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Financial inclusion and over-indebtedness The situation in Kinshasa, Democratic Republic of the Congo

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Commissioned by: KfW Development Bank and Advans Banque Congo

Introduction

For more than 50 years, the Centre for Rural Development (SLE) of Berlin's Humboldt University has worked on numerous project studies in the field of development and international cooperation. Today, against the backdrop of a global financial sector increasingly affected by conflict, and impacting micro, small, and medium enterprises (MSMEs), concerns over over-indebtedness (OID) are on the rise.

With the aim of strengthening the Congolese financial sector, KfW Development Bank and Advans Banque Congo cooperated in the publication of this study conducted by SLE. The study focuses on OID risk evaluation as well as on identifying solutions on both the supply and demand side of credit.

After several years of endeavours to reform the Congolese credit information system, KfW Development Bank is about to establish a modern approach aimed at stabilising the local financial system and increasing the availability of financial products for MSMEs and poor households. Following these efforts, KfW Development Bank is cooperating with the Congolese Central Bank (BCC) in establishing a deposit guarantee scheme, a key element of financial sector stability.

Support from KfW Development Bank is contributing significantly to the integration of developing new financial technologies in the Democratic Republic of the Congo. A unique identification system for borrower registration may constitute important progress in combating multiple lending as well as in reducing the risk of OID.

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Advans Banque Congo

Financial inclusion and over-indebtedness

The situation in Kinshasa, Democratic Republic of the Congo

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Foreword

The Centre for Rural Development (SLE) of Humboldt University's Faculty of Life Sciences is known for its international project studies which are in equal shares applied and scientifically sound. Annually, 4 or 5 such studies on current issues of international development are produced by interdisciplinary teams. This format has proved very successful and the demand for such empirical studies is growing. To continue to meet this demand while facilitating SLE graduates' entry into working life, the SLE has started to extend its service: We now conduct a new class of studies tailored to the needs and wishes of the contracting entity in terms of time, scope, and design.

Acting as commissioner for this first study, KfW Development Bank demonstrates its confidence in SLE and our new class of studies. For this we wish to thank KfW and express our hope that the results have met its expectations.

The new class of studies is characterised by shorter preparation phases at home and quicker data collection in the host country. Research assignments are carried out exclusively by SLE graduates and SLE-experienced team leaders, i.e. by teams that know the structure and approach of traditional SLE international project studies. This way, the skills taught and trained come to full fruition. As this first study shows it is indeed possible to speed up the working process without any loss in quality. We are thus able to reap the benefits of the SLE education in the truest sense of the word.

As for contents, the paper at hand revolves around the effects of microfinance products on low-income households, a subject with which the SLE has dealt on several occasions. Building on an SLE study of 2012 that examined impacts of microfinance on economic empowerment, this new study investigates the relationship between microcredits and over-indebtedness while elaborating developing mitigation strategies. In this case, DRC serves as an exemplary for a number developing countries: it has strong economic growth, which entails great chances but also risks for the broad poor sections of its population.

We hope you will find it an interesting read.

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Director of the Albrecht Daniel Thaer-Institute
of Agricultural and Horticultural Sciences
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Dr Susanne Neubert
Director
Centre for Rural Development
(SLE)

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This study has been possible thanks to the active participation of many actors within the sector of financial inclusion in DRC. We express our gratitude to all persons who received us with open doors as well as all people who contributed to the realisation of the study with their precious organisational support.

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We are deeply indepted to the entire Congolese team which undertook the majority of field interviews with clients of financial institutions, namely Laurette Bikaka Ndombi, Lydia Muadi Tshinkobo, Julio Mukendi Kayembe and Jimy Lupeto Ntambwe. Without you and your energy our result would not have been feasible. We also want to thank Yves Togba Boboy for his comments and contacts.

The friendly cooperation of the staff of the various age4ncies of Opportunity, Finca, Mecreco, Mufesakin, Advans and ProCredit facilitated the contact to the clients with reimbursement delays. We did appreciate their open and critical spirit with which credit agents, supervisors and directors of agencies enriched our study, despite the pressure under which they operate. Without the understanding of their bosses, this reception would not have been possible. We also need to thank the representatives of the Central Bank, of donors and all experts who accepted to patiently respond to our questions and to share their knowledge and concerns as well as precious ideas.

The participation of entrepreneurs of Kinshasa – micro, small, medium and big entrepreneurs alike – has been a precondition for the realisation of the research. We think of all those who supported us actively during the field phase and who were outspoken about an unpleasant subject. We are particularly indebted to those who received us twice for narrative interviews. We can assure you that we did our best to include your points into the results of the studies.

Finally, we thank Dr. Susanne Neubert, director of SLE as well as the entire SLE team who guided us along our work process. And, last but not least, we thank Anne-Marie Schmitt for her precious editing work. -

Executive Summary

Background and reason for study

Since 1999, the global financial sector targeting micro, small, and medium enterprises (MSMEs) has been affected by several crises of over-indebtedness (OID). Various factors that contributed to these crises similarly exist in the Congolese growth hubs, especially in the capital Kinshasa: Weak governance and institutions entail information deficits and a lack of regulation. An increase in the number of financial service providers (summarized as “financial institutions” or “FIs”), has led to intense competition for MSMEs that have little experience in formal financial services.

To assess the risk of widespread OID in Kinshasa, the Humboldt University’s Centre for Rural Development (SLE) has conducted a study commissioned by KfW Entwicklungsbank and Advans Banque Congo. The study includes 1) an evaluation of the risk of an emerging OID crisis in Kinshasa; 2) an analysis of the factors – on the supply and the demand side – which may contribute to a growing risk of OID and 3) recommendations on how to reduce this risk and better manage existing OID.

Theoretical concepts and research design

The paper contributes to the ongoing debate on financial inclusion and its impacts on poverty reduction. In particular, it discusses the notion of FIs pursuing a “double bottom line” as well as negative effects of financial sector expansion, in particular the over-indebting of borrowers. In sectors of financial inclusion in other countries, OID has been driven by factors on three levels: 1) practices on the supply side (creditors or lenders); 2) decision patterns on the demand side (borrowers or customers) and 3) external factors (economic slumps, natural disasters, fragility).

In the absence of a universal definition of OID, this study has reviewed key contributing factors of OID from recent literature and combined them to 19 indicators which form an early-warning index for OID (later referred to as OID index) on the macroeconomic, sectorial, and institutional front. These are individually assessed from 1 (lowest level/prevalence of early-warning signal for OID) to 10 (highest level) and then added together to form one global value. We also apply four qualitative and quantitative indicators to examine the duration of repayment problems, coping strategies to manage delays and consequences for borrowers who default on a debt.

For this study, the research team used a combination of quantitative and qualitative methods. The core of the research is formed by 100 structured interviews with borrowers in default of payment, 30 semi-structured interviews with loan officers, as well as 40 interviews with branch managers and CEOs of financial institutions. We also carried out interviews and workshops with stakeholders such as members of

regulatory bodies, donor organizations, academia, and financial training centres. These interviews took place between January 15 and February 17, 2014. Results from field research were combined with existing literature on OID and data from the Microfinance Information Exchange (MIX).

Results

The risk of over-indebtedness in Kinshasa

The analysis of the 19 early-warning indicators of OID risk shows that the risk for Kinshasa is relatively high at 6.04 out of 10. The most important reasons for this alarming level are:

- The lack of a functioning credit information system – which opens the doors to multiple borrowing and drives the FIs to negate banking secrecy and informally exchange customer information among each other to avoid signing bad borrowers;
- Increasing productivity of loan officers (borrowers per officer) which may over-stretch their capacities. This is a consequence of the sector's growth and increasing competition between FIs;
- The increase of some FIs' portfolio at risk (PAR) which can indicate a deterioration of portfolio quality that can come with accentuated growth;
- Inflexible loan requirements and lending methodologies which are hardly adapted to the context of vulnerability and economic uncertainty in which MSMEs operate.

The OID index merely serves as an early-warning alarm signal – an OID crisis need not necessarily follow. It does however help to specify the most pressing actions necessary to lower the risk of OID and to facilitate sound financial sector development that is beneficial to both borrowers and creditors.

Prevalence and degree of over-indebtedness in the sample

In order to understand the situation of borrowers in default in Kinshasa, we approached financial service customers with a history of repayment problems via their creditors, i.e. the "FIs" (we use this term when we are speaking of: 1) financial inclusion banks, 2) MFIs or microfinance institutions and 3) cooperatives). In doing so we created a sample of borrowers most of whom have loans under 5,000 dollars and work in the trade sector. Interviewees were, for the most part, had experience in using financial services, and had been working in their current sector for more than seven years.

The extent of OID in the sample was evaluated on the basis of the borrowers' own perception, the duration of repayment problems, coping strategies applied and sacrifices

made in order to repay instalments, interest, and late fees. We also investigated the consequences of debt collection methods for borrowers.

According to the OID index, 57 percent of borrowers in default have reached a serious or very serious level of OID: repayment problems have persisted for more than 30 days, interviewees consider themselves over-indebted and have given up meeting due dates. These individuals try to save money by eating less, taking their children out of school, and/or asking family members or others for money. Those who have employees terminate their employment or have stopped paying them. These borrowers are often traumatized by methods of debt collection and they fear loss of social status.

The MSMEs that have fallen victim to OID on average received loans three times larger than those who were merely at risk of OID or not over-indebted. Those who received a smaller loan balance than requested and those who had multiple loans were more severely over-indebted. Loan balances which were raised automatically rather than on the basis of a sound borrower analysis from cycle to cycle further increased the risk of OID. Other factors examined - gender, level of education, household size, years of work experience, sector of work – did not influence the level of OID.

Causes of over-indebtedness

OID is a combination of factors that may reinforce each other:

- *Weak governance and weak institutions* – exemplified by the lack of a functioning credit information system which has led to an information deficit on the side of lenders. Other examples of weak governance and institutions include weak infrastructure (electricity, transport), crime, and a state monopoly on insurances that de facto offers no protection against accidents or illnesses. The vulnerability created by this situation translates into very risky business practices on the part of borrowers (e.g. traveling with large amounts of cash). Micro-businesses in particular suffer from lack of protection against corruption (bureaucratic red tape, administrative burden). They have, for example, been most severely affected by the government's "Kin Propre" campaign, an official campaign to eradicate informal petty commerce.
- *Lack of consumer protection:* Analogous to the fragility of the state, certain reforms are not or only partially put into practice. The lack of a supervisory body for the financial sector and of rule of law causes methods of information exchange and of debt collection that are formally illegal.
- *Limited economic/financial leeway*: The majority of MSMEs pursue buy-and-resell strategies that bear little innovation. A strong degree of competition

between MSMEs combined with weak purchasing power strongly affects the 80% of enterprises working in petty trade. Borrowers are unable to build up reserves. The unequal distribution of MSMEs between economic sectors is harmed by the fact that FIs only finance existing businesses and seem to prefer to lend to petty traders as opposed to other sectors.

Practices on the side of financial service providers (FIs) may also contribute to OID:

- *The degree of competition between FIs:* this creates a pressure on loan officers to expand their portfolio and reach growth targets, leaving less and less time for each individual borrower. The structural information deficit created by this situation rules out a complete analysis of a customer's credit-worthiness and can lead to the selection of “bad” borrowers. This effect is amplified by a lack of experienced loan officers.
- *Loan requirements and lending methodologies:* these favour the selection of risk-seeking borrowers from a similar economic segment. This “adverse selection” has particularly negative effects for those borrowers who lack capacities to fully comprehend the costs of a loan or to pick and choose among different FIs. Lenders at the same time are reluctant to the risks of developing new products and loosening lending methodologies.
- *The rigidity of loan requirements and debt collection practices:* Requirements and practices ignore the precariousness of borrowers’ livelihoods and can worsen repayment problems. The slightest economic downturn can be enough to throw borrowers off course. Defaulting is sanctioned through late fees, which adds to the borrower's inability to repay. In some cases, such adverse practices are exacerbated by abusive debt collection methods on the part of FIs.

Socio-economic pressure, a chronic lack of capital, and a weak understanding of loan conditions and financial services can lead to bad choices by borrowers:

- *Over-indebted borrowers* seem to have a poor understanding of financial services and of running a business, despite years of professional experience. Less than 10 percent have had an education in business management and 90 percent could not name their monthly interest rate. FI information sessions are almost never repeated for subsequent cycles and the consequences of defaulting on a credit are unknown to almost 40 percent of borrowers.
- FI representatives consider m*isuse or deviation of funds* the primary reason for OID. One fifth of selected borrowers have not invested their loan as agreed with the creditor, 80 percent of those without informing the FI. Reasons for deviation include unexpected expenditures (e.g. illnesses) or alternative business opportunities that appeared more lucrative. In our sample, being

granted a credit smaller than expected contributed to borrowers investing in alternative activities or applying for a second credit elsewhere.

- Despite the *level of competition* between FIs, borrowers seem to have little bargaining power. FIs determine conditions and payment schedules in a one-size-fits-all approach.
- *Social pressure* on borrowers can force them to disburse their loan among family members or their entourage. In an economically precarious environment this pressure can lead to deviation.

Recommendations

The Congolese Central Bank (BCC) has instructed FIs to better manage their PARs and in many cases the quality of the credit portfolio has improved. On all levels, initiatives to reduce the risk of OID have been implemented by different stakeholders. These best practices are in part included in the following recommendations, aimed at different levels of intervention.

On the government level it is recommended to:

- Launch the renewed *credit information system* along with a unique identification system (accompanied by an information campaign);
- Develop *norms* for loan requirements and lending methodologies, indicators to *evaluate borrowers* and a minimum amount of information to be shared with customers;
- Develop and apply an *arbitration system* to manage credit defaults and debt collection;
- Standardize and *publish market data* for more transparency and independent monitoring of the sector;
- *Adapt* the campaign "*Kin Propre*" in finding a socially acceptable way to regularize small businesses operating at the margins of formality;
- Develop a national *strategy* for better *financial literacy*, abolish the state monopoly on *insurances,* and consider increasing the existing *guarantee fund* for loans.

On the sectorial level, the quality of financial services must be managed to support consumer protection and a sustainable operation of FIs. Further recommendations are to:

- *Develop, disseminate and monitor* the implementation of *norms and standards of consumer protection* as well as acceptable *methods of debt collection*;
- Support *standards of data collection* and dissemination by FIs;
- Develop and apply a *campaign for financial literacy;*

- Launch a *debate* on the FI's *social mission*. Donors should consider tying their support to the pursuit of social goals and the implementation of standards.

FIs must undergo institutional reform to improve loan officers' and other employees' performance. Some of the steps have already been put into practice:

- *Reduce the number of tasks* each loan officer must fulfil and reform staff assessment; while ensuring continued *training of loan officers;*
- Revise the *system of customer analysis and assessment* for a more comprehensive and realistic view of their economic situation;
- Intensify *customer support* and incentivize MSMEs to take courses in management and accounting;
- Mandate *market research* to open up new markets (regional, sectorial) and develop products tailored to customers;

Training centres and associations could contribute to the development of a *national strategy for financial literacy* and the improvement of MSME management capacities. Support from *donors* could help increase their effectiveness.

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List of Abbreviations

AFD	French development agency
BCC	Congolese Central Bank (Banque Centrale du Congo)
CADEA	Action Centre for Business Development in Africa
CARPEA	Support Network Unit for African Small Entrepreneurs
CCAM	Congolese-German Centre for Microfinance
CdR	Centrale de Risque (credit information system in DRC)
CGAP	Consultative Group to Assist the Poor
COOPEC	Cooperatives or credit unions in DRC
DRC	Democratic Republic of the Congo
Exp	Expert interview
FEC	Federation of Entrepreneurs in Congo
FG	Focus group discussion
FI	Financial institution or service provider (banks, MFIs & cooperatives)
FPM	Fund to promote financial inclusion
GDP	Gross Domestic Product
HDI	Human Development Index
IFC	International Finance Cooperation (World Bank Group)
KfW	KfW Entwicklungsbank (German financial cooperation)
MECRECO	Central Cooperative for savings and loan mutuals in DRC
Mecrekin	Savings and credit mutual in Kinshasa
MFI	Microfinance institutions
MFP	Microfinance Product
Ministry of SME	Ministry of the Industry and of Small and Medium enterprises
MSME	Micro, small and medium enterprises
Mufesakin	Mutual for Women in Kinshasa
Nar	Narrative interview
OECD	Organisation for Economic Co-operation and Development
OHABM	Organization for the Harmonization of Business Law in Africa
PAR	Portfolio at Risk
PASMIF	Programme to support the microfinance sector in DRC
RDCED	Democratic Republic of the Congo Business Development
SLE	Centre for Rural Development in Berlin

SONAS	National Insurance Company
SPTF	Social Performance Task Force
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UPC	Protestant University of Congo
USAID	United States Agency for International Development
USD	US dollar

1 Background of the study

The relative stability marking the West and South of the Democratic Republic of the Congo has allowed for a stable net economic growth for more than 10 years with recent economic growth rates exceeding 7 percent (2010-2012). An extension of the financial sector to segments of the population that were previously excluded (CIA 2013) has further strengthened these positive economic developments.

In its “Doing Business Report 2013” the World Bank has noted improvements in the Congolese business environment, among others, due to the state’s accession in 2012 to the Organisation for the Harmonization of Business Law in Africa (OHABM). Though many bureaucratic obstacles persist and the country has a low rank in the global index for ease of doing business, recent reforms have facilitated business creation. These positive trends are, however, mostly restricted to Kinshasa and urban centres in North and South Kivu as well as Katanga (World Bank 2013, CIA 2013).

Economic development in these dynamic areas has led to an increased offer of financial services by a growing number of FIs that have been pursuing financial inclusion (i.e. enabling access to finance to the large segment of the population currently excluded from financial services). In the DRC there are three basic types of institutions that provide these services: financial inclusions banks, microfinance institutions (MFIs) and cooperatives. More and more micro, small and medium enterprises (MSMEs) have access to financial services, a development enhanced by technological innovations like mobile banking, and the emergence of new actors in the areas of credit and electronic money transfer, including mobile phone operators.

Throughout the past ten years, the international financial sectors targeting MSMEs (which includes microfinance) have witnessed several crises of over-indebtedness (OID) (2.1.2). These crises were particularly dramatic where market maturity and competition levels between providers were high. These risk factors were often combined with weak sector regulation and borrowers with little experience in managing formal credits.

Several of these factors can be found in economic hubs of the DRC and especially in the capital Kinshasa: Little regulation and weak state institutions, information deficits, a lack of monitoring, expansion of, and competition between FIs (3.3.5) and a pool of borrowers unaccustomed to formal financial services. The main objectives of the study are to begin filling the gap of information on the risk and severity of OID in Kinshasa and to examine lending methodologies and the use of credits.

With the aim of promoting the Congolese financial sector, KfW and Advans Banque Congo have commissioned this study to assess risk of OID as well as various factors on the side of creditors (supply) and borrowers (demand) that may reinforce the

dynamics of OID. For the Centre for Rural Development (SLE) of Berlin's Humboldt University, this is the second study on the DRC's financial inclusion sector, having conducted a study on "economic empowerment through access to microfinance products" in 2012 (Engel et al.).

Despite promising economic growth rates, the DRC continues to rank among the most fragile states internationally and is unable to provide many public services (health, education, basic infrastructure, security). The occupation of Goma at the end of 2012 by M23, a national rebel militia, is a recent example of the country's continued instability, particularly in eastern provinces.

Ranking 186th (second to last) on the Human Development Index (HDI, 2012), the country remains one of the poorest worldwide. However, certain positive changes can be noted: in 2012 the value of the DRC's HDI grew by 2.2 percent compared to 2011, a growth rate almost twice that of the sub-Saharan average (1.3 percent). The country's GDP per capita has also been steadily growing for ten years.

These developments have so far had little impact on the living conditions of the majority of people: a staggering 88 percent of the DRC's population live on less than 1.25 USD a day and 71 percent remain below the national poverty threshold. Life expectancy is 48.7 years and gender inequality remains extreme: DRC takes one of the last places in the UNDP's Gender-related Development Index (2013).

1.1 Hypotheses

Based on existing literature on OID and available information on Kinshasa's financial sector we developed research questions and four working hypotheses to be examined in the field:

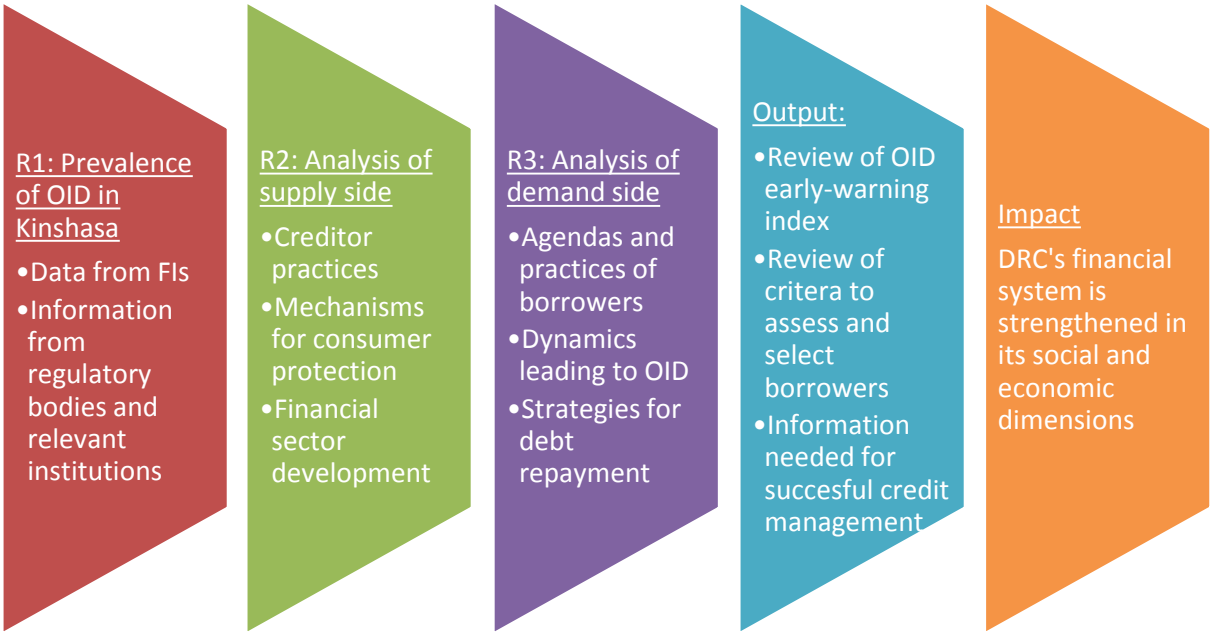
- Due to the expansion of financial services in Kinshasa, credits have become more and more easily accessible for MSMEs;
- Competition between FIs has led to lending methodologies and loan requirements that in part lack careful analysis on the side of FIs;
- Information deficits and competition between FIs prevent information exchange between these institutions and promote multiple borrowing;
- The lack of an effective credit information system tempts borrowers to demand credits without sustainable business plans. As a consequence, credits often exceed borrowers' ability to repay.

1.2 Results and objectives

Three specific objectives set by the research team are reflected in three concrete results (Figure 1). The paper contributes to an overall objective: to strengthen the sector of financial inclusion in its social and economic dimensions so that MSMEs and poor households may access appropriate and reliable financial services. In order to reach these objectives the team analysed:

- The prevalence of OID in the financial sector targeting MSMEs in Kinshasa. This analysis is based on early-warning signals for OID (result 1) ;
- Factors on the supply side (FIs or lenders) that can exacerbate OID (result 2);
- Factors on the demand side (MSMEs or borrowers) which promote OID. Reasons for seeking multiple loans and for defaulting on a loan form part of the analysis (result 3).

Figure 1: Overview of results and objectives of the study



These three results help us develop recommendations on the national, sectorial, and institutional level. Recommendations in turn aim to better calibrate financial services, to refine criteria to assess and select borrowers, to reduce the overall risk of OID and to ensure a better consumer protection.

2 Theoretical concepts and research design

The theoretical concept and the research design are based on an analysis of the existing literature on financial inclusion (2.1) and of the problem of OID which has recurred in different sectors since 2008 (2.2). Section 0 in the Annex gives an overview of the literature on financial inclusion and OID.

2.1 Schools of thought – from microcredits to financial inclusion

Beginning in Bangladesh in the 1970s with small loans to groups of poor women deemed unworthy of credit by banks, microcredits have grown considerably in size, scope and diversity. Around 10,000 FIs now serve 200 million borrowers in more than 100 countries. The most successful FIs have annual growth rates of over 20 percent and a repayment rate of 99 percent. During the 1990s, micro-savings, transfers and insurance were included in portfolios, which led to the terminological shift from “microcredits” to “microfinance”.

This name change came with a shift towards less poor households and the creation of commercial financial institutions. At least since 2007, there have been increasing numbers of negative reports on microfinance both in the media and academia, culminating in the 2010 reports of borrowers committing mass-suicides in Andhra Pradesh, India (CGAP 2010; Wichterich 2012; section 2.2.2). Once considered the magic bullet to end poverty, microfinance (and its claimed reconciliation of economic and social goals) has become an increasingly controversial issue (Lelart 2003; Aiyai 2010 ; Lascelles 2011).

2.1.1 Debates on the impact of microfinance

Microfinance advocates point to positive effects both direct (increased income and well-being, economic and social empowerment) and indirect (job creation, increased well-being of borrower’s entourage). Microcredits can generally smoothen consumption and improve risk management (Aggarwal et al. 2012; Morduch 1999; Robinson 2001).

In regions where microcredits have less impact, supporters are quick to point out conditions specific to that context, e.g. precarious livelihoods or market saturation (Gehlich 2008). They claim that even if not a magic bullet, microfinance can, under the right conditions, reduce the poor’s vulnerability to external shocks, ensure a steady income, increase savings and promote human development (Ndongo 2012).

Opponents to microfinance believe that loans drive borrowers to OID as they are unable to fully comprehend the repayment conditions and meet the high interest rates. They underline the inherent problems of “moral hazard” (information deficits lead to opportunistic behaviour) and “adverse selection” (good borrowers must pay the price, i.e. interest rates, for bad borrowers), which are widely recognized but remain unresolved (Batabayal et Beladi 2010 ; Sengupta 2008; Simtowe et al. 2007).

Critics question microfinance’s ability to empower women as it is most common in places where men exercise control over the household income and thus over loan use. Also, microfinance’s ability to increase productivity is called into question. According to Muhammad (2013), only 5-10 percent of funds are invested in a productive manner, i.e. for durable goods. The rest is used to cover consumption needs, medical expenses, education and other non-performing assets or “temptation goods” (Banerjee et al. 2009; Rahman 2007b). Furthermore, microfinance’s impact on political, social and economic empowerment remains to be proven (Goetz et Gupta 1996; Engel et al. 2012). Even if in some cases, microfinance increases household income, the best microcredit cannot substitute social policy, political reform, and development programs, critics argue.

For a long time the controversy surrounding microfinance was perpetuated by a lack of robust studies (Armendariz et Morduch 2010; Zeller et Meyer 2002). In recent years, however, several randomized controlled trials have shown that microcredits have a slight positive effect, if only for borrowers with a propensity to become business owners. In other words: Microcredits cannot teach people how to run a business (Aggarwal et al. 2012; Crépon et al. 2011; Banerjee et al. 2009).

2.1.2 Recent developments

In the aftermath of the global financial crisis after 2008, investors were on the lookout for new, safe investment opportunities while FIs, in light of an ever-increasing demand for financial services, were in need of capital beyond what donors and their own savings accounts could offer. This led to a boom in microfinance investment vehicles or MIVs. While most sectors were negatively affected by the financial crisis, the total assets of the 10 largest microfinance funds increased by almost 30 percent in 2008 and 2009 (Gähwiler et Nègre 2011; Batabayal et Beladi 2010).

In 2010, two of the largest MFIs, SKS from India and BancoSol from Bolivia went public. Micro-investment funds were regarded as the most dynamic segment in finance with high repayment rates and little risk. Critics, however, see the initial public offerings as a blatant example of “mission drift” (Bateman 2011), mixing concerns for poverty reduction and development with commercial interests. For example, the OID crisis in India is seen as a logical consequence of the microfinance boom, of the

commercialization of poverty and unchecked growth (Kannabiran 2005; Wichterich 2012).

The continuing growth of microfinance raises the question of whom it should serve: “the working poor and marginally poor” or the “extremely poor”? Morduch (1999) calculated that investing one dollar in a poor person yields increases in income five times higher than investing in the marginally poor. Therefore, MFIs should target the extremely poor instead of pursuing economic sustainability at all costs. This finding is contested by Hulme and Mosley (1996) who show that a borrower’s income increases proportionally to his/her starting level of income: The more money the borrower has to begin with, the more effective the loan.

The levels of interest rates in microfinance are another source of controversy. While microcredits have in many places replaced local moneylenders (with interest rates of 100-300 percent per year), MFI interest rates are much lower, but still twice as high as interest rates of microfinance banks[1]. This is a consequence of the smaller average loan balance of micro-borrowers which result in higher administrative costs per loan. Evidently, the poor pay more to borrow money than the wealthy do (Cull et al. 2009).

Proponents of market-based interest rates argue that poor borrowers are indeed capable of paying higher interest rates due to the law of diminishing returns. They fear that government restrictions in interest rates will prevent capital from flowing to the most promising projects in terms of economic returns (Aggarwal et al. 2012). In addition, MFIs with the highest interest rates have proven to be the best performers among FIs: these are cost-effective and financially sustainable and use the accumulated capital to ensure their own continuity, thus increasing the impact on the poor (Robinson 1996; Conning 1999). Furthermore, proponents of market based-interest rates describe such interest rates as a rationing mechanism, meaning that those who are willing to pay the most for capital also have the most worthy projects (Armendariz & Morduch 2010). The combination of repayment rates of over 90 percent and high interest rates in microfinance (50 percent annually are normal) has puzzled many scholars (Sengupta 2008; Lascelles 2011).

For many scholars, microfinance has the potential to positively change the economic position of the poor all around the world and donors have spent billions of dollars on the promotion of microfinance projects. Given these investments, studies to show the return per dollar are needed (i.e. income increase of target group per donor dollar). Even though its impact on poverty reduction remains to be proven, it seems that

[1] A global survey shows that the median average interest rate is 25 percent for NGOs, 20 percent for non-bank financial institutions and 13 percent for banks. On average, commercial microfinance banks grant loans four times higher than NGOs (Armendariz & Morduch 2010).

microfinance continues to play an important role for the Global South. It has changed millions of lives even if its “promise” of financial independence is still far from being realized in many areas. Its largest potential seems to lie on the African continent where less than one percent of the economically active use microcredits and the large majority remains excluded from financial services. To serve this market requires capital beyond what donors and governments can offer. But before investing more funds, one should first analyse the apparent problems relating to microfinance (Ledgerwood 2000).

2.2 Over-indebtedness

The global financial crisis demonstrated the importance of responsible financial services. The microfinance industry’s evolution including several recent OID crises in different countries have added to the fear that loans could turn into a burden for many borrowers. Considering that the current loan portfolio of all FIs is around 72 billion dollars, OID can be considered as one of the industry’s most threatening risks (Lascelles & Mendelson 2012).

Many stakeholders consider OID as a symptom for other deficiencies of the sector. In seeking growth and profits, FIs tend to grant more capital than the market can absorb. Since 1999, OID crises have hurt borrowers in very different markets, e.g. India, Bolivia, Bosnia-Herzegovina, Morocco, Nicaragua (Kappel et al. 2010 ; Chen et al. 2010), with negative consequences for all stakeholders involved:

- Investors and FIs who are interested in their turnaround,
- Donors who have engaged in the sector and are worried about its image, i.e. its positive economic and social impacts,
- Borrowers whose vulnerability is increased by OID. On the material front, OID can translate into less purchasing power and lower demand, late fees, seizure of collateral, a spiral of debt and insolvability. On the social level, OID can lead to a loss of social status, and at the individual level to mental and physical health problems. In extreme cases, hopelessness and anxiety have driven borrowers to commit suicide.

In order to improve the offer in financial inclusion and to reduce the OID risk it is important to understand the different causes and episodes leading to OID.

2.2.1 Definition

Despite the urgency of the subject, there is no universal definition of the term “over-indebtedness”. Determining at which point an individual is considered over-indebted depends on the type of assets he/she commands, while indebtedness in general is

measured in terms of liquidity and lack thereof. There are various approaches to measure OID of borrowers in financial inclusion. While some only count the number of borrowers who have defaulted, a more commonly used measurement is the size of the portfolio at risk for more than 30 or 90 days (PAR30 or PAR90) [2]. Whereas the level of the PAR30 across microfinance sectors was 2 percent in 2004, it had reached 7 percent by 2009 in Bosnia, 10 percent in Morocco, 12 percent in Nicaragua and 13 percent in Pakistan (Viada & Gaul 2012). Critics of using PAR30 as a measurement for OID argue that OID already starts some time before borrowers actually default on payment.

There are also approaches which refer to the ability to repay as a measurement of OID (Kappel et al. 2010). A household's level of OID is measured through the debt-to-income ratio, i.e. the borrower's monthly instalments in relation to monthly income to see how significantly repayment puts a dent in their income:

$$\frac{\text{total monthly instalments on household debt}}{\text{(total monthly gross income of the household – total monthly expenses)}}$$

Once the resulting value passes a certain threshold (60% or 75% in most studies), indebtedness turns into OID. It is striking that actors in Kinshasa's financial sector seem to use the term OID mainly when they speak about borrowers with multiple loans and only secondly when describing someone's inability to repay.

All the above mentioned approaches for measuring OID are limited in their ability to capture the full picture of OID. This is why more recent studies have resorted to a combination of quantitative and qualitative definitions of OID, using both the objective debt-to-income ratio and the subjectively perceived burden of OID.

Due to the lack of reliable quantitative data on debt-to-income ratios, in this study we use a qualitative definition to identify over-indebted borrowers: *"A microfinance customer is over-indebted if he/she is continuously struggling to meet due dates and has to make unduly high sacrifices related to his/her loan obligations that have more than transitory effects (Schicks 2010: 7)."*

This definition includes cases in which loans are repaid but at the price of eating less, selling household goods, taking out loans with secondary sources or foregoing to pay school fees, to name a few examples. We thus take into account the borrower's perspective. The advantage of this definition lies in its ability to simultaneously consider objective indicators like credit default and subjective ones like borrowers' self-assessment. In doing so, our definition goes beyond purely quantitative cash-

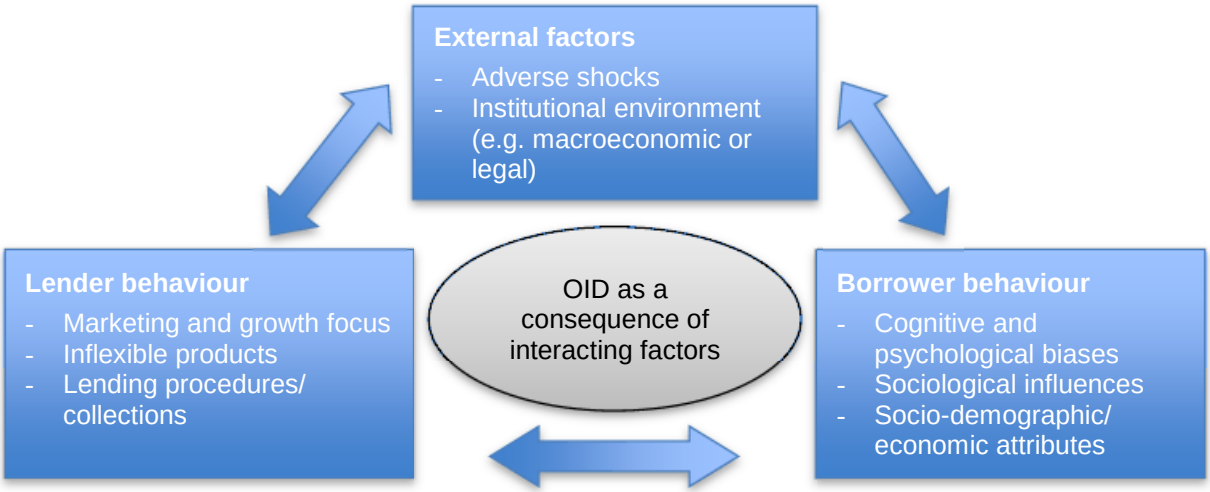
[2] PAR: standard international measure of portfolio quality that measures the portion of a portfolio which is deemed at risk because payments are overdue.

flow analyses which are often based on imprecise quantitative estimations. At the same time, one must take into the account the drawbacks of this definition, such as the strong bias of individual perspectives which are hard if not impossible to verify. For this study's threshold of OID see section 4.1.

2.2.2 Factors leading to over-indebtedness

According to the relevant literature, multiple factors contribute to OID: the role of lenders in driving microfinance customers into over-indebtedness, borrowers' own actions, and certain external influences which may exacerbate the problems.

Figure 2: Factors leading to over-indebtedness



Source: Schicks 2010: 15

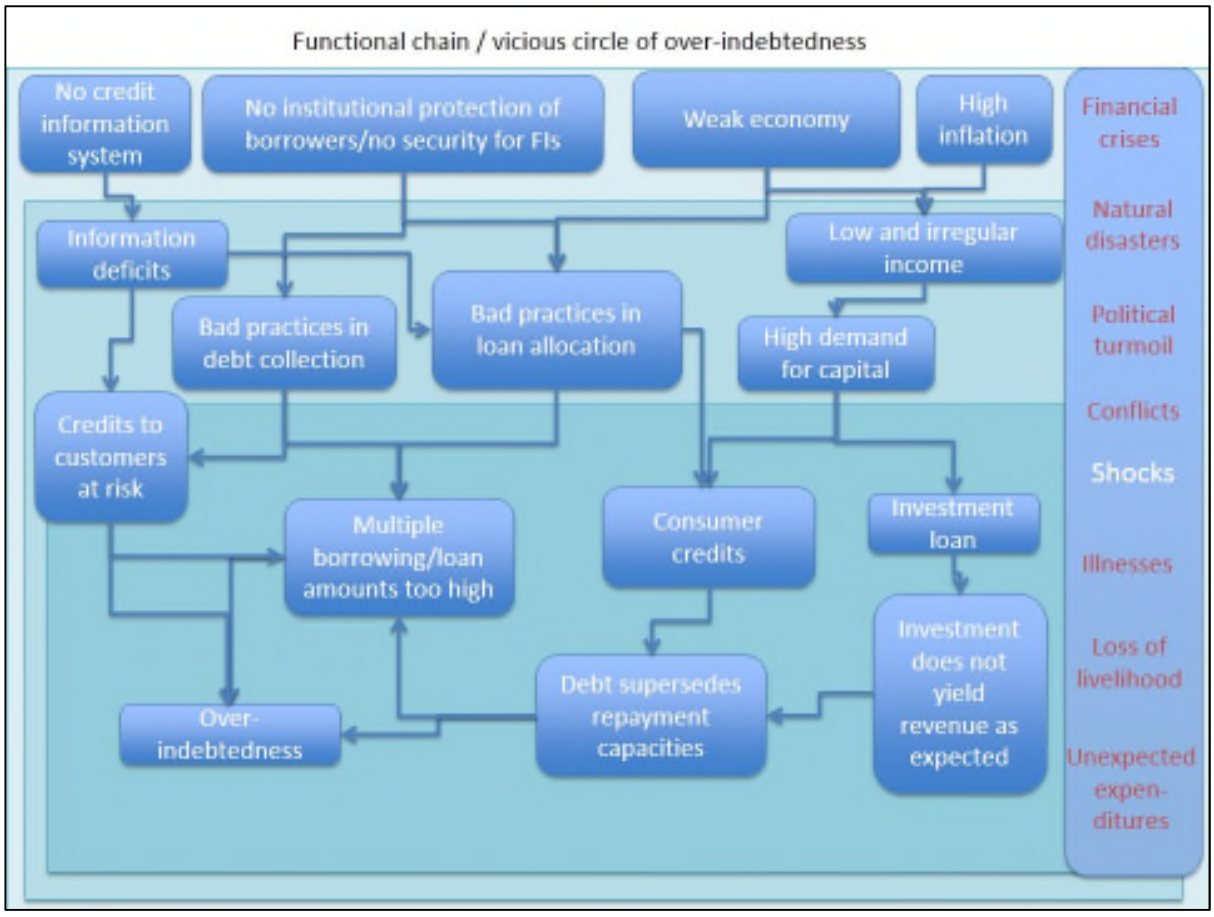
Oftentimes lenders' actions can exacerbate borrower OID. Today's sectors of financial inclusion, which are driven by aggressive marketing, tend to encourage a continuous increase of loan balances and expose borrowers to risks when their ability to repay has not been sufficiently analysed. Loan officers lack incentives to communicate in detail the costs and modalities of loans which would allow borrowers to make more rational decisions. Inflexible payment schedules and abusive debt collection further contribute to the risk of borrowers becoming unable to repay their loans (Figure 3).

As for borrower actions, we cannot necessarily assume a rational-choice model: Social and economic pressures or little understanding of credit obligations lead to bad choices. Experiences from other studies show that the tendency to become over-indebted depends on certain socio-demographic and economic traits.

At the same time, actors are subject to circumstances beyond their power. These external factors include the institutional and economic environment as well as external shocks like natural disasters or violent conflicts. Insufficient institutional and legal protection, particularly for micro-borrowers, or external shocks can quickly

render a borrower's debt insurmountable. All these factors are correlated with the specific context. For instance, the political movements of non-repayment in Nicaragua and Pakistan took place at the height of the global financial crisis of 2008, exacerbating the OID crisis (Viada & Gaul 2012). These examples illustrate how each situation of over-indebtedness is the result of multiple interacting factors and requires thorough analysis.

Figure 3: Functional chain of over-indebtedness



OID at its worst: The Andhra Pradesh microfinance crisis in India

The Andhra Pradesh OID crisis is often cited as an example to point out the dangers inherent to financial inclusion. The region saw a strong expansion of microfinance operations between the 1990s and 2000s. At the same time, a government programme supported self-help groups in accessing the financial sector. The commercially run microfinance sector grew rapidly and the total loan portfolio increased by 46% between 2009 and 2010 alone. To reach their market targets, the FIs granted multiple loans and focussed on credits while neglecting other services like savings. The combination of these factors proved disastrous. In October 2010 alone there were reports of 50 microcredit borrowers committing suicide as they could no longer take the pressure of debt and brutal debt collection practices (Taylor 2014).

On the international scale, there are efforts to put in place a process of certifying FIs who respect customer protection. Since 2013, the Smart Campaign established a code of conduct for internationally operating institutions including measures for consumer protection. The campaign enables assessments conducted by a third party to promote good conduct of FIs. Also, the Universal Standards for Social Performance Management (USSPM), adopted by the Social Performance Task Force (SPTF), presents a collection of management standards for FIs devoted to the double bottom line.

Give the growing risk of OID, risk indicators must be identified and observed carefully. There are already several different indices of early-warning signs for OID. In this study, we chose to use an index developed by the University of Zurich and its Centre for Microfinance (Kappel et al. 2010 – referred to henceforth as “Zurich”). For the purpose of this study, the index was adjusted to the context of Kinshasa (3.2).

2.3 Research methods

To collect data in Kinshasa, the research team used both quantitative and qualitative methods and spoke to a broad range of interviewees (Table 1). Research findings were analysed as described in the above-mentioned model for interacting OID factors (Figure 1). Interviews took place between January 15 and February 17, 2014.

In total, around 40 semi-structured interviews were carried out with experts and FI branch managers. These interviews form part of a qualitative content analyse that also included interviews with loan officers and narrative interviews with borrowers. The goal of the analysis is to better understand causalities and reasons behind OID.

Structured interviews with customers and loan officers carried out for this study were part of a descriptive data analysis to test the previously stated hypotheses. Other questions asked in structured interviews further provided data for an exploratory analysis to discover reasons for OID that weren’t considered in the hypotheses. Structured questionnaires for customers were based on experiences made by the SLE team during their research in the DRC in 2012 (Engel et al.).

A team of four Congolese students of economy and microfinance assisted in the field research. The questionnaires were reviewed and adapted following test interviews with borrowers. The research design was discussed during a kick-off presentation to fine-tune research methods in accordance with feedback and arguments from stakeholders.

Table 1: Overview of data collection

Source and type of interview	**Approach, objectives and interviewees**
101 structured interviews with customers listed in the PAR of 6 FIs (MFIs, cooperatives, banks) and 2 focus groups discussions (FGDs)	• Analysis of structured (descriptive data analysis) and semi-structured questionnaires (open questions) • Selection of customers with the aid of FIs in 15 of 24 districts of Kinshasa • Interviews conducted in the field in the absence of the loan officer; anonymity guaranteed; use of information explained to interviewees; • 2 FGD with potential customers. ➔ **Borrowers**
17 narrative interviews with customers and their loan officers	• 15 narrative interviews to better understand reasons behind OID • Interviews with loan officers to triangulate information ➔ **Lenders**
32 semi-structured interviews with sector experts	Representatives from • Congolese central bank (BCC) • International organisations (PASMIF, IFC) • Supportive structures to the sector (FPM, FI associations) • FIs (commercial banks, microfinance banks, MFIs, cooperatives) • Training centres • Businesses ➔ **External factors, lenders, borrowers**
3 FGDs	• 3 FGDs with loan officers • Semi-structured discussions ➔ **Lenders**
33 structured interviews and 11 semi-structured with loan officers of 6 FIs	• Quantitative and qualitative data • Methods of borrower selection, • Lending and debt collection methodologies, loan requirements • Duties and views of loan officers ➔ **Lenders**
8 semi-structured interviews with agency directors and supervisors	• 8 interviews with heads of agencies and supervisors • Better understanding of the FI perspective (challenges, competition) ➔ **Lenders**
6 expert workshops (3 in Kinshasa, 2 in Berlin, 1 in Frankfurt)	• Presentation and discussion of approach and results • Development of recommendations ➔ **External factors, lenders, borrowers**
Secondary sources (MIX, annual reports, publications, global indices)	• Triangulation of statements with economic data • Global context of financial inclusion and OID ➔ **External factors, lenders, borrowers**

2.4 Limits and scope of the study

The study examines the risk of OID in Kinshasa and the prevalence and degree of OID among the sample. It analyses reasons contributing to repayment problems on the supply and demand side. Based on this analysis, the authors make recommendations to reduce the OID risk and improve consumer protection. As a limiting factor, it is important to recognize that OID is a sensitive subject for all parties involved and statements made by study participants can thus be biased for different reasons:

- For the FIs, news of an increase in their PAR ratio and default rates can deteriorate their market position. They take actions against the defaulting borrowers to absorb losses and to encourage others to respect loan conditions. There are FIs that neither wish to provide information on this subject nor to organise interviews with customers. In the sample there is thus a problem of self-selection of FIs and borrowers willing to discuss the problems - it is likely that these do not include the worst cases.
- The team had asked the most important FIs in Kinshasa for raw data on customers who are in default of payment. With one exception, the FIs did not provide this information, probably to avoid internal information getting to their competition and to avoid the effort of compiling information.
- The loan officers are assessed based on their loan portfolio and a borrower's repayment discipline can draw attention to the performance of his/her loan officer. Even though the cooperation with loan officers was for the most part constructive, it is possible that our assessment method created a bias in the sample selection.
- Even though we explained to all interviewees that we do not work for FIs and that their statements are anonymised, it is likely that certain participants perceived the research team as FI representatives and thus gave false information. Financial data (balance sheets of banks, cooperatives, and MFIs) was not easily accessible and annual reports and MIX data were often incomplete. Our repeated requests for more data were in vain.

3 Assessment of the risk of over-indebtedness

Until now, OID crises of financial sectors became apparent only when cases of individual OID were widespread. A system of early-warning indicators is needed in order to take preventive measures before a crisis breaks out (Mommartz et al. 2010).

3.1 Early-warning index

The above-mentioned Zurich study developed a methodology to establish an early-warning index for OID. This index encompasses 14 indicators to assess signs for an OID crisis. Among others, the authors ascertain a lack of quantitative data for the sector of financial inclusion. Consequently, such an index can only serve as an approximation and not every country classified as “at risk” will experience a crisis. Still, when markets show increasing levels of early-warning signs, the index can help guide actors in taking preventative actions to avoid OID. The Zurich study uses a “signalling approach” (Mommartz et al. 2010) in order to measure various variables that are likely to show significant changes in the beginning of an OID crisis. The index’s 14 indicators for assessing signs of an OID crisis are derived from these variables.

For the purpose of this study, the Zurich index is adapted to the context of Kinshasa. Five indicators elaborated but finally omitted by Zurich were re-examined and selected based on their significance for the context at hand. In addition we examined indicators used by Rotter (2012) to measure the OID risk in Mozambique and adapted them where applicable.

The financial sector targeting MSMEs has been described as ill-adapted to the context of the DRC. In order to account for the DRC’s specific fragile context, we have included macro-level indicators (even if most remained stable in recent years). The result is a list of 19 ada,pted indicators. Each indicator was assessed according to its prevalence in Kinshasa and given a value on a scale from 1 to 10, with 1 representing the lowest and 10 representing the highest level of prevalence. The results are calculated in a first approach by using equal weights for each indicator (1/19 or 0,053) and, in a second, by emphasizing those variables that are considered particularly influential for OID in the literature and by experts. In this case, 5 indicators have been weighted twice as high as the 14 others, (namely Development of PAR ratios; Quality and use of credit information system; Loan requirements and lending methodologies; Productivity; Multiple lending/borrowing). Based on Zurich, the study distinguishes four categories of indicators, as the left column of the following table shows:

Table 2: Categories of indicators for OID risk

Macro-level indicator	GDP per capita growth Remittances Political/economic stability Corruption
Industry-level indicator	Market penetration Growth rate of total loan portfolios Development of PAR ratios Quality and use of credit information system Perceived commercial bank involvement Perceived level and trends in competition Perceived investment flows FI liquidity
Firm-level indicator	Average loan balance per borrower Loan requirements and lending methodologies Productivity (borrowers per staff member) Range of loan products Growth and market targets Multiples loans Consumer lending
Household-level indicator	Chapters 4 & 5

Based on Zurich (2010)

We are not able to specify which of the levels plays the leading role for OID on a global scale (Zurich 2010). One must rather analyse case by case which indicators dominate the OID risk in specific contexts. Apart from the macro-level, industry-level and firm-level, the household-level indicators (i.e. borrowers or MSMEs) influence the risk of OID.

3.2 Macro-level indicators

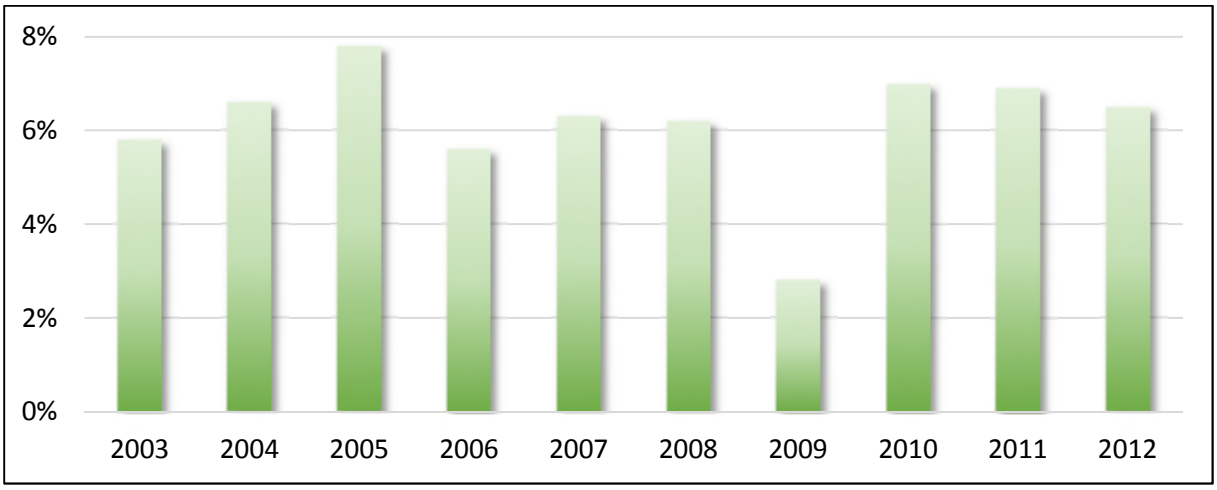
This section examines macro-level (framework) conditions such as GDP growth and fragility of the state.

3.2.1 GDP per capita growth

> "The number of traders has increased in recent years. (…) These past months, everyone was in tears: with the country's economic downturn no one is buying products, not even clothes"
> (Nar2).

The first indicator tested for its influence on OID is GDP per capita growth. Times of economic recession are often accompanied by reduced demand for goods and services – which diminishes revenues and profits of MSMEs while their debt and costs of living remain the same. This growing gap between income on the one side, debt and expenditures on the other, increases the risk of OID. As the figure below shows, the GDP growth in the DRC has been over 5 percent every year for a decade with the exception of 2009 which marked the beginning of the global financial crisis. In 2013 the (estimated) GDP growth even reached 7.5 percent (World Bank). The relative increase of the GDP and the size of the Congolese financial sector indicate a dynamic environment with increasing demand for loans in Kinshasa.

Figure 4: Annual GDP growth rates in DRC



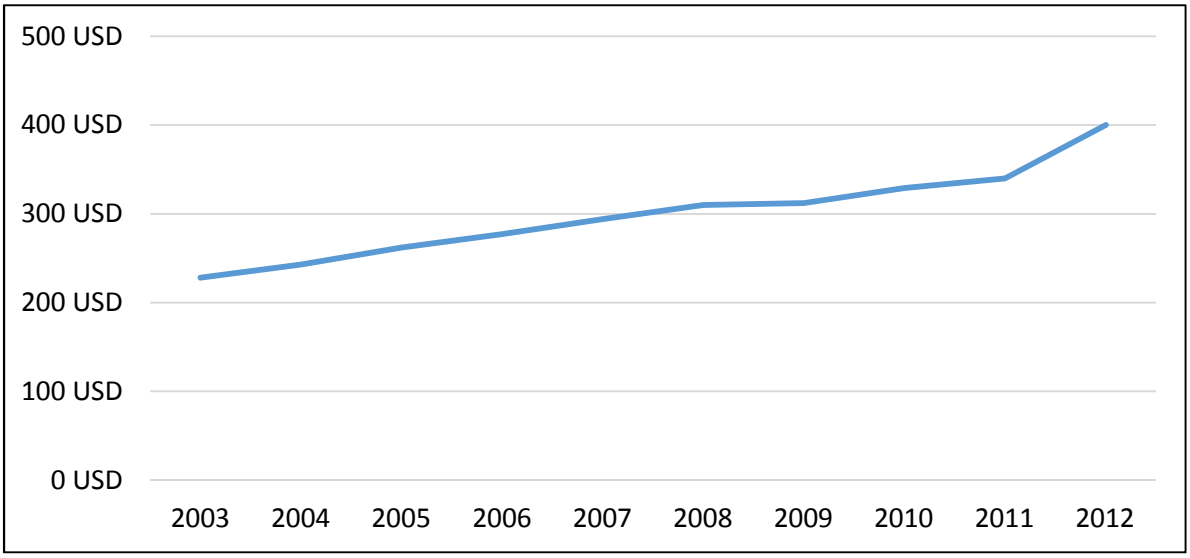
Source: Global Finance 2013

Two main factors particularly contributed to the strong economic growth, these are: a) the extremely low starting level ("take-off effect"): even in 2012 the DRC's GDP was 27.5 billion dollars, the equivalent of 1 percent of France's GDP (IMF 2012) and b) the strong global demand for natural resources which make up a large part of the DRC's exports and significantly contribute to the country's GDP. There are no particular statistics for Kinshasa but being the country's economic hub, its growth rate should be assumed to be even higher than the national average.

GDP growth provides no information on wealth distribution within a population and hence cannot be taken as a measure for a country's overall poverty reduction; of which clearly the lower segments in financial inclusion profit more, i.e. there is pro-poor growth (Klasen 2004).

As Figure 5 shows, the annual GDP per capita in the DRC remained below 400 dollars between 2003 and 2012 (CIA World Fact Book 2013 ; according to the World Bank, it was only 230 dollars in 2012). This is a low value even in comparison with other sub-Saharan African countries, which average 1,350 dollars.

Figure 5: Ten-year overview: Level of GDP per capita in DRC (PPP)



Sources: WDI 2013, IndexMundi 2013

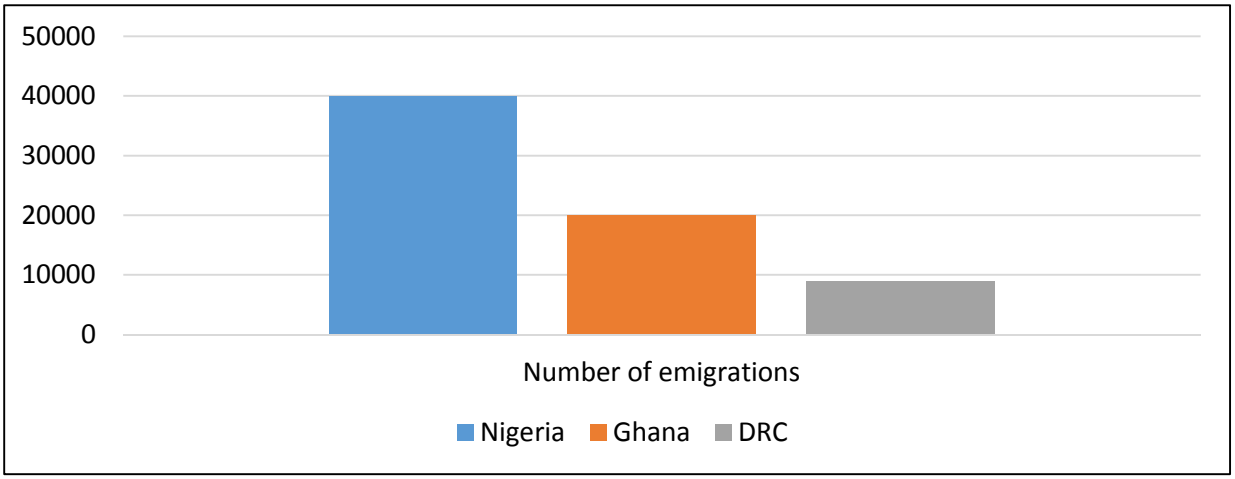
Even a short-term decrease in purchasing power and demand for goods and services can have a negative impact on borrowers of which 80 percent work in petty trade. Revenues are low and the slightest decrease in demand can have serious consequences. In the absence of social security, traders' resilience depends entirely on their own daily revenue. Particularly for micro and small businesses a lack of revenue translates into having to make sacrifices within their households. For medium enterprises, lower revenue "merely" translates into the dismissal of employees and shutting down of stores. In these circumstances the need to repay can be push the borrower irreversibly into debt (Nar2, WS4).

As explained above, despite strong economic growth, the DRC's GDP per capita remains at an extremely low level. Lack of financial resilience and purchasing power on the side of borrowers can then quickly lead to OID. In view of this conflicting evidence (high GDP growth rate but low level of GDP per capita), the impact of GDP per capita on the risk of OID is medium, with a value of 6 on our OID risk scale from 1 to 10.

3.2.2 Remittances

Remittances are a typical source of income in many low-income countries. The inflow of capital can smoothen income flows and lower the risk of OID. On the other hand, remittances can reduce dependence on local lenders and lower the willingness and effort to repay loans as they offer other, cheaper sources of capital. As the following figure shows, the emigration rate of the DRC is below that of other large sub-Saharan African countries. Due to low emigration rates, remittances generally do not play an important role in the Congolese economy.

Figure 6: Number of annual emigrations to OECD countries



Source: OECD 2013

This assumption was confirmed in the interviews. Money transfers are mainly used for domestic transactions, i.e. to transfer funds between provinces and cities (especially between Kinshasa and Lubumbashi). According to interviewees, this money is often directly spent on real estate or household consumption. Transferred money is only rarely used to substitute credits as a means of investment or for repayment. The number of money transfer agencies in the DRC has doubled since 2012 but numbers of people actually using financial transfer services remain low, particularly in comparison with Eastern Africa and its M-Pesa system (Exp4; Exp5; Exp11). Money transfer agencies are only filled with customers around the holidays. As remittances seem to play a minor role in the Congolese economy, we attribute a low prevalence to this early-warning indicator of OID (prevalence of 2).

3.2.3 Political & economic stability

According to studies on OID, politically and economically unstable countries are more easily affected by OID crises. Until today, the DRC remains among the most fragile countries in the world (Fund for Peace 2014; WGI 2013; chapter 0). Political instability reduces individuals' planning horizons and affects one's ability to repay. Economic instability increases the need to finance consumption by running into debt and to deceive FIs regarding one's economic situation (Gonzalez 2008). This situation breeds mutual distrust between the regulatory bodies, FIs, and borrowers. Furthermore, situations of instability undermine legal mechanisms in a country. This again creates mistrust between borrowers and lenders, as there are no more legal channels to hold each other to account in case credit default. Overall, instability in a country thus creates an environment of uncertainty.

In Kinshasa, the majority of interviewed borrowers mentioned that they face severe income fluctuations between months. In our sample, monthly income differences had a factor of 2.4, meaning that a given individual, for example, reported an income of 480 dollars in a good month and 200 dollars in a bad month; chapter 5.2). This situation is unfavourable for the realisation of financial inclusion on the large scale.

For FIs and borrowers, the primary problems in lending and borrowing, which relate to the DRC's state of instability, are legal uncertainty and economic vulnerability, respectively. Furthermore, as shown in chapter 4.2 fragility, a lack of infrastructure as well as repressive actions by law enforcers (e.g. in the case of "Kin Propre") are other important causes for credit default. On the whole, all these factors influence the framework conditions under which lenders and borrowers operate and thus have a strong prevalence (9).

3.2.4 Corruption

Higher levels of corruption may be correlated with higher levels of OID due to lower adherence to lending policies. For example, loan officers and loan committees tend to frequently grant exceptions in terms of loan requirements based not on sound credit decisions but on their own interest and advantage (Zurich). Nepotism can play a role in loan committees, particularly in small institutions like cooperatives (Exp11; Exp25; Exp29; Nar16).

DRC is ranked 154th (out of 177) in the corruption perception index (Transparency International 2013). Corruption appears to influence economic interaction between officials on most levels. According to research by the Consultative Group to Assist the Poor (2013), 17.5 percent of borrowers in the DRC are willing to pay bribes to access credits and 20 percent of the borrowers regard corruption as a major obstacle for accessing financial services. A number of interviewees said that illicit payment for faster access to credit exists but is rare[3] and FIs seem to master the risk of corruption of their loan officers through audits and supervision (WS3; Exp29).

Comparing financial inclusion in different countries, corruption and nepotism have become a problem especially where demand for loans outweighs the supply. In Kinshasa, the demand for credits has not reached such a level. Looking at the current developments of the financial inclusion, this could change in the future. For now, corruption within FIs is attributed a low prevalence of 2.

[3] Our results for this delicate indicator may be biased due to selecting interviewees through loan officers and FIs through a major donor in the sector (KfW).

3.3 Industry-level indicators

This level includes indicators that influence the whole of the financial sector targeting MSMEs, e.g. market penetration and development of PAR ratios.

3.3.1 Market penetration

"All FIs target the same central market and the same borrowers" (loan officer)

Portfolio quality correlates directly with the degree of microfinance market penetration (Gonzales 2010). In a saturated market, in order to reach annual goals and receive positive evaluations from superiors there is more pressure on loan officers to serve "risky" borrowers or clients already served by other FIs. The evidence shows that almost all OID crises were preceded by microfinance sector penetration rates surpassing 10 percent (Zurich). To calculate market penetration, one divides the number of borrowers served by the number of potential borrowers among the poor population (i.e. the traditional target group of financial inclusion). High levels of penetration are assumed to cause a deterioration of lending practices and portfolio quality because FIs can no longer afford to handpick the most promising customers.

Market penetration:

$$\frac{\text{Number of borrowers served}}{\text{Number of potential borrowers among poor population}}$$

The level of market penetration is based on data from MIX and compared with annual reports of FIs. This creates three problems: a) the quotient overstates the number of current borrowers in markets where multiple borrowing exists; b) the MIX data for Congolese FIs is incomplete and gives no information on the activities of commercial banks targeting MSMEs; c) MIX data does not distinguish between regions, so there is no specific data for Kinshasa. It is thus not possible to clearly specify the number of borrowers based in the capital or other economic hubs and rural regions. This means that, in order to calculate the rate of market penetration in Kinshasa, we can only estimate numbers of potential borrowers and borrowers served using information provided by FIs which operate in the capital.

Apart from the lack of MIX data there is a problem of measurement related to the definition of the denominator. While it is easy to determine the percentage of the population that is "economically active", people between 15 and 65 (54 percent of the population), it is harder to calculate the overall number of potential borrowers. This value depends on the portion of poor among the population which is estimated at 70 percent for the DRC (WDI 2013) but unknown for Kinshasa (as much of the economic power is concentrated in the capital, its poverty rate is probably lower than

the national average). Assuming equal poverty rates for the entire country, the calculation for Kinshasa is as follows:

$$\frac{155{,}000 \text{ borrowers}}{11 \text{ million} * 0.54 \text{ (share of economically active)} * 0.7 \text{ (share of poor)}}$$

This results in a value of 3.7 percent which means that market penetration in Kinshasa is around 5 times higher compared to the country as a whole (0.71 percent). As the Zurich study shows, the denominator could be decreased by determining the segment of the population that is targeted by financial inclusion but has no need for microfinance (in other developing countries between 25 and 50 percent). If this value was 50 percent in Kinshasa, the level of market penetration would double to 7.4 percent, over ten times the rate of the entire country. It is also conceivable that the number of borrowers (numerator) is higher than MIX indicates (unfortunately data from many FIs for verification is missing, especially that of commercial banks). Thus the resulting quotient for market penetration could be even higher. All these calculations remain approximations that can contribute to a debate rather than precisely describe the sector.

Three of Kinshasa's districts, Gombe, Kasavubu and Ngaliema, hold more than half of the capital's financial service branches. In these districts, the level of market penetration is likely much higher than in the rest of the city. To better estimate the rate and thus the risk of OID will require more precise data. In the case of the 5 financial institutions examined for this study (excluding Mufesakin as it provides no MIX data) the number of borrowers has increased from 55,000 to 125,000 between 2009 and 2012 – leaving no doubt that the sector has reached a growth rate that will become hard to regulate.

Interviews on the other hand showed that there are still entrepreneurs who are not willing to take out a loan under the current conditions, considered "disadvantageous and non-transparent" (FG4). This means that, even with significant increases in the number of borrowers and competition for borrowers in all income segments, there is still an untouched market that is waiting for FIs to render their products more attractive.

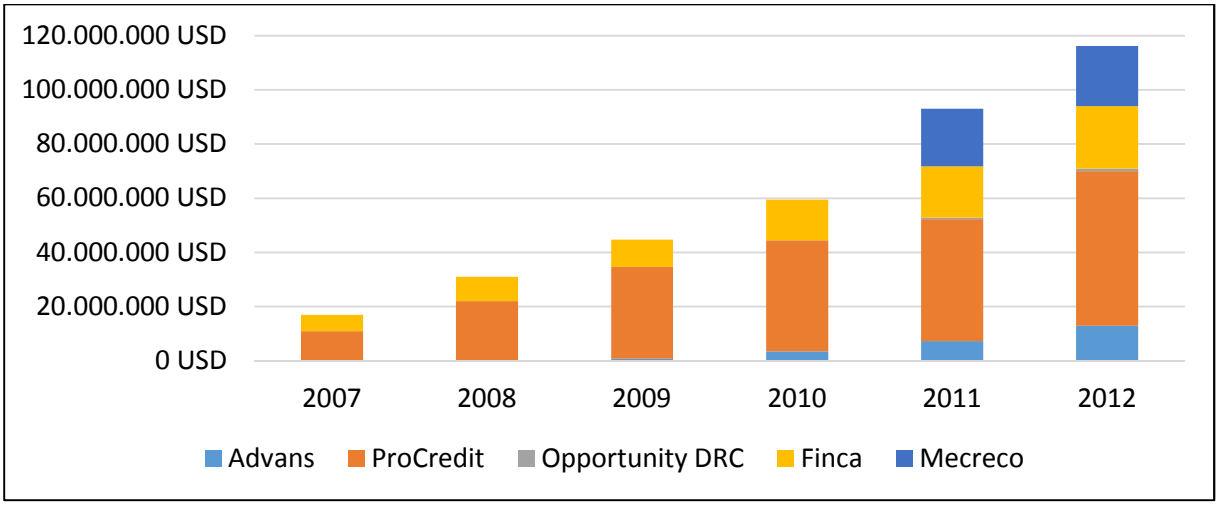
To summarise, market penetration in the DRC and in Kinshasa prevails in certain areas where it plays an important role in the competition between lenders. Sector experts are divided over the issue of market penetration and the presented values that diverge so much from region to region (Exp2). Given the difficulties in measuring market penetration and the large regional differences in penetration ratios, we assessed the prevalence of market penetration as 5.

3.3.2 Growth rate of total loan portfolios

Much like market penetration, the growth rate of total loan portfolios gives an approximation of the scope of financial inclusion. The quality of a loan portfolio depends

among others on its size and the number of borrowers. Strong portfolio growth can lead to a financial sector's "overheating" (loans are granted quickly and without meticulous analysis; the default rate quickly increases). For the five institutions examined (and whose data is available on MIX) their added loan portfolio size doubled between 2009 and 2012 (Figure 7).

Figure 7: Growth of loan portfolios for 5 FIs



Source: MIX

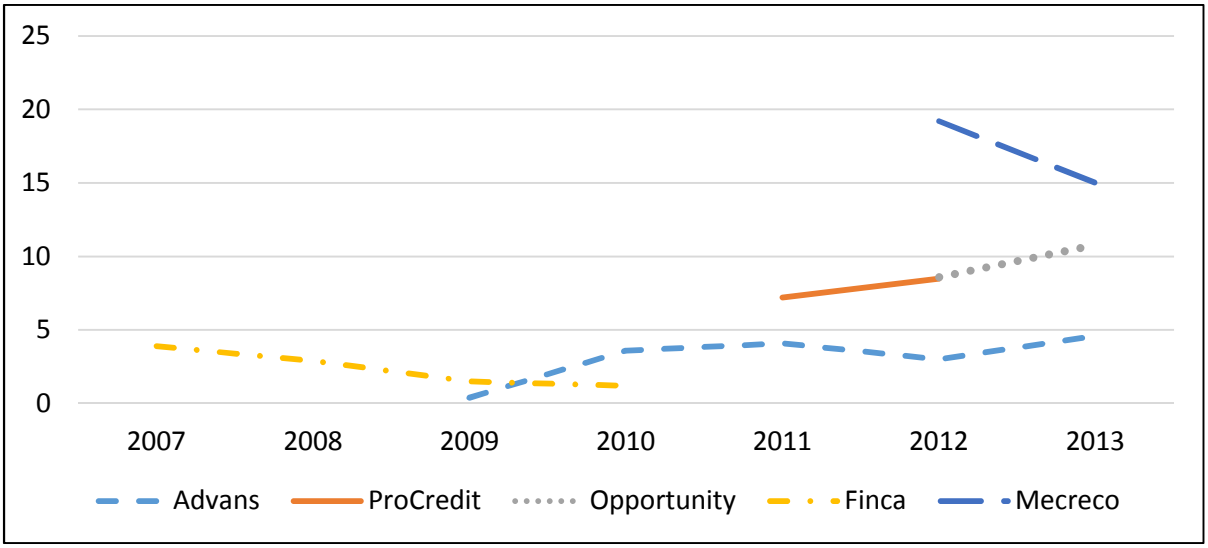
Total loan portfolio growth is concentrated in Kinshasa and the Kivus, which are responsible for 80 percent of the total loan portfolio of 190 million dollars (BCC 2012). Even in comparison to other countries, Kinshasa boasts a high loan portfolio growth rate which may, in the future, contribute to the risk of OID, especially if regulation remains low (prevalence: 7).

3.3.3 Development of PAR ratios

According to the Zurich study, loan portfolio growth is not correlated with PAR ratios. In countries that have witnessed OID crises, the PAR ratio spiked just before markets overheated. One could argue that the PAR development is not an indicator for OID risk but instead a symptom of OID pre-determined by other early-warning signs. However, we have included PAR ratios since PAR development is monitored by FIs and the central bank and is, in contrast to other indicators, quantifiable. For most FIs, the PAR30 increased significantly in the past years. Judging by official numbers, it seems that this increase is less serious for internationally operating FIs that have the capacities and mechanisms to master the risk (chapter 5.3). In the DRC the PAR30 is particularly high for cooperatives, many of which have PAR levels of over 20 percent, sometimes even 40 percent – despite instructions of the central bank that the PAR30 must not surpass 5 percent (Exp11; Exp25; BCC 2012). The following figure shows

that the majority of institutions examined in this study are incapable of adhering to this regulation.

Figure 8: Development of the PAR30 in % for 5 FIs based in Kinshasa



Source: MIX

There is not enough data (annual and overall) to give a wider view of PAR developments, but the large majority of experts consider the recent PAR development a serious problem for Kinshasa's financial sector. Some estimate that the PAR30 has reached an average of 15 percent across FIs (Exp11; Exp25). The fact that in 2012 the BCC had to shut down 12 FIs due to their PAR levels confirms such estimations. During interviews we noticed large differences in the assessment of PAR levels. To some FIs, a PAR of over 10 percent is no cause for concern even though that is twice the 5 percent limit recommended by the BCC (prevalence of 7).

3.3.4 Quality and use of credit information system

Asked what must be done to lower the risk of OID, almost all experts and FI employees called for an improving of the DRC's official credit information system ("Centrale de Risque" or CdR). On the supply side, such a system is essential because it gives information on potential borrowers. For the demand side, an information system is important because it can have disciplinary effects on borrowers when they know that their credit history is monitored and stored in the system. For the system to work, the minimum credit balance registered must be low enough to include all borrowers, information must remain in the system for a sufficient period of time, and borrowers must be aware of its functionality.

The CdR has existed for some time but is hardly used as it contains very little information on very few borrowers; the index of "bad borrowers" comprises only 500

names (Exp6) and there is currently no functioning system to prevent multiple borrowing in Kinshasa and the DRC as a whole.

After 12 years of unsuccessful donor attempts to improve the DRC's credit information system, KfW started working on the modernization of the CdR on behalf of the BCC and the private sector 4 years ago. The new system is designed to include online information on borrowers provided by each FI (Exp6, Exp31, and Exp32). A central question in the modernization process of the system is the legal form of its management and supervision. As Congolese law does not allow completely outsourcing the directorate-general, a hybrid model of management has been developed: the role of directorate-general (SOCERCI SA) is assumed by a private service provider while the board of directors is established by the BCC (Exp6). This model was agreed on by the steering committee which is composed of the private sector and the BCC. The next step lies in recruiting for the management level through international tender and involvement of shareholders in the course of 2014.

Also lacking at present is a unique identification system for individuals or borrowers (e.g. through fingerprints or iris). Such a system is considered essential for the functioning of the reformed credit information system. Outside the BCC, collecting data on borrowers is prohibited. Some FIs have become sceptical due to the delay in the CdR reform and have begun to exchange information on borrowers informally (Exp3; Exp26). From the FIs' point of view, this breach of banking secrecy is necessary in order to assure the quality of their loan portfolio. But this informal information exchange remains incomplete because of the large number of FIs and the lack of supervisory capacities.

Despite the strong demand for a CdR there are critical voices against a centralisation of data and the power it would give to the central administrator. Other critics, especially among cooperatives, fear that the system will be too expensive for small service providers and that only banks and large FIs will be able to afford the access (Exp5). This concern could be addressed by charging different membership fees depending on the size of the FI (WS4). Despite the doubts, a credit information system is indispensable to avoid OID so its complete plays a large role for the OID risk (prevalence of 10).

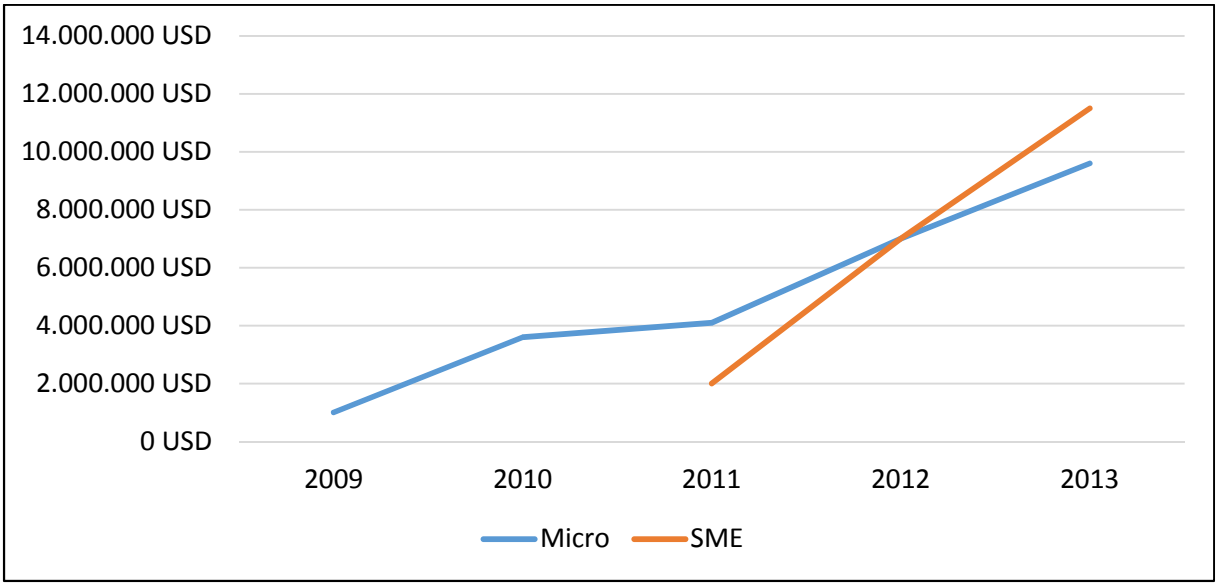
3.3.5 Perceived commercial bank involvement & level and trends in competition

"There are too many providers in the same locations, we share the same clientele, and there is too much supply, too many FIs with the same services. Even the banks are fighting for the same borrowers" (agency director with a cooperative)

Recently, “downscaling”, targeting SMEs instead of large enterprises, on the part of commercial banks has increased in the sector of financial inclusion. Competition between MFIs, cooperatives, and microfinance banks is intensified by the arrival of commercial banks. On the one hand, competition leads to better credit conditions and higher productivity of FIs. On the other, the pressure created by increasing competition can cause excessive expansion of lending, negligent borrower analyses, a hunt for borrowers that are already served by other FIs and risky lending by commercial banks emboldened by large capital resources.

In Kinshasa competition has increased according to 85 percent of interviewed loan officers but it is especially strong between FIs who target the same market segment. Cooperatives and MFIs share almost no potential clientele with commercial banks. They target the same microbusinesses with credits under 5,000 dollars, or more often, below 1,000 dollars. Commercial banks avoid handing out credits below 10,000 dollars. However, financial inclusion banks (Advans and ProCredit in our sample) have also recently started targeting the segment above 10,000 dollars (Figure 9).

Figure 9: Loan portfolio of a bank in financial inclusion



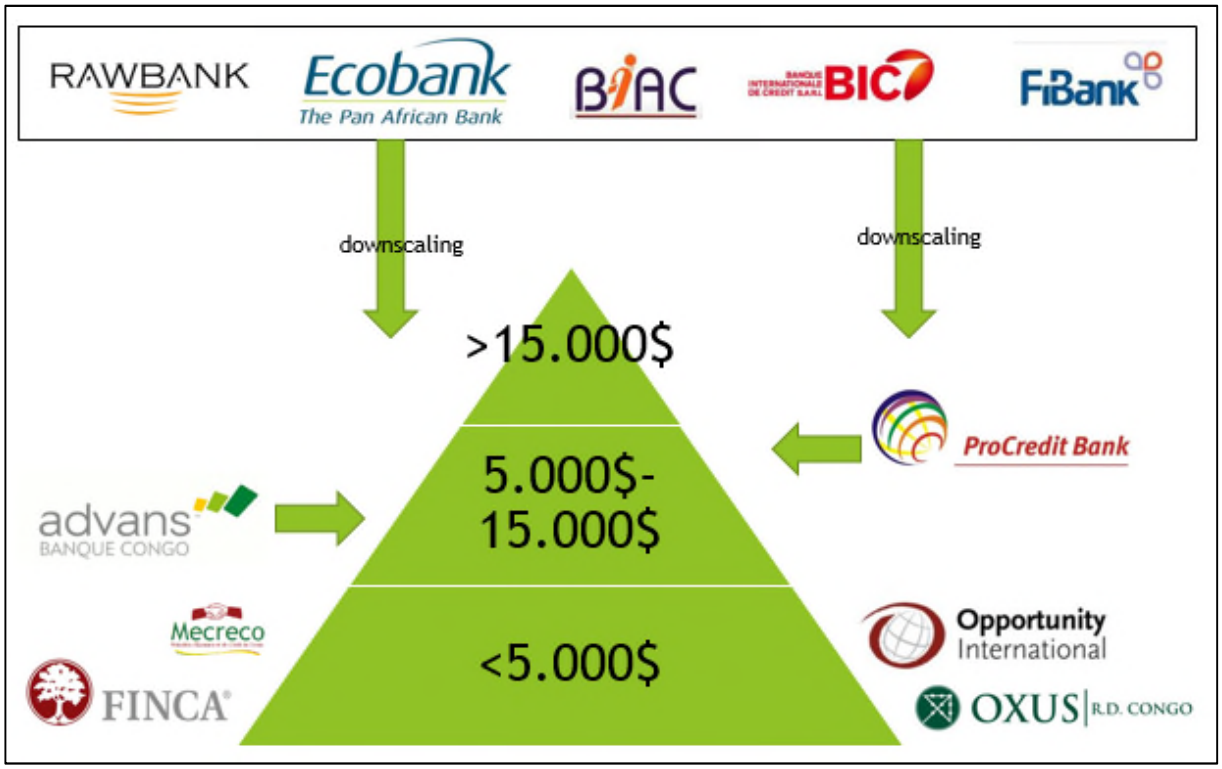
Source: BCC 2012

While Advans continues to offer smaller loans, ProCredit intends to no longer grant loans under 10,000 dollars (Exp2; Exp26; FG4). This shift in target groups is justified by the relatively high running costs for inferior credit sizes and their obligation by shareholders to seek economic sustainability. Profitability, they argue, can only come with higher loans (Exp2; Exp29). Financial inclusion banks are thus gradually abandoning the micro-segment to serve more profitable borrowers.

Commercial banks are equally targeting the SME segment since the number of large enterprises (and clients) in the DRC is small. In this fight for borrowers, commercial banks profit from large equity capital that allows them to aggressively penetrate the SME market. Apart from this hunt for borrowers there is also a hunt for loan officers. As banks pay better, cooperatives and MFIs lose employees whose training has cost them time and resources (Exp1; Exp29).

The following figure gives an overview of some of the most important FIs in Kinshasa, all of which were examined in the context of this study. The figure shows which FIs are targeting which income segment.

Figure 10: Competition between FIs in different loan segments



Source: Interviews

Similar to market penetration, the high level of competition is confined to certain market segments and districts. Due to particularly high levels of competition in the capital, we have attributed a prevalence of 7 for competition. Regarding the country as a whole, the degree of competition appears to be much less alarming.

> "Competition is intense: microfinance banks and MFIs are manageable but commercial banks can offer way better interest rates, and more diverse products. They are on another level regarding marketing and PR, higher outstanding loans and other means of writing off losses."
> (BM1)

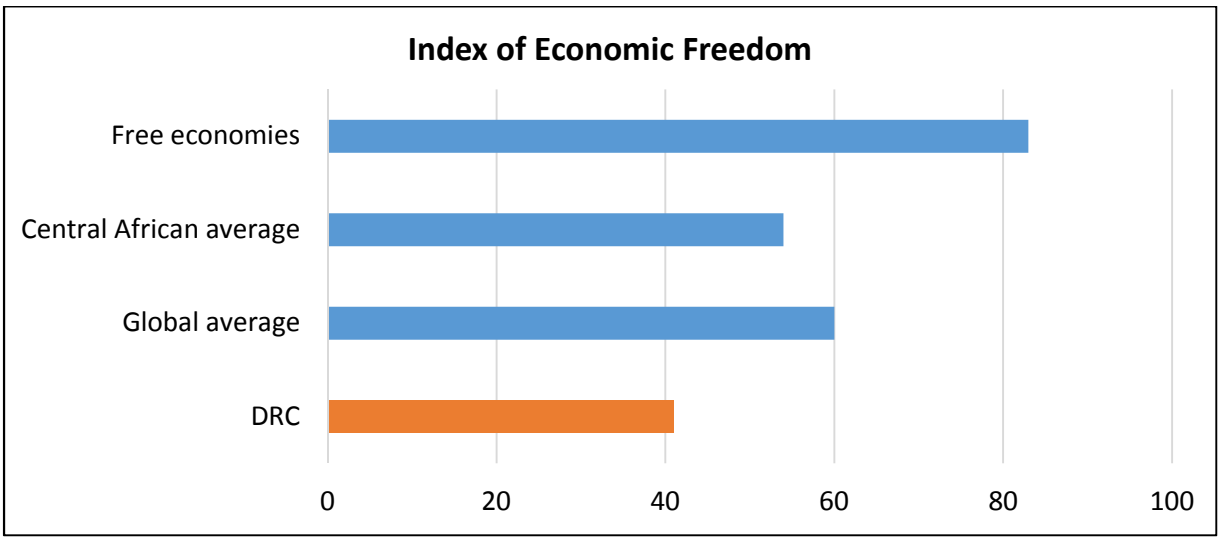
The impact of competition on the OID risk is dealt with in more detail in the section on firm-level indicators (prevalence of commercial bank involvement: 6; prevalence of competition: 7).

3.3.6 Perceived investment flows and FI liquidity

Loan portfolio growth and increase of investment lead to an increase of FI liquidity. The overly liquid FIs can be tempted to push for fast growth by reinvesting the money directly, particularly in existing markets. This local growth of loan portfolios can lead to more and more credits to groups already served, to lax analyses and finally to OID (Zurich).

With the exception of commercial banks it seems that FIs in Kinshasa rather suffer from lack of capital rather than over-liquidity. That fact that microcredits do not always go hand in hand with micro-savings (which are less lucrative in the short term) is one reason for this. Apart from liquidity, the ability to grant loans is also negatively affected by this imbalance between microcredits and savings. The fact that the requested loan balances are rarely granted confirms this notion (Exp11).

Figure 11: Index of Economic Freedom



Source: Heritage 2014

Overall, there is little foreign direct investment in the DRC. About 3 billion dollars are invested per year, the same amount as Congo-Brazzaville, a country with a population size of 6 percent of the DRC's (CIA 2013). As is shown in Figure 11, the DRC is not considered a good place to invest. The majority of existing investments target natural resources and not the financial sector.

Given low liquidity of FIs in Kinshasa and only little foreign direct investment in the DRC as a whole, neither indicator significantly contributes to OID risk (prevalence of investment flows: 4; FI liquidity: 5).

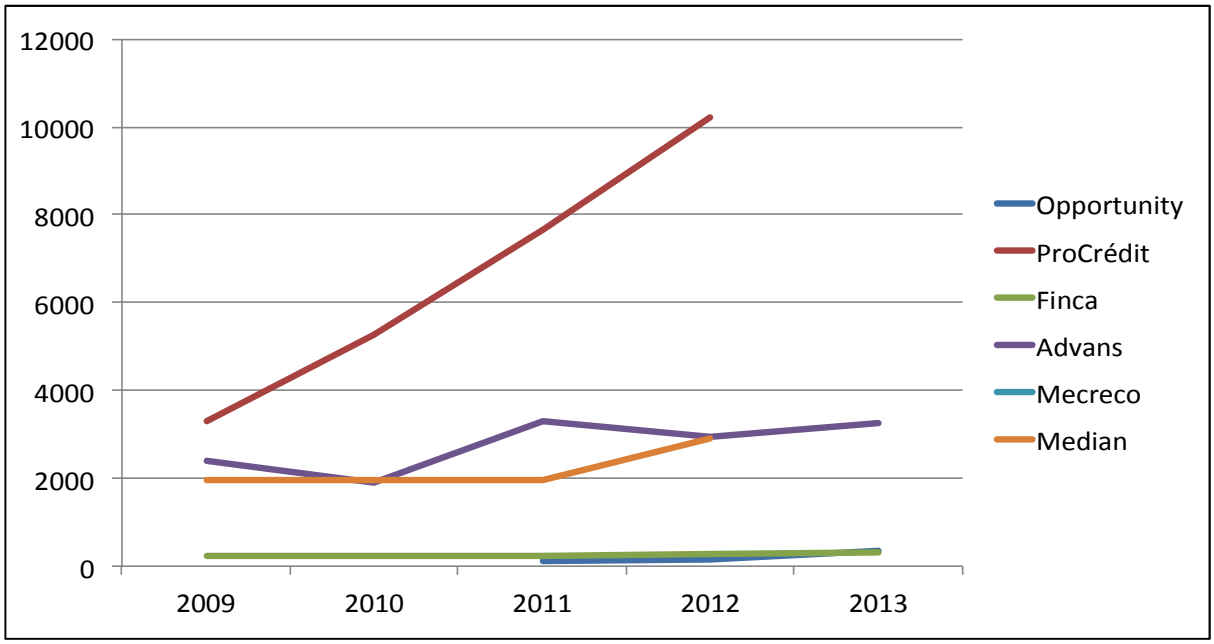
3.4 Firm-level indicators

Firm-level indicators deal with individual practices of FIs. The majority of data is derived from MIX, combined with information gathered through interviews. Variables include organizational characteristics of FIs as well as their approaches and targets that influence the OID risk for MSME borrowers in Kinshasa.

3.4.1 Average loan balance per borrower

The relationship between average loan balance and OID is not clear. According to the Zurich approach, the granting of small loans indicates that borrowers have only low incomes and FIs are aware of potential repayment problems. For higher loans there is a higher risk that a household's cash-flow will be overstrained by instalments. Average loan balances per borrower saw a sharp increase in countries that experienced OID crises. The Zurich study, however, does not view this growth rate as too influential. Available data for Kinshasa is sparse:

Figure 12: Development of average loan balances per borrower



Source: MIX

Figure 12 shows the development of average loan balances per borrower of different FIs that in the past shared the same target group. The remarkable increase for ProCredit is a result of their changing portfolio (3.3.5). The average loan balance for FIs targeting MSMEs lies between 2,000 and 10,000 dollars, which appears to be the segment of higher OID risk (WS4 ; prevalence: 5).

3.4.2 Loan requirements and lending methodologies

> "Borrowers need more support, they ask the same question each credit cycle."
> "Support for each borrower takes time. Given the number of borrowers
> it is not possible. A good analysis will always take time."
> (Loan officers)

Loan requirements and lending methodologies are essential for a borrower's ability to repay. It is thus necessary to revise their alignment with needs and capacities of borrowers and the behaviour of FI employees towards borrowers.

Loan requirements

In the case of MSMEs, the granting of a credit depends on a cash-flow analysis, the guarantors, an analysis of the borrower's conduct (reputation, etc.) as well as his/her credit history. Analyses are performed according to each FI's guidelines. The depth of these varies between FIs. Depending on the loan balance, analyses can have multiple phases and several actors implicated. For verification, loan officers hand over the borrower profiles to a superior or a credit committee.

FIs in financial inclusion who are part of this research ask proof of a borrower's salary only in the case of consumer loans where the monthly instalments shall not surpass a third of the monthly salary (Chapter 3.4.2).

Repayment conditions

When a borrower faces difficulties repaying a loan, his/her FI is rarely ready to change the frequency or modalities of repayment. In most cases there are late fees or other penalties that accumulate each day. Some FIs offer a rescheduling of debt or restructuring to borrowers in need (LO11).

Borrower support

> "We (loan officers) have a tough job and are exposed to all kinds of difficulties:
> we go out on a limb for borrowers - and the next day they tell us the exact stories
> we warned them about. They need capital and pretend to listen to you;
> but once they have the money they no longer pick up the phone."
> (Nar1)

On average, loan officers interviewed for the study paid their customers two visits before granting a credit to verify the collateral and the borrower's overall situation. The length of these visits varies a lot between loan officers. However, the frequency of visits diminishes after the granting of a credit across FIs and loan officers. Often these visits are limited to verifying the borrower's business and to reminding him/her of a due date (see borrower interviews & loan officer interviews). At the same time, loan officers and borrowers imply that borrowers are bothered by the repeated visits from FI employees.

Development of loan balances

Borrowers with a good credit history are often prompted by loan officers to take out another credit with a higher balance. Borrowers with repayment problems were on average in the 3rd or 4th credit cycle so they were already familiar with the field of microfinance. Achieving a higher credit balance is easier for experienced borrowers: while for new borrowers the balance is often limited by monthly instalments that must not exceed 40-50 percent of their residual income, FIs grant more generous thresholds to more experienced borrowers. (Nar4).

Incentives for loan officers

> "Individual targets and debt collection, borrower support and customer acquisition are in conflict – one cannot fulfil all at the same time."
> (Loan officer)

Loan officers are assessed in terms of individual annual targets. These targets aim to increase officers' performance which is measured by size of loan portfolio, the number of borrowers, and the PAR ratio. Targets place an emphasis on growth while widely ignoring other factors. Some FIs give performance bonuses.

Awareness-raising for OID

Loan officers are offered trainings and fora to share their experiences with their institution (BM1-8). For the most part, financial inclusion banks offer more extensive trainings including loan officer questionnaires. FIs raise awareness among their staff for credit default and its consequences for the assessment of the officer's performance. Interviews with loan officers have shown that the awareness-raising trainings by FIs do not actually help understand the borrowers' point of view nor the sacrifices borrowers have to make in order to repay their loans (prevalence of 5).

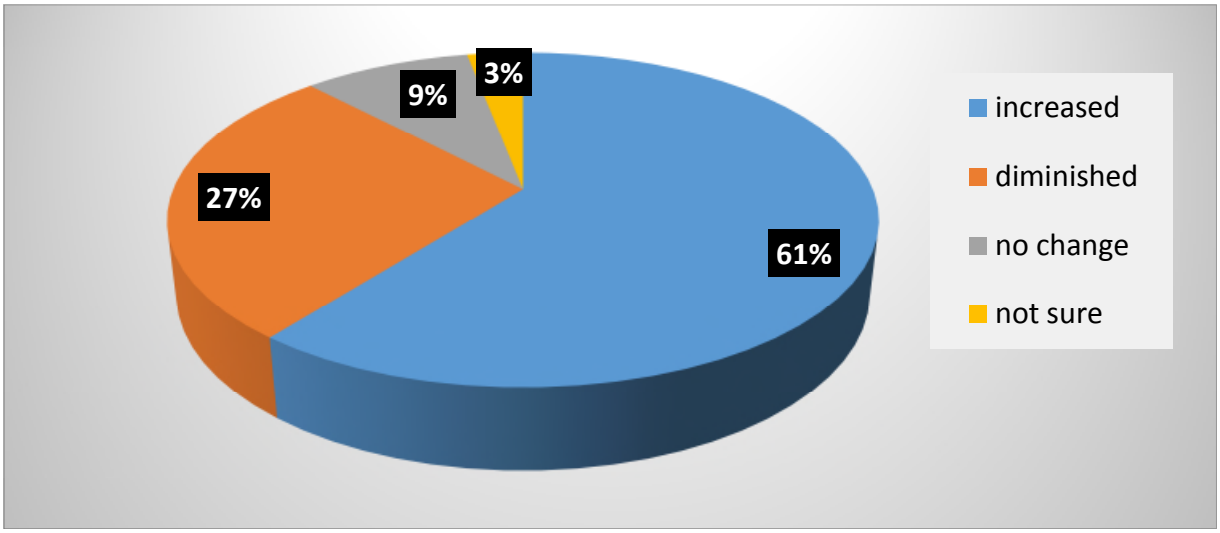
3.4.3 Productivity (borrowers per staff member)

> "We are constantly running after the borrowers. We are overburdened with borrower acquisition, training, consulting, administration, disbursement, and monitoring outstanding loans."
> How many loan officers do you know who have worked in this position for more than 2 years? It is too demanding."
> (Loan officer; FG1)

As mentioned in these introducing statements, loan officers are subjected to high pressure, which affects their ability to support borrowers. A variable to measure loan officer productivity is the number of borrowers per staff member or loan officer. While MIX data shows no significant changes to loan officer productivity over time, interviews with loan officers indicate that the number of borrowers per officer has increased. For some FIs the number has actually decreased but the average loan

balance per borrower in loan officers' portfolios has increased. In general it seems that loan officers feel an increasing pressure to perform (loan officer interviews).

Figure 13: Development of number of borrowers per loan officer

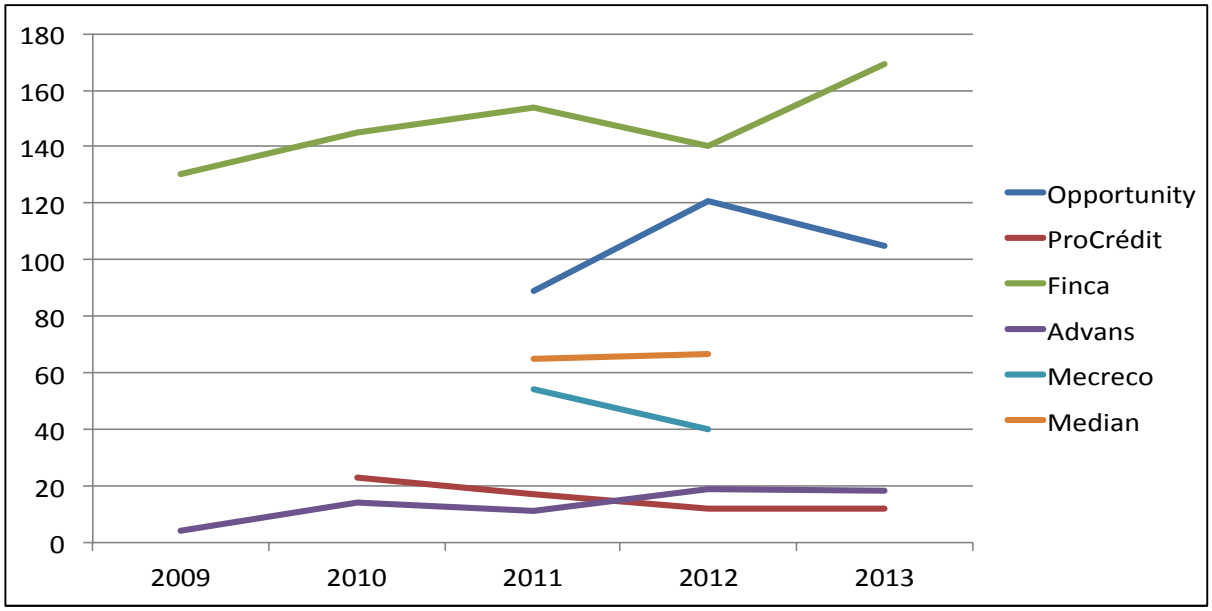


Source: Interviews with loan officers (n=30)

Productivity of staff

While the number of borrowers per loan officer (Figure 13) gives us only one side of customer support quality, the number of borrowers per FI staff member (overall) completes the picture by showing the workload of all staff (including administrative, supervisory etc.). MIX data is incomplete in this area (Figure 14). There are large differences in borrower numbers per officer between FIs which mostly lie in their respective focus on individual credits or credit groups. All FIs interviewed supervise their loan officers, especially for higher loan balances. This includes visits to the borrower by supervisors or agency directors. The overall increase of borrower per staff member makes the task of monitoring and supervision more difficult. In light of the above-mention points, we view this indicator as very alarming for Kinshasa's OID risk (prevalence: 9).

Figure 14: Development of the number of borrowers per staff member



Source: MIX

3.4.4 Range of loan products

The range of loan products is an indicator used by Rotter (2012). Her study shows that if borrower's loyalty to an FI depends to a large degree on the renewal of their credits, it is likely that a borrower's credit balance is raised even when this is not advisable. If an institution's range of loan products with which to acquire and retain borrowers is wide, this risk decreases because the FI can tailor the product to a customer's needs.

The majority of interviewees mentioned that they hope to acquire higher credit balances by remaining with the same FI for a period of time. Some FIs have ceased the automatic increasing of loan balances each cycle and instead perform a new analysis for each cycle (Exp2). However, the ease of granting a consecutive credit (instead of acquiring new borrowers) may tempt loan officers to offer new loans to existing borrowers who at that point do not require one (Exp30).

While savings accounts are offered by all FIs examined, a monopoly held by the "Société Nationale d'Assurances (SONAS)" prohibits FIs from offering any kind of insurances. Because entrepreneurs have little or no confidence in SONAS (Exp24), they prefer to remain uninsured, which increases their vulnerability for OID and external shocks. Kinshasa's FIs have been criticized for their lack of product diversity and insufficient adapting to borrowers' needs (Exp4; Exp24; FG4). As a whole, FIs rather target existing businesses with similar features. A lack of guarantee funds (a measure supported by AFD) means that no risk products, e.g. agricultural credits or start-up financing, are offered (Exp29; Engel et al. 2012). Some experts have

signalled that simply importing financial service products from elsewhere and imposing them on the Congolese market has contributed to the credit default rate (Exp11). Defaulting borrowers say that the root of their problems lies in a lack of flexibility concerning monthly instalments and the lack of a grace period. The absence of a grace period particularly affects long-term investments like product import which requires time for product purchase, transport, customs, and sale (Nar2; Nar12). Weak diversifying of financial service products and the fact that certain products do not correspond to MSME's needs increases the risk of OID. As the range of loan products is indeed very limited in Kinshasa, we have accorded a prevalence of 9.

3.4.5 Growth and market targets

In financial inclusion, growth targets and selection of markets are important to examine because high growth objectives and targeting of already saturated markets can induce FIs, in the fight for customers, to relax loan requirements and lending methodologies (Zurich). FIs in financial inclusion in Kinshasa, however, have different approaches. As described above (chapter 3.3.5), certain FIs try to increase their growth by aiming at higher loan segments than traditional microfinance institutions (BM1; BM2; BM5). Others pursue growth through expanding their number of branches. Some commercial banks have only just entered the market serving MSMEs (Exp8; Exp9).

Some market segments and target groups are shared by different FIs that compete with each other. Competition is especially high for already served entrepreneurs with promising business development. A common method get more customers is to sign new borrowers by rebuying their loan with another provider.

"It's normal to steal borrowers from other banks."
(Loan officer)

"Every day the same borrowers already served are recruited elsewhere.
This undermines their will to repay and their morality"
(loan officer)

"Loan officers come and talk to me all the time (…) they outcompete each other,
offering me better conditions all the time"
(Nar16)

The fight for customers is particularly strong in the central markets and trading points of Kinshasa, Gombe being the most important. FIs' focus on growth and the competition for established and limited markets encourages OID. This early-warning indicator has thus been accorded the prevalence of 7.

3.4.6 Multiple lending/borrowing

Multiple lending and borrowing are not a problem per se but serve as proxy for other challenges in the sector of financial inclusion. In the countries that experienced OID crises, multiple lending was widespread. The general prevalence of cross-borrowing in the DRC is unknown. All FIs examined generally accept to take on borrowers that have already signed with a competitor. Some FIs even allow the granting of several loans to one and the same household to increase liquidity in the short term, e.g. to retrieve merchandise/goods from customs (BM1). In the case of cross-borrowing, the outstanding instalments with a second FI are accounted for in the calculation of monthly expenditures, but only when this information is available. Financial services can be tailored to borrowers' needs but only when borrowers decide to disclose all information, i.e. outstanding loans with other FIs.

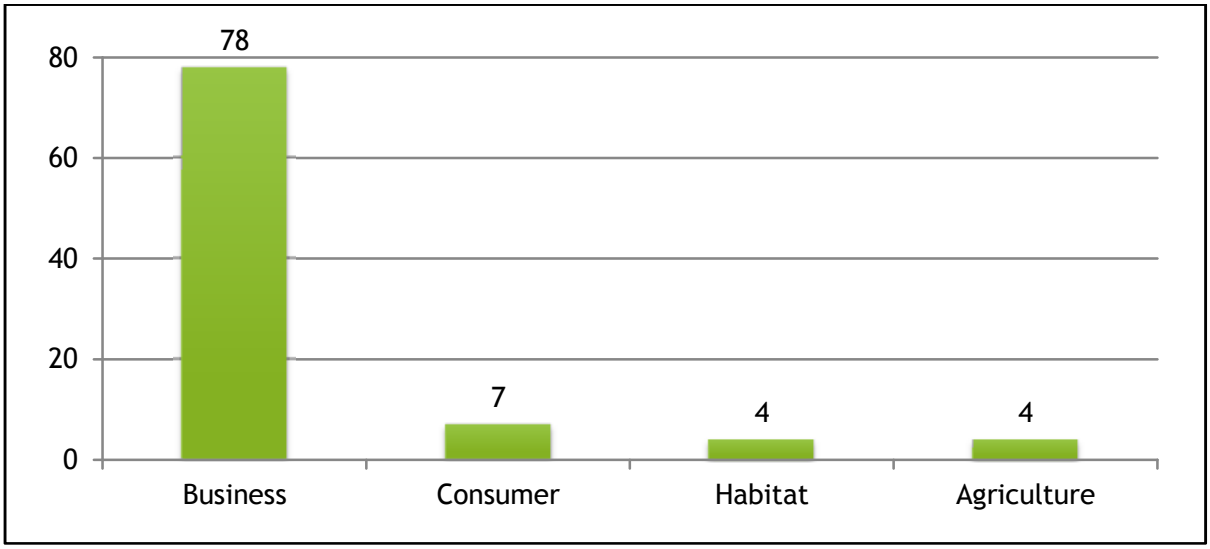
In the absence of means to monitor borrowers' levels of debt and since certain market segments are highly competitive, taking out multiple loans is possible and considered by some one of the principal drivers of OID in the country. Repayment problems as well as social and economic pressure can drive borrowers into a vicious cycle of taking out more and more loans, leading in the worst case to OID. Lack of information on borrowers' financial history (see section on credit information system) exacerbates the problems related to multiple lending. Given these circumstances, multiple lending is given a prevalence value of 6.

3.4.7 Consumer credits

In financial sectors that experienced OID crises, consumer credits to microfinance customers contributed to OID. As financial inclusion in the DRC is a fairly recent phenomenon, consumer credits to MSMEs have not been playing an important role in the sector (BCC 2010; BCC 2012; Figure 15). Consumer credits are above all granted to borrowers with a steady salary. For consumer credits, due instalments must not surpass a third of the monthly salary (Exp11). As mentioned above, lenders have little or no access to information on borrower's (consumer) credit history. A problem faced by cooperatives is that government salaries can often only be transferred to banks and MFIs so that cooperatives have a hard time gaining those who receive salaries as customers (BM5).

Employees can have trouble repaying a loan because public officials are often not paid on time. In general, consumer credits can contribute to the risk of a debt spiral (Exp7; Exp25) but they are hardly granted in the DRC which is why we attributed a low prevalence of 3.

Figure 15: Types of loans granted in percent



Source: BCC 2012

3.5 Summarising the early-warning index: the risk of OID in Kinshasa

OID risk in Kinshasa

In this paper, risk of OID was assessed by the prevalence of the above-mentioned 19 early-warning indicators for OID (chapters 3.1 to 3.4) To ensure traceability and comparability of our results, we applied a similar approach as the Zurich study by attributing values from 1 to 10 (low to high) for the prevalence of each indicator (column 2). The following table includes the final value for OID risk in Kinshasa as well as a summary of every indicator's prevalence number. With uniform weighting (1/19 for each indicator), the overall risk of OID in Kinshasa is 6.04 (column 3). When we attribute a double-weighting to those 5 indicators assumed more influential for OID (dark green in the table), the resulting value for OID risk is only slightly higher at 6.27 (column 5). To make our results comparable to those of the Zurich study, we also calculated OID risk using only the 14 indicators applied by that study (column 6). The resulting value of 6.12 does not significantly differ from our own results with and without weighting.

Table 3: Structure and results of OID Index

1	2	3	4	5	6
Early-warning indicator	**Prevalence**	**Result with uniform weights**	**Coefficient using stronger weights**	**Result with stronger weights**	**Result if using Zurich indicators**
GDP per capita growth	6	0.318	0.042	0.252	-
Remittances	2	0.106	0.042	0.084	0.12
Political & Economic stability	9	0.477	0.042	0.378	-
Corruption	2	0.106	0.042	0.084	-
Market penetration	5	0.265	0.042	0.21	0.3
Growth rate of total loan portfolios	7	0.371	0.042	0.294	0.42
Development of PAR ratios	7	0.371	0.084	0.574	-
Quality and use of credit information system	10	0.53	0.084	0.82	1.2
Commercial bank involvement	6	0.318	0.042	0.252	0.36
Levels of competition	7	0.371	0.042	0.294	0.42
Investment flows	4	0.212	0.042	0.168	0.24
FI Liquidity	5	0.265	0.042	0.21	0.3
Average loan balance per borrower	5	0.265	0.042	0.21	0.3
Loan requirements and lending methodologies	5	0.265	0.084	0.41	0.6
Productivity	9	0.477	0.084	0.738	0.54
Range of loan products	9	0.477	0.042	0.378	-
Growth and market targets	7	0.371	0.042	0.294	0.42
Multiple lending/borrowing	6	0.318	0.084	0.492	0.72
Consumer credits	3	0.159	0.042	0.126	0.18
End result		**6.04**	**~1**	**6.27**	**6.12**

All modes of calculation result in a value for OID risk in Kinshasa between 6.04 and 6.27. With these values, Kinshasa exceeds the threshold of 6.0 and thus falls within the category of having a “relatively high level of early-warning signals for OID” (Table 4).

Table 4: Early-warning indicators of OID

OID early-warning sign index value	Meaning
< 3.5	Lowest level of early-warning signals for OID
3.5 – 5	Relatively low level of early-warning signals for OID
5 – 5.5	Medium level of early-warning signals for OID
5.5 – 6	Medium to high level of earlywarning signals for OID
6 – 7.5	Relatively high level of early-warning signals for OID
> 7.5	Highest level of early-warning signals for OID

Source: Zurich

According to this index, Kinshasa, which boasts the largest financial inclusion sector in the DRC, is in the same risk group as Peru, Cambodia and Bosnia-Herzegovina were in the Zurich study. These countries are marked by a vibrant microfinance sector with high degrees of competition and a lack of supervisory bodies or credit information centres. Bosnia was in an OID crisis at the time of the Zurich study (2010). The most important variables for the high-risk assessment in the case of Kinshasa are:

- The lack of a credit information system;
- Pressure on loan officers to increase productivity which is a result of strong competition and leads to lax lending methodologies;
- Loan conditions and range of products that grant little leeway to borrowers and are not suited for the DRC's politically fragile and economically precarious context. In particular, financial literacy of borrowers is not sufficiently addressed.

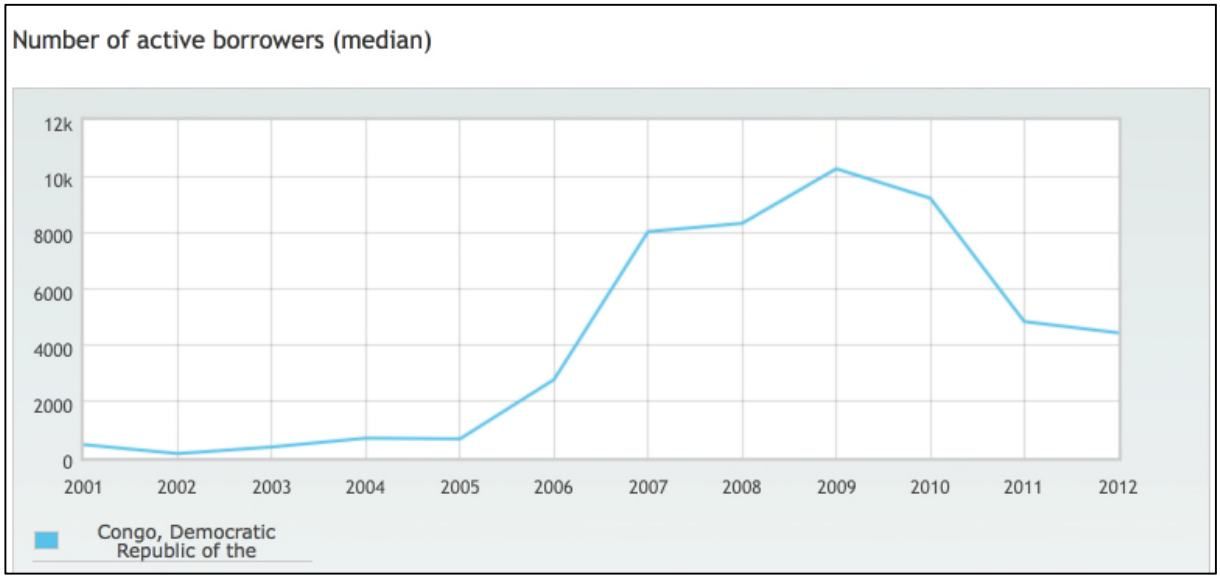
As mentioned in the beginning of this paper, the index for OID risk merely serves as an alarm signal and does not necessarily mean that Kinshasa will be hit by an OID crisis. However, the index helps to find actions and plans to reduce the risk of OID. It can also contribute to a sound development of the sector of financial inclusion which is beneficial to borrowers and FIs.

Mission drift?

Some stakeholders suspect a certain "mission drift" on the part of FIs as they increasingly cater to customers who are better off than their original clientele – a notion not easily proven through empirical research (Armendáriz & Szafarz 2009; Mersland & Strom 2010). Yet the previous chapter has shown signs of mission drift on the part of some FIs operating in Kinshasa. FIs focus too strongly on marketing and ignore the risks of fast growth and borrowers' needs. This way financial inclusion operations may actually become detrimental to economic development and empowerment. A number of indicators can be used to estimate the degree of the financial inclusion sector's social mission.

A first indicator is the number of borrowers. Figure 16 shows a strong increase in individuals borrowing from Congolese FIs between 2006 and 2009 followed again by decreasing numbers until 2012.. FIs examined in this study, whose main activities take place in Kinshasa, have had a different development between 2010 and 2012. Advans increased the number of active borrowers from 1,800 to 4,400, Finca from 61,000 to 84,000 and Opportunity from 4,400 to 6,000. Only the numbers of Mecreco have stayed the same (at 24,000) while those of ProCredit decreased from 7,700 to 5,600 (MIX).

Figure 16: Number of borrowers per FI (median)

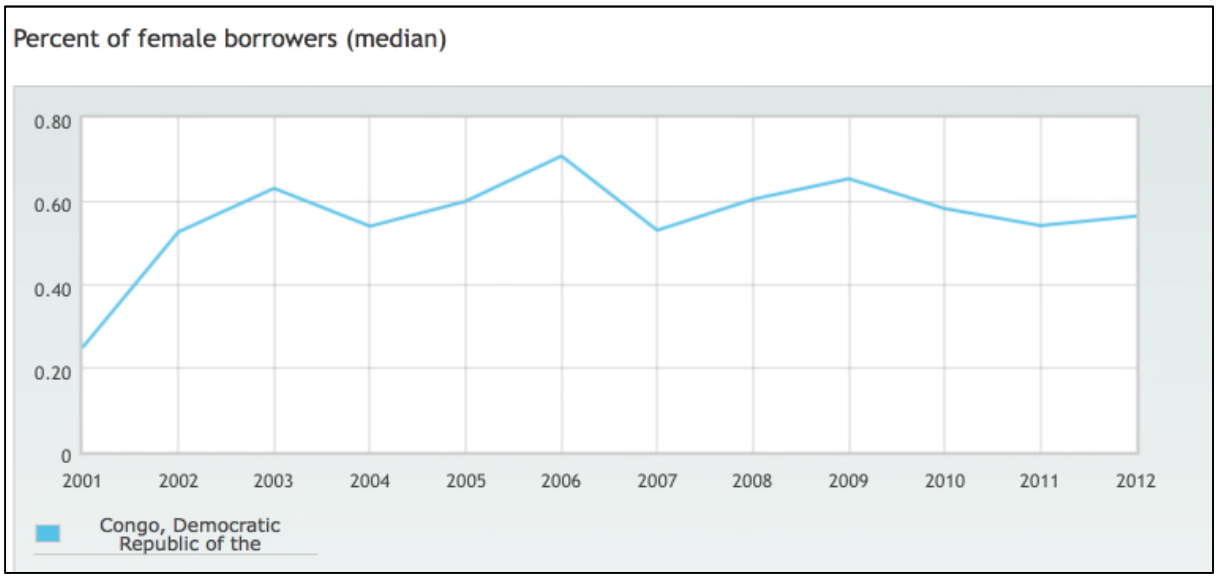


Source: MIX

The goal of financial inclusion is to enable access to finance to the large segment of the population which is currently excluded from financial services. In the previous chapter on OID risk indicators, this goal was examined through an analysis of market saturation. However, a strong increase in the number of borrowers per year (more than 63 percent) as occurred in the DRC between 2006 and 2009, can also lead to a deteriorating portfolio quality (Gonzales 2010; see chapter 3.3.1).

A second indicator is the percentage of women among borrowers. In the DRC's microfinance segment, women contribute more of their revenue to the well-being of the household and tend to be granted smaller loan balances than men (Engel et al. 2013). Figure 17 shows the gender distribution is changing in favour of female borrowers.

Figure 17: Percentage of female borrowers



Source: MIX

Social performance of the financial sector can also be assessed in terms of poverty rates among borrowers. Ideally one should examine the number of borrowers per income segment (KfW 2011). As such data is often inaccessible, Armendàriz & Morduch (2010) suggest using the loan balance per borrower instead of income as an indicator. According to MIX, the average loan balance per borrower in the DRC was 751 dollars in 2012 compared to 400 dollars GDP per capita. For the FIs examined for this study, this ratio is even more divergent: for ProCredit it is 4,267 percent, Advans 1,222 percent, and even Mecreco and Finca 373 percent and 113 percent, respectively. Only Opportunity has an average loan balance lower than the GDP per person with a ratio of 72 percent (MIX). This may indicate that FIs are serving borrowers who are better off than the average person but the level of loan balances also raises questions on their mission in terms of poverty reduction.

Despite the competition between FIs and its effects on the OID risk, 95 percent of the population remains unbanked (BCC 2012). The current moderate growth level of the financial sector means a good time to push for the establishment of a supervisory body (KfW 2011). Data upon which to assess the level of growth was not accessible at the time of research but growth in terms of borrower numbers, loan portfolios and the average loan balance to GDP per capita ratio are contrasted by a lag in regulatory measures.

If the granting of higher loan balances is used to subsidize loans to poorer income segments, targeting higher segments can go hand in hand with a double bottom line. Some FIs in Kinshasa traditionally dedicated to microfinance are increasingly turning way from microloans, even eliminating them from their portfolio.

As described above, commercial banks (that needn't necessarily consider social targets) have started penetrating the loan segment targeting MSMEs in Kinshasa and the Kivus. They have intensified the competition in this specific and limited segment without bringing to the table competencies for more support for this vulnerable income segment (Exp2). Competition between FIs for central markets, combined with a lack of supervisory bodies, increases the pressure on FI personnel. Loan requirements are thus often not adapted to borrowers' needs and vulnerability.

In summary, one can say that FIs in Kinshasa have conflicting goals. As was shown, their social targets and objectives of financial/economic sustainability can contradict each other. By placing the emphasis on financial sustainability over social targets, the risk of poor portfolio quality increases. However, if one examines the different objectives of financial inclusion, it is clear that social and financial goals also have the potential to complement each other:

- FIs with solid financing, aiming for profitability can add to the professionalization of the sector of financial inclusion and to an increasing scope of borrower categories;
- Subsidies and not-for-profit programmes can be brought together to serve borrowers of poorer segments (KfW 2011).

4 Degree of over-indebtedness in the sample

The previous chapter indicated a relatively high level of early-warning signals for OID based on macroeconomic data and interviews. It brought together verifiable data and subjective perceptions. In the current chapter we examine the severity of OID among borrowers who have defaulted on a payment. This is based on their own perception as well as the duration and severity of repayment problems. This "OID index" allows us to determine typical reasons for OID as well as its implications for the individual borrower.

A total of 101 borrowers (51 men, 50 women) were interviewed in Kinshasa. The primary selection criterion was that they were in default of payment at the time of research or shortly before.

Borrowers were approached via their financial service provider, i.e. microfinance banks, MFIs and cooperatives. Despite efforts to include the same amount of micro, small, and medium businesses of all sectors, it was easier for FIs to provide us with micro and small businesses in the area of petty trade (see box).

Factsheet sample of borrowers

Men: 51; Women: 50

Type of institution	#	%	Loan balance ø (USD)	Loan cycle ø
Banks	39	38.6%	9,300	3.6
Cooperatives	25	24.8%	2,400	4.0
MFIs	37	36.6%	950	2.7
Total	101		4,500	3.5

Sector (multiple answers possible)	#
Petty trade	75
Service	21
Production/processing	5
Trade	5

Number of employees	
None	59
1-5 Employees	36
5-10 employees	3
> 10 employees	3

Loan balance (USD)	<1,000	1,000 - 5,000	5,001-10,000	>10,000	n/a
Banks	3	17	12	5	2
Cooperatives	7	13	1	1	3
MFIs	27	8	2		
Total	37	38	15	6	5

Type of loan	
Individual	67
Group	34

Objective of loan	
Purchase goods/merchandise	73
Other investment (engine-generator, construction, travel)	10
N/A	18

Other outstanding loans	
No	80
Yes	21

Average loan balance of those who have a second outstanding loan: 8,500 dollars

4.1 Over-indebtedness index

As described in chapter 2.2.1 the qualitative definition for OID by Schicks (2010) can help understand the OID situation in Kinshasa:

> *"A microfinance customer is over-indebted if he/she is continuously struggling to meet repayment deadlines and repeatedly has to make unduly sacrifices to meet his/her loan obligations (Schicks 2010 : 7)"*

Accordingly, borrowers are considered over-indebted if they:

- Have continuing problems to repay;
- Employ coping strategies that demand existential sacrifices to meet due dates;
- Consider themselves over-indebted.

The advantage of this definition is that it allows those affected to speak for themselves and it is complementary to the more abstract approaches used in the previous chapter. In order to account for the subjectivity of perceptions and the impossibility of verifying quantity and quality of sacrifices, multiple qualitative indicators are combined, resulting in an OID index. This approach avoids cash-flow analyses (requiring information that MSMEs in Kinshasa often do not have).

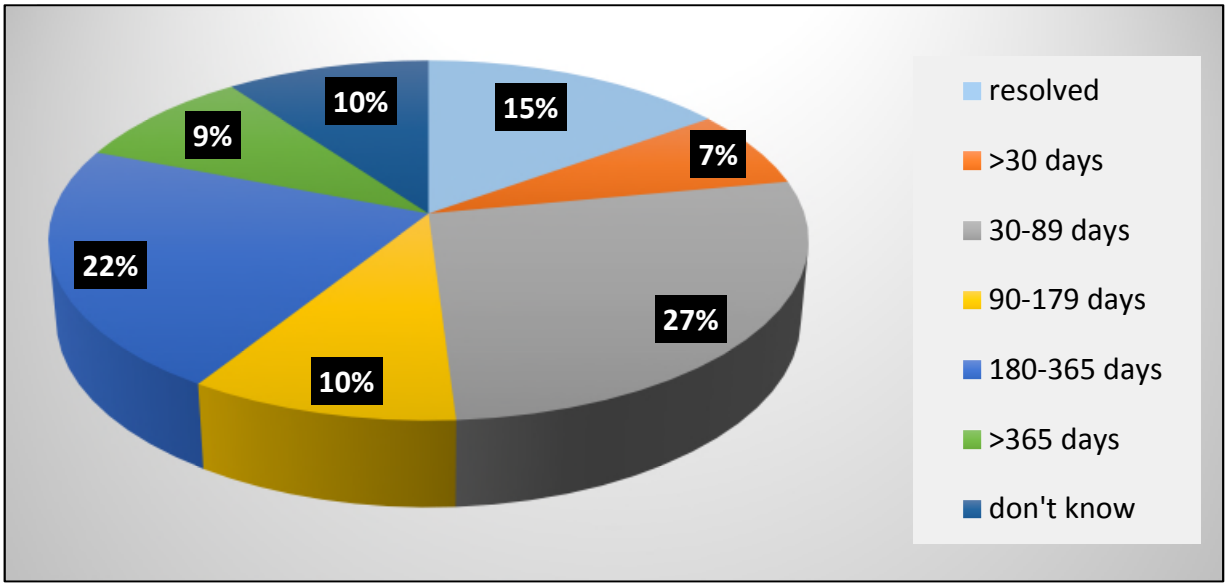
The index results from multiplying various compounding factors (see next chapter). The borrower's perception and the duration of repayment problems on the one hand; sacrifices and health and social problems due to being in default of payment on the other. The index is calculated through the formula: (length + perception) * (sacrifices + problems).

4.1.1 Perception and duration of problems

FIs facilitated interviews with borrowers in default of loan repayment – most of which were listed in the PAR. 69 percent of borrowers were listed in the PAR30 so their default in payment had lasted at least 30 days (Figure 18).

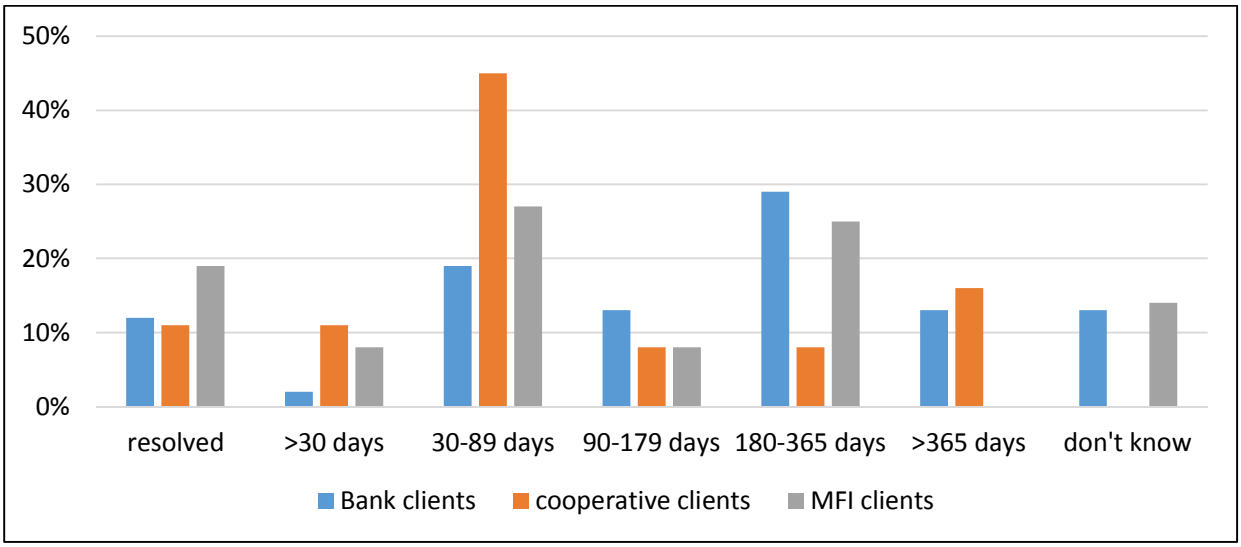
It seems that bank clients in the sample had more severe problems with repayment than other borrowers: 54 percent of them have been in default for more than 90 days (PAR90) compared to 32 percent of borrowers with MFIs and cooperatives (Figure 19).

Figure 18: Duration of repayment problems in the sample



Source: Interviews with borrowers

Figure 19: Duration of problems by type of provider



Source: Interviews with borrowers

To quantify the duration of repayment problems we have attributed values from 0 to 5. Generally it is assumed that the longer the delay in payment, the more difficult it is to resolve the problems. No delay in repayment counts as 0 while late payment for more than a year counts 5. The moderate factor 2 is attributed for persons who cannot remember how long they have been in default of payment.

Components	Description	Manifestations
Duration of delay/ problems in payment	0; <30 days; 30-89 days; 90 - 179 days; 180 - 365 days; > 365 days	0;1;2;3;4;5

73 percent of the sample consider themselves over-indebted. Borrowers of banks consider themselves more indebted than average (85 percent), while 38 percent of MFI borrowers are confident that they will be able to repay and continue their business (Figure 31 : appendix). Borrowers who consider themselves over-indebted are incapable of meeting due dates, paying interest, and late fees. Other signs of OID are stress and mental consequences endured by the borrower.

> "My business is no longer working, I can no longer repay"
> "I am uneasy when I think about the late fees accumulating"
> "After the rescheduling of debt, the interest rate multiplied"
> "I am unable to pay, I can no longer take the pressure from the loan officers"
> "I cannot sleep, I am traumatized, I have no appetite"
> "I am choking on the debt, I am in a crisis"
> (Borrowers)

27 percent of the sample who do not feel over-indebted despite delays in payment explain that their business is running and creating profits, even if these are lower than expected. They are confident that they will overcome repayment problems. It is striking that many of them mentioned their savings accounts which in many cases seemed to smoothen income flows. For the index, the values 0 (No, I am not over-indebted) and 1 (I am indeed over-indebted) were attributed.

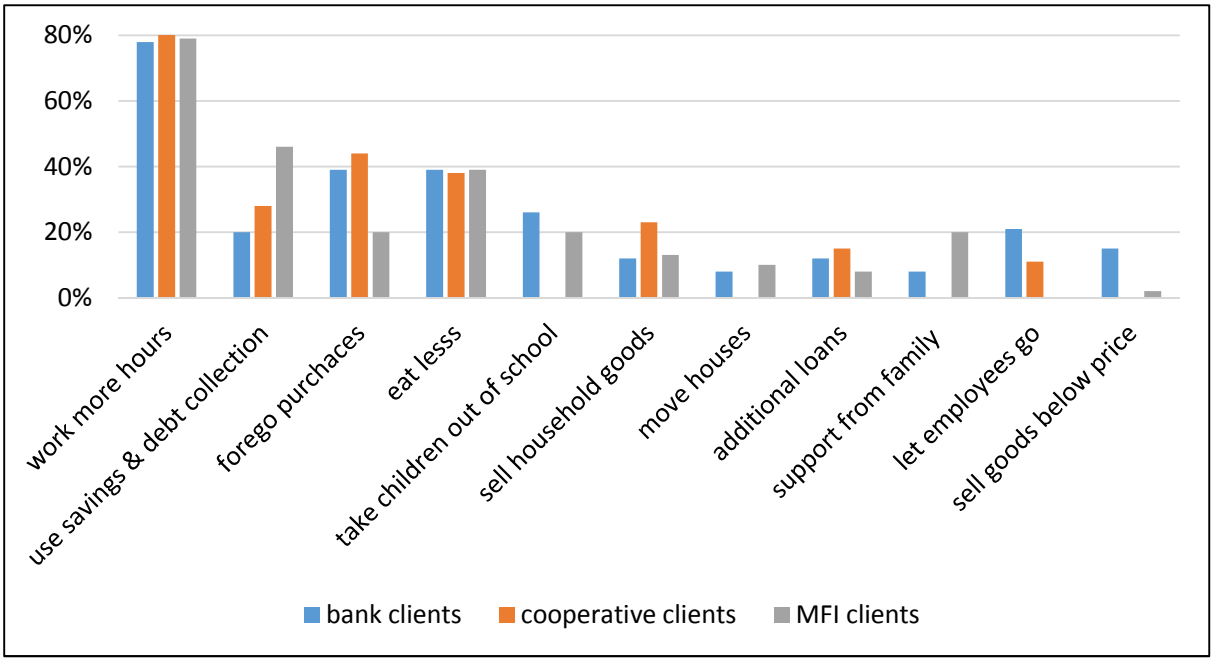
Components	Description	Manifestations
Perception of OID	No; Yes	0; 1

4.1.2 Coping strategies for OID and repayment

In this section we analyse coping strategies used and sacrifices made by borrowers in order to repay loans.

Strategies are sorted into categories by type of sacrifice (cutting down expenditures, business, borrowing, family, assets: Figure 20) which receive values according to severity of the sacrifice (1 to 6). As an example, more than 70 percent of respondents said that they must work more in order to meet due dates. This is not necessarily a sacrifice and by no means existential so the value 1 is attributed. However, the 30 percent who save money by eating less make an existential sacrifice – which receives the value 6 (Table 5).

Figure 20: Repayment strategies by type of FI



Source: Interviews with borrowers

Table 5: Overview of the index of sacrifices/coping strategies

Sacrifices (value)		Business		Debt		External payment		Assets	
Eat less	6	Let employees go	4	Additional loans (friends, family)	4	Financial support from family	2	Work more hours	1
Take children out of school	6	Stop hiring	2	Loan from other FI	5	Debt collection	1	Savings	1
Move houses	5	Cut down salaries	3						
Sell household goods	4	Sell goods below price	3						
Forego purchases	3								
TOTAL	**24**		**12**		**9**		**3**		**2**

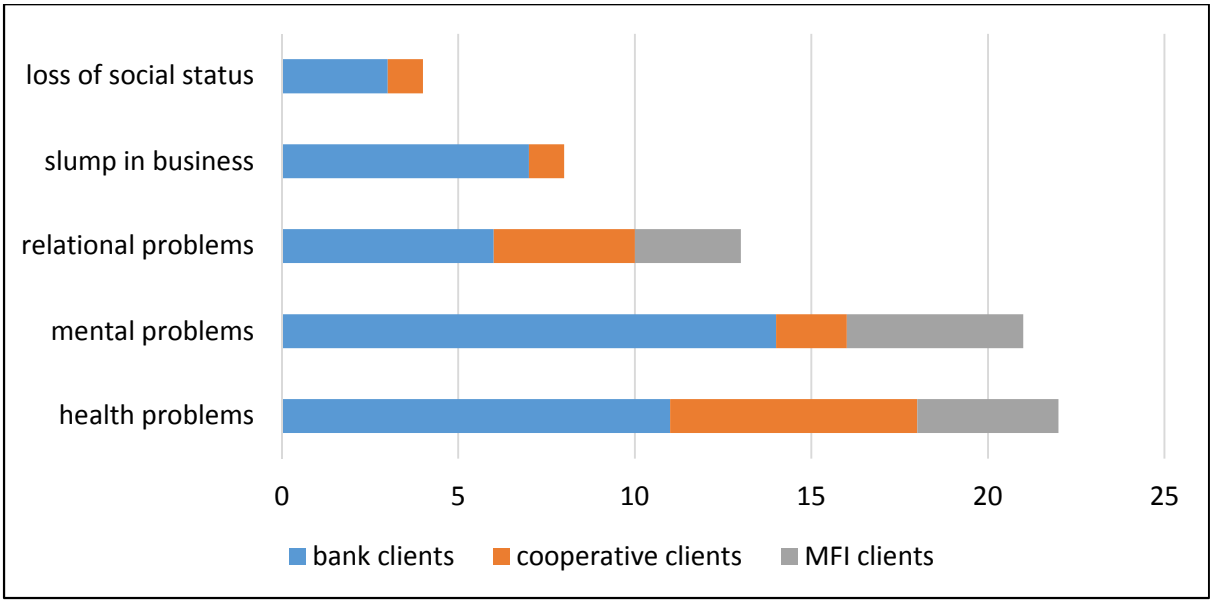
For each interviewed borrower, the applicable values are added together in order to categorise the borrower's total severity of sacrifices in five levels: none, moderate, tangible, severe, and fatal. 55 percent of the sample make sacrifices that can be considered tangible, severe, or fatal. They face more existential sacrifices such as reducing the amount of food or expenditure on school fees, harmful business decisions (closing of shops, letting employees go, etc.) or requesting another loan with other FIs or informal lenders which, in the long run, can exacerbate borrowers' capacity to continue their business (Table 6).

Table 6: "Sacrifice" index for sample

Index	Severity of sacrifice	Examples	Percentage of sample
0	Non		1
1–5	Moderate	Moving houses or letting go employees	44
6–10	Tangible	Eating less or taking out second loan & selling products below price	28
11–15	Severe	Taking children out of school & letting employees go & seeking support from family members	17
>15	Fatal	Eating less & taking children out of school & not paying employees & support from family members	11

In a second step, we assess other problems which borrowers encountered as a consequence of coping strategies or debt collection practices. These can be classified into health, relational and psychological problems, as well as declines in business. More than 21 percent of the sample have had problems related to health or well-being in connection with delay in payment or with debt collection practices. For those borrowing from banks, this ratio is even more alarming: 28 percent have had health problems, 36 percent psychological problems (next figure).

Figure 21: Other problems encountered by borrower in delay of payment



Source: Interviews with borrowers

4.1.3 Results: OID index

In adding perception, duration, and sacrifices (Table 7), we receive values representing the severity of OID in the sample.

Table 7: Components and manifestations of OID

Components	Description	Manifestations
Perception of OID	No; yes	0; 1
Duration of repayment problems	0; <30 days; 30-89 days; 90 - 179 days; 180 - 365 days; > 365 days	0 – 5
Sacrifices	Non; moderate; tangible; severe; fatal	0; 2; 4; 6; 8
Other problems	Health; psychological; relational; social status; business	0-5

Values are categorized into levels of OID from none to very severe (Table 8). This allows us to estimate the prevalence of OID among those FI borrowers who are in default of payment and, ultimately, to quantify the problem of OID in Kinshasa. In the sample, 57 percent fall into the category "over-indebted" or worse, meaning that repayment problems have persisted for more than 30 days and borrowers have made sacrifices that are at least tangible. Borrowers in this category consider themselves over-indebted and have run out of coping strategies to meet due dates. They are often traumatized by debt collection practices and have problems of social nature (loss of social status or relational problems).

Table 8: Categories of OID

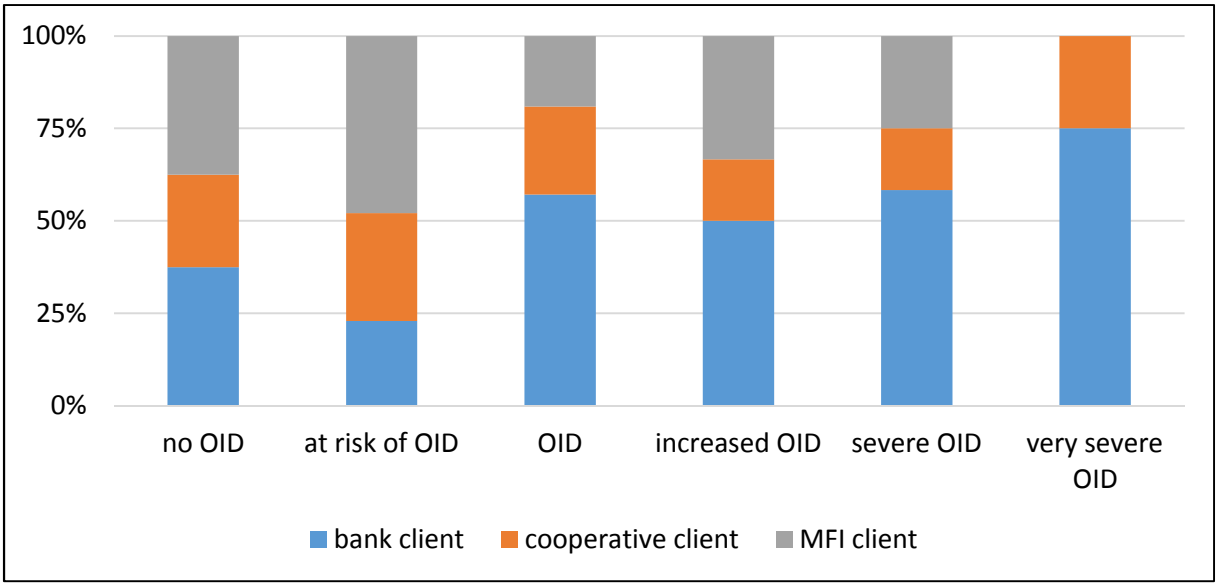
Values	Severity of OID	Examples	Percentage of sample
0	none	no delay; no sacrifices; no problems	8
0-10	at risk	Delay of less than 30 days & moderate sacrifices & relational problems	35
1-20	over-indebted	self-perception: over-indebted & delay of 30-89 days & tangible sacrifices	28
21-30	increased OID	self-perception: over-indebted & delay of 30-89 days & tangible sacrifices & psychological problems	11
31-40	severe OID	self-perception: over-indebted & delay of 90-179 days & severe sacrifices & psychological problems & health problems	12
> 41	very severe OID	self-perception: over-indebted & delay of more than 180 days & fatal sacrifices & psychological problems & health problems	8

4.2 Factors contributing to over-indebtedness

The severity of OID in Kinshasa is determined by various factors. Among the most important of these factors are; the type of financial service provider, the loan balance, whether the borrower received the amount requested and whether the borrower has multiple loans.

- Individuals in delay of payment and borrowing from banks seem more severely over-indebted than borrowers with other FIs (Figure 22): 74 percent of them are over-indebted or worse (value higher than 11) compared to 44 percent of borrowers with cooperatives and 46 percent of borrowers with MFIs.

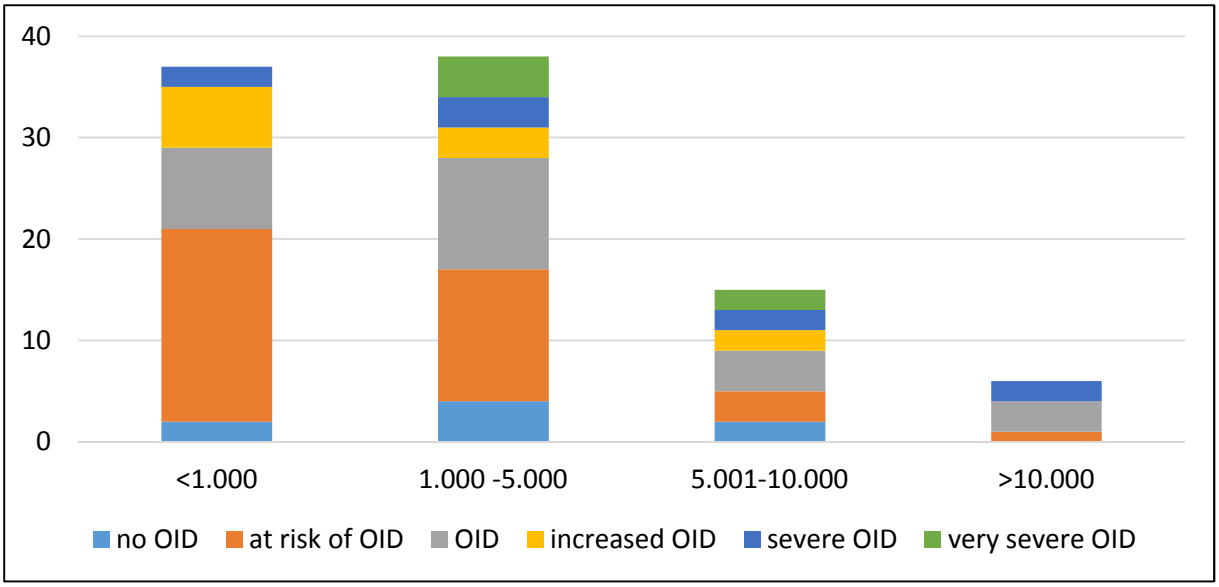
Figure 22: OID by type of provider



Source: Interviews with borrowers

- OID is less common among borrowers in loan groups (47%) than among individual borrowers (61%).
- Having multiple loans exacerbates OID: 67 percent of borrowers with multiple loans are over-indebted or worse, compared to only 54 percent of borrowers with one loan.
- MSMEs rated as “over-indebted” or worse (see table 8) have an average loan balance of 6,320 dollars. For those merely at risk of OID or without problems, the average loan balance is 2,360 dollars. The portion of those categorised as “over-indebted” increases with borrowers’ loan balance (less than 1,000 dollars: 43%; 1,000-5,000 dollars: 55%; 5,000-10,000 dollars: 67%; more than 10,000 dollars: 83%; Figure 23).

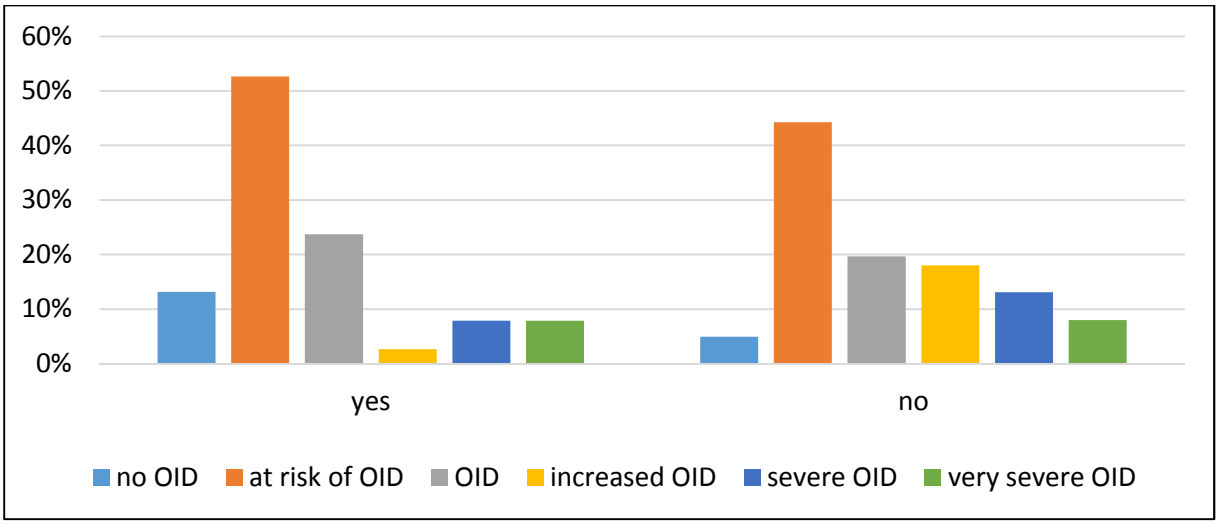
Figure 23: Degree of OID by loan balance



Source: Interviews with borrowers

- Rationing of loan balances is a common method to reduce the risk of OID: 62 percent in the sample did not receive the balance requested (Figure 24). However, those who did receive the amount requested had less problems repaying (47%).

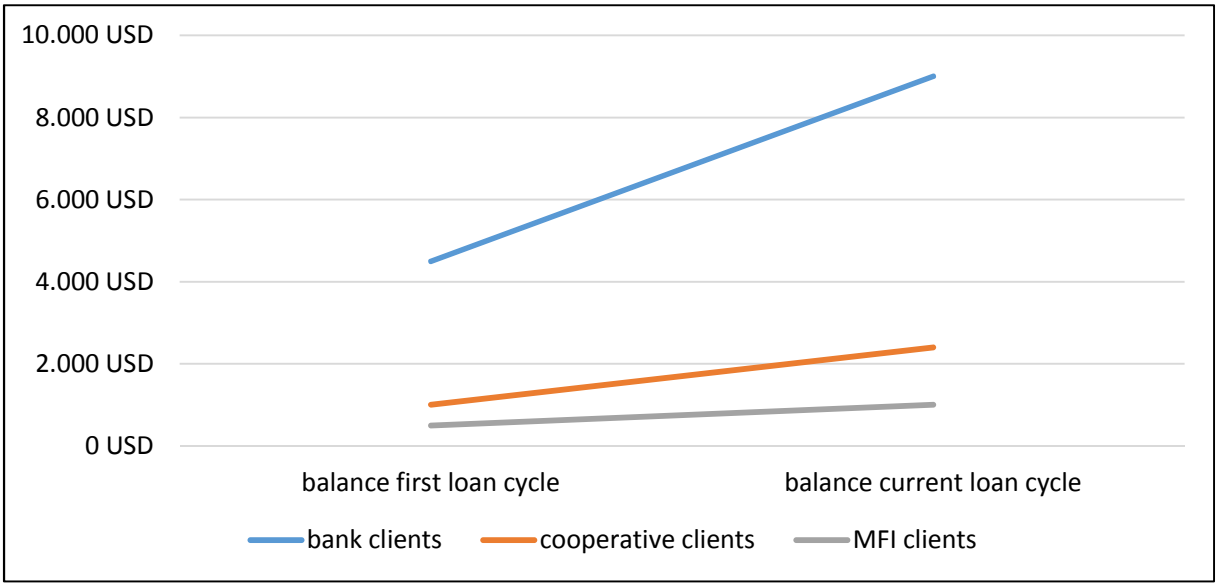
Figure 24: Received / did not receive requested loan balance



Source: Interviews with borrowers

- As discussed in chapter 3.4.5, the automatic increasing of loan balances each cycle can contribute to the OID risk.
- On average, balances doubled between the first and current cycle (Figure 25).

Figure 25: Increase of loan balance between cycles



Source: Interviews with borrowers

Neither gender, nor age or level of education or household size seem to influence the severity of OID:

- Men (53%) and women (60%) suffer equally from OID.
- OID occurs in all age categories. However, less entrepreneurs between 49 and 58 years faced increased OID or worse (17%) than those between 39 and 48 (36%) or those between 29 and 38 (30%).
- The portion of borrowers categorised as “over-indebted” (or worse) is similar among entrepreneurs having finished secondary school without diploma (61%) and those who went to university and obtained (61%) or did not obtain a diploma (57%). Only those who finished secondary school with a diploma have a slightly smaller portion of OID (47%) in their group.

The severity of OID is influenced by the sector of work, the number of loan cycles and whether the household can rely on a secondary livelihood:

- Petty trade (43% over-indebted) and services (50% over-indebted) are similarly concerned by OID.
- Much like borrowers in delay of payment, over-indebted entrepreneurs are usually in the third or fourth loan cycle.
- 40 percent of over-indebted borrowers are not their household’s only source of income. Often the secondary salary can help to repay loans.

One third of borrowers had heard of borrowers with repayment problems before requesting a loan and, despite their problems, 78 percent stated that they would recommend taking out a loan. Knowing bad cases or having problems oneself does not seem to serve as a warning against financial service products.

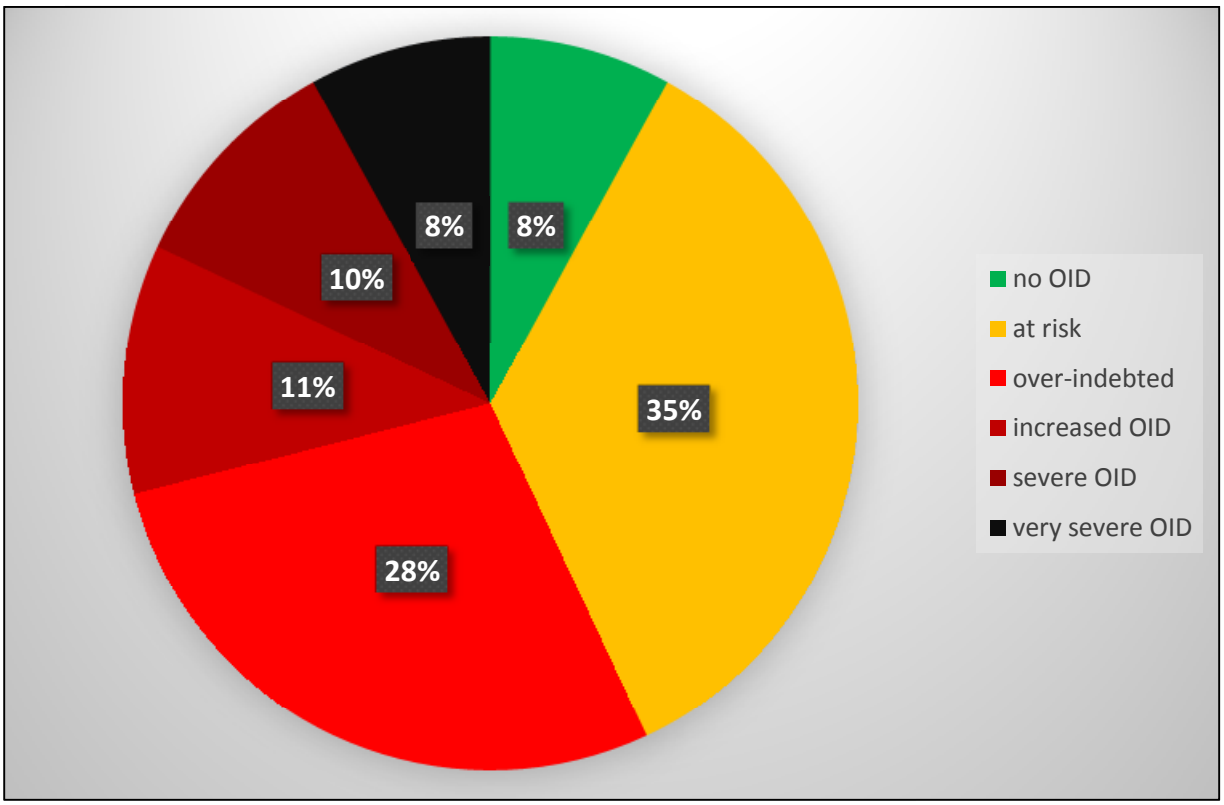
4.3 Conclusions: over-indebtedness in the sample

In this paper, the OID index was developed on the basis of a qualitative definition which focuses on sacrifices and coping strategies. According to this index, 57 percent of the sample are over-indebted or worse (Figure 26).

The degree of OID increases with the loan balance. MSMEs that are over-indebted or worse received an average loan balance of 6,320 dollars. The rationing of the loan balance seems counterproductive as a protection against OID. This was shown by the fact that borrowers who received less than the loan balance requested were more often affected by OID. Furthermore, automatic increasing of loan balances each cycle can contribute to OID because increases often occur without a sound analysis of the borrower's profile. This automatic increase is much less prevalent for credit groups. As a consequence, borrowers in loan groups are less severely indebted than individual borrowers. Finally, having multiple loans exacerbates OID.

Neither gender, age, level of education, household size nor the number of sources of income within a household seem to play a significant role for the severity of OID. The sector of work and the loan cycle appear to play a subordinate role.

Figure 26: Severity of OID



Source: Interviews with borrowers

5 Assessment of over-indebtedness in Kinshasa

In this chapter we present and discuss existing practices used in financial inclusion to detect and reduce the risk of OID. The chapter brings together the assessment of the OID risk (chapter 1) and the severity of OID in Kinshasa. Different causes for OID put forward by experts are described and classified for the supply and the demand side. Exogenous factors, inspired by the model used by Schicks (2010, chapter 2) will also be discussed.

5.1 Risk and degree of over-indebtedness in Kinshasa

“After the rescheduling of debt, interests multiplied more and more” “I was ill, not working, without any resources” “The loan is the rope around my neck” (borrowers)

The previous chapters have shown that the risk of OID in Kinshasa is elevated and that existing cases of OID tend to be serious. However, the relative prevalence of the phenomenon is low because few people in the DRC currently make us of financial products (perhaps 5% have a bank account; see Le Phare 2013 ; Financial Afrik 2013 ; BCC 2012). Yet, signs for a future OID crisis should not be ignored. Particularly worrying is the increase of the PAR ratio in central markets of Kinshasa and for some FIs as well as the rapid growth of financial inclusion in the capital. Serious measures are needed to reduce the risk of OID and to establish better consumer protection. At present, consequences for those in debt are serious, both in social and economic terms. Late fees added to the debt often exacerbate the borrower’s inability to overcome over-indebtedness.

In the DRC, debt is considered a character flaw by many (Exp13). This means that for borrowers, intrusion of loan officers into their personal life is very shameful. This anxiety becomes more existential when borrowers are facing seizure of their property. According to experts, repayment problems have already led to suicides (Exp19; Exp28). If catastrophes like Andhra Pradesh are to be avoided, if FIs are to take their social objectives seriously and if the sector’s reputation is to be saved, the efforts to reduce the OID risk must be reinforced.

5.2 Different causes of over-indebtedness

Chapter 2.3 has shown different factors contributing to OID: lenders can increase the risk, borrowers can make bad choices which contribute to OID risk, and external factors can also push a borrower into OID (Schicks 2010; Figure 2). Interviews conducted in Kinshasa demonstrated various causes and dynamics of OID from different points of views. These causes will be discussed in the following sections.

5.2.1 External factors / weak governance / weak institutions

Many exogenous factors can contribute to OID, in particular a lack of supervision and weak institutions.

Lack of consumer protection

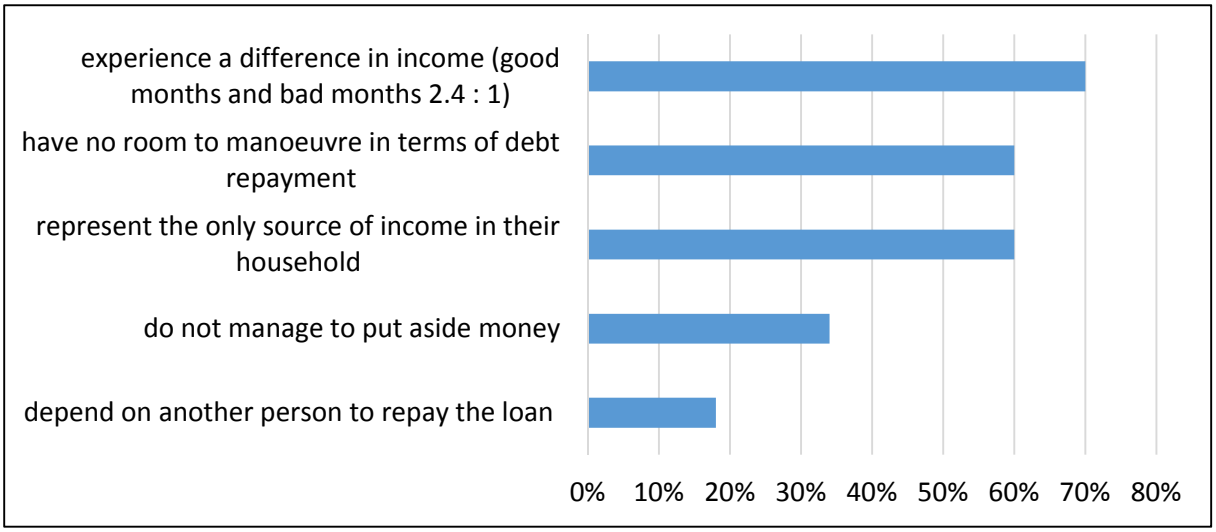
Fragility of the state implies that certain reforms, e.g. concerning consumer protection, have been implemented only in party or not at all (CGAP 2013). Despite efforts of state regulation on the side of the BCC and despite the relatively small size of the sector of financial inclusion, the presence of international institutions and different efforts to modernize the sector have remained unsuccessful in curbing the growing risk of OID. The absence of a credit information centre and the lack of an efficient legal system contribute to provisional practices that are in part illegal (illicit seizing of household goods or merchandise) (3.3.4) and at odds with rules of consumer protection (Exp11; LO5; LO8).

Limited economic scope

As explained in chapter 3.3.2, business-owners operate in an economically precarious context. Their leeway as borrowers is limited by the FIs' focus on trade and service (as opposed to production and processing) and existing business (as opposed to new businesses, start-ups). Thus, the majority of borrowers pursue short-term strategies of buy-and-resell that bear little innovation and face much competition.

This competition, combined with vulnerability and little purchasing power, can negatively affect businesses. They must cope with strong variations in income between good and bad months. Borrowers in our sample reported that they earned on average 2.4 times more in good months than in bad months. At the same time, it is hard for businesses plan ahead and invest at a given moment. Furthermore, over 60 percent of borrowers interviewed are the only person in their household earning money (average number of household members: 4.6) and one third does not manage to put money aside (following figure).

Figure 27: Economic scope / vulnerability of MSMEs



Source: Interviews with borrowers

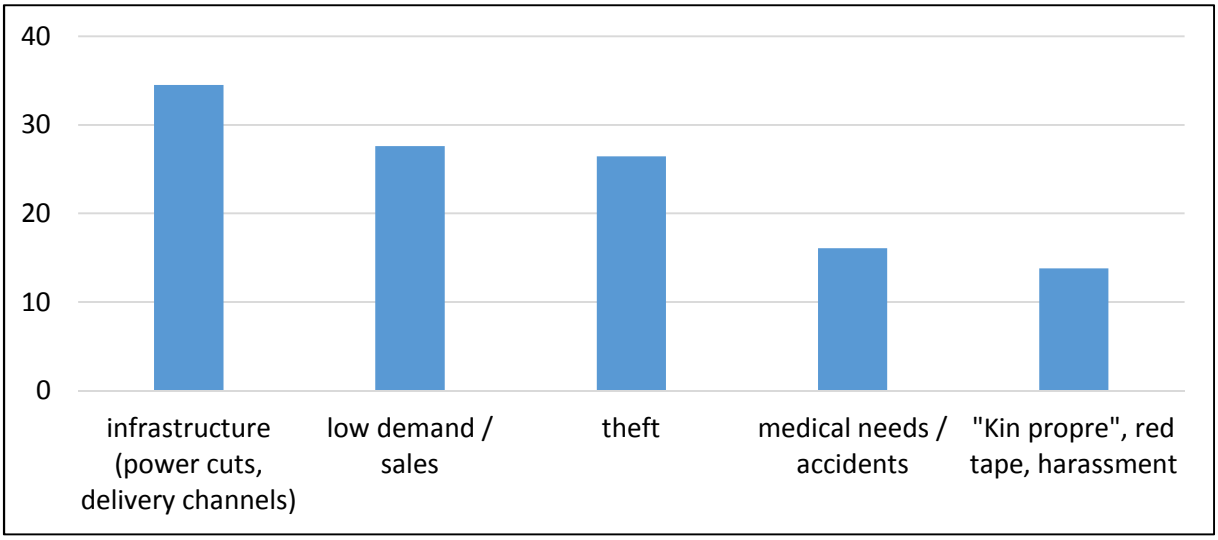
Weak governance

> "There are always accidents, and cases of merchandise or money being stolen. Borrowers pay an acquaintance to buy merchandise in Dubai or China and then are surprised when the person disappears. In other cases the police demolishes their market stall or even borrowers' living quarters. However, for me the fault is with the borrowers as it is their responsibility to be prudent with their property and business"
> (loan officer on causes of OID among her borrowers, LO5)

When explaining repayment problems, interviewed borrowers frequently mentioned contingencies and external factors. Inadequacies at the governance level form the backdrop for their problems in running a business and managing a loan. Certain deficiencies tend to more severely affect specific groups of borrowers (see Figure 28). For example, power cuts are difficult to manage especially for those who produce or process food. Problems in transport and customs as well as delivery delays affect the vast portion of borrowers who work in trade. The same group is affected by the DRC's volatile economy which diminishes buyers' purchasing power and in turn negatively affects traders who are dependent on demand (Exp5).

MSMEs increase their own vulnerability through risky business practices. These include travelling far with large amounts of cash to purchase merchandise/goods or giving large amounts of money to middlemen who can be tempted to disappear with the money. These methods are used because borrowers don't see any other ways of running their business.

Figure 28: Causes for repayment problems - MSMEs



Source: Interviews with borrowers

Micro-businesses in particular suffer from a lack of protection against red tape or harassment. In the context of the “Kin Propre” campaign to combat the informal sector, policemen destroy market stalls and burn merchandise of sellers deemed informal. In the sample, it was particularly borrowers with small loans who were affected by such destructive practices. 35 percent of those with loans under 1,000 dollars (average 608 dollars) named “Kin proper” as the reason why their problems for repayment began.

Apart from these negative framework conditions for economic activity, shortcomings on the part of institutions further negatively affect borrowers’ ability to repay:

- The monopoly of the public insurance provider SONAS limits borrowers’ capacities to insure themselves against accidents, illnesses or other risks (Exp24);
- Public officials cannot rely on receiving their salaries on time and develop secondary activities on the side, no matter their level of managerial abilities (Exp17);
- The lack of a functioning credit information system has generated a flawed information base on borrowers (see 3.3.4).

5.2.2 Supply side

Consequences of competition

The role of the supply side and the consequences of competition between FIs on OID are dealt with in chapter 3.3.5. Analyses of borrower capacities are difficult and often made on the basis of flawed information. As previously described, loan officers are

often overwhelmed with their workloads which further contributes to poor evaluations of borrowers' capacities. In some cases, loan officers are not sufficiently trained or experienced so they have trouble understanding needs and motivations on the side of borrowers (Exp5; Exp11; Exp27).

> "Oftentimes loan officers are still children. They are very young and have never run a business of their own. Providers are often unprofessional conduct and sloppy analyses"
> (a borrower)

Competition between FIs may result in a high rate of turnover among loan officers as they are attracted by higher salaries offered by the competition (Exp2; Exp5). For example, microfinance and commercial banks can pay higher salaries and offer other chances of advancement than cooperatives and MFIs (Exp1). At 350 dollars per month, payroll costs for a loan officer are already high in Kinshasa, and the salaries paid by banks are even higher and thus not feasible for MFIs and cooperatives who lose their staff to banks. This in turn contributes to a lack of professionalism among loan officers of cooperatives and MFIs (Exp4; Exp7).

Inflexible and maladjusted products

The risk inherent in microfinance and financial inclusion manifests itself in high interest rates (chapter 2.1). As a result, successful entrepreneurs with good understanding of financial products (who would make good borrowers) decide against credits (FG4). The burden of this adverse selection remains for the most part with the more vulnerable borrowers who do not have the capacity to detect hidden costs and who do not have reserves or contacts to raise capital elsewhere and at better conditions (Exp14; Exp7). Trainings centres and business associations reproach FIs for lacking creativity in product supply, the willingness to take risks and to develop more diverse products (Exp19; Exp28; FG4). The above-mentioned successful entrepreneurs believe that FIs are contributing to an increased risk of OID by attracting "bad" borrowers of the same economic segment (Exp4).

Rigid loan conditions

The rigidity of loan conditions and abusive debt collection practices (5.3) are at odds with the economically precarious context of borrowers and can exacerbate repayment problems.

When the business goes bad, borrowers are often no longer capable of adhering to inflexible loan conditions. Delays in repayment are sanctioned through late fees that often exceed the ability to repay. On the whole, FIs seem to pursue a supply-based rather than demand-based approach (Exp11).

> "The institution is never ill, it does not know grief" (common phrase among interviewed borrowers)

5.2.3 Demand side

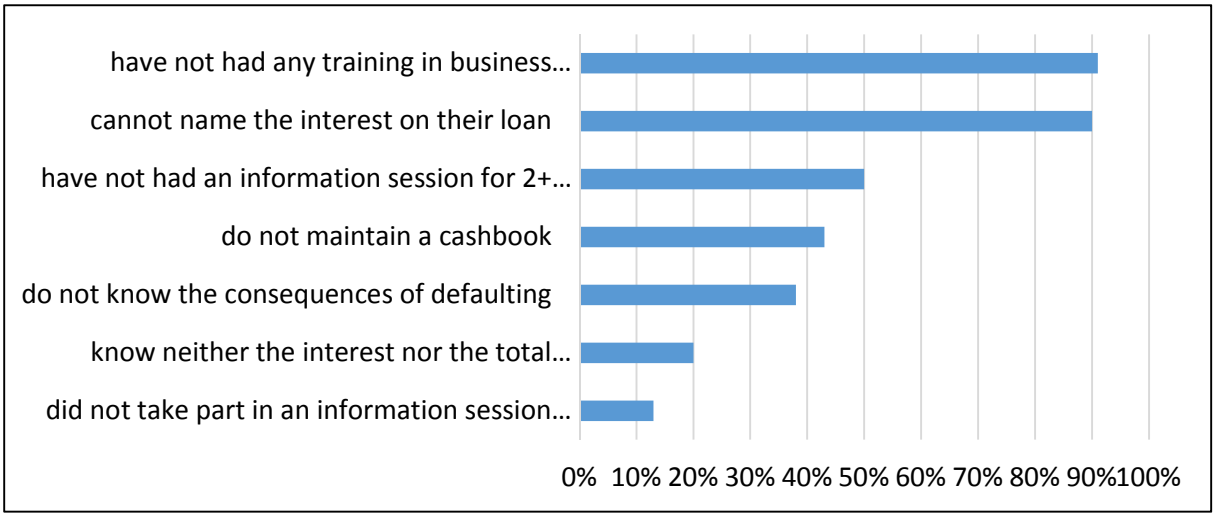
Socioeconomic pressure as well as a flawed understanding of loan conditions and consequences of debt can lead to imprudent decisions on the part of borrowers (Schicks 2010). Some experts also point to socio-cultural factors to explain the prevalence of OID, particularly borrowers frequently underestimating credit obligetions and lacking experience in adhering to due dates (Exp11; Exp17; Exp27).

Borrower capacities

Entrepreneurs targeted by financial inclusion seem to have little understanding of financial products and limited managerial abilities. However, the level of formal education in the sample was not particularly low: 25 percent had gone to university, 18 percent had finished with a diploma, and 34 percent had obtained a diploma from secondary school. Yet, the understanding of financial products seemed rather low, despite long years of experience as entrepreneurs. For example, 78% of interviewed borrowers have carried out their current business for more than 7 years, an additional 8% for 5 or 6 years. Below is a list of factors which underscore the overall lack of borrowers' financial literacy:

- The vast majority (91%) of borrowers have never had a training in business management – they learnt on the job.
- 90 percent did not know how much interest they were paying on their credit – instead they knew how much they had to repay altogether. An understanding of interest rates is essential for the comparison of loan conditions. The lack of this information limits borrowers in their abilities to make sound borrowing decisions.
- Information sessions between FIs and borrowers, in which FIs disseminate loan conditions and managerial skills, are rarely or never repeated after the first loan. Half of the sample had last taken part in such a session over 2 years before the interview and 13 percent had not had a session at all.
- 43 percent of borrowers do not maintain cashbooks while the rest maintain only very basic records of their business sales. This lack of accountancy not only makes it hard for loan officers to correctly analyse a borrower's ability to repay, it also negatively affects borrowers' ability to plan, make long-term investments and take steps towards the development of a business plan.

Figure 29: Financial literacy



Source: Interviews with borrowers

Many actors in the sector of financial inclusion confirm that the lack of a functioning credit information system undermines the quality of their borrower assessments. Loan officers and experts also criticize the fact that borrowers lack the ability to plan and analyse their needs and workload (Exp17; Exp19; Exp27; Exp28).

> "The majority (of borrowers), especially micro-businesses, do not know how to manage their business (…) they have no business plan and do not know how to spend the money in a sustainable way"
> (loan officer)

Some FIs have reacted to this situation by offering support to borrowers in formalizing their businesses and in developing sound business plans (Exp13; Exp19; LO4). This support is often carried out in cooperation with training centres. Some banks have even set up specific offices to advise MSMEs (Exp27; Exp13). However, the information provided by FIs is not always appreciated by borrowers and so far has not led to significant improvements in financial literacy.

> "The borrowers are not interested in the information sessions"
> (loan officer)

Misuse of funds or deviation

FI personnel regard misuse of funds as the main reason for OID (LO6; LO7; LO10; BM2). They assert that they try hard to make borrowers respect the initial business plan, but often fail to do so. A fifth of borrowers interviewed indicated that they hadn't spent their loan as planned and 80% of these did so without informing their provider. Reasons for deviation are manifold. They include unforeseen expenses on illnesses or new investment opportunities that seem to promise faster and higher returns.

Some borrowers mentioned that having received a smaller loan than requested pushed them to deviate a part of their loan to develop a secondary activity or to invest in goods of less quality.

As previously discussed, the majority of FIs target borrowers with low or medium income as there are too few medium and large enterprises in the market. This further increases the risk of misuse of loans because low revenue borrowers are more likely to spend a portion of their loan on consumption or non-sustainable goods (Exp27).

> "I unexpectedly had the occasion of buying a decent vehicle and decided to enter the transport business"
> "I was afraid of being punished for not having respected the contract"
> (borrowers)
> "One cannot glimpse inside the borrowers' heads"
> (loan officer)

Many lenders complain that borrowers often give false information and do not disclose other loans and debts when requesting a loan (BM1; BM5). They attribute this behaviour to borrowers' ill intentions or hidden agendas. Lenders mention that borrowers often have a willingness to forgo repayment, to lie to lenders, or to play out one FI against the other. For this study, such borrower intentions were very difficult to verify. Borrowers' willingness to provide false information forms the basis for loan deviation, i.e. for spending a loan in a way that was not agreed on with the provider. Loan officers seem to have little confidence in what borrowers say. They feel the need to monitor their borrowers' activities closely and to apply pressure and intimidation techniques. This in turn can again incentivize borrowers not to disclose certain information in order to avoid punitive penalties. Overall, the combination of intimidating practices by loan officers and fearful borrowers with a willingness to lie has created an atmosphere of distrust between the two.

Lack of bargaining power

The majority of borrowers who are struggling with their loans blame the FIs for their problems. Given the competition among FIs for borrowers, it seems surprising that borrowers do not try to negotiate loan conditions with officers before taking out a credit. Interviews, however, showed that even with competition, borrowers generally had little bargaining power and didn't see themselves in a strong position to negotiate. It is FIs who decide on (rather uniform) payment schedules for all loans of similar balance.

> "Micro-business are not capable of comparing products. They do not understand. They just want to know how much they must pay each month"
> (loan officer)

> “I have asked for a rescheduling of debt, I was too afraid of their reaction when they hear what happened to the money. I am afraid of being in debt”
> (Nar9)

Social pressure

The idea of redistributing wealth is widespread in the DRC and creates a social pressure on well-off persons to share and support the less fortunate. Often, borrowers do not reveal that the money at their disposal is borrowed for well-defined goals. They are regarded as affluent and expected to assure the well-being of other family members which then undermines their ability to repay (Exp13; LO3; BM5). In an economically precarious environment with many possible contingencies, this social pressure can increase the OID risk. More generally speaking, the tendency to become over-indebted depends on socio-demographic and economic traits of borrowers (Schicks 2010). The study in Kinshasa however does not show any significant differences in terms of OID severity between genders, age groups, or levels of education (chapter 1).

5.2.4 Over-indebtedness - a system of complex causalities

Overall, our hypotheses and the theoretical functional chain of OID developed in chapter 1.1 and 0 are well reflected in the empirical research carried out for this study in Kinshasa. Even though different actors interviewed for this study have different explanations for OID, certain important and seemingly typical correlations can be found. These same correlations have been recognised in all countries that have witnessed an OID crisis. It is therefore possible to benefit from lessons learned in the DRC and elsewhere in order to address existing warning signals for OID.

5.3 Existing practices: managing the OID risk

Actors in the financial sector dispose of different initial measures to identify and decrease the OID risk. In the following section, existing methods are described and discussed in order to identify best practices that have the potential to be adopted in the context of the DRC.

5.3.1 Early-warning indicators

In the DRC, lenders generally assess the risk of OID during the analysis of the borrower's files prior to granting a loan. Loan officers do so by following their FI's guidelines for borrower assessments. During this process, they verify the credibility and repayment ability of the borrower. Typical indicators used include the borrower's:

- Credit history, especially repayment of previous loans
- Reputation in his/her neighbourhood
- Stability in terms of permanent address and business development
- Financial capacities / ability to repay
- Business plan / aim of taking out a loan
- Material goods to serve as collateral

The Zurich study considers the fact that borrower analysis is done along specific, rigid criteria as positive. However, some entrepreneurs criticise the approach of following a borrower in his/her private life (FG4). As mentioned earlier, the quality of borrower analysis depends on a loan officer's work conditions and bonuses for the recruitment of borrowers. Quality of borrower assessments thus differs among loan officers. Moreover, the quality of the analyses depends on the willingness and capacities of the borrowers to provide good information. The general lack of book keeping among borrowers makes it hard to correctly identify and quantify monthly repayment capacities.

Another alarm signal for OID lies in the loan balance requested. If a borrower always takes the maximum amount offered by the FI even if it is not enough for his/her initial business plan, it is likely that he/she will deviate and/or request another loan with a different FI in order to reach the original amount requested (Exp4; LO11).

After the granting of a loan, some FI employees attempt to minimize the risk of credit default by keeping a close watch on the borrower. To check whether the borrower is adhering to the payment schedule, they verify his/her stock of goods and see whether expenditures were made according to plan.

In the absence of a credit information system, some FIs share information on borrowers through informal networks among loan officers and their superiors in order to prevent fraud. Especially for loan requests above 5,000 dollars, a borrower can be sure that the FI will exchange information with some of its competitors to know whether the potential customer has taken out other loans and if so how he/she performed.

> "As there is no credit information system, before granting a credit
> we gather information on the borrower by asking the other FIs.
> All this is done informally and not systematically, leaving many holes"
> (branch director of a MFI)

Though this approach is understandable, it constitutes a breach of borrowers' banking secrecy and is illegal.

On the government level, there is still no system of early-warning indicators for OID in Kinshasa. An index of "bad borrowers" has existed since the 1970s but it has hardly

been used and has mostly been unable to prevent multiple lending. A more recent approach to better record keeping is the project to reform the “centrale de risque”. With the support of KfW, the project is in the process of developing new technologies and a unique identification system for borrower registration. This new system represents an important progress in tackling multiple lending and reducing the risk of OID (Exp6; Exp11; WS3).

On the organizational front, Lubumbashi’s association of indebted, which supports borrowers in articulating their interests, seems to be an example to follow. Apart from giving a voice to borrowers, such an organization could also help to gather information on over-indebtedness, support the development of early-warning signals for OID and identify typical profiles of over-indebted borrowers. Furthermore, such an association could advise and support borrowers affected by OID (Exp17).

5.3.2 Decreasing the risk of over-indebtedness

Apart from attempts to correct existing OID tendencies there are measures to reduce the OID risk. These measures include:

- Careful analysis of the ability to repay;
- Close monitoring after granting a loan;
- Debt collection practices;
- Specialisation of loan officers and limitation of their workload;
- Instructions and regulation;
- Market studies to adapt and regionally expand products.

Careful analysis of the ability to repay

The risk of a borrower defaulting on a loan is considered before granting a loan. This means that lenders try to calculate a customer’s ability to repay as precisely as possible. As a measure of precaution, the ratio of revenue to expenditure is divided by two to estimate the maximum amount the borrower is able to put aside monthly to repay the loan (LO11). This approach is thought to allow for some scope for contingencies. However, this rationing of the loan balance requested can motivate borrowers to exaggerate their income or seek secondary loans with other providers. Another strategy to counter the rationing is to make multiple loan requests with different providers using the same collateral. With most FIs, multiple simultaneous loans to the same household and sometimes even any type of multiple loans are prohibited (Exp18; BM5). Yet, loan officers choose to ignore this standard if their economic analysis indicates sufficient borrower capacities to repay multiple loans (BM5).

A different approach to avoid OID is to limit the increase of the loan balance from cycle to cycle. Automatically increasing the balance is a widespread method to gain customer loyalty. However, this practice has proven risky because repayment problems mostly materialise after several cycles when borrower analyses become less meticulous and borrowers become more inclined to invest their loan in other channels than their primary activity. FIs therefore introduced rates that predetermine by how much a loan balance may grow (Exp4). It does not increase automatically but is subjected to another analysis to prove that the development of the business justifies an increase (Exp21; Exp30).

According to the BCC, FIs have agreed to introduce degressive interest rates to ease the burden on borrowers. Some providers have already done so and begun to revise conditions to the benefit of borrowers (Exp7; Nar15).

In the past, a common practice was to display photos and names of “bad borrowers” in different branches to warn against granting them new loans. These practices have been banned due to violations of the individuals’ rights (Exp17).

Follow-up after loan disbursement

Loan officers have action plans in the case that borrowers are in default of payment or even earlier, if borrowers display unusual behaviours (e.g. continuously being away from their point of sale, selling less, not responding to phone calls from the officer or not showing up for meetings (BM1; LO9).

When a borrower is late, loan officers usually begin to remind him/her by phone and visit his/her point of sale or home. They try to understand the reasons for the late payment and to advise the borrower on how to resolve the issues and keep with the payment schedule. Even when default is due to contingencies and not due to bad intentions on the part of the borrower, late fees are immediately added to the overall amount to be repaid (borrower questionnaires).

Debt collection practices

When a borrower is unable to repay, there is usually the possibility to reschedule the debt. Interviews showed that this option is not available to all borrowers in default (borrower questionnaires). When the FI no longer believes that a borrower will repay, it proceeds to seize the borrower’s collateral, generally without initiating a legal process. Though this is de jure illegal, FIs have indicated that they feel forced to proceed this way due to the inefficiency and tardiness of the justice system (Exp2; LO8). Seizing collateral however creates new problems for FIs because they generally have little capacity to store or resell the seized goods (Exp2). Furthermore, the collateral is often worth only 30 to 50 percent of the debt (LO9). Proponents of a tough and rigid approach to debt collection see the seizing of collateral more as a

symbolic procedure. They support such approaches as educative interventions to discourage potential customers from requesting excessive amounts of loans and as a sign to other borrowers to honour their contracts (Exp11).

Ultimately, FIs must write-off outstanding debt after 18 days (for some FIs 365 days) (BCC 2013). To avoid this loss of repayment, FIs should reschedule debt and adapt the payment schedule to the borrower's situation. If possible, this should be done as early as possible, without pushing borrowers into a spiral of debt through late fees (LO11).

FI branches try to reduce loan-related losses by encouraging their loan officers to minimize PARs. This additional pressure on officers is often passed on to their borrowers. Another way to stimulate repayment is to implicate guarantors who are obliged to pay the debt if the borrower is in default. Some FIs even reported consulting with a borrower's clergyman to facilitate loan repayment (LO2). Furthermore, certain loan officers admitted that they systematically use psychological pressure on borrowers to avoid default (loan officer questionnaires).

> "In terms of follow-up of a loan, FIs do the following:
> a day after disbursement they visit the borrower. If he/she hasn't spent
> the money as planned, the FI seizes all their merchandise. It sells all of it
> the same day to recuperate the money, (…) this is a strong signal. They are right
> to do so because the risk was calculated according to the business plan,
> so if the borrower deviates, the risk has changed. Or, they take the money
> from the guarantor who may then turn on the borrower. The mechanism is
> debatable but since the justice doesn't work …"
> (expert)

A particular way of using social pressure to assure repayment is joint liability in group loans. Even though this system has advantages (high repayment rate, no need for collateral), interviews with loan group members have raised some issues. An important issue mentioned by interviewees is the fact that members of a group often do not know each other prior to the loan. Group members have no information on the morality or quality of business of the other members and they simply join together to fulfil the number of members required by the FI (Nar15; Nar17).

Streamline and specialize loan officers' tasks

With the intention of better debt collection, division of labour has started to take foot among FIs in Kinshasa. Institutions have introduced recovery departments whose sole task is to follow-up on borrowers in default (LO6; LO8). Their methods seem to be less abusive because recovery officers are given more scope for action by the FIs in negotiating solutions acceptable to all parties involved (LO8). They also do not feel the pressure of managing their portfolio quality. This division of labour reduces the

number of different tasks of loan officers, who in turn can improve the quality of their borrower assessments and customer support (Exp28; Exp19).

Another good practice used by some FIs is to set more realistic goals for their loan officers, for example, by limiting the number of borrowers per loan officer. This enables loan officers to be more careful in their borrower selection and to provide more comprehensive borrower support, including counselling and support in loan management (Exp24; LO11).

The FIs' capacities to train their employees are widely divergent. All FIs examined insisted that they train their personnel well and make them attend training sessions. This however depends on values and approaches, sector workshops as well as workshops on consumer protection organised by FPM and CGAP (Exp1). FIs have different reputations when it comes to their follow-up and debt collection practices. Even within an institution, loan officers' behaviour can vary considerably (Exp18). While some loan officers wish to create a trusting relationship with borrowers by getting to the bottom of their problems and developing a solution together, others prefer to rely on intimidation and rigor. One loan officer mentioned the challenge of officers in finding a balance between neither being too supportive nor too strict with their borrowers.

> "We must be careful not to appear too easy-going if we want to be taken seriously by the borrowers since they do compare. One must strike a balance: if you are too tough, you lose customers. Sure, many of them are victims of crime, contingencies but sometimes they simply lack prudence despite their experience, and our efforts to warn them about consequences"
> (loan officer)

Standards and regulation

On the governmental level, the BCC has introduced guidelines for FIs to limit the risk of OID. These include the limitation of the PAR30 to 5 percent of the total loan portfolio and at least 15 percent equity capital. Recently, these regulations have led to some national FIs to shut down operations as their PARs were to high (Exp7; Exp5).

Consumer credits are limited to one third of a borrower's salary. This mechanism is effective, but only regulates consumer credits, which as we learned above only constitute a small percentage of the total loan portfolio. The measure can be abused by using the same salary as guarantee for multiple credits (cross-borrowing).

The BCC and others are expect FIs to soon publish global interest rates and to make all hidden costs of a loan transparent in an effort to enable customers to compare loan conditions. As practiced in other countries, this should happen through a public

and an official website (Exp7). Regulations that require FIs to display effective loan interest rates and costs in a comprehensive manner have not been put into practice yet (CGAP 2013).

Another set of regulations which could improve customer protection would be to introduce regulations of debt collection procedures as well as a compulsory complaints system which at present is only in the planning (Exp7; Exp18). FIs claim to address bad practices on their part through an “open door policy” (BM1) and using complaint boxes through which customer complaints can be reported. This feedback system does, however, not seem to be used on a large scale (FG4; FG3).

> “For five years I worked with a bank. It was like working with a wall:
> no advice, no support, no questions, and no complaints”
> (entrepreneur during a focus group discussion)

Market studies and expansion

The FPM and the FIs’ professional associations (ACB, ANIMF, APROSEC) have their own social performance indicators and offer trainings on standards for consumer protection. A detailed analysis, comprising recommendations for different plans of consumer protection in Congo’s financial sector, was commissioned by the BCC and carried out by CGAP. A report on the analysis was said to be published in 2014 (Exp7 ; CGAP 2013).

The FPM has also performed some market studies since 2012 to incentivise regional expansion of FIs beyond the DRC’s economic hubs. Because of bad debt repayment rates in contested markets, some FIs have actually begun to explore new markets outside of economic hubs. For instance, some FIs are moving away from Kinshasa and opening branches in less competitive provinces like Bandundu, Bas-Congo and Katanga. FI expansion beyond economic hubs is only just starting but some FIs have said that they see their future in underserved regions where market penetration is low (Exp24). Expansion to rural regions would encourage developing agricultural credit products, even if such products have not been too promising for now as FIs prefer to stay in urban areas where borrowers are not scattered (Exp24; Exp29). Another example of FI expansion is developing new products for specific target groups such as university students.

Some FIs have started encouraging savings accounts among their borrowers to strengthen their financial reserves. This approach not only increases borrowers’ economic resilience, it also improves repayment rates and thus adds to the FIs’ liquidity and the stabilisation of their operations (Exp2; Exp30; BM1; BM7).

6 Conclusions and recommendations

The chapters above have examined the risk and prevalence of OID in Kinshasa and described measures by different FIs to counter this problem. This final chapter takes up the arguments to conclude how one can proceed to reduce the OID risk on different levels of intervention.

Risk of OID was shown to have various different causes which result from the government level (regulation and framework), the sectorial level, and the level of individual FIs and borrowers. Research findings from this study revealed the following causes to be the most influential factors in the increase of OID in Kinshasa and rising numbers of over-indebted borrowers:

- Lack of a credit information system that is functional and efficient.
- Weak implementation of central bank regulation.
- Lack of professionalization among FIs despite efforts on the institutional, sectorial and government level.
- Competition among FIs for the same market segment and lack of flexible and adapted products.
- Insufficient borrower analysis which, despite many efforts, does not comprehensively assess borrowers' capacities or moral conduct.
- Low financial literacy among MSMEs as well as precarious business practices and loan deviation caused by contingencies or hidden agendas.

As described in the previous chapter, several institutions are making efforts to counter the shortcomings summarized above:

- The "Centrale de risque" is in the process of being reformed.
- The FPM and professional associations are urging FIs to implement reforms and respect international standards for consumer protection.
- FIs are exploring new products and new regions to target unbanked clientele. Other FIs specialise in unbanked economic segments like micro-businesses.
- FIs are increasing division of tasks among staff and introducing specialised units for the interaction with borrowers.
- Entrepreneurs are beginning to organise to become more independent from financial service products and to attain more bargaining power.

All of these efforts have begun to bear fruit but in the long term will not be sufficient to reverse the OID tendencies in Kinshasa. The research team suggest strengthening efforts on all levels in order to minimize the risk of an OID crisis (a table with an overview of the discussion follows at the end of the chapter):

Government level

The “centrale de risque” (CdR) is a key element to prevent OID. FI employees and sector experts hope that its reform will enable the credit information system to monitor and limit the number of loans to be taken out by borrowers and reduce cases of fraud in the sector of financial inclusion.

Consequently, the CdR’s steering committee (composed of representatives from different sections of the BCC and of members of FIs’ professional associations) should:

- Speed up the launching of the reformed CdR;
- Develop a manner of functioning and model of financing that doesn’t disadvantage cooperatives and MFIs;
- Assure that the information disseminated by the CdR is correct and reliable;
- Make transparent to FIs its progress and development and its planned manner of functioning (responsibility of associations);
- Cooperate with the Ministry of the Interior and the provider of a unique identification system.

The BCC has continuously extended its control over the sector of financial inclusion and its professionalization. In order to further strengthen the development of a well-functioning sector of financial inclusion in the DRC, the BCC should adhere to the CGAP’s 2013 report on consumer protection by implementing the following:

- Elaborate norms for the granting of loans (after the inauguration of the CdR) to assure a minimum of standards for borrower selection and analysis. These norms should be applied by all institutions operating in the MSME segment, namely cooperatives, MFIs, financial inclusion banks and commercial banks;
- Develop and supervise an arbitration system to assure adequate debt recovery (mindful of lenders’ and borrowers’ interests). Professional associations could cooperate in this process;
- Assure information transparency on real prices of financial products, real costs of late repayment and possible recovery procedures;
- Specify the type of statistical data that FIs need to provide and make accessible sector data and analyses.

The possibility of offering any kind of insurance is extremely limited due to a monopoly held by SONAS, whose operating methods are hardly known and in whom consumers have little or no confidence (CGAP 2013). Abolishing this monopoly and developing a supply of better suited insurances against contingencies would give some stability to the otherwise precarious business environment in which entrepreneurs operate (Exp24). Donors can cooperate with FIs to resolve problems resulting

from information asymmetries, transaction costs per insurance, challenges in the enforcement of legal contracts and the lack of diversification in the segment of micro-insurances. In this regard, one could learn from promising approaches in other financial inclusion sectors where life, health, and weather insurances exist (Boúúart 2008).

Successful savings programmes tend to have a good on-site support service and enable saving small amounts. They also require institutions with easy access to capital. The positive effect of savings is revealed when supply and micro-savings serve as a means of reaching new customers and as a security to grant credits (KfW 2010).

The prerequisite of collateral continues to present an obstacle for many potential borrowers, and some entrepreneurs complain about the mistrust with which their loan requests are met (FG4; FG5). A guarantee fund, which would serve as an additional guarantee for entrepreneurs, could reduce this problem and lead to better financial inclusion. The French Development Agency (AFD) has developed a credit risk-sharing scheme called ARIZ (support for the risk of financing private investment in AFD's areas of operation) which could serve as a partner in the expansion of the sector's guarantee offer.

Government campaigns like "Kin Propre" require better communication and must be executed with more consideration of the situation of individuals affected by such measures. Regularising informal businesses and livelihoods can only work if viable formal alternatives are offered. As petty trade represents the only possible livelihood for many, measures like "Kin Propre" threaten the well-being of a vast economic segment of the population, and in the long run, social cohesion. Stakeholders in the sector of financial inclusion could try to influence government decisions to better protect their clientele.

Sectorial level

Adhering to international standards of social performance (SMART, SPTF) should be mandatory for all FIs in the DRC. At present, some FIs, but certainly not all, have validated the Smart Campaign. Actors in the sector of financial inclusion should step up efforts to improve standards and social performance of FIs – the reputation of the sector and the confidence the public places in it depend on the professionalism of all FIs. Organisations and professional associations that bring together FIs are in a good position to continue the process of modernisation towards increased social performance (Pykosvska 2011a; 2011b; Rotter 2012). These international standards should be complimentary to standards made by regulators. Internal audits can increase adherence to standards of conduct and strengthen interaction with borrowers. FI personnel are exposed to high pressure which prevents them from adhering to standards – the FPM could push them towards better consumer protection.

Transparency of loan conditions and actual costs of loans is imperative to enable borrowers to make choices based on correct information. Professional associations and other organisations implicated in the sector (e.g. the FPM) could insist that their members and partners display loan information in their branches that is easily comprehended by borrowers.

The monopoly on market data prevents associations from collecting and analysing data on the sector and undermines their ability to better guide their members. The data collected by the BCC should be accessible by all sector stakeholders. Trainings for FI employees are in demand and help standardise the presently widely divergent practices by FIs.

Organisations working in the sector of financial inclusion could support FIs in strengthening borrowers' financial literacy. They could develop courses of instruction to strengthen information sessions and contribute to the elaboration of a national strategy for financial literacy. Public campaigns (posters, radio ads) to encourage responsible use of loans and better business management could be part of this approach.

Sector stakeholders could also launch a debate on financial inclusion's social targets. As discussed above, commercial targets have gained importance vis-à-vis social ones in the management tiers of FIs and could threaten the realisation of the latter. This in turn could undermine the sector's reputation.

Sector institutions could facilitate a process of discussing the relationship between social and economic targets. Certainly, those FIs supported by donors should be interested in discussing their balance of social and economic targets. The international discussion of development effectiveness (OECD 2011) could influence this discussion. As elaborated in chapter 3.5, economic sustainability and social performance can be complementary. Nonetheless, Congo's financial inclusion sector seems to require subsidies or programmes to target low-income households. Support for FIs focussing on these target groups could be provided in the form of subsidies, facilitated re-financing, tax exemptions, guarantee funds or other favourable conditions (KfW 2010). Donors should condition their support for FIs to their adherence to social performance standards and the preservation of their social goals.

Institutional level

FIs should increase their efforts to reach new customers through market research rather than continuing to fight for borrowers in the same regions and segments. Market research could lead to a) better suited loan products for unbanked MSME (e.g. agriculture) and b) expansion into other regions of the country. Information on geographical and socio-economic market saturation could help to target appropriate, i.e. underserved markets (Chen et al. 2010).

It is possible that pilot phases of new products or in new regions will not immediately be profitable for FIs. Donors could support such initiatives if they bring the sector closer to financial inclusion and poverty-reduction.

Financially literate entrepreneurs who, because of adverse selection and their understanding loan conditions, prefer not to request a loan under existing conditions, represent an attractive clientele for FIs. To better understand their needs, FIs and sector stakeholders should engage in a discussion with MSME representatives in order to develop flexible and suitable products (FG4).

Debt recovery always has the potential to damage the relation between borrowers and FIs. Recovery practices should be based on certain norms so that borrowers do not exploit differences by repaying only those FIs considered “tough”. FIs should agree on standards for the recovery procedure. They should adhere to laws and refrain from illegal seizure of collateral (as it occurs at the moment). Particularly, they should delegate recovery to specialised units within their organisation so that loan officers can pursue their main tasks of recruiting new borrowers, creating and assessing borrower files and establishing a relation of trust and support with borrowers.

Loan officers play a crucial role in the borrower-FI relation. In sufficiently large FIs, tasks should be divided among specific working units. This could enable specialisation and strengthen the quality of services. Specialisation could occur in recruitment, training, and consultation of customers, support and follow-up, customer analysis and recovery. Such a division of labour could help to avoid misallocation of loans and support business development. Furthermore, it could improve accounting practices which form the basis of analyses and prognoses for future loans.

Loan officers should be offered more trainings, especially on codes of conduct, social targets, and best practices in customer protection. To support best practises, their borrower assessments should not be confined to quantitative/economic parameters but should also take into account qualitative analyses. Borrower assessment should similarly not be confined to economic estimates but include aspects of morality and behaviour to avoid misallocating loans. Also, sufficient time should be allocated for thorough data collection and analysis.

Key elements of information sessions for borrowers are: how to calculate interest rates, consequences of defaulting and late repayment and advice on how to avoid and overcome business-related problems. Such sessions should take place before each loan cycle.

Household / MSME level

Management, financial literacy, and business practices are key elements for successfully managing a loan. These can be established through training programmes, education

in general and awareness-raising. The ministry of education, in cooperation with the BCC, sector representatives, and professional associations should develop a strategy for financial literacy on all levels (schools, media campaigns, awareness-raising events).

Interested borrowers should have easier access to trainings in business management to improve their capacities for planning and monitoring their business. It is likely that only few entrepreneurs feel the need to partake in these types of trainings (FG5). To encourage participation, better loan conditions could be offered to entrepreneurs who apply tools and methods of improved management. Participation in training courses should be included as criteria for loan disbursement to honour these efforts and improve business practices. Professional associations should contribute to awareness-raising among their members to increase professionalism in the sector in the long run.

Generally, MSMEs could be reached by campaigns for savings and responsible credit use. At the same time the image of FIs and financial services would be improved in the long run and the number of entrepreneurs seeking a loan would be broadened. That way one would fully harness the development potential of access to finance.

Table 9: Recommendations at a glance

Action	Principal actor	Partners	Time frame
Government level			
Launch credit information system Unique identification system Inform and convince FIs	Steering committee of the "central de risqué" (BCC, ACB, ANIMF, APROSEC)	KfW Ministry of the Interior	2014
Develop norms for loan disbursement (borrower assessment; minimal information)	BCC (microfinance and commercial banks)	Professional associations FPM	2014
Development arbitration system for loan recovery and managing credit defaults	BCC (microfinance and commercial banks)	Professional associations FPM	2014
Standardise and publish information; accessibility of market data	BCC (microfinance and commercial banks)	FIs Professional associations FPM	2014
Develop national strategy for financial literacy	Ministry of Education	Ministry of Finance BCC GIZ Professional associations	2014
Revise "Kin proper" campaign Develop plan to regularise petty trade in a sustainable manner Fight corruption/red tape	Kinshasa Administration	Donors	2014
Abolish insurance monopoly: diversify and stimulate competition	Ministry of Finance	SONAS	2014-15
Assess feasibility of guarantee fund	Ministry of Finance BCC	AFD, FPM Donors	2014-15

Sectorial level			
Develop norms for acceptable debt recovery	BCC Professional associations Consumer associations and MSMEs	FPM FIs Donors	2014
Disseminate and support norms and standards for consumer protection	Professional associations FPM	FIs	2014
Disseminate and support standardisation of data collection and publication by FIs	Professional associations FPM	FIs	2014
Campaign for financial literacy (media, posters)	Professional associations FIs	Ministry of Education GIZ Training centres CCAM (design)	2014
Launch debate on commercial and social goals of financial inclusion sector	Professional associations FPM	Donors CCAM (theoretical debate)	2014
Institutional level			
Harmonisation of debt recovery practices via FIs while respecting sector instructions	FIs	Professional associations BCC	2014
Review system of analysing and assessing borrowers	FIs	CCAM (studies, consulting) FPM	2014
Streamline loan officer tasks and adapt assessment system	FIs		2014
Review system of continued training for loan officers	FIs		2014
Intensify monitoring of borrowers: animate MSMEs to partake in management and accounting courses	FIs	Training centres	2014
Market studies on virgin markets (regional, sectorial) and develop new products	FIs	FPM MSME associations	2014-15
Render credit products more flexible	FIs	MSME associations Professional associations	2014-15
MSME level			
Contribute to the developing of a strategy for financial literacy	Professional associations	Ministry of Education	2014 - 2015
Contribute to a better management of business and loan	Professional associations, training centres	Professional associations, FIs	2014

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Table 10: Experts interviewed

	Name	Organisation	Position
Exp1	Patrick Kasuyi	Advans	Responsible for training
Exp2	Francois Lecuyer	Advans	Director General
Exp3	Pathy Kalengayi	Advans	Sales Manager
Exp4	Jean-Pierre Illunga	ANIMF	Secretary General
Exp5	André Nkusu Zinkatu	APROSEC	Secretary General
Exp6	Madame Mpunga	BCC	Responsible for credit information system
Exp7	Marie José Ndaya Illunga	BCC	Deputy Director of the Department of Supervision of Financial Intermediaries
Exp8	Aubin Lubasu	BILO	Responsible for higher risk products
Exp9	Fabrice Nzuka	BIC	Business Manager
Exp10	Dominique Mbaya	CADEA	Educator
Exp11	Frédéric Kalala	CCAM	Professor / researcher
Exp12	Jenny Musikingala	CCAM/ Ecobank	Researcher
Exp13	J-R. Finunu Samba Justin Kuyangumunu Bomba	COGEFOR	Director General Head of Programs
Exp14	Dieudonné Kasembo Nyembo	FEC	National chairman of commission for SME marketing
Exp15	Anuarite Kutungulula	Finca	Regional Manager
Exp16	King Kingwaya	Finca	CEO
Exp17	Jean-Médard Muteba	FPM	Project Manager
Exp18	Florian Berndt Francis Nzondomyo	GIZ	Principal Technical Advisor
Exp19	Junoir Kalonji	IECD/RDC	Head of Kasavubu branch
Exp20	Pascal Nsarhaza	Mecreco	Coordinator Mecreco/East
Exp21	Germaine Dibula	Mufesakin	Director general
Exp22	Pascal Gilles N'kita	Opportunity	Chief Operating Officer
Exp23	Martin Khiendo	Oxus RDC	Director of operations
Exp24	Eric Marquer	Oxus RDC	Director general
Exp25	Monah Andriambalo	PASMIF	Technical Advisor
Exp26	Nadege Bula-Bula Ayitre	ProCredit	Responsible for higher risk unit
Exp27	Jean-Philippe Mukuaki	SFI/IFC	Coordinator of program to support SMEs in the DRC
Exp28	Alice Ngoma Manzueto	UMOJA	Director
Exp29	André Radloff	ProCredit	Director general
Exp30	Yvonnick Peyraud	Advans	Director general
Exp31	Cathy Mbungani	KfW	Advisor for financial and private sector

Table 11: Focus group discussions

FG1	Loan officers with Opportunity
FG2	Loan officers with Mecreco
FG3	Loan officers with Advans
FG4	Entrepreneurs with FEC
FG5	Entrepreneurs with “RDC enterprises”

Table 12: Narrative interviews

Nar1	Borrower with bank and MFI
Nar2	Borrower with bank
Nar3	Borrower with bank
Nar4	Borrower with bank
Nar5	Borrower with two banks
Nar6	Borrower with bank
Nar7	Borrower with cooperative (group loan)
Nar8	Borrower with cooperative
Nar9	Borrower with MFI
Nar10	Borrower with cooperative
Nar11	Borrower with MFI (group loan)
Nar12	Borrower with MFI (group loan)
Nar13	Borrower with cooperative
Nar14	Borrower with cooperative
Nar15	Borrower with cooperative
Nar16	Borrower with cooperative
Nar17	Borrower with MFI (group loan)

Table 13: Interviews with branch managers

BM1	Advans
BM2	ProCredit
BM3	Finca
BM4	Finca
BM5	Mecreco
BM6	Opportunity
BM7	Opportunity
BM8	Mufesakin

Table 14: Workshops

WS1	Inception workshop Kinshasa
WS2	Internal workshop discussion of findings - Kinshasa
WS3	Final workshop Kinshasa
WS4	Final workshop in Frankfurt am Main

8 Appendix

8.1 Stories of over-indebted borrowers

In the following chapter we have selected 7 stories from 17 narrative interviews with borrowers in default of payment. The cases differ widely: some are typical, some rather exceptional. They show the range of problems borrowers can encounter:

A: Papa Laurent (Nar7)

Member of credit group with loan of 330 dollars to expand his business as a butcher; must repay for 2 members of the group who ran out of money; weak revenue due to regular power cuts which prevent him from using machines; feels pressure from frequency of instalments.

Laurent (43) has worked as a butcher for a long time. He buys commodities (spices, meat) and turns them into finished products in a butchery near his home. His work is inhibited by frequent power cuts which make the meat spoil and his sales drop. An engine-generator is out of the question because it is too expensive. Upon the recommendation of a friend, Laurent has recently become member of a credit group with an MFI. He hoped that this support would help him realise his dream of having his own butchery. In the course of 5 or 6 credit cycles he planned to buy machines and a fridge to produce more independently. In his credit group of 10, Laurent just received his second loan, with a balance of 330 dollars. As the MFI had agreed to double the first loan of 300 dollars he was very disappointed when he only received 30 dollars more. Every 2 weeks he pays instalments of 45 dollars, which he finds too frequent: “If only I had to pay each 4 weeks that would give me some leeway, some peace”.

One day the problems began: “Though the conditions were well explained, two members of our group could no longer repay, so we had to pay their share. We are not doing too well ourselves but we know they have very little and decided to pay. I would rather have an individual credit but that poses too many obstacles, like a business permit or proof of residence. As for me, I also find it difficult to repay. Often you end up paying with money that was intended for school fees or food. Sometimes you cannot pay the fees and the children are expelled.” The group members all complain about the biweekly repayment schedule which they say doesn’t allow them to produce and sell enough to make profits, repay, and develop. “We suggested repaying each month. The loan officers have informed the branch managers but nothing has changed.”

Martin (28), the loan officer, can tell that the group does not want to remain with the MFI. He believes that he can hold on to them for another cycle or two but that the

likely loan increases between 40 and 100 dollars (depending on savings and repayment) are not enough to make them stay. For this reason he is trying to convince management to offer new products and listen to the needs of borrowers: “With the competition at hand, if we don’t have offer new products and better conditions, it will be impossible to get people interested. They will be recruited by other FIs. For us loan officers this is a problem: how can we meet our quotas, our annual targets, if our products are not competitive?” The loan officer recommends how to do better: borrowers need large stock, cash reserves or secondary sources of income to deal with contingencies. Of course we analyse their cash-flow but that remains a very rough calculation. These analyses do not account for the unexpected. The financial literacy trainings we offer help, borrowers begin to fill in inventory records and note their revenue. But these courses are not available to all, they are not really a priority for borrowers. If on the day of the training they could be selling something, they will always chose to do so. It is therefore our job to visit the borrowers and motivate them and provide the right courses. Otherwise we will just sit and wait for nothing.”

All the same, Laurent continues to cope with the situation as much as possible: “if the situation doesn’t change, I think I might look elsewhere, with other providers that offer more time between instalments and a consistent loan balance. For now I am staying with this institution, hoping that things will get better since they have promised to review their terms this year. Though I have not received the requested amount I am hoping that in the third cycle the loan balance will be what I hoped for. If the conditions do not change in the next cycle we will leave this institution. I have been told that FINCA offers one month of grace period which seems fair to me.”

B: Maman Angélique (Nar12)

Theft of 1,800 dollars intended for buying goods; dispute with loan officer who does not believe this story; confrontation with branch manager who sees a lack of respect for loan officer; difficulty repay the debt due to weak demand.

Maman Angélique (45) sells women’s clothing on the grand market and is member of a credit group with an MFI. In August 2013, the MFI granted her a loan of 1,500 dollars to expand her business. Some weeks after the disbursement, 1,800 dollars were stolen from the shop. The sum was destined for buy new cloth in Benin. When Angélique tried to explain this to her loan officer the situation escalated: “I told him that a woman had stolen my money while examining the boutique – but he didn’t want to hear my story, he thought I was lying. This rascal treated me like a child, he insulted me in front of my husband and neighbours. My husband was furious!”

Mathieu (29), the loan officer, tells a different story: “Angélique is the president of a savings group but for some time now she has not been repaying her debt so I went to

investigate. I spent much time with her to understand her situation, the decline in demand. We decided to change her repayment schedule. I always tell her she must respect the contract. But then she didn't respect the new schedule either. Every time she tells me she will come the next day to pay but she never comes, so I have to go find her on the market and see what is going on. This last time she spoke about a theft but I later learned she had spent one month in Benin – an entire month! When I confronted her the lady got very angry. I am responsible for 177 borrowers and this is the first time I've had problems like these. Every time I visit here I pass by endless borrowers who repay on time. If she really wanted to repay she could do it."

Since the theft, Angélique has difficulty repaying 1,880 dollars she owes. Oftentimes the loan officer and recovery officer make announced visits, even several times per week. She is ashamed in front of the family and neighbours. As her relationship with the loan officer is soured, she went to speak to his superior, the branch manager. The latter supports his loan officer: "When will she repay? I think she has another loan elsewhere. Borrowers like that always have hidden agendas. Apparently she spent a month in Benin so she can afford the expensive round trip but cannot afford repaying the loan? Whenever the officer goes to collect instalments, she gives him 50 dollars instead of 235 that she owes us each month. This has been going on for some time now."

Despite her problems, Angélique remains optimistic: "Yes, there are problems but still the loan has helped me. I don't remember how many days I am late but I will pay the remaining debt. This is the first loan I have requested with this institution. Next time I will be more careful. But I also think that the customer should be king and the FIs should ask for an interest rate at which the borrower is still able to repay. And of course you must treat the borrowers well and not like little children."

C: Maman Angeline (Nar3)

The borrower was affected by a series of events beyond her power which prevented her from repaying a loan; she is no longer sure of the amount of debt or the delay in days; she is in despair and cannot think of how to repay the debt without taking out another loan.

Mme Angeline has 6 children which she has been raising alone ever since their father fell ill and moved to stay with his family in a village. When she and a child also became ill she decided to request a loan: "I had no resources and a neighbour advised me to ask for a loan. She lent me the 5 dollars I needed as guarantee. Then the ill child died and the trouble really began. But in spite of the problems, I always met the deadlines. Then, two months later, my house burnt down and I lost everything".

Now the family lives in a tent which the neighbours provided: “I sold two clothing items that they gave me so I could use the money to order bread for sale.” Angeline earns 4,000 CF per day, half of which she puts aside to repay the debt. As there is no money for school fees, the children no longer attend classes. Sometimes the family doesn’t have much to eat and there are not enough resources to rebuild a house or shack. “That is the worst. I would need 150 dollars for that. But the FI didn’t even give me the 100 dollars I asked the first time. The bank should give the amount requested. After selling a large amount of goods I could build a house.”

After the fire, she recounted the events to her loan officer but didn’t ask for a rescheduling of debt. “I was too scared of their reaction. I will have finished paying my debt with the following instalment, but I am not sure whether there will be other fees to pay”.

To cope she has taken out an informal loan but is not happy with the interest rate: on a loan of 33 dollars she will repay 49 dollars (i.e. an interest rate of 50%). For this reason she hopes to receive another loan with the MFI: “I have no family support. And I cannot ask my neighbours to help me again. If I don’t manage to get another loan I won’t know what to do. The bread bakers are on strike at the moment. So I have nothing to sell. Maybe I will sell sachets of water. I have no idea at the moment.”

D: Maman Francine (Nar14)

Borrower in her 5th cycle with a cooperative; decline in revenue due to strong competition; cannot manage to repay instalments on time so late fees have accumulated.

For several years Mme Francine has been running a restaurant and a boutique. As her loan officer explains: “When she received a loan to expand her gastronomic business, there were no other restaurants nearby. I don’t know whether it was jealousy but just afterwards two or three neighbours also opened restaurants. They are all offering the same food. She now has to share customers with the others”. To beat the competition, Francine decided to apply for another loan to increase the stock of goods and renovate the restaurant and boost business. She is well experienced with using credits for investment. “This is my 5th loan and I have never had problems repaying. I heard about microcredits during a church meeting. A woman there explained to us the advantages of working with a loan.”

Her loan officer explains how the circumstances have inhibited her ability to repay: “the competition has caught her off guard. Also she became ill. It was then that the delay began. Her husband’s company ran into trouble so he he also has no secure revenue. This issue can take a long time to be resolve because justice here only works for those who have money.”

Francine however sees the cause of her problems in rigid repayment terms of the cooperative: “in the past, the loan duration was one year. We did not feel the weight of the debt on our shoulders. I was able to repay 400 dollars each month. But now the FI has decided to shorten the duration to 6 months. In this shorter period you do not have enough time to sell your products, to earn money for repayment. And if you don’t manage, you pay one dollar late fee per day, which can hurt a lot.” Francine feels intimidated, like she cannot negotiate with her lender: “I did not request a rescheduling of debt. With their way of speaking to you, it doesn’t feel like you have any say. If I had received the amount I applied for, everything would be better.”

As she is unable to meet monthly instalments, she has started paying as much as she can, as her loan officer recalls: “the total amount was 2,000 dollars, so she should pay 384 dollars per month. But she only pays 50, sometimes 100 dollars per month. Apparently all the other restaurants closed again after only two months so we hope that this will make her situation improve.”

Mme Francine sees the consequences of the situation: “I can no longer pay out the salaries so I am working by myself. And at home there is also trouble. I cannot give my children any money”. Her loan officer confirms: “these last months she lost weight with all these problems. She is no longer the same personas before.”

Despite all the issues, Francine would not hesitate to take out another loan after this one: “my children have told me never to apply for a loan again. But if you work hard to repay and save a little, the loan can be very helpful. Also I do not want to use my savings account, neither to repay nor to invest. Next time, I will save more, calculate better and really analyse purchases and sales. Sometimes prices increase - one must consider this in the calculations. The reality is always different from what we learn in theory.”

E: Papa Dieudonné (Nar1)

Theft, multiple loans, lack of legal protection for tenants – Dieudonné’s troubles are caused by personal mistakes, by a willingness to take risks and lie to lenders; added to his own faults are flaws in the system; he hopes to prevail with help from family members and through working with a brewery that would allow him to restart his business and repay the debt.

Dieudonné took out a loan of 6,000 dollars with an MFI and simultaneously 3,000 with a bank. “I had repaid almost everything with my usual institution, so I didn’t feel the need to report outstanding loan when I applied for another loan with a bank to boost my business. They granted the credit after discussing my business plan and assessing the collateral. Now I must still repay around 1,500 dollars to the bank and a small amount to the MFI.”

I found a good place to open up a bar-restaurant just next to a hotel with many guests. But then the hotel owner decided to tear down the building and construct something else. All my customers disappeared and new ones didn't come because of the dust from the construction. Despite this decline in business the owner of my restaurant wasn't willing to lower my rent. Repaying became more and more difficult."

He has since moved his restaurant: his sister living abroad knows the owner of an abandoned tourist hotspot near the Congo River. Dieudonné was able to realise his plans: "I must invest – the buildings are abandoned – and apart from a little paint job I have not been able to do much". He complains that the bank offers little support: "I discussed my problem and my move with the loan officer. But they didn't give any legal support or business advice. They are only interested in the repayment and keep calling me to remind me of instalments. They should rather grant me some flexibility and accord me time to restart the business." He feels dependent on lenders: "The banks decided on conditions, you cannot negotiate with them. We entrepreneurs are in a weak position. They do not offer a rescheduling of debt, no flexibility. I was hesitant to take out a loan out of fear of being stuck – repayment is such a stress it can kill you.

He hopes to begin afresh with the support of a brewery. "As I am a long-time client I was able to get a contract for stock and equipment. They are supporting my establishing of a new restaurant. I will try to repay as soon as possible after opening the place. I want nothing more to do with the bank." Dieudonné insists that his troubles do not stem from carelessness or bad decisions: "What could I have done when the owner destroyed the hotel – and my business along with it? In a developed country I would have sued him, at least to lower the rent. But here the owner is unchallenged. I suffered a drop in income from 760 to 217 dollars. The banks do not help us defend our rights, they are not aware of the risks we face".

The bank meanwhile does not regret granting him a loan: "He is responsible for his over-indebtedness as he hid the truth" says his loan officer. "I think that his priority from the start was to repay well with the MFI. It is there that he has a credit history, so he wanted to be a good borrower there. Also he may have acted strategically – the MFI did not accord him the amount he requested, so he search for cash elsewhere. Now he has problems to repay and yes there are late fees. We must make sure not to appear too easy-going in the recovery if we want to be taken seriously by borrowers. If other FIs are stricter, clients will always pay them first.

F: Maman Jeanne (Nar15)

A well organised saleswoman, Jeanne has resorted to rather risky business practices in the past: she sells on credit and because of the economic situation some of her customers forgo paying; she also travels carrying large amounts of cash to buy

merchandise; she has been granted a loan over 20,000 dollars and has had trouble repaying for three months; the FI wants to continue working with her – she is an important borrower with a good credit history and she is frequently contacted by other institutions.

Ms Jeanne sells furniture and appliances. She has also turned part of her shop into a hairdresser. She is currently in her 5th loan cycle with a cooperative: “I began with 3,500 dollars and now I have reached 20,000. I use the money for customs clearance (around 19,000 dollars). I always use the same customs office to avoid problems.”

“My difficulties began 3 months after receiving the loan. I always sell on credit and certain borrowers cannot pay at the moment. Last December all my debtors complained about a decline in sales. I trust them though, I have known them for some time.” Despite the trust, she has hired someone to retrieve the money for her: “to recover the debt, I talk to an accountant. In the past, agents received bonuses for every debt recovered but this practice has been suspended by the prime minister and now recovery no longer works as well.”

“Of course the loan officers are on my back for the loan repayment. And in turn I am behind my debtors: I know that harassing them doesn’t speed up things but I do it anyway just to be doing something. I have paid late fees with the institution, one percent of the amount I owe them, every day, and still the debtors don’t repay me.” Despite the delay, the cooperative expects to continue the collaboration: “Ms Jeanne is an excellent borrower. Her business works well even though she sells on credit. She has never had problems like this before. She has assured us that the problem will be taken care of and we believe her. Our authorities will attempt to find a solution that helps her repay, a rescheduling of debt.”

The cooperative has good reasons to show some flexibility with this borrower because different FIs are courting her: “Almost every day some loan officer will drop by to knock on the door and offer good loan conditions. For instance, an officer who used to work for the cooperative is now with another institution and called me yesterday. This allows me to really compare the conditions”:

In principal, she is happy with her current loan provider: “I am member of a cooperative. Every year there are meetings in which we discuss the conditions. A longer grace period before beginning repayment would help me. I already have to repay 5,000 dollars before even seeing one dollar in sales returns. The cooperative should lower early instalments, these degressive rates are not very beneficial to me.” She also has other worries: “I have to deposit 10 percent of my outstanding credit as guarantee. On paper they grant me 20,000 dollars but I only get 18,000 effectively, the rest is retained from the start. Added to this is my collateral, a property title worth 100,000 dollars.” Her loan officer summarizes: “A woman like her will need even

larger loan balances in order to really earn some money in the next years." Her business practices are the result of analysing different options and respective profits. "I carry money with me when I work. One must assess the risk of losing it or it being stolen against the charges that a bank will ask for a credit card. For me the risk seems worth it."

G: Papa Médard (Nar4)

Misuse of funds after several successful loan cycles; the FI suggested raising the amount and the borrower accepted; his business idea failed and now he is in default of payment; he hopes to accumulate money by saving rather than accepting dis-advantageous loan conditions.

"Mr Médard is in the 4th loan cycle. He always acted correctly, always paid back on time", as his bank's loan officer recounts. Médard: "I had started with a small loan to clear from customs merchandise I bought in Dubai. In the past, loans really helped me develop my business. After repaying the debt, my loan officer suggested raising the amount, which sounded good to me. I improved in terms of my housing and in my business. Now I am working in a different field, selling drinks and offering transport, using two minibuses". But this time there are problems.

"The real reason for his difficulties is failure to use the money as planned" the loan officer explains. "Without informing me he immersed himself into a business in which he has no experience: instead of renewing his stock of goods as planned, he bought a vehicle for transport. This vehicle broke down and he had to spend much money on repairs, on mechanics. With no money on his investment he had serious trouble repaying."

Médard sees the problems rather in the fluctuation of affairs which stand against the rigid loan conditions: "My business is hard to manage. You must be lucky enough to find good drivers. Then there is the supply problem: I have contracts with Bralima and BrasCongo. It is easy to get BrasCongo products but they are hard to sell. Bralima products however sell easily while not always being in stock."

His engagement in the financial sector has already caused him problems in the past: "Last year I served as guarantor for someone who couldn't repay so I was charged to pay 990 dollars. That hurt, especially because the lenders don't even think about these sort of problems. When you have trouble repaying, the pressure they exert does not help. The conditions and the late fees actually make matters worse. I have heard that with other banks loan duration can be 3 to 5 years. That is much better than here. The repayment system, interest rates, and the duration are not good with my current bank. If it raises your loan balance, it should also raise the duration and lower the interest rate. It would better if the bank gave you the amount you need. If you

need 5,000 dollars for your business they give you 3,000 so you go and try to complete the sum by searching elsewhere. That can push you into over-indebtedness."

The bank remains unimpressed but is considering continuing the cooperation nonetheless, if Médard can prove that he has learnt his lesson. His loan officer says: "My first reaction was to show him that I was not happy, to make clear that he has broken the contract. Now he must work hard to repay. We will talk to our superiors about whether we can reschedule the remaining instalments to facilitate things for him. And then we will see how things go on".

And what is Médard's plan? "I am lucky to be employed in an office every day. After that job, around 5 or 6 I drive the taxi to be able to repay. I don't want my children to be deprived of anything, neither school nor food. They worry because they know that I am in debt. But I am working hard to repay. I don't understand why the loan officers exert such pressure, the bank has tons of money after all!"

The bad experience and the pressure have made him change strategies: "Microloans should help people to escape from poverty. In the past, I though the bank was really there to help me. I always explained to those around me that to work with a bank is a good thing. But this is the last time I am taking out a loan. And my family has also realised that it is not as good as we thought. After repaying I will save to invest in my future. Of course I will continue to work hard – but not for the bank – but this time for me."

8.2 Theoretical background

Overview: Schools of Thought

Year	Authors	Title	Summary
1999	Morduch	The Microfinance Promise	For the most part, high repayment rates do not translate into profits and impact studies on poverty paint a mixed picture. The promise of microfinance has pushed far ahead of the evidence. An agenda is put forward for addressing critical empirical gaps and sharpening the terms of policy discussion.
2006	Karlan & Zinman	Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts	First randomized controlled trial study on the effects of microfinance: lenders can hone in on their sustainability/outreach frontier by taking controlled risks using randomized experimentation. Consumer credits should be given with caution.
2008	Gehlich	Poverty alleviation or poverty traps? Microcredits and	Over the last few years the use of preventive mitigation and coping strategies has declined in Bangladesh despite a strong presence of MFIs in the country. In order to overcome cash shortages many people have resorted to borrowing from a variety of sources, which has become effectively the single most important coping strategy employed. In conjunction with lowered debt capacity and restrictive terms under which microcredits are disbursed, higher indebtedness, creating a potential for poverty traps, is the outcome.
2009	Roodman & Morduch	The Impact of Microcredit on the Poor in Bangladesh: Revisiting the Evidence	Studies demonstrating the effectiveness of microfinance have failed to rule out external problems. We conclude that for non-experimental methods to retain a place in the portfolio evaluations, the quality of studies must be raised and tested.
2010	Aggarwal & al.	Vulnerability in Bangladesh	The economic benefits of microcredit have been more modest than once assumed. Analyses suggest that the poor save to create new businesses and the introduction of official products for small economies can be a key financial innovation.
2010	Ayayi & Sene	What drives microfinance institution's financial sustainability?	MFIs should imitate (profit-seeking) banking practices to by implementing sound financial management to ensure their financial viability.
2010	Batabyal & Beladi	A model of microfinance with adverse selection, loan default, and self-financing	There is adverse selection because only borrowers know whether their project is of high or low quality but the FIs do not. The MFIs are competitive, risk neutral, and they offer loan contracts specifying the amount to be repaid only if a borrower’s project makes a profit.
2011	Lascelles	Losing its fairy dust	Immediate risks posed by the global financial crisis are gone - but have been replaced by larger concerns about the future direction of microfinance.
2012	Ndongo	Microfinance And Poverty Reduction: Case Study The Economic And Monetary Community Of Central Africa Countries	The ability of microfinance to reduce poverty is not supported by sound facts derived from rigorous research. Using survey data of nearly 2,000 observations from six Central African countries, this study provides evidence of the positive impact of microfinance on productive activities of micro-enterprises and the well-being of low-income households.

8.3 Information on methodology

i. End users of the study

Table 15: Target group of study

End user	Type of use
Advans banque, Other FIs	• consumer protection • practises of credit disbursement • alarm signals • risk reduction → reduce risk of losses
Regulatory institutions (BCC), supportive institutions (KfW, UNCDF and others), network institutions	• information • alarm signals • standards against OID and to protect borrowers
MSMEs	• consumer protection • availability of suitable loan products • business management
International debate	• contribution to OID debate

KfW in the DRC:

The overall goals of KfW's integrated approach are to establish a stable financial system and to raise availability of financial products for MSMEs and poor households. To this end, it supports the Congolese central bank (BCC) in establishing a credit information system, a key element for financial regulation and the prevention of OID; it contributes to the fund for financial inclusion (FPM) which offers financial and technical support to FIs.

ii. Goals and objectives

Figure 30: Goals and results of study

Overall goal

The financial sector serving MSME is strengthened in its social and economic dimensions. MSMEs and poor households have access to suitable, stable and reliable financial products.

1. Specific objective

Kfw, the BCC and FIs use OID early-warning indicators when developing financial services and regulatory mechanisms.

2. Specific objective

FIs dispose of criteria to select and assess borrowers allowing them to reduce the risk of OID. These mechanisms can be based on a code of conduct agreed on by FIs.

3. Specific objective

MSMEs and poor households have access to suitable financial services. Supportive services strengthen their financial management capacities to make sound decisions regarding loans.

1. Result

Analysis of the OID risk in Kinshasa's financial inclusion sector, based on indicators to identify early-warning signals for OID and the development of an OID typology.

2. Result

Identification and analysis of factors on the supply side (FIs) that can cause OID.

3. Result

Identification and analysis of factors on the demand side (borrowers) that can cause OID.

Components of results

Identifying of causes for OID in financial inclusion in general (global scale) and in the context of Kinshasa

Verification of 4 hypotheses

Identifying of reasons for requesting loans, reasons for multiple loans and for defaulting on payment

Identification of OID signals – indicators, safeguards

KfW, BCC, FIs and other stakeholders know examples of good practices to reduce the OID risk (in Kinshasa and selected examples from abroad)

Disseminating information on the growth of financial inclusion in Kinshasa and on types of loans offered (business, consumer loan)

Analysis of the status quo of OID in Kinshasa according to PAR30 and PAR90 ratios; and comparison with international level. Analysis of loan defaults by loan balance, economic sector and gender

Definition of OID for financial inclusion sector in Kinshasa. Classification of OID by degree

iii. Méthodes

Questionnaire quantitatif : Entretien avec des clients MPME

Date et heure :			
Équipe d'enquêteurs :			
Commentaires/Observations :			
Nom de l'institution qui a octroyé le crédit :			
Type d'institution :	☐ banque	☐ IMF	☐ coopérative
Chiffre d'affaires du créancier (*question à poser au chargé de clientèle/agent commercial*)			

Durée prévue de l'entretien : 35-45 min

En italique = instructions pour l'équipe

Faites une bonne introduction pour que l'interviewé se sente à l'aise ! Le premier contact peut-être primordial pour un bon déroulement de l'entretien. Clarifiez bien que nous sommes indépendants et qu'aucune information délicate ne sera transmise à leur institution financière.

Insistez sur le fait que nous faisons une recherche pour mieux comprendre les dynamiques des problèmes de remboursement afin d'assurer une meilleure protection du client, que les informations nous aiderons à donner de meilleures recommandations aux institutions financières pour mieux servir les clients.

INTRODUCTION

L'équipe de chercheur

Équipe de chercheur de l'université de Berlin et des étudiants en économie rurale ou microfinance à Kinshasa

Objectifs de l'étude

Analyser l'importance du surendettement et développer une typologie du surendettement dans le secteur financier servant des MPME à Kinshasa.

Identifier et analyser les facteurs des côtés de l'offre et de la demande promouvant le surendettement.

Trouver les indicateurs qui permettent l'identification précoce de surendettement.

Un portefeuille optimisé et une meilleure protection des consommateurs dans le secteur.

Anonymisation

Les résultats de l'entretien seront traités avec confidentialité et rendus de façon anonyme.

L'équipe de recherche est complètement indépendante des institutions financières. Vos réponses n'ont aucune influence sur vos produits de microfinance et sur votre relation avec l'institution dont vous êtes les clients.

En cas de problèmes, donnez mon contact (Erik ; 0815932894) ; La coopération financière allemande qui finance l'étude soutient le développement du secteur financier en RDC avec l'accord du gouvernement congolais et demande à tous les agents officiels de bien vouloir soutenir et faciliter le déroulement de l'étude.

Informations générales personnelles et MPME

Genre ☐ homme ☐ femme

Pour la suite, posez la question appropriée pour homme/femme (p.ex : utilisateur/utilisatrice)

Vous avez quel âge? *(Cochez la case correspondante)*

18 – 28 ans	☐	49 – 58 ans	☐
29 – 38 ans	☐	59 – 68 ans	☐
39 – 48 ans	☐	Plus de 68 ans	☐

Quel est votre niveau d'études ?

Universitaire avec diplôme ☐ Secondaire avec diplôme ☐

Universitaire sans diplôme ☐ Secondaire sans diplôme ☐ Primaire ☐

Quel est votre situation d'état civil ?

marié(e) ☐ veuf /veuve ☐

célibataire ☐ union libre ☐

Combien de personnes sont à votre charge ?

(*enfants et autres personnes qui dépendent de vous*) ? _____

Précisément, que fait votre entreprise ? _____

(*Ne pas poser la question : cochez la case correspondante en fonction de la réponse ci-dessus*)

☐ production ☐ transformation ☐ service ☐ petit commerce ☐ commerce de gros

Depuis quand est-ce que vous travaillez dans ce secteur d'activité ?

Moins d'un an	☐	5-6 ans	☐
1-2 ans	☐	Plus de 7 ans	☐
3-4 ans	☐		☐

Est-ce que vous avez des employés salariés (contrats mensuels, journaliers) ?

☐ oui ☐ non

Si oui, combien ?

☐ 1 ☐ 2-5 ☐ 5-10 ☐ > 10

L'endettement

L'emprunt

En ce moment, quels types de crédits suivants avez-vous en cours (vous personnellement) ? *(Plusieurs réponses possibles)*

(Micro) Crédit individuel	☐	Crédit en groupe	☐

Quelle était la raison pour demander le(s) crédit(s) ? *(Marquez la réponse le plus correctement possible)*

_____

_____

Aux enquêteurs de cocher la catégorie correspondante

Crédit d'affaires	☐	Crédit à la consommation (immobiliers, véhicules)	☐
Autres			

Avez-vous d'autres crédits en cours ?

☐ oui ☐ non ☐ ne veut pas répondre

(*Si oui*) Auprès de qui avez-vous reçu vos autres crédits en cours ?

(*Si ce sont des prêts multiples, cochez plusieurs cases ; notez le nom de l'institution si la personne ne connaît pas le type d'institution* ; *si les personnes reçoivent des crédits de différentes institutions, marquez les différentes institutions ; demandez si les personnes reçoivent d'autres crédits que celui nommé en premier)* ?

☐ banque : _____ ☐ IMF : _____

☐ coopérative : _____ ☐ prêt d'un membre de famille : _____

☐ Banque Lambert _____ ☐ Je ne sais pas ☐ ne veut pas répondre

Pourquoi avez-vous choisi cette institution ? (*Plusieurs réponses possibles*)

Proximité	☐	Je n'en connais pas d'autres	☐
Conditions favorables	☐	Publicité	☐
Sur recommandation *(de qui ?) :*_____	☐	Agent de crédit/chargé de client	☐
Autres/Commentaire :			

L'accès au crédit/aux informations

Était-ce facile ou difficile d'obtenir le(s) crédit(s) ?

☐ facile ☐ difficile ☐ indécis (facile et difficile)

Commentaires

_____

Comment/de qui est-ce que vous avez reçu les informations sur les conditions du crédit/de remboursement ? (*Ne pas lire les réponses possibles ; si une séance d'information de la part de l'institution n'est pas mentionnée, posez la question si elle n'a pas eu lieu*)

☐ mon chargé de client :

_____

☐ lecture des termes du contrat :

_____

☐ séance d'information/consultation (*formalisée, pendant une séance par l'institution financière*) :

_____

☐ propres recherches :_____

☐ bouche à l'oreille : _____

☐ autres : _____

☐ Je ne sais pas ☐ ne veut pas répondre

Est-ce que les conditions de crédit et de remboursement étaient clairement décrites ?

☐ ou ☐ non

Commentaires _____

Que prévoit le contrat dans le cas de bon remboursement/retard de remboursement/faillite (de non-remboursement) ?

bon remboursement _____

retard de remboursement _____

non remboursement/faillite _____

☐ je ne sais pas ☐ je ne veux pas répondre

Connaissiez-vous des gens (*famille, amis, quartier*) avec des problèmes de remboursement avant de prendre le crédit ?

☐ oui ☐ non

Commentaires

_____

(Si oui) D'après vous, quelles étaient les causes de ces problèmes ?

_____

_____

Avant de prendre le premier crédit, avez-vous participé à une séance d'information de votre institution financière?

☐ oui ☐ non *(continuez avec la question 21)*

(Si 18 est « oui ») : Quand est-ce que cette séance a eu lieu ?

0-1 an	☐	2-3 ans auparavant	☐
1-2 ans auparavant	☐	Plus de 3 ans	☐
Je ne sais pas	☐	Je ne veux pas répondre	☐

Avez-vous été satisfait de cette séance d'information ?

☐ satisfait ☐ pas satisfait ☐ pas vraiment satisfait

Commentaires

_____

Quel était le contenu de cette séance d'information ?_____

_____

(Si la personne ne mentionne pas les conséquences de retard de remboursement, posez la question suivante) : Est-ce qu'on vous a parlé de problèmes de remboursement lors de la séance d'information ?

☐ oui ☐ non

Commentaires

_____

(*À poser aux micro-entreprises)*:

Avant de recevoir le crédit, est-ce que l'agent de crédit est venu vous rendre visite ?

(*À poser aux petites et moyennes entreprises*) :

Est-ce que vous avez interagi avec votre agent de crédit avant de recevoir le crédit ?

☐ oui ☐ non

(*Si oui)* : Combien de fois ? _____

(*Si oui*) : Pour quelles raisons ? _____

Depuis que vous avez reçu le crédit, est-ce que l'agent de crédit est venu vous rendre visite ? (*Pour les petites et moyennes entreprises*) : Est-ce que vous avez interagi avec votre agent de crédit depuis que vous avez reçu le crédit?

☐ oui ☐ non

(*Si oui)* : Combien de fois ? _____

(*Si oui*) : Pour quelles raisons ? _____

Est-ce que vous aviez discuté de vos motivations pour demander le crédit avec votre agent de crédit ?

☐ oui ☐ non

Commentaires

_____

Est-ce que vous avez reçu le montant que vous aviez demandé ?

☐ oui ☐ non ☐ je ne sais pas ☐ ne veut pas répondre

Si non : pourquoi pas ? _____

_____

Crédit individuel

Quel était le montant du premier crédit ? USD _____

☐ Je ne sais pas ☐ ne veut pas répondre

Quand est-ce que vous avez touché votre premier crédit ?

_____ mois _____ année

☐ Je ne sais pas ☐ ne veut pas répondre

Combien de fois avez-vous reçu un crédit avec cette institution ? _____

Quel est le montant du crédit actuel (USD) ? _____

☐ Je ne sais pas ☐ ne veut pas répondre

Quand est-ce que vous avez touché le crédit actuel ?

_____ mois _____ année

☐ Je ne sais pas ☐ ne veut pas répondre

Quelle(s) garantie(s) avez-vous donnée(s) pour obtenir le crédit ?
(*Plusieurs cases peuvent être cochées*)

☐ garanties matérielles : _____

☐ avaliseur :_____ ☐ compte d'épargne

☐ pas de garantie ☐ je ne sais pas ☐ ne veut pas répondre

Quel est le taux d'intérêt du crédit actuel ?_____ _____

☐ Je ne sais pas ☐ ne veut pas répondre

(Pour les personnes qui ne connaissent pas le taux d'intérêt en %) :
Sur le crédit actuel, combien devrez-vous rembourser au total ? _____USD

☐ Je ne sais pas ☐ ne veut pas répondre

De combien de mois est la durée du crédit actuel? _____

☐ Je ne sais pas ☐ ne veut pas répondre

Comment est-ce que vous avez dépensé les crédits ? (*Plusieurs réponses possibles*)

Investissement entreprise (actifs immobilisés)	☐	Épargne	☐
Investissement entreprise (marchandises)	☐	Voyage d'affaires	☐
Santé (ménage/foyer)	☐	Alimentation foyer	☐
Éducation	☐	Achats personnels	☐
Immobilier	☐	Remboursement d'autres crédits	☐
Frais d'administration (patente, registre, impôts…)			☐
Dépenses « sociales » (festivités, voyages familiaux, soutien matériel famille éloignée, …)			☐
Dépenses inattendues Lesquelles :			☐
Autres :			☐

(*S'ils ont fait plusieurs dépenses)* En termes de montant des dépenses : Quelle était la plus grande dépense, la deuxième plus grande et la troisième plus grande dépense ?

1.

2.

3.

Est-ce que ces dépenses étaient planifiées?

☐ oui ☐ non ☐ en partie

Si non ou seulement en partie : Pourquoi (pas) ?

_____

Si vous avez dévié du plan : l'avez-vous signalé à votre institution ?

☐ oui ☐ non

Commentaires

_____

Est-ce que votre ménage a d'autres crédits en cours ?

☐ oui, on a _____ *(nombre de crédits)* avec _____ (*fournisseur*)

☐ non ☐ Je ne sais pas ☐ ne veut pas répondre

(*Plusieurs réponses possibles*)

☐ avec une institution financière ☐ prêt d'un membre de famille

☐ Banque Lambert ☐ autre _____

Crédit en groupe formel (*si la personne a un crédit en groupe en cours, posez les questions suivantes, MÊME si la personne avait aussi un crédit individuel*) **:**

Combien de membres sont dans votre groupe de crédit ? _____

☐ Je ne sais pas ☐ ne veut pas répondre

Depuis quand votre groupe de crédit existe-t-il? _____

☐ Je ne sais pas ☐ ne veut pas répondre

Quel est le montant du crédit actuel (USD)? _____

☐ Je ne sais pas ☐ ne veut pas répondre

Depuis combien de mois utilisez-vous le crédit actuel ? _____

☐ Je ne sais pas ☐ ne veut pas répondre

Quelle(s) garantie(s) avez-vous donnée(s) pour obtenir le crédit ?
(*Plusieurs cases peuvent être cochées*)

☐ garanties matérielles:_____ ☐ caution solidaire

☐ avaliseur:_____ ☐ épargne

☐ pas de garantie ☐ je ne sais pas ☐ ne veut pas répondre

Quel est le taux d'intérêt du crédit actuel ?_____

☐ Je ne sais pas ☐ ne veut pas répondre

(Pour les personnes qui ne connaissent pas le taux d'intérêts en %)

Sur le crédit actuel, combien devrez-vous rembourser au total ? USD _____

☐ Je ne sais pas ☐ ne veut pas répondre

De combien de mois est la durée du crédit actuel ? (mois) _____

☐ Je ne sais pas ☐ ne veut pas répondre

Quand est-ce que vous avez touché votre premier crédit ?

(*Si le crédit actuel est aussi le premier, ne posez pas la prochaine question*)

_____ mois _____ année

☐ Je ne sais pas ☐ ne veut pas répondre

Quel était le montant du premier crédit ? USD _____

☐ Je ne sais pas ☐ ne veut pas répondre

Combien de fois avez-vous touché un crédit en groupe ? _____

Comment est-ce que vous avez dépensé les crédits ? (*Plusieurs réponses possibles*)

Investissement entreprise (actifs immobilisés)	☐	Épargne	☐
Investissement entreprise (marchandises)	☐	Voyage d'affaire	☐
Santé (ménage/foyer)	☐	Alimentation foyer	☐
Éducation	☐	Achats personnels	☐
Immobilier	☐	Remboursement d'autres crédits	☐
Frais d'administration (patente, registre, impôts…)			☐
Dépenses « sociales » (festivités, voyages familiaux, soutien matériel famille éloignée, …)			☐
Dépenses inattendues Lesquelles :			☐
Autres :			☐

(*S'ils ont fait plusieurs dépenses)* En termes de montant des dépenses : Quelle était la plus grande dépense, la deuxième plus grande et la troisième plus grande dépense ?

1.

2.

3.

Est-ce que ces dépenses étaient planifiées?

☐ oui ☐ non ☐ en partie

Si non ou seulement en partie : Pourquoi (pas) ?

_____

Si vous avez dévié du plan : l'avez-vous signalé à votre institution ?

☐ oui ☐ non

Commentaires

_____

Est-ce que votre ménage a d'autres crédits en cours ?

☐ oui, on a _____ *(nombre de crédits)* avec _____ (*fournisseur*)

☐ non ☐ Je ne sais pas ☐ ne veut pas répondre

(*Plusieurs réponses possibles*)

☐ avec une institution financière ☐ prêt d'un membre de famille

☐ Banque Lambert ☐ autre _____

Gestion de finances/connaissances financières

Comment faites-vous votre comptabilité ?

Livre de caisse/comptabilité	☐	Comptable	☐
Autres	☐ _____		

Avez-vous reçu des formations en gestion d'entreprise ?

☐ oui, par _____ ☐ non

☐ oui, par (apprentissage, expériences dans l'entreprise familiale)

_____

☐ Je ne sais pas ☐ ne veut pas répondre

Le remboursement

Combien de jours après l'octroi du crédit deviez-vous commencer à rembourser ?

☐ _____ ☐ Je ne sais pas ☐ ne veut pas répondre

Avec quelle fréquence est-ce que vous devez rembourser ?

☐ hebdomadaire ☐ mensuelle ☐ autre fréquence : _____

☐ irrégulièrement ☐ Je ne sais pas ☐ ne veut pas répondre

Quels sont les montants que vous devez rembourser à chaque fois ?

_____

☐ Je ne sais pas ☐ ne veut pas répondre

Est-ce que l'institution vous accorde de la flexibilité concernant la fréquence et le montant à rembourser ?

Fréquence ☐ oui ☐ non ☐ Je ne sais pas ☐ ne veut pas répondre

Montant ☐ oui ☐ non ☐ Je ne sais pas ☐ ne veut pas répondre

Commentaire :

_____

Avec quoi payez-vous les dettes ?

Rendements d'entreprise	☐	Épargne	☐
Salaire	☐	Soutien par d'autres personnes du ménage	☐
Soutien par d'autres personnes de la famille/par des amis/voisins…	☐	Autres crédits	☐
Autres			☐

Y a-t-il d'autres sources de revenu dans votre ménage?

☐ oui ☐ non ☐ Je ne sais pas ☐ ne veut pas répondre

Commentaire : _____

Combien est-ce que vous touchez en moyenne par mois (profit de l'entreprise ; salaires ; transferts de membres de famille/d'amis) ?

Si l'interlocuteur donne son profit par jour, par semaine, par an : faites le calcul sur place pour avoir un chiffre valable par mois ;

s'il y a des différences entre les mois, demandez pour les bons/mauvais mois ;

si les interlocuteurs ont des problèmes à calculer les montants : essayez en demandant les montants individuels par source de revenu.

Marquez les montants dans le tableau ci-dessous.

S'il y a des différences entre les mois, demandez pour les bons/mauvais mois.

	Nombre de mois	Revenu individuel (en dollar)
Bon mois		
Mauvais mois		

Après toutes vos dépenses fixes est-ce que vous arrivez à mettre de l'argent de côté ?

☐ oui ☐ non ☐ Je ne sais pas ☐ Je ne veux pas répondre

Si oui, combien et avec quelle fréquence ? :

_____USD par _____ (*jour, semaine, mois*)

Ici commencent les questions concernant les problèmes de remboursement. Il faut peut-être évoquer une fois l'utilisation des données, l'anonymat des réponses etc. pour que les interlocuteurs soient à l'aise. Vous pouvez aussi mentionner que nous sommes venus chez eux parce que sur les listes des institutions financières, ils sont listés comme « clients à risque ».

Avez-vous connu, ces 2 dernières années, des problèmes de remboursement ?

☐ oui, actuellement ☐ oui, mais c'est résolu ☐ Non

☐ Je ne sais pas ☐ Je ne veux pas répondre

Pourquoi ? _____

(*Si oui*) : Quand est-ce que les problèmes de remboursement ont commencé ?

_____

Afin de pouvoir rembourser le crédit *ou* afin de rattraper le retard de remboursement, êtes-vous obligé de (*lire toutes les réponses*) :

Travailler plus	☐	Utiliser l'épargne	☐
Économiser en renonçant à des achats	☐	Économiser en mangeant moins	☐
Vendre des actifs du ménage	☐	Prendre d'autres crédits	☐
Déscolariser le(s) enfant(s)	☐	Emprunter de l'argent (famille, amis)	☐
Économiser en ne payant pas les employés	☐	Économiser en employant moins de journaliers	☐
Déménagement	☐	Autres _____	

Est-ce que vous considérez cela (*réponses à la question précédente*) acceptable/tolérable ?

☐ oui ☐ non

Pourquoi/pourquoi pas ? _____

_____

Est-ce que vous vous considérez vous-même comme surendetté ?
(Ressentez-vous le poids du crédit ?)

☐ oui ☐ non

Pourquoi/pourquoi pas ? _____

_____

Quelles sont pour vous (*outre les sacrifices mentionnés plus haut*) les conséquences de ce surendettement ?

_____

_____

Pratiques de récupération des dettes

Comment est-ce que les institutions sanctionnent le retard de remboursement ?

_____

_____

En cas de retard, comment est-ce que les institutions procèdent pour récupérer l'argent ?

_____

Trouvez-vous ces pratiques de récupération de dettes adéquates ?

☐ oui ☐ non

Pourquoi ? _____

_____

(*S'il y a eu d'autres crédits*) Est-ce que les différents créanciers ont différentes pratiques de récupération des dettes ?

☐ oui ☐ non

Commentaire :

_____

_____

Conclusion

Est-ce que vous utilisez d'autres services financiers à part votre crédit?

☐ oui ☐ non

Si oui, lesquels ?

Transfert	☐	Banque mobile	☐
Épargne	☐		
Autres _____			

Est-ce que vous regrettez d'avoir pris un crédit/plusieurs crédits ?

☐ oui ☐ non ☐ Je ne sais pas ☐ Je ne veux pas répondre

Pourquoi ? _____

Si votre voisin vous pose la question, est-ce que vous lui conseilleriez de prendre un crédit avec la même institution que la vôtre ?

☐ oui ☐ non ☐ Je ne sais pas ☐ Je ne veux pas répondre

Pourquoi ? _____

Clôture :

Un dernier message/une dernière information que vous tenez à partager avec nous ?

Est-ce que vous avez des questions pour nous ?

_____

_____

Ne demander ceci que s'il s'agit d'un cas intéressant (cas typique, cas extrême, personne très ouverte)

Nous voudrions bien discuter davantage avec vous afin de mieux comprendre les circonstances de votre situation. Est-ce que nous pourrions vous contacter pour une discussion en groupe ou pour un autre interview plus approfondi et plus informel, peut-être aussi avec 1-2 personne(s) de votre famille, vos amis, voisins ?

Si oui :

Nom : _____ Numéro de tél. : _____

Nous vous remercions.

Durée de l'entretien : _____minutes

Questionnaire standardisé pour les chargés de clientèle/les agents de crédit/ les agents commerciaux

Date	
Position	
Institution	

INTRODUCTION

Objectifs de l'étude :

Analyser l'importance du surendettement et développer une typologie du surendettement dans le secteur financier orienté vers les MPME à Kinshasa.

Identifier et analyser les facteurs des côtés de l'offre et de la demande promouvant le surendettement.

Trouver les indicateurs qui permettent l'identification précoce du surendettement.

Anonymisation

Les résultats de l'entretien seront traités avec confidentialité et rendus de façon anonyme.

L'équipe de recherche est complètement indépendante des institutions financières. Vos réponses n'ont aucune influence sur vos produits de microfinance et sur votre relation avec l'institution dont vous êtes client.

Comment remplir le questionnaire

Nous vous prions de bien vouloir répondre à toutes les 30 questions posées.

Vous verrez des options de réponses standardisées avec des cases à cocher – sauf si indiqué différemment, ne cochez qu'une seule case.

Certaines questions prévoient des réponses ouvertes ou des commentaires – SVP décrivez en peu de mots les points les plus importants à retenir.

Nous vous remercions d'avance pour votre coopération.

Informations générales

Genre ☐ homme ☐ femme

Type d'institution financière chez laquelle vous êtes employé(e) ? :

☐ banque ☐ IMF ☐ Ccoopérative

Ça fait combien de temps que vous travaillez comme chargé de clientèle/agent commercial/agent de client?

(Cochez la case correspondante)

Moins d'un an	☐	1-2 ans	☐	3-4 ans	☐
5-10 ans	☐	Plus de 10 ans	☐		

Développement des crédits

Quel est le montant du crédit de vos clients ?

En moyenne : _____ USD

De _____ USD à _____ USD (minimum et maximum)

Est-ce que le montant moyen a changé ces dernières années ? (cochez une seule case)

☐ non, resté pareil ☐ augmenté ☐ diminué

☐ je ne sais pas ☐ je ne veux pas répondre

Si la moyenne du montant a changé, pour quelle raison ?

_____

_____

Est-ce que la marge des montants a changé ces dernières années ? (Cochez une seule case)

☐ non, restée pareille ☐ a augmenté ☐ a diminué

☐ je ne sais pas ☐ je ne veux pas répondre

Si la marge a changé, pour quelle raison ?

_____

_____

Combien de clients sont à votre charge ? _____

Est-ce que le nombre de clients à votre charge a changé ces dernières années ?
(cochez 1 seule case)

☐ non, resté pareil ☐ augmenté ☐ diminué

☐ je ne sais pas ☐ je ne veux pas répondre

Si le nombre a changé, pour quelle raison ?

_____

Est-ce que vous visitez les clients dans leurs entreprises ?

☐ oui ☐ non ☐ je ne sais pas ☐ je ne veux pas répondre

Si oui : combien de fois, en moyenne, par mois ? _____

Combien d'heures passez-vous avec un nouveau client, en moyenne, AVANT l'accord du crédit ?_____

Combien d'heures passez-vous avec un nouveau client, en moyenne, APRÈS l'accord du crédit à chaque visite ? _____

Quels sont les facteurs primordiaux pour le recrutement de nouveaux clients ?

_____

_____

_____

Est-ce que votre institution vous accorde des bénéfices pour des rendements particuliers ?

☐ oui (*précisez*) _____

☐ non ☐ je ne sais pa ☐ je ne veux pas répondre

Comment est-ce que votre performance est évaluée par vos supérieurs ?
(*Marquez les critères les plus importants en premier*)

_____

_____

_____

Selon votre impression : est-ce qu'il y a plus de pression sur le marché financier en raison d'une compétition accrue entre les institutions ?

☐ oui ☐ non ☐ je ne sais pas ☐ je ne veux pas répondre

Commentaires

_____

_____

Conditions des crédits

Comment vous assurez-vous qu'un nouveau client a bien compris les conditions de crédit/de remboursement ?

_____

_____

Quelles garanties demandez-vous avant d'octroyer un crédit ? (*Plusieurs réponses possibles*)

☐ garanties matérielles:_____

☐ avaliseur:_____ ☐ pas de garantie ☐ je ne sais pas ☐ ne veut pas répondre

Récupération de crédits

En général, comment est-ce que les remboursements sont effectués ?

☐ Client passe chez nous ☐ Nous passons chez le client ☐ Virement électronique

Autre : _____

Qu'est-ce que vous faites concrètement quand un client est en retard de remboursement ?

_____

_____

☐ ça ne m'est jamais arrivé ☐ je ne sais pas ☐ je ne veux pas répondre

Qu'est-ce que vous faites concrètement quand un client ne peut pas rembourser (faillite) ?

_____

_____

☐ ça ne m'est jamais arrivé ☐ je ne sais pas ☐ je ne veux pas répondre

D'après vous, y aurait-il de meilleures façons de réagir au non-remboursement ?

_____

_____

Conclusion

Est-ce que votre institution vous a offert des formations ? (*si oui, en quoi ?*)

☐ oui : (*précisez*) _____

☐ non

Quelle était la durée de la formation ?

En salle _____ mois

Accompagnement par des formateurs sur le terrain _____ mois

Coaching _____ mois

Avez-vous travaillé pour une autre institution financière avant de prendre votre poste actuel ?

(*Si oui*) : laquelle ? _____

(*Si oui*) : quelles étaient les raisons principales pour changer ? _____

_____

_____

Quel est votre niveau d'études ?

Universitaire avec diplôme ☐ Secondaire avec diplôme ☐

Universitaire sans diplôme ☐ Secondaire sans diplôme ☐ Primaire ☐

Avez-vous une proposition pour améliorer le secteur financier pour les MPME ? (*si vous en avez plusieurs, marquez les trois que vous croyez les plus importantes, svp*).

_____

_____

_____

Clôture :

Un dernier message/une dernière information que vous tenez à partager avec nous ?

_____

_____

_____

Nous vous remercions infiniment

L'équipe SLE.

Questionnaire qualitatif : Exemple Direction IF

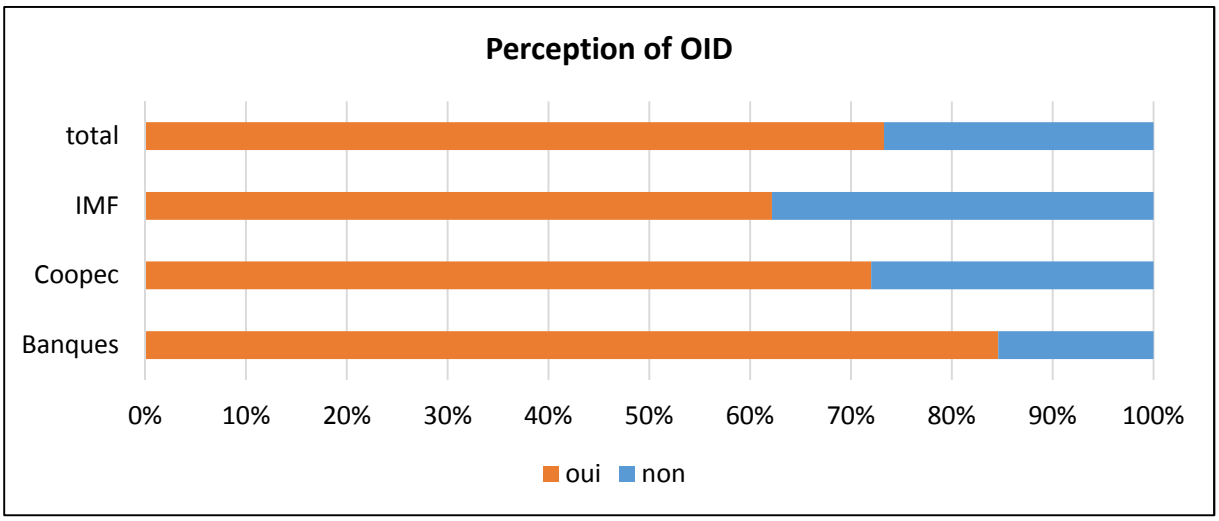
Documents/données

- Est-ce que vous pourriez partager avec nous votre rapport annuel 2013 avec des donnéesclés ? (Gamme de produits, PAR30, nombre d'agences, d'agents commerciaux).
- Documentation des différences relatives au surendettement en fonction des secteurs économiques, des montants des crédits, du genre ?
- Le rapport annuel de votre institution 2013 (si vous pouvez le partager avec nous) avec le PAR30 et le PAR90.
- Des données statistiques (sans les noms) :
    - Type de crédit
    - Montants de crédit
    - Cycle de crédit
    - Taux d'intérêt
    - Genre
    - Niveau d'éducation
    - Ponctualité de remboursement
    - Client à risque oui/non
    - Secteur
    - Objectif du crédit (plan d'investissement)
- Comment ceci se compare au niveau global ? (Bilans de IF/rapports annuels (non publiés))
- Est-ce que vous pouvez partager avec nous des données de clients anonymes contenant montant, cycle, secteur économique, détails de remboursement (taux d'intérêts, ponctualité)… ?

Direction IF	
Surendettement en général	– Quelle est votre définition du surendettement ? – Est-ce que vous considérez les défauts de remboursement/le surendettement comme un problème pour votre agence/vos clients ? – Quelles sont les causes et raisons pour la présence/l'absence de surendettement chez vos clients ? – Quels sont les montants moyens des prêts aux MPME dans votre IF ? Ya-t-il des tendances (orientation vers PME, orientation vers micro…) ? Quelles en sont les raisons ? Quels sont les plus petits montants, quels sont les plus grands montants de crédits ? – Est-ce que ce sont plutôt les micro, les petits ou les moyens entrepreneurs qui ont des problèmes de remboursement ? – D'après vos analyses, est-ce que certains types de crédits sont plus aptes aux problèmes de non-remboursement (crédit à la consommation, crédit en groupes, crédit individuel, crédit après plusieurs cycles…) – D'après vos analyses, est-ce que certaines agences sont plus affectées par des problèmes de non-remboursement ? Si oui, quelle est votre explication ?
Compétition	– Est-ce que vous ressentez une concurrence accrue parmi les institutions financières orientées vers les MPME ? – Quelles sont les réponses de votre institution à cette concurrence (expansion géographique vers des régions non-couvertes, élargissement de l'offre/produits de crédit, nouvelle technologie) ? – Comment est-ce que vous vous assurez que vos produits soient appropriés et compétitifs (études de marché, membre d'association professionnelle) ? – Comment est-ce que vous évaluez la performance des différentes agences ?
Analyse client et précautions	– Avez-vous des politiques internes pour l'analyse des clients ? – Avez-vous accès à des informations sur des clients potentiels par la centrale de risque existante ou par des contacts informels avec d'autres IF ? – Que faites-vous – à long terme – pour réduire l'importance du surendettement ? (analyse des cas d'impayés, évaluation interne ; évaluation externe ; publications du secteur) ? – Quels sont vos mécanismes de caution, signaux d'alarmes et garde- fous pour dépister les débuts de surendettement?
Information	– Est-ce que vous encouragez le développement et le partage d'expériences au sein des membres du personnel de crédit ? Si oui, comment ? – Promouvez-vous l'éducation financière du personnel ? Si oui, comment ?
Supervision	– Est-ce que vous avez une politique interne pour les conditions et objectifs de travail des agents commerciaux/agents de clients ? Ou est-ce que ce sont les directeurs d'agences qui définissent les objectifs et le ratio clients/chargés de clients ? – Faites-vous des analyses approfondies, comprenant des visites sur le terrain, des diagnostics commerciaux et des contrôles pour assurer les bonnes pratiques des employés ? – Faites-vous des audits internes pour détecter d'éventuelles violations de la politique de votre institution (sélection et évaluation du client et adhésion au code de conduite) ? – Est-ce que vous encouragez le développement et le partage d'expériences au sein des membres du personnel de crédit ? Si oui, comment ? – Soutenez-vous la formation continue du personnel ? Si oui, comment ?

iv. Additional data

Figure 31: Perception of OID



v. Analysis

Explanation of index

A borrower can experience repayment problems for several months without considering him-/herself over-indebted. Or the opposite can occur: he/she may have solved the problems but still consider him-/herself over-indebted. To balance the two aspects we suggest joining the two values together to a single factor in the final multiplication.

vi. Work schedule

Table 16: Overview: course of the study

Week	Dates	Activity
1. Preparatory phase in Berlin		
1-6	09.12.2013-12.01.2014	Analysis of the literature, inception report, preparation and organising Kinshasa research phase
2. Kinshasa research phase		
6-9	13.01.-27.01.2014	Arrival, meetings with KfW, Advans, kick-off workshop, recruitment of Congolese research assistants, workshop with assistants, finalisation of questionnaires
9-10	27.01-07.02.2014	Borrower interviews, expert interviews, interviews with FI representatives
11	07.02.-13.02.2014	Focus group discussions and narrative interviews
11	14.02.2014	Final workshop in Kinshasa
3. Analysis and draft report		
	24.02.-19.03.2014	Data analysis, drafting of report
	20.03.-25.03.2014	SLE presentation, final workshop at KfW
	26.03.-04.04.2014	Incorporation of comments, finalising report
	04.04.-04.05.2014	Revision, translation and printing of report

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