Financial Institutions' Challenges to Provide Credit in the Democratic Republic of Congo

EXPERIENCES FROM FINANCIAL COOPERATION

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ABBREVIATONS

ACB	Association Congolaises des Banques (Congolese Bankers Association)
AFD	Agence Française de Développement (French Development Agency)
AfDB	African Development Bank
ANAPI	Agence Nationale de Promotion des Investissements (National Agency for Investment Promotion
ASBL	Association sans but lucratif (Non-Profit Organisation)
BCC	Banque Centrale du Congo (Central Bank of the Democratic Republic of Congo)
BCDC	Banque Commerciale Du Congo
BIAC	Banque Internationale pour l'Afrique au Congo
BIC	Banque Internationale De Crédit
CCAM	Centre Congolais-Allemand de Microfinance (Congolese-German Microfinance-Centre)
COOPEC	Coopérative d'épargne et de crédit (Savings and Credit Cooperative)
DFI	Development Finance Institutions
DGI	Direction Générale des Impôts (Tax Office)
DRC	Democratic Republic of Congo
EU	European Union
FI	Financial Institutions
FIBank	First International Bank
FPM	Fonds de Promotion de la Microfinance
IFC	International Finance Corporation
KfW	German Financial Cooperation
MFI	Microfinance Institutions
MSME	Micro, Small and Medium-sized Enterprises
NGO	Non-Governmental Organisation
OHADA	Organisation pour l'Harmonisation du Droit des Affaires en Afrique (Organization for Business Law Harmonization in Africa)
OPEC	Organisation des Petits Entreprises Congolaises
PCBC	ProCredit Bank Congo
RoA	Return on Assets
RoE	Return on Equity
SARL	Société par Actions à Responsabilité Limitée (Limited Liability Company)
SME	Small and Medium-sized Enterprises
UNDP	United Nations Development Program
WB	World Bank

ABSTRACT

Financial Institutions (FIs) in the Democratic Republic of Congo (DRC) have tended to consider micro, small and medium-sized enterprises (MSMEs) as an interesting business segment in recent years. There is also interest on the part of MSMEs to work with FIs, use their banking services and particularly to access credit. However, both sides (offer and demand) are still not matching their interests, as financiers and entrepreneurs confirm. The objective of this qualitative study is to characterise the obstructive factors on the supply-side. Therefore, the bulk of the study consists of interviews with twenty FIs in Kinshasa. The findings indicate that FIs' cooperation with MSMEs is often restricted by credit methodologies not (yet) fully adapted to MSME-financing. Furthermore, most of the FIs lack an appropriate organisational structure, tailor-made MSME-products and strategies to target the MSME-segment. We conclude that three different types of FIs exist, each requiring a different approach to boost its MSME-portfolio. For the first group it would be helpful to first revise their general MSME-strategy. For the second group consulting and training services as well as the development of an adapted methodology would enhance MSME-financing. The third group has already experiences with MSMEs, therefore customized services and funding would increase this group's capacity to work with MSMEs and to improve its MSME-loan portfolio.

1.
The Congolese Financial Market and the Characteristics of its Financial Institutions

This study aims to improve the understanding of experiences and practices of FIs which have been dealing with MSME-finance in the DRC as of May 2011. For this purpose, 16 banks and 4 microfinance institutions (MFIs) have been visited to gather their perspectives on and experiences with MSME-finance, as well as their difficulties and challenges regarding this clientele. Interviews were carried out with 13 CEOs and 8 senior managers representing the 20 FIs. In addition, 6 commercial employees and loan officers from the same institutions were interviewed. The interviews with the latter complemented those with the managers by offering experiences from direct interaction with MSMEs, thereby providing a complete picture of FIs performing MSME-financing. The interviews were carried out by the author and her assistant, Nodhy Vangu.

The following report is mainly based on the information and statements provided by the interviewees. This is due to the fact that annual reports were just about to be published, and thus largely not available at the time of writing, and also because information on the FIs is typically not public domain. In addition to the interviews, documents and reports handed over by FIs, self-portrayals by the FIs, or sector overviews and results have been used as information sources.

1.1. Brief economic overview

After a recession due to the international financial crisis in recent years, 2010 brought broad improvement in macroeconomic terms: GDP growth picked up again in 2010 reaching 7,2% (2009, 2,8%). Inflation was drastically brought down from 53,4% in 2009 to 9,8% in 2010. About 6 million Congolese citizens living abroad remitted around USD 850 million (8% of GDP) to DRC in 2010.[1] The local currency – Congolese francs – depreciated only by 1,38% as compared to 29,2% in 2009. One reason for the economic recovery was the mining sector, particularly rising prices for primary resources and the resulting positive effect on the tertiary sector.[2] Also, the construction sector and the large public works on building plots throughout DRC gave the economy a boost.[3] In addition, DRC's foreign dept of USD 10,8 billion was cancelled by the Paris Club of donor countries.[4] At the same time, the Central Bank of Congo (BCC) managed to strengthen the legal framework of the financial system.

1.2. Key features of the financial sector

The BCC raised the minimum capital requirements from USD 5 million to USD 10 million in 2009 for banks in DRC. Further, new banks now have to incorporate a local shareholder in the management board; this shareholder is usually a local bank.[5]

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1 The African Banker (Magazine, French Edition): "RDC Congo: Un Tournant pour les Investisseurs?", France, April, May and June 2011, p. 41.
2 Germany, Trade & Invest: Wirtschaftstrends kompakt Kongo (Dem.), 2010 (Economic Trends, DRC, 2010).
3 Fonds de Promotion de la Microfinance. Veille Sectorielle, 4eme Trimestre 2010, p. 3.
4 Economist Intelligence Unit: Country Report – Democratic Republic of Congo, December 2010, p. 3.
5 Interview with Jean Claude Thetika (General Director of the Fonds de Promotion de la Microfinance; FPM) and Amine El Ayoubi (Deputy Director of the FPM).

The Congolese financial market currently consists of 20 banks, 45 MFIs and 120 savings and credit cooperatives (Coopecs). In 2007, half of the banks existed. But despite these impressive developments, the confidence of the population in the financial sector has still not fully recovered after 15 years of civil war. At the end of 2010, the financial sector grew by 21% to accumulated total assets of USD 2,28 billion (USD 1,88 billion, 2009). This represents 19,6% of GDP – as compared to 32% of GDP as the African average.[6]

The DRC is estimated to have a population of around 67 million inhabitants and only around 600.000 bank accounts.[7] This implies that less than 1% of the population has a bank account, compared to an African average of 5%. Even assuming that more than 60% of the population is younger than 18 years, this would still imply approx. 20 to 25 million adults without a bank account.

The total deposit volume of the banks was USD 1,378 billion in 2010, which is an increase of 16% from USD 1,183 billion in 2009. The total loan portfolio is USD 864 million, increasing by 8% from USD 800 million in 2009.[8]

As compared to the banks, MFIs service around 539.100 saving clients and 220.000 active loan clients in DRC. Their total deposit volume was USD 80,3 million and the total loan portfolio USD 63,1 million at the end of 2010.[9]

In a competitive market, credit conditions for MSMEs should improve as more FIs compete for the same market segment. An improvement of credit conditions could be reflected for example by lower interest rates, longer credit durations and/ or a better service to the MSMEs. However, few improvements are currently being observed in DRC, as both entrepreneurs and financiers confirm. According to FIs, the MSME market and the demand for credit is so high that FIs can afford to select the MSMEs most convenient to them. Paradoxically, most of the interviewed bank managers affirm that they want to increase their MSME loan portfolio and are "desperately" looking for MSMEs with bankable dossiers, i.e. financial documents, appropriate accounting and guarantees.

If FIs competed for the best MSMEs, it can be assumed that FIs would invest in their own internal resources and know-how to improve their assimilation of missing information on MSMEs. Even if MSMEs contribute their part to the mismatch between the supply and demand sides[10], transparent and well managed companies who approach the FIs for credit are still sometimes refused, as has been found in a recent study. What prevents FIs from providing loans to these companies? It can not be assumed that MSMEs will drastically change and the number of bankable dossiers will increase in the near future. What efforts do FIs currently undertake to approach MSMEs and what are their needs to achieve success? In the following we will analyse the key drivers of FIs behaviour and try to determine to which degree they are already penetrating the MSME-market, how they are doing it and under which circumstances they would be willing to make efforts towards MSME-financing.

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6 L.c., The African Banker, p. 42.
7 L.c., Jean Claude Thetika and Amine El Ayoubi.
8 L.c., Fonds de Promotion de la Microfinance: Veille Sectorielle, 4eme Trimestre 2010, p. 4.
9 L.c., Fonds de Promotion de la Microfinance: Veille Sectorielle, 4eme Trimestre 2010, p. 2.
10 Schwarz, Simone: „Entrepreneurs' Challenges to Access Credit in the Democratic Republic of Congo". As the study shows, MSME' lack of information and understanding of the FI' intentions, as well as prejudices regarding the FIs hold some MSMEs back from approaching FIs at all.

1.3. The Financial Institutions

Out of a total of the currently 20 existing banks, the following 16 have been visited [11]:

- Access Bank
- Advans Banque
- Bank of Africa
- BCDC
- BGFI
- BIAC
- BIC
- Byblos Bank
- Citibank
- Ecobank
- Fibank
- ProCredit Bank
- Rawbank
- Sofibanque
- Standard Bank of Africa
- TMB

Out of a total of the currently 45 existing MFIs, the following have been visited[12]:

- FINCA
- Life Vest
- HOPE
- Mecrekin (Coopec)

In the following, groups of FIs will be distinguished by the following criteria:

- client segments
- shareholders
- years of operation in DRC

1.3.1. The Congolese banks

In the following, banks with Congolese shareholders or foreign shareholders with long-lasting roots in DRC, mostly immigrant families, will be called "Congolese banks". Some of these "foreigners" have been in DRC for several generations and remained even during the years of civil war. Another part (re-)established themselves in or after the year 2000. The banks' traditional clients were usually - but not exclusively – corporate and government clients. Retail banking remained largely underdeveloped. For the corporate segment, they are mostly in charge of the local financial service needs of the companies, i.e. the transfer of money and salaries from one city to another, payment of providers and release of cash. Some of these banks established a regional network or came to Kinshasa from provinces where many of the commercial clients are MSMEs, except for the mining and infrastructure companies. In principle, they had already mod-

11 UBA, Mining Bank and Cruche Banque have not been visited since they were either just about to open (UBA), are explicitly focused on big mining clients (Mining Bank), or only represented in the North Kivu (Cruche Banque). Afriland First Bank of Africa was visited but the information given to the interviewers was too scarce to generate a comprehensive view of the bank.

12 As most of the MFI are working only outside Kinshasa, the access to MFI was limited.

est experiences with MSMEs in the past. As of today, these banks also serve individual consumers, mostly employees of the corporate clients and wealthy Congolese families:

- BCDC, founded in 1909, with the Belgian Forrest family as the main shareholder.
- BIAC, with pan-African and Congolese shareholders.
- BIC, founded in 1994, with Benny Steinmetz Group & Dan Gertler International as main shareholders.
- Rawbank, founded in 2001, by the Indian Rawji family as the main shareholder.
- TMB, founded in 2004. Main shareholder is the Levy family.

1.3.2. The new international banks

The following banks, referred to as "new international banks" came to DRC after 2007. Most of them describe themselves as "universal banks" which target all client segments, i.e. corporate, individual consumer clients and MSMEs. Still, their core clientele as of April 2011 are "big clients". Some of these banks are currently installed in DRC with a head office, and a maximum of one or two agencies only. Their shareholders are mainly international, especially pan-African groups:

- Access Bank, founded in DRC in 2008, owned by a Nigerian group.
- Bank of Africa, founded in DRC in 2010, owned by a pan-African group.
- BGFI Bank, founded in DRC in 2010, owned by a pan-African group.
- Ecobank, founded in DRC in 2008, owned by a pension fund, Ecobank Group and the Russian group "Renaissance".
- Fibank, founded in DRC in 2009, owned by a Nigerian group.
- Sofibanque, founded in DRC in 2010, owned by a Lebanese group.
- Byblos Bank, founded in DRC in 2010, owned by a group of international banks, PROPARCO and IFC.

Citibank and Standard Bank of Africa were founded in DRC in 1970 and 1992 respectively. In principle, they belong to the group of international banks too. As they serve the interests of particular corporate clients and explicitly do not plan to target MSMEs, they receive less consideration in this study.

1.3.3. The MSME-banks

Banks which have an international owner structure with donor participation and which were originally founded with the purpose of serving the MSME-segment will be called "MSME-banks". Among those:

- ProCredit Bank, founded in DRC in 2005, owned by PCB Holding, Doen, KfW, IFC and BIO.
- Advans Banque, founded in DRC in 2009, owned by Horus, EIB, CDC, FMO, IFC, KfW and Fisea.

1.3.4. The Microfinance Institutions

MFIs mainly target micro- and small enterprises. Their mission statements focus on the development of the local economy and reduction of poverty as their main objectives. The locally funded MFIs explain that they grew slowly in the past because of the lack of funding. They are mainly concentrated on the Kinshasa-market. International MFIs take advantage of their network knowledge and internal funding. The latter have a considerable market share. The main clients of MFIs are MSMEs, mainly micro and small companies from the commerce sector, including value-adding activities for commerce, as well as individual consumer clients, mainly employees of all sectors, but also students, civil servants and workers of the mining sector in the Lubumbashi area. Included in both groups are:

- Life Vest S.A.R.L., founded in 2006 by a group of Congolese business men.
- Mecrekin, founded in 2004, part of a mutual savings and credit cooperatives network Megreco.
- HOPE DRC, founded in DRC in 2004 by Jeff Rutt, Chairman of the Board and US-entrepreneur with a home construction company.
- FINCA DRC, founded in DRC in 2003, owned by FINCA International. Its shareholder-structure is currently being revised.

2.
Financial Institutions' attitudes towards the MSME segment

2.1. Motivation of FIs to target MSMEs

Most of Congolese banks started to serve corporate clients and modestly developed into the retail sector: "Our mission is accompanying the client. Before, we were very strong with corporate clients and public institutions, and did a little SME-financing in the regions together with our retail business. We keep the corporates and stick to SMEs[13] in the East of the country. We also target company employees with fixed salaries."

These banks affirm that they want to downscale and target the MSME market more aggressively. The underlying reasons are increased competition for corporate clients, the discovery of the untapped MSME potential and the wish to complement their strategy with an additional client segment: "We target the SME-market because we cannot afford not to be there! Everybody goes there. The very few corporate companies are already served (...). This market is saturated and the market for individual clients will be saturated soon as well. SMEs are the market of the future, especially as they create jobs. But: many of the SMEs still run an informal business. We have to get involved in this and organize ourselves in cooperation with them. This will create complementary revenues for us. But attention! We deal progressively but carefully with SMEs."

Another Congolese bank highlights its motivation the following way: "SMEs are the heart of the country's economy. Today we have 20 banks in DRC and we cannot avoid competition. In some environments you can only find SMEs. Secondly, they are more interesting. They represent large volumes in terms of transfers, deposits, loans and also salaries. SMEs do not carry out any competitive analysis on banks, so we are free to apply the tariffs as we like. Finally, it is more interesting to work with an SME than with large corporate clients."

A new international bank arrived to DRC with "great plans" and admits that its enthusiasm diminished once confronted with the realities of DRC: "The Congo has potential. The banking system is underdeveloped, but this will change. There will be room for everybody. There is however the risk factor. When we arrived we decided to re-design our strategy. The same happened to other FIs. Still the Congo will be our hub to cover the whole region." Another new international bank affirms: "We want to diversify. Some banks have 5-7 big corporate clients and that is it. I believe the SMEs can grow with the help of our bank and can then continue to grow with us", while another international bank excludes the MSME clientele as per business model: "We are a subsidy of our corporate branch. Here in Africa we conduct neither consumer nor SME-banking. This is not going to change in the short run."

Even if they consider the MSME-market "difficult" because according to them MSMEs lack guarantees and bankable dossiers, they highlight that they still want to take on the challenge. Asked if they have the appropriate methodologies to do so, most of the banks answer positively. At the same time they admit that they have difficulties dealing

13 Some FIs used the term "SMEs" (and not MSMEs), even if they may have referred to micro-enterprises as well. This is maintained in all citations. The author, however, applies the term MSMEs to include micro-enterprises and uses the term SMEs exclusively referring to small and medium-sized enterprises.

with the entrepreneurs, because "(...) these people are often not well prepared (...) once we give them a loan they are not necessarily interested in paying it back."

In contrast to the Congolese and new international banks, MSME-banks and MFIs explain that MSME-financing is their mission and key to their business models, this includes developing the economic sector at its base, i.e. improving the quality of MSMEs' businesses, creating jobs and a savings culture. In the meantime, both MSME-banks target clients with increasing credit needs: "I think it was clear from the beginning that we would become an SME-bank too (not only a bank for micro-enterprises) - at least in a second phase. Our point of entrance into the SME-market is the credit. However we also want to grow the number of our agencies, and amplify our services and products for this clientele. (...) Our credit maximum has been increased to USD 60.000 recently." One bank increased its minimum credit size from USD 1.000 to 2.000, among other reasons because operational costs for very small clients were simply too high, as it found half of its credit agents busy with administering the reimbursement of credits from 200 credit clients with a total amount of (only) USD 60.000. However, the bank's CEO highlights: "We do not want do be a bank for medium sized enterprises. We have a large cost structure. Large credits have very low margins. They have low costs too, but we have to cover the other credits. (...) We want to grow in parallel with the very small and medium enterprises." However, the same CEO admits: "In 2010 we mostly grew through our larger clients' credits."

At the lower end of the market, MFIs' missions and motivations to serve MSMEs are socially inclined: "In the first place we want to beat poverty. We help people who have no guarantees to access credit - the active poor people. We want to help accelerate the process of getting people an account." Some MFIs would like to increase credit size (upscale) for their clients, however they mention a funding constraint. Others decide to stay in their niche: "We are very clear on what we want to capture: less than USD 20.000. There is always a question of 'can we go higher?' But we do not want to. At the level of individual lending (as opposed to group lending) 75% of our credits are below USD 5.000. Not many other banks meet this market. It is costly because you have to get a lot of credits. But we are efficient in this market, we are fast. With an interest rate of 3,5% per month we are very competitive. This is our niche. About USD 5.000 (...). We do not want to upscale."

A tendency of Congolese, and more modestly, some new international banks can be observed to enter the MSME-market (downscale). At the same time the two existing MSME-banks started to target larger clients as compared to their existing clients (upscale). Among the local MFsI, two plan to upscale in the future, although they lack the necessary funding.

2.2. Obstacles FIs face in targeting MSMEs

CEOs and senior managers of FIs mentioned the following obstacles to provide MSME-financing:

- "Lack of information on the SMEs' activities"
- "SMEs' unwillingness to reimburse a loan"
- "SMEs' in-transparent management and financial situation"
- "SMEs loan demand is un-proportional to their business activity"
- "SMEs lie on purpose"
- "Absence of a financial culture"

- "SMEs keep too much cash, do not bring their money to the bank"
- "Absence of audited financial documents"
- "Non reliable accounting"
- "SMEs have a very diversified demand"
- "SMEs' profile does not fit our bank"
- "IT-systems. Our software does not work."

Lack of information was the main obstacle identified by the FIs. Information problems arise at three different levels:

- Prior to awarding a loan: the bank has no reliable information on the creditworthiness of the MSMEs.
- Once the loan has been awarded: the bank does not exactly know how the MSMEs will use the money.
- Once the MSMEs are able to realize returns on investment: the bank cannot assess the amount of return.

Some CEOs explain that MSMEs "lie on purpose", because they think if they tell the FIs the truth, they will not get a credit. "But it is because they do not tell me everything they do not get the credit! I am very clear regarding this: 'someone who lies to me one time, will lie to me a second time!" At the same time he admits that some entrepreneurs "lie" because they cannot trust the bank to be secret: "It is our fault. Sometimes there is a lack of professionalism. An entrepreneur may be afraid that the credit agent reveals his business secrets to his competition." In extreme cases it may even go further: "In the bank somebody informed on an entrepreneur to the Directions des Impôts (tax agency). He did this because when the tax agent taxes the entrepreneur, he will receive a commission (on the amount the tax agent receives from the entrepreneur)."

The fact that "SMEs have a diversified demand", relates to the different challenges entrepreneurs' face in commerce, service, agricultural and production but also depends on their position in the value chain, i.e. if they are producers, suppliers and/ or distributors; wholesalers or retail businesses. For instance, an MSME who deals with commerce usually needs short-term financing. It pays its supplier and sells. Buys again and sells. Compared to this a producer or service firm often needs investment financing - for example to purchase a machine - which is usually medium to long term finance. Some CEOs highlight that they see the need to create new products for the different sectors and specific needs of MSMEs.

The "absence of a financial culture" is referred to the habit of some MSMEs of taking several credits at different FIs without reflecting on profitability and the consistency of the activities to which the money is invested. A CEO explains: "The entrepreneurs reasoning is: 'because I have USD 20.000 I am going to invest.' But this is nonsense! Then he says: 'my lorry ate up all my money!' He does not understand that he has to reinvest his profits to maintain the lorries, before investing his money somewhere else."

The comment that "SMEs do not fit our bank" expresses an attitude. The FI expects the MSMEs to change in order to be served, which reflects a low interest in cooperating.

2.3. Challenges of FIs in targeting MSMEs

When asked what challenges they face in providing more MSME-financing, FIs answered:

- "We are doing ok."
- "Capacity building for our employees to learn to accompany the SMEs' activities"
- "We have to find safer SME-clients."
- "We have to take more risk either at the level of credit size or duration."
- "We have to keep listening what the needs of SMEs are."
- "We have to get to know the medium sized enterprises with credit demands from USD 30.000 to USD 150.000."
- "The transformation of a prospect into a client."
- "To leverage our credit portfolio."
- "The follow-up on our clients' credit reimbursement."
- "To get in touch with the SMEs."
- "To adapt our SME-methodology to the market."
- "Improve our marketing and visibility".
- "Improve our customer services for the clients we already have."
- "Finding qualified staff. It took us 9 months to recruit an HR manager. (…) There is increasing competition in microfinance. We need new brand managers. Training loan officers to become brand managers takes time. Administrative staff, staff in marketing all this is difficult to find."
- "To get more funds."

It was found that the more FIs perceive MSME-financing as their core business, the clearer they recognize their challenges: "We know the small enterprises already. We have to get to know (the needs of) the medium sized enterprises with credit demands from USD 30.000 to USD 150.000."

"The transformation of a prospect into a client" has been mentioned by a bank with experiences in the micro sector: "Today he (the company) is a prospect, but he may be a client in August. We cannot know. It is sometimes de-motivating for our teams."

An MFI focused on micro-entrepreneurs which plans up-scaling mentions: "The follow-up of the credit reimbursement is different. The micro-entrepreneur is always there to sell the goods. With the entrepreneurs of small and medium sized companies you never know, you have to make sure before you take the long way out to his business." Especially FIs who do not have corporate clients admit it is a challenge "to get in contact with the good SMEs", while banks with corporate clients can always address MSME-suppliers and/ or distributors through the networks of their larger client companies.

"Taking more risk at the level of credit size and duration", is especially challenging, as a CEO explains, "because banks are used to finance only short-term loans in DRC. The investment credit almost does not exist. For the short-term loans, FIs can ask for 35% to 50% interest rate per year. Enterprises in commerce can deal with it. But everything over 20% per year is a killer for a company which needs investment finance for production."

FIs clearly apply different criteria to decide upon credits for MSMEs. What is an obstacle for one CEO is not an obstacle for another, both from FIs with corporate client background:

CEO 1: "The absence of financial culture leads SMEs to apply for a credit at several financial institutions at the same time. They have 10 activities at the time and take one credit after the other, whatever the circumstances! They do not understand that a new activity means new suppliers and that conditions change. I cannot lend to them. We have to find a SME client segment which is focused on one core activity.”

CEO 2: “If you look at the memo you can see immediately that this gentleman is not organized. He started with a hotel. He wants to do something in China? He is into transport, petrol, and so forth, there is no logic at all! But it works for him. He makes a lot of money.” Interviewer: “So you would refuse his credit demand?” CEO 2: “No! We will say yes.”

As it is unlikely that MSMEs’ behaviour changes from one day to the other, it will be clearly the FIs’ challenge to identify and develop instruments, products and methodologies to grow the MSME-market share of their overall loan portfolio.

2.4. Incentives for improving Financial Institutions’ behaviour

2.4.1. Current market behaviour

Over the last three years, from 2008 to 2010, aggregated deposits grew steadily by 37,5% among the FIs. In comparison, the aggregated loan portfolio grew by only 2,5% within the same timeframe[14].

As of today, two main different behaviours of FIs can be observed regarding MSME-financing:

Although many of the FIs may not be prepared to take the risk for MSME-financing, we can still observe a tendency of FIs extending their corporate business to the consumer and MSME-market. Some of these banks however mainly seek to collect deposits with this clientele – often to use the deposits with the corporate clients. This is in the first place true for the new international banks.

Another group of FI has the opposite “problem”, i.e. very high deposits as compared to loans. They sit on their deposits, for which they do not want to assume risks with the MSMEs. A CEO explains: “We can observe that the profitability of the banks in Return on Equity (RoE) and Return on Assets (RoA) is going down, because we are at a level at which the relationship between risk and profitability does not apply anymore. Today, even a SME does not borrow at 60%. (...) The banks have a stagnating liquidity.” The Congolese banks mainly follow this behaviour.

The result of both behaviours is that FIs do not lend to MSMEs.

A Congolese bank’s CEO mentions that he would like to lend to MSMEs: “The problem is that we do not want to lend more than 65% of our deposits. We lent 80% but found it a little risky. If I had more deposits, I would lend. If I had USD 10 million I knew exactly to whom I would lend.”

In addition, one of the MSME-banks deposits increased faster than its loans. The CEO reflects: “We are incredibly liquid. (...) I am not excited about it, because the deposits

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14 The information is based on a document handed over informally by an FI. The percentages serve as an indication and may not be a 100% exact. As a matter of fact, the results of the banks in deposit and loan developments from 2008 to 2010 deviate in this source compared to the source cited on page 8 of this study, where deposits and loan increases are compared from 2009 to 2010. As some banks did not exist in 2008 the underlying source may have not taken them into consideration and, therefore, compare a different volume of aggregated deposits and loans as the source comparing those between 2009 and 2010. This does however not change the essence of the statement we want to make, i.e. loans grow much slower than deposits.

cost me a lot. I have to have a minimum reserve of 7% in local currency on my deposit portfolio at the Central Bank. As my clients save in US dollars, I do not have enough local currency to fulfil the 7% requirement. This means that I have to sell US dollars or borrow money in local currency. The latter is very expensive. (…) We have many clients with savings accounts, which is positive as it shows that people trust us. But now, the most important thing for us is to grow our loan portfolio." It is to some extent disconcerting that a bank whose core business is MSME-finance does not find more MSME-clients.

2.4.2. Historical drivers

Congolese banks are used to keeping a lot of liquidity. This has to do with their original clients demands, especially in the mining rich Eastern parts of the country: "It is important to mention that we need a lot of cash. There are on average USD 50 to 60 million in cash in our cashiers in DRC. In Lubumbashi a miner suddenly requires USD 1 million in cash. Only 25% of this cash comes back to the bank. We are obliged to import about USD 80 to 100 million of cash each month from outside the country. This is expensive." If for these reasons banks are obliged to keep large amounts of short-term deposits, this may also put constraints on their lending capacity.

2.4.3. Cultural drivers

It has been found to not be customary for FIs in DRC to provide credit as a product. From the FIs' perspective, a credit for corporate, individual or MSME-clients is often understood as a consumer credit. Banks are used to generate revenues by turning the money, i.e. by commissions on the transactions and transfers of the corporate clients' current accounts. The Congolese banking service is one of the most expensive in the world for its clients. A CEO comments: "Our clients need cash all the time. We have cash everywhere all over the country. The clients pay commissions for this. It is one of our main advantages."

Further, in the case FIs provide a credit to their clients, they are used to provide them with a short-term overdraft credit. They are not used to conducting financial intermediation in the sense of taking money from one source to transfer it to another. They are even less accustomed to financing investment credits.

Not only is the MSME client segment relatively new and alien to most of the FIs, but also the credit used to finance investments is culturally unknown.

2.4.4. Approach towards MSMEs

Most of the FIs find the MSMEs risky and hard to understand. They still recognize that MSME-financing can be an important market for them and they do not want to miss the opportunity. For these reasons lending conditions are quite inflexible for MSMEs. Based in FIs' indications as of today:

- No long-term credits for MSME-financing exist. Maximum credit duration is usually from 6 months up to 2 years, in exceptional cases up to 3 or 4 years.
- As a consequence of this, banks mainly finance trade businesses instead of production, agriculture or services where long-term credits are needed.
- Most of the loans are not investment loans but rather used to finance "working capital" or consumer needs to overcome cash flow shortages.

- Depending on the MSME and the purpose of the loan, interest rates start from 12% to 40% per year, up to 62,5% per year with MFIs.
- FIs insist on guarantees from the MSMEs which make up 150% to 200% of the credit size.
- Besides some few exceptions, FIs do not lend to MSMEs if those have not had an account with the FIs for at least 3 to 12 months.
- Roughly 40% to 60% of all loan demands from MSMEs are refused.

Key Findings

In summary, we observe a tendency of the Congolese banks to downscale as well as more modest intentions of the new international banks to do the same, while the MSME-banks and some of the MFIs are starting to upscale. A lack of information on the MSMEs has been identified as the main obstacle for MSME-financing, combined with a general lack of confidence on the financiers' side as far as the entrepreneurs' indications are concerned. The more an FI perceives MSME-financing as its core business, the clearer it recognizes its challenges in this area. While some FIs understand that MSMEs will not change overnight and see it as their challenge to take a step towards working with MSMEs, for instance, by increasing credit-size and duration and by developing appropriate products and methodologies, other FIs feel MSMEs have to meet their criteria and expectations.

When dealing with MSMEs, FIs mainly seek to increase their deposits or, those FIs whose deposits are high, do not want to assume the risk to use the deposits for MSME-lending. This is clearly reflected by the bank sector's overall loan development; i.e. aggregated loans grow far slower than deposits, 2,5% as compared to 37,5% from 2008 to 2010. Historically, FIs are used to holding a large amount of cash, which may put constraints on their lending capacity, especially for 'risky' MSME-lending. Moreover, credit as such is an unusual and even unknown product for the FIs – apart from overdraft credits - particularly credit to finance investments. As a result, lending conditions are very limited for MSMEs.

3.
Financial Institutions' Perspective on MSMEs

3.1 Financial Institutions' definition of MSMEs

To create a common understanding, the FIs were asked how they define MSMEs. As a result it is apparent that not only do they use different parameters, but their definitions also vary widely within the same parameter.

- *Access Bank:* "We think the situation is all mixed up. A turnover of USD 500.000 to USD 3 million per month, USD 6 to 36 million per year. We also use a 'case by case approach' and look at the partners."
- *Advans Banque:* "We look at company size and level of formalization: USD 8.500 minimum turnover per year and 5 or more employees are an SME, with usually 2 or 3 sales points. They have to be registered at the Commercial Register and have to document the movement of their sales and expenses, so that we are able to recapitulate their cash flow over 12 months. For micro-enterprises we have to be able to recapitulate only the average monthly cash-flow.
- *Bank of Africa:* "Every company with a turnover higher than USD 20.000 per year is a SME; below it is a micro-enterprise."
- *BCDC:* "It is an SME if turnover is less than USD 5 million per year and if it generates revenues to the bank equal or higher than USD 1.500, and less or equal to USD 15.000 per year."
- *BIC:* "If there is a management team or structure it is a corporate enterprise. I also look at financial sheets. If it has audited documents it is a corporate, too. If you go to Bukavou or Goma you can see people with millions of USD, but for me this is still SME because they are not organised and have not grown in three years."
- *BIAC:* "It is a formal establishment or a S.A.R.L. with a turnover of up to USD 6 million and not more than 200 employees, according to Congolese law. With the credit size we use a case-by-case approach."
- *BGFI:* "My clients may have a turnover of USD 100.000 to USD 300.000 per month. I have one with a higher turnover as well."
- *Citigroup:* "According to turnover, activity, geographic localisation and management system."
- *Ecobank:* "SMEs have a turnover less than USD 5 million yearly. For a medium sized enterprise it is a turnover from USD 2,5 to 5 million and for a small enterprise it is less than USD 2 million. Management: S.A.R.L. or decentralized power. (..) We accept everybody."
- *Fibank:* "Turnover less than USD 50.000 per month".
- *FINCA:* "An organised activity, documents and a credit size between USD 0 and 50.000."
- *Life Vest*: Refers to a definition on a document supposedly published by OPEC. The definition is identical to one of the Congolese state, which will be cited on the following page.
- *Mecrekin:* "According to the state's definition, every company with less than 10 employees is a SME."
- *ProCredit Bank:* "Credit size: USD 2.000 – 30.000 is very small, USD 30.000 to USD 100.000 is small and more than USD 100.000 is medium."

- *Rawbank:* "Account movements per month: Everything below USD 200.000 per month is a medium sized enterprise. Everything below USD 20.000 is a small enterprise."
- *Sofibanque:* "Turnover of maximum USD 3-4 million per year. Anything above is corporate. A small enterprise is less than USD 500.000 per year."

One CEO inquires: "In the provinces we do not even know how many SME-clients we have. How do you classify for instance a diamond dealer? Are they an SME or an individual merchant?"

The wide range of definitions unfortunately makes it difficult to compare FIs according to their MSME credit portfolios, credit sizes or number of MSME-clients.

In a document dated August 2009, the Ministry of Small and Medium Sized Enterprises used the following definition[15]:

- Medium sized enterprise:
    - 51 to 200 employees
    - USD 50.001 to 400.000 yearly turnover
    - USD 150.001 to 350.000 investment size
    - decentralized management
- Small enterprise:
    - 6 to 50 employees
    - USD 10.001 to 50.000 yearly turnover
    - USD 10.001 to 150.000 investment size
    - centralized management
- Micro enterprise:
    - 1 to 5 employees
    - USD 1 to 10.000 yearly turnover
    - smaller or equal to USD 10.000 investment size
    - centralized management

This definition would be more appropriate, in the authors' opinion, if the indicated turnover is considered on a monthly basis. A limitation of the definition is that it does not distinguish between an activity that is involved in service, production, trade, agriculture or a mixture of several activities. In addition, a differentiation into industries would be helpful to understand turnover as related to company type. As a rough example, monthly turnover of USD 50.000 from mobile phone sales is very different from the same turnover from a private school, training services or a hospital, i.e. services in general. The structure of the service companies is likely to be more established and management more professional at the same turnover level as compared to that of mobile phone companies. An appropriate classification of MSMEs as per sector and industry is still to be defined, ideally by concrete practices and experiences of the FIs and the MSMEs.

As far as investment size is concerned, the economic sector and industry would again be an additional criterion relevant for roughly assessing the investment amount a company can achieve within a determined period. A sub-categorization into groups of sectors and industries with respective average margins may give general insight into a

15 Ministry of Small and Medium Sized Enterprises „Charte des Petites et Moyennes Entreprises et de l'Artisanat en République Démocratique du Congo", Kinshasa, 24.08.2009, p. 5 & 6.

company's capacity to absorb debt and realise investments. "Investment size" would be differently defined for MSMEs in commerce as compared to those in services or production.

Except for Mecrekin, whose definition in terms of number of employees is lower than that of the Ministry of Small and Medium-sized Enterprises' proposed definition, all other FIs clearly consider MSMEs to be much larger than the Ministry. This discrepancy may be partly due to the fact that often enterprises have a double book keeping, so that the state receives information on turnover and profit which may be lower than in reality. State institutions may have erroneously used this diminished turnover as a basis for their definitions on MSMEs. On the other hand, the FIs' definitions of MSMEs, especially of the Congolese and new international banks, may be influenced by the clients they already have. Since they started with corporate clients and tend to choose companies related to these clients, this may explain why FIs define MSMEs as relatively large.

To define MSMEs according to the revenue generated by the FIs may be helpful for the FIs, but does not contribute to a more comprehensive picture of the MSME-market as it is to a certain extend self-referential and does not include an observation about the MSMEs. Taking the monthly bank account movement as a definition is not very convincible for the same reasons. To assess the companies' sizes by looking at the degree of the management structure seems intelligent; however it requires a deeper case-by-case approach for each MSME which again makes comparison difficult.

In any case, a definition can only be general. It cannot pretend to appreciate the peculiarities of each MSME.

3.2 Financial Institutions' internal organisation and governance

If the CEOs were not available to provide their points of view, the interviewers requested a meeting with a person in charge of MSMEs - in cases where the FIs served MSME-clients. This person mostly turned out to be the Head of Retail or the Risk Manager.

3.2.1. Financial Institutions' organisation

3.2.1.1. The Congolese banks

The Congolese banks are the 5 biggest banks in DRC in terms of total assets.

	Rawbank	**BCDC**	**BIAC**	**TMB**	**BIC**
N° of employees	817 = 517 staff + 300 subcontracted	470	800	720	380
Management female/ male	More men than women	More men than women	More women than men	More women than men	6 men 1 women
Total N° personnel in charge of MSMEs	4 - 7 (in Kinshasa HQ)	17	9	?	?
N° branch offices in Kinshasa	21	5	32 + 70 retail outlets	9	8
N° of branch offices in provinces	16	12	10 + 70 retail outlets	13	15
Total N° of branch offices	37	17	42	22	24

Rawbank, BIAC and TMB are the largest banks in terms of employees, followed by BCDC and BIC. While Rawbank, BCDC and BIC indicate having more men than women at the management level, TMB and BIAC have more women. The banks did not indicate precisely the proportion of female to men employees, except for BIC. BIAC, BCDC and Rawbank indicate a number of employees are involved with MSMEs in Kinshasa. It is however not clear if these employees are exclusively or only partially in charge of MSMEs.

BIAC and Rawbank have the most dense agency network in Kinshasa, whereas BIC and TMB make up only a fourth of BIACs agencies. In comparison to this, BIC and TMB together with Rawbank lead in terms of the number of agencies in provinces, closely followed by BCDC and BIAC. For the complete DRC, BIAC is the top bank in agency network, followed closely by Rawbank.

3.2.1.2. The new international banks

	Access Bank	Bank of Africa	BGFI	Byblos Bank	Eco-bank	Fibank	Sofi-banque
N° of employ-ees	73 = 36 staff + 37 sub-con-tracted	60	48	?	100	70	50
Management female/ male	More men than women	In total: 2/3 women; 1/3 men	equal	More men than women	More men than women	20% women; 80% men	No women
Total N° per-sonnel in charge of MSMEs	5	3	2	0	?	6-10	at least 2
N° branch offices in Kinshasa	1	3	1	1	12	4	1
N° of branch offices in provinces	1	0	0	0	2	3	0
Total N° of branch offices	2	3	1	1	14	7	1

Although the new international banks bring different experiences and competencies as well as stronger financial power, as some of them explain, they are still clearly behind the Congolese banks in terms of agency network. This is particularly the case in provinces, where Ecobank is prominent with 12 agencies, followed by Fibank with only 3 agencies. At the same time the currently existing number of staff is remarkable with 100 employees at Ecobank followed by Access Bank with 73 employees and subcontracted staff. All of these banks understand themselves "universal banks" and highlight that they want to expand, not only in gaining MSMEs as a client segment but also in terms of regional outreach. Different from this group of banks, Citibank and Standard Bank of Africa explicitly mention that their purpose is to serve corporate clients. They do not plan to get involved with MSMEs. Standard Bank of Africa however sometimes deals with the suppliers of its corporate clients, which may occasionally be medium sized companies. The bank has two agencies, one in Kinshasa and one in Lubumbashi. It has 95 employees of which 30% are female and 70% male. Citibank, with one agency in Kinshasa, has approximately 40 employees of which half are women and half men.

3.2.1.3. The MSME-banks

	ProCredit Bank	Advans Banque
N° of employees	500	139
Management female/ male	55% women, 45% men	?
N° branch offices in Kinshasa	6 branches + 5 retail outlets	3
N° of branch offices in provinces	3	0
Total N° of branch offices	9	3

Approaching the Congolese banks the size of staff, the two MSME-banks are more similar to the new international banks in terms of branch office network. The two MSME-banks started their growth in Kinshasa where the potential market for MSME-clients is huge. A CEO highlights: "We do not really step on one another's feet in Kinshasa."

3.2.1.4. The Microfinance Institutions

	FINCA	Life Vest	HOPE DRC	Mecrekin[16]
N° of employees	490	24	51	Approx. 16-20
Management female/ male	?	40% female, 60% male	?	40% female, 60% male
N° branch offices in Kinshasa	5	2	2	4
N° of branch offices in provinces	4	0	1	0
Total N° of branch offices	9	2	3	4 (Mecreco=38)

Even if the MFIs – founded in 2003 and 2004 - exist for longer than the MSME-banks and the new international banks, other than FINCA they do not have extensive networks in provinces. This makes sense, as the number of micro and small enterprises – their core clientele - is huge in Kinshasa. Life Vest and Mecrekin are considerably smaller than FINCA and HOPE DRC. This is not because they would not want to grow, as they highlight, but because funding is a limitation: "Through our alliances with a NGO dedicated to training we could access large groups of 25 members with a credit per person of USD 1.500 to 2.500; calculate what that would be! We would like to go for this, but unfortunately, we cannot afford it."

16 Kinshasa-based MFI belonging to the Mecreco network of 21 Coopecs in DRC.

3.2.2. MSME functions

Most of the Congolese banks have their MSME functions located in the department of retail or directly with the risk manager and in the commercial unit. The Congolese banks usually serve their individual clients at the level of the retail department and, in order to integrate MSME-finance as a new function to their organisations, some added a small unit of 2 or 5 people who deal exclusively with MSME-issues. On the commercial side, the same banks indicate having from 2 to over 10 employees specifically dedicated to MSMEs. The low number dedicated to MSME-clients as compared to MSME-banks or MFIs - who often have more than 50% of their staff dedicated to client relationship - is noticeable. The CEOs of a MFI states: "In our concept everybody is a credit agent. Go and look for clients! That is what we all do."

The difference in the number of employees dedicated to MSMEs can be certainly explained by the fact that MSMEs are not FIs' core clients. In addition, some of the Congolese and new international banks have no pro-active client approach, i.e. they do not go out and look for MSME-clients, but wait for them to come see them or target them by screening catalogues with contact details (FEC catalogues or other), information provided by the ACB and/or directly through their corporate clients. In some banks, a loan officer can directly access client accounts and oversee savings, credits and account movements. This way he can directly identify client prospects for credit and give them a call for an adapted offering. Other banks are more reticent to give their loan officers access to client account information. To an extent, some banks assimilate the MSMEs as one of their individual clients. The credit products mostly used with these clients are short-term overdraft credits.

As compared to the Congolese banks, many of the new international banks do not have a structure in place to treat MSMEs separately from corporate companies. Credit analysts would examine the creditworthiness of a corporate as well as of an MSME-client. In contrast, a CEO mentions that the Commerce and Risk Department in his new international bank exclusively serve individual and MSME clients. Asked who is in charge of the corporate clients he answers: "I take the corporates. They are not complicated."

Some banks did not settle their structure at all. A CEO states: "We have three agencies, one right here, a second one on the main street opened last week and one is going to open tomorrow." In a Commercial Department two persons in charge of MSME client relationship were found still without a Head of Department.

3.2.3. Working procedures

While some FIs indicate they have strict procedures, others seem to have developed more flexible ones. The new international banks indicate having its procedures in place. They may have corporate procedures which they assimilate, once they build subsidiaries in a new country. In response to how the CEOs manage the bank, they explain: "I make sure that everything has a procedure. All procedures have to be in place and everybody has to know the procedures. Everybody knows he can go up to a certain level. My approach is everybody should be a decision-maker. (..) We are well structured." CEOs of all FIs agree that they are not indispensable and that their institutions work well during their absence.

Congolese banks answer diversely: One CEO remembers: "There were rarely any procedures in 2008 - now the procedures exist, but are not always applied. So everybody should read them and then apply them. This is starting to improve." *All banks highlight that employees have to know the procedures, but it is not clear if they are really applied and as to how far the banks follow other organisational patterns than those prescribed by the procedures.*

3.2.4. Centralization versus decentralization

In general, banks are characterized by a pyramid structure. The CEO often centralises a lot of functions and tasks, not only in the new unsettled banks but also in the established Congolese banks. A CEO explains: "There is the board and I, then the audit, compliance, accounting and reporting, marketing and logistics, and commercial department with 15 persons for corporate clients, operations, finance, IT. In addition there are departments attached to me: Human resources, credit, client relationship, agencies, organisation and procedures." In response to whether these are not a lot of functions attributed to him, he admits: "Well, the structure is not very coherent. It is rather according to what each one wants to do. I have all this functions because I like them and need to make them work. But they will soon work."

As far as the decision on loan is concerned, the Congolese and new international banks structure is mostly centralized. Branch agencies in Kinshasa and in the provinces have to send the clients' credit applications to the head office in Kinshasa. In exceptional cases, agencies can take decisions up to a certain credit amount. In the case of two new international banks, no decision on what size of credit can be taken in DRC, and all credit applications have to be sent to the head office outside the country.

Almost all of the Congolese banks are represented in provinces and want to extend this presence as part of their strategy. Despite decentralized operations, decisions on credit are still mostly centralized. In case of banks whose core clientele are corporate companies with demands for higher credit amounts, centralised decision taking seems reasonable. From an administrative point of view it is more inefficient, time consuming – for both the bank and the client - and costly, the smaller the credit amount to decide upon and the higher the number of clients. A more adapted structure to MSMEs seems especially challenging at the province level, since there are provinces with hardly any bigger corporate companies.

Compared this, MSME-banks and MFIs heads of agencies are in charge of credit decisions at the same time. This provides a more decentralized decision taking.

MFIs have other challenges in their organisational structure. Two of the four visited MFIs were recently restructured. An FI admits: "We decentralized before our head office was well settled. It was too early for us. We had 150 employees and (…) had different credit decision processes in each of our four branches. We could not address this because we were dealing with different management structures in each branch office. This was because we wanted to adapt to the market, but at the end it became quite complex and bad for the clients. Our PAR[17] went up to 45%. As we focused on reducing our PAR, our revenues went down too and we finally decided to restructure to get in control again. We now have a centralised office were general policies and processes are defined, but we have also built in a mechanism to replicate our credit teams. We may find a model to decentralize again in the future but the control of the methodology is extremely important. (…) First we need a solid central management."

17 In the context of the conversation, the speaker refers to PAR > 30 days.

The second MFI is currently involved in a pilot experience with one of its Kinshasa branches. It wants to introduce five hierarchical levels in its organisation which seems quite voluminous for a relatively small organisation. A third MFI has both decentralised and centralised decision procedures, which may lead to inefficiencies: "Our credit agents hand the dossiers to the heads of the agencies, which make their analysis. Then we have credit-committee meetings at each agency. Then all the dossiers go from the agencies to the management committee in which the CEO and all division heads participate. The dossier may be refused at the management committee and accepted at the agency level. In this case the credit committee decides." From the outside one could wonder why the MFI involves almost the whole organisation and maybe impedes its employers to complete other operational tasks.

3.2.5. Recruitment of staff

Most of the CEOs across all FIs admit that recruitment of staff is an issue for them: "Two thirds of our employees have less than one year banking experience. This means you have to be everywhere: training, coaching, follow-up. We do train at every level: middle management and loan officers. Banks headhunt each others employees." This is normal to a certain extent, but in DRC's young financial sector it is a problem as FIs particularly involved in training of staff cannot fully benefit from their "investments" in HR. Some FIs mention they find part of their personnel through recommendations. In contrast to this, a manager describes: "To recruit 25 loan officers we have to identify and check 500 to 600 candidates. (…) We train them ourselves. (…) You are not eligible for a higher position other than by starting as a loan officer with us and being promoted."

Most of the FIs explain that they train their loan officers themselves. Asked where they find them, some mention they know particular schools or go to universities to recruit recently graduated young professionals, as those of the CCAM (Centre Congolais-Allemand de Microfinance). Another manager highlights that recruiting staff from the university or a specialized accounting school is not enough: "We do tests with the applicants. They are graded in economics, finance or accounting. We ask them to explain what 'turnover' means. You would not believe the most fantastic explanations you get! We have to help train the people ourselves." A few other FIs do not perceive the recruitment of personnel as a challenge: "The demand for work is enormous. We cannot advertise - people would run our doors down! We receive good CVs and invite the best (applicants) for a test. If they fail the test they are out of the process. This works well for us."

A CEO of an FI with around 50% female staff mentions: "We suffer because of the female cashier staff as they are always sick, always go to the hospital, and sometimes they have not slept well (…) But there are also problems with women: they are pregnant and sometimes not available."

A non-Congolese manager of an FI mentions that he found cultural differences are the most difficult challenges to overcome. Asked for an example he explains: "There is this mid-level manager. She has many employees and clients depending on her. She is seven and a half months pregnant and only tells me now! She will go on leave for pregnancy soon. (…) We have loan officers which decide to leave us because they found another opportunity. On Friday they tell me that they are leaving next Monday. This is impossible!"

3.2.6. Training of staff

All FIs mention that they find training of staff important. Less than a third of the FIs revealed their yearly training budget. Highest amounts planned for training in 2011 are:

Top 1 Bank: USD 1 million

Top 2 Bank: USD 350.000

Top 3 Bank: USD 100.000

Asked in which domain they train their staff with priority, most of the CEOs answer:

- risk management
- financial analysis
- management of credits in arrears
- English language training
- strategic planning
- sales
- refresher training
- MS Excel
- mathematics
- marketing
- training realised in a branch office of an international bank outside the DRC
- IT
- customer service

A CEO mentions proudly: “We have recently created a training academy. We did a first training round in November. (..) A development institution provided us with a foreign consultant who arrived here to help us train our loan officers for two years. We will also build a library.”

A recently trained loan officer describes: “The (foreign) trainer said: ‘you can really be satisfied!’ It is the first time that I see a bank investing such large amounts of money in its employees. The other banks do not do this. (…) We even have a specialised finance school outside the country.”

One CEO complains: “Training. The whole time! It is difficult because people should disburse credits. If the branch manager is gone, Credit Committees cannot be held. At the same time this is our strength, too. Our employees are heavily in demand in the market and if they quit, they find a job somewhere else immediately.” Some of the FIs mention that they received or will receive technical assistance from the FPM (Fonds de Promotion de la Microfinance) and from an NGO which offers training.

Another CEO admits: “Training? Not until now. But this year we have a big budget. We will make our branch officers from the provinces come to Kinshasa to be trained on our new information system. Till now we had no time. We had to reorganise, create procedures, all without help from outside. (…) We will first train in technical domains. I know that the service is not very good, but I do not have good trainers.” In response to how he knows that the service is not very good, he explains that clients come up to complain to him.

The interviewers confronted some of the CEOs with previous study results on entrepreneurs’ challenges to access credit. They mentioned that some of the credit applications of the visited entrepreneurs had been denied, without the entrepreneurs knowing about it. One CEO comments: "The banks' communication is terrible. Service does not exist. The clients are confused. We (the FIs) do not even bother. We do not have to worry about serving the client well, there are so many clients! (…) I go to a bank where we (FI) have a multi-million-dollar deposit. I do not get any service! (…) To get checks to our accounts it takes weeks. They tell me to go to the cashier to take the money out, but we take 250.000 USD, so how can we go to the cashier? We are working on it (in our FI). (…) In a few years this will be the only differentiation: service. The retail business is not rocket science. Service will make the difference if competition gets fierce. Eventually, this is going to happen here too."

A new international bank which highlighted that its unique sales point is service was confronted by the interviewers with another example from the mentioned study, showing that MSMEs need for credit is so desperate that they are prepared to take it from any bank, even at disadvantageous conditions. For them, service is not the priority. The bank manager answered: "I do not believe this. Service is important. Many of the local banks will have lost their clients within the next 5 to 10 years, because they do not offer them any service. If a client takes his money out, he is not attached to you, he leaves you. Service means discovering the clients needs. So, if he needs a credit, we have to find a solution for him!"

FIs have different training priorities reaching from IT training to strategic planning and English lessons. CEOs opinions on the necessity of training in customer service are diverse; some of them implicitly admit that they do not treat service as a priority unless it becomes a distinctive competitive factor in the market. Still, most of the FIs agree that the current service quality is low in the financial sector.

3.2.7. Management of staff

Some of the FIs impose monthly targets for credit dossiers on their loan officers. One FI's target for the loan officers is to achieve 25 successful credit dossiers per month. An ex-loan officer remembers that this target was very difficult: "Since the month has 22 working days, you have to identify and analyse at least one MSME-client per day. This puts us under considerable pressure since our clients' companies are far away. It takes also time to visit and analyse the company." Another FI defines individually for each loan officer how many clients he/she can handle each month and how much more credit volume he/she can commit.

In response to what keeps FIs' employees motivated and prevents them from going to competitors, many FIs believe it is the salary: "The salary is the main motivation factor. Until now we have no dismissals. (…) We prefer to pay well and train the people well." One of the Congolese banks has another means to keep employees happy: "In fact it is a paternalistic policy: At the end of each month every employee, including the management, gets a bag of rice, a carton of fish or salt fish, and several liters of oil."

3.2.8. A manager's day

"My day? Impossible to foresee!", mentions one of the CEOs. "I come in by 8:30, check my emails, visit branches two to three times a week, go out to visit constructions, participle at the treasury committee meetings, make sure we have enough cash for our operations, get involved with HR, an IT project that is going to be launched and I meet visitors!"

Most of the CEOs however highlight that approx. half of their time is consumed in dealing with problems with tax agents from the state who show up with bizarre fines. "We always discuss problems, but it is tough. Sometimes we talk for 3 to 4 months, if we are right, we are right, but it takes so much time to prove it! Even if you do not deal with it permanently, you will always have it in the back of your head." Another CEO describes: "I spend a lot of time in meetings and at court. (…) Unfortunately, because of the business climate in DRC, I spend a lot of time managing problems instead of growing the bank!" Another CEO confirms: "Problems. I try every day to find ways around the bribing system." The CEO of a new international bank states: "It is a hectic operation (...) you make mistakes. A delay of one or two days submitting a report to the state. It costs us a fortune. Penalty fines cost us the profit for a whole month. Authorities need to review this. In no country did I see such penalties. Breaking regulations, ok, but delay of a report!" Another CEO remembers: "One day we suddenly received a fine from the state, claiming USD 45.000 because we did not pay the tax for the parking lot." One CEO faced an even more bizarre case: "Three authorities are taxing us at the same time on our sign (brand name of the FI)!"

Asked for the personal motivations to work for an FI, one CEO remembers: "My father worked at the Central Bank. I always wanted to go into banking. I studied in Belgium. My greatest dream is to create my own bank." Another CEO mentions that he participated in a microfinance project which did not work and the FI at which he currently works was looking for a CEO (…) so I accepted." Another FI's manager explains: "You are in a business from which women had been excluded. It was a dream for me: support women and girls to get established and fight poverty. I have done 30 years at the Central Bank. (…) At the end of my career, they sent me to Bangladesh to see the Grameen bank. (…) Our clients are 60 to 70% women."

3.3. Financial Institutions' management

3.3.1. General vision and growth strategy

Almost all of the Congolese and the new international banks share the following analysis: 1. The corporate-company market is saturated. 2. There is not enough to earn with individual clients. 3. MSMEs offer huge potential. This causes downscaling activities in the sector towards MSMEs. A CEO is worried: "There are not even 500 corporate companies. All the banks chase after them. One day they (the corporate companies) will just decide not to work with you anymore!" Another CEO adds: "We do not have a choice. We have to go to this (the MSME) market. (…) There are no big investment projects. ANAP (Congolese investment agency) has only 120 applying firms this year. There are not many people who invest in DRC. The local people invest. They know the country." The same CEO acknowledges that individual clients are not a profitable income source either: "Profitability of a branch office is difficult with individual clients who earn USD 400 (per month) only. You cannot generate enough revenues."

Asked if they had compared the credit costs, i.e. capital procurement and operational costs, between a corporate and an MSME client and how high they are, none of the FIs knew its credit costs. This is surprising as any company targeting a new client segment would try to assess the costs related to that segment. "Credit costs per client? No! With the corporate clients we make revenues on their transaction volume. At the same time we need to keep 7% of deposits according to the Central Bank. So sometimes we do not make money on the corporates. The profit comes through synergies. With a corporate client you may win some additional clients."

A risk manager mentions: "Credit costs? We are not calculating like this but it will be (…) cannot say (laughs). We have not estimated." Asked if it would be useful information, the risk manager answers: "Yes, but it would be more useful if we had real competition among FIs, once we would have to squeeze the margin. Unless our margin size is satisfactory, it becomes less important. I am not saying it becomes less useful, but you will not go into all this analysis (of credit costs)." Apparently, even if FIs recognize the MSMEs as the future market, they do not yet bother to calculate the costs associated with MSME-financing. The risk manager's explanation that because "the margin size is satisfactory", cost calculation would be "less important" is not convincing. *It might show that MSME-financing is on the agenda of many FIs, but still not fully put into practice.*

What most of the FIs mean, in fact, when they say they are targeting the MSME-market is that they seek deposits. A CEO reflects: "In the short run we want to make deposits. This is the objective of our branch offices: developing deposits. There are people who come to us for a credit. We will study them, but we will not seek them. We need to get deposits. I hope to change this strategy next year September or October. Deposits finance operations. Then we will already have a strategy to search for (MSME) clients."

As described above, other than the new international banks most of the Congolese banks have high deposits. They emphasise their intention to grow into MSME-financing, and at the same time highlight that they want to keep their corporate clients. "For the moment I want my services to work well; E-banking and others. Then I want to create specific products, - except for housing loans -, saving accounts for families with a certain amount of USD for the children. Otherwise it is only packaging, for instance a product for students with a card, an account. We are not going into assurances or leasing because legislation is blocked." Asked which relation between MSMEs and corporate clients he wants to achieve in the future, he answers: "I will keep the corporates. They will stay and they have huge deposits. The SMEs utilize the deposits. Even if they (the corporate companies) leave only USD one million on their account, for me it is a lot." In line with this, the CEO of another Congolese bank highlights: "We will not open 1.000 branch offices throughout the country (to gain individual clients). 80% of our revenues still come from big enterprises."

In contrast to his peers, another bank manager affirms that the market for corporate companies is not saturated: "Corporates are good. The SMEs are for the long run. (…) They are more numerous. There is potential for the corporates, as the market is not yet well developed. There is investment potential to be absorbed by the banks. In the long run the SMEs take a position. There is enough market for the whole world." Asked if he finds there is still space for additional banks in DRC he replies: "But only for the SME (market), in the big cities, either in the provinces or here (in Kinshasa)."

Almost all Congolese and new international banks agree that expanding into provinces in 2011 and 2012 is the right strategy to grow. A new international bank wants to grow from 0 to 20 branch offices in the provinces during the next five years. Asked for the achieved market share, the bank replies that it still has no idea. A CEO from a Congolese bank describes: "Our strategy for 2011 is to go to the 5 or 6 cities of this country where we still do not have our branch offices. Go to more remote places, where there is a mining project or business at the border. (...) First thing is to develop our network at the countries interior; second, organise SME activities; third, develop the 'cash products', such as cards, cash distributors. (…) There is a lot of cash. We have 40 cash distributors in DRC. There are 100.000 monthly operations with a total volume of USD 12 to 13 million. The people shall utilize the cash products. (…) 50 branch offices are interesting for us, not more, unless this (situation) explodes. But there is no middle class, so, we have to earn money!" Another bank highlights that its strategy is to go to provinces and especially to places where no other bank goes.

A CEO from a Congolese bank explains: "We will terminate our expansion to provinces soon. We will have 34 branch offices then. In two years the infrastructure and roads will be improved because of the Chinese projects. For this purpose we invested into the future and build very expensive branch offices in the provinces." Another CEO mentions:" In five years we will still be the leading MFI, more active in provinces, not only in Kinshasa. Bas-Congo, Katanga is going to be larger, more branches in the East-Kivu. The interior of the country will still be a challenge. Asked if the Chinese's roads will not improve the infrastructural situation, he says: "In 5 years - they will not be there anymore!"

While some of the new international banks say they want to be the biggest bank and "conquer the whole country", most Congolese banks affirm they want to leverage risk and not grow too fast: "Our shareholders want the bank to be well organised internally, leverage risks. We do a market study on the branch offices. We do not want to grow a lot." A CEO of the MSME-banks reflects: "In one year we want to be more of a business bank. We know our clients better and have a higher credit volume. I am not sure if we want to be the biggest bank. I think we want to be the best bank, meaning we want to specialise on small-business clients who grow with us, and as a complement to these individual clients. Currently we are a credit bank for anybody, but we want to be perceived as a business bank. (…) We invite business clients to learn about their industries to be able to provide better advices. Our preference is production and agriculture, but this is not easy. Most of the agricultural entrepreneurs have no documents, or the land does not belong to them. This is a niche where we can be strong. It is difficult for our employees to accept that we could loose the individual clients, but I think it is important that we focus on one thing."

In contrast to the banks, two of the MFIs are opting to stay in Kinshasa in the future. There strategy is to target clients with higher credit needs: "Bigger credits represent less risk. We had a bad experience. We financed a lot of street vendors. Then there was an operation 'Kin-propre' (Kinshasa-clean). The street vendors have been banished and lost everything." The interviewed Coopec will stay in Kinshasa because it is legally limited to a geographic area."

The key axis of the banks visions is to expand their regional branch office network and to grow into the MSME-market, the latter either to improve their deposits or to timidly implement MSME-financing. MSME-financing becomes especially relevant to them in the context of their regional expansion strategy, because in some provinces there are hardly any corporate companies.

3.3.2. Vision and growth strategy towards the MSME market

All CEOs agree that there is not much competition in the MSME market, which thus has a lot of potential for development. One CEO affirms: "The banks say they want SMEs, but they do not know how."

On one hand, many FIs have targets to increase their MSME loan portfolio within the next one to five years as compared to their overall loan portfolio. "Today 10% to 15% of our overall loan portfolio is SME. In the cities of the provinces there is potential too. (…) USD 10 to 15 million are to be found at the Cité only (largest neighbourhoods of Kinshasa). (…) In five years 35% of our loan portfolio will be SME." Another CEO agrees: "One could say that we are going to work with SMEs in the future." Asked how he will get there, he answers: "The principal strategy is to create a list of the suppliers of our corporate clients and contact those suppliers."

Other FI mention they definitively want to address the MSME-segment, but find it too risky and would do it only with the support of development finance institutions (DFIs) who provide either credit lines at market rates or guarantees. One CEO mentions: "Today maybe 10% of our loan portfolio is composed of SMEs. In 5 years we want it to be 50% (corporates) to 50% (SMEs)." Particularly the pan-African banks are experienced with MSME-financing in several African countries. These banks could take advantage of their network's knowledge and experiences. For them, it is not convincing to wait for a DFI. At the same time 50% of the loan portfolio dedicated to MSMEs seems a very high target for a bank which assesses the market as "too risky".

A Congolese bank plans a division of the retail department in the near future for MSMEs and individual clients. At the end of this year it wants to adapt its organisational structure to MSME needs, put an appropriate methodology in place, go through training and increase its share from 10% to 15% of the total credit portfolio for MSMEs. In 5 years the target is 20% to 30%. The other Congolese banks plan the following measures to be implemented in one to 5 years:

- "Adapt our products"
- "Develop a good product for agricultural SMEs"
- "Augment accompaniment of the SME-clients"
- "Identify adapted guarantees"
- "Train the SME-clients (in partnership with a third party)"
- "Consulting services for the SMEs (in partnership with a third party)"

As opposed to this, the strategies of the majority of the new international banks - if the banks revealed them - appear to be either over-ambitious or non-strategies. A client relationship manager of a new international bank explains: "Now, my strategy is different from the strategy of my colleague. First, I look at the account movements of the SME; second, I check its reputation; and third, I follow my instinct!"

Although the Congolese banks address the key issues, their actual strategies to arrive at the declared goals seem to be modest. Indeed, the majority of them emphasises targeting their corporate clients' suppliers - mostly for overdraft credits. The supplier target group is however limited and it is doubtful that they are always MSMEs. Different from this, the MSME-banks' approach is to learn from new target groups and listen to them.

One of the MSME-banks highlights: "We want to build networks, reduce risk. We have to get to know the medium-sized client. Few have an established management; many grow too fast - maybe because of loans. (…) We know the small clients, but we still have to learn more about the medium-sized clients. The statement shows a different attitude towards MSMEs. In fact, there is little the other banks highlight that they want to learn from their clients.

3.3.3. How Financial Institutions try to distinguish themselves from their competitors

The Congolese banks identify their competitors exclusively within their peer-group, i.e. among Congolese banks. In contrast, it is noticeable that the majority of the new international banks identifies its main competitors among the Congolese banks. A CEO of a new international bank affirms: "We are going to annoy banks like BIAC, Rawbank, BCDC and BIC. We are going to be there in one year!" Only one new international bank indicates its competitors among its peer group.

In terms of what they do different compared to their competition, the new international banks indicate:

- "Service"
- "We have a large capital base - that is our strength. With our holding we can collect amounts of money that local banks can only dream of."
- "For the SMEs you do not have to have anything other than capital. (…) The SMEs need money. If the other banks have taken such important markets, they are not obliged to work with SMEs anymore! They make good money with the corporate clients and government institutions. SMEs are not their thing!"
- "We simple have rules"
- "Here (in DRC) everybody makes you pay USD 50 on a USD 1.000 withdrawal. The banks gain on commissions. We do not charge commissions."
- "We are open to all sectors: telecom, petrol, UNICEF, MONUSCO, any company that pays regular salaries. We do not go to forbidden sectors."
- "We go to isolated places like Bunia and target hoteliers, agricultural businesses and tobacco SMEs."

Some of the Congolese banks perceive that the arrival of the new international banks led to a price war. One CEO remembers: "We did always contact the clients of other banks. Every bank did this. Nobody was ever disturbed if a client then opened a second or third account with another bank to deposit part of his money there. It only frustrates us since the new banks (the new international banks) arrived and started a price war." *The statement shows that a perception of increasing competition exists. As for the deposit side this may be true, however it can not be confirmed in terms of credit conditions.*

The Congolese banks perceive to stand out from the competition by:

- "A more pro-active approach with SMEs such as visits, in order to identify the best."
- "We are going to establish a position as SME customer relationship manager at each branch office."
- "We are going to work more intensively with our corporate clients to identify their SME suppliers."
- "We build on our reputation in the provinces; we have that reputation because we stayed during the war."
- "We are more accessible to our SME-clients. We go to provinces to visit our clients."
- "We know our clients better."

- "We create synergies among our regional and Kinshasa based branch offices. We particularly motivate our regional branch offices, even if half of our deposits and credit portfolio is in Kinshasa."

Two CEOs mention that they have no idea what the other banks do and, thus, cannot comment on what they do better. The CEO of one of the MSME-banks highlights two aspects: 1. "Our credit technology". 2. "We are perceived differently. We are perceived as a bank for everybody. We do not take ourselves too important. (…) He (the client) wants to be able to address basic questions without feeling stupid. He never had a credit so it is important for him. The client has no fear. Usually local financiers only speak French!"

In contrast, the MFIs agree that the market is huge for them and they hardly encounter any competition: "No competition for group lending. For smaller loans, yes, actually all the banks are doing USD 2.000 to 3.000 upwards. But this is still very small for the banks. They always had these products. I do not know how many banks are down-scaling. But if their savings are three times their credit, they will not be able to increase their credit balances by giving out 2.000-dollar loans. So they will have to increase their loan amounts."

It is remarkable that none of the FIs, except for the MSME-bank, highlighted its methodology as a competitive advantage.

3.4. Financial Institutions market positioning

3.4.1. Products and customer orientation

Most of the FIs offer "classic" bank products such as:

- debit cards
- credits
- overdraft credits
- transfers
- term deposits for business clients
- saving accounts for individual clients

Some CEOs mention that leasing and insurances would be interesting areas for them to grow, however, as no legal regulation for leasing exists and the market for insurance products is not liberalized, this will remain impossible/ illegal.

Some of the FIs mention outright that they do not have adapted products for MSMEs: "We have the same products for everybody."

Others, namely the banks with corporate clients, mention products as "Value-Chain Financing", which are designed for the suppliers of their corporate clients: "For example, we have a big client. Vodafone. So, Vodafone has suppliers which are sometimes SMEs." Once the corporate client has accepted the bill, the bank provides part of the amount - from 50% to 80% - to the supplier, "because it can take 30 to 60 days until the corporate pays the supplier." The CEO continues to explain: "With exception of ProCredit and Advans Banque, the banks here do not have special products for SMEs." Curiously, more than five banks developed the same products and think the same about their competitors. Apart from this, the product can not be judged to be very innovative as far as MSME-financing is concerned. The bank observes the needs around its corporate clients and identifies the suppliers, who are occasionally MSMEs. Structurally, no "new market" has been explored up to this point.

Some FIs also provide credits to distributors of corporate clients' products. Asked why he provides supplier and not distributor credits, a CEO explains: "If you look at the banks which have developed MSME products, they did so by taking advantage of donor support." *Clearly for the banks a supplier credit means low risk, whereas a credit to a distributor would require a different approach.*

Another bank manager describes: "Some SMEs do not know what they need. (For example), an SME demands several overdraft credits. Suddenly, it turns out, that the SME had a supplier-contract with a corporate which proves that the corporate owes money to it. So, actually, the SME needs a 'bill discounting' (particular credit for suppliers) and not an overdraft credit. (…) We have had this experience with two or three cases."

Another bank explains that it also targets suppliers through its corporate clients and even exchanges information on the creditworthiness of the suppliers with the corporate client. It recently developed credit products for suppliers and distributors and for this purpose, "we had a consultant who helped us with the new products."

In contrast, a couple of banks try to understand the MSME-needs independently from the business of their corporate clients. "We find that SMEs need cash to grow and as a result we developed three well structured products. The other banks use comparable products but not really tailored for the SME- market":

- Product 1: Security deposit ("Caution"): If a SME wins a tender, the bank realises an advance payment on the bills of 80%. Once the party issuing the invitation to bid pays the supplier (SME), the bank recovers the advance payment with a small interest rate. As opposed to a "supplier-credit", the MSME-supplier can address the bank independently from a corporate client of the bank.
- Product 2: Distributor financing: The distributor receives a loan at a 12 month term and the bank pays its supplier directly. Once the supplier delivers, the distributor sells and repays his credit successively.
- Product 3: Import financing: The bank facilitates imports for MSMEs by a loan to the MSME. Instead of giving the loan to the MSME, the bank directly prefinances the supplier outside the country. Once it starts selling the imported goods, the MSME begins repaying the loan to the bank.

A Congolese bank offers internet banking, tax payment and MSME-credits for up to 48 months. While almost all of the banks need approx. 14 days from the client's demand until disbursement, this bank has developed a very-short-term "express" MSME-loan product with a maximum amount of USD 10.000 re-payable within 10 days, which the bank will disburse within 24 hours from credit demand. Given the short-term needs of MSMEs in commerce, this proves to be a very client-oriented product.

An MSME-bank created a "start-up" MSME product which implies saving money for 12 months in order to receive a credit twice as high as its savings volume. The product appeals to individuals who are prepared to save and then create a minor business once they receive the credit. The same bank also offers short seminars for MSMEs to make them understand what the banks are looking for. It highlights that it provides orientation to its MSME-clients as to which product is useful for them.

Most of the FIs state that the MSME has to be a client of the FI for at least six month before accessing a loan. With very few exceptions banks further agree to insist on a guarantee, as it is difficult to find people "if they decide to take the money and run." If the credit volume is more than USD 10.000, the guarantee amount for the MSME goes from 150% to a 200% of the credit volume.

When a bank was asked if it does the same analysis and insists on the same guarantees with every potential loan client, the CEO answers: "The big telecom and petroleum companies sometimes need credits of about USD 5 million. They only offer us a letter from their mother company. We have to work with them! Risk is limited. The petroleum company is always available, no problem. While we take guarantees from the SMEs, there is no big company who is ever going to give us a guarantee!"

To conclude, some FIs are clearly more customer-oriented than others. Qualitatively and in terms of customer orientation, it makes a difference if financing the supplier of an existing corporate client or finding hands-on credit solutions for MSMEs. In addition the strategy of targeting the suppliers of corporates has its limitations. Assuming that a bank has 10 to 20 corporate clients and each of these has 10 to 20 suppliers (depending on the sector of the corporate), there is a maximum of 400 potential MSME-clients for the FI.

It is noticeable that many of the banks are convinced that they need donor funds to access the MSME segment. Will they be successfully entering the MSME market once they have a credit-line? Is additional funding a solution for them to increase MSME-financing? Only few banks worked on their products and services to adapt them to the MSMEs' needs. A CEO admits: "We have a bit of a difficulty identifying good dossiers."

In contrast to the banks, MFIs have products targeting micro enterprises among others. Products to be found with MFIs include: loans for teachers and professors, employees, MSMEs, ordinary individuals, solidarity loans for women, loans for real estate, short-term savings, school credit and group loans ("crédits solidaires" / village banking). For the group loans 20 to 30 people come together and borrow individually, being jointly liable for the reimbursement. At one of the MFIs the people in the group can borrow amounts ranging from USD 50 to 4.000. MFIs also provide individual loans, but as opposed to the banks, MFIs are cash-flow based lenders, i.e. they evaluate the capacity of repayment based on the cash-flow and determine the loan amount using this.

An MFI also offers small group loans, combining both a group and an individual loan approach. The group is jointly liable, each individual can borrow from USD 300 to 7.000, and each group member has to provide collateral individually.

3.4.2. Financial Institutions' target groups

3.4.2.1. The Congolese banks

In general Congolese banks indicate the following as their main target clients in order of priority:

- Corporate clients (including government institutions, donors and NGOs)
- Individual clients (including employees, civil servants and wealthy individuals)
- MSMEs (including sometimes individual tradesman)

They mostly target all economic sectors and industries. Mining and commerce are particularly important for all FIs. Some of the Congolese banks indicate they grew strongly in 2010 with cash transport, commerce, exchange services and construction.

3.4.2.2. The new international banks

The new international banks highlight that they are "universal" or "new generation banks", explaining that they target all client segments. However, a closer look reveals that their main clientele are corporates and individual clients. They do not have many MSME-clients and their main interest of dealing with those is to increase their deposits.

As the Congolese banks, they target all sectors and industries. Industries such as telecom, oil and gas, food, commerce, construction, mining, infrastructure and project financing were especially mentioned. Some of these banks highlighted that commerce, mining, petroleum and infrastructure went particularly well for them in 2010.

3.4.2.3. The MSME-banks

Both MSME-banks target MSMEs of all sectors and industries. While one MSME-bank has in-depth experiences with micro and small enterprises and wants to target medium-sized enterprises more vehemently in the future, the other focused on micro-enterprises until recently and as of 2011 started to target SMEs as well.

Despite the first MSME-bank's focus on small and medium-sized companies, it grew stronger with individual rather than with business clients on the deposit side in 2010. These clients are in particular employees of larger companies. On the credit side, the same bank mainly grew with larger companies. Also consumer credits are granted, but only to the MSMEs' employees; in general, consumer credits represent a more passive business to the bank.

3.4.2.4. The Microfinance Institutions

The MFIs address MSMEs of all economic sectors and industries. While most of the MFIs indicate that MSMEs are their most important clientele, one specifies that it targets "individuals with an income-generating activity", a definition which does not necessitate separating an individual from a micro-enterprise, unless the individual generates its income as an employee, which then is defined as an "individual tied to the labour market" and forms part of the MFIs' target group, too. One MFI highlights also students, civil servants and employees as core client groups besides MSMEs.

MSMEs in commerce and value-adding activities to commerce are over-proportionally represented among the MFIs' clientele. The MFI which strongly targets civil servants, students and employees is represented in education, health, agriculture, transport, production, distribution and services, in addition to commerce.

3.4.3. Deposits and loans

3.4.3.1. The Congolese banks

The Congolese banks are the largest deposit taking group, with an aggregated savings volume of approx. USD 1,20 billion.[18] According to a CEO, 80% of all deposits in the financial sector are short-term deposits. The highest deposit amounts are held by:

1. Rawbank: USD 300 to 325 million
2. BCDC: USD 275 million
3. BIAC and TMB with USD 223 and 220 million respectively.

In terms of deposit growth between December 2009 and 2010, the percentages of the top banks are:

1. BIC: approx. 51%
2. TMB: approx. 38%
3. Rawbank: approx. 26%

On the credit side, the Congolese banks accumulated an aggregated loan portfolio of USD 572 million. The largest loan portfolios are held by:

1. Rawbank: USD 150 million
2. BIAC: USD 130 million
3. BCDC: USD 120 million

In loans as percentage of deposits the Congolese banks have the following ratios:

1. BIAC: 58%
2. BIC: 55%
3. Rawbank: 50%
4. BCDC: 44%
5. TMB: 41%

Out of the total loan portfolio of USD 572 million, the banks provided approximately USD 123 million to MSMEs.[19] The average credit sizes to MSMEs range from USD 2.000 - including small overdraft credits – to USD 240.000.

The USD 123 million provided to MSMEs represent 21% of the banks total loan portfolios. For the individual banks, the percentage of MSME-loans in terms of their total loan portfolio varies largely from 4% to 61%. This information helps to complete the picture of each individual bank's actual involvement with MSME-financing, as the absolute amounts conferred to MSMEs by the banks are related to each bank's overall loan portfolio.

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18 Collected numbers and amounts were given by the interview partners at the FIs, i.e. mostly the CEOs. In cases where the information was not readily available, data was collected from a document handed over by a bank which summarizes the yearly results of all banks as of 2010 and which, according to that bank, was sent to all the banks by the Association of Congolese Banks (ACB). In case of deviations between the two sources, the indication of the CEO was given priority. This causes a statistical bias in the numbers. Furthermore, some CEOs indicated their results as of April 2011, and others as of December 2010.

19 This amount has been calculated using the information from the CEOs, which depend on their MSME-definitions. As every bank has a different definition, the comparability is limited.

Interest rates for MSME-credits range from 12% to 24% per year among the banks. Very roughly estimated, the Congolese banks represent from 30% to 40% of all bank accounts in DRC; BCDC and BIC hold together 15% to 20% of all accounts.

3.4.3.2. The new international banks[20]

The new international banks have an aggregated deposit volume of approx. USD 118 million, which is roughly 10% of the Congolese banks aggregated deposit volume. The highest deposits are held by:

1. Ecobank and Access Bank: each USD 40 million
2. Fibank: USD 25 million
3. BGFI Bank: approx. USD 7 – 8 million

As of deposit growth between December 2009 and 2010, the top banks are:

1. Access Bank: approx. 400%
2. Fibank: approx. 257%
3. Ecobank: approx. 60%

On the credit side, the new international banks have an aggregated loan portfolio of approx. USD 75 million, which represents approx. 13% of the Congolese banks' loan portfolio. The three largest loan portfolios are held by:

1. Ecobank: 27 million USD
2. Fibank: 17 million USD
3. Access Bank: 12 million USD

Observing loans as percentage of deposits the new international banks have the following ratios:

1. Sofibanque: over 200%
2. Bank of Africa: approx. 180%
3. Ecobank and Fibank: approx. 68%
4. BGFI: approx. approx. 40%
5. Access Bank: approx. 30%

The percentages over 100 can be interpreted as a characteristic of new banks: as they only recently entered the market, they have little deposits but started lending activities on a broad basis. The high ratios may also show a risk-seeking attitude by the respective bank. The lower ratios on the other hand may mean that banks are looking for opportunities to lend, while the environment became more competitive and "good" lending occasions scarcer.

Out of the total loan portfolio of USD 75 million, the banks provided approx. USD 15,5 million to MSMEs.[21] The average credit sizes which have been allotted to MSMEs reached from USD 10.000 to 180.000.

20 Afriland First Bank of Africa is not included in this analysis because the information interviewers obtained on the bank was too vague.

21 Sofibanque indicated it targets medium-sized enterprises; however its average loan size was relatively high and is therefore not reflected in new international banks' group loan portfolio destined for MSMEs.

The USD 15,5 million allotted to MSMEs represent on average 21% of the banks total loan portfolio. The percentages of MSME loan portfolio in terms of the total loan portfolio of each bank vary from 11% to 35%, which is less than the variation among the Congolese banks, whose ratios reached from 4% to 61%.

On average, the new international banks involvement with MSME-financing in terms of loans as a percentage of total loan portfolio is similar to that of the Congolese banks, i.e. 21% for both groups.

Interest rates for MSMEs among the new international banks range from 10% to 18% per year as compared to 12% to 24% for the Congolese banks interest rates.

3.4.3.3. The MSME-banks and Microfinance Institutions

In total, the MSME-banks share a deposit volume of approx. USD 128 million, which is roughly 5% higher than the aggregated new international banks' deposit volume. The interviewed MFIs hold a total deposit volume of approx. USD 8 million. The highest deposits are held by:

1. ProCredit Bank: USD 127 million
2. FINCA: USD 5 million
3. Mecrekin: USD 2,5 million

In terms of deposits, ProCredit Bank can match the deposit amounts of the Congolese banks. In fact, ProCredit is number 6 in the DRC in terms of deposit volume. As ProCredit Bank is a young bank compared to the Congolese banks, its high deposits clearly reflect its clients' confidence.

For deposits between December 2009 and 2010, the MSME-banks grew by:

1. Advans Bank: approx. 110%
2. ProCredit Bank: approx. 20%

On the loan side, the two MSME-banks share USD 42 million, which is 56% of the aggregated loan portfolio of the new international banks. ProCredit's loan portfolio is larger than that of each individual new international bank. The interviewed MFIs share a total loan portfolio of USD 17,4 million.

The three highest loan portfolios are represented by:

1. ProCredit Bank: USD 40 million
2. FINCA: USD 15 million
3. Advans Banque: USD 2 million

Observing loans as percentage of deposits, the MSME-banks and MFIs have the following ratios:

1. Life Vest: approx. 395%
2. FINCA: approx. 300%
3. HOPE DRC: approx. 207%
4. Advans Banque: approx. 162%
5. Mecrekin: approx. 54%
6. ProCredit Bank: approx. 31%

The percentages over 100 can be understood due to international funding of the MFIs, who can afford to take more risk than locally funded MFIs. Those have limited deposits. Another explanation of some MFIs’ high ratios (e.g. Lifevest) may be the change in legal form, which only recently facilitated the collection of deposits. The lower ratio in the case of ProCredit is due to the proportionally large deposit base.

On the other side, the MSME-banks and MFIs clearly surpass the other FIs regarding the number of credit clients. ProCredit with 7.500 credit clients exceeds the Congolese banks, with roughly 7.200 total credit clients, and competes toughly with the number of credit clients for both groups - the Congolese banks and the new international banks – who reach a sum of roughly 8.400, i.e. 7.200 of the Congolese and 1.200 of the new international banks.

The average credit sizes which have been provided to SMEs (excluding micro enterprises) by the MSME-banks ranged from USD 2.500 to approx. USD 7.500. Compared to this, the average credit sizes awarded by MFIs ranged from USD 174 to USD 7.500.

Interest rates for MSMEs offered by the MSME-banks range from 30% to 62,4% per year; i.e. 2,5% to 5,2% per month. MFIs offer loans from 24% to 58% per year, i.e. 2% to 4,8% per month, respectively. This compares to a range of 10% to 18% per year interest rates at the new international banks and 12% to 24% at the Congolese banks. The smaller each individual credit is in volume, the proportionally higher the transaction costs are and thus the higher the interest rate is for each credit. This tendency is typical for almost all financial sectors around the world.

3.5. Financial Institutions financials

3.5.1. Quality of financial information

Official financial information was difficult to get at the time of writing, as most FIs were about to finish their annual reports and wanted to consolidate the information before handing-over financial data. As the market is very dynamic we decided not to present outdated figures from 2009. That being said, the figures were partly provided by the Association of Congolese Banks (ACB) and collected in December 2010. Several bank managers shared the report with the interviewers, mentioning independently from each other that it came from the ACB, however, neither an author’s name nor publishing date was on it. For this reason, as the priority source the financial information used in this study is gathered from the CEOs or other bank managers - if it deviated slightly from the ACBs overview. Only if banks did not provide any information, the mentioned annual overview – supposedly published by the ACB – and other documents and analysis handed-over by the FIs were used. This approach has been chosen to ensure use of the most reliable information. A drawback is however that some banks indicated their financial information as of December 2010 and other as of April 2011. Thus, it is complicated to compare the FIs with each other. Especially some results in the rankings of the previous chapter may have been taken with 3-4 month time difference. Still, the information provides an overview of the sector’s results and an appreciation of each individual FI’s achievement.

3.5.2. Financial Institutions between profitability and welfare

FIs follow different objectives with their operations. Some CEOs agree: “Our motivation? To make money!” Two CEOs added that there is the objective of contributing to the countries economic growth, and political and legal stability, too. However, the latter objective follows the first. Among this group are the Congolese and the new international banks. Although MSME-banks focus on profitability, too, their explicit mission extends to “supporting economic growth, creating jobs, creating a saving culture and being a responsible bank” as stated by the CEO of ProCredit Bank. The arrival of the MSME-banks in DRC lead to a an escalation of innovation in the financial sector and the financial environment; e.g. ProCredit’s introduction of bank accounts for poorer individuals with zero cost included the wider population and obliged the other banks to rethink their pricing structure.

The MFIs also aim at profitability, however not to increase the value for its shareholders, but rather to transform their profits into MSME-credits in the first place and thus increase their impact on economic and social development of the community and the country. Differences in the emphasis of providing MSMEs with credit can however be observed among the MFIs. Most of them rely on coaching the target groups by developing an adequate level of financial literacy first before clients receive a credit. This is partly due to the particularities of the clients’ education, but it enables clients to understand and reimburse the credit. While some of the MFIs provide the training with their own staff, others collaborate with NGOs for this purpose.

One MFI expects its borrowers to be a member of the mutual savings group for at least three months with an active use of the account before becoming eligible for a loan. Once opening the account, the future beneficiary of the loan has to pay in 35% in savings of the loan amount he is going to receive. No training takes place.

There is also one Congolese bank which offers training to its MSME-clients to enhance their reimbursement capacity. The bank however obliges the MSMEs – which are mostly suppliers of the bank’s corporate clients - to participate in a payable training by a DFI. The participation in the training is a condition to receive the loan. In exchange, the bank assumes part of the training costs for the MSMEs. Although there may be a biased incentive because the MSMEs may accept the training only to receive the loan, there is hope that the companies will (also) improve their management capacity.

A subgroup of the MFIs explicitly wants to fight poverty and in the process focus partly on female beneficiary groups, as “(…) women are more disadvantaged in society and on the other hand have a better reimbursement moral”. One MFI emphasises a more comprehensive and Christian faith- based understanding of poverty and explains: “We do not see poverty only as the lack of financial resources. Poverty is a broken relationship - within the family, with society and with a bank. (…) We want to support people in all of these areas. (…) We want to be more than just a bank.”

3.5.3. Profitability

In response to whether the FIs are profitable, the ACB answers: ”Yes, otherwise they would not be here.” In terms of net profit, the top five banks are:

1. BCDC: USD 6,1 million
2. Rawbank: USD 5,73 million
3. BIC: approx. USD 5,2 million
4. Ecobank: approx. USD 1,3 million
5. BIAC: approx. USD 0,6 million

However, a series of CEOs mention that more than half of the 20 banks are not (yet) profitable. Despite a good quality in their loan portfolio, both MSME-banks accumulated losses. For the overall sector it can be observed that profitability decreases. Between 2006 and 2010, RoE decreased from 142% to 56,2%. During the same time period RoA decreased from 15,9% to 9,4%.

Two of the MFIs have a Portfolio at Risk (PAR>30) of 1,4% and less; the other MFIs stated that their PAR>30 was less than 5%. The average PAR>30 of the Congolese MFIs stands at 16,1%. Two MFIs have been restructured recently - partly due to losses. They had negative experiences with credits in arrears – in one case because of a lack of management and control of the proper MFI's operations, in the other case because of force majeure This MFI had loan clients who worked as street vendors. One day, suddenly the state prohibited sales to the street vendors and displaced them. As a result their income went away. The street vendors were not able to reimburse their loans and left the MFI with arrears.

Key Findings

In summary, FIs have heterogeneous perspectives on MSMEs. 16 FIs presented 16 different definitions of MSMEs. Number of employees, turnover, investment size and centralized versus decentralised management form may serve as parameters to roughly define MSMEs. However, a differentiation of the entrepreneurs' activities into service, production, commerce, agriculture and into industries seems unavoidable in order to get a clearer understanding of the company and enhance comparability.

As to the FIs organisations, the Congolese banks clearly stick out in agency network compared to the new international banks, MSME-banks and MFIs. Although the Congolese banks tend to assimilate MSMEs with individual clients by locating MSME functions in the retail department, many of the international banks do not have a structure in place at all to separate MSMEs from corporates. While both Congolese and new international banks take decisions on loan awards in a centralized manner, MSMEs and MFIs have decentralized decision taking in place, delegating decision taking on loans, for instance, to the head of each agency.

CEOs of FIs agree that recruitment of good staff is a challenge and find different ways to deal with it. Often they train and educate their staff at all hierarchical levels themselves. Among the variety of trainings CEOs foresee for their staff, training in service is widely neglected, although most CEOs agree that customer service performance is of low quality. Money is seen as the main motivational factor by CEOs to keep employees satisfied. CEOs admit they were themselves more satisfied if they would not have to spend a large part of their time struggling with the state's tax claims and fines.

The bottom line in the visions for FIs' growth is to expand their regional branch office networks, except for some of the MFIs who face a huge client potential in Kinshasa. The Congolese and new international banks want to expand into the MSME-market, mainly to improve their deposits and to slowly implement MSME-financing. The latter becomes especially relevant in the context of their regional expansion strategies as in some provinces hardly any corporate company exists. A closer look at how FIs plan to address MSMEs for this purpose, however, reveals that they do not have original ideas. Most of the Congolese banks access the MSME-suppliers of their corporate clients, which seems to be a limited strategy because naturally the number of suppliers of a small number of corporate clients is restricted. The new international banks strategy appears to be over-ambitious or even not-existent. As opposed to this, MSME-banks and MFIs mostly show an attitude of listening and learning from their MSME-clients.

An increasing perception of competition has been found among the FIs. While the Congolese banks feel they stick out from the competition by using more pro-active approach to MSMEs, reputation, accessibility and corporate clients' supplier network, the new international banks believe that service, financial power and low pricing are their unique sales points. An appropriate methodology to approach MSMEs and evaluate creditworthiness has been mentioned as a differentiation factor only by the MSME-banks. As a matter of fact, few FIs develop their products and services to adapt them to MSMEs' needs, whereas MSME-banks and MFIs have adapted products in place.

Looking at deposits and loans, the Congolese banks are by far the largest group taking deposits and providing loans in terms of volume, with an aggregated USD 1,2 billion deposits and USD 572 million loans. The new international banks currently hold USD 118 million aggregated deposits and USD 75 million loans. The MSME-banks deposit volume with USD 128 million is by 5% higher than that of the new international banks, while loan portfolios with USD 42 million represents 56% of that of the new international banks. The four MFIs together with USD 8 million deposit volume represent less than 7% of the deposit volume of the two MSME-banks, and with USD 17,4 million loans roughly 40% of MSME-banks' loan portfolio.

It can be observed that profitability for the overall sector is decreasing, resulting in less than half of the banks being profitable in 2010. Despite the high loan portfolio quality of both MSME-banks, even they accumulated losses.

4. Methodologies Financial Institutions use to address MSMEs

FIs had emphasised that the lack of information on MSMEs is a key challenge to provide MSME-financing. In the following we will summarize how FIs 1) approach MSMEs, 2) analyse their files, 3) determine collateral, 4) manage the relationship with the MSMEs in general, and 5) supervise reimbursement and thus, try to overcome the information gap.

Roughly, all FIs have the following sub-processes from demand to disbursement of an MSME-credit:

- first contact with entrepreneur
- clarify entrepreneur’s demand
- agree on a product with entrepreneur
- receive formal credit demand from entrepreneur plus corresponding information and documentation on the company
- prepare credit dossier
- investigate entrepreneur’s business/ analyse
- present the dossier to the credit committee
- credit committee approves or denies credit demand
- dossier checked back with risk department
- disbursement of credit

4.1. The Congolese banks

4.1.1. First contact with the MSMEs

The Congolese banks mention that they identify MSMEs for potential financing in the following way:

- “through the corporate clients”
- “SMEs arrive at the bank with a credit demand by word of mouth”
- “collaborate with SMEs associations and get address lists”
- “participate at FEC events to meet SMEs”
- “we go out and look for them”
- “each bank can see the account movements of the SME-clients of other banks and thus a bank just contacts a competitor's SME-client if it finds its account movements attractive”

4.1.2. Credit analysis

MSMEs usually do not have audited financial sheets, accounting documents or a reliable report on the status of their bank account movements. Some do not separate their business assets from their private assets, which is an additional barrier for the banks. Most of the Congolese banks seek to understand the reimbursement capacity of the MSMEs in the first place. They look at sales and expenses of the company over the last 12 months in order to define an approximate and/or average cash flow and profit at the end of each month. This approach is clearly more adapted to the entrepreneur's reality than an asset-based approach. A risk manager explains: "A balance sheet is not 100% necessary, as cash flow is more important. The loan officer asks questions on income, variable and fix expenses etc. (…) Based on this, we can rebuild the company's cash flow and judge its reimbursement capacity. This also helps us to estimate if the credit is really allotted to the indicated activity. It happened to us that we awarded a credit to an SME to buy petroleum and found out later (as he did not reimburse) that he bought a house with the credit!"

Another CEO describes: "We have one or two commercial persons in each agency. They wait for the SMEs' credit demand, visit the business and prepare a memo describing the client's business. The client is obliged to handover his financial documents, but usually the balance sheet is not balanced (showing that the provided figures cannot be trusted). The commercial person tries to gather information: 'the stock is such' etc.' He tries, but often this does not work well. He does not know how to do it, as we do not yet use the credit technology. (…) Then there is a meeting among the head of the agency and one or two persons, and they send recommendations (on the credit file) to Kinshasa. The credit committee meets once a week. One person at the credit department collects all the memos. He travels and knows the situation (in provinces). He gives an opinion. The committee considers his opinion and the memo and takes a decision." Asked if this approach does not imply high operational costs for each credit decision, the CEO replies: "The credit cost is much less than (at other banks). We take more risk. We do not collect a lot of documents. (…) It is more based on our feeling."

Another bank which in fact collects a lot of documents and greatly divides the process from credit demand to payment among units and employees, was asked if it feels that this system works well for it. The bank manager answers: "It works well.(…) It is the new system which everybody utilizes now in the country. Maybe it is not for SMEs, but it exists.(…) We get our money back."

Another Congolese bank was about to test a new scoring software for credit decisions. Based on industry codes adapted to the Congolese market, the software shall allow the definition of the MSMEs' profile according to industries and sub-industries, applying risk-weighting using a series of indicators, for instance: How long has the MSME existed? How long has it been a client at the bank? Is the MSME working on an international level? Does it have a business plan? The bank can decide how it will weigh each indicator. This is an improvement because the software may harmonize the bank's internal decision process on credit through a consistent classification of MSMEs. It will however not necessarily improve the conditions which it imposes on the MSMEs, nor change the way the bank evaluates risk of MSMEs (for instance, even if the MSME has a business plan, it may still be too informal in its financial documentation and the bank may not be willing to take the risk involved and refuse the credit demand).

One bank mentions as a challenge that MSMEs tend to underestimate or forget their expenses. The CEO explains how the bank deals with this: "It is experience; we finally always manage to rebuild the most important expenses." Another bank strategically builds a relationship with the MSMEs and expects them to take a second, third and fourth credit, observing the reimbursement behaviour of the client and gaining experience with him: "If the SME has a problem with the second and third credit, we do not leave it alone. From the third credit onwards you usually do not have a problem with reimbursement."

Finally a bank manager describes how the bank decides on credit: “Our shareholders know the country. It is all about reputation. If you only focus at the balance sheet and the ratios, it is rather difficult to choose the good clients. (With our way of doing it) we have not been mistaken many times.”

4.1.3. Determination of collateral

Almost all of the Congolese banks insist on guarantees, mostly mortgages, in a range of 150% to 200% of the credit amount demanded. Asked what they do when the MSME has no collateral of such amounts, one bank explains: “If the SME works with a well-known company, we ask for credentials. Like this we also make sure that it still works with the company on whose basis we decided to award the credit. If a contract exits between the SME and the big enterprise, that will be our first guarantee. Second we want an ownership title.”

Some banks leverage the projects potential profitability using the amount of collateral. In the first place they want to find out if the project for which the client demands the credit will be profitable, however “(…) if the guarantee is two or three times the credit, the SME can have it (the credit). (But) we still prefer to accompany the client.” Other banks define the guarantee depending on the estimated reimbursement capacity of the client, i.e. the better the reimbursement capacity, the lower the guarantee.

Different from the micro lending technologies MFIs use, the collateral has the function of recovering the bank's claims in case of non-reimbursement of the credit. Although some banks affirm that collateral is not their first criterion to decide on credit, almost all admit it is still a must. As the only exception to this, one bank states: “We take only the stock as collateral” and: “Credits under USD 20.000 do not even need collateral.”

The duration of the relationship with the client is important for most of the Congolese banks. “We do not provide a loan if we have no knowledge on the clients account movements for at least 6 months.” However, the banks can not be sure that the same MSME has other bank accounts and loans in arrears.

4.1.4. Management of client relationship

The complete process from credit demand to payment takes one to two weeks with all Congolese banks. In some of the banks one commercial person holds client contact, while another one analyses the credit file. The credit analyst is usually somebody who has experience analysing corporate client’ credits, i.e. has no specific qualification for MSME credit analysis. The commercial person sometimes has no professional experience with MSMEs either, as one CEO affirms. Other banks have a person in charge who manages the client entirely, i.e. establishes the contact, identifies the client’s interest in credit, analyses the dossier, hands over the dossier to the credit committee for evaluation and follows up on credit reimbursement.

It has been partly confirmed that the banks which leave the same person in touch with the client during the complete credit process have a better assessment of the clients’ creditworthiness because the employee gains more knowledge on the client. Also, continuous contact between client and employee permits monitoring of the credits destination, i.e. making sure the credit is used for the indicated purpose.

One bank calls its loan officers “consultants” and feels that it is in the bank’s interest to accompany the client. The consultant must be able to read a business plan and support the client with project consulting. This happens before the dossier arrives at the credit committee, to keep credit refusals low.

Some banks are extremely strict as to the contact between loan officers and MSME-clients - one bank for instance prohibits its loan officers visiting and even calling the client company outside working hours. Other banks are more relaxed, as a commercial person describes: “If she (the SME) did not reimburse, I visit her restaurant unannounced, have a meal which supports her business, and in this way check on her reimbursement situation.”

4.1.5. Control of credit reimbursement

Mostly, credit reimbursement is controlled by the same commercial person or even a team that made the first contact. Other Congolese banks have a different individual or team in place to control reimbursement than that who made the first contact: “At the end of each month we have a follow-up department with three people who have a ‘watch list’. They call me when credits are not regularly reimbursed and I contact the commercial team to get in touch with the SME.” Most of the banks however follow-up their MSME clients as they do with corporate clients: only once per quarter. This probably not contributes to the MSME’s commitment. A bank manager comments: “Follow-up (of MSME credit reimbursements) we do only upon a concrete cause, it is more expensive than with corporate clients. (…) we do not visit the SMEs. (Still), at this stage we are profitable with SMEs.”

4.2. The new international banks

The majority of the new international banks indicate they have no more than a dozen MSME-clients. The main exception to this is Ecobank, which compares to the Congolese banks in terms of number of MSME-clients and loan volume dedicated to MSMEs.

4.2.1. First contact with the MSMEs

The new international banks identify MSMEs for potential financing in the following ways:

- “I take the corporates and ask for the suppliers”
- “collaborate with SME-associations and get address lists”
- “5 to 6 commercial people go out and look for them”
- “our agencies are strategically well positioned. SMEs come to us”

Asked how the bank gets the addresses of good MSME businesses, the interviewee explains: “I am from here. I live here. I ask myself: what works here? There are food, cement, transport and real estate companies, so I go were the cash is (…) I call somebody who works there (at the corporate client’s company). I get the list of its suppliers, and then I start to contact them.”

4.2.2. Credit analysis

Like the Congolese banks, most of the new international banks seek to define the reimbursement capacity of the MSMEs in the first place. However, they seem to do it in an un-adapted manner. One bank manager highlights: I look at the account movement, that is the most important; second, the client’s reputation; third, it is just feeling!” Looking at the account movements does not seem to be very reliable, since the MSMEs may have several accounts in other banks. As opposed to this, another CEO is aware of the importance of a methodology to approach MSMEs: "We will conduct SME-finance in the near future - currently, we do not have the methodology and competence. (…) We will create this competence internally but it takes several months to learn this. (...) It will be our role to rebuild the balance sheets; sometimes they (the MSMEs) have several - one for the tax authorities, one for the bank and one for themselves." (...) The real problem is not the balance sheet, it is the cash flow. The first thing to do is not rebuild the past; it is the future, the projection of the cash flow. Foresee sales, expenses month per month, respecting higher and lower seasons. For me (to assess MSMEs) you need the classic balance sheet analysis like it is done in Europe, plus this (a method to project MSMEs' cash flow)."

4.2.3. Determination of collateral

Like the Congolese banks, the new international banks generally look for tangible collateral and insist on guarantees, mostly mortgages, in a range of 150% to 200% of the credit amount demanded by the MSMEs. In case the client cannot provide the guarantee, most of the banks decide upon the reputation of the client, who is mostly the supplier or distributor of a corporate client of the bank. One CEO explains that he can not take any decision on whatever the credit amount - instead, he always has to get back to his bank's foreign headquarters. This certainly implies even more formal requirements for the MSMEs.

4.2.4. Management of client relationship

The process from credit demand to payment takes about one to two weeks with most of the new international banks, just like with the Congolese banks. As compared to the Congolese banks, however, most of the new international banks tend to divide the credit process among different persons, units and departments, so that the advantages of building a relationship with the clients can hardly be achieved. Client contact is mostly separated from analysis before the dossier arrives at the credit committee. As in the Congolese banks, the credit analyst is usually somebody who has no specific qualification for MSME credit analysis and neither does the commercial person.

4.2.5. Control of credit reimbursement

The control of credit reimbursement with the MSMEs is handled just like with corporate clients, i.e. one check per quarter. Only one bank stands out through its method: "I check the repayment of the credits every day. We have software to control this. Otherwise we are in contact with the clients. We give them a call if something seems to go wrong." Another CEO mentions: "We are currently sub-contracting a dept-collection service!" This may be a questionable approach to build a sustainable relationship with the clients.

4.3. MSME-banks and Microfinance Institutions

4.3.1. First contact with the MSMEs

MSME-banks and MFIs identify MSMEs for potential financing in the following ways:

- "one of our commercial people enters the SME's shop and tries to find the entrepreneur to get his telephone number"

- "by recommendation of an existing client"
- "micro clients have local SME-suppliers"
- "we find SME-wholesalers in commerce"
- "individuals of the group choose group members themselves" (group credits)

Some of the FIs focus on a group training before any credit is awarded with the purpose of preparing the clients adequately. One MFI offers group training for groups of 4 to 10 people. The training is realised once a week, four times a month.

4.3.2. Credit analysis

Other than the Congolese and the new international banks, MSME-banks and MFIs usually have a decentralized underwriting system, i.e. decision on credit can be taken at the agencies locally. In general MSME-banks and MFIs do not insist on many documents for the credit demand. Identity card and sometimes registration at the commercial register are usually enough. For the credit demand the entrepreneur usually fills in a very simple form, providing information on himself and on his business.

MSME-banks and some of the MFIs apply a cashflow-based analysis. They do not seek to rebuild the MSME's balance sheet nor are they interested in the MSME's assets for their credit decisions. The main objective is to find the MSME's operational risk. Client-oriented and adapted methodologies are used. A bank explains that it differentiates between one methodology for its micro- and one for its SME-clientele:

§ Micro enterprises: the objective is to determine an available cash flow at the end of an average month.

§ SMEs: the objective is to determine a monthly cash flow over 12 months which permits the bank to have a reliable average monthly cash flow, but also an available yearly cash flow.

Regarding the latter method, the last 12 months of cash flow is rebuilt to project the cash flow over the next 12 months. The objective in not to figure out what project the entrepreneur wants to finance, but to define how the company would develop during the following year if the bank does not award the credit. If the company realised specific purchases during the last year, the expenses will not be considered for the analysis, assuming they will not be repeated during the following year. The bank explains: "If the entrepreneur tells us that his competitor was sick during one month, and so he sold much more than usual, we take an average month as a basis, because we cannot assume that this situation will continue." The "micro-method" is usually applied for credit amounts less than USD 15.000, while the "SME-method" is applied for credits from USD 15.000 to 60.000.

The bank explains: "The SME does not like to show its income and its bills. We sometimes have to estimate it. The commercial person goes back to the agency and presents the credit demand to the director, who authorizes the analysis or not. Once authorized, the entrepreneur is willing to show his documents. The commercial person then agrees with the SME on the information to be prepared for the bank. The director coaches the commercial person on the most important aspects to pay attention to. During the analysis itself the bank tries to deal with the SME's accountant."

Another MSME-bank conducts a simple analysis on the MSME's sales and expenses and how much is left after its private needs for the monthly reimbursement. For the larger credits, the analysis is cash-flow based as described above. The SMEs have to explain to the bank how the profit and loss statement looks, while the loan officer conducts the analysis for the micro companies.

Credit duration is 6-24 months at the MSME-banks and considerably shorter at most of the MFIs.

4.3.3. Determination of collateral

Usually MFIs do not insist on collateral, except for one which takes collateral up to 70% of the credit volume, which is in contrast to more than double the amount required from the Congolese and new international banks. One of the MSME-banks looks at collateral in case of credits over USD 10.000. However, the key criterion for credit award is still reimbursement capacity.

4.3.4. Management of client relationship

As opposed to the Congolese and the new international banks, MSME-banks and MFIs usually seek to establish a long-term relationship starting with a lower credit, and increase credit size and duration successively. This approach also permits the FIs to study the individual or client group's reimbursement behaviour and decide upon this basis if the individual or the group may have a following credit.

Other than the Congolese and the new international banks, the MSME-banks and MFIs attitude is that an entrepreneur needs to be convinced and adapt products to him. They see it as their obligation to explain and even convince the entrepreneur, which is an important difference to the Congolese and new international banks who sometimes blame the MSMEs if those do not understand the products.

Follow-up of the credit reimbursement is usually conducted frequently by the same commercial person who identified the entrepreneur, in order to enhance a continuous relationship with the client. Regarding the group lending methodology, usually a president and an accountant are elected per group, i.e. responsible persons, who incite every group member to show up for the group meetings and reimburse credit at this occasion.

4.3.5. Control of credit reimbursement

For the follow-up process, most of the MFIs prepare a reimbursement calendar for their clients. Group credits are usually reimbursed with a higher frequency than individual credits, for instance every two weeks, while individual credits are reimbursed every month. The MFIs' and MSME-banks' control is generally more frequent than that of the other banks. In the case of group lending, group members are jointly liable for credit reimbursement, and group pressure will play a role in motivating or incentive each member to reimburse on time.

Key Findings

To overcome the information gap regarding MSMEs, FIs use different methods. To contact the MSMEs, all FIs agree that looking for MSMEs in the field is a good approach. Congolese and new international banks mostly access MSMEs through their corporate companies and find it useful to screen address lists they receive from the MSME-associations, while MSME-banks and MFIs have good experiences with picking new clients using recommendations from existing clients.

At the level of credit analysis, some of the Congolese banks use cash-flow based approaches to estimate reimbursement capacity of MSMEs; others do not have an appropriate methodology at all and evaluate MSMEs based on experience and intuition. Plans exist to classify MSMEs more consistently by industry codes, but this does not seem to be embedded in a comprehensive methodology. Most of the new international banks are not very systematic, highlighting the reputation of MSMEs and their own "feeling" as evaluation criteria. As opposed to this, MSME-banks have sophisticated methodologies to approach MSMEs. Similarly MFIs' methodologies, in part very simple, are fully adapted to the clientele.

For determining collateral, Congolese and new international banks generally look for and insist on tangible guarantees, often mortgages, in a range of 150% to 200% of the demanded loan amount, whereas MSME-banks usually do not take collateral as a condition for credit, or insist on a lower percentage of collateral in terms of the loan amount. Most MFIs accept MSMEs' loan demands without insisting on collateral.

Regarding management of the client relationship, it is not common among Congolese and new international banks to have one employee managing the entire credit process with an MSME. Especially new international banks tend to divide the credit process among different units and departments so that the advantages of building a quasi personal relationship with the clients can hardly be achieved, this being a key difference to MSME-banks and MFIs, which usually have "one face" to the client. For the control of credit reimbursement, Congolese and new international banks treat their MSMEs as they treat their corporates and exercise little control/ and contact, which may have a negative impact on the MSMEs' motivation to reimburse. MSME-banks and MFIs conduct checks more frequently, and those who use group lending rely on group pressure to enhance members' reimbursement.

5.
An assessment of the Financial Institutions' set-up

5.1. Assessment of Financial Institutions’ organisation, products, strategies and methodologies

5.1.1. The organisations

In most FIs, MSME-functions are not adequately adapted in the organisational structure. Particularly the Congolese and new international banks have no decentralised underwriting system. Only very few leave it to the regional branch offices to decide on credits up to a certain amount. Usually however, credit committees meet at the central level in Kinshasa. At the same time most of these banks do not have a methodology to evaluate the MSMEs’ reimbursement capacity, nor do they know how to control the reimbursement of credits. This is not only inefficient but also implies that banks take a considerable risk when financing MSMEs, which is the reason why they are hesitant to do so. The MSME- banks and some of the MFIs stand out in this regard. They usually have a decentralised decision-making process on awarding credit. Also, they have an adapted methodology at the level of client acquisition, requirements for eligibility, dossier analysis, customer relationship and control of reimbursement. Usually one loan officer is in charge of the client throughout the whole credit process, which enhances the MSMEs’ commitment to reimburse. The described structure is replicated at the level of each agency with a head of agency who usually decides on credit award.

5.1.2. The products

MFIs and MSME-banks usually have adapted products for their MSME-clients. Even if some do not yet have fine-tuned products in place for the purpose of upscaling, they clearly show an attitude of observation and learning regarding (larger) clients. In fact, they understand that the target group imposes the product and service requirements (demand-driven attitude) and not the other way round. In contrast, most of the Congolese and new international banks use their existing products designed for corporate clients to serve MSMEs (supply-driven attitude). In other words, if the MSMEs’ needs do not suit the product, especially the credit product, then the MSMEs are not interesting to the bank. Or, as has happened to some banks, they sell products to MSMEs which do not suit MSMEs’ needs and in the end may have poor results for both parties. (If, for instance, a bank offers a short-term credit with an interest rate of 20% or more to a company that plans an investment in machinery.) It is important to highlight that MSMEs (except for the fast turning import-export business) need medium and long-term loans not only for production and agricultural projects, but also if they import goods and then add value to the product through production or services before selling it again. In this regard, some of the banks will face the challenge of revising their credit practices.

Although a credit to suppliers of corporates may be interpreted as a step towards a particular group of MSMEs, to some extent it is still the “corporate mentality” which prevails. The relationship which those banks build with the MSMEs is different from that created by the MSME-banks. The first does not seem to be very sustainable because once the corporate client leaves the bank, its MSME-suppliers are not eligible for credit anymore, as one bank confirms. In other words, the MSME is eligible for credit because it is a supplier of a corporate client, and not because it is a well managed company.

As some of the new international banks confirm, the strategy to grow deposits through MSMEs is challenging. Distribution and absolute growth of the overall bank deposits in 2010 show, that ProCredit Bank and the Congolese banks have been more successful in growing deposit volumes, which can be interpreted as a sign of confidence of all client segments towards these banks. Some of the new international banks will have to close the gap in image and accessibility before achieving similar results.

5.1.3. Strategies and visions

The majority of the Congolese and new international banks emphasised that their strategy is to either develop a whole branch-office network or at least to expand a number of branch offices in the provinces. As a growth project this is interesting in principle. It implies area-wide access to clients all over the country and consequently increased revenues.

Such a strategy makes sense for the banks which already have a proven business model and methodology in place to deal with the MSME-segment. This is particularly important since MSMEs and individual traders dominate the field in provinces, as many banks explain. The Congolese banks may find suppliers and distributors of their corporate clients in the provinces. Because of their market knowledge they will attract – and have attracted already - the few corporate clients at the provincial level, too. Will that be enough for them? The reasoning of many banks to target the MSME-sector was that the corporate market is saturated in Kinshasa and/or too difficult to develop. As there is not enough to earn with the private clients, some turn towards MSMEs. Given that the majority of the FIs has no adapted methodology for the MSMEs in Kinshasa, how will they succeed in the provinces?

The question is especially valid for the new international banks. Half of them have no more than a dozen MSME-clients, as they indicate. Some of them neither have the organisational structure nor the personnel in place to deal with MSMEs. Many of them analyse MSMEs as they analyse corporates, which means that many MSMEs are refused because they do not qualify under the classic credit criteria. It is doubtful that some of the new international banks will be profitable or even break even in provinces if they do not review their approach.

The MSME-banks and MFIs objective to upscale and target larger client, except for FINCA which explicitly does not want to upscale, is in principle interesting. FIs' managers mention that this will permit them to grow the FIs and be (more) profitable. The challenge for this group will be to develop an adapted methodology for the larger target group, as some have served micro enterprises up to date. As opposed to the group or village-banking methodology and individual credits to micro enterprises, SMEs mostly demand individual credits which require a more profound analysis. Secondly, it is important for this group of FIs to gain experiences and qualify employees in the new or more sophisticated methodology, before introducing it at the level of each agency. One of the MFIs had recently made the experience of losing control on management and processes by decentralising too quickly. It seems more reasonable to test the approach with the new clients at one agency, thereby gaining experience and starting a replication process once the approach is consolidated.

5.1.4. The methodology

An adapted methodology to the client segment is the core of successful MSME-financing. If FIs want to sustainably increase their MSMEs' loan portfolio, an appropriate methodology seems inevitable in order to reduce risk. In this context it has been found that the banks are trying to improve. One example is a bank which was about to test a software based on industry codes to improve its assessment of MSMEs. This may permit a more homogenous approach within the FI - however it does not replace a methodology. The FI still has to define how to handle each step, i.e. to contact clients, determine collateral, relationship and credit reimbursement. Some of the FIs may be reluctant to introduce such a methodology and train employees accordingly because it implies high operational costs. On the other hand, it will enhance a higher credit portfolio quality and presumably improve FIs' profitability.

5.2. Financial Institutions affinity to MSMEs

Until now we have divided the FIs into 4 groups. According to a) client segments, b) type of shareholders and c) years of operation in DRC they were divided into 1. Congolese banks, 2. New international banks, 3. MSME-banks and 4. MFIs. This division made intuitive sense, however it does not completely reveal which FIs are more seriously committed to MSME-financing and which less. As a matter of fact, the FIs within each of the 4 groups show different levels of involvement with the MSME-sector. To determine the characteristics of the FIs mostly committed to MSME-financing, in the following they will be re-grouped according to their "MSME-affinity", based on the previous analysis of the FIs organisational structure, products, strategies and methodologies. Transversal to the 4 groups, we can identify three types of FIs, from type 1: "little MSME-affinity", to type 3: "high MSME-affinity".

5.2.1. Financial Institution type 1

Like all the other FIs, type 1 FIs express that they want to target MSMEs. Their reasoning for this objective is that they perceive the corporate market as being saturated, or they feel they will have difficulties accessing it, mainly because corporates are served by the Congolese banks already. A part of the type 1 FIs is very pro-active in contacting MSMEs. However, the companies actually contacted are considerably big, as can be concluded from the awarded credit sizes and the FIs MSME-definitions. With MSMEs – or what they define as such - their main interest is collecting deposits.

Type 1 has ambitious expansion plans. Without having hardly any experience in provinces, it plans to open 5 or more offices per year in the next 5 years. In line with the regional expansion plan, type 1 FIs want to considerably increase their MSME loan portfolio. Still, they do not present a strategy as how to achieve this and do not have an appropriate methodology to handle MSMEs. Up to now their current MSME loan portfolio represents less than 10% of their overall credit portfolio, and/or their number of MSME clients is less than 30.

Type 1 FIs treat MSMEs as they treat corporates and consequently have no particular MSME-structure in place at all. As a general attitude, they think MSMEs have to adapt to them (improving their financial statements, accounting information and providing hard collateral) if they want a credit. As a result of this attitude type 1 does not have specific MSME products.

Some of the type 1 FIs perceive services as their unique sales point. They are convinced that the mixture of service and financial power will permit gaining a big chunk of the MSME-market in the near future - in their perception no specific methodology is required other than these two elements. In summary, the willingness and flexibility of type 1 FIs to adapt to the MSMEs' condition is low. Type 1 is represented only among the new international banks, of which about half are type 1 FIs.

5.2.2. Financial Institution type 2

The type 2 FIs declare they want to increase their MSME loan portfolio and market share. Looking at their organisational structure, they have done little to achieve this. MSMEs' credit demands are usually treated together with those of individual clients at the retail departments. In fact, they mostly assimilate MSMEs to individual clients, a conclusion which can be also drawn from the products they offer to MSMEs: mainly overdraft credits on the credit side.

A part of these banks have been around for many years and are not used to competition. In principle, the arrival of the new international banks does not worry them too much, but they are annoyed by the "war on prices", which is at the same time a reason for them to target the less competitive and largely unexploited MSME segment.

Doing this, they mainly stick to their existing corporate clients' suppliers, which is not very innovative. To some extent it is doubtful if these suppliers are MSMEs at all. (The Standard Bank of Africa, which explicitly does not target MSMEs in DRC, provides credits to the suppliers of its corporate clients, too.)

The type 2 FIs have a MSME loan portfolio ranging from 5% to even 30% of their overall loan portfolio. They argue that with a DFIs credit line, they would increase MSME-financing. As their main limitations to increase MSME-financing are products, organisational structure and methodology, it appears useful for them to work on those aspects first.

As a general attitude, the type 2 FIs understand that MSMEs have different needs and behaviours than other clients. Still they have no MSME methodology and do not think it is indispensable to have one, at least not immediately. They do not feel an urgency to change organisational structure and products, however, some of them slowly commence with it by revising their existing products or hiring a consultant for product development, for example. Three of the Congolese as well as half of the new international banks are among type 2.

5.2.3. Financial Institution type 3

Type 3 is fully focussed on MSME-financing or has at least over a third of its total loan portfolio in MSME loans. The FIs have creative methods to identify their clientele and usually low formal requirements to accept credit applications. Most of them have a credit methodology. Credit analysis, the determination of collateral, the client relationship and the follow-up of credit reimbursement are adapted to the MSMEs' needs and behaviors. Type 3 demonstrates serious efforts to gain MSMEs, be it through the adaptation of products or by undertaking first steps towards an organisational structure more functional to MSMEs. An FI is considered to belong to this group if it undertakes measures in this direction, even if it did not yet achieve all results. These measures may be external support on organisational development, ongoing product development, market studies on the MSMEs' needs and the search for an appropriate credit methodology. A pro-active approach to MSME-financing can also be expressed by the amount of training budget, if part of the budget is allotted to MSME-related training. Different to the previous types, type 3 has an attitude of listening to the clients needs. Half of the Congolese banks, the MSME- banks and all of the MFIs are represented in this group.

Some of the type 3 FIs have few or no branch offices in provinces and concentrate on Kinshasa. For this sub-group, a geographically limited strategy makes sense, especially as it targets micro and very small enterprises which are largely represented in Kinshasa. The FIs know the different suburbs, stand out through their customer proximity and create synergies by applying group methodologies with the respective efficiencies. Most of the MFIs and one of the MSME-banks are part of this sub-group.

The other type 3 sub-group wants to grow by increasing its branch offices and networks in provinces. A regional expansion makes a lot of sense for this sub-group, since it either has a solid business model in Kinshasa with a replicable approach for the provinces, or it knows already how to deal with MSMEs from its regional experiences. In the latter case, it can build on its reputation in provinces, where it has a history already. The shareholders of these FIs are engrained in DRC and know the local market. Not surprisingly, some of this sub-group's CEOs have previous professional experiences in MSME-banks and have worked, still work, or plan to work with MSME methodologies.

Citibank, Standard Bank of Africa and Byblos Bank have not been attributed to the previous types because they explicitly do not target MSMEs.

Key Findings

To determine the characteristics of the FIs mostly committed to MSME-financing, FIs were subdivided into three types according to "MSME-affinity". While type 1 believes MSMEs have to adapt to come up to its expectations if they want a credit, type 2 understands that MSMEs' needs differ from other clients needs. Although type 2 undertakes rather isolated measures to approach MSMEs, it still has no coherent MSME methodology and does not feel an urgency to develop one. Other than this, type 3 mostly has an adapted organisation, products and a methodology in place, or undertakes an effort in this direction. Type 3 mainly differs from type 1 and 2 by its closer understanding of MSME-behavior, which is at the same time its main advantage in the market.

6.
An assessment of what the Financial Institutions need

6.1. Needs of Financial Institutions type 1

The type 1 FIs possess considerable financial power and international experience in 10 to 20 other – mainly African – countries. By both aspects it largely outperforms the Congolese banks. Although the FIs in this group describe themselves as "universal banks" their mentality is mainly 'corporate' and oriented to larger medium-sized companies when they refer to MSMEs. For type 1 it would be useful to review its strategy regarding MSMEs at one, three, and five years, before implementing new products, changing organisational structure or acquiring an appropriate MSME methodology.

For this purpose, an external strategy coach or consultant may support the FIs management team. Key issues to be addressed for the strategic review include:

- Organizational resources and knowledge to target MSMEs: what do we have? what is missing?
- Required changes to target MSMEs at the organisational, product, methodology level: can we do it and if yes, how?
- Competition analysis: what do our competitors do?
- Unique sales points as of MSMEs: what can we do better than the competition?

The objective is to create a higher awareness at the FIs as to which changes are necessary to successfully install MSME-financing. On this basis the FIs can take a more sustainable decision on whether and how MSMEs can be targeted and to which extent regional expansion makes sense.

In the author's opinion, before having clarified its strategic direction concerning MSMEs, type 1 neither needs financial cooperation with DFIs, nor technical assistance. Financial support does not make sense because the FIs do not know how to address MSMEs, i.e. have difficulties identifying the best MSME-clients and managing the credit process successfully. By receiving, for instance, a credit line from a DFI, it is likely that the loan portfolio's quality would not improve and may even change for the worse. Technical assistance at the level of organisational, product and MSME-methodology development does not make sense either, because currently type 1 does not feel that this is lacking.

6.2. Needs of Financial Institutions type 2

Type 2 compares to some type 1 FIs in terms of the conviction that financial cooperation is a requirement to increase the MSME-loan portfolio. Several FIs in this group have financial cooperation agreements with DFIs, and one with three different ones, including credit lines and guarantees. However, it is not clear that because of this, it managed to increase the quality of its MSME-loan portfolio. In fact an FI indirectly admits that a guarantee does not enable it to increase its loan portfolio in the short run, possibly because it still has the same insufficient MSME-approach.

As the type 2 FIs are mostly conscious of the insufficiencies of their MSME-approach, a tailor-made mix of training and consulting support would be useful to improve their internal capacity to treat MSME- clients. This support is of high added value to the type 2

FIs and should in the author's opinion be offered at market price. According to each FI's need, support can happen at the following levels:

6.2.1. Organisational level

As has been found, most of the type 2 FIs do not have an adapted organisational set-up. A functional review of the FIs' organizational structure, more specifically a review on the structural requirements and processes to incorporate the MSME segment into their structure, would be useful. The purpose of adapting the structure is to reach an effective and efficient handling of MSMEs' credit demands and a decentralised decision process with sufficient control on reimbursement. This may be implemented as an MSME-unit separate from retail, but not necessarily. It is more important that the FIs identify an organisation fit which makes sense to them and suits their organisational culture.

6.2.2. Training

Most of the type 2 FIs appreciate training for their employees. It would be helpful if they allotted part of their training budget to train on MSME-specific skills. This may include training for commercial people on survey techniques to gather relevant information on the MSME-market, customer-relationship management, as well as education for credit analysts on the analysis and evaluation of MSMEs' reimbursement capacity.

6.2.3. Products and services

Some of the type 2 FIs use the same products for MSMEs and corporate clients. As they are aware that MSMEs have different needs, it would be extremely useful to do a market survey among their current MSME-clients to gather their experiences and degree of satisfaction with the FIs' products. Alternatively, or in addition, the market survey can be realised with MSMEs which are not clients of the FIs. This may provide a more objective picture. (It is possible that MSME-clients will be reluctant to point out critical aspects of their experiences with the bank, especially, if they are expecting an upcoming credit. To avoid this bias, the survey may also be implemented externally.)

6.2.4. MSME methodology

Type 2 needs an adapted methodology. Still some of the type 2 FIs have a hesitant attitude: they do not feel an urgency to purchase or develop a methodology and trust they will grow their MSME loan portfolio once profitability decreases with the other clients. A methodology can only be helpful if type 2 is conscious that it needs one. Presumably, an adapted credit methodology will have a positive impact on the number of MSME-clients, volume and quality of the credit portfolio, organisational knowledge and other aspects. The type 2 FIs could do a simple resume on their own experiences in terms of these aspects and compare it - within a determined timeframe – to the results of an MSME-bank. Increased operational expenses in the context of applying an MSME methodology would not be such a burden for the FIs, if balanced with an improved MSME-loan portfolio quality. The result of such an exercise may be that an FI rearranges part of its employees training budget to shift it to MSME-relevant training activities without increasing the overall budget.

6.2.5. Partnerships

For those type 2 FIs which decide that the previous measures are not suitable for them, a partnership with an MSME-bank or MFI may be considered. The advantage of such an alliance is that the FI increases its revenues and profits from MSMEs – at a lower rate, as it would have to share them with the partner - but would leave the risk of deciding on MSME credit award to the partner institution. This can be a win-win situation, as the partner – the MSME-bank or MFI - would be able to take the risk and increase its loan portfolio with the larger FI's funding means.

6.3. Needs of Financial Institutions type 3

This group of FIs has already gained considerable international and local experience with MSME-financing. Some of the FIs in this group started originally with MSME-finance and have adapted instruments for this area. Both MSME-banks affirm they want to upscale. Both have already established separate units for the larger target groups. For them it may be helpful to accompany their expansion by studying the market more intensively. They may, for example, build in a 'feedback mechanism' to their credit circles with the new clientele and make sure they gain the customers' opinion on the provided service. This can help the FIs recognize which aspects of the credit process are most valuable to the client and use this information to adapt to this new client's need. With larger medium-sized clients, the bank may find it less necessary to intensively gather information at the company, because formal financial information exists. The challenge for one of the MSME-banks will be to define to which extent it wants to amplify its core clientele. For this purpose, a strategic review may be helpful to clarify where the bank wants to go and to what extent the organisation can absorb it.

The MFIs, of which the majority wants to upscale too, express they need funding. As they have been struggling in the first place with organisational challenges, such as the replication of homogenous management at agency level, it would be helpful for them to consolidate their business model before up-scaling. Both changes at the same time (organisational change and a new target group) may be too large for the relatively small organisations to absorb. One of the MFIs had highlighted that it has opportunities to target more and larger groups of individuals from schools or hospitals with credit demands from USD 1.500 to 2.500 per person. As this MFI is not really changing its target group, rather only the amount of clients increases because of the group format, the MFI lacks the funding for credits but not the experience and knowledge. For some MFIs it is difficult to get credits at the banks. They are willing and able to pay the interest rates at the lower end of the market, i.e. 10% to 14% per year. For them a credit line at this price would be very useful.

The Congolese banks in this group are conscious of the importance of an adapted methodology to target MSMEs. They have in part undertaken efforts to adapt their products and organisational structures. More important, they are decisive in increasing their MSME-loan portfolio and understand that they need to change for this. As both are following an active and costly expansion strategy into the provinces, they have two challenges at the same time: improve their MSME-approach and ensure a certain organisational homogeneity and control among an increasing number of agencies.

For the Congolese banks an adapted mix of consulting and training services would be extremely useful, specifically training to be more effective with the credit process, improving the MSME-loan portfolio quality and managing the complex expansion process they face. In the context of their expansion, financial cooperation with DFIs makes sense, too. One of its CEOs highlights: “I would prefer a credit line for SMEs over knocking on the DFIs door each time I want to cover a credit. (..) I prefer to take the risk myself, but I need a good funding. (...) To help me it should not be higher than 5% (the interest rate).”

6.4. Needs of all Financial Institutions

Generally the FIs conduct very little to no communication and marketing regarding MSME-finance, which is especially unfortunate for those FIs which are strong in MSME-finance. It is widely unknown that some Congolese and new international banks serve MSMEs at all. MSME-banks, on the other hand, have the same “problem”. As their communication is relatively weak too, misleading statements and rumours gain ground. Several bank employees and managers mention: “(This MSME-bank) is not doing micro financing anymore”, a message which has been proven wrong by the CEO of the MSME-bank in question. If the employees and manager of the financial sector perceive this, what will the MSME-clients perceive?

As had been found out in a previous study, it is in the interest of the FIs to do something about their image. It would be helpful if financiers send a clear message to potential MSME-clients highlighting which MSMEs are welcome and what the FIs have to offer. If FIs want to build long-term relationships and grow with their credit clients, they will have to revise their communication practices, transparently explain their products to MSMEs, come back to an entrepreneur whose loan application is rejected to explain the reasons and encourage him/her to come back in the future.

7.
Concrete Actions by Development Finance Institutions to improve MSME-finance

7.1. Training, consulting and marketing services for financiers

The needs as defined for the three different types of FIs could be provided through the following channels.

7.1.1. Organisational development

Organisational adaption of MSME functions and tasks can be accompanied by a coach and specialist in organisational development. In the author's opinion, the FIs should always lead the change process itself and refrain from hiring a group of consultants who redesign organisational processes and disappear afterwards. However, an external perspective is extremely important and more objective, which helps the FIs take decisions on a new or adapted structure. If not easily available on the local market, DFIs could help to identify such a service through their local or African networks.

7.1.2. Products and services

The design and adaption of products should be based on a market survey of MSMEs' needs. A team within the FIs could implement the survey among customers and non-customer MSMEs, collect the results, analyse this based on existing products for possible adaption, and/or create new products. The DFIs could contribute by facilitating MSME-product descriptions from their international networks and experiences as benchmarks to the Congolese FIs. The new international banks have supposedly immediate access to such benchmarks through their own international networks.

7.1.3. MSME credit methodology

As most of the FIs lack a MSME credit methodology, an excellent contribution by DFIs could be to organize a conference for FIs in Kinshasa-Gombe. International and local FIs should be invited to present MSME credit methodologies from other countries with a similar economic and financial sector development history than DRC. FIs in DRC have the possibility to visit and exchange experiences and best practices with the exhibiting banks. This approach has the added value for the visiting FIs that they may find a "neutral" peer, i.e. an FI which is similar to itself – but with a solid MSME-financing history – and still not a competitor at the local market. Exhibiting banks may have an interest in selling their methodologies or establishing project-based partnerships with the FIs in DRC.

7.1.4. Training

Employee training in MSME-related skills is closely linked to the credit methodology. The above mentioned international FI- conference may provide FIs in DRC with information and contacts on adequate training providers. Alternatively, an important role of DFIs may be to support FIs with the analysis of their training needs before FIs hire specific training services. In fact, some FIs may decide on refocusing their training efforts in line with a more decisive MSME-strategy.

7.1.5. Marketing and communication

Experienced and high-quality marketing and communication companies are present in Kinshasa to support FIs revising their communication practices and improve their marketing.[22] The impact of adequate communication and marketing cannot be underestimated – FIs image can be improved, their offerings clarified and, as a result, more suitable MSMEs attracted to the FIs' offerings.

7.2. Credit lines and guarantees for financiers

Most FIs showed interest in a credit line and/or a guarantee. As one of the CEO argues, DFIs' offerings to provide either of them can be interpreted as a distortion of the market. In fact, by providing a guarantee, the DFI reduces risk for a particular FI. With a credit line, it helps an FI increase margins. On the other hand, DFIs can bring more MSME-financing to the market and help to overcome the 'credit crunch'. In principle, every FI can apply for financial cooperation, and eligibility criteria are transparent. The key question is if DFIs' financial cooperation with FIs improves MSMEs' access to finance. In the author's opinion, funding makes only sense under this condition. As has been argued, FIs success will depend mainly on the application of appropriate credit methodologies - be it with or without external funding. In other words, it only makes sense for DFIs to provide funding to FIs which have an appropriate methodology. Currently all type 3 FIs are DFIs potential target group for financial cooperation.

However, in the author's opinion it is essential that the FIs – and not a third person – carry the risk. In this context a guarantee may even give an FI a disincentive from developing an MSME methodology, because the FI can always "outsource" the risk and has no incentive to improve its own instruments.

7.3. Other actions to be undertaken by DFIs

It has been highlighted at the beginning of this study that there is a tendency of some FIs to downscale, while others want to upscale. FIs who originally served corporates find risk as a main limitation to downscaling. For FIs which want to upscale, funding seems to be a main barrier, whereas most downscaling FIs dispose of high deposits. Some of the CEOs of downscaling FIs were asked the question: "Would you consider looking for a partner who can take the risk of MSME-financing in order to create synergies?' Answers were mainly positive: "I would consider doing that with (MSME-bank). It (MSME-bank) has a limited credit amount. However, some clients want more. So, we could provide what is missing. It is an idea we are developing. (…) It does not disturb me at all to share dossiers with (MSME-bank). This makes a lot of sense."

An important contribution of DFIs would be to enhance partnerships of this kind for financiers. Although some CEOs affirm that FIs generally have a good relationship, they also perceive that there is not a lot of exchange among them. DFIs have a better overview of the market and may be more objective in identifying and analysing possible synergy effects between two FIs. In this way, DFIs could provide a platform for FIs to approach and explore each others potentials.

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22 See for example the communication and marketing specialist „Optimum", experienced with local and international corporate clients. Contact details: Futur Tower, 3642, Boulevard du 30 Juin, Bureau 601, Kinshasa-Gombe.

An essential contribution by DFIs to improve MSME-financing is to act as a facilitator between MSMEs and banks. As they are not directly involved with MSMEs, but know them through their participation in MSME-banks, and at the same time have knowledge on the locally existing FIs, DFIs would be a neutral mediator of interests between both sides.

7.4. DFIs' marketing

An additional finding of this study it that some DFIs activities' are not fully perceived by the FIs. A DFI, for example, offers hands-on consulting and training solutions for all types of FIs, however the offering is not sufficiently understood by the FIs. A CEO of an FI notices: "The technical assistance is not significant for us. The level is not significant. It is more relevant for small cooperative type organisations." Anther one comments: "Yes, I know (the DFI initiative), but we are not into microfinance." Finally, a CEO suggests: "The donors could speak a little more to each other. I have four offerings by four DFIs!" In conclusion, marketing and communication is a challenge for DFIs, too.