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The Problem of Financing and Access to Credit for SMEs in the Democratic Republic of the Congo

Jean René Ngandu
second term assistant at the higher institute of medical techniques kindu" (istm kindu) Maniema DRC

INTRODUCTION

Project financing in Congo has become a leitmotif since Congo reached the completion point under the *HIPC* initiative. Banks are over-liquid and companies are in need of financing.
In the context of being an "emerging country" requiring competitive companies capable of entering the global market, the issue of lack of project financing is a major obstacle for Congolese small and medium-sized enterprises (*SMEs) that* have never achieved economies of scale.
What is the problem of lack of project financing in Congo? What are the determinants?
This note presents a synthesis of the arguments put forward on thisissue in the light of good financial management practices that seem to reveal the major weaknesses of Congolese *SMEs.* It presents the problems, solutions and perspectives.

1- PROBLEMS WITH PROJECT FUNDING

i - Ineffective Management by Company Directors

The managers of local companies generally demonstrate poor management of the resources generated by their activities, due to the high costs they incur. Even when this management seems tobe improving, the problem arises of the dividend policy within these companies.
The term "dividend policy" traditionally refers to the set of rules of conduct that a firm has adopted for the allocation of its net profit between the distribution of dividends to shareholders and the retention or setting aside of the same.[1]
At the level of Congolese companies, in general, and at the levelof *BAB* in particular, the policy of allocating net profit tends to

[1] Simon Y. and Joffre P. La politique de la dividende, 1997.

favour the distribution of dividends to shareholders to the detriment of the reserve.
In this respect, the self-financing available to Congolese companies can be considered as accounting self-financing and ismade up of depreciation, i.e., calculated or non-disbursableexpenses, which are reintegrated, as the objective is to allow, in principle, the renewal of depreciated assets. Consequently, like *BAB*, Congolese companies have low levels of self-financing, which is considered the main internal source of project financing. This requires recourse to external financing, particularly bank loans.
This alternative remains difficult to implement due to the inability ofCongolese business executives, in general, to provide a *business plan that is* essential to financial partners. In this respect, we are witnessing the"non-bankability" of projects, which is a blocking factor in projectfinancing.

ii - The Reluctance of Financial Institutions

The supply of credit in the financial environment of Congolese companies reveals a reluctance on the part of financial companies. This is due to the fact that, for financial institutions andbanks in particular, the majority of Congolese entrepreneurs only present projects that are not bankable, i.e. that do not offer guarantees of profitability and security. In other words, entrepreneurs' projects necessarily involve risks.
Two factors explain this situation. Firstly, entrepreneurs are not ableto present a *business plan that* clearly describes the project, shows the capacity to carry it out and above all reviews its feasibility.
As a result, in the Congolese business environment, project ideas are presented instead of likely business plans with a reliable and relevant feasibility study.
Secondly, the "business and banks" system operate on the basis ofinformation asymmetry. Indeed, there is a gap in knowledge of the project and the conditions for granting loans between the entrepreneur - borrower - and the banks - lenders. The non- existence of an information market justifies this gap generating twotypes of risk: anti-selection or forward risk and moral risk.[2]

2 - SOLUTIONS AND PERSPECTIVES

2.1 - Solutions for Project Financing

The results show that effective project financing requires improved business management and financial situation and planning of funding sources according to the nature and size of the projects.

i - For the improvement of the management and financial situation

In terms of financial management, it is necessary to adopt classic good practices that determine the efficiency of modern companies. In this respect, Congolese companies must systematise financial diagnoses throughout the life cycle of the project, preferably every quarter, in order to anticipate or prevent the risks of slippage in the management of financial resources. This allowed Levasseur (1992) to remark:

"...it can be legitimately assumed that a company director prefers more profits unless he has a preference for regular rather than irregular results, so he best values a policy that leads his company to achieve high and stable results.

To achieve this, at the operational level, companies *must* implement financial indicators. They contribute to the professionalisation of the company's financial activities. It should be noted that financial indicators are privileged and widely used tools in the management of a company's financial resources and improve the decision-making process. They therefore constitute a diagnostic instrument and a tool to assist decision-making by the various managers, including decisions on the choice of source of financing for a project to be undertaken. Their analysis over time allows a company to have working benchmarks and to evaluate their performance.

Secondly, they will promote transparency and increase the confidence of the company's stakeholders and provide

[2] Hirshleifer J.; Glazer A. and Hirshleifer D. Business and Banking, 2009.

transparency for suppliers, banks, supervisory authorities and various other partners.

Furthermore, the production of indicators at short intervals (preferably quarterly) will enable the manager, in particular, to have an overall view of the company and to make possible adjustments in project management.

Finally, they will provide a baseline for access to finance. Financial performance indicators can be used as a negotiation tool to mobilise resources from financial institutions.

ii - Improving the planning of financing methods

Firstly, the dividend policy needs to be redefined. This policy requires taking into account the periods related to the different phases of the project life cycle. In this context, the distribution of additional dividends to capital providers is determined only by the achievement of *cash flow* to finance the activities.

Secondly, companies need to distinguish their sources of "self- financing" in two options, the accounting option and the financial or cash flow option.

The first option generally concerns rationalisation or productivity projects, since self-financing includes depreciation and reserved profits. It should be noted that, on the one hand, depreciation allows for the replacement or outright renewal of machinery, and, on the other hand, with a view to reducing production and/or marketing costs, reserved profits will reinforce depreciation to achieve this goal.

In a financial or cash flow option, for innovation and expansion projects, self-financing includes cash on hand and possibly cash investments and the recoverable value of divestments. It should be noted, however, that for these types of large-scale projects, self-financing will not be sufficient due to the disadvantages of misusing this source. This requires recourse to external financing. The obligation for companies to produce a *Business Plan* becomes a sine qua non condition likely to better exploit the opportunities offered by banks with excess liquidity

2.2 Prospects for Project Funding

The prospects for project financing in an open national environment are in line with economic globalisation and the development of modern financial tools. Three orientations are offered to companies for the financing of projects.

Firstly, for expansion projects, increasing financial capital is the strategic decision to strengthen internal financing which should no longer be taken for granted in the medium and long term management of projects.

In addition, it would bode well for companies to exploit *lease* financing. This system of renting with an option to buy at a later date allows the company to have the means of production without tying up capital.

In addition, it is also important that Congolese businesses seize the opportunity of the innovations that the financial market (with the advent of the Central African Stock Exchange), banks and money professionals are offering for businesses. Some of these innovations take the form of products offered to companies for the management of their debts. The availability of financial intermediaries whose mission is to offer financing that is best adapted to each type of need constitutes a guarantee for the implementation of this source of financing.

The question of information on the various existing modes of financing to carry out a project arises. In addition, this note

proposed solutions to the observation that Congolese business executives often demonstrate poor financial management in general and an inability to present a *business plan* to raise funds from financial institutions.

The analysis of project financing identified the factors that led to this mismanagement and the inability to present a *business plan* with a good feasibility study.

The perspectives presented in this work are opportunities for modern business in a global and competitive environment.

While there is no doubt that growth today depends largely on the dynamism of SMEs, many questions remain unanswered concerning the financing of this category of enterprises. Some of these questions relate directly to the issue of access to finance for SMEs: how big is the financing gap? which SMEs are most affected by financing problems? which forms of financing are most lacking? what precise role do guarantees play in consolidating SME financing? and in what forms should they be mobilised? how can we facilitate SMEs' access to securities markets? Other questions relate to the structures and organisation of the financial system: is SME financing dependent on the type of banks, on the existence of particular credit techniques implemented by banks and other financial institutions, on the capacity of banks to transform funds in a context of increasing regulatory constraints?

The usual tools of financial theory do not provide answers to these questions. They consider a set of financing options that are in reality only available to larger companies. SMEs [2][1]SMEs are a heterogeneous group in terms of size,..., in turn, are largely dependent on banks and have limited access to financial markets. Financial theory, from Modigliani-Miller to Myers and Jensen-Meckling, highlights interest deductibility, bankruptcy costs, agency conflicts, information asymmetries and transaction costs as explanatory factors. The financial structure is considered as the result of the search for maximisation of the firm's financial value which guides the behaviour of shareholders. But in reality, few of these factors play a role in defining the financial strategies of SMEs. These theories were developed with reference to listed companies, having access to the financial market and being able to finance themselves easily. This raises the question of the validity of these results for unlisted companies, and for SMEs in particular. Financial theory thus considers the impact on financial choices and the availability of funds of power conflicts - between shareholders and creditors or between managers and financiers - which are not those that characterise SMEs where ownership and management are rarely separated. In the end, only the theory of availability of funds or their rationing addresses a central problem for SME financing. But, all in all, there is still too little theoretical or empirical insight into the understanding of the financial problems of these companies, and this no doubt partly explains why the subject of SME financing, which is so often debated, is in fact still very little known.

From this perspective, the purpose of this article is to identify the issues that need to be addressed in order to improve this knowledge and provide solutions. These issues can be divided into two categories, those related to the specific economic and financial characteristics of SMEs and those related to the particularities of the financial system structures.

SMEs have specific characteristics that are often the source of real financial constraints, as the financing solutions provided by the financial system leave them with what is called a financing gap (Udell, 2013). This gap is structural rather than cyclical in nature. It is global and is therefore not attached to any particular form of financing. The choice of forms of financing is constrained in this category of companies by specific factors that are precisely associated with size and that determine the financing conditions offered by banks and other financial investors. These specific factors, which are commonly recognised - but which may be more or less present in different SMEs - are the relative concentration of power and ownership and its corollary, the desire to preserve financial independence, the high economic dependence on customers and suppliers and the greater sensitivity to the structures of the goods markets in which SMEs operate, the preponderance of human capital among the assets, the inherently non-transferable and therefore illiquid nature of the assets, and finally the relative importance of private levies and a certain confusion of the company's assets and the private assets of the entrepreneur. These factors explain why SMEs are *a priori* in a situation of financial dependence. Indeed, these particularities induce particular risks for the provider of capital and require that the latter implements adapted financing techniques.

These specificities create three main obstacles that may hinder SMEs' access to credit and equity finance and penalise their growth. First, information on the value of SMEs and their growth potential is too costly and difficult to obtain. Second, SMEs face too many constraints or lack the right incentives to choose to grow and reach an economically optimal and financially stable size. Finally, investors have reduced their appetite for SME risk to varying degrees since the crisis, which is now a major obstacle to their financing.

The reasons for the financing gap associated with the particularities of SMEs are therefore described here before presenting those related to the organisation of the financial system.

The Funding Gap is Associated with an Information Gap

On the issue of information, it is often said that SMEs are more difficult to analyse than other companies. This idea is not new. The opacity of SMEs is a recurrent theme in banking economics and is not a consequence of the crisis. This issue has been widely addressed in the theoretical and empirical literature. There is a rich literature on *relationship-banking*, *scoring* and other solutions to this issue (Degryse *et al*., 2009; Berger, 2010; Degryse and Ongena, 2012). All of them show that their implementation leads to an increase in the availability of credit in all contexts. The real problem is then whether banks - whose core business it is - have the means to implement these solutions. Information from relationship banking has thus diminished at the point where it would be most useful,

i.e. when it comes to financing (and analysing) cash flow needs rather than financing investments bytaking guarantees. Moreover, in France, centralised public information - in the form of the Centrale des risques and company ratings - is abundant and considerably reduces the information deficit.

The real question is therefore whether banks have made the necessary investments in recent years to solve the information problems resulting from the specificities of SMEs. Cost-cutting strategies have undoubtedly led banks to reduce the resources of credit analysis and, in particular, the size of the teams dedicatedto SME financing. Relationship banking is probably less developed in France than in other countries such as Germany. French banks have favoured the tools of transaction banking, focusing on retail banking activities. They therefore combine pawnbroking and *scoring*. In times of crisis, the value of collateral decreases. It is therefore hardly surprising that pawnbroking is declining. It would therefore be appropriate to assess in a relevant way (e.g., by counting the number of staff dedicated to this market in the banks) why this deficit has been reached, and not to attribute it to the crisis. In fact, a likely reason for the lack of bank presence inthis market may be that the return on SME lending is lower than onother activities in a period of increased regulatory capital requirements. Statistics from the Banque de France show, in this direction, that the interest rate *spread* between SMEs and largecompanies has widened significantly since 2009. But this will not beenough to make lending to SMEs attractive if investors maintainhigh return on equity requirements.

Finally, as recent research shows, MSE loan portfolios are the source of significant portfolio diversification effects for lending institutions, due to the large number of loans they contain (Dietsch and Fraisse, 2013). These effects stem from the fact that the financial situations of small firms are not very strongly dependent on each other, or are even negatively correlated. Although these diversification effects are not taken into account in regulatory formulas, they do tend to reduce banks' potential losses and economic capital requirements. However, banks tend to focus onindividual credit risk - as measured by an individual rating - rather than on credit risk in the portfolio. All in all, even if diversificationeffects seem to be underestimated today, they exist and shouldbe better recognised in order to act in favour of SMEs.

Is this information asymmetry an obstacle to external equity financing? Two main sources are available to SMEs: the financial markets, in particular the markets designed to promote their listing, such as Alternext, and *private equity* [3][2][2] Private equity is understood here in the broad sense: .... While it seems clear thatthe current structure of financial markets is not yet able to effectively process small cap information for investors, due to thelack of dedicated human resources and the relative cost (Giami and Rameix, 2011) of the disclosure requirements imposed by the market authorities, the same cannot be said for *private equity*, which has teams specialised in analysing SME risk from the shareholder's perspective. This expertise obviously comes at a cost,which is built into the way the industry operates and into the profitability requirements of the funds. The asymmetry of information is undoubtedly less pronounced because of theexpertise and due diligence carried out, and the presence of fund management companies on boards of directors or strategiccommittees, as well as their ability to obtain recurrent information in the form of *reports...*

The Financing Gap is Associated with a Lack of Incentives for Growth

The question of the ability of SMEs to become large is not only aquestion of the availability of finance, although European Central Bank (ECB) surveys show that this factor has become more important since 2009. Recent work on French data (Fougère *et al.* ,2012; Cabannes *et al.* , 2013) shows: (1) that the main problem inthis area is that the crisis has slowed down the growth of youngfirms; (2) that the crisis has affected subsidiaries of groups more than independent firms. These studies reveal two problems, in addition to the inadequacy of the means used by banks: the problem of support structures for entrepreneurship and the problem of business transfers and modes of governance ofmedium-sized enterprises.

This question of the capacity of SMEs to grow must therefore alsobe related to the strategy of financial independence of managersand to power issues. The concentration of power and ownership in many cases leads managers to limit the use of external financing, in particular external equity. Several studies on the financial behaviour of SMEs find that it corresponds to a hierarchical financing pattern, with priority given to self-financing, followed by (bank) debt financing and, finally, recourse to external equity (Brav, 2009; La Rocca *et al.* , 2011). However, the traditional arguments explaining this hierarchy - information asymmetry leading to increasing costs - are not directly transposable to SMEs, unless one includes in the costs of equity financing those resulting from the loss of the benefits of financial independence.

Financial independence is a powerful brake on the opening up ofcapital, the strengthening of equity by contributions from outside shareholders and growth (Hamelin, 2011). Many managers still adopt a cautious management approach, favouring the relative security of family assets. This desire for financial independence,often associated with a relative confusion between family assets and company assets with its implications in terms of private monetary and non-monetary levies and profits, constitutes a major obstacle to opening up the capital to third-party shareholders, both from the point of view of managers and from that of investors fearing moral hazard. This inevitably leads to cutting off the companies concerned from external equity financing, whichrequires profitability and growth.

For shareholder managers who decide to focus on the growth oftheir company and use external equity, *private equity* financing methods have proven to be effective and have certain comparative advantages over the stock market. In particular, through the use of hybrid financial instruments, these transactions allow for a high degree of flexibility in the distribution of power andfuture capital

development, as well as the establishment of governance arrangements that suit both parties, thus reducing the occurrence of moral hazard (Mahieux, 2010). In contrast, organised financial markets are by nature trading venues for standardised products, which cannot compete with such flexibility, and governance is more a matter of regulation. A careful review of the theoretical literature on the main costs and benefits of listing for shareholders of private companies (Zingales, 1995; Pagano and Roell, 1998; Stoughton and Zechner, 1998; Chemmanur and Fulghieri, 1999; Huyghebaert and Van Hulle, 2006) does not point to a clear advantage of market financing, especially if one takes into account that, even for large SMEs and SMIs, the liquidity of securities is often low.

The Funding Gap is Associated with a Lack of Risk Appetite of Financial Institutions

It is clear that in countries where banks have experienced a sharp rise in bad debts, such as Spain, Portugal or Ireland, the risk appetite of banks has certainly decreased. But many other European countries, including France, have not experienced this situation. Nevertheless, an important question is the possibility of better guaranteeing credits, notably by developing public guarantees. But, in fact, these solutions already exist in a country like France and it is difficult to see how they can be extended without the risk of encouraging a form of moral hazard. Once again, the recognition of the advantages of diversification in credit portfolios and the expertise of bankers in controlling the anti- selection behaviour of borrowers are likely to provide positive solutions to the financing deficit of SMEs, if the corresponding means are implemented.

Can the reason for the lack of appetite of banks be found in the tightening of banking regulations with Basel III? The Basel III rules provide for both a strengthening of capital requirements, both in terms of quality and quantity, and the introduction of new liquidity requirements, which were previously absent in the Basel II regulations. In general, regulators have paid particular attention to SME customers, who therefore benefit from more favourable measures than other companies. Although the European texts (CRR - *Capital Requirements Regulation*), like those of Basel, make no distinction between SMEs, very small enterprises or microenterprises, which are grouped together in the SME category, in practice, given their size and the small unit amount of the loans granted to them, exposures to very small enterprises are mainly classified as retail customers and benefit from more favourable treatment than that of other companies. Moreover, at the initiative of the European Parliament, the CRR Regulation has substantially reduced the capital requirements for SME lending [4][3]. But the question may be whether further relief is possible for SMEs. On the one hand, work shows that regulatory formulas may overestimate the credit risk in bank portfolios as the size of firms decreases. On the other hand, it is verified (Brun *et al.* , 2013) that banks' credit decisions are sensitive to the amount of capital required. This measure therefore creates a favourable context for SME financing. But in terms of credit supply, the key point is that SME loan portfolios are the source of important diversification effects for lending institutions, as discussed above. A more complete measurement of these effects should allow banks to ease the constraints on borrowers.

In terms of liquidity, European regulations provide for the introduction of two new ratios: a one-month liquidity *coverage ratio* (LCR), which requires the creation of a liquidity cushion to cover the deficit that a bank might experience in the event of a liquidity crisis, and a long-term liquidity ratio (one-year *net stable funding ratio* - NSFR) intended to limit the risk of banks transforming their assets. As with solvency, MSEs are treated relatively favourably compared to other firms for the LCR, as long as they meet the criteria for classification as retail customers. SME deposits are considered to be more stable than those of large firms and therefore benefit from a lower weighting (reflecting their potential "leakage" in the event of a crisis) than those of large firms. In addition, undrawn credit and liquidity lines granted to SMEs are given a more favourable weighting, as it is considered that in the event of a crisis, these credit lines have a lower probability of being drawn. On the liquidity outflow side, loans to SMEs receive the same treatment as loans to large firms. As far as the NSFR is concerned, the regulations do not currently provide for preferential treatment for SMEs, which are therefore not specifically penalised by this new ratio either. In the end, this measure seems to be neutral, provided that it takes into account the specificity of French banks, which have relatively few resources in the form of deposits (see *below*).

Another serious obstacle for external equity is the profitability of SMEs. Unlike the lender, the shareholder has requirements for a high return on investment. Many SMEs have low profitability, real or perceived, and are therefore not likely to be of interest to external shareholders. Here, all the obstacles combine and reinforce each other to rule out external equity financing: low prospects of profitability (adjusted for risk), lack of liquidity, moral hazard, etc. As a result, only a small fraction of SMEs are eligible for external equity financing and, for the majority of them, the only external financing potentially available is therefore bank financing.

The difficulty of market firms in financing SMEs is obvious, at least in continental Europe and in France in particular (Giami and Rameix, 2011). Euronext has been repeatedly criticised for its alleged lack of interest in mid caps. The objective reasons are well known: low capitalisation, low liquidity and trading volume, and a lack of interest in this asset class on the part of institutional managers. Although market companies are probably partly responsible for this situation, it should be remembered that the last thirty years have seen many attempts to create and maintain stock markets for large SMEs and growth stocks, in France as in other European countries. With the exception of London's Alternative Investment Market (AIM), the results have been largely negative in relation to the stated ambitions, despite the resources and efforts put in place by market operators and public authorities (Vismara *et al.*,2012). This contrasts with the rapid development, since the mid- 1980s of *private equity,* including in the segment of large SMEs considered predestined for the stock market.

The Funding Gap is Associated with the Structures of the Financial System

The financial crisis and its repercussions on the availability of credit, particularly for SMEs, and the prospect of a partial withdrawal of banks from this customer segment have made the subject of SME financing a hot topic once again. In order to overcome the anticipated worsening of the financing gap and to enable SMEs, especially growth SMEs, to obtain both equity and debt financing without facing a rationing of available funds, numerous initiatives and reports have advocated the development of specialised non-bank intermediation and the use of stock markets [5][4]Inparticular, the reports by Giami and Rameix (2011), by ....

Indeed, the French financial system now has a wide range of financing tools available to SMEs. These tools are designed to respond to the specificities of SMEs and experience shows that well-designed new tools are able to attract capital from institutional investors as well as from high net worth individuals. However, a more fundamental problem remains: the channellingof savings by the financial system towards enterprises and SMEs inparticular.

A Wide Range of Financing Tools Capable of Meeting the Different Needs of SMEs

As far as debt is concerned, the banking system has a comparative advantage over other financing channels: its ability to analyse credit requests and to maintain a long-term relationshipwith its customers. As such, it will remain a major player in SME debt financing, especially as it has mastered the development of credit securitisation.

Alongside bank financing in the form of loans, the appearance ofnew financial instruments - securitisation mutual funds, mutual funds for bonds issued by SMEs, such as the Novo funds, private bond placements (Euro PP), IBOs (*inital bond offering*), etc. - makes savings more directly accessible to SMEs. Most of these instruments have yet to prove themselves from the point of view of both issuers and investors. They require the development of skills, particularly in credit analysis, for a good knowledge and control of credit risk, notably through portfolio diversification. In any case, the French financial system now offers a wide variety of sources of debt financing for SMEs, capable of meeting both their short-term and long-term needs.

The same is true for equity capital. Solutions exist for companies whose shareholders are ready to go beyond their desire for financial independence and whose characteristics, profitability and growth, are such as to attract external capital. This is notably the case of *private equity*, which combines private (majority) and public (mainly Caisse des Dépôts) funds and tax incentives. This industry has shown itself capable of financing companies of all sizes at different stages of maturity, operations of various kinds (transfer, development, etc.) and for amounts ranging from a few tens of thousands of euros to several hundred million euros per operation. It has also succeeded in raising significant amounts ofcapital from both institutional investors and wealthy individuals. It is certainly an industry that has not yet reached maturity. However, the financial crisis has led to a rationalisation phase and it is likely that in the future it will become a financial activity in which offerswill be more competitive and transparent, as observed in the United States.

On the side of organised financial markets, the situation is less satisfactory. The repeated failures of the various stock markets likely to attract SMEs can only lead to questions about the capacity of the markets to finance this category of companies with equity capital on a recurring basis. In recent years, the evolution of the organised markets industry has not favoured a better availability of capital for small and medium-sized companies either. However, recent efforts by Euronext to revivethe reception of medium-sized companies are a step in the rightdirection, as is the launch of the PEA-PME.

Channelling Savings to Business

The financing of the economy is confronted with an imbalance between the structure of supply and demand for savings:
preference for liquidity and security on the part of households, long-term and more or less risky financing needs on the part of companies, but also households for housing and public administrations. The role of financial intermediaries is to "transform" the maturity and risk of funds to match needs, which implies takingrisks that in turn justify prudential rules.

These imbalances - of maturity and risk - are specific to most European countries, including France (Garnier, 2013). The net borrowing position of financial intermediaries is high in France due to the growth of credit in the 2000s. In France, savings are less short-term than in the euro area, due to the development of mutual funds and life insurance. As a result, a smaller share of savings is intermediated in the balance sheets of banks in France. And other intermediaries play a more important role in France, notably because of the bipolarity between banks and insurance companies associated with the development of life insurance, ashighlighted in the report by Berger and Lefebvre (2013). Thus, in France, due to the particularities of the financial system, the capacity of banks to do transformation (from short term to longterm) is restricted by the smaller deposit base, and the capacity of the financial system to invest in shares is narrow.

In the new regulatory context, maintaining or even increasing the rate of bank transformation - and of productive investment - should require an increase in savings, an increase in the share ofbank products in total savings to allow for an increase in the share of long-term savings in bank balance sheets, and finally, as we have just seen, the development of recourse to the market for borrowers with access to it and that of alternative resources for borrowers with only limited access to the market. The development of securitisation and other forms of long-termfinancing of credit portfolios should also contribute to maintaining the transformation. One step forward is that recent amendmentsto the Insurance Code favour direct and indirect lending by insurance companies to SMEs, subject to developments in Solvency II.

A major problem for SME financing is therefore the permanence of balance sheet intermediation in banks. SMEs depend to a very large extent on the ability of banks, especially local and regional banks, to carry out this transformation in their balance sheets. The asset-liability synergies of the retail banking *business model make an* essential contribution to the stability of financing for individuals and SMEs. However, regulatory changes are forcing a greater subordination of the credit offer to the collection of deposits by shortening the maturity and developing the offer of term deposits and balance sheet savings products. They also require a greater consideration of credit risk, which consumes capital.

As noted above, there have been many initiatives to close the financing gap for SMEs in France in recent years. In order to address the issue of the financing gap, it would be appropriate toput a figure, even if only briefly, on the needs of SMEs-ETIs and to compare them with the financing potential of these recentinitiatives. We should not be far from the mark. It is still necessary to show this. Moreover, the effectiveness of these schemes depends on the ability of investors to acquire the necessary means to conduct genuine credit analyses. This brings us back to the central question mentioned above, namely whether this capacity is no longer used to the same extent in banks. Market intermediationcan replace the transformation carried out by banks, provided that the credit analysis capacity of institutional investors develops. Today, institutional investors still have a poor understanding of credit economics (see their rush to acquire ABS - *asset-backed securities* - before the crisis) and do not have an SME risk culture. Moreover, tax incentives are insufficient to induce institutional investors to lower their return on capital requirements and to attract retail investors on a massive scale.

CONCLUSION

In conclusion, this brief note is a beginning of an answer to the problem of financing, a recurrent problem that constitutes a major obstacle for Congolese enterprises.

In order to provide financing solutions that can activate SME growth, it is first necessary to identify the causes of the financing gap. This article emphasises that the obstacles to SME financing have as much to do with the specific economic and behavioural characteristics of SMEs as with the behaviour of financial intermediaries and the structures of the financial system. Reducing these obstacles therefore requires the creation of a legal and regulatory environment that encourages changes in thebehaviour of both SME managers and financiers. The issues arenumerous: tax incentives, governance reform, modification of bankruptcy legislation, strengthening of guarantees, development of financial transparency, etc. Reducing barriers also implies implementing reforms to channel more savings into business. Changes have been made in this area in recent years. It is now essential to accelerate the pace of change.

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