



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.



On behalf of
Federal Republic of Germany
The Federal Government

A CASE STUDY ON SHENIMED

MARCH 2012

FIRM OVERVIEW

Name	SHENIMED
Nationality	Democratic Republic of Congo
Sector	Distribution and Commercialization of Cigarettes
SADC countries where doing business	Tanzania and Democratic Republic of Congo

BACKGROUND

Shenimed is one of the leaders in the distribution and commercialization of cigarettes in DRC. The company sells three brands of cigarettes: Sportsman, Clubs and Carlo. It started its activities in 1996 with 18 employees. Today the company employs about 258 persons. Its headquarters are in Bukavu, in the Eastern DRC but it has branches across the country (Kinshasa, Lubumbashi, Aru, Kisangani, Kasai, Butembo and Goma).

BARRIERS ENCOUNTERED

- **Customs** services and regulations of other regional countries do not constitute a big challenge for the company. However in the DRC, clearing procedures are long, time consuming and very costly. With the new customs code released in 2010, things are improving but the corruption of customs services is still too high. Furthermore the certification procedure is time consuming and costly for the company. For example, for the products imported from Tanzania, the company is obliged to provide a document certifying their good quality. Afterwards a sample of the

product is analyzed by the OCC before the authorization to sell the goods in DRC is obtained. The problem is that the only way the OCC agents will consider your products quickly and provide the required authorization is upon payment of a bribe.

- **Corruption** is also experienced in other public agencies. For example, the different authorizations for starting a business and investing are centralized and obtained from ministries in Kinshasa. The problem is the slowness with which the different requests are treated. It takes around 6 months to obtain the different licenses and permits required to start a business.
- The company estimates that **access to finance** has improved during the last years but there is still much to be done. The costs incurred by the company for loans and the transfer of money abroad are fair and it is always possible to negotiate with the banks. Given the importance of the company, it has strong negotiating power with the banks as far as different banking costs are concerned. It may for example obtain a loan (in USD) at 12% or below.
- Regarding income **taxes**, it represents 40% of the company's income and for Shenimed this is too high. The multiplicity of taxes levied on imports in DRC is also striking: at least eight public services collect taxes on imports at DRC's borders: State Customs Agency (DGDA), International Trade Bureau, Export and Import Control Agency (OCC), Health Service, Industry Promotion Fund (FPI), General Office of Sea Freight (OGEFREM) and the General Services of Taxes (DGI).
- The **personnel** of Shenimed are recruited from the local universities and the company seems to be satisfied with their competency. However for some special tasks, such as the maintenance of the computer network, installation of specific software and the installation of machines, for which it is not possible to find skills locally, technicians can be recruited from other regional countries.

IMPACT OF BARRIERS

The shortage of loans is one of the problems raised as a barrier to business. This affects Shenimed's business in the sense that it generates cash flow difficulties, which result in a delay in its imports. The multiplicity of taxes at DRC's border for Shenimed's imports has a severe impact on the costs incurred by the company. This reduces its competitiveness and, since the business environment is becoming highly competitive, the profitability of the company is dropping.

The quality of transport infrastructure from the importing country (such as Tanzania, Rwanda or Burundi) to the DRC is quite fair. The problem is the poor quality of transport infrastructure within DRC, which is the cause of many accidents and results in delays for the delivery of commodities. For Shenimed, the road between Uvira and Bukavu is of great importance. This road is of poor quality and is unsafe. It is a critical link for the cities of Bukavu and also Goma (to a more limited extent) with Tanzania and Zambia.

Moreover the lack of electricity prevents the company from producing locally and forces the company to import the products from Tanzania. Cigarettes were produced in Bukavu until the end of the nineties but due to the inconsistent supply of electricity, as well as the many formal and informal taxes imposed on locally produced cigarettes, Shenimed were obliged to stop their local production activities.

Due to the instability of the national currency in which the company's sales are realized, the company is also facing difficulties in renewing its stocks. The Congolese franc often depreciates rapidly which reduces the amount of foreign exchange that Shenimed can purchase to pay for imported stock. Sales are made in Congolese francs and imports are paid for in US dollars. Where possible, the company requests their customers to pay for their purchases in US dollars so as to avoid this problem.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

The company has solved the problem of currency instability by selling its commodities in USD.

The release of the new customs code is one of the rare outcomes which resulted from the suggestions of companies encountering different barriers.

The company has several times addressed complaints to the Congolese Government. Sometimes the Government reacts but very often nothing is done at all.

At the regional level with regards to tariffs and non-tariff barriers, discussions are sometimes undertaken between countries belonging to the North and South Corridor, but this has not yet resulted in many changes.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. Regular consultations between partners: state and private sector, and among states in order to ease the imports procedures.
2. Setting up mechanisms of periodic assessment of the measures and decisions taken to remove barriers.
3. The customs procedures should be lessened and non-tariff barriers removed.