



# 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 ETS ALBARTOS

MARCH 2012

### FIRM OVERVIEW

Name	Ets ALBARTOS
Nationality	Congolese
Sector	Importers of oil and frozen foods
SADC countries where doing business	Angola and DRC

### BACKGROUND

The company was established in 1992 in Kinshasa in the Democratic Republic of Congo. It currently employs 11 persons and trades in commodities, oil and frozen foods, which are mainly imported from Angola. The annual turnover of the company is estimated at USD 125,000 per year.

### BARRIERS ENCOUNTERED

Customs procedures are very long and costly and the regulations are not easy to understand. There is a problem of a multiplicity of taxes to be paid and of the over-taxation by dishonest customs agents whose first aim is to cheat importers. Companies are obliged to use consultants to avoid being ripped off by customs officials.

The level of corruption is very high, from the political authorities to the lowest ranked officials in the public administration. A big barrier encountered by entrepreneurs is that politicians are always interfering in the private sector searching to get some advantages and such behavior undermines an

efficient functioning of business.

For ALBARTOS, despite the fact that the capacity of banks to provide loans to the private sector has recently increased, it is still difficult to obtain a loan from local banks. The scarcity of loans results in customers having to pay upfront for transportation costs or customs duties. It is not always easy for the entrepreneurs in the DRC to understand the different bank fees and how they are calculated. Hence, the company considers that it is always prudent to resort to a banking consultant who can help with explanations about the procedures.

Tax rates are variable. The company estimates for example that the VAT rate of 16%, which replaced the tax on turnover (ICA) at the beginning of 2012, is good for the business. However, it underscores the fact that a company needs to have a good knowledge of the Congolese fiscal system to avoid being cheated by tax officials. The strategy for this company, which is also used by many other companies, is to use and pay a tax consultant who makes sure that the company is not ripped off by the tax administration.

The fluctuations of the Congolese currency have undermined the business of the company as it is always exposed to exchange losses when its sales are done in Congolese Franc. The company therefore encourages its customers to pay in US dollars wherever possible.

For ALBARTOS, the Congolese administration is very inefficient. The company considers that if one wants to get different permits and licenses in a formal way, for example for the importation of commodities or for starting a business, it usually takes longer and the only way to cope with that situation is to negotiate with the officials in charge (the words used by the interviewee in French are interesting: “il faut cascader” which may mean “you have to stunt” or “you have to do some acrobatics”). Normally if an investor follows a formal route, the creation of a Private Limited Company can take several years. However, by negotiating with the authorities, it is possible to obtain the authorizations within 3 to 6 months.

Transport infrastructure in DRC is of poor quality and the lack of electricity does not allow the business to thrive and entrepreneurs to invest.

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## IMPACT OF BARRIERS

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The company estimates that corruption, in the sense of regular bribes to pay to public servants, reduces its profits and competitiveness.

The company relies too much on consultants for the clearance of its imports and it estimates that the cost of doing business is therefore increased and profitability is reduced. Moreover, the different controls of the quality of imported products as well as the time taken by the authorities to deliver required documents or authorizations, despite the intervention of the “contacts”, slows down the rhythm at which the business is done and that impacts the company’s profits and growth. The company estimates that it wastes too much time in obtaining Sanitary and Phytosanitary clearances as well as in the control of the quality of the commodities traded. This process involves several departments with overlapping responsibilities, including the Congolese Standards Bureau; Ministry of Agriculture, Fishing and Livestock; Ministry of Health; and the Ministry of Commerce. To import a product, ALBARTOS must first obtain a license from the Congolese Standards Bureau and then also get a phytosanitary clearance certificate from the exporting country. Once the documentation is received then a sample is taken of the commodities being imported so that they can be tested by the Congolese authorities. This process takes an average of 10 days to complete.

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## **FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS**

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The strategy used by the company to deal with the different barriers is to establish a relationship with officials working in different public agencies. Therefore, when it needs a document, a permit or license from a given agency, its contact will take care of the administrative procedure. There is of course a cost to maintaining such a network but this allows the company to economize time and to limit the number of people it deals with.

The company has adopted the strategy of not raising its problems with the authorities. The coping strategy of the company has allowed it to minimize the time and costs of getting different permits and licenses, clearing goods, etc.

The company has never individually raised the different barriers it encounters with any government (DRC or Angola) or at a regional level. The company thinks that if it raises those issues, the government will ask them to contribute financially for solving the problem (electricity for example).

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## **ADDITIONAL COMMENTS AND SUGGESTIONS**

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ALBARTOS has two specific suggestions with regards to addressing the barriers identified:

1. Payment of decent salaries to officials because, according to the company, the high level of corruption could be explained by the low and irregular salaries.
2. For this company, it could be better if different companies with which it deals open branches in DRC as it has been the case with NESTLE. This may reduce time taken with regards to the procedures related to different authorizations and licenses needed for the imports and reduce harassment at the border.