



Analysis of the business environment in Least Developed Countries

Democratic Republic of Congo (DRC)

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A powerful
and balanced
voice for business

Democratic Republic of Congo (DRC)

Region

Central African Economic and Monetary Community (CEMAC)

Population

84,068,091

Demographic growth

3.30 %

GDP per capita (2020)

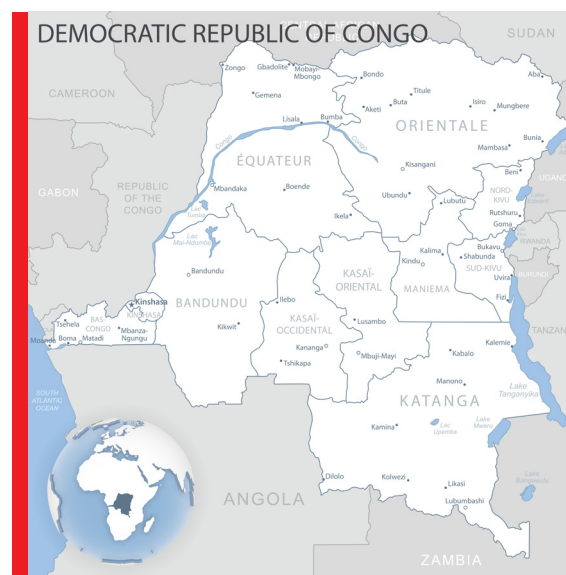
556.8 USD

Human Development Index:

0.480 (175/189)

Economic overview

Democratic Republic of Congo (DRC), a Central African country classified as fragile and conflict-affected, faces enormous challenges related to informality, human development, poor infrastructure, inefficient government and corruption, all of which act as barriers to private sector development. Despite its wealth of minerals and natural resources, DRC is still unable to improve its economic performance. The business climate is still not at its best.



As in all LDCs, the COVID-19 health crisis has had an impact on the DRC economy. Restrictions on commercial operations, disruptions at international borders and lower demand for exports have had a negative impact on growth, employment and debt levels. Today, as the Congo Federation of Enterprises (FEC) points out, the pandemic remains a drag on economic growth and private sector development in particular. Currently, 50 per cent of businesses in DRC are experiencing delays or disruptions in their supply chains. In addition, 60 per cent of businesses have experienced a sharp decline in revenues compared to previous years before the crisis. As a result, two-thirds of business owners report recruiting less and signing fixed-term contracts with new staff.

Challenges faced by the private sector

According to the Survey on Employment, the Informal Sector and Household Consumption conducted in 2012 by the National Institute of Statistics (INS), there are nearly 3.4 million informal production units (IPUs) in DRC. The main challenges to improving the business climate in DRC include:

- **Widespread informality** - Here, 88.6 per cent of active workers are employed in the informal sector.
- **Informality is more prevalent in key sectors of the economy** - The three main non-agricultural sectors that account for a large number of IPUs are trade (62.1 per cent), industry (16.4 per cent), services (19.6 per cent) and mining (1.9 per cent).
- **A weak private sector, an economy based more on agriculture than on industrialisation** - More than 70 per cent (71.2 per cent) of active workers are employed in agriculture, a quarter in trade or services (24.4 per cent) and less than 5 per cent (4.4 per cent) in industry.
- **Informality exacerbates the vulnerability and precariousness of the workforce** - More than 96 per cent of those employed in the informal sector do not benefit from social protection. Moreover, jobs in the informal sector are characterised by very precarious working

conditions. It is estimated that 56.4 per cent of IPU have no business premises and 37.4 per cent of IPU work from home. Moreover, those active in the informal sector work on average 52.1 hours per week. The average monthly remuneration of those employed in the informal sector is about CDF 62,740.9 (below the minimum wage).

- **An informal sector composed mainly of micro-units** - There is a preponderance of small IPU. Approximately 82.3 per cent of IPU are just one person. The average IPU size is estimated at 1.3 persons.
- **Lack of access to credit** - A large proportion of IPU (22.7 per cent) do not have access to the capital they need to carry out their activities, capital being a determining factor in production. Moreover, individual savings represent the main source of capital for IPU, accounting for more than 88.4 per cent of the total value of capital.
- **Wage inequalities** - Overall, women's incomes are significantly lower than men's. The median income of women is CDF 15,000, while that of men is CDF 38,000.
- **Low level of public infrastructure** - Of the IPU with premises, 87.7 per cent have no access to electricity, 96 per cent to telephone and 91.5 per cent to water.
- **A weak private sector** - Only 2.7 per cent of IPU pay taxes on their activities. On the other hand, 28.4 per cent of IPU say they are ready to formalise their activities. 44.8 per cent of IPU heads say they are willing to pay taxes on their activities if the business climate improves, whereas 55.2 per cent are not. In fact, about 94 per cent of IPU do not have a national identification number and do not keep formal accounts.
- **Low human-capital education/formation** - DRC ranks 175th out of 189 countries on the Human Development Index. Its net primary school enrolment rate is 68.6 per cent, dropping to 36.7 per cent for secondary school.
- **Very high level of corruption** - According to Transparency International's 2021 report,

DRC ranks 169th out of 180 countries. This is evidence of little political will on the part of the government to improve the business climate, and more specifically to develop the private sector and attract more national and international investment.

Private sector policy recommendations

The recommendations apply to the following areas:

1. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Establishing and maintaining a genuine public-private partnership;
- Developing a roadmap and agenda for public-private dialogue at national level;
- Actually considering the needs of private sector partners in sectoral development strategies;
- Strengthening state institutions, including assessing the legal and regulatory framework for creating and formalising businesses in the formal sector;
- Constantly coming up with reforms to improve the business climate;
- Complying with agreements;
- Bolstering the role of the state as a guarantor of peace, security and good governance;
- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors;

- Establishing a unit or commission to work on promoting and popularising the incentives to be given to the private sector in the short, medium and long term.

2. Supporting young investors and women, developing entrepreneurship and fighting against informality

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;
- Creating training and apprenticeship centres for self-employment for out-of-school youth;
- Creating a favourable climate for investment by providing incentives, e.g. access to credit at subsidised interest rates and on flexible repayment terms;
- Establishing a genuine partnership between the state and the banking sector to encourage domestic financing and investment, including the promotion of self-employment among youth and women;
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the development of agri-food cooperatives;
- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;

- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;

- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;

- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;

- Promoting access to digital technology for young people and women in rural areas by creating free digital training centres within local authorities;

- Promoting women's access to land in particular and favouring a reorganisation of the land register;

- Eliminating minimum fees for business start-ups and shortening the waiting period for registering and authenticating documents;

- Creating national savings in the various countries to finance income and employment-generating projects, especially for young people and women.

3. Cross-border trade

Specific objectives include:

- Promoting the development of intra-African trade by removing customs barriers;

- Improving national and regional infrastructure, such as developing roads, pedestrian walkways, lighting and utility poles, access to the digital network, and building structures to house markets at borders;

- Modernising and deploying one-stop shops;

- Guaranteeing a secure and stable climate at

national level, particularly in terms of customs services to facilitate the free movement of people and goods (rule of law); this would also improve entrepreneurship by women, particularly the creation of income-generating activities (trade) carried out most often by small traders (women) at the borders;

- Guaranteeing follow-up for the supply and distribution of petroleum products;
- Deploying national, regional and international sectoral strategies to ensure exchange rate predictability;
- Implementing sectoral strategies to develop the resilience of the economy, particularly of businesses, to cope with various shocks;
- Reducing export and import delays;
- Setting up and modernising an electronic payment system for port fees at national level;
- Going paperless in customs formalities and extending the opening hours of ports;
- Increasing the size of inter-African markets and diversifying production in order to expand markets and improve the competitiveness of the formal private sector globally;
- Promoting good governance and responsible business conduct and fair competition in markets in order to improve the global competitiveness of the formal private sector;
- Establishing simplified trade arrangements (exemption from customs duties) and simplifying customs clearance formalities for small-scale transactions, usually carried out by small traders, especially women;
- Enhancing regional integration, in particular economic cooperation between the different regional economic communities to remove persistent barriers to intra-regional trade;
- Strengthening the fight against smuggling at borders and ports;

- Establishing and developing regional power pools to reduce electricity connection costs and link markets to resources;
- Establishing mutually beneficial trade agreements to attract more investors; boosting intra-regional trade through digital technology;
- Diversifying the energy market with a focus on promoting solar panels to improve the competitiveness and productivity of businesses and also to reduce the costs of connecting to the power grid;
- Expanding the telecommunications market, especially the digital market, to improve access to the electronic network for businesses and enable them to increase their competitiveness in the global market;
- Establishing effective cyber security and cyber defence strategies at regional level;
- Strengthening the African Continental Free Trade Area (AfCFTA).

4. Fighting informality

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;
- Sharing and exchanging regional experiences;
- Developing a strong and effective institutional legislative framework;
- Annually implementing structural reforms and sectoral strategies aimed at facilitating the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;
- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically

viable income- and employment-generating projects;

- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;
- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Developing a national directory of formal sector companies;
- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better channel and adapt sectoral strategies to facilitate their transition to the formal sector;
- Establishing and modernising an electronic system for creating and registering businesses at national level;
- Creating a level playing field for businesses to facilitate their formalisation.

5. Developing human capital

Specific objectives include:

- Improving the supply of public services (education, health and social protection);
- Ensuring a match between training/

education received and the needs of the labour market in technical and vocational education, general secondary education and universities;

- Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
- Priority training for public sector managers;
- Mandatory internships for students to immerse them in the world of business.

6. Improving the labour market

Specific objectives include:

- Increasing the number of jobs through access to new investments at national level;
- Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
- Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal businesses to formalise;
- Promoting flexible working hours for workers;
- Improving employment frameworks, policies and conditions;
- Improving wages and paying compensation for work stoppages due to the occurrence of happy occasions (e.g. births) and unhappy events (illnesses, accidents, etc.) in workers' lives.

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