them are centrally located and entrepreneurs frequently pass by. Alternatively, leaflets could be randomly distributed by entering different shops and offices and visiting markets in different districts. The diagnostic instrument itself could be offered to the entrepreneurs through a website free of charge. Entrepreneurs without access to the Internet could access it in an Internet cafe. Once the diagnostic questionnaire is filled out, the entrepreneur should get a phone call from the service provider to discuss the results.

Alternatively, the entrepreneurs could receive feedback on their diagnostic results at a physical location. This could be a centrally located facility where training is implemented at the same time so that the entrepreneur can visit and see how it works.

#### 8.1.2 Coaching

In addition, a coach to support the negotiation process with the FIs adds value to the companies. As mentioned above, defined service packages are interesting for the entrepreneurs, such as practical planning tools and the preparation of key financial information. The coach's role is to enable the entrepreneurs to assimilate the tools as a useful instrument for themselves. For their relationship with the FIs, entrepreneurs could hire the coach to receive feedback. This service ideally could be offered from a

physical location, where entrepreneurs can go and get an overview of what the coach can do for them and at what cost.

Also, the Congolese culture is an "oral culture" and direct exchange on relevant business matters is even more useful for the entrepreneurs.

### **8.1.3. Information**

As mentioned above, there is a low willingness to pay for information. On the other hand, a clear result of this study is that entrepreneurs have a high demand for information regarding the FIs, the legal situation and taxation. In particular the regulatory environment places a heavy burden for the entrepreneurs. Instead of encouraging them, the lack of information makes them vulnerable to bribery.

Information regarding which state agency can charge which tax for what purpose is indispensable in order to enable the entrepreneur to calculate his expenses. As explained above, this would also encourage the entrepreneurs to approach FIs. Information only adds value if it is delivered in an accurate and a timely way to the entrepreneurs. This could be achieved via an information platform for entrepreneurs on the Internet, a hotline and/or ideally a physical information centre.

### **8.1.4. MSME Service Centre**

In the light of the different demands and needs of entrepreneurs for information, training and coaching/consulting, a physical location for the entrepreneurs that combines solutions for these needs is very appealing. To the author's knowledge such a centre does not exist in Kinshasa. In addition to the identified services, entrepreneurs could find legal, tax and financial advice in the centre. A lawyer and a banking expert should be available for advice for defined timeframes on a daily basis. The centre could serve as a training and consulting location as well as a space for business exchange. Entrepreneurs could organise events or small exhibits of products they plan to sell in order to implement small market tests. They could even bring their families to selected events to raise their awareness of the businesses and encourage the family to support them with concrete actions.

The centre should offer some services free of charge, such as certain types of information and a diagnostic instrument to assess the entrepreneurs' management deficiencies. Other information and training services could be paid at cost. Coaching and consulting services could generate a moderate profit for the centre which finances the free services. Depending on the entrepreneur's expectations and willingness to pay, coaching services could be implemented by trainees or interns. This is especially interesting in terms of follow-up and feedback for the entrepreneur at his company. In any case, the payment format should be flexibly adapted to meet the entrepreneurs' needs, i.e. payment could be realised in several increments instead of one immediate payment.

The information centre would not be profitable starting the first day. However, the goal should be to break even after two years. In addition to extensive marketing and branding of the centre, entrepreneurs would have to be convinced that the high-level paid services, such as coaching and consulting, add value to their business and help them increase turnover and profit. The centre would reduce the information asymmetry between the entrepreneurs and the FIs, and thereby strengthen the MSMEs position vis-à-vis the FIs.

## **8.2. The Financial Institutions' side**

For the FIs it would be useful to reassess some of their communication practices. As discussed above, the FIs did not always satisfactorily convey to the MSMEs that they are an interesting market for them and that FIs seek cooperation. In case of a loan refusal, FIs should be transparent and share with the entrepreneur why they feel they cannot rely on the entrepreneur's repayment capacity. Even if this might be frustrating for the entrepreneurs, it is a more transparent process than having them believe they are "non-bankable" because they lack guarantees.

Further, it would be helpful for the FIs start to classifying MSMEs according to MSMEs management abilities. This would probably improve the efficiency of the loan evaluation process and save time for both the financiers and the entrepreneurs. As far as what FI managers have stated, as of today no systematic instrument which looks at MSMEs management abilities exists. The goal of some FIs is to create a standardised industry code. In the light of this study's findings, it seems more reasonable to create an instrument that classifies the entrepreneurs according to their management capacity, because management capacity says more about the creditworthiness of the companies than an industry code.