TIPS FORUM 2018
FINANCE AND INDUSTRIAL DEVELOPMET

TITLE:
FINANCING FOR SMEs IN A CONTEXT OF IMPERFECTIONS OF BANK CREDIT MARKET IN DEMOCRATIC REPUBLIC OF THE CONGO: NECESSITY FOR GOVERNMENT INTERVENTION TO PROMOTE THE DEVELOPMENT

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JUNE 2018

- GOAL OF THE STUDY

This paper aims to appreciate theoretically, using the Principal-Agent model, the need for government intervention as a way to attenuate the constraint of financing SMEs in a context of bank credit market imperfections.

1. INTRODUCTION

- Following the bank crisis of the late 1980s, most sub-Saharan African countries have liberalized their financial sector from 1990 in order to increase savings and reduce constraints of credit market
- More than two decades later, we notice that banks have improved their profitability and solvency, and several of them have too much money in reserve. However, the cost of bank credit remains relatively high, and bank credit supply excludes many small and medium enterprises (GULDE and PATILLO, 2006; HUGON 2006)

- This exclusion is explained by asymmetric information which characterizes many SMEs and by the observance of prudential standards that often lead banks to have an excess of prudence in loans.
- These imperfections of market bring banks to adopt a behavior consisting of putting the high bank rate and preferring the loans of short term (DOUMBIA, 2009).

Figures below give idea about financing SMEs by FPI :

Year	Number	Amount(us $)	Rate of debt recov
2013	71	23,353,640	35%
2014	82	49,000,748	34%
2015	73	38,590,336	51.5%
2016	77	33,484,645	52.8%

- FPI has recovered a big part of its loans in 2016 since the rate of debt recovery is higher (52.8%) than other years (35% in 2013, 34% in 2014 and 51.5% in 2015)

- Even if 52.8% represents an effort that the FPI has made for recovering its debt, a big amount of loans (47.2%) is not reimbursed
- An increase in the rate of debt recovery could grow the FPI’s resources and allow it to finance more and more SMEs
- To that end, a reasonable question that the present study raises is: what mechanisms the Congolese government can envisage in order to incentivize the FPI to increase number of financed SMEs?

2. METHODOLOGY

The principal–agent model is based on the following basic assumptions:

- Relationship between a principal and an agent cannot be repeated;
- Existence of a legal framework allows one to respect the contract proposed by the principal and accepted by the agent;
- The principal is the leader according to Stackelberg model: this means the principal offers various contracts and anticipates that the agent will choose the contract that maximizes his utility (LAFFONT and MARTIMORT, 2002; BOLTON and DEWATRIPONT, 2005).

- There are two utility functions: one for the principal and another for the agent. Each one maximizes its utility function.

The principal’s utility (virtually linear) is:

3. RESULTS

The relationship between the govenment and FPI implies that FPI has more information about the company management than the principal;

Resources of FPI come from the amount of a tax on enterprises and the amount of debt recovery.

- To analyze theoretically mechanisms that government can put in place, we are going to depend on the model previously presented in section2.

The rate of debt recovery corresponds to , number of financed SMEs is similar to , and payment made by the principal to the agent . So the number of financed SMEs if , which is an increasing function of the rate of debt recovery.

Some hypotheses for understanding properly are:

- The first component of resources (amount of tax) does not vary, only the second component (amount of debt recovery) can vary and consequently modify the total resources.
- The supplement of the amount of debt recovery allows enhancing the rate of debt recovery and it is used for financing the increasing number of SMEs.
- The rate of debt recovery ( ) must at least be equal to a minimum rate fixed beforehand.

Thank you for your attention