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STAFF APPRAISAL REPORT

ZAIRE

SMALL ENTERPRISE DEVELOPMENT PROJECT

April 3, 1987

Industrial Development and Finance Division
Eastern and Southern Africa Projects Department

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CURRENCY EQUIVALENTS

On September 12, 1983, Zaire devalued by about 80 percent vis-à-vis the SDR and introduced a transitional exchange rate regime which lasted until February 24, 1984; thereafter, the rate has floated on a weekly basis.

Currency Unit = Zaire (Z)

US\$1 = Z 55 (December 1985)

US\$1 = Z 65 (December 1986)

US\$1 = Z 82 (January 1987)

SDR Exchange Rate as at Negotiations

SDR 1 = US\$1.26419 (February 28, 1987)

FISCAL YEAR

January 1 - December 31

GLOSSARY OF ABBREVIATIONS

ADF	= African Development Fund
ANEZA	= Association nationale des entreprises du Zaire
BCA	= Banque de crédit agricole
BCZ	= Banque commerciale zairoise
BDP	= Banque du peuple
BZ	= banque du Zaire
CADEZA	= Caisse d'épargne du Zaire
CADICEC	= Centre chrétien d'action pour dirigeants et cadres d'entreprises au Zaire
CCA	= Contribution sur le chiffre d'affaires
CCP	= Centre comptes chèques postaux
CEPETEDE	= Centre de perfectionnement aux techniques de développement
CIDA	= Canadian International Development Agency
CPCL	= Caisse populaire de crédit Luymas
FAC	= Fonds d'aide et de coopération
FCD	= Fonds des conventions de développement
ILO	= International Labor Organization
INPP	= Institut national de préparation professionnelle
INSS	= Institut national de sécurité sociale
MNEI	= Ministry of National Economy and Industry
NGO	= Non-Governmental Organization
OPEZ	= Office de promotion des petites et moyennes entreprises zairoises
PMU	= Project Management Unit
PPAR	= Project Performance Audit Report
SCC	= Savings and Credit Cooperative
SOFIDE	= Société financière de développement
SONAS	= Société nationale d'assurances
SSE	= Small-scale enterprise
UCCEC	= Union centrale des coopératives d'épargne et de crédit
UNDP	= United Nations Development Program
UNIDO	= United Nations Industrial Development Organization
USAID	= United States Agency for International Development
UZB	= Union zairoise des banques

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This report is based on the findings of an appraisal mission to Zaire in October-November 1986. The mission was composed of Messrs. Chuong N. Phung, Philip Adoteye and Andres Jaime of EAPID, and of Mr. Josep Lloveras and Ms. Deborah Lindsay, Consultants.

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ZAIRE

SMALL-SCALE ENTERPRISE PROJECT

CREDIT AND PROJECT SUMMARY

- Borrower: Republic of Zaire
- Beneficiaries: Banque du Zaire (BZ), participating financial intermediaries, CEPETEDE, ANEZA, Zairian SSE promotion institutions and small enterprises.
- Amount: SDR 19.8 million, equivalent to US\$25.0 million.
- Terms: Standard IDA terms.
- Relending Terms: The Borrower, through the Bank of Zaire (BZ) as its agent, would onlend US\$22.5 million equivalent to qualified participating financial intermediaries at the rediscount rate (currently 30% p.a.), or the KINIBOR rate (Kinshasa Inter Bank Offering Rate) when the recently established interbank market operates to the Borrower and IDA's satisfaction, with a flexible amortization schedule reflecting the aggregate subloans made by the intermediaries. The onlending rate would be reviewed annually. Acting under a Management Agreement satisfactory to IDA, BZ would (i) collect for the Borrower the interests due by participating intermediaries, except for an administrative fee of one percentage point that would accrue to the Project Unit; (ii) recycle the Credit proceeds back to participating intermediaries for SSE financing; and (iii) repay the Borrower the funds lent to intermediaries over a period of 17 years starting three years after the date of the Management Agreement. Interest rates charged by participating intermediaries to beneficiary SSEs would be variable and market-determined. They are expected to be about 37 percent p.a., excluding the CCA tax on interest, which would however be eliminated over a two-year period. The foreign exchange risk would be borne by the Government. The Borrower would use the remaining US\$2.5 million to (i) provide training and technical assistance to participating intermediaries and beneficiary SSEs (US\$1.7 million); and (ii) cover part of the operating costs of a Project Management Unit located in the Central Bank (US\$0.8 million).
- Project Description: The project would offer a package of credit, technical assistance, and training tailored to the needs of small enterprises in Zaire. The credit

component would finance the foreign exchange and some local costs of (i) fixed assets and associated permanent working capital of investment projects promoted by small private entrepreneurs in all sectors of the economy; and (ii) free-standing working capital for viable existing SSEs in the productive sectors. Any accredited financial intermediary in Zaire with clean audits and in good standing with the Central Bank would be eligible to participate, provided it has entered into a participating agreement with BZ that would specify, inter alia, the lending and repayment conditions, procurement and disbursement procedures, and the intermediary's acceptance of responsibility for appraisal and supervision of subprojects. Besides well established financial intermediaries, small savings cooperatives are also expected to participate in the project when they obtain accreditation from BZ. The technical assistance component would be provided through local institutions involved in training and SSE promotion for (i) SSEs and women entrepreneurs on technical matters and project management; and (ii) participating intermediaries on appraisal and supervision of investment projects. The component has been designed to mainly use local competence and to build up in Zaire a strong appraisal and supervision of investment projects.

Benefits:

By supporting the growth of SSEs, the project will nurture the development of Zairian entrepreneurs and generate new job opportunities at a relatively low capital cost. It is expected that the credit component would support investment totalling about US\$35 million and create 5,000 new jobs at an average cost of US\$7,000 per job. The impact of the project is also expected to be widely dispersed both geographically and among various income groups with benefits reaching subborrowers in the regions and micro-entrepreneurs. Finally, the project would enable women entrepreneurs to upgrade their skills and ease their access to institutional credit.

Risks:

As the first apex operation in Zaire, the project involves institutional arrangements that are new to intermediaries and the Central Bank. Some delays in subloan processing may occur as the Central Bank needs to familiarize itself with the system and as participating intermediaries strengthen their capacity to appraise and supervise SSE projects. This risk would be considerably reduced by the rapid implementation of the technical assistance component and the close supervision by IDA during the initial phase of project execution. Another risk relates to

the possible deterioration of Zaire's economic situation, which would affect the investment plans of small entrepreneurs and slow down the demand for term credit. Such a risk is, however, limited by Zaire's continued determination to implement stabilization measures and the actions envisaged by IDA and other donors to increase the resource transfer and accelerate economic growth in Zaire.

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	-----US\$million-----		
<u>Estimated Cost:</u>			
Investments	13.8	20.8	34.6
Technical Assistance and Training	1.6	0.1	1.7
Project Management Unit	0.5	0.5	1.0
	<u>15.9</u>	<u>21.4</u>	<u>37.3</u>
TOTAL			

Financing Plan:

SSE Subborrowers	8.6	-	8.6
Participating Financial Intermediaries	3.5	-	3.5
Project Management Unit	0.2	-	0.2
Proposed IDA Credit	3.6	21.4	25.0
	<u>15.9</u>	<u>21.4</u>	<u>37.3</u>
TOTAL			

Estimated Disbursements:

<u>IDA FY</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Annual	1.0	3.1	4.5	5.1	4.7	3.4	2.3	0.7	0.2
Cumulative	1.0	4.1	8.6	13.7	18.4	21.8	24.1	24.8	25.0

Rate of Return: N.A.

ZAIRE

STAFF APPRAISAL REPORT

SMALL ENTERPRISE DEVELOPMENT PROJECT

I. THE SECTORAL ENVIRONMENT

A. The Economic Setting

1.01 Zaire is the third largest country in Africa in terms of its area (2.3 million km²) and the fifth largest in terms of its population (30 million people). Its GNP per capita, estimated at US\$140 in 1985, ranks among the lowest in the continent. Agriculture is the most important sector contributing 30 percent of GDP and employing more than 75 percent of the active population. Mining and mineral processing represent 33 percent of GDP, are the largest source of public revenues, and generate more than two thirds of the country's export earnings. Industry and construction account for 10 percent of GDP. Government administration and other services make up the remaining 27 percent.

1.02 From 1967 to 1974, GDP grew at seven percent per year in real terms, spurred by high copper and coffee prices, but decreased thereafter. By 1979, GDP at constant prices was about ten percent below its pre-crisis (1972-74) level. The Zairianization (Government-sponsored takeover of most foreign owned business, mainly by private Zairians) and Radicalization (nationalization of most large enterprises in all the major sectors of the economy) measures of 1973-74, coupled with the balance of payments crisis resulting from a substantial decrease in copper prices and high debt service payments, were the primary reasons for this severe deterioration of the economic situation. The demonetization measure in 1979 (when notes representing 73 percent of currency in circulation were demonetized and replaced on a two-for-one basis by new notes) further worsened the situation as many individuals and companies were not able to exchange their notes within the specified time period. Severe cash shortages and liquidity problems resulted and affected much of the private sector. Faced with a deteriorating economic situation, the Government sought to regulate economic activity. Prices of most agricultural commodities and industrial products were controlled and mechanisms were established to allocate scarce foreign exchange.

1.03 A slight economic recovery was registered in 1980 and 1981 when, aided by a recovery in copper production, there was a real GDP growth of 2.4 percent in each year. In 1981, the Government freed most agricultural prices and declared that the directly productive sectors would be reserved mainly for the private sector. These two years of moderate recovery, however, were followed by a further contraction (about 2.6 percent) of real GDP in 1982 and an increased shortage of foreign exchange due mainly to a fall in copper prices.

1.04 To address this situation, in September 1983, the Government adopted a broad and comprehensive stabilization program in collaboration with the IMF. The Zaire currency was devalued by about 80 percent vis-à-vis the US dollar and, since February 1984, its rate has been determined by an interbank foreign exchange market in which all the commercial banks and the central bank participate. All commercial bank deposit and lending rates were liberalized, with the exception of agricultural credit which remained fixed at 30 percent per annum. Controls on agricultural producer prices were also removed. On the demand side, credit was tightened and budgetary expenditures strictly controlled.

1.05 The stabilization program undertaken by the Government has started to yield positive results in some areas: despite continuing declines in world prices for Zaire's principal exports, the current account deficit of the balance of payments declined from 13.7 percent of GDP in 1982 to 6.9 percent in 1985, while the overall deficit was reduced from SDR 598 million in 1982 to SDR 423 million in 1985. The public finance objectives were also largely achieved, as net financing of the Government from the domestic banking system was reduced from 6.3 percent of GDP in 1982 to 1.9 percent in 1985.

1.06 The economic stabilization has not, however, been accompanied by a significant economic recovery. GDP growth in each of the years 1984-86 has remained below the level of population growth. This disappointing performance has been due primarily to the deterioration of Zaire's terms of trade, the continuing heavy burden of external debt service payments and a lower than anticipated level of external assistance. In 1985, external debt service payments amounted to 26 percent of exports of goods and services (and about half of budgetary outlays). As Zaire has continued to meet punctually all its debt obligations under the Paris and London Club agreements, imports had to be severely curtailed. The resulting shortages of essential inputs and spare parts have led to continuing low levels of capacity utilization in the manufacturing sector and have adversely affected agricultural output. New investment has also fallen to a critically low level.

1.07 The Government now finds itself in an extremely difficult situation. The success of the economic reform program implemented since 1983 is threatened by the insufficient availability of foreign exchange. Zaire needs urgently to improve the living standards of the population and needs strong support from the international community to achieve this objective. In the industrial sector, the Government has started to implement a structural adjustment program begun with the IDA- and SAF-supported Industrial Sector Adjustment Credit. Under that credit, the Government eliminated the remaining import and price controls, abolished all export duties and taxes on manufactured exports and adopted a new tariff regime. In order to expand the structural reform to other sectors of the economy, the Government has requested further World Bank assistance to prepare a series of structural adjustment operations as well as assistance from the IMF through its new Structural Adjustment Facility. However, for the productive sectors to respond to the new economic environment, a large amount of external resources will be required to rehabilitate and restructure the country's productive base and infrastructure. New capital inflows and debt relief will be needed from Zaire's external donors in the next three to four years, while the economy is expanding and diversifying its production and exports.

B. The Small-Scale Enterprise Sector

Importance and Characteristics

1.08 Small-scale enterprises (SSEs) in Zaire are a non-homogeneous group, varying significantly in complexity and sophistication as well as by size and activity. Firms with the same number of employees or comparable turnover often have very diverse organization of management or ability to maintain records, depending on the nature of their activity or the background and capacity of the owner-manager. Partly because of this diversity, and partly because of the absence of a clear official definition of small enterprises, reliable data on Zaire's SSEs are scarce. Given the size of the country, most SSE studies are limited to a particular category of SSEs (e.g. artisans) or region (Kinshasa, Kivu, Shaba) and do not give an overall view of the sector, nor of its importance to the Zairian economy. The only comprehensive source of information is the census of productive enterprises (agriculture, mining, and industry) undertaken in 1980.

1.09 The census shows that of the 2,208 registered firms surveyed, 71 percent were SSEs employing less than 50 workers and accounting for 12 percent of total productive employment. Fifty-five percent of the small firms are in the three most heavily populated areas: Kinshasa, Bas Zaire, and Shaba. The remaining 45 percent are spread among Kasai Occidental (11%), Bandundu (8%), Kivu (8%), Haut Zaire (7%), Equateur (6%), and Kasai-Oriental (5%). The census data also show that SSEs produced Z 459 million (US\$ 265 million) worth of goods in 1979 or about 8.5 percent of the total production of the enterprises surveyed. About 42 percent of the SSE production originated in Kinshasa, with Shaba (15%), Bas-Zaire (10%) and Bandundu (9%) following in that order. The five other regions made up the remaining 26 percent with each region holding from three percent (Kasai-Oriental) to six percent (Kivu and Haut Zaire). Non-service sector SSEs were mainly in food production (51%), wood products (10%), and chemicals (7%). Industry as a whole dominated, accounting for about 83 percent of total SSE production. The remaining 17 percent were essentially agricultural activities. Small-scale mining was negligible (less than 1% of SSE production). SSEs dominate in sectors where proximity to customers and raw materials is important, such as bakeries, furniture making, and metal works. SSEs have also tended to multiply in sectors where the technology is simple. In comparison with larger firms, Zairian SSEs invest less in inventory and employ more temporary workers. Despite their concentration in industrial activities, the share of SSEs in total industrial output was only nine percent. This was due to the importance of textile, petroleum, tobacco and beverages in Zaire's industrial production (36% of the total) and the absence of SSEs from these activities, which were mostly undertaken by large firms.

1.10 As in other African countries, Zairian SSEs are also active in trade, transport and other services such as garages, repairs and maintenance and restaurants. Although there is a shortage of reliable data on these sectors, the membership of two major SSE organizations (Office de promotion des petites et moyennes entreprises zairoises - OPEZ and Association nationale des entreprises du Zaire - ANEZA) indicates that trading and service establishments account for more than 70 percent of all

SSEs in the formal sector. About 72 percent of the 4,161 firms serviced by OPEZ were in trade; and ANEZA reports that fully three-fourths of its members are in commerce. Trade and service-related small enterprises in Zaire are located in rough proportion to the country's population distribution, with the large majority close to the regional urban centers.

1.11 Most SSEs in Zaire are owned, managed and operated by Zairian nationals, unlike large and medium enterprises which often have foreign interests. In addition, less than one percent of the staff of all SSEs is foreign, compared to 2.4 percent for larger firms. SSEs are more labor intensive and less dependent on imported inputs than larger enterprises.

1.12 Formal sector SSEs in Zaire are characterized by their lack of well established and structured management and organization, by the weakness and often complete absence of accounting systems, and by the informality of their operations. Many of them therefore need advice on how to upgrade their management, organization and production techniques in order to improve their general performance. Another general characteristic is their difficulty in gaining access to appropriate technology, to large markets often dominated by large firms and to bank credit. There is also significant diversity of size within the sector, with firms having from five to fifty employees. The average is 19 workers per firm. While accounting for 12 percent of employment, SSEs make up only six percent of the wage bill, reflecting the fact that many SSEs are run by owner-managers who do not draw fixed salaries, but also suggesting lower wage levels than in larger companies. According to the 1980 census, the value added per SSE employee per year was Z 6,880 (US\$3,970) in 1979, or 36 percent less than the Z 10,670 (US\$6,160) average for workers in non-SSE establishment. This is essentially due to the absence of sophisticated and efficient machinery and equipment in SSE production.

1.13 The paucity of reliable information on the sector allows for little evidence on the past performance of SSEs in Zaire. Nevertheless, their ubiquity is indicative of their ability to survive and continued demand for their products and services. Successful SSEs in Zaire are frequently more than five years old, have been built up by individual initiative and have developed by reinvestment of surpluses. Since SSEs have generally found it difficult to obtain professional assistance in preparing bankable feasibility reports and in getting banks interested in their project proposals, few SSEs have had access to funds outside the equity investments of the owner and his immediate or extended family, although some SSEs have from time to time operated on suppliers' credits. The ones who have had access to bank credit have been mainly financed by SOFIDE or BCA (Banque de crédit agricole) for importation of minor machinery and equipment.

1.14 The Artisan Sector. The informal sector is made up of a large number of establishments, most of which are unregistered and do not keep any records of their activities. Despite these shortcomings, the informal sector is an important generator of employment. In 1984, there were an estimated 230,000 workers in this sector in Kinshasa, compared with 204,000 in the formal sector. In Lubumbashi, the informal sector provided 2½ times the number of jobs as in the formal sector.

1.15 Informal SSEs can be found mainly in the following areas of activity: (i) production workshops including dressmaking and tailoring, brickmaking, shoe repairs, and soap making; (ii) garages and repair shops like motor rewinding, auto and general mechanics and electronic repair work; (iii) services like small hotels, milling, restaurants, photo studios and laundry; (iv) art and handicrafts like sculpture in ivory, wood, copper or malachite, painting etc; (v) commerce, usually on street corners and (vi) transport. Very small business units (less than five employees and under US\$2,000 in total capital) make up about half of all informal SSEs and include mostly tailors, shoe makers, garages, carpenter shops and restaurants. The largest informal firms have about US\$10,000 in assets and are butcheries, grocery stores and maize millers.

1.16 Women in SSEs. Women are generally not well represented in the formal SSE sector. In the 1,561 small enterprises examined as part of the 1980 census of productive enterprises, women accounted for only five percent of the proprietorship of SSEs and less than two percent of total SSE employment. On the other hand, women are heavily represented in the informal sector, particularly in activities that also allow time to care for a family. It is estimated that 17 percent of total employment in the Kinshasa informal sector is female, but concentrated in a few activities. According to an ILO study ^{1/}, 35 percent of apprentices in dressmaking, 12 percent of those in hairdressing and all apprentice caterers were women. Women were also well represented among full time workers in bakeries (34%), hotels (20%) and restaurants (68%). In addition, 75 percent of all restaurant owners are women. As with many other SSEs, their management systems and accounting are rudimentary.

1.17 Despite the inroads made by women entrepreneurs, Zaire continues to be a traditionally conservative society, expecting women to bear the major responsibility for growing the food and maintaining the home and hearth. There are also specific regulations requiring women to obtain marital permission (or certification of single status) to travel, sign contracts or enter into business. Indications are however that such permission has been generally obtained.

1.18 The ILO study revealed that, as with most formal SSEs, the principal constraint facing women entrepreneurs is lack of access to credit. Women in Zaire are often involved in very competitive types of activities, with low margins and little scope for innovation or individual expansion. As a result, women, except for those in commerce, have little chance for accumulation of surpluses for investment or as collateral for bank credit, to which their access is extremely limited. As with other proprietors of SSEs, Zairian women entrepreneurs have also demonstrated a need for increased management and technical training, in accounting, stock and production management. These constraints will be addressed through the technical assistance component of this project (paras. 3.37 and 3.38).

Government SSE Policies

1.19 The major actions taken by the Government to promote SSE development date back to 1973 when a series of laws was promulgated creating (i) a special investment regime for small and medium enterprises; (ii) an Office for the Promotion of Zairian SSEs (OPEZ); and (iii) a

^{1/} Le Secteur Non Structuré de Kinshasa. ILO, 1985.

Guarantee Fund to help SSEs obtain bank loans. However, the SSE Investment Code never became operational and with the economic crisis deepening, promotion of small enterprises took a second place in Government's preoccupations. The Guarantee Fund did not receive any Government contributions to start operations and, although OPEZ was created with UNDP/UNIDO assistance, the lack of funds and the low quality of its personnel made it a largely ineffective institution.

1.20 The new macro-economic environment, together with the need to promote the participation of Zairian entrepreneurs in the country's investment and growth process, has recently accorded a high priority to SSEs and to improving the policy and institutional framework for their development.

1.21 A new Investment Code with a special regime for SSEs was promulgated in April 1986. The new code provides specific benefits for SSEs, defined as enterprises with less than Z 10 million, i.e. \$154,000, in investment. The most important of these benefits are (i) exemption from taxes on equipment; (ii) a five-year moratorium on local taxes for firms located outside the capital; (iii) a two- to five-year holiday on profit taxes for new SSEs depending on location and use of locally produced materials; and (iv) a 30 to 100 percent tax credit on new investments for existing SSEs, usable within five years of the investment. In addition, SSEs who implement an investment program are exempt from all import taxes and duties (except administrative fees) for all equipment, spares and materials for their projects. Their staff training expenses are also tax deductible, and they are allowed to use accelerated depreciation methods for their new plant and equipment.

1.22 The Guarantee Fund was reactivated in May 1986 with a Z 20 million contribution from the Government. Another grant of Z 80 million is expected during 1987 which, together with the initial contribution, would allow issuance of guarantees totalling Z 1 billion (US\$15 million). The Fund can guarantee up to 80 percent of the principal and interest of a project, but financiers are expected to obtain all the collateral possible from borrowers before having recourse to the Guarantee Fund. The guarantee cannot be called until the bank has realized all other collaterals relative to the loan and the borrower legally declared bankrupt. Individual guarantees are limited to Z 5 million (US\$60,000) for agriculture and small industry, Z 2 million (US\$24,000) for services and Z 1 million (US\$12,000) for trade. Guarantee fees are three percent p.a. on the guaranteed amount plus a one percent study fee. As of November 1986, ten guarantees totalling Z 9.7 million had been issued. All the loans guaranteed to date were presented by savings and credit cooperatives and have maturities of 18 months including 3 months of grace.

1.23 Government regulations regarding the establishment, registration and operation of SSEs are basically the same as those for large enterprises. All firms must obtain a commercial license, a permit to start business, and a health certificate. The fees for these permits and licenses range from Z 100 to Z 10,000, but the health certificate (Z 100-500) is renewable each year. Firms also must pay municipal taxes and an environment levy; in addition, artisans pay fees for an arts and culture permit. In addition to the fiscal legislation, firms are subject

to social regulations which are aimed at protecting the rights of both workers and their employers. The social requirements (mainly reflected in the work contract) establish the rights and responsibilities of employers and employees, including the right to medical care, equitable pay and satisfactory work, contributions for social security, reasonable vacation, housing, and transport. There is also a legal minimum wage for different levels of skill (Z 6-30 p_r day), which, however, has not been changed since 1983, despite high inflation over the last three years. As a result, firms pay much more than the minimum.

1.24 These fiscal and social regulations are similar to those in force in most other countries, except for the medical care and transport benefits which most large enterprises in Zaire provide to their employees free of charge and which account for 10 to 20 percent of the labor cost for the employers. The fact that the regulations apply to all firms irrespective of size can be a burden for the small ones, primarily because of the low level of education, experience and sophistication of their management. So far, however, they are only enforced for large enterprises and established SSES, i.e., those with total assets of more than US\$300,000.

1.25 Price Decontrol: Until 1981 the prices of most manufactured goods were fixed at the producer, wholesale and retail levels. This policy, which was intended to moderate price increases in the face of the mounting inflationary pressures of the 1970s, was applied to producer prices through a 20 percent profit margin on production costs. From 1981, Government began a period of gradual price decontrol that went from ex ante control to ex post verification. In 1986, Government discontinued all remaining controls in the pricing of industrial goods and abolished the system of price control.

1.26 Import Licensing: As part of the 1983 reform program, the policy of import licensing which had existed in the 1970s was abolished. In addition, with IDA support under the Industrial Sector Adjustment Credit, the Government took steps to rationalize the import tariff structure in order to, over time, lower the level of protection offered to the manufacturing sector and to reduce the dispersion in protection rates that existed. In that regard, a basic minimum duty of 10 percent was introduced on most imports, including raw materials and intermediate goods, and tariffs on finished goods will be gradually reduced over a three-year period to a maximum of 30 percent. The present tariff system is satisfactory.

1.27 The policy reforms undertaken by the Government together with the promulgation of a new investment code and the reactivation of the guarantee fund (paras. 1.22 and 1.23) have greatly improved the prospects for SSE development. To ensure wide access of SSEs to the various incentives provided to them, IDA agreed to the Government's request to finance under the SOFIDE VII line of credit (Cr. 1492-ZR) the services of an Advisor for the Ministry of National Economy and Industry (MNEI) which has the responsibility for promoting SSEs. This Advisor would follow up on requests presented by small promoters for access to the investment code's benefits, assist MNEI in improving the policies and operating procedures of the guarantee fund and oversee its operation. He would also be the liaison between MNEI and the Project Management Unit established for this project (paras. 3.41-3.43), and would advise MNEI on further improvement of the SSE policy framework.

Promotion and Training Institutions

1.28 A wide variety of institutions exist in Zaire for promoting SSEs and meeting their training needs, even if such promotion and training have so far been done on an uncoordinated basis. A major objective of this project is to strengthen existing institutions to enable them to fulfill better the functions for which they were created. The major institutions most likely to participate in, and benefit from, the project are discussed below.

a) ANEZA

1.29 The Association nationale des entreprises du Zaire (ANEZA) was founded in 1973 as an association of Zairian employers to (i) inform members of regulations affecting their business and policy and administrative changes; (ii) represent and defend the interests of Zairian enterprises in all forms, including the formulation and implementation of Government policies; and (iii) promote a harmonious relationship between firms, employees and other agencies. ANEZA is also Zaire's only chamber of commerce. In addition to its Kinshasa headquarters, ANEZA has eight regional and 39 sub-regional offices spread throughout the country. Each branch outside of Kinshasa has at least one qualified professional. The headquarters staff, which includes 38 professionals, is organized under a General Manager (Administrateur Délégué) into seven departments (Annex IX), of which one is specifically in charge of SSEs. This SSE department was created in 1985 to improve the service and support that ANEZA provides to its SSE members. Headed in tempore by ANEZA's Finance Director, the department draws on the strength of the other departments and helped client companies prepare eight projects for bank financing in 1986. A technical assistance project financed by the French Fonds d'aide et de coopération (FAC) will provide management and training assistance to ANEZA to strengthen its capacity to service SSEs (para. 1.32).

1.30 In November 1986, ANEZA's membership stood at 3,215. Regional representation was fairly widespread and, other than Shaba which had 39 percent, the membership was fairly evenly distributed among Kasai Oriental (14%), Kivu (11%), Haut Zaire (10%), Kinshasa (9%), Equateur (6%), Bas Zaire and Bandundu (4% each), and Kasai Occidental (3%). About 80 percent of the members are classified as small and medium enterprises, a quarter of whom are in production.

1.31 Besides the diversity of its membership and its good regional network, ANEZA's principal strength derives from its financial independence. Member companies contribute an annual fee calculated on the basis of 1.85 percent of salary expenditures (the fee ranges from Z 10,000 for the SSEs to Z 525,000 for large firms like SCIBE Holdings). Even though over four-fifths of the members are SSEs, the fee contributions have been enough to allow ANEZA a comfortable budget, which for 1986 stood at Z 120 million (US\$1.8 million).

1.32 ANEZA provided support for a four-year, \$2.4 million UNDP SSE technical assistance project in Kivu and a two-year, EEC SSE management assistance program in Shaba. These projects, both of which are now complete, were successfully implemented and ANEZA will, in January 1987, start implementation of a three-year, 13.1 FF million SSE technical assistance project financed by FAC (para. 1.29).

1.33 Given its track record, the branch network vital for providing consulting and technical support to SSEs outside of the capital area, and its knowledge of the obstacles usually faced by firms in the regions, ANEZA will be one of the main channels for technical assistance under the proposed project (paras. 3.33-3.35 and 3.39).

b) CEPETEDE

1.34 The Centre de perfectionnement aux techniques de développement (CEPETEDE) is a management training institute set up jointly by SOFIDE, Government and Banque du Zaïre in 1981 to train professional staff of the public and private sectors in banking, administration, and financial and economic analysis of projects. It is managed by a former Director of SOFIDE's Studies Department who is assisted by an expatriate Director of Studies and two other expatriates. All three expatriates are financed by FAC. CEPETEDE also has three full-time Zaïrian counterpart staff and recruits on a part-time basis foreign experts and professionals from local institutions and enterprises to run seminars in their respective fields of expertise. Since its inception, CEPETEDE has made substantial progress in its efforts to become financially autonomous. Participants' tuitions and fees now cover about a third of its budget, which was mostly funded by foreign assistance in 1981-82. Recently, CEPETEDE diversified into consultancy business to further decrease its dependence on external aid.

1.35 CEPETEDE has performed well and has enabled SOFIDE, Government institutions, banks and private enterprises to offer their staff a more comprehensive training program than they could provide with their own facilities and resources. Since 1981, 172 participants from 39 public and private enterprises/institutions have taken CEPETEDE's four-month basic course and the three-month specialization in project evaluation and management of enterprises. CEPETEDE has also organized 32 seminars on various subjects, including inventory management, cost accounting, personnel management, enterprise restructuring, etc. for 736 participants from 25 local enterprises. In the past, tailor-made courses were also provided to staff of ANEZA (economic and fiscal legislation, bank credit, production costs) and OPEZ (financial analysis and project appraisal). EDI has approached CEPETEDE with a view to associating it to its training seminars in Africa, and IDA has provided financial support to CEPETEDE under the seventh and eighth SOFIDE credits. Given its effectiveness, CEPETEDE will be supported under the proposed credit and used to provide training to bankers in project appraisal and to OPEZ and ANEZA staff in assistance to small enterprises (paras. 3.33-3.35, 3.37 and 3.39).

c) Technical Support Institutions

1.36 OPEZ (Office de promotion des petites et moyennes entreprises zairoises) was established in 1973 by Government to provide (i) technical assistance to SSEs in equipment choice, investment analysis and new equipment installation; (ii) consulting assistance and managerial and operational issues for SSEs; (iii) managerial training to promoters and their staff; and (iv) assistance in preparing feasibility studies for investors and for firms applying for benefits under the investment code and the guarantee fund. Although it started with an appropriate organization structure (with four departments responsible under a General Manager for

administration, studies, training and interventions) and about 80 staff, OPEZ was unable to fully perform its role as promoter of Zairian enterprises because the Government never contributed to the institution's budget as planned and the 10 percent of the patent tax, which regional governments were obligated to pass on to OPEZ, was never given to that institution. Revenues thus initially came from annual dues (Z 3,000 p.a.) of affiliated companies and from a Z 10,000 fee for feasibility studies. Given the paucity of its financial resources, OPEZ concentrated its efforts on preparing feasibility studies for client companies on request. From 1973 to 1985, over 650 studies were prepared for a total investment of over Z 1 billion. Due to inadequate collateral however, only about 10 percent of these studies resulted in actual investments. The guarantee fund on which many potential investors were counting was at the time also not operational (para. 1.19). As a result, OPEZ could not fulfill its assigned role. The institution's affiliates, who numbered 900 in 1979, fell to 151 by December 1982. During 1983, salaries for professional staff could not be met and all the analysts resigned to join other organizations. Funding from donors, including UNIDO which had provided some technical assistance until 1977, dried up and OPEZ lost the little reputation it had as an agency for SSE development.

1.37 In 1985, Government renewed its interest in OPEZ, reconstituted the Board (with representatives of ANEZA, the Ministry of National Economy and Industry and the Ministry of Finance, Budget and Portfolio), and appointed a new General Manager. The institution was slightly reorganized and about 30 professional staff recruited. In 1986, USAID provided an expert for six weeks to train the staff in enterprise analysis, and UNIDO plans to finance foreign training to five high level staff and seven managers of client SSEs. The Government has resumed its budget support (Z 900,000 per month which meet about half of OPEZ's needs) and the guarantee fund, which OPEZ is supposed to manage, is now operational (para. 1.22). The institution is therefore gearing up to assist SSEs in preparing bankable projects and to provide consulting support for entrepreneurs. This project will assist OPEZ in fulfilling its tasks by training OPEZ's staff and will rely on it to provide assistance to beneficiary SSEs. OPEZ will be compensated for the services rendered under the project, which will give it an additional source of income (paras. 3.33, 3.34 and 3.39).

1.38 CADICEC (Centre chrétien d'action pour dirigeants et cadres d'entreprises au Zaïre), a private Christian organization created in 1956, also provides assistance to small enterprises, mainly through information gathering and dissemination. Staffed by three professionals, CADICEC organizes seminars, offers courses and promotes discussions about the business environment. As a result of a recent study of 233 Kinshasa enterprises in the business, CADICEC has generated a project to train informal sector entrepreneurs and workers in management accounting, market analysis and quality control.

1.39 INPP (Institut national de préparation professionnelle) was set up in 1964 to train workers and conduct examinations for job selection and professional accreditation. The training is of two main types: formal courses and seminars in one of INPP's centers, and on-the-job training in the workshops and factories of interested enterprises. INPP, which has 220

training to over 29,000 people in inter alia commerce, administration, motor mechanics, welding and electronics. In 1971, an SSE management course was introduced and since then, 673 managers and SSE staff have received training in different issues affecting the operation of small enterprises. INPP has four centers in Kinshasa, Lubumbashi, Boma, and Kisangani and runs four to ten seminars per center, depending on the needs of firms in the regions. An annual levy from all registered firms, based on their salary budgets, provides INPP's main source of income, although firms also contribute to have their workers' expertise upgraded.

1.40 OPEZ, CADICEC, and INPP will be used in the project as resource institutions to provide assistance to SSEs when needed. Their interventions would be initiated and coordinated by the Project Management Unit (PMU). They would be compensated for the services rendered to SSEs under the project (para. 3.33).

Constraints and Development Potential

1.41 Available studies and the recent experiences of UNDP/UNIDO and the EEC with SSEs in the Kivu and Shaba regions showed that the development potential of this sector is significant. SSEs are less constrained by transport difficulties and produce basic goods accessible to low income groups. There is ample scope for SSE development in such diverse areas as food processing, agricultural tools, carpentry, construction materials, and repairs and maintenance, among others. The recent policy reforms, particularly the decontrol of industrial prices and the improvement of the institutional support system have greatly improved the investment climate for SSEs. However, the sector also faces severe constraints. More than large enterprises, SSEs suffer from the limited training facilities and difficult access to bank credit, even though they appear to have substantial borrowing capacity as their debt/equity ratio is generally very low. The proposed project has been designed to address these issues constraining the development of SSEs.

C. The Financial Sector

Institutional Structure

1.42 The financial sector in Zaire consists of the Central Bank (BZ), nine commercial banks, and two development banks: Société financière de développement (SOFIDE), a mixed institution with 40 percent Government participation, which provides risk capital and term loans for investment projects, and Banque de crédit agricole (BCA), owned by the Government. Seven of the commercial banks have more than 70 percent equity participation by a foreign bank. The Government has a minority share in two of them. Of the remaining two commercial banks, one was declared bankrupt and placed under temporary state control pending reprivatization and the other is owned by the Government. The non-bank financial sector includes two subsidiaries of commercial banks specialized in the financing of construction and real estate development, an insurance company (SONAS), a savings institution (CADEZA), a postal savings network (CCP) and a social security fund (INSS). There is also an array of saving cooperatives which have been expanding rapidly, particularly since the virtual bankruptcy of CADEZA in the late 1970s. They collect small savings and grant loans

(mainly short-term consumer credits) to their members. These cooperatives are not yet accredited by the Central Bank. The relative importance of the various institutions in terms of their lending to companies and individuals is shown in the table below and has been fairly stable over the past few years.

Lending to Companies and Individuals
(as of December 31, 1984) a/

	<u>Z Million</u>	<u>Market Share</u> (%)	<u>Number of Institutions</u>
Banque du Zaire	39	1	1
Commercial banks	4,233 <u>b/</u>	70	9
Development Banks	1,495 <u>c/</u>	25	2
Non-Bank Institutions	148	2	6
Savings Cooperatives	150	2	12
TOTAL	<u>6,065</u>	<u>100</u>	<u>30</u>

a/ Data for 1985 or 1986 are not available for all institutions.

b/ 89 percent is accounted for by the four largest commercial banks.

c/ SOFIDE accounts for 99 percent of this amount.

1.43 Most of the above financial institutions, with the exception of those in the non-bank financial sector, are likely to participate in the project, and are described in more detail in the paragraphs below.

1.44 The Banque du Zaire (BZ) is responsible for regulating financial institutions in Zaire and for defining and administering national monetary and credit policies. Since 1983, BZ emphasized demand management mainly through credit ceilings. Interest rates (except those on loans for non-coffee agriculture) are freely fixed by banks and no sectoral allocation of credits exists. There is also virtually no import control and the exchange rate is weekly determined by an interbank market (para. 1.04). As a financial institution, BZ can lend to the Government, but not to public enterprises, which are considered part of the private sector as far as credit is concerned. BZ also provides credit to financial intermediaries through rediscounting of short- and medium-term instruments and advances (para. 1.76).

1.45 The Bank of Zaire's regulation of financial institutions mainly focuses on three aspects: (i) respect of credit ceilings set on a quarterly basis in consultation with the IMF. Controls are weekly and excesses penalized at a rate of one percent per day; (ii) reserve requirements, which at present amount to 45 percent of all the commercial banks' deposits, including provisions for covered documentary credits. These reserves are deposited in an interest-free account at the Central Bank. The penalty rate for shortages is 60 percent p.a.; and (iii) commercial banks' foreign exchange position set at 40 percent of the banks' equity and free reserves. The control is daily and any excess should be sold to the Central Bank.

1.46 BZ's supervision over the management and operation of financial institutions is less stringent. The basic legislation and regulations exist but are usually not translated into clear instructions for banks. There are, for example, no maximum debt/equity ratios, no clear definition of bad debt nor any BZ's guidelines regarding constitution of loan provisions. Enforcement is also weak because of inadequate information and inspection procedures. In January 1987, BZ introduced a new and more comprehensive reporting system for banks with a view to obtaining better information and gradually strengthen its supervisory function. This is particularly important for the long-term stability of the banking system and has become a high priority for BZ since the bankruptcy of the Banque de Kinshasa (para 1.42). Despite the present lax control, financial institutions are generally well managed and financially sound. They have their own provisions policies and the major institutions have adequate appraisal and disbursement procedures (paras. 1.54 and 1.55).

1.47 BZ has a total staff of 3,250, including its head office and the eight regional branches, and employs ten foreign experts. It is organized into 19 departments reporting to a Principal Director, an expatriate expert financed by the IMF, who in turn reports to a Vice-Governor and a Governor appointed by the President of the Republic. BZ's organization structure appears in Annex X.

1.48 The Credit Department, which will play an essential role in this project, is responsible for (i) establishing and controlling individual banks' credit ceilings; (ii) monitoring their reserve requirements; (iii) managing the BZ's rediscount and advance facilities; (iv) authorizing medium-term bank loans and ensuring their appropriate funding; and (v) managing the risk coordinating unit (centrale des risques). These important functions, which go beyond the strict domain of credit, place the Department in a central position within BZ and bring it in constant contact with the commercial banks' top credit executives and senior management. The Department is divided into five units: Administration, Rediscount, Control, Risk Coordination, and studies. It is well managed and adequately staffed (36 people) and seems to be well regarded by the banking community.

1.49 The commercial banks (Annexes XI to XIII) are largely in private hands, except for the Banque du peuple -- formally the Société Congolaise de Banque -- which was taken over by the Zairian Government in 1978 and the Banque de Kinshasa which was declared bankrupt in May 1986 and is under receivership at BZ. Most banks are linked to prime European and US banks and their policies, procedures, and management practices reflect those of their parent companies. The sector is dominated by three relatively large banks (Banque commerciale zairoise -- BCZ, Banque du peuple -- BDP, and Union zairoise des banques -- UZB) whose deposits account for about 80 percent of all commercial banks' deposits. They are the main banks with significant branch networks (88 branches throughout Zaire). The other five smaller banks are only active in Kinshasa and in the Shaba region and deal mostly with local subsidiaries of multinational companies.

1.50 The main commercial banks' activity is foreign trade financing, either in the form of direct import-export business or international trade-related financing. They all appear to be well equipped and knowledgeable in this domain which accounts for 70 to 90 percent of their income.

1.51 Commercial banks' lending is predominantly short-term and takes the form of overdrafts (usually granted for 6-12 months periods, sometimes renewable), commercial discounts (discounting of trade bills with maturities up to 12 months), and advances (up to 12 months renewable and supported by a bill of exchange or promissory note drawn on the bank's client). Commercial banks mainly lend to companies. Consumer and housing loans are unusual, except for loans to bank employees. The main recipient sectors are agriculture and trade, which together account for about two-thirds of commercial bank loans. Manufacturing and transport receive about 20 percent and five percent, respectively. The remaining eight percent goes to mining, construction and other services. In terms of geographical distribution, available statistics show a heavy concentration in Kinshasa. This is not only due to the economic importance of the capital, but also the fact that most bank credits are granted to medium and large enterprises with headquarters in Kinshasa.

1.52 Although provision of short-term credits remains the commercial banks' major activity, the situation is beginning to change. With a market-determined exchange rate and easier convertibility of the Zaire, the demand for term credit in local currency is increasing and the commercial banks are starting to provide medium-term credit (two to three years). The banks are, however, constrained by the credit ceilings and the medium-term credit coverage ratio ^{2/} imposed by BZ. All commercial banks' term lending has to be approved by the Central Bank on a case by case basis. The process is long (four to six months) as BZ carefully reviews all the requests and gives its approval only when the overall ceiling agreed with the IMF allows it. Thus, so far, commercial banks, particularly those which have small term deposits, reserve term loans for their best clients who generally are large enterprises. They cannot meet the financing needs of SSEs because of inadequate resources, although most of them are open to such lending. Out of about US\$15 million medium-term credits approved by BZ in 1986, only US\$1.5 million were for SSEs. With adequate resources, commercial banks estimate they would be able to at least double their term credits to small enterprises. The proposed credit will fill this gap by increasing the amount of resources available to the banking system for SSE financing.

1.53 Among commercial banks, BCZ is the most active in term lending, with nearly 34 percent of its portfolio made up with term loans, followed by Citibank (33%), BDP (22%) and UZB (18%). BCZ and, to a lesser extent, BDP, have a diversified client base that includes international, private Zairian, and public sector companies and have made substantial inroads in the small- and medium-scale enterprise sector. UZB is particularly strong in the coffee sector and, like the smaller banks, is mainly involved in financing subsidiaries of international firms.

^{2/} The taux de couverture which sets the funding requirements for term lending requires that such loans have to be covered by term deposits, bonds or term debt, or a combination of these, in the following proportions:

- (i) 200 percent by 3-6 months local currency deposits;
- (ii) 120 percent by foreign currency deposits up to six months;
- (iii) 100 percent by bonds and 6-12 months deposits; or
- (iv) 50 percent by debt, bonds and deposits of at least one year.

1.54 Commercial banks' capacity to appraise term loans is generally adequate. At BCZ, UZB, and BDP, credit analysis, although emphasizing the personality of the borrower, also covers such aspects as evaluation of market potential, sales forecasts, projected cash flow, pro-forma financial statements, quality of the management, and includes direct visits to the company. They are less familiar with appraisal of SSE projects and will be assisted under this project to develop such an expertise (paras. 3.33 and 3.34).

1.55 Procurement and disbursement procedures vary from bank to bank, but appear generally satisfactory. With large well known clients, disbursement is effected according to a pre-established schedule with funds made directly available to the beneficiary. For smaller or less well-known clients, funds are directly disbursed to the supplier or contractor, and other disbursement and procurement conditions are more thoroughly checked. Procurement generally requires several quotations from different suppliers. Under the proposed project, participating institutions would be required to follow these procedures, i.e., to require quotations from three suppliers and to disburse directly to the supplier, except for small payments of less than US\$5,000.

1.56 Decisions regarding term lending by commercial banks are centralized at the head offices in Kinshasa. With the exception of BCZ which has delegated fairly important decision-making powers to its Shaba branch, bank regional offices only review term loan applications. Approval is made at headquarters, often at the Board level. Under the proposed project, the project analysis capacity of bank staff in regional offices will be strengthened to ensure that the SSE loan applications they send to headquarters for approval meet the bank's requirements. This would avoid questions by headquarters and reduce delays (paras. 3.33 and 3.34).

1.57 Practically all bank lending is backed by some form of collateral (mortgages, floating charges on stocks or other assets, personal guarantees, overseas guarantees, etc.) even though the enforceability of some of these guarantees is legally difficult and time-consuming. The collateral requirement is a particularly important problem for SSEs and limits their access to institutional credit. In an effort to ease this constraint, in mid-1986 the Government reactivated the Guarantee Fund, managed by OPEZ, with a Z 20 million contribution from FCD (para. 1.22). Building on this effort, this project would provide incentives for the establishment of small mutual guarantee schemes to help informal SSEs and women entrepreneurs obtain bank credit (para. 3.38).

1.58 Commercial banks' policies regarding bad debt provisions are left to the discretion of the individual banks. The small commercial banks generally apply the standard provisions policies of their parent companies, while the large banks have their own policies as follows: BCA and BDP review its portfolio quarterly and establish provisions by year end on a case-by-case basis. UZB does it twice a year and classifies bad loans in three categories for which the following provisions are made: difficult (5%), doubtful (20%), and under legal dispute (100%).

1.59 Zaire's commercial bank sector is generally profitable and stable. In 1985, the average return on equity, calculated with published data, averaged 47 percent, ranging from a low 14 percent for BDP to 450 percent for Grindlays. The banks are generally well managed and the quality of the loan portfolios, although difficult to assess precisely in the absence of standard practices regarding arrears, bad debt and appropriate reporting, appears basically sound. Arrears and bad debt as reported to BZ represented about five percent of commercial banks' loan portfolios as of end March 1986. Indebtedness ratios vary widely among banks as a result of varying asset revaluation policies and the absence of minimum debt equity ratios. However, they appear adequate, given the generally good quality of the assets.

1.60 The Development Banks. SOFIDE, Zaire's main development bank, was established as a limited liability company in 1970 with 40 percent Government participation. IFC subscribed 18.75 percent of its original capital and IDA provided the first of eight credits, which total US\$161 million. SOFIDE's objectives at its inception were to foster the development of a capital market and to finance investments in the productive sectors. Since then, it has successfully established itself as the main term lending institution in Zaire and has been able to attract and retain the confidence of its foreign shareholders and lenders. The World Bank Group's close and constant support through both financial and technical assistance was instrumental to this achievement. Much of SOFIDE's investments over the past ten years have been for rehabilitation and modernization of existing industrial capacity and for agricultural and transport projects. More recently, SOFIDE started to increase its financing of small and medium enterprises. Virtually all of SOFIDE's loans and equity participations have been to private (or private majority) owned companies.

1.61 Two Project Performance Audit Reports (PPAR) covering the first three credits to SOFIDE were prepared by OED in 1976 and in 1982. Both reports commented positively on the institution building achievement of the three projects, but noted the negative effects of the environment, particularly of inflation, on SOFIDE's profitability. They also concurred with the views of IDA staff that SOFIDE needed to further strengthen supervision efforts and improve its organizational structure and accounting systems to better cope with the increasing volume and diversity of operations. SOFIDE moved rapidly to address these issues by increasing supervision and instituting better cost controls, by reorganizing its structure and by raising interest rates. In connection with the seventh credit, SOFIDE made further efforts in improving arrears collection and project supervision. However, much remains to be done, particularly with regard to the arrears situation which has substantially deteriorated as a result of the fast depreciation of the Zaire and its impact on the financial situation of SOFIDE's clients, most of whom bear the foreign exchange risk. One of the major objective of the eighth credit approved in FY86 is to further assist SOFIDE in this area.

1.62 As of end September 1986, SOFIDE had the equivalent of US\$40 million in foreign exchange for new approvals. However, more than 90 percent of these resources are for specific operations or have conditions regarding procurement and/or type of projects. All the funds allocated for

investment under the sixth and seventh IDA credits have been committed. SOFIDE and Government are taking the necessary measures to meet the effectiveness conditions of the eighth IDA credit and avoid the emergence of a resource gap which would adversely affect SOFIDE's level of operations. On the basis of subprojects already submitted by SOFIDE for approval under the eighth IDA credit, most of the funds would be, as in the past, used for financing relatively large enterprises as the need for rehabilitation and modernization of these firms are very large and exceeds the resources available for them at SOFIDE. To sustain its SSE lending, SOFIDE has lines of credit granted by ADF (African Development Fund) and CIDA (Canadian International Development Agency), but would also rely to a large extent on the proposed project.

1.63 BCA was created in 1982 as a 100 percent public company to provide short-, medium- and long-term credit to the agricultural sector. It can also take deposits from the public and is therefore a mixed commercial and development bank, the only of its kind in Zaire. BCA started operation in December 1983 and despite some growth is still the smallest bank in Zaire with a balance sheet total of Z 279 million in 1985. Lending is conducted from its single office in Kinshasa but BCA plans to open a branch in Kwango Kwilu and in Shaba in 1987.

1.64 As of end September 1986, BCA's resources had increased to Z 365 million, including its paid-in capital (Z 105 million) and deposits (about Z 260 million, mostly demand deposits). About 80 percent of the deposits came from the Fonds des Conventions de Développement (FCD), a fund created in 1978 to support investments in agriculture with a tax of up to 10 percent levied on the turnover of manufacturing firms. With these resources, at the same date, BCA approved 153 short- and medium-term credits for a total of about Z 310 million. Its portfolio as of September 1986 amounted to Z 159 million, of which about 58 percent were term credits. At the same date, arrears represented Z 13 million, or eight percent of the portfolio. As a young institution, BCA's staff (97, of whom 35 professionals -- most of them recently recruited) needs considerable training, which BCA's management is trying to provide through internship arrangements with SOFIDE and other banks, formal training at CEPETEDE and on-the-job training. As a result, BCA has developed a certain expertise for project appraisal. Its financial management capacity is still weak and needs considerable strengthening.

1.65 In an effort to rationalize and improve the provision of credit to the agricultural sector, the Zairian authorities decided in October 1986 to merge FCD with BCA. The new BCA strengthened with FCD resources is expected to play a leading role in the financing of medium agricultural enterprises and smallholders, two categories of borrowers often neglected by banks. To help the Government in this effort, IDA agreed to finance under Cr. 1492-ZR (SOFIDE VII project) a comprehensive review of BCA and FCD's operations and financial position, BCA's legal status, organizational structure, staffing and training needs as it was clear that a number of issues (such as liquidation of FCD's non-performing loans, restructuration of BCA and privatization of part of its capital) would have to be addressed before implementing the merger. The review is expected to be completed by May 1987.

1.66 Another issue affecting BCA's financial viability is the low level of interest rates on agricultural credits which are the only ones still regulated by the Central Bank. They are currently fixed at 30 percent p.a., while inflation was estimated at about 35-40 percent in 1986. These low interest rates force BCA to look for subsidized resources and reduce the spread it can earn on its lending operations. BCA's participation under the proposed project would not be feasible as long as interest rates on agricultural credits remain fixed by BZ at 30 percent p.a. This issue will be addressed under the SAC operation for Zaire currently under preparation.

1.67 The Savings and Credit Cooperatives (SCCs), mostly originating from religious and community movements, started in Zaire in 1969 and have expanded rapidly since the virtual bankruptcy of CADEZA in the 1970s. These institutions cater to a popular clientele who lacks access to the banking system, but needs to place modest savings or to obtain small consumer loans. The total amount of savings collected by SCCs is estimated at about Z 1 billion (US\$12 million), or six to seven percent of total bank deposits, but is growing much faster than deposits in the banking system. Only a small portion of the funds mobilized is relent to members in the form of consumer loans; the rest is deposited with banks or invested in treasury bills, so that, in practice SCCs resemble money market funds. These institutions have developed mainly in Kinshasa and in the Kivu, but are also present in the Bandundu, Kasai Oriental, Equateur, Bas Zaire, and Shaba regions.

1.68 The SCC system is organized at three levels which are, from bottom to top, as follows:

- (i) Primary Cooperatives: They are the individual cooperatives and total approximately 200 at present, with about 300,000 members. They employ well over 1,000 people, as compared to 8,500 for the banking sector. The primary cooperatives basically carry out a cashier's function, extend some lending to their members, and do the reporting to the next higher level.
- (ii) Secondary Cooperatives: These are groupings of primary cooperatives that perform accounting/administration functions, spare cash management, training assistance and, in general, supply back-up services to their members. Sometimes they also carry out lending functions. There are at present nine such organizations, of which the most important is the Caisse populaire de crédit Luymas (CPCL). This cooperative accounts for about 45 percent of the savings in the SCC system.
- (iii) Federations: A federation of all secondary SCCs does not exist yet, and is not likely to exist in the near future given the different and sometimes conflicting policies of the various secondary cooperatives. However, four of the nine secondary SCCs, accounting for about one third of the cooperative system, are grouped under an umbrella organization (Union centrale des coopératives d'épargne et de crédit -- UCCE) that acts as an internal forum for discussion and an external representation body.

1.69 Since their creation, SCCs have been regulated by the colonial Decree of March 24, 1956 on cooperatives, which is outdated and not enforced. They have thus grown practically unregulated. At this stage of their development, with more than 2.1 billion savings collected, the cooperative system needs an adequate legal framework to continue growing. The draft cooperative law prepared by the Ministry of Agriculture and Rural Development to replace the March 1956 Decree does not address the financial dimension of SCCs, while the 1972 banking law is too complex for them. Other important problems facing SCCs concern the need to strengthen their management, structures and financial control which have become inadequate in the light of rapid expansion over the past ten years and to develop a good credit evaluation capacity to better invest their members' savings.

1.70 Despite these shortcomings, SCCs are important mobilizers of small savings, know their clients and can assess the worth of small entrepreneurs and artisans better than any financial institution in Zaire. With appropriate support, some of them could become effective term lenders to artisans and the informal sector. Thus, provided that SCCs obtain accreditation from the Central Bank and that their appraisal/supervision capabilities are developed to IDA satisfaction, they could participate in the proposed project (paras. 3.12-3.13).

Interest Rates and Resource Mobilization

1.71 During the 1970s, Zaire followed a policy of administered interest rates. Commercial banks were free to set their own commissions, but deposit and lending rates were regulated by the Central Bank. Thus, during that period, bank-customer relationships played a more important role than interest rates in allocating credit to the private sector. This situation changed significantly after the Central Bank freed all deposit and lending rates in September 1983 (with the exception of those on agricultural credits, which remained fixed at 30 percent p.a.) and, more recently, created a market for treasury bills. Beginning in April 1984, treasury bills were sold to non-bank public at annual interest rates ranging between 34 percent and 45 percent in 1986, while inflation was estimated at 35-40 percent. In response to this competition, commercial bank term deposit rates rose to 35 percent (6 months) and 37 percent (12 months), as compared to about 20-25 percent two years earlier. Rates for deposits of up to three months remained low at about 14-17 percent. Commercial banks are not interested in this type of deposits which are not included in the calculation of the medium-term credit coverage ratio (para. 1.53).

1.72 On the lending side, limited credit availability due to the Central Bank's credit ceilings has kept interest rates at relatively high levels as can be seen in the table below:

Range of Most Frequent Lending Rates and Commissions
(November 1986)

	<u>Interest Rates</u>	<u>Commissions/Fees</u>
Short-term advances and discounts	32-37% p.a.	1% per quarter on original amount
Short-term overdrafts	34-35% p.a.	1% per quarter on highest overdraft
Medium-term credits	32-40% p.a.	1% per quarter on outstanding amount
Guarantees	-	0.8%-1.5% per quarter
Penalty rates	45% p.a.	0.5% per month on highest overdraft or outstanding amount

1.73 In addition, borrowers pay a tax on interest of 18 percent p.a. (contribution sur le chiffre d'affaires - CCA tax). All these commissions, fees, and the CCA tax raise the cost of term borrowing to about 42-52 percent. This is highly positive in real terms as inflation measured by the average CPI was estimated at about 23 percent in 1985, down from 52 percent in 1984. In 1986, the inflation rate was around 35-40 percent. The cost of term credit is also not very different than that of short-term credits and overdrafts (43% to 50%). This is due to the widespread practice of renewing short-term credits and advances. In addition, interest rates are variable and, notwithstanding the maturity of the loans, banks can recall them any time to meet the reserve requirements or other obligations imposed by BZ.

1.74 Despite the increase in deposit rates, commercial banks have not been very successful in mobilizing term deposits. Of the Z 12.7 billion deposits in the banking system in March 1986, nearly 91 percent were sight deposits. This was partly due to the competition with treasury bills, introduced six months after the liberalization of interest rates. The main reason for the high share of sight deposits, however, seems to be the very tight liquidity situation of the economy and the depositors' preference for highly liquid placements in the face of an uncertain and rapidly changing environment.

1.75 Deposits originate mainly from the services sector, with trade accounting for more than 30 percent of all sight deposits in the banking system and transport and other services for another 18 percent. Agriculture, which is the main user of credit, is only a marginal source of funds for banks (less than five percent of total deposits). This deposit structure has remained practically unchanged over the years, and reflects the different sectors' basic operating needs. In terms of geographical distribution, Kinshasa dominates with 68 percent of total sight deposits and 90 percent of time deposits, followed by the Shaba region with 15 percent and 3 percent, respectively. Besides deposits, commercial banks also mobilize large volumes of resources by requiring importers to cover between 50 percent and 100 percent of their imports in advance.

1.76 Finally, banks receive financing from the Central Bank through the following mechanisms:

- (i) rediscounting of promissory notes, term loans, and trade bills. The latter are eligible, provided that they are between 30 and 180 days to maturity, are presented within 160 days of issue date, and were created not later than 30 days after the invoice or contract date;
- (ii) "mise en pension" of endorsed bills of exchange or treasury bills for short periods of two days renewable, up to a maximum of 15 days per month; and
- (iii) advances against deposit of a 120 percent guarantee in treasury bills.

1.77 The BZ's Credit department is responsible for administering these facilities. It establishes limits for individual banks, checks the eligibility of the instruments presented and controls the overall

use of the facilities. BZ's rediscount rates are currently 28 percent for agriculture and 30 percent for other sectors, while the "mise en pension" rates are 23 percent for Government securities and 28 percent for short-term and medium-term credits. Advances are more expensive: 32 percent when they are within authorized limit and 40 percent in excess of limit. BZ is considering simplifying this rather complex rate structure by unifying the two rediscount rates and by eliminating the "mise en pension" rates and the 40 percent penalty rate for advances. Recourse to Central Bank financing has been limited because of its relatively high cost and the availability of call money (between 22% and 25%). Recently, an interbank money market has been established in Kinshasa with BZ being the major supplier of funds and, thus, the main determinant of the rate which has been fluctuating around 23 percent. The Zairian authorities expect that in the near future this market will become a fully developed interbank money market similar to the interbank foreign exchange market with fixings involving all financial institutions. During negotiations, it has been agreed that when this market operates to the Government and IDA's satisfaction, the interbank rate (KINIBOR -- KIN for Kinshasa) would be used as the onlending rate in this project as it adequately reflects the cost of resources for banks in Zaire (para. 3.22).

Term Lending and SSEs: Need for the Proposed Credit

1.78 Term lending in Zaire, which only a few years ago was almost the exclusive domain of SOFIDE, has experienced some development with the major commercial banks showing more interest in this type of lending as a result of the improved macro-economic environment, characterized by market-determined interest rates and easier convertibility of the Zaire currency.

1.79 This development merits to be supported. At present, commercial banks only extend term loans with relatively short maturities to large companies in Kinshasa, leaving the financing of SSEs to SOFIDE, which despite commendable efforts (80-85 percent of SOFIDE's approvals by number and 50-55 percent by value are for small and medium enterprises) cannot satisfy the need of small enterprises, particularly those in the regions.

1.80 Commercial banks with their vast branch network can contribute to meet this unsatisfied demand, but need strong incentives to do so. First, their capacity to provide term loans is limited and they prefer to finance large operations capable of generating attractive ancillary business. Second, although their credit analysis expertise is generally adequate, it is mainly concentrated in Kinshasa, while a large number of SSEs are in the regions. Financing SSEs would thus require strengthening of branch offices and improved coordination with headquarters, which add extra cost and make this type of lending less attractive. On the SSE side, many of them would not be able to meet the commercial banks' guarantee requirements, nor be attracted by the conditions of their loans, which are not adapted to SSE investment projects, given the relatively short maturities (two to three years) and high cost (47 percent on average, when commissions and the CCA tax are included).

1.81 The proposed project has been designed to ease some of these constraints and encourage commercial banks into SSE financing because:

- (i) credits extended to SSEs and financed under the IDA Credit would be outside the BZ's individual ceilings and the IMF overall ceiling and do not have to meet the BZ's medium-term coverage requirements, as they are backed by adequate term resources (para. 3.20). The proposed project would thus bring to participating banks a new business without interfering with their traditional short-term activities;
- (ii) participating banks would be allowed to select the projects they wish to finance without any external interference, as they are taking the commercial risk. Banks would also be able to freely set their interest rates (para. 3.23);
- (iii) technical assistance would be provided under the project to participating banks to strengthen their capacity to appraise and supervise SSE projects both at headquarters and at the branch level, as well as to small entrepreneurs (paras. 3.33 and 3.34);
- (iv) credits extended to SSEs under the project would be made in local currency. The foreign exchange risk would be borne by the Government (para. 3.17); and
- (v) incentives would be provided to encourage the establishment of mutual guarantee funds to ease the access to bank credits for informal SSEs (para. 3.38).

II. BANK GROUP SECTOR LENDING STRATEGY

2.01 Given Zaire's economic structure and problems, the Bank Group's main objective has been to help rehabilitate agriculture and mining, support private investment in industry and other productive sectors, and improve the provision of basic infrastructure. In industry, the Bank Group supported the creation of SOFIDE in an effort to promote the development of the private sector. IFC was one of SOFIDE's original shareholders and IDA provided, in 1970, the first of eight credits, which total US\$161 million. In 1984, IFC made a further capital subscription in SOFIDE of US\$ 576,000 equivalent.

2.02 Since the mid-1970's, IDA's main objectives in lending through SOFIDE have been to provide the financial resources needed to help rehabilitate and maintain the productive capacity of the industrial sector, and to develop SOFIDE into a strong independent development finance institution. Despite the difficult economic conditions, SOFIDE has emerged as a respected and effective term lending institution with a good project appraisal and supervision capability. IDA's continued support has been critical to this achievement.

2.03 The September 1983 macro-economic reforms and the Zairian Government's determination to liberalize the economy have opened the way for specific policy reforms and new assistance to the industrial sector. To support the Government efforts in achieving its stabilization with growth objective, the Bank Group lending strategy in the sector now

consists of a combination of policy-based operations to improve the sector's institutional and policy framework, while providing the foreign exchange required for the importation of inputs and spare parts, and of investment projects through SOFIDE and the banking system to provide the term foreign exchange resources needed to support the development plans of the private sector. The first industrial sector adjustment credit was approved in June 1986, as well as the eighth SOFIDE project. The proposed operation forms an integral part of this strategy and has been designed to increase the participation of two major actors in Zaire's investment and growth process: SSEs, a sector with high employment potential, and the banking system.

III. THE PROJECT

Project Objectives and Justification

3.01 The objectives of the proposed operation are to (i) generate new employment opportunities; (ii) nurture the development of Zairian entrepreneurs; (iii) increase the participation of financial intermediaries in the financing of SSEs. Participation of commercial banks with their large network of regional offices would provide more term credit to areas outside Kinshasa and contribute to the decentralization of economic activity; and (iv) develop in Zaire a good capacity to prepare, appraise and supervise SSE projects. The project would also help address the training needs of women entrepreneurs and facilitate their access to institutional credit.

3.02 IDA's involvement in the project would supplement its policy-based lending for adjustment and would support the Government's efforts to stimulate economic growth and increase employment. The package of financial resources and technical assistance provided by the project would help the development of SSEs, a sector which has high employment generation potential and is the breeding ground for developing a Zairian entrepreneurial class. Despite the involvement of many bilateral donors in SSE development, there is still a shortage of term resources to finance SSE projects because of the large needs of the sector and because most bilateral assistance have conditions regarding procurement, nationality of the beneficiary, geographical location or type of projects. The Bank's country assistance strategy is in full agreement with the Government's priority for developing the SSE sector which, in contrast to medium and large enterprises, is mostly owned and managed by Zairian entrepreneurs and, until recently, has been neglected.

Lessons Learned from Previous SSE Assistance Efforts

3.03 A review of Bank experience with SSE lending indicated that SSE assistance programs have often been less than successful mainly because of (i) the bias against SSES in many countries' trade and pricing policies; (ii) the difficult access for SSEs to the benefits accorded under national investment codes; (iii) the over-reliance on single intermediaries for channeling financial assistance, thus limiting the chances of reaching small enterprises in remote regions of the country; (iv) the excessive use of foreign advisors for delivering technical assistance; and (v) the lack

of working capital funds for SSEs. In Zaire where the policy reforms undertaken by the Government have removed many of the discrimination against SSEs, the proposed project will build on these lessons to improve the chances of developing a viable SSE sector. Specifically, the project would (i) channel its financial assistance not only through development banks, but also through commercial banks and small savings cooperatives; (ii) provide working capital financing for existing SSEs in the productive sectors; and (iii) rely on existing local SSE support institutions for delivering technical assistance and training to SSEs.

Project Description

3.04 The project would involve an IDA credit to the Zairian Government of US\$25.0 million equivalent (SDR 19.8 million). It would have the following components:

- (i) an investment component of US\$22.5 million equivalent to finance development projects promoted by SSEs;
- (ii) a technical assistance and training component of US\$1.7 million equivalent to: (a) help small entrepreneurs better prepare and manage their projects; (b) provide special training and assistance to women entrepreneurs; and (c) strengthen the participating financial intermediaries' capacity to appraise and supervise investment projects; and
- (iii) establishment of a Project Management Unit (PMU) at the Central Bank to coordinate and monitor the activities of financial institutions and Zaire's training and SSE assistance institutions involved in the project. The cost of this Unit (including part of staff salaries, equipment and operating charges for five years) would absorb the remaining US\$0.8 million. Expenditures for PMU establishment up to US\$50,000 incurred between appraisal (November 1986) and loan signing would be financed retroactively.

Credit Component

3.05 Size of the Credit Component. Based on the SSE project pipelines of SOFIDE and BCA and indications given by commercial banks, a credit component for commitment over three years of US\$22.5 million is recommended. About 50 percent of this amount (US\$11 million, or US\$3.7 million/year) would probably be used by commercial banks which have estimated that with adequate resources they would be able to at least double their present term lending to SSEs. SOFIDE would probably absorb another US\$8-10 million since its present SSE pipeline of over US\$35 million by far exceeds its existing SSE resources. The remaining US\$1.5-3.5 million would be shared by BCA which has an SSE pipeline of US\$8 million, and the savings cooperatives when they obtain BZ accreditation to participate in the project (paras. 3-12-3.13).

3.06 Institutional Arrangements. The credit component would be made available under an apex arrangement to all sound financial institutions accredited with the Central Bank. Funds under the Credit would be channeled through the Central Bank to commercial banks, development banks

and other financial institutions, which would in turn grant loans to the final beneficiaries of the project, the small-scale enterprises. The apex arrangement is thought to be the most suitable for financing numerous SSE projects, due to the number of commercial banks and other financial institutions that would participate, and would provide Zairian SSEs better accessibility to term credit. The proposed apex approach would also be the most appropriate to address the issue of regional decentralization of economic activity and credit distribution. Since commercial banks have a large network of branches (113 branches in total), while the two development banks only account for a total of four branches outside the capital, the apex arrangement would be conducive towards securing the widest participation of the regions in the project.

3.07 The Central Bank, through a Project Management Unit (paras. 3.41 to 3.43), would act as the apex institution and administer the line of credit for the Government. In view of its extensive role in regulating the financial sector, including refinancing of both short- and medium-term loans, the Central Bank is the most suitable institution in which to locate the apex line of credit. At the same time, given the scarcity of high level professionals at the Central Bank, the commercial banks' reluctance to provide confidential data on their clients directly to BZ and the required arrangements for the technical assistance component, it becomes necessary to establish a Project Management Unit, which, although located at the Central Bank, would have its own operating policies and procedures and its own staff (para. 3.41). The signing of a Management Agreement between the Government and the Central Bank defining the functions and responsibilities of the latter, under terms and conditions satisfactory to IDA, would be a condition of credit effectiveness.

3.08 Eligible Intermediaries. Any financial intermediary accredited by the Central Bank which complies with all the laws and regulations governing banking operations in Zaire, and has its financial statements audited, with no qualifications, by independent auditors acceptable to IDA, would be eligible for participating under the line of credit.

3.09 Currently, almost all commercial and specialized banks would satisfy the eligibility criteria described in the previous paragraph. An eligible financial intermediary would be able to participate in the project provided it has entered into a Participating Agreement with BZ. This agreement would, inter alia, specify that the participants should:

- (i) designate qualified staff to manage the credits financed by the project;
- (ii) perform satisfactory subproject appraisals and submit required appraisal reports to PMU;
- (iii) ensure that resources were used by the final borrowers for the purposes intended;
- (iv) supervise subprojects according to required schedule and provide PMU with periodical reports on the status of subprojects;
- (v) help identify and provide input to PMU about needs of technical assistance for SSEs;

- (vi) adhere to terms of lending and repayment of loans; and
- (vii) provide PMU and IDA with such information as they would reasonably request.

A draft Participating Agreement has already been discussed and agreed with the interested parties and is available in the Project File. Most of the banks have stated that they would be prepared and able to comply with these conditions as needed. Receipt by IDA of a satisfactory signed agreement between BZ and a participating intermediary would be a condition of disbursement to such intermediary.

3.10 The principal participating institutions are likely to be: (a) the three major commercial banks: BCZ, UZB, and Banque du Peuple; and (b) the two development banks: SOFIDE and BCA, the latter if the Government and the Central Bank agree to free interest rates on agricultural credits (para. 1.66). BCZ and UZB would probably concentrate their credits to relatively large SSEs (close to US\$350,000 ceiling), while SOFIDE, BCA, and, to a lesser extent, Banque du Peuple would tend to finance smaller projects as they have more experience with SSEs. Among the other, smaller commercial banks, which mainly deal with subsidiaries of multinationals and large Zairian firms, Barclays, Grindlays, and Banque Continentale Africaine du Zaïre would participate to a limited extent as they have a few SSE clients in their portfolios, while Citibank and Banque Internationale pour l'Afrique au Zaïre would probably not be involved because of their self-defined policies of not financing SSEs.

3.11 An important second group of potential intermediaries is constituted by the savings cooperatives, which would be the key intermediaries for the project to reach micro-enterprises and artisans. However, at present these cooperatives are not eligible as they are not accredited by the Central Bank nor is their financial management supervised or controlled by a Government institution. In addition, they do not have project appraisal and supervision capabilities as they only grant short-term consumer loans (paras. 1.67-1.70).

3.12 To build up that capacity and prepare the savings cooperatives' future participation in the project, it was agreed with the Government and the Central Bank to finance through the Studies component of the SOFIDE VII project (Cr. 1492-ZR):

- (i) the services of a lawyer specialized in savings cooperatives to help BZ prepare a special law regulating savings cooperatives in Zaïre; and
- (ii) a special management audit of the major cooperative networks with a view to identifying the weaknesses in the system and formulating an assistance program for their reinforcement.

3.13 By end June 1988, when these actions are completed, BZ and Government will agree with IDA on a program aimed at strengthening the cooperatives' financial structure and bringing them into the formal financial system. A covenant to that effect has been included in the draft Development Credit Agreement. It is expected that by the end of 1988, some

cooperative networks could obtain accreditation and participate in the project, while their appraisal and supervision capabilities are being strengthened with IDA assistance. This pilot participation by the savings cooperatives would, however, be subject to an aggregate maximum of US\$2.5 million (11 percent of the investment component). The maximum size of their subloans would also be limited to US\$50,000, instead of US\$245,000-280,000 for well-established financial institutions.

3.14 Eligible Beneficiaries and Subprojects. Beneficiary SSEs would be enterprises with net total assets before the project of less than US\$350,000. In the case of a new enterprise, the total investment cost would also be less than US\$350,000.

3.15 All productive activities, transport, trade, and all other services that contribute to the economic development of Zaire would be eligible for financing. The line of credit would finance (i) fixed assets and associated permanent working capital for new operations or extensions; and (ii) free-standing working capital for viable existing SSEs in the productive sectors. However, given that the major objective of the project is to finance investment, the total amount of subloans financing free-standing working capital would be limited to a maximum of 25 percent of the credit component (US\$5.6 million). Local costs would also be eligible for financing under the Credit.

3.16 The enterprises and their subprojects to be financed would have to meet the following conditions:

- (i) they would be required to demonstrate financial and economic viability; subloans of over US\$50,000 would be specifically required to have an expected financial rate of return in real terms of at least 10 percent on total subproject investment;
- (ii) over the life of the subproject the projected debt servicing capacity should be no less than 1.5, with the ratio calculated on the basis of the enterprise's total debts, inclusive of those to be incurred under the subproject.
- (iii) total subproject cost should not exceed US\$350,000.

3.17 Terms and Conditions of Financing. The IDA credit would be made to the Government which would, through the Central Bank, relend the funds under the credit component (US\$22.5 million) to financial institutions and beneficiary SSEs in local currency. The foreign exchange risk would be borne by the Government which has agreed to do so. The onlending rate to financial intermediaries, which would be based on the rediscount rate -- or the KINIBOR rate -- and would be reviewed annually (paras. 3.22 and 3.24), is expected to exceed the international foreign currency interest rate by an amount sufficient to compensate the foreign exchange risk.

3.18 The Central Bank would receive the funds for a period of 20 years for recycling back to financial intermediaries and would return it to the Government over a period of 17 years, starting 3 years after the date of the Management Agreement.

3.19 Funds lent under the credit component to participating intermediaries would be in local currency, with the same maturities as the individual subloans to final beneficiaries. Subloans to beneficiaries would range from a minimum of two to a maximum of ten years, inclusive of grace periods of up to three years.

3.20 Since the funding made available under the line of credit would not be part of the normal Central Bank refinancing facility, it would not be counted as such in the determination of individual rediscount ceilings. Also, unlike the regular Central Bank rediscount facilities, it would be available to the financial intermediaries for the full term of the subloans, thus constituting a guaranteed source of long-term funds. In addition, subloans granted under the project would be outside banks' individual credit ceilings and the IMF overall ceiling, due to their direct foreign exchange coverage, and would not have to meet the Central Bank's medium-term coverage ratio as they are backed by adequate term resources. All these factors are expected to provide a significant incentive to the participating intermediaries in making term credits more easily available to Zairian SSEs.

3.21 Subloans financed by the line of credit could represent up to 80 percent of the total cost for extension/modernization subprojects, and up to 70 percent for new subprojects to limit the debt to equity ratio of new projects to 2.3:1.0. The absolute maximum size of a subloan would therefore be US\$280,000 for extensions and US\$245,000 for new projects. Promoters would be required to finance a minimum of 20 percent of subproject cost for extensions and 30 percent of subproject cost for new projects. In addition, to encourage co-financing by participating intermediaries with their own resources, it has been agreed by BZ that such co-financing would be exempted from the Central Bank's prior approval. However, to minimize the impact on credit ceilings, financing by participating intermediaries would be limited to 20 percent of subproject cost. Furthermore, this financing would be suspended if there is a risk that the ceiling would be reached until BZ allows its resumption.

3.22 The Government would receive the BZ rediscount rate (currently 30%) minus an administrative fee of one percent that would accrue to PMU, i.e. 29 percent p.a. Under the present interest rate structure, the Central Bank's rediscount rate appears to be the most appropriate rate to use for determining the project's lending rate. However, as discussed in para. 1.77, an interbank money market similar to the interbank foreign exchange market in operation since 1984 has recently been established in Kinshasa. When this market operates at the Government and IDA's satisfaction, the interbank rate would be used as the central rate in this project as it adequately reflects the cost of resources for banks in Zaire. A covenant to that effect has been included in the draft Development Credit Agreement.

3.23 IDA funds would be lent to participating intermediaries for financing SSE projects at the rediscount rate (30%). The participating intermediaries would be free to set their own final rates to SSEs and to adjust them to prevailing economic conditions. These are estimated to be on average about 37 percent as banks usually add a spread of about four percent to their cost of resources on top of a commission of three percent

p.a. and are variable. Under the present tax system, the total cost of resources to SSEs would average 44 percent as the 18 percent CCA tax on interest has to be added to final lending rates. These rates are extremely high and may have a negative impact on the demand for term credits. However, as part of a tax reform package supported by a Structural Adjustment Credit currently in preparation, the Government has agreed to phase out the CCA tax on interest over a period of two years, so that the effective cost for term loans would be around 37 percent, which is reasonable in the present situation of Zaire.

3.24 The Government onlending rate would be reviewed at least every 12 months, and modified by agreement between IDA and the Government as necessary to ensure that it continues to adequately compensate the Government for assuming the foreign exchange risk and reflect the cost of resources for financial intermediaries. Furthermore, whenever the BZ discount rate is modified, IDA agreement would be needed to continue using it as the basis for the onlending rate under the project.

3.25 The proposed final lending rates are based on the market-determined interest rate system currently in place. Should this system, which relies on market forces, be changed, further disbursements would be subject to the establishment of a new system acceptable to the Government and IDA. Agreement between IDA and the Government on this arrangement has been reached at negotiations.

3.26 Because of the high nominal final interest rates, and in order to avoid cash-flow problems to final borrowers, amortization schedules of loans to SSEs and the associated repayment schedules of financial intermediaries to BZ could include a mechanism of indexation or capitalization of interest. This would allow the effective repayment period of subloans to be as originally intended (Annex XIII).

3.27 Subloan Processing and Administration. Subloan processing under the project would be centralized by PMU, which would serve as a link between IDA, the Central Bank, the participating intermediaries and the beneficiaries.

3.28 Subprojects would be prepared by the beneficiaries, with assistance from supporting agencies as needed (paras. 3.33-3.40), and presented to the intermediaries. The financial intermediaries would review the subprojects in accordance with their own loan analysis procedures and internal operating requirements and, if appropriate, would prepare an appraisal report for presenting the subproject to refinancing under the line of credit. This appraisal report would be in the standard format prescribed by PMU, which would vary in depth and sophistication depending on the size and nature of subprojects. The report would cover all relevant information about the enterprise and the proposed investment, including details about its technical soundness, financial viability and economic efficiency. Financial rate of return calculations would be required for all subloans over \$50,000. PMU would review the appraisal reports to verify that all eligibility conditions (including, inter alia, those specified in paras. 3.14-3.16) are adequately met. If the subproject is eligible for financing, PMU will issue a rediscount authorization, which will allow the intermediary to present the loan documents for rediscount at the Credit Department of the Central Bank.

3.29 In view of the involvement of untested financial intermediaries, the first three subprojects from each intermediary would be subject to IDA review and approval. Thereafter, assuming satisfactory standards and given the small size of subloans (maximum US\$280,000), IDA would review a sample of subprojects on an ex-post basis during supervision missions. Funds under the credit component would be available for commitment until December 31, 1990.

3.30 The Central Bank will serve as disbursement and collection agent for the financing granted to intermediaries. The Credit Department, which is currently responsible for rediscount operations, would execute rediscount and collection operations upon approval by PMU. On the basis of PMU's instructions and authorizations, the Credit Department of BZ would debit or credit the appropriate financial intermediary's account without further intervention in the approval process.

3.31 Financial intermediaries would be responsible for making supervision visits to SSEs receiving IDA funds, for maintaining records adequate to monitor the evolution of subprojects, and for reporting to PMU on the progress of each subproject and the status of the corresponding subloan. Supervision reports, in a standard format prescribed by PMU, would be required from the intermediaries at least once a year until subproject completion. These intermediaries' supervision responsibilities would be clearly specified in the participating agreement which intermediaries would sign with BZ.

3.32 In addition, PMU would conduct its own selective supervision of SSE subprojects in order to monitor the performance of intermediaries' supervision activities and to coordinate the technical assistance to SSEs.

Assistance and Training Component

3.33 Design and Special Features. The technical assistance and training component (US\$1.7 million) has been designed to involve the maximum of local institutions with a view to: (a) strengthening Zaire's existing capacity in promotion/relations with entrepreneurs (ANEZA), training (CEPETEDE), and assistance to SSEs (OPEZ, CADICEC, INPP, etc.) to enable these institutions to better fulfill the functions for which they were created; and (b) easing the constraints to credit decentralization.

- (i) Promotion and Preparation of Loan Reports. Because many SSEs are in the regions, the project would rely on ANEZA, which has a vast regional network (47 offices in the regions) to promote the IDA line of credit outside Kinshasa and to assist small entrepreneurs in preparing loan applications and in dealing with banks. ANEZA's regional staff, after selection, would receive a two-week training in project design to improve their effectiveness in assisting SSEs. ANEZA would receive a flat fee of US\$10,000 equivalent per year for the use of their facilities by the project and the more active regional offices would be granted a bonus which would be related to the level of project approvals by banks. A draft contract specifying ANEZA's obligations and compensation under the project has been discussed and agreed with the Zairian delegation at negotiations;

- (ii) Training. Under the project, training would be provided to staff of ANEZA, commercial banks and SSE assistance institutions. Training of ANEZA's staff is aimed at increasing their technical expertise in project preparation (market analysis, selection of equipment, project planning, choice of products, financial analysis, environmental considerations, etc.) and at preparing them for their role as advisors to small entrepreneurs. They should be available to advise SSEs, assist them in discussions and negotiations with banks and help them prepare feasibility studies and investment projects. Training of banks' regional staff would be in project analysis and risk evaluation to ensure that the SSE projects they review and send to headquarters for approval are sound and meet their bank's requirements. This would avoid questions by headquarters staff and reduce delays. At present, entrepreneurs have to go to Kinshasa to defend their projects because loan applications are incomplete. Training of banks' staff would also aim at developing a capacity to assess the environmental impact of subprojects. Finally, training of existing SSE support institutions would be in project execution and management and is designed to strengthen their capacity and form a pool of national experts who could be called upon to provide assistance to SSEs when needed. All the training under the project would be organized and run by CEPETEDE for a fee of US\$300/day, including staff time, pedagogical materials and overhead; and
- (iii) Technical Support and Assistance to SSEs. This assistance would be provided on demand by staff of existing institutions dealing with SSEs (OPEZ, CADICEC, INPP, etc.) whose capacity will be strengthened under the project ((ii) above). As SSE subprojects are implemented and problems identified by banks, ANEZA, or the Project Unit during supervision, missions composed of OPEZ staff or other institutions would be sent in the regions to assist entrepreneurs in project execution, financial management, accounting, or technical matters as needed. These institutions would act as consultants for the project and their interventions would be coordinated by the Project Management Unit. The fees -- discussed and agreed with the Zairian Government and the major local institutions -- are US\$33 per man/day plus subsistence and travel.

3.34 A first round of training for ANEZA, OPEZ, and staff of commercial banks in all the nine regions of Zaire would be organized by CEPETEDE in July 1987 and would be financed under the SOFIDE VII Project (Cr. 1492-ZR), as the proposed credit would not be effective yet. Draft terms of reference and content of the courses have been discussed and agreed with the Zairian delegation at negotiations and are available in the Project File.

3.35 Also in July 1987 and under SOFIDE VII financing, a first series of promotional missions (séminaires de sensibilization) composed of CEPETEDE, regional staff of ANEZA and commercial banks would visit all the regions of Zaire to inform potential investors of the existence of the IDA line of credit, explain to them the commercial banks' procedures and requirements for obtaining term loans, and advise them of the availability of ANEZA's assistance for their projects and bank loan applications. Draft

terms of reference for these promotional missions have also been discussed and agreed with the Zairian delegation at negotiations and are also available in the Project File. These promotion missions would be sent twice a year to Shaba and Kivu, and once a year to the other less active regions. The cost per mission is estimated at US\$2,500.

3.36 Although financing of short-term international consultants would be eligible under the project, the technical assistance and training component as conceived is expected to use mainly local competence and would thus be a cost effective way of providing assistance to SSEs and of building up in Zaire a strong appraisal and supervision capacity of investment projects.

3.37 Assistance and Training of Women Entrepreneurs. As noted earlier (paras. 1.17-1.19), women play an important role in the SSE sector, but their opportunities and contribution are constrained by a number of factors, including the lack of education and training and the limited access to institutional credit. To ease these constraints, it is proposed to reserve US\$100,000 of the technical assistance and training component to finance:

- (i) a special training program designed to meet the needs of women traders and entrepreneurs. The program would consist of a series of short-term seminars (two to five days) given by Zairian experts in Lingala and Swahili (the most widely spoken language in Zaire) on practical issues faced by women traders and entrepreneurs. Two of these seminars have already been identified and will be given right after effectiveness. They are: (a) fiscal and administrative regulations for establishing a new business; and (b) import and customs clearance procedures, which are not well understood by women traders. The seminars will be organized by CEPETEDE which will recruit local experts (customs officers, MNEI staff, etc.) to run them. It is estimated that each of these seminars will cost between US\$1,000-2,000;
- (ii) assistance to existing women associations and cooperatives in strengthening their organizations to provide better services to their members; and
- (iii) training of selected staff of the Ministry for Women and Family Affairs in organization of cooperatives and management of women programs supported by the Ministry or financed by external donors.

3.38 In addition, to ease the major constraints limiting the access of women entrepreneurs (and micro-entrepreneurs in general) to bank credit, i.e., the small amount of individual credits (US\$500-1,000) which are costly for banks to process and the lack or insufficiency of collateral, this project would:

- (i) assist women entrepreneurs in forming associations or cooperatives which would borrow from banks and then retail the credit to their members. This would be done through the Ministry of Women Affairs and/or NGOs active in promotion of women. The cooperatives would be responsible for recovery from their member clients and reimbursement

to the banks. Cooperative leaders, who are familiar with the community needs, are in the best position to assess their members' worth and ensure high credit recovery through their own links to beneficiary members and peer pressure on reluctant debtors; and

- (ii) encourage the creation of mutual guarantee funds by setting aside one percentage point of the interest rate received by the Government under the project (29%) until an amount equivalent to US\$200,000 is constituted to use as seed money to match contributions of cooperatives toward the constitution of such funds on a one-to-one basis. These guarantee funds would be managed by the cooperatives with a committee to select projects for guarantee. PMU would assist the cooperatives in preparing operating procedures and policies, designing selection criteria, as well as in dealing with commercial banks and keeping financial records. The use of US\$200,000 from Government's interest earnings for the constitution of mutual guarantee funds has been agreed with the Zairian Government at negotiations.

3.39 Estimated Cost of the Component's Various Programs. The component would provide 50 man-months of CEPETEDE's services for training of staff of ANEZA, commercial banks, OPEZ, CADICEC, etc., and women entrepreneurs, and 400 man-months of consultant services from local institutions for assistance to SSEs. Based on agreed fees of US\$300/day (including staff time, pedagogical materials and overhead) for CEPETEDE, an average remuneration of US\$33/day for staff of OPEZ and other Zairian institutions assisting SSEs, a per-diem on mission of US\$52/day and an average air fare ticket of US\$250/person, the cost of the various programs of the technical assistance component over a period of five years is estimated as follows:

	<u>US\$ Thousand</u>
Promotion Missions	65
Training of: ANEZA's staff	85
Commercial banks' staff	150
Staff of institutions assisting SSEs	130
Assistance and Training of Women Entrepreneurs	100
Assistance to SSEs	700
ANEZA's fees	70
Unallocated	175
Price Contingencies (15 percent)	<u>225</u>
Total	1,700

3.40 Terms and Conditions. Funds allocated for this component would be passed on as a grant from Government to the various beneficiaries and would be available for commitment until December 31, 1992. The component would be managed by the Project Unit on behalf of the Government. PMU would review requests for financing before submitting them to IDA for approval along with a brief justification and qualifications of the experts.

Project Management Unit

3.41 To help manage the project, a Project Management Unit (PMU) would be established in the Central Bank and would report for administrative purposes to the BZ's Governor. PMU's operating policies, procedures and staffing have been discussed and agreed with the Central Bank at negotiations.

3.42 The staff of the Project Unit would consist of a Project Director, an SSE technical expert, a financial analyst, an accountant and a small secretariat. Key personnel has already been identified and the Project Director has been selected. It is estimated that for the first two years the SSE expert position would have to be filled with an expatriate consultant. A local expert would take over this position in the third year. All other positions would be filled by local staff from the inception of the Unit.

3.43 The Project Unit would receive a one percent p.a. spread on the outstanding amount of subloans to cover its administrative expenses. Because this spread would not be sufficient to cover the expenses during the initial years in which the outstanding volume is small, the project would finance a decreasing percentage of PMU's operating costs. This would represent US\$0.8 million, of which US\$0.5 million would be the foreign cost of the necessary office equipment, vehicles and the expatriate SSE expert. While during the first two years, IDA would finance 100 percent of PMU's operating costs, this financing would decrease to 50 percent during the fourth year and to 25 percent the fifth year. Starting with the sixth year, PMU would be able to cover entirely its operating costs.

3.44 The functions of PMU would be as follows:

- (i) Provide guidance to potential beneficiaries, through the supporting technical assistance institutions, for the preparation of subprojects to be financed under the line of credit;
- (ii) provide guidance to participating intermediaries in selecting eligible subprojects and assist them in developing a capacity to assess the environmental impact of subprojects;
- (iii) ensure application of appropriate standards for subloan appraisals;
- (iv) review the eligibility and authorize financing under the line of credit for subprojects submitted by participating intermediaries. For subloans of less than US\$50,000, PMU would just check whether the requests meet the eligibility criteria (paras. 3.14-3.16) and would give its approval within two working days from submission. For subloans above US\$50,000, the Unit would review the requests in more detail, would give its comments on the quality of appraisal to participating intermediaries and would check the eligibility for refinancing of the requests within seven working days;
- (v) administer the Project Special Account (para. 3.50), ensure proper disbursement of funds, and supervise and centralize the collection and forwarding of supporting documentation;

- (vi) supervise the participating intermediaries' compliance with the various obligations under the project;
- (vii) supervise, on a sample basis and/or focusing on problem cases, the SSE subprojects;
- (viii) ensure liaison between IDA and the participating intermediaries on matters related to such subprojects; and
- (ix) manage the technical assistance component.

Project Cost and Financing

3.45 Total project cost is estimated at US\$37.1 million equivalent, of which US\$21.3 million equivalent (57.4%) would be in foreign exchange. A summary of the project cost and its expected financing are given in the table below:

Project Cost and Financing Plan
(US\$ million equivalent)

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>%</u>
<u>Estimated Project Cost</u>				
Investments	13.8	20.8	34.6	92.8
Technical Assistance and Training	1.6	0.1	1.7	4.6
Project Management Unit	0.5	0.5	1.0	2.6
Total	<u>15.9</u>	<u>21.4</u>	<u>37.3</u>	<u>100.0</u>
<u>Financing Plan</u>				
SSE subborrowers	1.6	-	1.6	23.1
Participating Financial Institutions	3.5	-	3.5	9.4
PMU	0.2	-	0.2	0.5
Proposed IDA credit	<u>3.6</u>	<u>21.4</u>	<u>25.0</u>	<u>67.0</u>
Total	<u>15.9</u>	<u>21.4</u>	<u>37.3</u>	<u>100.0</u>

3.46 The proposed IDA credit of US\$25.0 million would cover 67.0 percent of the total cost of the project (100 percent of the cost of the technical assistance and training component; 80 percent of the cost of the Project Management Unit; and 65 percent of the investment component). The remainder 33 percent would be financed by SSE borrowers (23.1%), participating financial institutions (9.4%), and PMU (0.5%).

Project Implementation

3.47 Project Management. The Central Bank, through the Project Management Unit (paras. 3.41-3.44), would be the implementing agency for this project.

3.48 Procurement and Disbursement. Procurement for subprojects financed under the investment component of the Credit would be made on the basis of procurement procedures of the participating financial institutions. These procedures, which require quotations from three different suppliers, have been reviewed and found acceptable to IDA. Selection of consultants would be made in accordance with Bank Group Guidelines.

3.49 The proceeds of the proposed credit would be disbursed as follows:

SSE subloans: 100 percent of expenditures up to 70 percent of total subproject cost for new operations;
: 100 percent of expenditures up to 80 percent of total cost of subprojects for extensions.

Technical Assistance and training component: 100 percent of the cost of consultants, assistance and training.

Project Management Unit: 100 percent of the c.i.f. cost of goods directly imported, 90 percent of the local cost for materials and supplies, and 100 percent of the staffing cost and operating costs.

3.50 The project disbursement schedule is based on the disbursement profile for IDF projects in Eastern and Southern Africa. It is expected that the investment component would be disbursed in eight years and the technical assistance component over five years. Disbursements would be completed by December 31, 1995.

3.51 Special Account. To expedite disbursement of funds, a special account would be set up at the Central bank into which IDA would make an initial deposit of US\$1.05 million equivalent from the proposed credit immediately after credit effectiveness. This amount represents an estimated average disbursement of funds over a four-month period. Replenishment of the Special Account for expenditures under US\$25,000 would be made on the basis of Statements of Expenditures (SOEs). The documentation for withdrawals made under SOEs would be retained by the Project Unit for ten years and would be reviewed by supervision missions. Replenishment of the Special Account for expenditures in excess of US\$25,000 would be made on the basis of fully documented applications. Applications for replenishment of the Special Account for a minimum of US\$100,000 would be submitted on a monthly basis or whenever funds are below US\$525,000. The Special Account would be audited annually by independent auditors and the audit reports would be submitted to IDA within six months of the end of the fiscal year.

3.52 Auditing and Reporting. PMU will have its accounts, as well as the Special Account and SOEs (para. 3.50) audited annually by independent auditors acceptable to IDA and will furnish to IDA certified copies of its audited accounts together with the corresponding management letter within six months of the end of the fiscal year. PMU will also submit to IDA quarterly and annual progress reports on the investment and technical assistance components and will prepare the required Project Completion Report.

Project Benefits and Risks

3.53 Benefits. By supporting the growth of SSEs, the proposed project will help develop a Zairian entrepreneurial class and generate new job opportunities at a relatively low capital cost. It is expected that the US\$22.5 million investment component would support investments totalling

about US\$35 million and create 5,000 new jobs at an average cost of US\$7,000 per job. The impact of the project is also expected to be widely dispersed both geographically and among various income groups with benefits reaching subborrowers in the regions and microenterprises and cooperatives.

3.54 In addition to providing term finance to SSEs, the project will also play an important role in building up in Zaire an effective capacity for financing and assisting small enterprises. Specially designed to use local competence and to involve the maximum of Zairian institutions, the technical assistance and training component would be a cost effective way to develop within the commercial bank sector an expertise in appraisal and supervision of development projects and to strengthen the capacity of existing Zairian institutions to provide assistance to SSEs.

3.55 Last but not least, the project will start addressing some of the major constraints limiting the role of women in the SSE sector. The training provided by the project would enable women entrepreneurs to upgrade their skills, while the measures designed to ease women's access to bank credit would support the growth of women's businesses and facilitate their integration into the modern sector.

3.56 Risks. As the first apex operation in Zaire, the project involves institutional arrangements that are new to intermediaries and the Central Bank in Zaire. Some initial delays in subloan processing may occur as the Central Bank needs to familiarize itself with the system and as participating intermediaries develop their capacity to appraise and supervise SSE projects. This risk would be considerably reduced by the rapid implementation of the technical assistance component. In addition, the banking system in Zaire is relatively developed. Finally, IDA would closely supervise the initial phase of project implementation.

3.57 Another risk relates to the possible deterioration of Zaire's economic situation, which would, inter alia, affect the investment plans of small entrepreneurs and slow down the demand for term credit. Such a risk is, however, limited by Zaire's continued determination to implement stabilization measures and the actions envisaged by IDA and other donors to increase the resource transfer and accelerate economic growth in Zaire. On balance, the benefits of the project are likely to be substantial and the risks involved manageable.

IV. AGREEMENTS AND UNDERSTANDINGS TO BE REACHED

4.01 During negotiations, the following agreements and understandings were reached:

- (i) onlending rates and conditions for the Government, the Central Bank, the participating intermediaries and the beneficiary SSEs (paras. 3.18, 3.19, 3.22 and 3.23);
- (ii) conditions for the use of the interbank rate as the basis for the onlending rate for the project (para. 3.22);

- (iii) annual review of Government lending rate (para. 3.24) and further disbursements subject to agreement between IDA and the Government in case of changes in the present market-determined interest rate system (para. 3.25);
- (iv) content of the Participating Agreement between financial intermediaries and the Central Bank (para. 3.09);
- (v) appraisal and supervision procedures to be followed by participating intermediaries (paras. 3.28 and 3.31);
- (vi) ANEZA's obligations and compensation under the project (para. 3.33);
- (vii) content of the courses and seminars to be given by CEPETEDE to staff of ANEZA, commercial banks, and OPEZ (para. 3.34);
- (viii) terms of reference for the promotion missions (séminaires de sensibilisation) in the regions (para. 3.35);
- (ix) use of one percentage point of the interest rate received by Government as seed money to encourage the constitution of mutual guarantee schemes for micro-enterprises and women entrepreneurs (para. 3.38);
- (x) establishment of a Special Account at the Central Bank to facilitate disbursement of the credit funds (para. 3.51).
- (xi) agreement with IDA on an action program aimed at strengthening the financial structure of saving cooperatives and bringing them into the formal financial system before June 30, 1988.

4.03 Condition of Effectiveness: Signing of a Management Agreement, satisfactory to IDA, between the Government and the Central Bank (para. 3.07).

4.04 Condition of Disbursement: Signing of the Participating Agreement between the Central Bank and financial intermediaries is a condition of disbursement for each intermediary (para. 3.10).

ZAIRESMALL ENTERPRISE DEVELOPMENT PROJECTDistribution of Productive Small Scale Enterprises by Region and by Sector

(No. of firms)

<u>Region</u>	<u>Agriculture & Livestock</u>	<u>Forestry</u>	<u>Mining</u>	<u>Food and Beverages</u>	<u>Other Manufacturing</u>	<u>Total (%)</u>
Bandundu	85	3	-	31	13	132 8
Bas-Zaire	89	6	3	71	19	188 12
Equateur	68	2	-	19	12	101 6
Haut-Zaire	34	2	1	38	31	106 7
Kasai-Occidental	117	2	5	33	18	175 11
Kasai-Oriental	43	1	-	10	19	73 5
Kinshasa	65	-	1	105	203	374 24
Kivu	71	-	3	25	23	122 8
Shaba	<u>153</u>	<u>6</u>	<u>2</u>	<u>65</u>	<u>64</u>	<u>290 19</u>
Total	725	22	15	397	402	1561 100%
(%)	(47%)	(1%)	(1%)	(25%)	(26%)	(100%)(-)

Source: 1980 Survey of Productive Enterprises.

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ZAIRESMALL ENTERPRISE DEVELOPMENT PROJECTPerformance of Productive Enterprises by Number of Employees

<u>No. of Employees</u>	<u>No. of Establishments</u>	<u>Employment</u>		<u>Output</u>		<u>Value Added</u>	
		<u>No.</u>	<u>%</u>	<u>Zm</u>	<u>%</u>	<u>Zm</u>	<u>%</u>
5-49	1561	35,758	11.8	459.0	8.5	216.4	6.7
50-99	252	21,576	7.1	337.7	6.2	160.3	4.9
100-499	308	88,515	29.1	2,332.5	43.0	1,529.1	47.3
Over 500	87	158,184	52.0	2,296.5	42.3	1,329.6	41.1
<u>Total</u>	<u>2,208</u>	<u>304,033</u>	<u>100.0</u>	<u>5,425.7</u>	<u>100.0</u>	<u>3,235.4</u>	<u>100.0</u>

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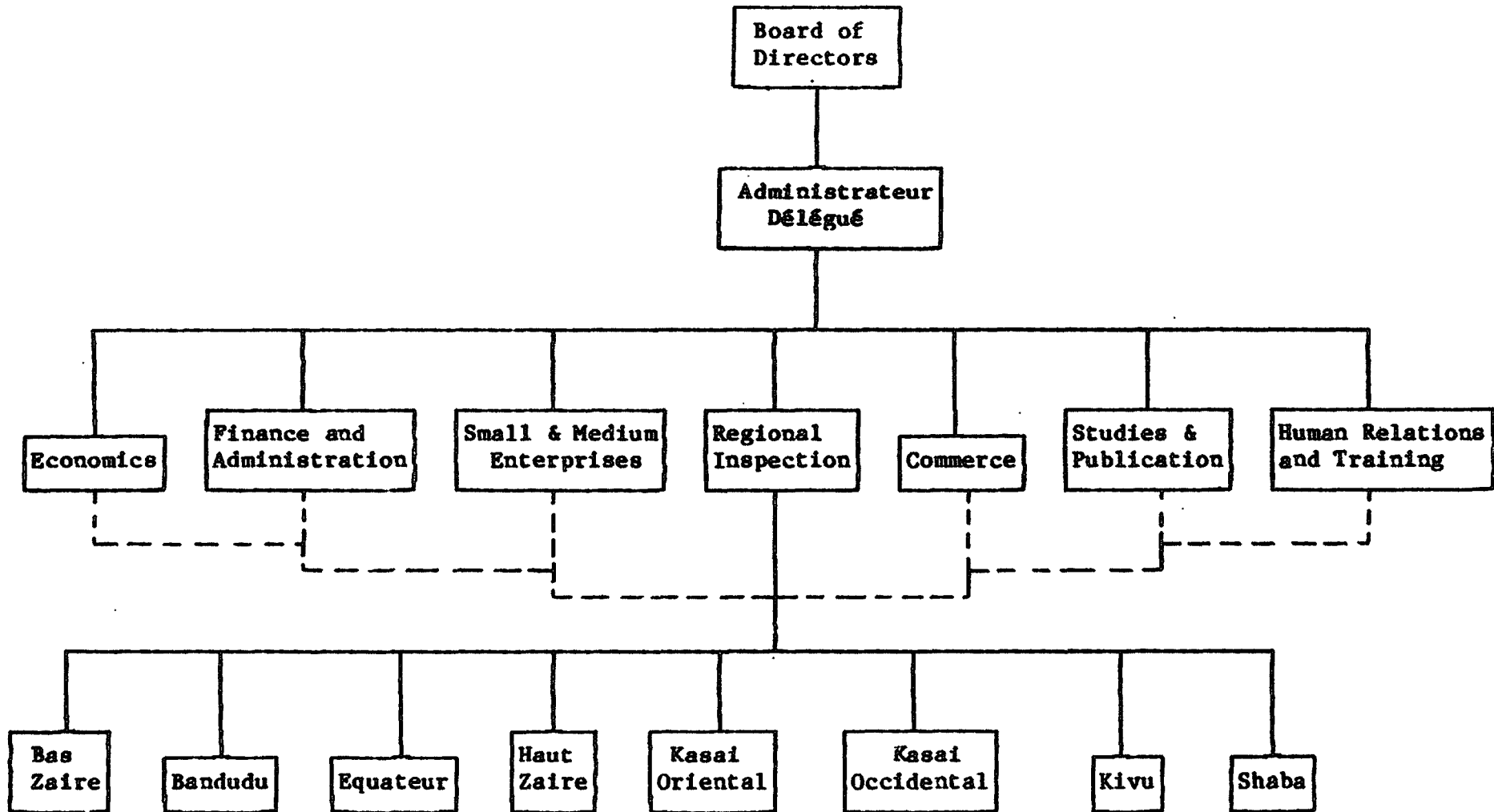
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ZAIRE

SMALL ENTERPRISE DEVELOPMENT PROJECT

ANNEX III

ANEZA Organization Chart (1986)



3 offices
13 staff

5 offices
12 staff

6 offices
13 staff

4 offices
19 staff

2 offices
11 staff

3 offices
13 staff

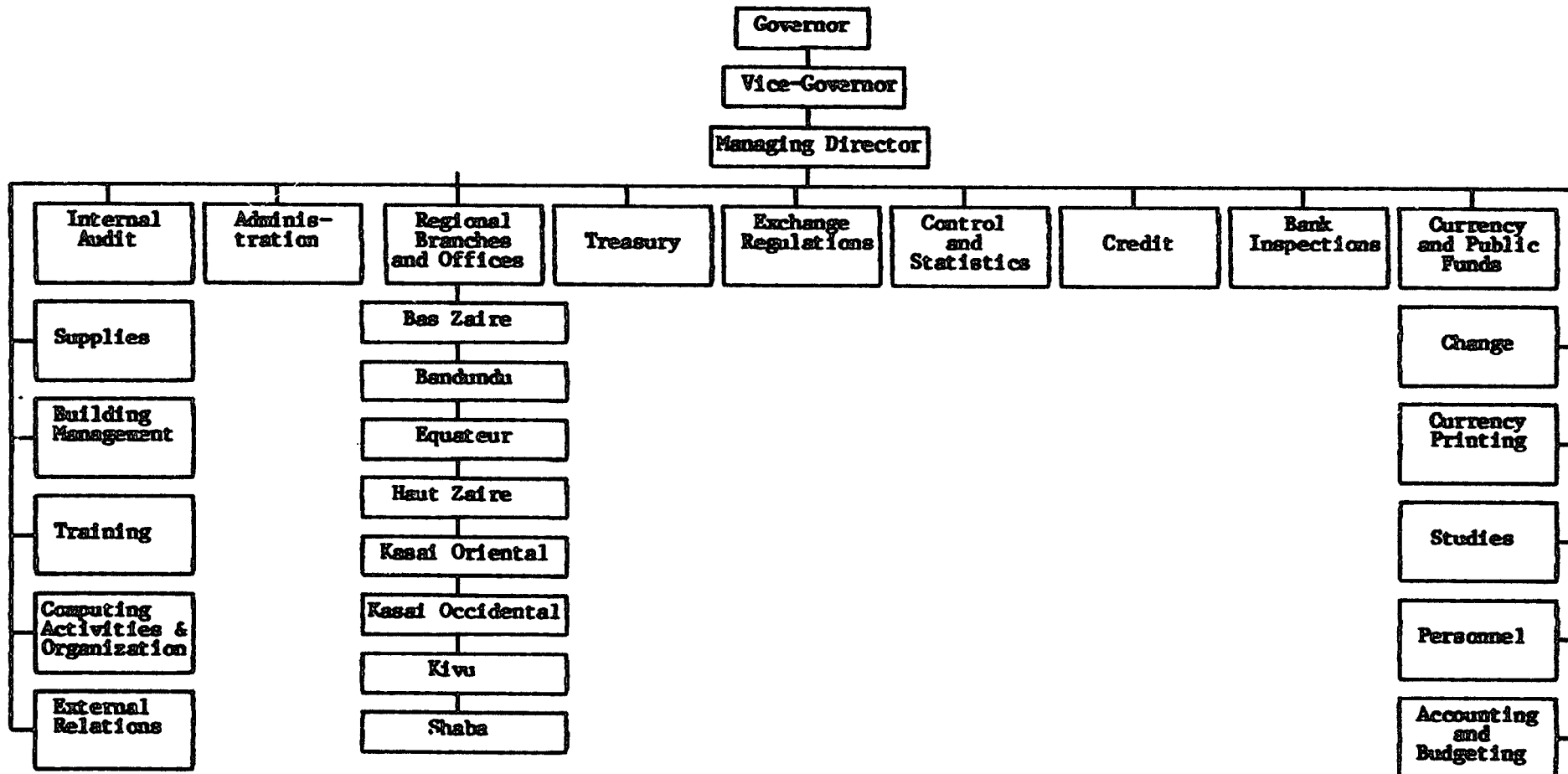
8 offices
51 staff

12 offices
37 staff

ZAIRE

SMALL ENTERPRISE DEVELOPMENT PROJECT

BANQUE DU ZAIRE ORGANIZATION CHART (1986)



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SMALL ENTERPRISE DEVELOPMENT PROJECT

List and Characteristics of Banks

<u>Name</u>	<u>Year of Creation a/</u>	<u>Total Assets b/</u>	<u>Loan Portfolio b/</u>	<u>Deposits b/</u>	<u>No. of Employees c/</u>	<u>No. of Branches d/</u>
Banque Commerciale Zaïroise (BCZ)	1909	10,093	2,342	4,489	2,863	34
Banque du Peuple (BDP)	1947	5,651	1,170	2,863	2,050	42
Union Zaïroise de Banques (UZB)	1920	3,515	658	1,711	1,200	12
Banque de Kinshasa (BK)	1969	n/a	463	716	1,463	19
Citibank	1971	1,932	268	525	75	1
Banque Continentale Africaine (BACAZ)	1983	831	174	180	110	1
Barclays	1951	543	76	239	80	1
Banque Inter. pour l'Afrique au Zaïre (BIAZ)	1971	930	82	289	100	2
Grindlays	1983	1,125	49	214	67	1
SOFIDE	1970	3,449	2,830	-	219	5
Banque de Crédit Agricole (BCA)	1982	279	104	174	89	1

a/ Creation of original institution in cases of merger.

b/ As of December 1985 in Z million.

c/ As of July 1986.

d/ As of December 1985.

E: Annual Reports, interviews.

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SMALL ENTERPRISE DEVELOPMENT PROJECT

Relative Market Shares of Commercial Banks

(%)

	<u>Loans, Discounts, Advances</u>					<u>Deposits</u>				
	<u>12/82</u>	<u>12/83</u>	<u>12/84</u>	<u>12/85</u>	<u>3/86</u>	<u>12/82</u>	<u>12/83</u>	<u>12/84</u>	<u>12/85</u>	<u>3/86</u>
BCZ	38.0	39.5	41.2	44.0	45.3	37.8	34.6	41.4	40.0	39.7
BEF	24.6	24.1	23.5	22.0	22.5	23.0	24.4	21.9	25.5	23.4
B. DE KINSHASA	12.7	13.2	11.9	8.7	7.3	15.1	14.3	13.3	6.4	7.8
UZE	12.5	11.4	12.1	12.4	13.5	12.7	13.0	14.2	15.2	15.2
BACAZ	0.0	0.0	0.0	3.3	2.5	0.0	0.0	0.0	1.6	2.1
BARCLAYS	1.5	1.2	1.4	1.4	1.3	2.5	2.2	1.9	2.1	2.4
BIAZ	1.8	1.7	1.2	1.5	1.4	2.3	2.1	2.2	2.6	2.6
CITIBANK	5.0	4.2	5.0	5.0	4.7	4.6	5.6	2.3	4.7	4.7
GRINDLAYS	1.2	1.1	1.0	0.9	0.8	2.0	1.2	1.2	1.9	2.1

ZAIRE - SMALL-SCALE ENTERPRISE PROJECTSUMMARY BALANCE SHEETS OF BANKING INSTITUTIONS ^{a/}

	(Z Million)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>June 1985</u>
<u>ASSETS</u>					
Cash	164	294	260	659	669
Deposits at Central Bank	848	2,105	2,859	5,386	5,893
External Assets	801	636	3,298	3,019	4,200
Credit to the Government	174	174	176	253	284
Credit to public enterpr.	32	15	14	63	22
Credit to the private sector	1,243	1,784	2,757	4,170	4,990
Other assets (net)	<u>256</u>	<u>320</u>	<u>350</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	3,518	5,328	9,714	13,550	16,058
<u>LIABILITIES</u>					
Demand deposits	2,127	3,781	6,961	8,593	8,919
Time deposits	320	547	683	994	1,155
Government deposits	47	24	91	24	68
Foreign exch. deposits	180	217	209	246	401
Advances for imports	371	85	239	184	780
External borrowings	216	289	753	511	804
Other liabilities (net) ^{b/}	-	-	-	1,592	2,144
Equity	<u>257</u>	<u>385</u>	<u>778</u>	<u>1,406</u>	<u>1,787</u>
TOTAL LIABILITIES	3,518	5,328	9,714	13,550	16,058

^{a/} Includes all commercial banks and BCA.

^{b/} Of which Central Bank refinancing represented 818 million in Dec. 84 and 2,024 million in June 85.

ZAIRESMALL ENTERPRISE DEVELOPMENT PROJECTSummary Balance Sheets of Sofide

(Z million, End of Period)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Dec. 1985</u>
<u>ASSETS</u>					
Cash and Bank Dep.	3	42	100	161	163
Other Current Assets	57	67	419	292	588
Loan Portfolio	124	173	512	1,317	2,830
Less Provisions	(8)	(10)	(54)	(115)	(331)
Equity Investments	2	2	25	30	37
Fixed Assets	<u>6</u>	<u>8</u>	<u>54</u>	<u>83</u>	<u>162</u>
TOTAL ASSETS	184	282	1,056	1,768	3,449
<u>LIABILITIES</u>					
Current Liabilities	28	45	76	87	235
Foreign lines of credit	80	123	501	967	2,285
Quasi-Equity	62	99	383	443	648
Equity	<u>14</u>	<u>15</u>	<u>96</u>	<u>270</u>	<u>281</u>
TOTAL LIABILITIES	184	282	1,056	1,767	3,449

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ZAIRESMALL ENTERPRISE DEVELOPMENT PROJECTDistribution of Bank Deposits by Term

(Z million, End of Period)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>March 1986</u>
Demand deposits	2,197	4,115	7,659	8,832	10,354	11,511
Time Deposits	320	550	683	1,009	1,136	1,188
Of which:						
Up to 1 month	6	9	15	301	90	117
Over 1 month	8	16	0	27	1	2
3 months & over	12	47	28	334	241	181
6 months & over	97	202	97	80	531	564
1 year & over	197	276	543	267	273	324

SOURCE: Banque du Zaïre

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ZAIRESMALL ENTERPRISE DEVELOPMENT PROJECTDistribution of Bank Deposits by Sector and Region

(Z Million)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>June 1985</u>
Agriculture	101	133	187	357	333
Forestry	2	2	2	9	15
Livestock & Fishing	23	33	45	52	93
Mining	99	159	293	651	951
Manufacturing	259	384	636	814	819
Energy & Water	40	126	116	98	93
Construction & Public Works	44	111	122	94	228
Commerce	716	1,456	2,447	2,727	2,959
Transport	197	388	477	1,106	882
Other Services	357	681	1,795	1,078	1,303
Individuals & non-classified	<u>679</u>	<u>1,192</u>	<u>2,222</u>	<u>2,855</u>	<u>2,806</u>
TOTAL	2,517	4,665	8,342	9,841	10,482
Of which:					
Kinshasa	1,835	3,578	6,494	6,727	7,428
Bas-Zaïre	43	68	134	203	245
Bandundu	24	29	51	63	77
Equateur	48	74	103	155	147
Haut-Zaïre	60	124	179	266	329
Kivu	82	187	287	469	417
Shaba	305	439	812	1,537	1,458
Kasaï Or.	76	102	160	192	224
Kasaï Occ.	44	64	122	229	157

SOURCE: Banque du Zaïre

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Outstanding Bank Credit by Sector and Term

(Z million, End of Period)

	<u>Dec. 1982</u>	<u>Dec. 1983</u>	<u>Dec. 1984</u>	<u>Dec. 1985</u>	<u>March 1985</u>	<u>March 1986</u>
Agriculture	621	1,039	1,669	2,065	1,855	2,332
Forestry	24	54	96	94	182	98
Livestock & Fishing	26	48	105	36	24	56
Mining	81	35	51	128	51	123
Manufacturing	381	572	789	1,022	891	1,306
Energy & Water	27	13	9	13	8	17
Construction & Public Works	27	142	124	77	109	74
Commerce	385	610	891	1,309	1,030	1,627
Transport	93	88	186	247	196	228
Other Services	37	38	49	43	76	42
Other	87	110	194	394	222	357
TOTAL	1,789	2,749	4,163	5,428	4,644	6,260
Of which:						
Short Term	1,536	2,245	3,190	3,821	3,566	4,522
Medium Term	253	504	973	1,607	1,078	1,738

SOURCE: Banque du Zaïre

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Schedule of Disbursements

<u>IDA Fiscal Year and Quarter Ending</u>	<u>T.A. Component</u>		<u>Credit Component</u>	<u>Total</u>	<u>Cumulative %</u>
	<u>PMU</u>				
	-----Amount in US\$ '000-----				
<u>FY88</u>					
December 31, 1987	55	120	-	175	1
March 31, 1988	120	250	150	420	2
June 30, 1988	225	345	450	1,020	4
<u>FY89</u>					
September 30, 1988	295	420	720	1,435	6
December 31, 1988	370	490	1,520	2,380	10
March 31, 1989	440	560	2,300	3,300	13
June 30, 1989	520	630	2,930	4,080	16
<u>FY90</u>					
September 30, 1989	645	650	3,960	5,255	21
December 31, 1989	725	670	4,970	6,365	25
March 31, 1990	810	690	6,050	7,550	30
June 30, 1990	890	710	6,990	8,590	34
<u>FY91</u>					
September 30, 1990	975	720	8,200	9,895	40
December 31, 1990	1,070	730	9,350	11,150	45
March 31, 1991	1,145	745	10,520	12,410	50
June 30, 1991	1,240	760	11,700	13,700	55
<u>FY92</u>					
September 30, 1991	1,330	770	12,770	14,870	59
December 31, 1991	1,420	780	13,830	16,030	64
March 31, 1992	1,510	790	14,900	17,200	69
June 30, 1992	1,600	800	15,980	18,380	74
<u>FY93</u>					
September 30, 1992	1,700	800	16,810	19,310	77
December 31, 1992	1,700	800	17,660	20,160	81
March 31, 1993	1,700	800	18,460	20,960	84
June 30, 1993	1,700	800	19,340	21,840	87
<u>FY94</u>					
September 30, 1993	1,700	800	19,900	22,400	90
December 31, 1993	1,700	800	20,500	23,000	92
March 31, 1994	1,700	800	21,060	23,560	94
June 30, 1994	1,700	800	21,600	24,100	96
<u>FY95</u>					
September 30, 1994	1,700	800	21,850	24,350	97
December 31, 1994	1,700	800	22,100	24,600	98
March 31, 1995	1,700	800	22,250	24,750	99
June 30, 1995	1,700	800	22,340	24,840	99
<u>FY96</u>					
September 30, 1995	1,700	800	22,420	24,920	99
December 31, 1995	1,700	800	22,500	25,000	100

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Distortions on Debt Servicing of Long-Term
Basis Due to High Inflation

Inflation distorts repayment schedules of long-term loans. When a long-term loan repayment schedule has been designed with traditional systems to obtain a principal repayment schedule that is constant in nominal terms (Table 1 of this Annex), the impact of inflation will be such that it will reduce the effective maturity of the loan in real terms by accelerating repayments in real terms during the earlier years of the loan. This will normally create a cash-flow problem to the borrower that was unintended by the lender when the loan was originally made. As shown in Table 1, over one-half of total payments in real terms would be made in only two years under a 10-year loan, a devastating impact due to money illusion arising from inflationary effects.

The above problem can be solved by establishing from the start a repayment schedule that is to be constant-in-real-terms. Once the amount of the constant-in-real-terms payments have been defined, the actual payments to be made by the borrower would be determined by the price index at the time of repayment (the constant amount times the price index). This is actually what the indexation-of-principal method is expected to do. In some countries, however, it is considered that indexing is a necessary evil that should be avoided as much as possible, in which cases, the capitalization-of-interest method can be used instead. In practice, the capitalization-of-interest method (Table 2) would yield the same results as the indexation-of-principal method. As shown by Table 2, under the capitalization-of-interest case, one-half of total payments in real terms would be made in five years, as originally intended for a 10-year loan. Table 3 shows a comparison of the cash-flow methods, clearly indicating the benefits of the capitalization-of-interest method. For the examples, an initial loan of Z 100, a 10-year repayment period, a constant inflation of 35 percent p.a. and an interest rate of 37 percent p.a. have been assumed.

TABLE 1
Repayments under Standard Schedule

End of Year	Price Index	Starting Balance	Interest Accrued	Amortiz. Principi	Total Paid	End Balance	Percent.		Cumul.	
							Annual Real Payments	Total Real Payments	Cumul. Real Payments	Percent Real Payments
0	1.00									
1	1.35	100.00	37.00	10.00	47.00	90.00	34.81	33.42	34.81	33.42
2	1.82	90.00	35.30	10.00	43.30	80.00	23.76	22.81	58.57	56.23
3	2.46	80.00	29.60	10.00	39.60	70.00	16.10	15.45	74.67	71.69
4	3.32	70.00	25.90	10.00	35.90	60.00	10.81	10.38	85.48	82.06
5	4.48	60.00	22.20	10.00	32.20	50.00	7.18	6.89	92.66	88.95
6	6.05	50.00	18.50	10.00	28.50	40.00	4.71	4.52	97.37	93.47
7	8.17	40.00	14.80	10.00	24.80	30.00	3.03	2.91	100.40	96.39
8	11.03	30.00	11.10	10.00	21.10	20.00	1.91	1.84	102.31	98.22
9	14.89	20.00	7.40	10.00	17.40	10.00	1.17	1.12	103.48	99.35
10	20.11	10.00	3.70	10.00	13.70	0.00	0.68	0.65	104.16	100.00

TABLE 2
Capitalization-of-Interest Method

End of Year	Price Index	Starting Balance	Interest Accrued	New Balance	Current Payments	End Balance	Percent.		Cumul.	
							Annual Real Payments	Total Real Payments	Cumul. Real Payments	Percent Real Payments
0	1.00									
1	1.35	100.00	37.00	137.00	13.70	123.30	10.15	9.35	10.15	9.35
2	1.82	123.30	45.62	168.92	18.77	150.15	10.30	9.49	20.45	18.84
3	2.46	150.15	55.56	205.71	25.71	179.99	10.45	9.63	30.90	28.47
4	3.32	179.99	66.60	246.59	35.23	211.37	10.61	9.77	41.50	38.24
5	4.48	211.37	78.21	289.57	48.26	241.31	10.76	9.92	52.27	48.16
6	6.05	241.31	89.28	330.59	66.12	264.47	10.92	10.06	63.19	58.23
7	8.17	264.47	97.86	362.33	90.58	271.75	11.08	10.21	74.27	68.44
8	11.03	271.75	100.55	372.29	124.10	248.20	11.25	10.37	85.52	78.81
9	14.89	248.20	91.83	340.03	170.01	170.01	11.42	10.52	96.94	89.33
10	20.11	170.01	62.91	232.92	232.92	0.00	11.58	10.67	108.52	100.00

a/ The new balance is estimated by adding the accrued interest to the starting balance.

b/ Payments are equal to the new balance divided by the number of years remaining under the loan.

TABLE 3

Payments Comparison between Methods

(As percentages of total real payments)

End of Year	Traditional Method		Interest Capitalization Method	
	Annual	Cueulative	Annual	Cueulative
0				
1	33.42	33.42	9.35	9.35
2	22.81	56.23	9.49	18.84
3	15.45	71.68	9.63	28.47
4	10.38	82.06	9.77	38.24
5	6.89	88.95	9.92	48.16
6	4.52	93.47	10.06	58.23
7	2.91	96.39	10.21	68.44
8	1.84	98.22	10.37	78.81
9	1.12	99.35	10.52	89.33
10	0.65	100.00	10.67	100.00

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Selected Documents Available in the Project File

1. Draft Participating Agreement
2. Appraisal Format
3. Simplified Appraisal Format
4. Supervision Format
5. ANEZA - Draft Cooperation Agreement
6. Draft Terms of Reference for Seminars and Courses
7. PMU: Projected Income Statements