



SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.



A CASE STUDY ON ALASKA

MARCH 2012

FIRM OVERVIEW

Name	ALASKA
Nationality	Congolese
Sector	Import of wines, paper and frozen foods
SADC countries where doing business	DRC, South Africa and shortly Mauritius (sugar)

BACKGROUND

This company has its headquarters in Bukavu, capital of the South Kivu province in Eastern DRC, with branches in Goma and Beni. ALASKA was created in 1997 and since 2005, it has specialised in the import of wines from Stellenbosch in South Africa. The company imports paper, brand "ROTATRIM MUNDI" from Johannesburg and will soon start the import of sugar from Mauritius. ALASKA has 11 employees and about USD 2 million of turnover per year.

BARRIERS ENCOUNTERED

For ALASKA, a culture of banking is still quite recent in DRC and businessmen do not trust the Congolese banks. According to this company, banking fees are affordable but the transfer of money abroad takes long and slows down the running of the business. Often the company's partners (sellers) urge them not to use Congolese banks for money transfers. That's why, on the suggestion of South African partners of ALASKA, it uses the Bank of Kigali (Rwanda) for its international banking transactions (for the payment of vendors in South Africa for example).

It has recently become increasingly possible to get loans from local banks thanks to the establishment of branches in Bukavu. The company thinks, however, that the interest rate is still high. The micro-finance institutions (which are commonly used in the Eastern part of the DRC) charge an interest rate of around 3% per month or 36% per annum. The interest rate charged by commercial banks varies but is currently between 1.5 and 2% per month or 18 to 24% per annum. It is important to note that loans are mainly given in US\$ and rarely in the local currency (Congolese Franc).

Moreover, the long banking procedure for obtaining credit does not encourage businessmen to borrow money from the banks. They prefer rather to resort to the local Savings and Credits Cooperatives although their interest rates are higher than those of the banks.

Small and medium enterprises pay a flat income tax of \$250 per year in the DRC. If the fiscal administration discovers that the company's value has been under-estimated, the administration will apply the normal rate of 40% plus a fine of 25% of the profit. This creates uncertainty and a temptation to underreport on earnings in order to avoid the steep penalties for under-estimating turnover. There is also an issue with multiple levels of taxation. The company pays many taxes it does not fully understand: Taxe EAD (tax collected by the local government), VAT, tax collected by the International Trade Office, Tourism, Economic Affairs, IPMEA (office of Small and medium enterprises, industries and craft industry), environment tax, health service tax, etc.

The political and economic environment in the DRC is not conducive for business and cannot attract new investors. The investment code is old and cumbersome: to register a new company, one needs to travel to Kinshasa, 2000 kilometers away from Bukavu. The procedure is costly and can take more than one year. All licenses and permits need to be applied for in Kinshasa. This results in a high level of corruption of public agents and contributes to delays. Corruption is beyond tolerable limits. When paying customs duties, the amount, which appears on the official clearing document, is only a half or a third of what in effect is payable by the company. It is not possible to obtain services needed from the government without bribing the agents. Otherwise the service will take unjustifiable longer to be delivered. Examples of some of those agencies regularly involved in corruption were mentioned: Police, ANR (National Intelligence Office), DGDA (State Customs Agency) and OCC (Export and Import Control Agency).

Furthermore, the company contends that customs clearing procedures are expensive and are not consistent in DRC. They change every two or three months and this implies supplementary costs for the company. Congolese customs agents are competent but the lack of equipment limits them: their services are not computerized; they do not have checking equipment; they have no access to the internet and cannot communicate with the customs administrations of neighboring countries. Good infrastructure is lacking in the DRC. However the infrastructure in the rest of the region is generally acceptable.

Differences in traffic laws are a challenge. Maximum weight loads differ from 50T in Tanzania to 45T in Rwanda with Zambia and other countries having their own laws.

Quality and standard controls are weak in the DRC and officials easily bribable. The difficulties arise when entering South Africa where strict rules apply.

IMPACT OF BARRIERS

The lack of credit is a barrier for many businessmen in the DRC. It makes it difficult to sustain a steady cash flow and make timely payments to partners in other SADC countries.

The company estimates that its business is highly affected by the tax system in DRC and it is difficult

to develop and expand the business with all the taxes it pays. To avoid being ripped off by tax agents, the company employs a consultant at an additional cost.

In other countries in the region, it is possible to know the content of a container without taking a long time to check the whole container by hand. The lack of required equipment (a scanner for example) in DRC's customs administration leads the customs agents to check all containers and this affects the costs of the business.

The lack of useable roads in DRC increases the cost of doing business for the company. The following example was provided: from Tanzania to the Congolese border, Bukavu, a truck takes 6 days (about 2000 km). However, during the rainy season the same truck takes between 4 and 5 days from the border to Bukavu (only 3 km), with a high risk of accident and losing the goods. The consequence is that the stay of Tanzanian drivers in DRC is too long; there is a high risk of their visa expiring.

Furthermore, given the impracticability of roads in DRC, many small cities are not accessible and the company is obliged to use aircraft to transport its goods to those cities. This increases the selling price of the commodities.

Moreover the lack of electricity limits the importation capacity of the company in frozen products. The company is the exclusive reseller of DISTELL's products in Eastern DRC, except Katanga. However, due to the poor quality of transportation infrastructure, the company is not able to deliver products in provinces such as Maniema, Eastern Province and other remote cities.

The multiplicity of people to bribe for obtaining service affects the profitability of the company. The company considers that for an issue to be actioned by public agents one has to bribe several people and several times without being sure that the problem will be sorted out in time and effectively. This implies many additional costs that the company did not budget for.

Lastly, differences in the traffic laws in regional countries (most of them being members of SADC) concerning the maximum weight a truck can transport generate supplementary costs for the company since it has to pay fines in three to four countries where its trucks transit. The lack of harmonization of these laws generates an important loss of profit for the company.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

The issue of infrastructure and energy has been raised several times, but the Government seems incapable of addressing it. However, some other constraints related to the Congolese administration have been addressed by ALASKA by working with the public agents who are able to provide the service needed by the company.

Despite the fact that major constraints encountered have been raised with the government, through the Congolese Federation of Private Sector Enterprises, they have not yet been addressed. So far, no improvement is visible.

The firm has not raised any of its challenges at a regional level.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. The company has the following recommendations for the Congolese government:
2. Decentralize the administration: the country is too large and businessmen should not need to

travel to Kinshasa to obtain business permits and licenses.

3. Improve the quality of roads.
4. Revise and update the investment code.
5. Reduce the number of agents and state departments operating at the border.
6. Equip the customs administration with the necessary tools and equipment so that time spent at the border can be reduced.

For other SADC countries, ALASKA recommends:

1. They should harmonize their traffic laws related to the weight loads of trucks.
2. Reduce restrictions on exports from the DRC, such as the standards applied on agricultural produce.