AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

REPUBLIC OF CONGO
STUDY TO IMPROVE ACCESS TO SMALL- AND MEDIUM-SIZE ENTERPRISE FINANCING

REGIONAL CENTRE DEPARTMENT (ORCE)
DRC/REPUBLIC OF CONGO REGIONAL OFFICE (CDFO)

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This report was prepared following a joint mission with the World Bank to Brazzaville and Pointe-Noire in September and October 2009. The report was put together by Professor Jean-Paul Couvreur, under the supervision of Mr. P. Yembiline, Country Economist, ORCE. Study preparation and review was coordinated by a team comprising A. Moummi, EDRE, S.D. Diop, OPSM, T. Houeninvo, OSGE and V.A Lossombot, CDFO
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Table: CURRENCY EQUIVALENTS:

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFAF</td>
<td>1</td>
</tr>
<tr>
<td>USD1.07425</td>
<td>1</td>
</tr>
<tr>
<td>CFAF 704.666</td>
<td>1</td>
</tr>
<tr>
<td>CFAF 655.957</td>
<td>1</td>
</tr>
</tbody>
</table>

ABBREVIATIONS AND ACRONYMS

ADB           African Development Bank
APNI          Industrial Association of Pointe Noire
BDEAC         Development Banks of Central African States
BEAC          Bank of Central African States
CAPPED        Business Promotion Participation and Development
CDE           Business Development Centre
CFE           Business Formalities Centre
CTA           Agriculture Technical Centre
EDRE          ADB Research Department
EU            European Union
FJEC          Forum des Jeunes Entreprises du Congo
GARI          West African Private Investment Fund
MFI           Micro-Finance Institutions
MUCODEC       Savings and Credit Mutual Fund of Congo
ORCE          ADB Regional Centre Operations Department
PARSEGD       Project to Support the Socio-economic Resettlement of Disadvantaged Persons
PIRI          Integrated Industrial Recovery Programme
PRSP          Poverty Reduction Strategy Paper
SME           Small- and Medium-size Enterprises
SMI           Small- and Medium-size Industries
UNIDO         United Nations Industrial Development Organization
VSE           Very Small Enterprises
WB            World Bank
ACKNOWLEDGEMENT

The mission to prepare the study under consideration was conducted in Brazzaville and Pointe-Noire from 25 September to 21 October 2009, and aimed at gathering qualitative and quantitative data for implementing the study on improving access to financing for businesses. The work of the mission team was coordinated by Mr. Jean Raymond Dirat, Chief of Staff of the Minister of Finance, Budget and Public Portfolio (MFBPP), assisted by Mr. Antoine Ngakegni, Adviser at the MFBPP.

The team was received by His Excellency, Minister of State, Minister of Industrial Development and Private Sector Promotion and His Excellency, Minister in charge of SMEs and Cottage Industry. It had fruitful work sessions with the Chief of Staff in the State Ministry in charge of Economic Pole Development as well as the Chiefs of Staff of the Ministry of Industrial Development and Private Sector Promotion, Ministry of Tourism and Leisure Activities, Ministry of Small- and Medium-size Enterprises - SMEs), and Ministry of Agriculture and Livestock, the Economic Adviser to the Head of State, the Economic Adviser to the Ministry in charge of the Infrastructure Pole and the Director General of Private Sector Promotion in the Ministry of Industrial Development and Private Sector Promotion. The team conveys its gratitude to the Congolese authorities for receiving them as well as the effective collaboration of officials and staff of government departments and agencies that facilitated its work.

The team also benefitted from various interviews with many representatives from the private sector, the Professional Bankers’ Association, private sector support structures and development partner organizations, particularly the World Bank, the European Union, the French Development Agency, BDEAC and the Kingdom of Belgium. The study was jointly prepared with a World Bank mission team led by Mr. Vincent Palmade, Lead Economist including Mr. A. Deme, private sector specialist in charge of Congo.
EXECUTIVE SUMMARY

Within the context of Congo’s economic diversification, the purpose of this study is to contribute to private sector development (the sector being the vector of this diversification), through improved access to bank financing for Small- and Medium-size Enterprises (SMEs) and Very Small Enterprises (VSEs), by proposing actions more attune to a global multi-donor initiative. The target chosen are SMEs and VSEs since large enterprises have easier access to financing. The larger enterprises concede that they have no problem mobilizing funds; their bank rating confirms that such customers are in much demand.

At the level of SMEs, we took stock of problems hampering access and identified remedies that need considering. These problems include a number of factors that typify the business climate. However, as these have been discussed in various ongoing studies, they are not the subject of this report. We rather focus on the heart of the problem, namely access to financing. Also, we mention actions that although planned, had not been implemented and for that reason contributed to creating a situation whereby access to financing has been virtually frozen. In view of this impasse, our objective is to attempt "to gradually bring the commercial banks round to fulfilling their core mission" by submitting quality applications from dependable developers to them. Where that is not enough, the possibility will be provided for risk sharing.

To achieve this and taking into account other initiatives in the pipeline, we have put forward a set of arrangements. These aim at reducing risk drastically and sharing the residual risk. Concretely, these proposals will aim at: (i) training and supervising the business developer; (ii) making technical and market data used in profitability studies credible; and (iii) putting in place a guarantee fund that covers part of the risk. The major lines of actions to be pursued have been outlined.

However, the operation of the mechanisms outlined above involves complementary tools requiring an effective and adequate institutional anchoring. It is at this level that it would be necessary to link up with pipeline projects of some donors (notably the World Bank). The proposed collaboration with these donors should help put in place in relation to the mechanisms proposed, a broader organic framework with coordinated steering of complementary functions interconnecting initiatives of diverse origins, thereby creating synergy. This would lead to an integrated multi-donor arrangement hinging on the concept of "Maison de l'Entreprise " (Business Promotion Centre). Under this scheme, the proposed arrangements play a key role but benefit from related mechanisms and additional resources. Moreover, they form part of an overall system that should have a coherent management.

With regard to VSEs, the approach will be similar, but this will take into account existing differences. There is a high demand (hundreds of applications per year) for VSE start ups. There is also financing needs for business expansion. Currently, the Forum des Jeunes Entrepreneurs du Congo (FJEC) provides supervisory services and credit application assistance. But the demand for financing by the VSEs mainly targets the Micro-finance Institutions (MFIs). However, these MFIs are often fragile and some of them are facing refinancing problems. Lastly, a guarantee fund (reserved for a special category of beneficiaries) is being put in place under the ADB PARSEGD Project. Consequently, efforts will be made to consolidate and expand the current situation, and ensure the refinancing of MFIs.
I. INTRODUCTION

1.1 Context of Study

1.1.1 For three decades, (1960-1990) Congo pursued a centralized planning policy through which the State exercised considerable control over economic activity (granting of monopolies, fixing of prices, creation of public enterprises etc). This policy created major distortions in the structure of incentives by discouraging national private initiatives, even as it showed little interest in building the capacity of private sector support structures, notably for small- and medium-size enterprises (SME/SMIs)\(^1\). Against this backdrop, the Government’s 2008-2010 PRSP highlighted private sector development under its second intervention area, namely “promoting economic growth and macroeconomic stability”. The overall objective is to revitalize the sector and promote investment by increasing the potential for attracting foreign direct investments.

1.1.2 This study on improving access by SMEs and SMIs to financing forms part of the implementation of the African Development Bank Group’s (ADB) intervention strategy in the Congo for the 2008-2012 period. It was initiated following requests from the Congolese Government to the ADB Group to support its private sector development efforts in order to diversify the country’s productive base and reduce its dependence on oil. The study was prepared in October 2009 as part of a mission organized jointly with the World Bank (WB) team. The study aims to support the Government’s efforts to end the dependency of the national economy on the fragile petroleum balance through diversification which is also a means to significantly reduce poverty and a key component of sustained competitiveness. In practice, diversification should develop activities conducted by the private sector in a number of economic sub-sectors.

| Box 1 |
| Key Geo-economic Features of Congo |
| A Central African country, Congo straddles the Equator and covers an area of about 342,000 km\(^2\) with an estimated population of 3.5 million inhabitants (2005) and representing an average density of 10 inhabitants per km\(^2\). The economy of Congo is characterized by the juxtaposition of two sectors: a modern competitive and export-driven sector comprising petroleum activities that accounts for 66 % of the GDP, 75 % of tax revenue and 85 % of exports, and the other made up of traditional agriculture, local processing units and relatively informal services. Relations between the two sectors are weak and this constitutes a serious drawback to sustainable and employment-creating growth. This characteristic is essential. The structure which involves a variety of partners must seek the general interest which consists in fostering the implementation of quality projects but must avoid being dominated by any one of them. The legal formulation of the operation, the precise definition of the role of the various organs and the status of the management will be key in that regard. |

1.2 Study Objective

1.2.1 The aim of the study is to contribute to economic diversification through private sector development, especially by facilitating the sector’s access to medium- and long-term financing. However, the diagnosis will show that large enterprises do not encounter specific difficulties in terms of financing. For that reason, the focus will be on SMEs and VSEs. It is fundamental to note from the outset that although several constraints related to the business

\(^1\) In 1986, the Congolese authorities decided to make the private sector in general and SMEs/SMIs in particular a priority in the country’s economic and social strategy by establishing through Law 019/86 of 31 July 1986 a new institutional framework for SME/SMI promotion. This institutional arrangement was not as effective as was expected. Fraught with bureaucracy, it never had an operational impact.
climate still inhibit business development, there are still business proposals worthy of consideration albeit without access to financing. Such proposals are the target of this study (apart from future proposals that will emerge when the constraints begin to be lifted).

1.3 Methodological Approach

1.3.1 A classic approach was adopted, primarily based on: (i) an inductive methodology entailing interviews with relevant actors to obtain their views; (ii) a review of relevant studies and reports produced over the past fifteen years with a view to outlining the achievements and lessons; and (iii) identification of the current situation in order to establish reference points and learn about measures currently envisaged by some stakeholders, so as to ascertain the accuracy of our diagnosis and identify opportunities for synergy. The approach has also been deductive in so far as it refers to principles derived from successful experience in other areas as well as applicable good practices.

1.3.2 Investigations were carried out at two levels: the first reviews the demand for financing (i.e. projects and developers); the second concerns arrangements by financing agencies. However, these two aspects depend on a broader phenomenon that constitutes the “business climate”.

1.3.3 In formulating solutions, after the diagnosis and identification of initiatives envisaged by other donors based on a number of principles, an integrated set of proposals is outlined and recommendations are made with regard to the manner of implementation. These proposals are summarized in a roadmap at the end of the report. The working assumptions identified were tested with interlocutors representing various categories of actors: the private sector, professional organizations, banks, government and support entities. Lastly, discussions were held with some donors to explore collaboration possibilities for the proposed plan. These had positive outcomes.

II. SITUATIONAL DIAGNOSIS

2.1 Financing Demand: Developers and their Proposals

It is true that in the past, private sector development was impeded by the Marxist political system that the country practised for some time as well as the image of prestige that the colonial administration had given to the civil service. Both phenomena belittled business developers. However, undeniable opportunities exist in a number of sectors. Congo is endowed with many natural resources. There is a high potential in forestry, agriculture and livestock rearing, fisheries and mining, as well as hydrocarbons. There is also a variety of growth opportunities in the secondary sector namely: agro-food industry, wood industry, building materials, steel industry, metal industry, chemical industry and petroleum by-products. Progress has been made in this area and the entrepreneurial spirit is on the ascendancy. Even so, progress is hampered by lack of access to financing. According to the World Bank study on the business climate conducted in June 2009, 84.2 % of the total financing of businesses is made up of shareholders’ equity. Out of the 150 enterprises interviewed, 71 % use their capital solely to finance their projects. Similarly, the proportion of enterprises with a line of credit is 11.6 % in the Congo as against 29.5 % in Burkina Faso and 42.11 % in Cameroon. However, at this stage it is necessary to make a distinction based on categories of enterprises in view of the major differences noted.

2 There are four (4) categories of enterprises: very small enterprises (VSEs) with a workforce of less than 5 persons, small enterprises employing 5 to 19 persons, medium-size enterprises employing 20 to 99 persons and large enterprises employing over 100 persons.
## Table 1
Sources of Financing (in percentages of enterprises)

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Banks</th>
<th>Non-banking Financial Institutions</th>
<th>Credit from Other Providers</th>
<th>Other Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazzaville</td>
<td>78.6</td>
<td>5.5</td>
<td>0.3</td>
<td>12.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Pointe-Noire</td>
<td>88.2</td>
<td>1.6</td>
<td>0.0</td>
<td>6.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Small</td>
<td>82.0</td>
<td>3.2</td>
<td>0.0</td>
<td>10.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Medium</td>
<td>85.8</td>
<td>4.0</td>
<td>0.4</td>
<td>8.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Large</td>
<td>94.9</td>
<td>1.8</td>
<td>0.0</td>
<td>3.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>84.3</td>
<td>6.0</td>
<td>0.0</td>
<td>7.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Services</td>
<td>84.2</td>
<td>2.8</td>
<td>0.2</td>
<td>9.6</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84.2</strong></td>
<td><strong>3.4</strong></td>
<td><strong>0.1</strong></td>
<td><strong>9.2</strong></td>
<td><strong>3.3</strong></td>
</tr>
</tbody>
</table>


## Chart 1
Breakdown of Enterprises by City, Sector and Size

### 2.1.1 Large Enterprises

2.1.1.1 These consist of about ten enterprises often part of multinationals, 80% of which are in the oil city of Pointe Noire where the deep water port is located. These enterprises include international groups (mainly oil companies), companies belonging to foreign investors, former privatized state companies and a few companies with national shareholders. On the whole, these enterprises with an average turnover of CFAF 10 billion are considered as managed by professionals capable of formulating credible business plans and seeing them through.

2.1.1.2 Demand for financing by large enterprises (often subsidiaries of large multinationals) is sought after by all the banks which accept them often merely on the basis of "comfort letters". According to bankers and heads of enterprises consulted by the mission team, the financing of this category of enterprises appears not to encounter any particular problems (apart from issues tied to the business climate). Consequently, no further mention will be made of this category of enterprise.
### Table 2

<table>
<thead>
<tr>
<th>Very small enterprises</th>
<th>2007 Business Turnover and 2004-2007 Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average (in USD)</td>
<td>Median (in USD)</td>
</tr>
<tr>
<td>707 691</td>
<td>100 153</td>
</tr>
<tr>
<td>SME</td>
<td>3 222 160</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>25 518 147</td>
</tr>
<tr>
<td>Total</td>
<td>3 250 098</td>
</tr>
</tbody>
</table>

Sources: World Bank, 2009, Republic of Congo Enterprise Indicator Survey

2.1.2 **Small- and Medium-size Enterprises (SMEs).**

2.1.2.1 These concern about a hundred structured SMEs, notably in the services sector (bakeries, restaurants, pharmacies and distribution of imported goods) or small production units (paints, yoghurt or fruit juice). Some are owned by foreigners but most belong to nationals. These businesses have suffered the most from conflicts and find it difficult to mobilize resources to reactivate their operations. The first issue arising is whether there is strong demand from potential SME developers for investment proposals. The answer is rather difficult to formulate since it is public knowledge that such projects are not bankable. Therefore, there is no trace of their financing proposals. Nevertheless, contacts with the banks and business environments establish the undeniable existence of a demand potential. According to various observers (bankers, professional organizations etc) there could be about one hundred applications annually for bank support if financing were facilitated.

2.1.2.2 However, according to banks and professional organizations, a large portion of these applications from prospective developers who are inadequately trained in entrepreneurship and management methods, is based on unreliable data on outlets and equipment characteristics. In view of their characteristics, SME projects in most African countries must be backed by a set of support and supervisory mechanisms before qualifying as “bankable”. An attempt can be made to outline the various stages through which a prospective business developer (or an already established businessman) must pass in order to start a venture, run it and ensure its success. The support is qualitative at some point, financial at some other. Hence, possible functions already accomplished may be identified or inadequacies likely to inhibit private sector development may be detected. These functions relate to:

- Reception and initial guidance;
- Training (in entrepreneurship and management methods);
- Application formulation;
- Counselling with regard to financing;
- Ex-post supervision (existence and quality of “business development services”, including the issue of Certified Management Centres).

2.1.2.3 Congo is not adequately resourced in these areas. Admittedly, there is the Centre de Formalités (Business Formalities Centre), Espace Créateurs (Business Promoter’s Forum) and some APNI activities that are found at the beginning of the registration process. But for SMEs, there is no *ex ante* and *ex post* training and supervision system for budding entrepreneurs, with the exception of some interventions by the Forum des Jeunes Entreprises du Congo –FJEC- or APNI. Moreover, there are hardly any possibilities for mobilizing and paying for more advanced expertise (except the UNIDO project for wood and agro-food industries) to improve the quality of these applications. Moreover, business development services are scarce. Hence there are serious inadequacies in the SME support process.
2.1.3 Very Small Enterprises (VSEs)

2.1.3.1 This category comprises small production units established in cities, generally micro-enterprises some of which evade regulation by the administration. Hence, there is the traditional private sector focused on subsistence agriculture or small-holder farming and rural services. This is followed by several thousand VSEs involved in petty trading, small catering, market gardening, food processing and handicrafts. They provide for the livelihood, settlement or resettlement of families and individuals into economic life who have been marginalized partly as a result of political conflicts.

2.1.3.2 There is undeniable demand for financing at the level of VSEs with applications estimated at several hundreds annually. However, these prospective business owners lack training and their proposals are not properly formulated. Notwithstanding, it is worth mentioning the work of the Forum des Jeunes Entreprises du Congo (FJEC) which has been engaged in preparing applications and monitoring operations for 19 years. Hence, there is a basis on which more extensive action could be carried out. The VSE proposals are primarily intended for support by microfinance institutions.

2.1.4 Distressed Businesses

These are a special category of enterprises, some medium-size, that have been plundered or destroyed as a result of the war, and have not received any compensation. The issue of rehabilitating these enterprises has been brought to the fore. Some owners could only mobilize resources to cover the rehabilitation of their businesses. The Ministry of Economy has conducted an assessment of the damage. These enterprises have proven management potential and it would be worth exploring the possibility of providing rehabilitation support. In general, those that have not yet been rehabilitated have encountered problems of access to financing. Hence, if adequate steps are not taken, they are unlikely to recover.

2.2 Financing Supply: Banking Arrangements

The State was a key shareholder of banks. However, the imprudent distribution of credit, due to political influences and embezzlement and the damage caused by the two wars have put most banks in a difficult situation. The banking sector became distressed and this led to wide range restructuring exercises in 1993 and 2004-2006. This has resulted in profound changes in the banking landscape, notably in terms of shareholding. The reform appears to have been completed and the system has been sanitized. There are fewer banks now with 6 institutions dominated by commercial banks; there are no specialized financial institutions. The memory of high provisions that had to be made in the past is still fresh in the minds of bankers and partly accounts for their aversion to granting financing to enterprises that do not have maximum collaterals. However, their short term (deposits) and medium term resources (equity) show surpluses\(^3\) and the possibility of transforming such surpluses into medium applications are far from exhausted (c.f. Table 3). Hence, there is a considerable potential for financing investments even before resorting to lines of refinancing.

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\(^3\) See EDRE Report p 8.
### Table 3
Trend of Bank Balance Sheets (In CFAF billion)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009June</th>
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</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>29.3</td>
<td>37.4</td>
<td>52.3</td>
<td>136.1</td>
<td>137.8</td>
<td>205.2</td>
<td>338.3</td>
<td>360.7</td>
</tr>
<tr>
<td>Gross external assets</td>
<td>81.8</td>
<td>22.1</td>
<td>42.2</td>
<td>81.8</td>
<td>148.5</td>
<td>172.6</td>
<td>111.3</td>
<td>96.8</td>
</tr>
<tr>
<td>Claims on Government</td>
<td>24.9</td>
<td>16.8</td>
<td>23.1</td>
<td>10.6</td>
<td>10.4</td>
<td>3.5</td>
<td>11.4</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Credit to private sector</strong></td>
<td><strong>66.4</strong></td>
<td><strong>81.7</strong></td>
<td><strong>85.0</strong></td>
<td><strong>86.1</strong></td>
<td><strong>96.5</strong></td>
<td><strong>114.0</strong></td>
<td><strong>189.6</strong></td>
<td><strong>206.2</strong></td>
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<td><strong>LIABILITIES</strong></td>
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<td></td>
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<tr>
<td>Government Deposits</td>
<td>15.5</td>
<td>15.1</td>
<td>11.3</td>
<td>47.3</td>
<td>19.9</td>
<td>18.8</td>
<td>22.6</td>
<td>34.7</td>
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<tr>
<td>Private Sector Deposits</td>
<td><strong>150.2</strong></td>
<td><strong>138.9</strong></td>
<td><strong>166.2</strong></td>
<td><strong>222.0</strong></td>
<td><strong>355.9</strong></td>
<td><strong>432.1</strong></td>
<td><strong>573.5</strong></td>
<td><strong>566.1</strong></td>
</tr>
<tr>
<td>Net Other Items</td>
<td>36.7</td>
<td>4.0</td>
<td>25.2</td>
<td>45.4</td>
<td>17.5</td>
<td>44.4</td>
<td>54.4</td>
<td>73.9</td>
</tr>
</tbody>
</table>

Sources: BEAC Departments

#### 2.2.1 Small- and Medium-size Enterprises (SMEs)

**Nature of Obstacle to Financing**

2.2.1.1 The problem facing SMEs is that they have virtually no access to financing. Those that obtain financing are scarce. The issue is less the level of interest rates (relatively high) or refinancing gaps but the virtual non-existence of access due to inadequacies in the formulation of applications for financing.

2.2.1.2 The situation is as follows: in the best of cases, a lay person applies for financing by himself or with the assistance of a consultant familiar with business plan format but not the technical specificities of the operation and without the requisite tools to draw up sales projections, (pricing, quantities, etc...). This prospective business operator usually does not have the necessary funds and can hardly provide any collateral. Hence applications of this nature leave the banks with doubts about the accuracy of the data presented. The consequence is that most of the applications are rejected. This fact is well known to prospective business owners who no longer take the trouble to present applications for funding. This would lead the uninformed observer to believe that there is no problem since no requests are made. Hence, significant statistics cannot be generated at this level.

2.2.1.3 However, as previously indicated, there is no problem regarding the availability of resources. Short-term resources that can be transformed into medium-term outstrip demand by large enterprises (highly sought after). Moreover, without an opportunity to use their resources, banks do not encourage the development of appropriate financial tools for the collection of time deposits that represent on average less than 20% of total deposits. Consequently, in the event of the emergence of substantial medium term needs, the banks would still have potential at this level, this time by encouraging long term savings. Thus, it is only later that establishment of lines of credit would have to be envisaged. Therefore, as at end December 2008, it may be considered that the difficulty of SMEs accessing financing is linked to the banking system allocating only 30% of its reserves to credit financing (generally for consumption.)

Source: Republic of Congo, Investment Climate Policy Note (WB)
2.2.1.4 Therefore, the obstacle lies at a different level. Overall, the banking crisis at the end of the 1990s led banks into averting risks and cultivating reluctance to grant financing to the SME sector. They are wary of financing risks that they deem excessive with regard to both the promoter and his/her comportment, and the reliability of applications submitted.

2.2.1.5 The most dreaded risk is clearly that of failure to repay banks. The following factors account for this: (i) market projections (quantities, prices, acceptance of product, etc.) and/or technical estimates (equipment performance, production cost, etc.) that prove inaccurate, thereby resulting in the inability of the project to achieve a balance and acquire an effective credit reimbursement capacity; (ii) although the projections may be realistic, the promoter is not capable of effectively managing the business and therefore achieving the targets set; (iii) the project attains an equilibrium but the promoter diverts a portion of the income to other activities or to cover personal expenses; (iv) the promoter simply does not implement the project and embezzles the funds.

2.2.1.6 With regard to loan recovery, the risk relates to the effective value of collaterals provided, difficulty in obtaining court ruling within reasonable time, the impartiality of justice and problems related to the execution of court rulings. In the past, these risks effectively materialized and, as indicated above, the banks have been compelled to make considerable provisioning, as a result of which the sector had to be restructured. The banks therefore require collaterals based on an adequate level of equity, land titles or guarantees. Unfortunately few people have significant equity and there is no organization in the country devoted to acquisition of shareholding in SMEs or VSEs. As for fixed asset collaterals, the system of land registration is fraught with shortcomings and legal procedures are cumbersome. Lastly, the possibilities of resorting to valid collaterals are limited.

2.2.1.7 Furthermore, not all banks are familiar with the methodology used for analysing loan applications. The issue would have to be addressed through an analysis of liquidity flows rather than using an asset-based approach. Lastly, the types of financing on offer are not sufficiently diversified (absence of leasing or lease-purchase). However, given the attention given to large enterprises and the surplus resources available, it is evident that a number of banks may be interested in SME projects provided there are a sufficient number of them. Consequently, banks are in wait of measures that would help reduce the risk to which they are exposed.

2.2.2 Very Small Enterprises (VSEs)

2.2.2.1 These small schemes (to which we also add income-generating activities) are essentially catered for by Microfinance Institutions (MFIs). Congo has a number of the latter although they vary in size: from the powerful MUCODEC which, in organizational terms, has virtually the characteristics of a bank, to the small CAPPED, but which is emerging among a myriad of much smaller and generally weak institutions. In practice, hitherto,
MUCODEC has tended to work with civil servants and granted very little professional-type credit. Only CAPPED and a few other microfinance institutions have made progress on the ground. An ADB Project to Support the Economic Resettlement of Disadvantaged Groups (PARSEGD Project) has started and is striving to provide (for an identified but relatively high risk social group) a systematic response to the existing impediments.

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<th>Box 2</th>
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<td>Support to VSE projects: the case of PARSEGD</td>
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<td>The approach followed under PARSEGD is as follows: (i) selection of applicants; (ii) training in entrepreneurship by the Forum des Jeunes Entreprises: (FJEC); (iii) training in management methods by FJEC; (iv) a short course in a vocational training centre; (v) preparation of the business proposal by the applicant and FJEC; (vi) assessment of the project value by FJEC; (vii) forwarding of the financing request to a number of MFIs that have expressed an interest in such financing; (ix) if so desired by the MFI, presentation of the application to a guarantee fund set up for the purpose that can (confidentially) cover 50% of the risk; (x) release of credit; (xi) monitoring of the business by the FJEC and supervision of the applicant by a tutor. The initial applications have been completed and the establishment of the guarantee fund is underway. It is worth indicating that at the same time the project has initiated action at the level of the MFIs namely: (i) training of executives.</td>
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2.2.2.2 PARSEGD’s experience deserve monitoring with a view to drawing the necessary lessons. However, new issues are emerging. Indeed, some MFIs lack resources to service these professional loans which are higher than the credit they were used to providing and are spread over longer maturity periods. This raises the issue of commercial bank refinancing.

2.3 Previous Situational Analysis Studies

2.3.1 The above situational analysis is familiar given the many studies, workshops and projects devoted to the issue over the past fifteen years. There is also convergence of opinion on the nature of the problem (though refinements and adjustments have been made over the period). Moreover, a number of successive solutions have been outlined. Mention will be made of a few, namely:

a) A study by the European Union (1992) to float a project on sustainability and financing mechanism initiated in 1997 aimed at identifying prospective business developers, formulating applications, granting credit, monitoring enterprises financed, training business advisers and developers. The project that had EUR 10 M at its disposal (of which EUR 5 M for technical assistance and EUR 5 M to serve as a revolving fund for granting credit), was halted and eventually abandoned as a result of the conflict;

b) A UNDP/UNIDO private sector support project (1996) with a situation analysis along the lines highlighted in the above study. The scheme entailed the creation of the "Centre de Promotion des Entreprises" (“Business Promotion Centre”) (CPME) as a private and autonomous investment structure to provide support to SMEs by serving as a consulting and advisory body, a training centre, a financial intermediary and a credit agency. The three units of the CPME cater for the selection, reception and orientation of business developers, feasibility study and preparation of the loan application, appraisal, training, monitoring and recruitment;
c) The Provision for Diversified Investments (PID): Funded from levies on oil revenue, this provision involving large sums, was intended to finance investment projects. Managed by the Government, the PID was distributed among various ministries and beset by governance-related problems (reported by the media). It did not achieve the initial objectives set;

d) The 1996 version (updated in 2002) of the Belgian project devoted to SME financing: The project included a reliability mechanism, a guarantee fund and a venture-capital fund. An identification study was begun but the political conflict (and especially their consequences: temporary disappearance of funds) brought the process to a halt. Following clarifications in 2002, the Ministry of SMEs undertook a study aimed at overhauling the project (this resulted in a new format which will be discussed later);

e) The 2002 DIAGNOS study that confirms the analysis and recommends further action (that have not materialized): Worthy of note are the recommendations on support mechanisms adapted to various sizes of projects promoted by the private sector, establishment of local technical support structures for SME and VSE projects, monitoring of private entrepreneurs by the support structure once financing is provided, the possibility of supporting this mechanism with an autonomous guarantee fund and the provision of the support entity with a minimum of technical capacity through local or external experts capable of assessing the projects;

f) Reports of workshops organized (March 2009) on these themes by WB, AFD and EU, and validation meetings (May and June 2009): The workshops were based on a broad consultation of SMEs that validated the previous analyses;

g) In June 2009, BIZCLIM used the findings of the studies as a basis for a roadmap along similar lines:

h) The WB study on the Business Climate (June 2009): Based on a sample of 150 businesses, the study highlighted the lack of access by SMEs to financing as a major problem. It subsequently indicated possible avenues for solutions, notably risk sharing, efforts in formulating applications and coordinating a set of initiatives. As the study does not provide adequate details on these orientations and since the joint WB/ADB mission arrived at the conclusion that this was the way forward, the two partners have deemed it judicious to team up for a joint project in which, based on a distribution of tasks, they would endeavour to technically design and subsequently implement these various mechanisms.

i) In its recent report on the Competitiveness of the Congolese Economy, the EDRE units of the ADB recognized the need to modernize the banking system and facilitate access to financing.

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4 EDRE, October 2009
2.3.2 Hence, the situational diagnosis leaves no room for doubt, having been constantly confirmed. However, it is worth ascertaining the realistic nature of the diagnosis. To that end, a number of verifications were conducted with: (i) representatives of the Brazzaville and Pointe Noire Chambers of Commerce; (ii) employers’ federations (UNICONGO Brazzaville, UNICONGO Pointe Noire, UNOC, COGEPACO); (iii) business managers; (iv) bank officials; (v) officials of various government departments in charge of SMEs; and, (vi) relevant Technical Ministries. There has been consensus at these various levels on the analysis of the situation and its causes.

2.3.3 Notwithstanding, one may still wonder why nothing has been done over the past 15 years. Even so, it is also worth noting that the political crises have had highly negative impacts. Added to this is the fact that responsibility for SMEs has been spread among a disconcertingly large number of ministries, despite the existence of a Ministry of SMEs. Lastly, the definition of an SME support policy has resulted from a complex process. Preparatory studies are generally carried out by one donor or the other. Specialized committees involving the various partners (private sector, donors, banks and administrations) have been set up to participate in the analysis and validate the findings. Subsequently the studies are sanctioned at a kind of sectoral round table which decides on a future policy in the presence of Ministers.

2.3.4 However, the guidelines adopted do not lead anywhere (lack of perseverance and spirit of continuity), or they translate into decisions that do not necessarily reflect the principles adopted. The situation has therefore hardly improved. Indeed, credit to the private sector is low compared to the resources collected by banks and the financing needs of enterprises. The bureaucratic approach, inadequate institutional packages and premature slackening of effort account for this. This is why in the formulation of financing access projects, the questions “How?” and “With Whom?” are paramount. Lastly, it is worth noting that the projects outlined above contain elements of solution (validated many times) that are quite relevant and which we shall use to formulate our proposals.

2.4 Various Existing Actions

2.4.1 At Government Level

2.4.1.1 Responsibility for the private sector is shared between a number of government departments and institutions namely: The General Directorate of Private Sector Promotion of the Ministry of Industrial Development and Private Sector Promotion, Ministry of SMEs and Cottage Industry, Ministry of Trade and Supplies, Ministry of Finance, Budget and Public Portfolio and Ministry of State in charge of Economic Pole Coordination. This dispersal of responsibilities does not foster the definition and implementation of a coherent strategy in favour of the private sector. The official SME/VSE support institutions are mainly public administrative establishments with little autonomy. Apart from the Centre de Formalité des Entreprises (CFE), the other official structures are inadequately resourced and/or unsuitable. This is particularly the case of the SME-specific support mechanism, i.e. Fonds de Garantie et de Soutien (Guarantee and Support Fund) and Agence pour le Développement des PME (Agency for the Development of SMEs).

2.4.1.2 With regard to operational mechanisms, mention should be made of the Centre de Formalités des Entreprises (Business Formalities Centre), responsible for facilitating the various procedures businesses have to go through at start up or transformation and the PIRI project (supported by UNIDO) that supports the wood and agro-food industry. This support relates to reliability in the formulation of applications.
2.4.2 **At Private Sector Level**

The various employers’ unions (UNICONGO, UNOC, COGEPACO, etc.) play a key role in lobbying and information dissemination but offer few advisory or training services to their members. The VSE and SME sector, with the few groupings recently created (women entrepreneurs grouping, etc.), is still poorly organized and lack sufficiently mature umbrella structures. Hence, there are: (i) two Chambers of Commerce that provide various services; the Pointe Noire Chamber of Commerce is particularly dynamic; (ii) the *Forum des Jeunes Entreprises*, which, as already mentioned, mainly caters for VSEs, through training, supervision and monitoring; (iii) the *Association Pointe Noire Industrielle (Industrial Pointe Noire Association)*, which is relatively dynamic and undertakes training, support and sometimes direct financing activities; and, the Observatoire des Marchés (Markets Observatory), an off-shoot of the Pointe Noire Chamber of Commerce, which collects information on markets.

2.5 **Measures in the Pipeline that can contribute to the Establishment of an Integrated Mechanism**

2.5.1 **Concerning the Government**, it is worth noting the recent formulation of a private sector development strategy and adoption of a financial sector development strategy. Lastly, the Ministry of SMEs is preparing initiatives for SME financing. These initiatives aim at: financial support for project preparation studies and support needs in the form of a support fund, a risk-sharing mechanism floated by banks through a guarantee fund and direct joint financing through a business promotion fund.

2.5.2 **At the level of development partners**, some actors are currently conducting a study on private sector support. These have resulted in the design of projects by some of the interlocutors. These actions may be summarized as follows:

- Apart from its support to the development of VSEs and Microfinance under PARSEGD, the **ADB Group** hopes to prepare an institutional support project in 010 geared towards improving the business climate and enhancing SME access to financing;

- **The World Bank Project** has set aside an envelope of USD 10 million for a 5-year period to support the diversification of the economy to be shared between infrastructure, business climate, new growth poles and support to financial and non-financial services. The ADB-WB project was identified in conjunction with the preparation mission of the study under consideration which will serve as input for the two projects;

- The **EU** signed a financing agreement in April 2009 for the implementation of the two components summarized below (EUR 3.5 million over 36 months) namely: support for the definition and implementation of a commercial policy strategy accompanied by sectoral policies aimed at economic diversification, and support for the improvement of the business climate. The EU is preparing a project for the co-financing services and service vouchers, in addition to supporting public-private sector dialogue. The aim is to enhance access to non-financial services for SMEs, and support the implementation of the business climate improvement action plan (in coordination with other donors: ADB, WB, AFD);
• **AFD** has a number of risk sharing mechanisms (such as ARIZ) and is likely to provide some financial support;

• **Belgium** has earmarked funds for access by SMEs to financing; these amount to USD 1.5M, in principle dedicated to a system of reliability, a banking credit guarantee fund and a venture-capital mechanism;

• **BDEAC** is concerned with the development of a sub-regional expertise in the reliability of business proposals and the establishment of a guarantee fund network.

2.5.3 It is clear that these various themes have varying degrees of impact on access to financing. Consequently, it is important to ensure convergence between these initiatives and attempt to establish organic linkages between them.

### III. DEFINING A STRATEGY FOR IMPROVING ACCESS TO FINANCING

#### 3.1 Basic Data and Assumptions Underpinning the Strategy

3.1.1 Based on the diagnostic phase and taking good practices into consideration, we envisage a set of measures and mechanisms that would enhance the current situation and remedy its shortcomings. This overall plan will seek to ensure the coordination of interventions and sustainability of mechanisms put in place. The issue of a public-private consultative forum will also be addressed. With regard to the problem of financing, detailed proposals will be put forward. These will be situated at different levels: improvement of the quality of projects, introduction of new financial products, guarantee mechanism, refinancing, building of the capacity of financial institutions, etc.

3.1.2 Obviously, Congo’s specificities with regard to SMEs must be taken into account namely: (i) the business culture is less developed than in other African countries; (ii) expertise is relatively undeveloped and unknown; (iii) the chain of support mechanisms comprises only a few links that are inadequately interconnected; (iv) for the moment, there is no problem of long resources for refinancing; and, (v) financial institutions are particularly reticent about granting financing. It is true that this lack of access to financing is a reflection of problems prior to (and even after) the request for financing. Adverse elements of the business climate do have an impact. However, it is not necessary to draw up an exhaustive list and treat all the existing constraints to the financing of the private sector in Congo.

3.1.3 Even though the study addresses some aspects, it does not explicitly deal with the business climate in general and corruption in particular, which are already treated in other studies and/reports. These obstacles can only be removed in the medium and long term, even though there are some actions that can yield more rapid results. Furthermore, during the mission it became evident that WB and the EU wanted to dwell on issues affecting the business climate. Consequently, to avoid duplication, it was agreed that the tasks should be shared. Accordingly, this study has attempted to focus on an in-depth analysis of some

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5 The reader may refer to the following reports: a Study on Corruption and Fraud published by the Ministry of the Presidency in charge of Government control (2003); (ii) the Poverty Reduction Strategy Paper 2008-2010 (PRSP) adopted by the Government in March 2008; (iii) Congo’s Governance Profile prepared by the ADB in 2008; (iv), the report on the business climate, prepared by the Bank in June 2009, and the study by the European Commission on the business climate.
specific risks following discussions with the authorities, the Congolese private sector, the World Bank and other development partners’ interventions, the outcomes of previous studies and strategic areas of the 2008-2010 PRSP.

3.1.4 As previously indicated, the determining factor is what the financial organizations perceive to be an excessive risk. To remedy the situation, there is a need to drastically curtail that risk and share the residual risk. For that reason and as will be seen subsequently in the report, considerable efforts will be devoted to improving the quality of credit applications while enhancing the skills of business developers.

3.1.5 This objective will require a set of complementary actions (since it is true that the success of a project depends on a series of interdependent links) to be carried out with regard to financial tools as well as the business environment and mechanisms. Consequently, the real challenge will involve the manner in which the arrangements and mechanisms are effectively and efficiently put in place. The establishment of such a programme requires collaboration between a number of complementary actors. Such collaboration and role-sharing are not always easy to organize, although there are convincing examples. A certain creativity and negotiating capacity would be required.

3.2 Application Preparation Process

3.2.1 Small- and Medium-Size Enterprises

The perceived risk is what needs to be addressed. Action must be taken at two levels: that of the promoter and the project. Efforts must be made, with the support of an independent expert, to render the basic data of proposals credible and ensure the smooth development of activities through close monitoring as well as prevent the embezzlement of funds by supervising the business activities.

3.2.1.1 At the promoter’s level, it is indispensable to carry out an individual diagnosis of the owner’s entrepreneurial and technical management skills. This should be carried out by an adviser acting as a coach. A possible “prescription” for monitoring some training activities will be formulated on the basis of previously “approved” programmes. A follow-up of the prospective business owner’s needs will be carried out in the course of his/her career. The concretization of these interventions presupposes: (i) the availability of subsidy to cover part of the costs; and (ii) the existence of a stable structure to perform the coaching function (this is discussed elsewhere).

3.2.1.2 At the project level, the aim would be to render the project “bankable”. In that regard, the characteristic elements of the project should be outlined in a plan that gives an idea of its estimated returns, its impact on the future cash flow situation and the risk level. Generally, these methods differ from those used to assess existing businesses, which are based on a review of financial statements, possibly restructured (it is for existing business proposals that the development initiatives of Certified Management Centres and Centrale des Bilans, financial statements analysis capacity building, etc. have some relevance). The dominant features of these provisional methods (rather complex) are generally acknowledged and can be included in training activities. However, these methods are generally unknown to most SME operators and many bank officials are not yet familiar with them either. Going forward, efforts should be made to organize training sessions. By the same token, provision should be made to incorporate advisers into the supervision system. Such advisers will be responsible for shaping the project to match the model defined. It is at this level that some donors have been focusing their attention.
3.2.1.3 In accomplishing these two tasks (training of entrepreneurs and making the application bankable), one may have the impression of having resolved the problem. This is not the case even if these efforts have resulted in undeniable progress. Indeed, there is need to clearly distinguish between “method” and “input”. In reality, the thorniest issue relates to the quality of data to be injected into the model. Unfortunately in Africa, relevant market and technical data is scarce. Consequently, entrepreneurs are less well equipped than their counterparts in industrialized countries and this significantly affects the quality of projects. Efforts to be made in this area are more subtle and complex.

3.2.1.4 Certainly, skills are dispersed (country, sub-region and Europe) and unidentified. Moreover, it can be costly and therefore relatively inaccessible. A possible solution will entail: the establishment of a small but highly experienced team to oversee the preliminary studies (but not to conduct them), prepare the terms of reference of studies to be undertaken, identify specialists with the support of specialized organizations, control the quality of studies, ascertain the quality of the application and, in case of a positive assessment, indicate financing possibilities and present the application to financial institutions, following financing, monitor the operation. It should also identify and develop concentric networks of experts, mobilize lines of subvention (co-financing, service vouchers, etc.) that would make it possible to pay a portion of the costs of the studies. Lastly, it is worth recalling that skills development is a process that must be sustained and can only be carried out in a pro-active manner. It also takes time.

3.2.1.5 The team responsible for reliability constitutes a key element of the process. A significant portion of the system depends on its intervention. It will do for the SMEs what the FJEC already does for the VSEs. The team should have operational relations with the Centre pour le Développement de l’Entreprise (Business Development Centre) (CDE). Its autonomy and skills should be assured and its activities will undoubtedly be carried out under a specific legal entity.

3.2.1.6 It is obvious that the quality of services (which are highly technical) of the studies management unit is specifically linked to the possibility of building on the experience. Consequently, at this stage, it is essential that the training be centralized. Lastly, as the residual risk can eventually inhibit the banks, provision has been made for a guarantee fund covering up to 50%. Details will be provided subsequently in the report.
Box 3
Characteristics of the Reliability and Follow-up Structure

**Autonomy**
This characteristic is key. Since the structure is working with many partners, it must seek the general interest which involves promoting quality projects. It should associate the various actors concerned: private sector, banks, authorities and donors, but should help avoid being dominated by one of them. The legal formulation of the operation, precise definition of the various bodies and the status of the management are, in that regard, crucial.

**Professionalism**
In view of the specificities of the problem, needs relate to the availability of adequate expertise and the performance of tasks with professional rigour.

**Oversight, Not Executory Role**
The structure will oversee the studies while seeking the most appropriate external expertise. This means that it should have among its ranks higher competencies to carry out this oversight function and, at the same time, be able to identify the various external specialists required.

**Partial Contribution by Beneficiaries**
Several factors justify the need to have the beneficiaries bear a portion of the costs related to the work of the structure.

**A Tool in the Service of Many Users**
In order to have a critical mass of operations that would enable it to build a stock of specialized expertise and be better able to distribute its fixed expenses, the structure must serve the various users.

**Subsidiarity of Interventions**
The structure does not aim to substitute itself for actions that are already yielding results; its role is to detect deficiencies and remedy them either through initiatives or by directly taking action.

### 3.2.2 Very Small Enterprises

3.2.2.1 We have noted above the problem of refinancing MFIs. To address this, the following proposals may be made: (i) either mobilize lines of credit from donors willing to accept a high level of risk; (ii) or use the funds of commercial banks. In the latter case, the issue of non-reimbursement by the MFIs arises. The banks consider most MFIs as not solid enough and the risk unduly high.

3.2.2.2 Consequently, the MFIs must be strengthened: efforts made by the ADB through the PARSEG project (training, equipment, computerization) must be consolidated and pursued through management support on the ground. As is the case in several countries, donors are financing the establishment in the Congo of a unit fostered by an NGO from the North specialized in technical support that will provide permanent coaching to a number of MFIs for a few years. This kind of intervention is likely to improve the solidity of the MFIs. In view of the need for this capacity building but which is initially not convincing enough for the banks to buy into, a guarantee fund to support about 50% of their refinancing risk would be advisable.
3.2.3 Distressed Businesses

It is worth bearing in mind the fact that as a result of difficult operating conditions, both in terms of the market share (it was reported that as a result of their inactivity they were replaced by other businesses) and technical issues (emergence of more effective technologies) such businesses are likely to undergo profound changes. Consequently, it is often indispensable to undertake a preliminary diagnosis of the business before its competitiveness can be restored. This can be achieved by mobilizing the relevant expertise (which we have mentioned above) and providing subsidy lines to cover a portion of the cost of studies. Where the prospects are favourable, it would be necessary to provide a system of financing with soft conditions.

3.3 Peripheral Arrangements and Actions

3.3.1 Qualitative Arrangements

3.3.1.1 Typically, some of these are arrangements relating to the “business climate” namely: (i) setting up an Order of Accountants; (ii) organizing consultancy and specialization of consultants (with a sub-regional outlook): this requires the identification and establishment of a professional organization, a specialization process and the establishment of a sub-regional database; (iii) creation of Courts of Arbitration; (iv) improving the judicial system and raising the awareness of judges about economic implications; (v) in addition to the establishment of the reliability entity, negotiating access by the latter to the CDE, UNIDO, CTA, etc. network of experts; (vi) developing zones for the establishment of SMEs where standard premises similar to incubators will be put at their disposal.

3.3.1.2 These various initiatives are clearly desirable. However, those that have a direct and fundamental relationship with the core of the project and whose coordinated establishment is indispensable, are: the organization and specialization of consultants and the negotiation of access to the network of experts.

3.3.2 Financial Mechanisms

3.3.2.1 In this area, the approach will mainly be based on the following ideas:

- Granting of credit or collateral is a technical problem that must be conducted away from governmental influence;

- The mechanisms implemented must have an internal development capacity that would enable them to gradually adjust to market principles. This means that credit operations should be carried out through financial institutions based on relevant rules, even if the latter are softened;

- It is essential that financial institutions are empowered in their credit decisions and therefore conserve a significant portion of the risk as well responsibility for recovery;

3.3.2.2 In that regard, efforts will be geared toward the following mechanisms:
• Creation of a guarantee fund for SMEs: The reliability efforts run a risk (at least at the beginning) of not being enough to convince banks to grant credit. Therefore, prior to taking a decision, the sharing of the residual risk could be proposed to banks through a guarantee fund. Naturally, in designing the latter, consideration should be given to strict orthodox principles to avoid the pitfalls that have beset African “first-generation” guarantee funds in the past;

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<td>Characteristics of Proposed Guarantee Funds</td>
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<tr>
<td>Autonomy</td>
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<td>Professionalism</td>
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<td>Financial balance</td>
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<td>Use of support structure</td>
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<td>Light structures</td>
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<td>Risk sharing with banks</td>
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<td>Tool for a variety of users</td>
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• Development of the financial lease activity: This method provides an interesting potential for SMEs, in view of the fact that the financial institution keeping ownership of the asset has a collateral. It appears that there are still some impediments in the country, notably taxation, that hamper the development of this method. Hence a study should be conducted to identify and remove these impediments, and raise the awareness of the judiciary;

• Establishment of lines of refinancing for MFIs: For some MFIs, the problem of resources is beginning to arise. Consequently, it is worth exploring avenues for providing access to additional resources. This would, however, require further strengthening of the MFIs;

• Creation of venture capital fund for “very large” SMEs. In Sub-Saharan Africa, venture capital is a necessary yet difficult instrument to put in place. Hence, it is scarce and its mobilization is an uphill task. Consequently, a study should be conducted with a view to developing such a mechanism for some SMEs;

• In contrast, given the current context, there seems to be no need to create a specialized financing institution for SMEs. Currently, there is no shortage of long refinancing resources; this situation differs from what frequently prevails in the rest of Africa. Impediments are upstream and downstream and relate to the quality of data and supervision of the operations;

• Lastly, efforts should be made toward working within the context of banking institutions, even if it means softening the conditions. However, it would be necessary to mitigate the risk for commercial banks through a guarantee fund.

3.3.3 Adequacy of Mechanisms Proposed

To determine whether the mechanisms proposed are adequate, the following must be noted: (i) with regard to reliability mechanisms, schemes (with varying degrees of success) have been put in place in various ACP countries; they are generally multi-sectoral. There are multi-sectoral examples in Benin, Cote d’Ivoire (hampered by the political crisis), Niger, Trinidad etc. Their achievements are impressive. There are also systems for single sectors in
Mali, or Madagascar, or UNIDO’s Integrated Industrial Recovery Programme (PIRI) in Brazzaville; (ii) with regard to guarantee fund, a distinction must be made between “first generation” funds established in Africa 20 or 30 years ago which, under the control of governments, have failed and those of the new generation (a prototype is GARI\(^6\)) which drew lessons from past design flaws and are enjoying a growing demand.

### 3.4 Institutional and Organic Anchorage

3.4.1 Experience shows that this point is of capital importance since a number of inherently interesting initiatives failed at this level. The basic idea is to identify in the current situation what has been successful or has a potential and then strengthen, structure and complete it. The mechanisms we have described must be integrated into a larger system in order to be effective. It must not be forgotten that support to SMEs represents a chain of complementary mechanisms. Hence it is worth focusing on completing and unifying these links. This calls for the presence of a powerful and stable “driver”. The system must provide leadership, ensure consistency with the needs expressed, ensure some degree of sustainability, provide a range of complementary functions, etc. Coordination with the WB project (as well as the intentions expressed by other donors) appears at this juncture. The basic ideas are as follows:

3.4.2 The private sector must progressively take ownership of the mechanism to be put in place. Since the Government failed in its attempt to support the SMEs, the mechanism must be placed in a non-governmental framework, through a scheme involving the private sector, banks, development partners and the Government. To increase the chances of sustainability of the system, several donors may be included to ensure the diversification of the sources of financing. Hence, the supervisory entity must be structured. To ensure effective coordination, 3 groups of actors have been identified:

- **Private sector representation** organized into a Private Sector Federation. This representation will undertake private sector advocacy with the two other groups, ensure that the system fulfils the functions expected of it and put forward proposals that developments will require;

- **Private Sector Donors’ Forum** aimed at ensuring the good governance of the system, providing collective financial support, experience input and ensuring coordination between its members;

- **A Government Delegation** representing the various departments concerned but which should be coordinated. Its role will be to identify the needs and wishes of the private sector, refer these to policy makers, consult with the private sector on policies envisaged by the government, make the government’s choices known to the private sector, provide financing in consultation with donors for the system and new initiatives and ensure the convergence of the system with government policy.

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\(^6\) GARI (West African Private Investment Guarantee Fund) shares the risk on bank credit. Created fifteen years ago by a group of donors, banks and the BOAD, it aims at “large” medium enterprises at sub-regional level. In terms of its principles, it constitutes the archetype of the “new generation” guarantee funds.
3.4.3 With regard to the institutional framework that should serve as anchor to a set of measures, the following plan is being proposed:

- Re-grouping of various private sector organizations under the auspices of the Private Sector Federation that would allow for having a representative interlocutor, and the capacity to oversee some mechanisms. This Federation must necessarily include a representation of the Association Professionnelle des Banques (Professional Banking Association) in order to closely associate banks with the operation of the mechanism through which “bankable” applications will be addressed to them. This involvement of the banks should assure them about the effectiveness of the system and enable them to request relevant changes;

- Creation of a donor forum in support of the private sector. The aim is to organize the coordination of donor actions and take collective moral responsibility for the mechanisms and initiatives in favour of the private sector;

- Government’s fine-tuning of its representation. This involves a definition of the mode of representation of the various ministries concerned and ensuring effectiveness;

- Creation of a kind of “Maison de l’Entreprise” (Business Promotion Centre) (similar to that of Ouagadougou, with some variations) that should “drive” private sector support. This should not only be a geographic area (in both Brazzaville and Pointe Noire) where a number of support activities would be conducted in functional premises, but also constitute an entity on which the concept of integrated support for entrepreneurs hinges as well as a forum for consultation and coordination. It will have a legal status (foundation, association etc.); its Management Committee will have representation drawn from the Private Sector Federation, the Private Sector Donor Forum and the Government. Initially, it will bring together, in the form of a federation, various existing mechanisms that would keep their autonomy viz.: the Guichet Unique de Formalités (one-stop shop), the Espace Créateur, APNI, le Forum des Jeunes Entreprises, the UNIDO PIRI Project and the Maison du Mahonga.

- The "Maison de l'Entreprise" scheme should enable organizations such as the Chambers of Commerce or employers’ associations, to have a more effective transmission belt in their proposals for support to businesses. These organizations will then be able stimulate and monitor actions more easily.

3.4.4 This conception of the overall system draws on examples from Burkina (Maison de l'Entreprise), Rwanda (Rwanda Development Board), Singapore, etc. Gradually, the mere juxtaposition should transform into an integrated management. To these existing mechanisms may be added:

- The Investment Board; an advisory window on access to financing (with all relevant information);
• A reliability system for SME projects: this activity has been carried out for 19 years by the Forum des Jeunes Entreprises for VSEs but must now be extended to SMEs;

• A training coaching function to attract the outsourcing of brand programmes and orientation of applicants.

3.4.5 Lastly, the financial resources for support projects would be provided by a group of contributors who will replenish a fund with structural resources for the overall running of the scheme as well as specific tasks involving particular interventions or actions. These contributors would be donors, the private sector and the Government. The contributors would define in a concerted manner the destination of their funds and eligibility conditions. However, they would delegate the power of operational allocation decisions to the managers of the Maison under the supervision of the contributors.

3.4.6 In their resource allocation decisions, the contributors will outline in a comprehensive manner the financing needs of the system. We have given indications above on the orders of magnitude envisaged by some donors. Details of this will have to be provided gradually and the other donors will have to specify the level of their assistance. At the same time, subsequent studies will formulate assumptions on annual project flows that will gain access to financing (their number, amounts, etc.) and the costs of structures to be implemented.

IV. CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

4.1.1 The investigations conducted show that the development of the private sector is indeed hindered by problems of access by SMEs and VSEs to financing. This is in not in any way due to lack of resources in banks (except for VSEs where the issue of MFI refinancing is beginning to emerge). The reason for these restrictions is the risk level perceived to be unduly high. The risk level is attributable to the poor quality of applications, inadequate collaterals and characteristics of the business developer.

4.1.2 To address this situation, action should be taken at different levels. There is need to train and supervise the entrepreneurs, ensure the accuracy of the data contained in their proposals and monitor the project implementation. This implies the setting up of a qualitative support arrangement (adapt the FJEC’s action for VSEs to SMEs). It is also necessary to complement the range of financing tools with more appropriate instruments such as financial leases and, subsequently, venture-capital. Similarly, a system for sharing residual risks should be put in place through a guarantee fund. At the level of VSEs, the FJEC project support action must be consolidated and the possibility of extending the guarantee fund to disadvantaged groups considered. Lastly, for distressed enterprises, preliminary diagnoses are indispensable and where possible, soft-term financing could be considered.

4.1.3 However, past experience has shown that the measures outlined above to achieve these objectives must be implemented in a context where the required technical competence, independent judgement, complementarity of other mechanisms, skills building and sustainability are assured. The issue is therefore a complex one but other donors share similar concerns. Hence, advantage should be taken of this convergence to draw inspiration from
integrating schemes implemented in other countries. Briefly, such schemes attempt to regroup under the same roof, with donor/private sector/Government supervision, a number of functions for businesses (including those mentioned in this report). This is similar to the concept of *Maison de l’Entreprise* (Business Promotion Centre) concept, which the WB also supports. At the outset, we mentioned that the questions, “How?” and “With Whom?” are crucial for the success of business plans. We are of the view that the proposals outlined above adequately address these concerns.

4.1.4 The conclusions presented are not final, in view of the selective nature of issues treated, lack of sufficient data, especially on the level of demand by businesses for financing and the limitations of the methodology used. However, they constitute a significant basis for direct action for providing SME/SMIs with medium- and long-term resources to finance economic diversification and reduce poverty in the Congo. The report here presented is but a summary of the full report that can be consulted at the ADB Regional Centre Department (ORCE).

4.2 **Recommendations**

4.2.1 Following discussions with various interested partners of current needs and the proposed scheme, the issue of defining the next stages has become pertinent, in view of the plurality of actors. It emerged from discussions held with the WB on the issue that, in view of the various views and interest in the project expressed by donors, the next stage is to prepare implementation projects, including complementary studies defining:

- The overall architecture of the “*Maison de l’Entreprise*” (Business Promotion Centre) facility, including the structuring of 3 steering groups;

- The principles of the design and operation of various qualitative mechanisms or financial tools described in this report;

- Relations between various structures within the institutional framework;

- The framework for the involvement of other donors;

- A suitable venture capital fund mechanism for “very large” SMEs.

4.2.2 **Road map:** The following road map contains a breakdown of the major tasks that the financing access facilitation policy encompasses.
<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>PROBLEMS IDENTIFIED</th>
<th>PROPOSALS</th>
<th>ACTIONS</th>
<th>POTENTIAL ACTORS</th>
<th>TIME FRAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business climate</td>
<td>Unfavourable</td>
<td>Various</td>
<td>Multiple</td>
<td>GoC, EU, WB, ADB, Govt.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Pool the private sector</td>
<td>Undertake the creation of a centre, agree on consultation mechanism, appoint a leader</td>
<td>GoC, EU</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Organize private sector</td>
<td>Regular meetings, appoint a leader</td>
<td>GoC, WB</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Appoint the Government</td>
<td></td>
<td>GoC,</td>
<td>2010</td>
</tr>
<tr>
<td>Steering partners</td>
<td>Inadequate organization of partners</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Conception, organization,</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>negotiations with partners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistency of support</td>
<td>Absence of point of convergence and “engine”</td>
<td>Creation of <em>Maison de l’Entreprise</em></td>
<td></td>
<td>GoC, WB/ADB</td>
<td></td>
</tr>
<tr>
<td>action</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving quality of</td>
<td>Lack of adequate training of developers</td>
<td>Improve management capacity of developers</td>
<td>Set up a coaching support facility at the <em>Maison de l’Entreprise</em></td>
<td>GoC, EU</td>
<td>As soon as possible</td>
</tr>
<tr>
<td>business plan</td>
<td></td>
<td></td>
<td>Accredit training programmes</td>
<td>GoC, EU</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Additionally, provide management assistance, following project start up through the reliability mechanism</td>
<td>GoC, ADB, EU</td>
<td>Short term</td>
</tr>
<tr>
<td>COMPONENT</td>
<td>PROBLEMS IDENTIFIED</td>
<td>PROPOSALS</td>
<td>ACTIONS</td>
<td>RESPONSIBLE ENTITY</td>
<td>TIME FRAME</td>
</tr>
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<td>------------</td>
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<tr>
<td>Financial Tools</td>
<td>Inadequate tools</td>
<td>Improvement of reliability of business plan through effective appraisal</td>
<td>Creation of a formal and permanent reliability structure</td>
<td>GoC, BDEAC</td>
<td>2010</td>
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<tr>
<td>Financial Tools</td>
<td>Inadequate tools</td>
<td>Organization of training for bank officials on the critical analysis of credit applications and their financing</td>
<td></td>
<td>GoC, ADB</td>
<td>2010</td>
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<tr>
<td>Access to services</td>
<td>Poor quality of business plan</td>
<td>Improvement of reliability of business plan through effective appraisal</td>
<td>Strengthening and accreditation of advisors</td>
<td>GoC, BDEAC</td>
<td>2010</td>
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<tr>
<td>Access to services</td>
<td>Poor quality of business plan</td>
<td>Development of Approved Management Centres</td>
<td>GoC, ADB</td>
<td>2010</td>
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<td>Poor quality of business plan</td>
<td>Financial lease development identification of obstacles, related reforms, awareness</td>
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<td>End 2010</td>
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<td>Access to services</td>
<td>Poor quality of business plan</td>
<td>Putting in place of SME guarantee funds Conception, operation, partners awareness</td>
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<td>2010</td>
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<td>Access to services</td>
<td>Poor quality of business plan</td>
<td>Venture capital funds Opportunity, conception, partners</td>
<td>GoC, WB/ADB, Belgium</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Access to services</td>
<td>Poor quality of business plan</td>
<td>Establishment of lines of financing Additional resources for commercial banks</td>
<td></td>
<td>GoC</td>
<td>2012</td>
</tr>
<tr>
<td>VSE Financing</td>
<td>Inadequate resources of some MFIs</td>
<td>MFI strengthening Lines of financing or guarantee funds for refinancing banks “Risk” loans from donors or risk sharing by commercial banks</td>
<td>Setting up of a technical assistance unit Preliminary diagnosis, facilitation of financing</td>
<td>GoC</td>
<td>2010</td>
</tr>
<tr>
<td>Distressed enterprises</td>
<td>Stagnant</td>
<td>Technical and financial rehabilitation</td>
<td>GoC, WB/ADB</td>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>Real estate infrastructure for SMEs and VSEs</td>
<td>Inadequate</td>
<td>Development of office spaces for SMEs similar to incubators</td>
<td></td>
<td>GoC, private sector</td>
<td>2011</td>
</tr>
</tbody>
</table>