REPUBLIC OF CONGO

Investment Climate Policy Note

June, 2009

Financial and Private Sector Development, AFTFP
Africa Region

Document of
The World Bank

This report is for restricted distribution. Recipients may use it only in the performance of their official duties. Its content may not be released without authorization of the World Bank.
CURRENCY EQUIVALENTS
(Exchange Rate as of June 1st 2009)

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>CFA Francs (CFAF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$1.00</td>
<td>CFAF 474</td>
</tr>
</tbody>
</table>

ABBREVIATIONS AND ACRONYMS

ACP  Africa, Caribbean and Pacific
AFD  Agence Française de Développement
      French Development Agency
bbl  Barrel
BEAC Banque des Etats de l’Afrique Centrale
      Central African States Central Bank
CAPPED Caisse de Participation à la Promotion des Entreprises et à leur Développement
        Microfinance Institution for the Promotion and Development of Enterprises
CAR  Central African Republic
CEMAC Communauté Économique et Monétaire de l’Afrique Centrale
      Economic and Monetary Union of Central Africa
CFAF CFA Franc
CFCO Chemin de Fer Congo Océan
      Congo Ocean Railway
CIMA Conférence Inter Africaine des Marchés d’Assurances
      Inter African conference for insurance markets (regional regulatory and supervisory
      framework for insurance)
CM  Cubic meter
COBAC Commission Bancaire de l’Afrique Centrale
      Banking supervisory authority of Central Africa
CPS  Country Partnership Strategy
DRC  Democratic Republic of Congo
EBRD European Bank for Reconstruction and Development
EPA Etablissement Public à Caractère Administratif
      Administrative Public Establishment
FDI  Foreign Direct Investments
FSAP  Financial Sector Assessment Program
GDP  Gross Domestic Product
GNI  Gross National Income
HIPC  Highly Indebted Poor Countries
ICA  Investment Climate Assessment
ICPN  Investment Climate Policy Note
ICT  Information and Communication Technology
IDA  International Development Association
IFC  International Finance Corporation
IMF  International Monetary Fund
ITU  International Telecommunication Union
Vice President: Obiageli Katryn Ezekwesili
Country Director: Marie Française Marie-Nelly
Sector Director: Marilou Jane Uy
Sector Manager: Iraj Alikhani
Task Team Leader: Guillemette Jaffrin
ACKNOWLEDGEMENTS

This report was prepared by Guillemette Jaffrin and Angelica Salvi (who also undertook the data analysis) under the overall guidance of Iradj Alikhani, Alvaro Gonzalez and Vincent Palmade. Johannes Herderschee and Jean Michel Marchat served as peer reviewers for this work and provided a number of suggestions and comments. Helpful suggestions were also received by members of the World Bank’s Republic of Congo country team.

This Investment Climate Policy Note is based on an Indicator Survey undertaken across 151 firms located in Pointe Noire and Brazzaville in the Republic of Congo, operating in the manufacturing and services sectors. The survey was undertaken between September and December 2008. Further details on enterprise surveys undertaken by the World Bank can be found on the following website: www.enterprisesurveys.org.
Contents
EXECUTIVE SUMMARY .................................................................................................................. 8
INTRODUCTION ............................................................................................................................ 13
1. COUNTRY BACKGROUND ....................................................................................................... 15
   Socioeconomic context ............................................................................................................... 15
   Diversifying the Congolese economy ........................................................................................ 18
   Unleashing the non-oil private sector ....................................................................................... 19
2. INVESTMENT CLIMATE IN THE REPUBLIC OF CONGO .................................................... 22
   What does the formal private sector in major urban areas look like? ..................................... 22
   Firms’ perception of investment climate obstacles ................................................................... 25
   Electricity, transport and telecommunications: infrastructure in Congo as a major obstacle to
   business activity ......................................................................................................................... 31
   Past political instability continues to severely affect the private sector .................................. 38
   Improving governance and curbing corruption remains an important challenge .................. 39
   Access to finance ....................................................................................................................... 42
   Others obstacles: tax administration, labor regulation and custom and trade regulation .......... 54
      Taxes ..................................................................................................................................... 54
      Trade and customs ............................................................................................................... 56
      Labor .................................................................................................................................... 58
3. THE WAY FORWARD .................................................................................................................. 63
   Improving infrastructure .......................................................................................................... 63
   Improving the private sector environment ............................................................................... 65
   Developing a growth pole economic development strategy .................................................... 65
   Improving MSME access to financial and non financial services .......................................... 66
      Improving access to financial services ................................................................................ 66
      Improving access to non financial services ......................................................................... 69
   Driving investment climate reforms ...................................................................................... 72
   Summary table .......................................................................................................................... 73
ANNEX: The private sector in Pointe Noire and Brazzaville ...................................................... 78
REFERENCES ............................................................................................................................... 82
Tables
Table 1: Main Macroeconomic Indicators ................................................................. 17
Table 2: Share of Main Sectors in Nominal GDP (in %) ........................................ 18
Table 3: Government oil revenues in US$ ............................................................. 19
Table 4: Investment ratios in the Republic of Congo (% of GDP) ............................ 20
Table 5: Doing Business in the Republic of Congo (rank out of 181 countries) ...... 20
Table 6: Total sales in 2007 and 2004-2007 growth .......................................... 23
Table 7: Percentage of firms with internationally recognized certification ........... 25
Table 8: Major obstacles in the Republic of Congo and in comparator countries .... 26
Table 9: Electricity infrastructure: availability and transmission / distribution losses ... 33
Table 10: Indicators of electricity infrastructure in Congo and comparator countries ... 33
Table 11: Usage patterns of ICT ........................................................................... 37
Table 12: Informal gift/payments expected or requested in Congo (% firms) ........... 41
Table 13: Commercial banks in the Republic of Congo ......................................... 44
Table 14: Average percentage of working capital financed by the following sources ... 51
Table 15: Average percentage of fixed assets financed by the following sources .... 52
Table 16: Access to finance across countries .......................................................... 53
Table 17: Doing Business indicator Paying Taxes .................................................. 56
Table 18: Doing Business Indicator Trade across borders ..................................... 58
Table 19: Overview of Government support structures for the private sector .......... 70
Table 20: Key short term reforms ....................................................................... 74
Table 21: Sectoral distribution of firms .................................................................. 78
Table 22: Sectoral distribution of firms across size and location ......................... 78
Table 23: Percentage of firms where main owner is of non-African origin ............ 80
Table 24: Exporter firms across countries (% firms that export directly or indirectly) .... 81

Figures
Figure 1: Commodity prices (oil and timber) ....................................................... 16
Figure 2: Distribution of firms by town, sector and size ....................................... 22
Figure 3: Size of firms by town ......................................................................... 23
Figure 4: Major obstacles (% firms) ................................................................... 26
Figure 5: Most important obstacle (% firms) ...................................................... 28
Figure 6: Country comparison of perceptions .................................................... 29
Figure 7: Most important obstacle, by firm size and sector .................................. 30
Figure 8: Costs of investment climate as percent of sales .................................... 31
Figure 9: Use of e-mail and websites .................................................................. 38
Figure 10: Perception of Government of Congo’s capacity .................................. 40
Figure 11: Giving gifts: cross country comparison ............................................. 42
Figure 12: Private sector credit as a percentage of GDP .................................... 45
Figure 13: Credit and deposit of the banking sector (in CFAF billion) ................. 45
Figure 14: Access to bank accounts and credit from banks (percentage of firms that have a checking and/or savings account, a line of credit or loan, an overdraft facility) .... 49
Figure 15: Reasons for not asking for a loan or line of credit ............................ 50
Figure 16: Perception of tax administration and tax rates in Congo (% firms considering tax rates and tax administration a major or severe obstacle) ................................................. 55
Figure 17: Perception of labor regulation and labor skills in Congo (% firms considering labor regulation and labor skills a major or severe obstacle) ................................................................. 59
Figure 18: Reform teams .................................................................................................................. 73

Text boxes
Text box 1: Government efforts to address the power crisis .......................................................... 32
Text box 2: A dilapidated transport infrastructure ................................................................. 35
Text box 3: Government efforts to improve transport infrastructure ........................................ 36
Text box 4: Overview of the financial sector in the Republic of Congo ...................................... 46
Text box 5: Financial sector strategy for the Republic of Congo .................................................. 46
Text box 6: 2007-2016 Decennial Plan to Recover and Develop Technical and Professional Training ............................................................................................................. 60
Text box 7: Increase MSMEs access to financial services – complementary approaches................ 66
Text box 8: Key tenets of MSME lending ..................................................................................... 67
Text box 9: Brief overview of the CEMAC Regional Institutions Support Project ....................... 68
Text box 10: Maison de l’Entreprise in Burkina Faso ................................................................... 71
Text box 11: Development partners’ initiatives to improve the investment climate ................. 76
EXECUTIVE SUMMARY

To significantly reduce poverty, the Republic of Congo has to allow for the creation of jobs, in particular within small and medium formal and productive enterprises operating in a diversified economy.

The Government set as it objective to reduce poverty from 50 percent to 35 percent by 2015. To attain this objective, it will be necessary to achieve and sustain a 7 percent annual growth rate, which in turn will require private investment rate (excluding oil) to double from 5 to 10 percent of GDP.

To reach this objective, the Republic of Congo will need to accelerate its efforts to diversify its economy and improve its investment climate which is one of the less favorable in the world: Congo is ranked 178th out of 181 countries in the 2009 Doing Business report. This has been confirmed by the survey undertaken across 151 enterprises in 2008. The survey points to a long list of major investment constraints, with the level of complaints being among the highest ever recorded in this kind of survey (see the table immediately below):

Table 1: Major obstacles in the Republic of Congo and in comparator countries

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Republic of Congo</th>
<th>DRC</th>
<th>Cameroon</th>
<th>Gabon</th>
<th>Azerbaijan</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>71.1</td>
<td>70.3</td>
<td>61.1</td>
<td>57.3</td>
<td>4.9</td>
<td>20.8</td>
</tr>
<tr>
<td>Political instability</td>
<td>68.8</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Corruption</td>
<td>65.0</td>
<td>20.0</td>
<td>52.1</td>
<td>40.8</td>
<td>21.3</td>
<td>16.9</td>
</tr>
<tr>
<td>Informality</td>
<td>54.2</td>
<td>40.5</td>
<td>58.1</td>
<td>36.6</td>
<td>..</td>
<td>11.3</td>
</tr>
<tr>
<td>Labor skills</td>
<td>51.5</td>
<td>13.1</td>
<td>8.1</td>
<td>42.3</td>
<td>1.8</td>
<td>8.7</td>
</tr>
<tr>
<td>Transportation</td>
<td>48.4</td>
<td>30.0</td>
<td>33.1</td>
<td>48.3</td>
<td>0.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Tax Administration</td>
<td>47.3</td>
<td>39.8</td>
<td>76.7</td>
<td>34.9</td>
<td>24.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Customs &amp; Trade Regulations</td>
<td>45.9</td>
<td>15.1</td>
<td>34.8</td>
<td>35.7</td>
<td>8.0</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>44.8</td>
<td>60.4</td>
<td>68.0</td>
<td>26.2</td>
<td>8.0</td>
<td>15.5</td>
</tr>
<tr>
<td>------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>-----</td>
<td>------</td>
</tr>
<tr>
<td><strong>Access to Finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crime</td>
<td>44.1</td>
<td>22.6</td>
<td>33.1</td>
<td>32.8</td>
<td>2.5</td>
<td>38.0</td>
</tr>
<tr>
<td>Tax Rates</td>
<td>40.9</td>
<td>52.4</td>
<td>75.6</td>
<td>29.4</td>
<td>22.9</td>
<td>4.6</td>
</tr>
<tr>
<td>Courts</td>
<td>37.0</td>
<td>10.9</td>
<td>29.4</td>
<td>13.9</td>
<td>..</td>
<td>1.6</td>
</tr>
<tr>
<td>Permits And Licenses</td>
<td>28.7</td>
<td>23.1</td>
<td>28.5</td>
<td>20.9</td>
<td>7.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Labor regulations</td>
<td>24.5</td>
<td>9.0</td>
<td>9.9</td>
<td>16.0</td>
<td>1.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Access to Land</td>
<td>21.7</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>


Note: The statistics for countries other than the Republic of Congo are produced without sampling weights. “n.a.” means not available.

Improving the investment climate and diversifying the economy will rely on the following four pillars:

- **Improving infrastructure.** Power cuts have cost 19 percent of firms turnover and 82 percent of firms have to rely on a generator (which is very costly). It takes 50 days to import goods and 62 days to export goods (as reported in the Doing Business report). The Government has launched important investments in the power and transport sectors. It will be important to complement these investments with regulatory and institutional reforms to ensure good management and governance and to allow private sector participation.

- **Improving the business environment.** The vast amount of red tape coupled with poor governance and a weak judiciary translate into high cost and high risk of doing business in Congo. Firms need to make 61 payments a year amounting to 65% of their profits and requiring over 600 hours a year of a qualified staff, as highlighted in the Doing Business Report. Unfair competition from the informal sector discourages productive formal investments. Less than one third of firms trust the judiciary. More than half of the firms participating in public tenders have admitted making informal payments or making gifts to get the contract. Access to land is also problematic – 116 days are needed to register a property. In such an environment, it is not surprising that banks are reluctant to lend and charge high rates – lending rates exceed 25% forcing 71% of firms to finance themselves.
through internal funds. The ongoing initiative to improve Congo’s performance along key Doing Business indicators need thus to be intensified and broadened.

• **Supporting SMEs and workers.** The current set up to support firms and workers is fragmented and insufficient to meet the immense needs. The government has developed strategies to improve access to finance and increase workers’ skills. These initiatives need to be reinforced through coordinated support by the development community, possibly through a “Maison de l’Entreprise” which would regroup all the services offered to SMEs.

• **Developing new growth poles.** Beyond developing linkages around the oil sector, Congo has the natural and human resources to develop new growth poles around wood and agricultural products transformation, tourism and ICT (information and communication technology). The economic integration with the Democratic Republic of Congo should allow the two countries to develop synergies and to reach a critical mass lowering costs and attracting investors. The goal is, for each of these poles, to undertake a critical mass of investments, as well as policy and institutional reforms in order to unleash significant private sector investments, including from strategic investors which would bring in key know how and would help achieve critical mass.

With a renewed political stability and the commitment of the highest authorities to establish the conditions for a strong and shared growth, it is now time to build on the on-going initiatives and to accelerate the reform and investments process. To achieve this objective, Congo can rely on experiences from countries which had similar starting conditions, such as Malaysia, and from the support of development partners – e.g. the European Commission has already launched a program, in collaboration with the Government, to improve the legal and judicial environment of the private sector, and the French Agency for Development is already supporting the microfinance and the professional and technical training sectors.

The implementation of this strategy needs to benefit from the public commitment of the Head of State in order to mobilize the required impetus and resources. The operational steering of this strategy could be at the Prime Minister level with a small and dedicated team, supported by world class technical expertise.
The World Bank Group proposes to assist the initiatives launched by the Government with a project to support economic diversification in the Republic of Congo. This project would complement the various on-going initiatives and would help further define key reforms and identify the mechanism to drive their implementation. This Economic Diversification Support Project could include the following components:

- **Infrastructure**
  - Support to the development of a prioritized investment plan based on current constraints and the needs of potential new growth poles;
  - Support to the development of a regulatory and institutional framework, such as a new framework for Public Private Partnerships (PPP) in infrastructure, with the support from PPIAF (Public Private Infrastructure Advisory Facility);
  - Support to the restructuring of public enterprises in the infrastructure sector (in particular, in the power and transport sectors);

- **Business environment**
  - Support to the development and implementation of action plans to broaden the reforms initiated along the Doing Business indicators (in collaboration with the European Commission). Priority reforms areas include customs and taxes;
  - Support to the development and implementation of practical solutions to facilitate land access to investors and issuance of land titles for economic actors and households;

- **Financial and non financial services to enterprises**
  - Creation of a structure similar to a “Maison de l’Entreprise” to consolidate and reinforce current initiatives and act as a platform for all non financial services to enterprises (could also include a matching grant mechanism for enterprises);
  - Technical assistance to banks and microfinance institutions to improve micro, small and medium enterprises (MSMEs) access to financial services – which would complement on-going initiatives (such as the AFD ARIZ guarantee fund) – through the IFC Africa MSME and Africa Microfinance programs.
• **New growth poles**
  o Support to the development of strategies and actions plans for identified growth poles;
  o Support to the implementation of one of the proposed growth pole action plan, to act as a model / case study and to allow for future replication with other identified growth poles;

• **Driving investment climate reforms**
  o Support to capacity strengthening of key institutions;
  o Support to the creation of a reform team, possibly at the Prime Minister level.

The results of this Investment Climate Policy Note and the potential axes of the Economic Diversification Support Project will be discussed with the stakeholders (authorities, private sector and development partners) in Brazzaville and Pointe Noire in September 2009. Complementary analysis to the ones presented in this note will be necessary, in particular with respect to the analysis of trade flows between Pointe-Noire and Brazzaville, the diagnostic of the institutions supporting SMEs, the opportunities and constraints related to the new growth poles.

***
INTRODUCTION

The aim of this Investment Climate Policy Note (ICPN) is to identify the main constraints to the development of the private sector in the Republic of Congo, based on a survey of enterprises operating in the manufacturing and services sectors, in Pointe Noire and Brazzaville, and to propose specific short term recommendations to address these constraints.

This Investment Climate Policy Note differs from the traditional Investment Climate Assessment (ICA) in a number of ways. The ICPN emphasizes cross-country comparisons and benchmarks the investment climate across various firm characteristics (including size of firms or sector of activity). Both the ICA and the ICPN rely on data obtained through interviewing businesses (albeit not exclusively). However, because of the relatively small samples of firms taken from the formal manufacturing sector in countries such as the Republic of Congo, an ICPN does not include estimates and analysis of firm-level total factor productivity. Finally, the ICPN is a more targeted report focusing on a smaller set of indicators of firm performance and concentrating on certain dimensions of the investment climate.

In this ICPN, the performance of the Republic of Congo has been compared with the following countries: the Democratic Republic of Congo (the large neighboring country), Cameroon and Gabon (two neighboring countries which are part, as Congo, of the CEMAC monetary union), Azerbaijan (a small oil rich country) and South Africa (the Sub-Saharan African economic leader).

Initial findings of the survey were presented in a workshop gathering representative of the Government and private sector in Brazzaville in March 2009. During this workshop, the participants were asked to identify the five main constraints to private sector development in the Republic of Congo and potential solutions to address these constraints. The present ICPN draws on these discussions.

Finally, it would be useful to complement this investment climate assessment with in-depth assessments in areas such as: legal and institutional framework for Public Private Partnerships,

---

1 This workshop was financed by AFD and jointly organized with AFD, the European Commission and the World Bank.
integrated approaches along key value chains ("growth pole" approach), prospects for regional integration and institutional set up to pilot reforms.
1. COUNTRY BACKGROUND

Socioeconomic context

1.1. The civil war has had long lasting effects in Congo. The Republic of Congo is recovering from a civil conflict that started in the early 1990s and which culminated in 1997 with five month of intense fighting. The conflict lingered until a ceasefire agreement was reached in March 2003, however tensions and sporadic fighting persisted until 2007. The repercussions of the conflict are still evident in the country: key infrastructure has been destroyed and Brazzaville still bears stigmata of heavy fighting. The country is now emerging from the conflict, with reconstruction and reforms under way.

1.2. GDP per capita (at US$1540) is relatively high but wealth is narrowly based and highly dependent on the oil sector. Congo is classified as a lower-middle income country, but this is due to the combination of a small population (3.8 million inhabitants) and large oil resources. Apart from the oil sector, the economy is based on subsistence agriculture, support services to the oil sector and a public sector characterized by weak performance and overstaffing. As reported by the IMF (2007), the non-oil fiscal deficit in Congo is one of the highest among Sub-Saharan African countries and is not sustainable. Furthermore, the wealth produced in the oil sector, for the most part, does not transfer to the rest of the economy; as a result, infrastructure is underdeveloped, public services are weak and poverty is still high, with 51 percent of the population living below the poverty line.

1.3. The impact of the current global recession is expected to be moderate. Congo is mainly affected through the channels of commodity markets, as oil and timber demand and prices have steeply declined since mid 2008 (as shown by the graph below). Real GDP is expected to grow by 9.5 percent in 2009 (compared to 5.6 percent in 2008) even though growth forecasts have been reduced from the original 12.7 percent. Continuing growth is ascribed to a significant expansion in oil production. Non-oil GDP, on the other hand, is expected to decline to 3.5 percent, vis-à-vis 6.0 percent in 2008. Inflation should decrease because of the significant reductions in international prices for oil and food.

2 Atlas method (current US$), for 2007
1.4. The savings and balance of payments surpluses accumulated in the past thanks to the oil sector boom provide the government with some room for facing the crisis. The upcoming elections (scheduled for July 2009) are also a source of uncertainty for the fiscal position of the country, as there could be pressure towards a more relaxed fiscal policy.

1.5. Social indicators are improving, but income inequality remains high. According to the most recent assessment\(^3\), most social indicators have been improving since the return to peace. The incidence of monetary poverty, which had risen from 40 percent in 1990 to 70 percent in 1997, had fallen back to 50 percent by 2005. The 2008 Human Development Index ranked Congo at the 130\(^{th}\) position out of 179 countries, putting it in the top 15\(^{th}\) percentile among Sub-Saharan Africa countries. Despite these improvements, the level of income inequality remains high and Congo’s human development indicators are still far below those of countries with comparable GNI per capita.

1.6. Macroeconomic performance has been good since peace was re-established. Between 2002 and 2008, GDP nearly doubled in real terms, inflation has remained under control and fiscal performance has improved in 2008. Economic performance has however been affected by fluctuations in oil prices and production levels, especially in the past two years.\(^4\) Congo’s currency is the CFA franc (CFAF), which – since its creation – has been relatively stable and is

\(^3\) Based on data from the 2005 household survey.

\(^4\) Source: IMF (2009)
pegged to the euro at a fixed rate of CFAF656:€1

Table 2: Main Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>3.5</td>
<td>7.8</td>
<td>6.2</td>
<td>-1.6</td>
<td>5.6</td>
<td>9.5</td>
<td>11.9</td>
</tr>
<tr>
<td>Real non-oil GDP Growth (%)</td>
<td>5.0</td>
<td>5.4</td>
<td>5.9</td>
<td>6.6</td>
<td>5.4</td>
<td>3.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Inflation (CPI average)</td>
<td>3.7</td>
<td>2.5</td>
<td>4.7</td>
<td>2.6</td>
<td>5.3</td>
<td>3.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Gross investment (% of GDP)</td>
<td>22.5</td>
<td>22.5</td>
<td>23.4</td>
<td>27</td>
<td>22</td>
<td>33.7</td>
<td>27</td>
</tr>
<tr>
<td>Private investment</td>
<td>16.0</td>
<td>16.3</td>
<td>13.9</td>
<td>15.6</td>
<td>12.5</td>
<td>18.1</td>
<td>14.6</td>
</tr>
<tr>
<td>Real effective exch. rate (change in %)</td>
<td>4.5</td>
<td>-0.6</td>
<td>1.6</td>
<td>3.1</td>
<td>0.5</td>
<td>0.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Ext. current acct. balance (% of GDP)</td>
<td>8.6</td>
<td>3.2</td>
<td>-4.9</td>
<td>-26.0</td>
<td>-6.6</td>
<td>-18.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Debt-to-GDP ratio (%)</td>
<td>198.7</td>
<td>108.3</td>
<td>81.6</td>
<td>121.0</td>
<td>76.9</td>
<td>88.9</td>
<td>67.1</td>
</tr>
</tbody>
</table>


Note: (*) Projections as of February 2009

1.7. **Congo is one of the most indebted countries in the world.** This situation is the result of past excessive international borrowing. The situation has however improved significantly since reaching the HIPC (Highly Indebted Poor Countries) decision point in March 2006. In December 2008, the Paris Club cancelled Congo debt in the amount of US$643 and rescheduled US$119 million. As a result, total public debt is estimated to have reached 76.9 percent of GDP at end December 2008, compared to 225 percent at the Decision Point. The Government has strongly expressed its commitment to reach the HIPC completion point by end 2009.⁵

1.8. **Congo’s main trading partners are China, the USA, France and the Democratic Republic of Congo (DRC).** China has been the main destination of Congo’s exports since 2003, but since 2006 the USA have become a major exporting destination for Congolese oil. France and other European countries are the main source of Congo’s imports, but India and China’s role is growing. DRC is a large supplier of electricity and basic foodstuffs to Brazzaville (but the imports of these basic foodstuffs tend to be unrecorded).⁶

---

⁵ Source: World Bank 2009b
⁶ Source: EIU (2009)
Diversifying the Congolese economy

1.9. Congo’s GDP composition: oil has the lion’s share. Oil represented an average of 66 percent of the country’s GDP between 2006 and 2008. The share of agriculture in Congo’s GDP is low and decreasing, representing 4 percent of GDP over the same period (see Table 3). The share of industry (oil sector excluded) represents 8 percent, while the service sector represents 21 percent of GDP. The increase in international oil prices exacerbated Congo’s GDP dependency on oil: from 59 percent in 1999-2002 to 66 percent in 2006-2008. In addition, the real weight of the oil and forestry sectors in the economy tends to be underestimated as related services, such as the transport of logs and services to the oil sector, are classified in the services sector.

Table 3: Share of Main Sectors in Nominal GDP (in %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>59</td>
<td>61</td>
<td>66</td>
</tr>
<tr>
<td>Agriculture/livestock/fishery</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Forestry</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other mining and industry</td>
<td>9</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Services</td>
<td>26</td>
<td>24</td>
<td>21</td>
</tr>
</tbody>
</table>


1.10. The oil sector provides much needed resources for public investments, yet its overbearing dominance in the economy is a major challenge for economic management. The oil sector not only makes up GDP’s largest share (66 percent), but has also contributed 93 percent to exports and 84 percent to government revenues on average between 2005 and 2008. Oil revenues (see table below) bring the benefit of relatively large resources for financing public spending (with the allocation of around US$1 billion to the investment budget per year). However, this dependence on oil revenues poses challenges due to the volatile and finite character of the resource.
### Table 4: Government oil revenues in US$

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (in billion US$)</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
<td>1.0</td>
<td>1.9</td>
<td>2.9</td>
<td>2.7</td>
<td>4.8</td>
</tr>
</tbody>
</table>


1.11. **The reliance on oil is problematic for the Congolese economy**, as this sector is highly volatile and has a limited capacity to generate employment (the oil sector employs less than one percent of the population). In addition, the prominence of the oil sector, in particular during the recent oil price boom, has diverted productive resources from traditional, more labor-intensive exports towards oil extraction and related activities.

1.12. **The Government has recognized the challenge of diversifying the economy.** As stated in the World Bank Country Partnership Strategy for the Republic of Congo, the key policy challenge for Congo is to use the oil wealth to build a more diversified and competitive economy and thereby reduce poverty and improve social policy outcomes.

**Unleashing the non-oil private sector**

1.13. **The Republic of Congo now has an opportunity to benefit from its favorable geographical environment and large untapped potential.** Congo has a favorable geographical position which could help the country gain a role as a transport corridor for Central Africa through its deep-sea port in Pointe Noire. The country also has significant untapped agriculture potential as well as important natural resources. Thanks to its important oil revenues, Congo has a strong opportunity to pursue reforms and to invest in its infrastructure in order to realize its full potential. The Government has identified a number of sectors with strong growth potential, such as transport services, agribusiness, forestry and mining.

1.14. **The challenge face by the Government is to increase non-oil private sector investment.** The Government stressed that in order to reduce poverty from 50.7 percent to 35 percent by 2015, it is necessary to maintain a 7 percent annual growth rate, which in turn requires an increase in the investment rate from 27 to 30 percent – with a private investment rate (excluding oil) raising from 5 to 10 percent – and an inflation not exceeding 3 percent. Non
oil private sector investments are estimated at 4.8 percent in 2008 (as shown by the table below).

**Table 5: Investment ratios in the Republic of Congo (% of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009 (projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic investment</td>
<td>22.5</td>
<td>22.5</td>
<td>23.4</td>
<td>27.0</td>
<td>22.0</td>
<td>33.7</td>
</tr>
<tr>
<td>Fixed expenditures</td>
<td>21.9</td>
<td>21.1</td>
<td>23.1</td>
<td>26.6</td>
<td>21.7</td>
<td>33.4</td>
</tr>
<tr>
<td>Government investment</td>
<td>6.5</td>
<td>6.2</td>
<td>9.5</td>
<td>11.4</td>
<td>9.5</td>
<td>15.7</td>
</tr>
<tr>
<td>Oil sector investment</td>
<td>9.8</td>
<td>10.8</td>
<td>9.0</td>
<td>9.5</td>
<td>7.4</td>
<td>10.7</td>
</tr>
<tr>
<td>Private sector investment</td>
<td>5.6</td>
<td>5.0</td>
<td>4.6</td>
<td>5.7</td>
<td>4.8</td>
<td>7.00</td>
</tr>
</tbody>
</table>


1.15. **Private sector investments are constrained by an unfavorable business environment.** The World Bank Doing Business report places the business environment in Congo among the least favorable in the world. Congo’s performs weakly in all assessed indicators. Tax administration, labor regulation, property registration and international trade emerge as the most problematic aspects of doing business (see below).

**Table 6: Doing Business in the Republic of Congo (rank out of 181 countries)**

<table>
<thead>
<tr>
<th>Ease of...</th>
<th>Doing Business 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing Business</td>
<td>178</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>157</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>68</td>
</tr>
<tr>
<td>Employing Workers</td>
<td>170</td>
</tr>
<tr>
<td>Registering Property</td>
<td>171</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>131</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>150</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>179</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>176</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>155</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>117</td>
</tr>
</tbody>
</table>


1.16. **The private sector plays a key role in broad-based economic growth.** In many developing countries, growth in the private sector – and especially growth in micro, small and medium
enterprises – is the main source of job creation and a powerful source of broad-based economic growth. Improving the investment climate is key for development of the private sector. In order to understand the main constraints faced by the private sector in the Republic of Congo, the World Bank conducted a survey of 151 firms in the manufacturing and services sectors, in Pointe Noire and Brazzaville. The results of this survey are analyzed in this report.
2. INVESTMENT CLIMATE IN THE REPUBLIC OF CONGO

What does the formal private sector in major urban areas look like?

2.1. Private firms in urban Congo are predominantly small and operate in the services sector. The 2009 Republic of Congo Enterprise Indicator Survey provides information on private firms with 5 employees or more in the manufacturing and services sector in Brazzaville and Pointe Noire, the two main urban areas in Congo. The share of the services and manufacturing sectors in the country’s GDP were respectively 21 percent and 8 percent, on average between 2006 and 2008. The survey focuses on private firms and, as such, enterprises that are 100 percent state-owned were not sampled; firms in partially state-owned were included in the survey and account for 2.4 percent of the sample. Services represent 83.5 percent of the firms and the single most frequent services sector is hotels and restaurant”, which accounts for 20.5 percent of the firms. Among the manufacturing sector the most common industry is food which accounts for 6.5 percent of the firms. Most of the establishments employ between 5 and 19 workers and only 6.7 percent employ more than 100. Further details on the sample of the survey are provided in the annex.

Figure 2: Distribution of firms by town, sector and size


2.2. Large firms are concentrated in Pointe Noire. While there are no significant differences across sectors with regards to the size of firms, the geographical distribution is different: 80 percent of the large firms are located in Pointe-Noire, Congo’s deep-sea port and is the base

---

7 This is a good representation of the non-agricultural private sector as Congo is an urbanized country by Sub-Saharan African standards 61 percent (WDI 2009) of the population lives in urban areas and Pointe Noire and Brazzaville account for 80 percent of the urban population.
for the country’s oil industry. The town is relatively prosperous and suffered much less destruction than Brazzaville during the civil war. In addition, many businesses relocated to Pointe Noire during the conflict.

**Figure 3: Size of firms by town**

![Bar chart showing the size of firms by town in Pointe Noire and Brazzaville. The chart indicates that most firms are small, with a minority being medium or large.](image)


2.3. **Firm performance has been strong in the past three years.** Half of the establishments experienced a 50 percent growth in terms of nominal sales over the past three years. One fourth of the firms doubled their sales. Large firms experienced an especially strong growth in terms of sales over the same period, as half of them doubled their sales. Firms have also grown in terms of employment: on average the number of permanent full time employees in the past three years increased by 35 percent but in half of the establishments it increased by 11 percent.

**Table 7: Total sales in 2007 and 2004-2007 growth**

<table>
<thead>
<tr>
<th></th>
<th>Avg total sales (US$)</th>
<th>Median total sales (US$)</th>
<th>Avg sales growth past 3 years (%)</th>
<th>Median sales growth past 3 years (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>707,691</td>
<td>100,153</td>
<td>85.1</td>
<td>60</td>
</tr>
<tr>
<td>Medium</td>
<td>3,222,160</td>
<td>734,455</td>
<td>89.9</td>
<td>37.5</td>
</tr>
<tr>
<td>Large</td>
<td>25,518,147</td>
<td>16,692,165</td>
<td>155.1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,250,098</strong></td>
<td><strong>208,652</strong></td>
<td><strong>91.96</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

2.4. **51 percent of the establishments invested in new fixed assets in 2007.** Almost all (32 percent) large establishments made such investments and the proportion of establishments in the manufacturing sector investing in fixed assets is larger than the proportion in services (64 percent vs. 44 percent).

2.5. **The average education level among top managers appears to be high.** 55.7 percent of top managers has a university degree or a higher degree; 4 percent of the top managers have not completed a secondary degree. The educational attainment is on average higher in large establishments and in the services sector. Managers with a degree below secondary education are still relatively common in small establishments (7 percent) and in the manufacturing sector (11 percent).

2.6. **Large firms and exporting firms are more productive.** Productivity is measured as value added per worker in the manufacturing sector and as sales per worker in the services sector. Analyses show that large firms are by far more productive than small and medium firms and that exporting firms than non-exporting firms. A comparison of value added per worker across manufacturing and services shows that the median productivity in services is twice as high as in manufacturing but large manufacturing firms are more productive than large services firms. While manufacturing firms perform much better in Pointe-Noire, services firms perform slightly better in Brazzaville.

2.7. However, it should be noted that, on this dimension, the data quality proved questionable, which is likely due to two main reasons: first, firms might have had some reluctance to share detailed financial information with the enumerators, for fear that such data could be reported to the tax authorities. In addition, it is likely that a number of small firms do not have a precise accounting system in place and the reported data can therefore be unreliable.

2.8. **Interestingly, 19.6 percent of the firms have internationally recognized certification,** which is more than observed in comparator countries, especially in the services sector (see Table 8). The average incidence in Congo hides large variations by size and by type of company. As expected, large establishments are predominantly certified (68.5 percent) while only 9.12 percent of small firms are.
Table 8: Percentage of firms with internationally recognized certification

<table>
<thead>
<tr>
<th>Country</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Congo</td>
<td>19.65</td>
<td>19.61</td>
</tr>
<tr>
<td>DRC</td>
<td>7.70</td>
<td>3.15</td>
</tr>
<tr>
<td>Cameroon</td>
<td>19.33</td>
<td>9.62</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>12.80</td>
<td>5.83</td>
</tr>
</tbody>
</table>


Firms’ perception of investment climate obstacles

2.9. In the survey, firms identify major obstacles, as well as the most important obstacle.

Enterprise surveys include questions where firms are asked to rate various aspects of investment climate as obstacles to their operations on the following 5-ladder scale: no obstacle, minor obstacle, moderate obstacle, major obstacle, very severe obstacle. The surveys also ask to rank these obstacles to identify the most important one. In the rest of the document, statistics referring to major obstacle look at the proportion of firms rating each obstacle as major or very severe while statistics referring to the most important obstacle look at the obstacle ranked as the top one.

2.10. All obstacles are deemed to be a major or very severe obstacle by a fifth of the firms or more. The three investment climate elements most frequently rated as major obstacle⁹ are electricity (71 percent), political instability (68 percent), and corruption (65 percent). These obstacles are followed by informal sector competition and workforce skills that both exceed the 50 percent threshold (see Figure 4).
2.11. **Congo fares worse than comparator countries in almost all dimensions.** In the Republic of Congo, the proportion of firms reporting each obstacle to be a major obstacle is larger than in any of the selected comparator countries or than the average in the Sub-Saharan region, with the exception of taxes, permits and licenses, and access to finance (see Table 9).

**Table 9: Major obstacles in the Republic of Congo and in comparator countries**

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Republic of Congo</th>
<th>DRC</th>
<th>Cameroon</th>
<th>Gabon</th>
<th>Azerbaijan</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>71.1</td>
<td>70.3</td>
<td>61.1</td>
<td>57.3</td>
<td>4.9</td>
<td>20.8</td>
</tr>
<tr>
<td>Political instability</td>
<td>68.8</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Corruption</td>
<td>65.0</td>
<td>20.0</td>
<td>52.1</td>
<td>40.8</td>
<td>21.3</td>
<td>16.9</td>
</tr>
<tr>
<td>Informality</td>
<td>54.2</td>
<td>40.5</td>
<td>58.1</td>
<td>36.6</td>
<td>..</td>
<td>11.3</td>
</tr>
<tr>
<td>Labor skills</td>
<td>51.5</td>
<td>13.1</td>
<td>8.1</td>
<td>42.3</td>
<td>1.8</td>
<td>8.7</td>
</tr>
<tr>
<td>Transportation</td>
<td>48.4</td>
<td>30.0</td>
<td>33.1</td>
<td>48.3</td>
<td>0.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Tax Administration</td>
<td>47.3</td>
<td>39.8</td>
<td>76.7</td>
<td>34.9</td>
<td>24.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Customs &amp; Trade Regulations</td>
<td>45.9</td>
<td>15.1</td>
<td>34.8</td>
<td>35.7</td>
<td>8.0</td>
<td>1.9</td>
</tr>
</tbody>
</table>
Access to Finance | 44.8 | 60.4 | 68.0 | 26.2 | 8.0 | 15.5
Crime | 44.1 | 22.6 | 33.1 | 32.8 | 2.5 | 38.0
Tax Rates | 40.9 | 52.4 | 75.6 | 29.4 | 22.9 | 4.6
Courts | 37.0 | 10.9 | 29.4 | 13.9 | .. | 1.6
Permits And Licenses | 28.7 | 23.1 | 28.5 | 20.9 | 7.7 | 3.0
Labor regulations | 24.5 | 9.0 | 9.9 | 16.0 | 1.5 | 5.9
Access to Land | 21.7 | n.a. | n.a. | n.a. | n.a. | n.a.


Note: The statistics for countries other than the Republic of Congo are produced without sampling weights. “n.a.” means not available

2.12. Medium firms perceive investment climate the worst, while perception among large firms is better than among small firms. On average, medium sized firms rate investment climate obstacles the worst, with the only exception of crime and political instability. Large firms perceive the investment climate to be better than small firms do, except for courts as well as business licensing and permits – two dimensions with which large firms are more likely to interact. The evidence by sector is more mixed.

2.13. Political instability is considered as a major or severe constraint by close to 70 percent of respondents. This might be caused by the forthcoming presidential elections (scheduled for July 2009). While the situation has been calm so far, private sector operators might recall the past conflict and its devastating impacts. During individual follow up discussions, private sector operations have proved to be reasonably confident about future political stability in the country.

2.14. Electricity is ranked as the first most severe obstacle in Congo and access to finance as the second. When asked to rank the obstacles in order of importance, electricity is still at the top of the list with 32 percent of the firms declaring it to be the main obstacle. Access to finance comes in the second place (15.6 percent) and political instability is third (15.5 percent), as shown in the figure below.
2.15. **Transportation, and customs and trade regulation are not among the top obstacles but are still rated as major obstacle by 48.4 and 45.9 percent of the firms respectively.** It is interesting to note that when firms are asked to identify the top constraints, transport is chosen by only 3.7 percent of firms, while it is widely recognized that transportation is a key issue in the Republic of Congo, in particular between Pointe Noire and Brazzaville. However, transportation is considered a major obstacle by 48.4 percent of firms, which is higher than in DRC (30 percent) and Cameroon (33 percent) and similar to Gabon (48.3 percent).

2.16. **The analysis of the most important obstacle by firm size and sector reveals limited differences in perception** (see Figure 7 next page). Large firms are more sensitive to corruption, transport constraints and tax rates. Manufacturing firms are more concerned with power, as well as customs and trade regulations. They appear relatively less concerned about political instability.

2.17. **There are limited but interesting differences of perceptions between countries.** The table below shows different perception of the most important obstacle across countries. In the Republic of Congo, DRC and Gabon, power is the most important obstacle. The perception of political instability as a main obstacle is surprisingly high in Republic of Congo: it is much
lower in DRC, despite its tumultuous recent history.

**Figure 6: Country comparison of perceptions**


Note: Ranking of investment climate obstacle was not available in the Azerbaijan 2005 Enterprise Indicator Survey
Figure 7: Most important obstacle, by firm size and sector

2.18. The cost of investment climate constraints is particularly high in Congo. The percentage of sales lost due to investment climate constraints in the Republic of Congo has been compared to that of the comparator countries. Overall indirect costs, measured as a percentage of sales, are higher in the Republic of Congo than in the other countries. In particular, the cost of power outages in Congo is particularly high.

**Figure 8: Costs of investment climate as percent of sales**

![Costs of investment climate as percent of sales](image)


*Electricity, transport and telecommunications: infrastructure in Congo as a major obstacle to business activity*

2.19. The country’s dilapidated infrastructure severely constrains its development. An on-going World Bank Study (Republic of Congo – Prioritizing Infrastructure Investments: a Spatial Approach) shows that one of the key production constraints is the dilapidated state of the country’s infrastructure, which leads to exceptionally high input costs. Surface transportation costs stand at around US$0.11 per ton-kilometers versus US$0.05 per ton-kilometer in southern Africa. Given unreliability of service, power costs around US$0.23 per kilowatt-hour in the south of the Republic of Congo and US$0.62 per kilowatt-hour in the
north, compared with the country’s future potential to produce power at around US$0.08 per kilowatt-hour, and to import power at US$0.06 per kilowatt-hour from neighboring Cameroon.

2.20. **Electricity is by far the most serious obstacle to business operations in Congo**: 32 percent of the firms rank electricity as the most serious obstacle. This holds true for both sectors and for firms of all sizes, even though the dominance is not as large in medium and large firms.

2.21. **The infrastructure for energy production and distribution in Congo is insufficient for the country’s need.** In 2006 electricity production in Congo was only equal to 43.4 percent of its capacity – despite a 4.3 percent increase over 2005 (OECD/AFDB 2008). Furthermore, per capita availability of electricity is one the lowest among comparator countries. This situation is to be ascribed to an insufficient and poorly maintained distribution and transmission network: as Table 10 shows, Congo has by far the highest proportion of electric power lost in transmission and distribution among comparator countries and in the region. While the sector is currently improving, with new generating facilities being built and some of the existing ones being improved, the situation remains challenging and outages are very frequent (see Text box 1 below).

**Text box 1: Government efforts to address the power crisis**

<table>
<thead>
<tr>
<th>Aware of the necessity to tackle the power crisis which is severely affecting private sector development, the Government has taken a number of initiatives in the power sector, with assistance from external partners. A new 450 MW gas-fired power plant in Pointe Noire is under construction by ENI Petroleum, which produces about 35 percent of Congo’s oil, for a total estimated cost of US$400 million; a 120 mw hydro power plant is under construction at Imboulou on the Lefini River, with support from China; and a 32.5 mw thermal plant in Brazzaville which has been completed. In addition, the transmission line from Pointe Noire to Brazzaville will be rehabilitated and extended northwards in the direction of Ouando (550 km from the capital).</th>
</tr>
</thead>
</table>

---

10 However, it should be noted that the data for DRC is questionable.
Table 10: Electricity infrastructure: availability and transmission / distribution losses

<table>
<thead>
<tr>
<th>Country</th>
<th>Electricity net inland availability (per capita Mw)</th>
<th>Electric power transmission and distribution losses (% of output)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRC</td>
<td>49.5</td>
<td>3.7*</td>
</tr>
<tr>
<td>Republic of Congo</td>
<td>111.3</td>
<td>55.6</td>
</tr>
<tr>
<td>Cameroon</td>
<td>213.8</td>
<td>15.8</td>
</tr>
<tr>
<td>Gabon</td>
<td>850.5</td>
<td>17.8</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2,270.3</td>
<td>10.4</td>
</tr>
<tr>
<td>South Africa</td>
<td>4,229.3</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Source: \(^{(1)}\) United Nations Statistics Division, Energy Statistics Database; \(^{(2)}\) World Development Indicators Database, April 2009

* The data for DRC is questionable. Transmission and distribution losses have been reported to be around 30 percent at the DRC power utility (SNEL).

Table 11: Indicators of electricity infrastructure in Congo and comparator countries

<table>
<thead>
<tr>
<th>Country</th>
<th># outages per month</th>
<th>Avg. duration outages (hours)</th>
<th>% sales lost due to outages</th>
<th>% firms owning or sharing a generator</th>
<th>% electricity from generator</th>
<th>Days to obtain electrical connection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Congo</td>
<td>26.8</td>
<td>34.3</td>
<td>19.2</td>
<td>81.8</td>
<td>56.3</td>
<td>8.5</td>
</tr>
<tr>
<td>DRC</td>
<td>17.8</td>
<td>4.3</td>
<td>5.6</td>
<td>41.0</td>
<td>17.1</td>
<td>20.5</td>
</tr>
<tr>
<td>Cameroon</td>
<td>12.7</td>
<td>4.0</td>
<td>3.9</td>
<td>61.3</td>
<td>5.2</td>
<td>78.9</td>
</tr>
<tr>
<td>Gabon</td>
<td>7.9</td>
<td>5.0</td>
<td>1.8</td>
<td>25.3</td>
<td>..</td>
<td>35.7</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.2</td>
<td>4.5</td>
<td>1.6</td>
<td>18.4</td>
<td>10.9</td>
<td>15.8</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>12.7</td>
<td>7.2</td>
<td>6.0</td>
<td>40.5</td>
<td>21.7</td>
<td>33.6</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>..</td>
<td>3.6</td>
<td>5.9</td>
<td>..</td>
<td>..</td>
<td>2.0</td>
</tr>
</tbody>
</table>


Note: The statistics for countries other than the Republic of Congo are produced without sampling weights.

2.22. **Almost all establishments suffered from power outages.** 90 percent of the establishments experienced power outages in 2007 and the share actually reached 92 percent in Brazzaville and among large firms. Firms that suffered outages in 2007 were hit on average 26.9 times per month and outages lasted for a day for most of them. Outages are reported to be more frequent in Pointe Noire and especially among large firms (32.9 and 56.2 times per month respectively).

2.23. **Power outages impose large losses on firms.** Firms reported 19 percent of total annual sales being lost because of power outages. Consistently with data on number, frequency and
duration of outages, large firms and firms in Brazzaville bear the largest losses.

2.24. **In response to the incidence of power outages, 80 percent of the establishments own or share a generator.** Ownership incidence is larger among medium and large firms (75 percent), in manufacturing and slightly higher in Pointe Noire. Firms that own a generator get about 56 percent of their electricity supply from generator; having to resort to generators is a key issue as the unit cost of electrical power from generators is higher than the cost from the grid (which is partially confirmed by the fact that the average and median total electricity bill is higher for firms using generators more intensively).

2.25. **Obtaining a connection to the power grid is relatively fast.** Most establishments that applied for an electrical connection in the past two years received their electrical connection a week after the request; a few firms in Brazzaville faced much longer delays (30 and 45 days). On average, 20 percent of the firms that applied for an electrical connection in the past two years were asked for a gift or informal payments. The phenomenon is more common in Pointe Noire (25.6 percent) than in Brazzaville (11.5 percent) and is not experienced by large firms at all. Being asked for a gift or informal payment is not associated with shorter wait for the connection.

2.26. **While transportation is surprisingly not one of the top investment climate issues, it is still considered a major obstacle by almost half of the firms.** While only 3.7 percent of the firms consider transport to be the most important obstacle, 48.5 percent of the firms consider transport to be a major obstacle to their operations – which is more than in comparator countries. Transportation is more of a problem in Brazzaville (which is explained by its location) and for large enterprises (respectively, 7 and 11 percent of these firms rank it as the top obstacle). Firms that export directly find transportation to be a major obstacle much more frequently (65 percent).

2.27. **Difficulties in transporting goods rise costs, contributing to create inflationary**

---

11 The average and median wait in transport sector is also much longer than elsewhere (23 days) but only two firms in this sector answered this question (one got the connection in less than a day and the other one in 45 days). Caution should be used in stressing the result.
pressures. The main transportation arteries are the road connecting Brazzaville to towns in the northern-central region of the country, the railway linking Brazzaville and Pointe Noire – which is the only deep-sea port in the sub-region, and the river steamers. The river port in Brazzaville is also a key point in the national transport system as it serves as the entry point for all imports from the Democratic Republic of Congo and as a connection for the river traffic to communities upstream. However, all infrastructure is dilapidated and therefore unreliable (see Text box 2 below).

Text box 2: A dilapidated transport infrastructure

**Roads**
There are officially 1,200 km of main tarmac roads in Congo but more than half of them are in serious disrepair. There is no continuous all weather road on the critical route linking Brazzaville to the Port of Pointe Noire. Large sections of the main northern artery to Ouessou are in disrepair. Most rural communities are served only by tracks, with no effective network of rural feeder roads. The poor condition of the road system has serious economic consequences as it raises the cost of internal transportation and does not allow connection to markets.

**Railways**
The CFCO railway is operating well below its potential. CFCO total lengths is 885 km, but the 285 km North branch that connected to Gabon is no longer operational (it used to transport the manganese ore from Gabon to Pointe Noire). CFCO has been steadily losing traffic since the 80s. In 1999, because of the conflict, the traffic stopped completely. Since 2000, the traffic has resumed, with around 700,000 tons a year. CFCO has suffered from mismanagement, poor condition of the rolling stock and tracks and unavailability of engines. As a result, the traffic is slow, unreliable and expensive. The average rail tariff in the Republic of Congo stands at US$0.16 per ton-kilometer, which is about three times as high as rail freight tariffs prevalent in southern Africa.

Because the CFCO is not able to meet the demand from Brazzaville, goods for Brazzaville are shipped from Pointe Noire to Matadi (the DRC port on the Congo river), then driven from Matadi to Kinshasa by road and then shipped back to Brazzaville by barges.

**Rivers**
River transport through barges was widely used during the colonial period as it was a very cost effective transportation mechanism. However, nowadays, because of the lack of dredging, river transportation is facing serious constraints.

---

12 See Economist Intelligence Unit 2009.
2.28. In response to this dire situation, the Government has also launched an important infrastructure development program in the transport sector (see below).

**Text box 3: Government efforts to improve transport infrastructure**

The construction of the 600 km road between Pointe-Noire and Brazzaville is underway with assistance from China. A section has recently been completed under funding from the European Commission (68km from Brazzaville to Gambari with a cost of US$80 million). Rehabilitation works have started on the Pointe Noire – Dolisie section (186 km) since 2007 and the completion rate is estimated at 19 percent (the road goes through an extremely wet and hilly area: Mayombe). The cost of this section is estimated at US$360 million and works are supposed to be completed by end 2011.

Consultants have been hired (under European Commission funding) to search for a concessionaire for CFCO, the state-owned railway company, the container port of Pointe-Noire has been put under private management (with a 27 years concession) and an agreement has been reached with Agence Francaise de Développement (AFD), the European Investment Bank (EIB), and Banque des Etats de l’Afrique Centrale (BDEAC,) for the financing of the modernization program for the port (for a total cost of US$511 million). This modernization program would turn Pointe Noire into the first deep sea water port in Western Africa to receive vessels up to 6,000 TEU.


2.29. **The infrastructure for telecommunications is also underdeveloped in Congo.** The fixed line telecommunication network and the provision of telephony services are poor. As a result, according to the International Telecommunication Union (ITU) there were only 4 lines per 1,000 people in 2006. As in many other Sub-Saharan countries, mobile telephony has given access to phone connection to most individuals (in 2006, 97 percent of subscribers were mobile phone subscribers). ITU estimates that 13 percent of Congolese have a mobile phone subscription (this figure is comparable with the Ivory Coast, slightly lower than Cameroon and much lower than Gabon, where it is estimated that close to 50 percent of the
2.30. A study undertaken by the consultancy firm OTF on the ICT (Information and Communications Technology) potential in the Republic of Congo illustrates the usage pattern of ICT in the Republic of Congo. Unsurprisingly, large enterprises make the most use of ICT technology (53 percent), while the picture is more diverse for SMEs, with 20 percent making the full use of ICT and 5 percent not using any communication technology. With regards to tourism enterprises, the picture is also very mixed, with 25 percent of them not using any communication technology and 25 percent of them using the full range of ICT.

Table 12: Usage patterns of ICT

<table>
<thead>
<tr>
<th>Institution</th>
<th>Do not use ICT</th>
<th>Use only communication tools</th>
<th>Use computer &amp; communication tools</th>
<th>Use computers, communication tools &amp; email/internet</th>
<th>Use full ICT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>4%</td>
<td>0%</td>
<td>46%</td>
<td>43%</td>
<td>7%</td>
</tr>
<tr>
<td>Local administration</td>
<td>8%</td>
<td>0%</td>
<td>62%</td>
<td>27%</td>
<td>3%</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
<td>37%</td>
<td>53%</td>
</tr>
<tr>
<td>SMEs</td>
<td>5%</td>
<td>0%</td>
<td>28%</td>
<td>47%</td>
<td>20%</td>
</tr>
<tr>
<td>Tourism enterprises</td>
<td>25%</td>
<td>5%</td>
<td>20%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Health centers</td>
<td>23%</td>
<td>4%</td>
<td>42%</td>
<td>23%</td>
<td>8%</td>
</tr>
<tr>
<td>Universities</td>
<td>26%</td>
<td>0%</td>
<td>42%</td>
<td>26%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: OTF “Promoting ICT to realize the Congolese economic potential”, 2009

2.31. Unsurprisingly, as shown by the graphs below, the larger the firms, the more they use e-mails and websites. Still, close to 40 percent of small firms use e-mails to communicate with clients and suppliers, while 11 percent use websites to communicate. While e-mails for communicating with clients and suppliers is used by 50 percent of firms in the manufacturing sector and 57 percent of firms in the services sector, websites to communicate with clients

---

13 2005 data.
and suppliers are only used by 10 percent of firms in the manufacturing sector and 30 percent of firms in the services sector.

Figure 9: Use of e-mail and websites


Past political instability continues to severely affect the private sector

2.32. History of Congo as a democracy has so far been uncertain. After independence from France was declared in 1960, the country experimented for almost three decades with Marxism. In 1992, a democratically elected government took office but a civil war soon
erupted and in 1997 former President Sassou Nguesso returned to power. A period of civil and ethnic unrest followed; a first peace treaty was signed in 2003 but tensions actually lasted until the final settlement of 2007. Since then, political stability has been maintained and presidential elections are scheduled for July 2009. The conflict caused destruction, macroeconomic instability and loss of confidence.

2.33. **The uncertainty associated with political instability makes business decisions difficult often causing a slowdown in economic activity and pressure on the country’s fiscal position.** The 2009 Republic of Congo Enterprise Indicator Survey reflects the problems created by political and macroeconomic instability for entrepreneurs and ranks political instability as the third most frequently reported main obstacle (15.5 percent of the firms). Political instability is also reported to be a major obstacle by 68.8 percent. These values are extremely high even by regional standards: In DRC, for example, political instability is picked as the main investment climate problem by 5.6 percent of the firms in DRC, by 3 percent in Cameroon and by 4 percent of the firms in Sub Saharan Africa (as shown by Figure 6).

**Improving governance and curbing corruption remains an important challenge**

2.34. **Improvements in terms of corruption and rule of law are associated with better competitiveness and growth.** Indicators of governance and rule of law show that Congo needs to address corruption, reinforce the rule of law and improve the government’s effectiveness in formulating and implementing policies (Figure 10) in order to encourage entrepreneurship, attract Foreign Direct Investments (FDI) and boost growth.
2.35. The judicial system is considered un-equitable and ineffective. The judicial system is regarded as politically compliant, lacking in trained staff and burdened with a backlog of cases. The establishment of transparent and efficient judicial institutions that can guarantee fairness in the administration of justice and enforcement of contracts is critical for fostering private sector growth.

2.36. The survey data confirm that the performance of the judiciary is weak and that corruption is a key constraint for the private sector. Less than one third (32 percent) of the firms agree with the statement that the court system is fair, impartial and uncorrupted – which is less than in Gabon and South Africa but more than in Cameroon and DRC – and 37 percent of the firms find the functioning of courts to be a major obstacle – which is worse than all comparator countries (see Table 9). The court system in Brazzaville is perceived to be less fair than in Pointe Noire.

2.37. Corruption takes place during visits by inspectors, when participating in public tenders,
when applying for licenses or when requesting connections to utilities. Informal payments or gifts are more commonly expected during tax inspections and in relation to participation in public tenders while they are less frequently reported by firms applying for licenses or for a connection to public utilities.

2.38. More specifically, as reported in Table 13, 31 percent of the firms that were inspected by tax officials in the previous year report having been expected or requested to make an informal gift or payment; the phenomenon appears to be more common in Pointe-Noire and among small and medium establishments, as well as in the services sector. Half of the establishments participating in public tenders report making informal payments or gifts to secure the contract.\textsuperscript{14}

### Table 13: Informal gift/payments expected or requested in Congo (% firms)

<table>
<thead>
<tr>
<th>Town</th>
<th>Size</th>
<th>Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Medium</td>
<td>Large</td>
</tr>
<tr>
<td>Voltage connection</td>
<td>11.5</td>
<td>25.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Water connection</td>
<td>7.2</td>
<td>12.3</td>
<td>13.3</td>
</tr>
<tr>
<td>Telephone connection</td>
<td>25.5</td>
<td>0.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Inspections (tax officials)</td>
<td>28.7</td>
<td>33.2</td>
<td>31.2</td>
</tr>
<tr>
<td>Bribe to get things done</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Import license</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Construction license</td>
<td>19.8</td>
<td>5.5</td>
<td>0.0</td>
</tr>
</tbody>
</table>


\textit{Note:} .. means that too few observations are available to report statistic.

2.39. One out of three firms reported being expected or requested to make an informal gift or payment when they applied for an operating license. On average, in the past two years, 20 percent of the firms that applied for an electrical connection and 10 percent of the firms that applied for a water connection were expected or requested to make an informal gift or payment. Informal gifts and payments are more common in Pointe Noire and for small establishments while no large establishments report being expected or requested to make an informal gift or payment. 13.5 percent of the establishments were expected or requested

\textsuperscript{14} Since very few firms participated in such tenders, data on making such informal payments are not excessively reliable and statistics by size / location / sector cannot not be reported.
to make an informal gift or payment when they requested a telephone connection; in this case corruption was only experienced in Brazzaville and by small establishments. The occurrence of corruption related to building permits is similar to the occurrence in requests for water and telephone and even lower than the occurrence in requests for power connection.

2.40. A cross country comparison of percentages of firms expected to give gifts in meeting with tax officials or to secure government contracts brings interesting results. The Republic of Congo does slightly better than two of its neighbors (Cameroon and DRC), however these neighbors might not be the best examples to look at in term of good governance. A third neighbor, Gabon, is doing better. South Africa is also doing better, especially in term of percentages of firms expected to give gifts in meeting with tax officials.

Figure 11: Giving gifts: cross country comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Firms Expected to Give Gifts In Meetings With Tax Officials</th>
<th>% of Firms Expected to Give Gifts to Secure a Government Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Cameroon</td>
<td>70</td>
<td>50</td>
</tr>
<tr>
<td>DRC</td>
<td>80</td>
<td>60</td>
</tr>
<tr>
<td>Gabon</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Republic of Congo</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>South Africa</td>
<td>30</td>
<td>10</td>
</tr>
</tbody>
</table>

Access to finance

2.41. Access to finance is frequently cited as a major constraint by firms in developing countries, and more particularly in Sub-Saharan Africa: 46.5 percent of firms in Sub-Saharan Africa consider access to finance as a major constraint, while 13 percent of firms in OECD countries do.
The Republic of Congo is a member of the CEMAC zone and it shares a Central Bank (Banque des Etats de l’Afrique de l’Ouest, BEAC) with Cameroon, Gabon, Equatorial Guinea, Chad and the Central African Republic. The banking sector is regulated by the Banking Commission (Commission Bancaire, COBAC). Starting from 2000, the Government has focused on restructuring and privatizing the financial sector, which had heavily suffered from the conflict and from past mismanagement. The financial sector is dominated by the banking sector, which, in 2009, counts 6 commercial banks (see table below). The Government of Congo has a minority participation in three banks (Crédit du Congo, La Congolaise des Banques and Banque Congolaise de l’Habitat).
Table 14: Commercial banks in the Republic of Congo

<table>
<thead>
<tr>
<th>Banks</th>
<th>Acronym</th>
<th>Capital (FCFA millions)</th>
<th>Capital distribution</th>
<th>Branches**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crédit du Congo*</td>
<td>Crédit du Congo</td>
<td>2,222</td>
<td>IUB Holding: 81%</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Government</strong>: 10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Proparco</strong>: 10%</td>
<td></td>
</tr>
<tr>
<td>La Congolaise de Banque*</td>
<td>LCB</td>
<td>4,000</td>
<td>Hubert Pendino: 29%</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Jewelry B. Beltrando: 27%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>BMCE</strong>: 25%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Government</strong>: 11%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Raymond IBATA: 4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Southern cross finance: 4%</td>
<td></td>
</tr>
<tr>
<td>BGFIBANK Congo*</td>
<td>BGFIBANK</td>
<td>10,000</td>
<td>BGFIBANK: 60%</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>SCIPA S.A.</strong>: 25%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Delta Synergie: 10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Mme Bongo</strong>: 5%</td>
<td></td>
</tr>
<tr>
<td>Banque Commerciale Internationale</td>
<td>BCI</td>
<td>3,000</td>
<td>Investment company of Banques Populaires: 99.9%</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Federal Bank of Banque Populaires</strong>: 0.01%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bruno Mettling: 0.01%</td>
<td></td>
</tr>
<tr>
<td>Ecobank*</td>
<td>Ecobank</td>
<td>3,000</td>
<td>ETI: 100%</td>
<td>4</td>
</tr>
<tr>
<td>Banque Congolaise de l’Habitat</td>
<td>B.C.H.</td>
<td>5,000</td>
<td>Libyan investment fund: 30%</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Government</strong>: 17%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Tunisian Housing Bank: 10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Maurel &amp; Prom: 10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>SOPROGI: 10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Pointe Noire Port: 10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>BEAC: 3%</td>
<td></td>
</tr>
</tbody>
</table>

* COBAC 2007 Annual Report  
** Data as of April 2009

2.43. Firms complain about the lack of access to financial services in the Republic of Congo. Indeed, private sector credit expressed as a percentage of GDP is very low (at 2.5 percent in 2007), much lower than Cameroon (9.2 percent), Senegal (23.0 percent) and Kenya (27.2 percent), as shown by the graph below. Private sector credit (as a percentage of GDP) increased to 3.5 percent in 2008. Expressed as a percentage of non oil GDP, private sector credit was 7.2 percent in 2007 and 11 percent in 2008.
2.44. The banking sector has been growing rapidly in the last few years. But as illustrated by the graph below, while deposits have been growing fast, credits have not. As a result, the banking sector is facing a very high liquidity. Most of the (limited) credit goes to the private sector: 86 percent of credit goes to the private sector, with state owned enterprises accounting for 9.5 percent of credit. Text box 4 below provides a brief overview of the financial sector.
### Text box 4: Overview of the financial sector in the Republic of Congo

**Financial Sector:**
The Congolese financial sector is small, concentrated, and overly liquid. The sector as a whole counts total assets of approximately 630 billion CFAF (US$1.2 billion) and is dominated by commercial banks (approximately 83 percent of total assets of the sector) most of which exclusively target the corporate sector or salaried employees. Lending to the economy is very low, with credit to the private sector relative to GDP of 2.49 percent compared to 9.2 percent in Cameroon, and liquid assets representing 73 percent of total banking sector assets. The banking sector counts only 70,000 active individual bank accounts (2007) for a population of approximately 4,000,000, representing a penetration rate of less than 2 percent. Moreover, banking services are heavily concentrated in Brazzaville and the oil production center of Pointe Noire, with only one bank branch per 100,000 inhabitants for the country overall.

**Microfinance Sector:**
The Congolese microfinance sector is very small and - as in many West and Central African countries - dominated by cooperative institutions. The sector is highly concentrated in a single strong and profitable cooperative network, MUCODEC (with 217,552 members as of April 2009) representing approximately 91 percent of the sector’s deposits and 94 percent of loans outstanding. MUCODEC’s loan portfolio mostly consists of salary loans to employees of large companies or the public sector. The second microfinance institution, but much smaller than MUCODEC is CAPPED (and not yet financially sustainable). Other MFIs are small, weak, beset with governance problems and lack technical and managerial capacity. Like the banking sector, the microfinance sector is concentrated in the two urban centers of Brazzaville and Point Noire, with limited outreach to rural areas due to serious infrastructure constraints and a desire by MFI’s managers to manage operating costs.

Source: IFC Africa Microfinance Program’s Feasibility Studies in Congo

### 2.45. The Government approved, in December 2008, a financial sector strategy aimed at strengthening the stability of the sector (as the situation of a number of banks remains fragile), as well as increasing access to financial services. The strategy includes a series of measure to be implemented between May 2009 and June 2010, which are summarized in the text box below. The proposed timeline appears very ambitious considering the number of reforms proposed.

**Text box 5: Financial sector strategy for the Republic of Congo**

The financial sector strategy highlights a number of reforms that the Government has committed to undertake by June 2010. Key reforms are summarized below:

**Banking sector reforms**
- Strengthen the role of the National Credit Council with regards to the monitoring of banking services costs
and to the facilitation of credit;
- Establish a dialogue platform between the Ministry of Finance, banks and economic operators;
- Establish with the banking sector a card system (*monétique*), which allows interconnections between banks;
- Adopt with the banking sector an incentive framework to increase the number of bank branches across the country;
- Ensure the implementation of the “right to the bank account”;
- In partnership with COBAC, increase banks’ net worth;

**Insurance sector**
- Create a dialogue platform between the Ministry of Finance and insurance companies;
- Strengthen the capacity of the National Direction of Insurance;
- Implement the recommendations from CIMA (the regional insurance regulatory framework) for the restructuration of Congo Assurance and Reinsurance company (ARC);
- Disseminate the licensing conditions for insurance agents, insurance brokers and other intermediaries;
- Adopt, in collaboration with the insurance companies, a program to strengthen their net worth;
- Define a deadline for the implementation of insurance regulations for the insurance intermediaries already established;
- Identify all intermediaries in the insurance sector;
- Ensure all insurance companies have external auditors;

**Pension sector**
- Review the pension legal framework;
- Implementation of a modern management information system;
- Strengthen the financial accounts of the pension funds;
- Implement the recommendations of the external audits;
- Settle pension arrears;
- Adopt a strategy to ensure the long term viability of the pension funds;
- Computerize the pension funds;
- Train pension funds staff;

**Microfinance sector**
- Implement training programs for microfinance institutions (MFI) staff;
- Establish a collaboration between banks and MFIs;
- Provide IT equipment to MFIs;
- Create a database on MFIs;
- Adopt a harmonization plan with OHADA accountancy framework;
- Encourage, in collaboration with COBAC and the microfinance association, independent credit and savings cooperative to join networks;
- Close MFIs which do not have a license to operate;
- Strengthen the capacity of the Microfinance Direction and the Credit Direction;
- Monitor the compliance with prudential ratios;

**Other reforms**
- Adopt a program to strengthen the judiciary;
- Adopt a reform program for commercial courts;
- Improve the contract enforcement framework;
- Ensure the harmonization of the national legislation with OHADA;
- Strengthen the capacity of the OHADA National Commission to disseminate OHADA;
- Adopt the land law reform;
- Launch studies to computerize the land registry;
- Organize the accounting profession;
- Organize training for economic operators on banking relations and management;
2.46. Access to finance is considered as the second most important constraint identified by Congolese firms: 31.9 percent of firms consider that electricity is their major constraint, while 15.6 percent of firms consider access to finance as their main constraint (figure 5).

2.47. **Bank accounts are widespread**: 86.7 percent of the firms have one. Interestingly, 82 percent of small firms have a bank account. This still leaves 13.3 percent of the firms without a bank account. Surprisingly, it would appear that 14.4 percent of large firms do not have a bank account. Firms in Brazzaville and Pointe Noire have an equal access to bank accounts. However, bank accounts are less common in the services sector than in the manufacturing sector.

2.48. **About half of the firms (54 percent) has access to overdraft facilities.** Such facilities are more common in Pointe Noire, among large firms and in the manufacturing sector. Access to overdraft is correlated with the size of the firm: 46 percent of small firms have an overdraft facility, while 72 percent of large firms have.

2.49. **Only 13 percent of the firms have a line of credit or a loan.** Having a loan is more common among medium and large firms (18 percent and 22 percent respectively). While access to overdraft facilities is more common in Pointe Noire, access to lines of credit or loans is more common in Brazzaville.

2.50. In Sub-Saharan Africa, on average, 22.2 percent of firms have a line of credit or a loan. Congo does better than some of its neighbors, such as Angola (where 4.1 percent of firms have a loan or line of credit), DRC (5 percent) or Gabon (9.6 percent), but it is behind countries such as Cameroon (where 42.1 percent of firms have a loan or line of credit) or Burkina Faso (29.5 percent).
2.51. **Reported interest rates are high, especially for overdraft facilities.** Half of the firms pay an interest rate higher than 70 percent on their overdraft facility; interest rates on overdraft are higher in Pointe-Noire and for small firms, as well as for the services sector. The average reported interest rates on lines of credit or loans (26 percent) are much lower than interest rates on overdraft facility; however they are still high and reflect high operating costs of the banking sector in Congo.

2.52. Interestingly, all of the firms with a line of credit were required to give collateral, while collateral was required on about half (57 percent) of the loans. The most common type of collateral is land or buildings and the value of the property used as collateral – as a percent of the value of the loan – ranged between 2 and 100 percent\(^{15}\). Of the few firms that were able to report the duration of most recent credit granted to them, most reported a duration

\(^{15}\) While firms often complain about high collateral requirements across the world, it would appear that collateral requirements in the Republic of Congo are relatively low when compared with other countries.)
of 6 months or less.

2.53. **Few firms try to obtain loans.** 19 percent of the firms applied for a loan or a line of credit in 2007; the incidence is more than twice as much (47 percent) among large firms, while there are no large differences across towns or across sectors. The majority (60 percent) of those that applied for a loan or line of credit are firms that already have a loan or a line of credit from a financial institution.

2.54. **The main reported reasons for not asking for loans or lines of credit are “no need” (40 percent) and “complex procedures” (27 percent),** as illustrated by the graph below. High interests and high collateral requirements each discouraged 10 percent of firms. However, large firms state that the only reason why they do not ask for a loan is because they do not need one. Also, “no need for a loan” was a far more common cause for not applying among firms that already have a loan or a line of credit.

**Figure 15: Reasons for not asking for a loan or line of credit**

![Graph showing reasons for not asking for a loan or line of credit](image)


2.55. **38 percent of the firms that did apply for a loan were rejected.** While the subsample for this question is very small, the rejection rate appears to be higher among small firms and in the services sector, as well as among firms that do not currently have another loan or line of credit. Reported reasons for rejection include unacceptable collateral, incomplete loan application and problematic credit history.
2.56. **Credit from financial institutions is seldom used to finance working capital or investments.** Firms, on average, use internal funds and retained earnings to finance over 84 percent of their working capital and 85 percent of their purchases of fixed assets.

### Table 15: Average percentage of working capital financed by the following sources

<table>
<thead>
<tr>
<th></th>
<th>Internal funds, retained earnings</th>
<th>Banks</th>
<th>Non-bank financial institutions</th>
<th>Credit from suppliers, advances from customers</th>
<th>Other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brazzaville</strong></td>
<td>78.6</td>
<td>5.8</td>
<td>0.3</td>
<td>12.8</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Pointe-Noire</strong></td>
<td>88.2</td>
<td>1.6</td>
<td>0.0</td>
<td>6.7</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Small &gt;=5</strong></td>
<td>82.0</td>
<td>3.2</td>
<td>0.0</td>
<td>10.6</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Medium &gt;=20</strong></td>
<td>85.8</td>
<td>4.0</td>
<td>0.4</td>
<td>8.1</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Large &gt;=100</strong></td>
<td>94.9</td>
<td>1.8</td>
<td>0.0</td>
<td>3.3</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>84.3</td>
<td>6.0</td>
<td>0.0</td>
<td>7.7</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>84.2</td>
<td>2.8</td>
<td>0.2</td>
<td>9.6</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>84.2</td>
<td>3.4</td>
<td>0.1</td>
<td>9.2</td>
<td>3.1</td>
</tr>
</tbody>
</table>


2.57. **71 percent of the enterprises use only internal funds to finance their working capital,** while 5 percent of them do not use any internal funds to finance their working capital. On average only 3 percent of working capital is borrowed from banks, only 10 percent of the firms finance at least part of their expenses through banks, and less than 2 percent finance the majority of their working capital through banks. The second most used source of funding (9 percent) is credit from suppliers and advances from customers. Supplier credit and customer advances are very rarely used as the only source of funding for working capital (1.2 percent of the firms do so), 9 percent of the firms use it to finance more than half of their working capital.

2.58. Firms in Brazzaville and firms in the manufacturing sector, on average, make more use of credit from banks, as 6 percent of their working capital if financed through this channel. In both cases, however, internal funds are the predominant source of funding and suppliers credit / customers advances account for a larger share of funding than credit from banks. Unexpectedly, large firms have the highest proportion (95 percent) of working capital
financed through internal funds or retained earnings.

Table 16: Average percentage of fixed assets financed by the following sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Internal funds, retained earnings</th>
<th>Banks</th>
<th>Non-bank financial institutions</th>
<th>Credit from suppliers, advances from customers</th>
<th>Owners' contribution, new equity</th>
<th>Other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazzaville</td>
<td>84.33</td>
<td>4.17</td>
<td>3.48</td>
<td>6.63</td>
<td>0.93</td>
<td>0.46</td>
</tr>
<tr>
<td>Pointe-Noire</td>
<td>84.82</td>
<td>3.78</td>
<td>1.26</td>
<td>6.57</td>
<td>1.47</td>
<td>2.10</td>
</tr>
<tr>
<td>Small &gt;=5</td>
<td>82.23</td>
<td>5.96</td>
<td>0.82</td>
<td>7.49</td>
<td>1.44</td>
<td>2.06</td>
</tr>
<tr>
<td>Medium &gt;=20</td>
<td>84.13</td>
<td>2.08</td>
<td>5.04</td>
<td>6.97</td>
<td>1.19</td>
<td>0.59</td>
</tr>
<tr>
<td>Large &gt;=100</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>91.65</td>
<td>0</td>
<td>4.81</td>
<td>0.65</td>
<td>2.89</td>
<td>0</td>
</tr>
<tr>
<td>Services</td>
<td>82.49</td>
<td>5.14</td>
<td>1.57</td>
<td>8.37</td>
<td>0.71</td>
<td>1.72</td>
</tr>
<tr>
<td>Total</td>
<td>84.58</td>
<td>3.97</td>
<td>2.31</td>
<td>6.6</td>
<td>1.21</td>
<td>1.32</td>
</tr>
</tbody>
</table>


2.59. 85 percent of fixed assets investments in the past year were financed through internal funds and retained earnings. Remarkably, 70 percent of the firms financed all of their fixed assets through this source. Credit from suppliers and advances from customers was used to finance on average 6.6 percent of investments. Borrowings from banks account for 4 percent and non bank financial institutions for another 2 percent, while new equity financed on average 1.2 percent of investments. About 8 percent of enterprises financed part of their investments through borrowings from financial institutions other than banks, but none financed more than half of their investments through this channel. Large firms only used internal funds and retained earnings to finance their investments.

2.60. Unsurprisingly, firms with audited financial statements are much more likely to have a loan or a line of credit: among firms which have audited financial statements, 20.3 percent have a loan or line of credit. Among firms which do not have audited financial statement, only 2.8 percent have a loan or line of credit.

2.61. Because of limited access to bank finance, Congolese firms heavily rely on internal funds to finance investments or working capital. The table below confirms that access to bank
finance is particularly limited in the Republic of Congo (it should however be noted that Congo does better than Angola, Gabon and DRC). As a result – and as confirmed by the tables above – Congolese firms have no other option than relying on internal funds and/or retained earnings.

Table 17: Access to finance across countries

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Firms with Line of Credit or Loans from Financial Institutions</th>
<th>% of Firms Using Banks to Finance Investments</th>
<th>% of Firms Using Banks to Finance Expenses</th>
<th>Value of Collateral Needed for a Loan (% of the Loan Amount)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>4.14</td>
<td>2.13</td>
<td>2.33</td>
<td>99.59</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>29.5</td>
<td>23.13</td>
<td>19.42</td>
<td>104.43</td>
</tr>
<tr>
<td>Cameroon</td>
<td>42.11</td>
<td>19.5</td>
<td>41.86</td>
<td>130.17</td>
</tr>
<tr>
<td>Congo, Dem. Rep.</td>
<td>5.03</td>
<td>3.26</td>
<td>5.84</td>
<td>129.08</td>
</tr>
<tr>
<td><strong>Congo, Rep.</strong>*</td>
<td><strong>11.68</strong></td>
<td><strong>6.25</strong></td>
<td><strong>10.17</strong></td>
<td><strong>52.9</strong></td>
</tr>
<tr>
<td>Gabon</td>
<td>9.58</td>
<td>5.88</td>
<td>8.72</td>
<td>64</td>
</tr>
<tr>
<td>Kenya</td>
<td>25.41</td>
<td>22.92</td>
<td>26</td>
<td>120.81</td>
</tr>
<tr>
<td>South Africa</td>
<td>30.09</td>
<td>34.78</td>
<td>21.1</td>
<td>103.58</td>
</tr>
</tbody>
</table>

Source: www.enterprisesurveys.org

*: In this table the data from the Republic of Congo is produced without sampling weights, hence the differences

2.62. This very limited access to financial services is due to both demand side and supply side constraints. With regards to the demand side, the private sector is dominated by a micro, small and medium enterprises (MSMEs) which are characterized by a high level of informality. As highlighted by the survey (which only focused on firms with more than 5 employees), most firms have less than 20 employees (59 percent), firms are sole proprietorships (60 percent) and 51 percent of small firms do not have audited financial statements.

2.63. With regards to the supply side, there is a significant “missing middle” in the Republic of Congo, as in many developing economies. Banks have so far focused on the “top end” of the enterprise sector: medium and large formal enterprises. Microfinance institutions focus on the lower end of the enterprise sector: small farmers and micro-enterprises. There are therefore a number of enterprises (most of them small) that are neither served by the banking sector, nor by the microfinance sector, being too small and too informal for the banks, but too big for the microfinance institutions.
2.64. In addition, access to finance can be constrained by banking regulations. In the Republic of Congo, access to financial services is hampered by limits on deposit and lending rates. This practice has induced banks to impose high minimum savings balances and management fees that keep many small-scale savers from opening accounts. It also prevents banks from lending to clients they consider “risky”, as they cannot set interest rates that would cover the costs of dealing with “riskier” clients.

**Others obstacles: tax administration, labor regulation and custom and trade regulation**

2.65. While tax administration, labor regulation and custom and trade regulation are not top investment climate priorities in the perception of managers, Congo’s performance in these dimensions in the Ease of Doing Business index is particularly weak.

**Taxes**

2.66. **Paying taxes is convoluted and time consuming.** Congolese businesses have to make 2.3 times more payments and spend 50 percent more time paying taxes than other African countries; payments and time spent are almost six and three times the OECD average, respectively (World Bank, 2009c).

2.67. **As a reflection, tax administration is perceived as a major obstacle by 47.3 percent of the firms,** which is more than in all other comparator countries except for Cameroon (see Table 9: Major obstacles in the Republic of Congo and in comparator countries). The proportion of firms finding tax administration a major obstacle is much higher in Pointe-Noire and among medium firms (61 percent), while there are no significant differences across sectors.

2.68. **Taxes on business activity in Congo.** The main taxes in Congo are: i) taxes on turnover, which are set at 49 percent on commercial and manufacturing enterprises and at 36.40 percent for agriculture and real estate enterprises; ii) value added tax, which is set at 18.6 percent iii) customs taxes, which is based on the CEMAC (Communauté Economique et Monetaire de l’Afrique Centrale) system which allows for four categories with tax rates going
from 5 to 30 percent. In addition, there is a very high number of various taxes (parafiscalité) in the different economic sectors. UNICONGO (one of the private sector representative body) undertook a survey of these multiple taxes to help its members.

2.69. Tax rates are also commonly found to be a major obstacle (41 percent) to business activity. Tax rates are more of a problem in the services sector, in Pointe-Noire and in medium firms.

Figure 16: Perception of tax administration and tax rates in Congo (% firms considering tax rates and tax administration a major or severe obstacle)


2.70. The findings from the Indicator Survey are corroborated by the Doing Business report. Enterprises need on average to make 61 tax payments, to be compared with an average of 38 in sub-Saharan Africa and 13 in OECD countries. In addition, it takes enterprises around 600 hours to deal with tax payments.

---

16 Source: Chambre de Commerce, d’industrie et des Métiers de Pointe-Noire, Impôts et taxes au Congo.
Table 18: Doing Business indicator Paying Taxes

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Congo, Rep.</th>
<th>Region</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments (number)</td>
<td>61</td>
<td>37.8</td>
<td>13.4</td>
</tr>
<tr>
<td>Time (hours)</td>
<td>606</td>
<td>311.7</td>
<td>210.5</td>
</tr>
<tr>
<td>Labor tax and contributions (%)</td>
<td>32.9</td>
<td>13.2</td>
<td>24.4</td>
</tr>
<tr>
<td>Other taxes (%)</td>
<td>32.6</td>
<td>32.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Total tax rate (% profit)</td>
<td>65.5</td>
<td>66.7</td>
<td>45.3</td>
</tr>
</tbody>
</table>

Source: Doing Business 2009 (www.doingbusiness.org)

Trade and customs

2.71. Very few establishments are exporters and exporters only sell a small fraction of their products abroad. The Republic of Congo Enterprise Indicator Survey shows that 91 percent of the establishments sell all of their products in the domestic market; even among large firms, only 36 percent of the firms are exporters.\(^{17}\) Few firms are strongly export-oriented: among exporters, on average less than 37 percent of total sales are exported and three quarters of the establishments export half of their output or less. Sales are predominantly exported through third parties: on average, indirect exports account for 61 percent of exports. Among respondents, all establishments sold all of their exports to Regional Trade Agreement countries or neighboring countries in Sub-Saharan Africa.\(^{18}\)

2.72. Importing and exporting in Congo is costly and complicated. While Congo is part of the CEMAC regional trade agreement, tariffs are high and exemptions widespread; furthermore, bureaucratic requirements are heavy. Improving trade practices, and especially minimizing administrative procedures for imports and exports, would not only boost trade but would also likely reduce transport costs.

2.73. Internationalization of firms can also take the form of import of material input and supplies. About 64.5 percent of the establishments in the manufacturing and services

\(^{17}\) As mentioned in paragraph 0, exporting firms are concentrated in the chemicals and transport industries and, to a lesser extent, in other manufacturing, wholesale and other services.

\(^{18}\) Since very few establishments are direct exporter, the sample size for questions on number of days to clear customs and on losses during shipments have too few observations for the results to be representative and are therefore not reported.
sectors import at least part of their inputs and supplies from abroad. The incidence of importers is higher in Brazzaville than in Pointe Noire (71.2 percent vis-à-vis 57.9 percent). Over 90 percent of large establishments are also importers most likely because they need more sophisticated inputs and supplies for their production process. The services sector sees a higher incidence of importers, even though the difference with the manufacturing sectors is not large (65 percent vs. 60 percent). On average, importers purchase 72 percent of their inputs and supplies from abroad but more half of the establishments import 80 percent or more.

2.74. **Direct access to international markets is much more common among importers than among exporters.** On average, importers import directly about 43 percent of their purchases of inputs or material from abroad. Direct imports are more common among large establishments (58 percent) and in manufacturing (68 percent).

2.75. Among establishments that import inputs or supplies directly, 31 days are usually necessary to clear customs. Clearance takes longer in Brazzaville (33 days on average) and for small firms (37 days).

2.76. **Slightly less than half of the firms (46 percent) find customs and regulations to be major or very severe obstacle** to their activity but only about 15 percent of the establishments find them not to obstacle their activity. Customs and trade regulation is quite more often rated as a major obstacle in Brazzaville (63 percent), in large firms (59 percent) and in the manufacturing sector (59 percent). 91 percent of exporters that export directly find it to be a major obstacle, while the incidence among direct exporter is about the same as the sample average. Establishments that export directly find transportation to be a major obstacle much more frequently than those that export through third parties (65 percent vs. 48 percent), while the opposite is true for importers (47 percent vs. 57 percent).

2.77. With the planned modernization of the Pointe Noire port, it will be crucial for Congo to modernize its customs. Data from the Doing Business report show that time and costs associated with importing or exporting a container are high. The performance of Cameroon is better. For the sake of comparison, the performance of the port of Singapore is also
provided in the table below.

Table 19: Doing Business Indicator Trade across borders

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Congo, Rep.</th>
<th>Region</th>
<th>OECD</th>
<th>Cameroon</th>
<th>DRC</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documents for export (number)</td>
<td>11</td>
<td>7.8</td>
<td>4.5</td>
<td>9</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Time for export (days)</td>
<td>50</td>
<td>34.7</td>
<td>10.7</td>
<td>27</td>
<td>46</td>
<td>5</td>
</tr>
<tr>
<td>Cost to export (US$ per container)</td>
<td>2,490</td>
<td>1,878.8</td>
<td>1,069.1</td>
<td>995</td>
<td>2,607</td>
<td>456</td>
</tr>
<tr>
<td>Documents for import (number)</td>
<td>12</td>
<td>8.8</td>
<td>5.1</td>
<td>8</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Time for import (days)</td>
<td>62</td>
<td>41.1</td>
<td>11.4</td>
<td>33</td>
<td>66</td>
<td>3</td>
</tr>
<tr>
<td>Cost to import (US$ per container)</td>
<td>2,959</td>
<td>2,278.7</td>
<td>1,132.7</td>
<td>1,672</td>
<td>2,483</td>
<td>439</td>
</tr>
</tbody>
</table>

Source: Doing Business 2009 (www.doingbusiness.org)

**Labor**

2.78. In terms of labor regulation Congo ranks 170th out of 181 countries.\(^{19}\) Labor regulation in the Ease of Doing Business Index is assessed with respect to difficulty of hiring, rigidity of hours, difficulty of firing, and cost of firing.

\(^{19}\) World Bank (2009c)
Figure 17: Perception of labor regulation and labor skills in Congo (% firms considering labor regulation and labor skills a major or severe obstacle)

2.79. Labor regulation is perceived as a major issue by 24 percent of the firms but inadequate workforce skills is considered a more significant constraint as it is perceived to be a major obstacle by 51 percent of the establishments. Labor regulation and labor skills are more problematic for medium-sized firms, for firms in Pointe-Noire and for firms in the services sector. Private sector representative bodies, and especially UNICONGO, have been very vocal about the urgency to tackle the issue of workforce skills.

2.80. While the average education level among managers is good, previous experience is more lacking. The average education level among top managers is quite high as 55.7 percent of them has a university degree or a higher degree; only 4 percent of the top managers have not completed a secondary degree. Educational attainment of top managers is on average higher in Brazzaville, in large establishments and in the services sector. Managers with a degree below secondary education are still relatively common in small establishments (7 percent) and in the manufacturing sector (11 percent). Managers have an average of three years of previous professional experience in the firm’s sector. Only 25 percent have four
years of experience or more.

2.81. 37 percent of the establishments offer formal training to permanent full time employees, but 67 percent of large firms and 53 percent of manufacturing firms do.

2.82. The need to improve technical and professional training is recognized by the Government of Congo. In 2005, the Government of Congo produced the Strategic Document for General Policy to Recover and Develop Technical and Professional Training in Congo (Document Stratégique de Politique Générale en matière de Redressement et de Développement de l’Enseignement Technique et Professionnel au Congo). This document was completed in 2007 with the 2007-2016 Decennial Plan to Recover and Develop Technical and Professional Training (Plan décennal 2007-2016 de Redressement et de Développement de l’Enseignement Technique et Professionnel). The text box below summarizes the main elements of this Decennial Plan.

**Text box 6: 2007-2016 Decennial Plan to Recover and Develop Technical and Professional Training**

In 2005, Congo counted 2.6 million people above 10 years old and the active population was estimated at 1.6 million. 28 percent of this population is looking for a job. Within the working population, 16 percent is in the formal sector and the remaining 84 percent in the informal economy (with 42 percent in the agriculture sector and 58 percent in non agricultural activities).

In the context of a growing workforce, it is critical to ensure that this workforce has the required skills to be able to find jobs and perform in these jobs. Technical and professional training can play a key role in providing the required skills to the Congolese workforce.

A diagnostic of professional and technical training (PTT) in Congo was conducted in 1998 by UNDP and updated in 2007. The main findings of the diagnostic are summarized below:

- Access to professional and technical training: the capacity of PTT facilities has decreased following the 1997 civil war. The facilities are concentrated in Brazzaville and Pointe Noire. In addition, a number of facilities have been illegally taken over (due to the lack of official titles). There are not enough PTT facilities to meet the needs of the Congolese economy.

- Quality of professional and technical training: the quality of PTT is poor. There are strong regional disparities with regards to the ratio student / trainer. The ratio students / classroom is high (67 in technical institutes while the norm is 45). Teaching programs are inconsistent or lacking. The qualifications of
teachers and trainers are insufficient. The proposed courses and diplomas are obsolete and do not meet the needs of the labor market. The training curriculum does not allow trainees to alternate between training and working (*alternance*) and does not offer apprenticeship; as a result there is a lack of exchanges between the training institutions and the productive sector.

- Management of professional and technical training: there is an urgent need to review the organization and management of the sector. Key issues include: inappropriate incentive systems for trainers (in particular for remote locations), recruitment freeze, promotion freeze, reliance on volunteers, absence of monitoring and evaluation tools, very low operating budgets (with less than 1 percent of national budget allocated to technical and professional training).

As a result, professional and technical training is not adapted to the needs of the economy. However, professional and technical training needs to be revamp to be able to provide the required skills to the workforce. The strategy highlighted in the Strategic Document for General Policy to Recover and Develop Technical and Professional Training in Congo is the following:

- Provide an easier and more equitable access to professional and technical training;
- Improve the efficiency of the training
- Improve the match between training and jobs
- Ensure a better insertion in the working life of trainees

To do so the government has committed the following:

1. Adaption of the institutional, structural and legal framework of PTT
2. Strengthening of technical and operational capacities of the staff of the ministry in charge of professional and technical education
3. Improvement and valorization of the status of teachers
4. Introduction of new pedagogical approaches
5. Modernization of the training institutes map (*carte scolaire*)
6. Creation of partnerships with the private sector
7. Increasing the financing available for PTT

Source: 2007-2016 Decennial Plan to Recover and Develop Technical and Professional Training

### 2.83

A number of initiatives have been initiated to improve professional and technical training in the Republic of Congo. For example, AFD is supporting the creation of vocational training centers in partnership with the Ministry of Professional and Technical Education and UNICONGO (one of the private sector representative body). Under this initiative, 2 Centers for Vocational Training and Education (*Centre de Formation d’Education et d’Apprentissage*, CEFA) will be created, one in Brazzaville for the construction sector and one in Pointe Noire.
for the industrial maintenance sector. These CEFA are a public private partnership and UNICONGO will be represented in the Board of these structures, thus ensuring that they fully meet the needs of the private sector. If they prove to be successful, they could be replicated in other parts of the country or in other sectors.
3. THE WAY FORWARD

3.1. The Investment Climate Policy Note aims to answer the following key questions: (i) what are the required reforms to improve the investment climate in Congo, (ii) how to prioritize these reforms and (iii) how to implement the priority reforms, what could be the institutional mechanism to drive the reform agenda?

3.2. The indicator survey, completed by other analytical instruments, such as the Doing Business report, highlights the following priorities – in addition to maintaining political stability:

- Improving infrastructures (with a focus on power and transport);
- Improving the private sector environment;
- Developing a “growth pole” economic development strategy;
- Increasing MSMEs access to financial and non financial services;
- Piloting investment climate reforms.

3.3. This is however a very vast agenda and it is critical to prioritize the reforms to implement. It will be also important to consider what would be the most effective institutional set up to ensure that identified priority reforms are implemented and are yielding the desired results (i.e. broad based economic growth).

Improving infrastructure

3.4. In parallel to the indicator survey, the World Bank undertook an analysis to prioritize infrastructure investments in the Republic of Congo (Prioritizing Infrastructure Investments: a Spatial Approach). This section will briefly summarize the key findings of this study.

3.5. The Republic of Congo is considering a large package of potential infrastructure interventions comprising a wide range of interventions in the power, ports, road, river and railway sectors. As discussed in previous sections, some of these interventions have already been launched. These interventions have the potential to substantially reduce transport and energy input costs to the private sector:

- Providing feeder roads reduce costs of moving agricultural produce by 90
percent.
- River dredging and upgrading could reduce costs of transport by 70 percent.
- Road rehabilitation and upgrade could reduce costs of road transport by 45 percent.
- Port upgrades and reforms could reduce costs of cargo handling by 30 percent.
- Rail rehabilitation could reduce costs of surface transport by 30 percent.
- Improving power supply could reduce costs to firms by as much as 25 percent.

3.6. However, given the cost of infrastructure investments, it is essential to prioritize and sequence these investments to obtain the highest economic return. Following an in-depth analysis, the study identified the following key findings:
- The variation in economic rates of return is considerable across different interventions indicating the importance of undertaking project screening.
- The highest return isolated infrastructure interventions for the country are river upgrading, power infrastructure and feeder roads.
- Packaging infrastructure investments along corridors yields a significantly higher economic rate of return than doing them in isolation.

3.7. These are valuable findings and it would be useful for the Government to take them into account while planning further investments. In addition, as discussed previously, the Government had already launched a number of projects that could have a major impact on the development of the private sector in the Republic of Congo (new power supply, re-establishment of the road and railway link between Pointe Noire and Brazzaville, modernization of the port). It will be important to monitor the progress on these vital infrastructure projects.

3.8. Infrastructure investments are critical but they need to be accompanied by management and governance improvements. This will be particularly important in the power sector where the important investments need to be complemented by an improvement in the management and governance of the public utility. The World Bank is currently undertaking an analysis of the performance of transport, power, water and telecommunications services, in the framework of the Public Expenditure Review. It will also be important to improve the
legal and institutional framework for private sector investments in the infrastructure sector.

**Improving the private sector environment**

3.9. The Indicator Survey and the Doing Business Report identify key areas for improvements. While the Republic of Congo scores low on most of the Doing Business indicators, it might not be realistic to attempt to tackle all the indicators at the same time. The analysis of the Indicator Survey and the Doing Business report shows that two complex but critical issues need to be tackled: customs and taxes.

3.10. If the Republic of Congo wants – once again – to act as a transport corridor for Central Africa, it is critical that it improves customs management. The important investments planned at Pointe Noire will be of little use if customs management is not improved.

3.11. The current tax system is a major constraint to private sector operators. In addition, its complexity is an important source of corruption: the multitude of taxes gives multitude opportunities to private sector operators and administration officials to “make arrangements” (i.e. providing an informal payment in lieu of a higher official payment). It also encourages firms to stay in the informal economy, even when they reach a significant size, as becoming formal means that they will suddenly be the target of multiple taxes and tax inspections.

3.12. It would also be important to analyze further whether access to land is a major issue for new investors. Access to land titles is recognized as a major issue to improve access to bank financing (see section below).

3.13. The survey has also shown that the lack of skills of the Congolese workforce was a key issue for private enterprises. The need to revamp professional and technical training has been recognized by the authorities and important reform efforts are underway. These will be critical for private sector development in Congo.

**Developing a growth pole economic development strategy**

3.14. Potential growth poles in the Republic of Congo include wood and agricultural products
(cassava, vegetables) transformation, Information and Communication Technologies (ICT), tourism and oil sector sub-contracting. A growth pole strategy requires to gather a critical mass of interventions (investments as well as policy and institutional reforms around identified growth poles to unleash private sector investments. A cassava value chain analysis should be completed by end July 2009. This value chain analysis will help identify the key constraints to the development of the cassava value chain.

**Improving MSME access to financial and non financial services**

**Improving access to financial services**

3.15. Limited access to financial services is a widespread concern. However, the data shows that access is particularly limited in the Republic of Congo. There are however a number of recent positive developments with, in particular, the arrival of new dynamic players in the market. The arrival of new strong players will increase the competition in the market and should lead to an increased access to financial services.

3.16. However, considering the current limited credit to private sector, only relying on new entrants and the ensuing competition might not be sufficient. More targeted approach to increase access to financial services to enterprises, and in particular to micro, small and medium enterprises (MSMEs) – the most severely constrained – might be needed.

3.17. Different (and complementary) avenues can be considered to improve MSMEs access to financial services such as (i) offering partial credit guarantee together with technical assistance to commercial banks to help them develop a SME lending business line, (ii) promoting the establishment of “Greenfield” microfinance banks and (iii) strengthening existing microfinance institutions which have a potential for growth. The text box below provides further illustration of these different avenues.

**Text box 7: Increase MSMEs access to financial services – complementary approaches**

“Downscaling”: helping commercial banks to lend to MSMEs

This approach has been very successful in Eastern Europe and in the Former Soviet Union, with support from the European Bank for Reconstruction and Development (EBRD).
The IFC (International Finance Corporation, the private sector arm of the World Bank Group) is now promoting this approach in Africa under the Africa MSME Finance Program. This program is designed to provide support to financial institutions to rapidly and profitably ramp-up their MSME banking services, while maintaining good asset quality. The program provides a combination of performance-based advisory services and financial products to participating banks. In particular, it provides resident advisors and short term experts as well as tools to address identified institutional challenges and to develop new products and services for the MSME segment.

**Creating Greenfield Microfinance Banks**

Another approach is to create commercial banks that specifically target the MSME market. A number of networks have emerged in the recent years. Such networks usually have institutional investors, such as the IFC, KFW (the German cooperation), EBRD, etc. The largest network is the ProCredit Banks Holding. ProCredit Banks are operating in 22 countries in Latin America, Eastern Europe and Africa. In Africa, ProCredit Banks are located in Sierra Leone, Ghana, Mozambique and DRC.

In DRC, ProCredit Bank played a key role in providing access to financial services (in particular bank accounts and savings facilities) to people in Kinshasa (the bank has now started to expend its network in other cities). Currently Procredit DRC counts around 70,000 bank accounts (total bank accounts in the countries are around 200,000). In addition, Procredit DRC has around 4,000 outstanding loans to MSMEs, with an average loan size of around US$5,000.

Other similar microfinance bank networks have emerged, such as Advans or Opportunity International.

**Supporting existing microfinance institutions**

A third option is to provide support to existing microfinance institutions that show a potential for growth. In particular support can be provided to help them expand their range of products and develop specific loan products targeted at micro and small enterprises.

---

3.18. It is indeed possible for financial institutions to profitably lend to MSMEs, even with a weak legal and judicial environment. Various models have evolved over the years, but they all rely on similar principles, as highlighted in the table below.

**Text box 8: Key tenets of MSME lending**

Key tenets of MSME lending:
- Credit risk assessment is not primarily based on the evaluation of collateral, but on the careful assessment of the enterprise’s cash flow and its credit history.
Due to the paucity of reliable documentation, loan officers have to collect and cross-check relevant primary data, in particular through visits to the applicants' enterprises and households.

Loan officers are responsible for the whole loan cycle: from creditworthiness assessment to contract enforcement, and their performance is remunerated accordingly (incentive-based salary).

Building on clear, transparent systems and strict procedures, decision procedures are decentralized to ensure a fast decision process. Transaction costs and processing time are minimized at every level.

Punctual repayment of a loan is rewarded with access to larger loans with longer maturities and more favorable interest rates (graduation principle), whereas default is monitored on a very timely basis and penalized, often by denying access to follow-up loans.

Solid management information system (MIS) to allow real-time loan monitoring and prompt corrective actions.

Source: Adapted from LFS Financial System GmbH (www.lfs-consulting.de)

3.19. However, such “supply side” interventions need to be complemented by improvement in the legal, institutional and judicial environment for private sector. Commercial banks will still be reluctant to lend to enterprises, if they are not able to obtain collateral for their loans (such as land titles) and if they know they will never be able to seize and liquidate collateral in case of nonpayment of the loans. Settling internal commercial debt arrears would also be important to support the Congolese private sector. In turn, that may allow a number of enterprises to reimburse loans in arrears to the banking sector, which would allow them to once again access bank financing. Finally, ensuring that payments from the Government are made through the banking sector can also play a key role to re-energize financial intermediation in the country.

3.20. In addition, there are on-going efforts to strengthen the regional financial institutions in the CEMAC region. The text box below provides a brief description of the recently approved CEMAC Regional Institutions Support Project. A number of activities under this project will also help increase access to financial services in the Republic of Congo, such as the strengthening of the credit bureau and of the enterprises financial information center (centrale des bilans).

Text box 9: Brief overview of the CEMAC Regional Institutions Support Project

The CEMAC Regional Institutions Support Project is financed by a US$32 million IDA credit and a US$18 million IDA grant. It aims at strengthening Central African regional institutions so that they can fulfill their mandates to encourage an expanded, better governed regional market, and a more transparent, better regulated and more
competitive financial system. This will, in particular, facilitate the reutilization of oil revenues for investment in Central Africa.

The project includes the following components:
(i) Strengthening the Central Bank (BEAC), with a focus on increasing the effectiveness of monetary policy by adapting it to address the system’s current excess liquidity. The project will also support BEAC actions to improve reserve management. In addition, the project will also support measures to encourage the use of the regional payments system to expand access to financial services via banks and microfinance institutions. Finally, work launched on a credit bureau (Centrale des Risques) and a system consolidating financial statements for key enterprises (Centrale des Bilans) will be completed.

(ii) Encouraging Regional Investment Financing. Under this component, the project will provide support to BDEAC, (Banque de Développement des Etats de l’Afrique Centrale). It will also support a Feasibility and Pre-investment Study Fund to identify regional investment projects.

(ii) Improving Regional Economic Policy Coordination, Financial Sector Supervision and Financial Integrity
The project aims to strengthen institutions which focus on regional economic policy, including the CEMAC Commission, COBAC (Commission Bancaire de l’Afrique Centrale), COSUMAF (Commission de Surveillance du Marché Financier de l’Afrique Centrale), and GABAC (Groupe d’action Contre le Blanchiment d’Argent en Afrique Centrale).

Source: Project Appraisal Document, CEMAC Regional Financial Institutions Strengthening Project

Improving access to non financial services

3.21. In addition, a number of “demand side” interventions (i.e. interventions targeted at enterprises) can also be considered. The Republic of Congo already counts a number of structures, as summarized in the table below. The Enterprises Formality Center (Centre de Formalité des Entreprises) – which acts as a one stop shop for enterprise creation – is relatively effective but is not able to cover all the dimension of the creation of an enterprise. As a result, according to the Doing Business report, it still requires 37 days to create an enterprise (with 10 procedures). A number of other structures have limited human and financial capacity and are not able to meet the needs of the private sector (see table below). A diagnostic of these different agencies is planned under a recently approved project financed by the European Commission. This diagnostic will make recommendations on how to rationalize and improve the support system to enterprises in Congo.
3.22. There are in addition different non Government structure, such as the Young Congo Enterprises Forum (Forum des Jeunes Entreprises du Congo) and the Pointe Noire Industrial Association (Association Pointe Noire Industrielle), which provide useful services to their members, albeit on a small scale.

Table 20: Overview of Government support structures for the private sector

<table>
<thead>
<tr>
<th>Agency</th>
<th>Legal status</th>
<th>Funding source</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Agency for Craft (Agence Nationale de l’Artisanat, ANA)</td>
<td>Public establishment (EPA*), under MPMEA**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME Development Agency (Agence de Développement des PMEs, ADPME)</td>
<td>Public establishment (EPA*), under MPMEA**</td>
<td>Budget and revenues</td>
<td></td>
<td>Limited human and financial capacity</td>
</tr>
<tr>
<td>Enterprises Formality Center (Centre de Formalité des Entreprises, CFE)</td>
<td>Public service, under, under MPMEA**</td>
<td>Enterprises registering fees</td>
<td>Effective (but incomplete) one stop shop</td>
<td>Only covers part of the procedures to create an enterprise</td>
</tr>
<tr>
<td>External Trade Congolese Center (Centre Congolais du Commerce Extérieur, CCCE)</td>
<td>Public establishment (EPA*), under MCCA***</td>
<td>Budget and revenues</td>
<td></td>
<td>Limited human and financial capacity</td>
</tr>
<tr>
<td>Trade, Industry, Agriculture and Professions Chamber (Chambe de Commerce, d’Industrie d’Agriculture et des Métiers, CCIAM)</td>
<td>Public establishment (EPA*), under MCCA***</td>
<td>Contributions</td>
<td>Gathers all registered enterprises. Dynamic in Pointe Noire</td>
<td>CCIAM less dynamic in Brazzaville</td>
</tr>
<tr>
<td>Support and Guarantee Fund (Fonds de Garantie et de Soutien, FGS)</td>
<td>Public establishment (EPA*), under MPMEA**</td>
<td>Budget</td>
<td></td>
<td>Limited human and financial capacity</td>
</tr>
</tbody>
</table>

*EPA : Administrative Public Establishment (Etablissement Public à Caractère Administratif)
** MPMEA: Ministry of SME and Craft (Ministère des PMEs et de l’Artisanat)
*** MCCA: Ministry of Commerce, Consumption and Supplies (Ministère du Commerce, de la Consommation et de l’Approvisionnement)
Source: IDC (Investment Development Consultancy), Identification of axes of cooperation between Congo and the European Commission in Commercial and Economic Governance, 2007

3.23. During the March 2009 workshop which gathered representatives of the Government and
private sector a number of propositions were made, such as the development of “management centers” (*centres de gestion agréés*) for MSMEs; the creation of information and exchange platforms for enterprises; the creation of “national economic observatories”; etc. There is today a large number of initiatives/institutions supporting MSMEs, but they are poorly coordinated and tend to lack critical mass. Such initiatives could be gathered under one structure, following the Burkina Faso example of the “*Maison de l’Entreprise*” (see text box below). Such structure could also house matching grants for MSME development or voucher schemes to help MSMEs access key technical services. It would be important that this structure is a public private partnership, to ensure that the needs of the private sector are understood and met.

3.24. In addition, in a context of low capacity, such a structure could play a critical coordinating role. As demonstrated in this note, investment climate reforms are extremely broad and require a wide range of expertise and involve numerous stakeholders. There is a crucial need to have one technical structure coordinating the different studies considered and ensuring that their recommendations are discussed, agreed upon and then implemented. In addition to such a technical structure, there is a need to ensure leadership for the proposed investment climate reforms at the highest level, as discussed in the next section (“piloting investment climate reforms”).

**Text box 10: Maison de l’Entreprise in Burkina Faso**

The Maison de l’entreprise in Burkina Faso is a “one stop shop” which allows enterprises to access various services. It offers four main services: (i) advisory services to potential entrepreneurs and to existing entrepreneurs who want to grow their enterprises; (ii) one stop shop for enterprise creation, which allows entrepreneur to create an enterprise within 7 days; (iii) capacity strengthening funds, which includes a voucher scheme (*chèques services*) allowing enterprises to access technical services (auditing and accounting, market research, business plan development, etc.) with a declining subsidy and (iv) an information center.

Source: [www.me.bf](http://www.me.bf)

3.25. As discussed above, a “Maison de l’Entreprise” could be a platform to provide a range of non financial services to MSMEs (instead of having a multiplicity of low performing

---

20 The Doing Business report indicates that creating an enterprise requires 5 procedures and takes 16 days.
agencies). One approach that could bring short term results – and which could be implemented in the framework of the proposed “Maison de l’Entreprise” – is to support the establishment of backward linkages in the oil sector. This sector needs dedicated transport and maintenance services, food/catering, health services, etc. It could therefore be fruitful to develop strategies to help maximize quickly the impact of the oil sector on the rest of the economy and ensure that it is not an enclave sector.

3.26. Facilitating access to public contracts to SMEs could also provide significant short term gains to the Congolese private sector, considering the large public investment budget of the Republic of Congo. Specific support to SMEs to access public contracts could also be provided in the context of the “Maison de l’Entreprise”. 29 percent of the surveyed enterprises had attempted to secure a government contract. Half of them reported making no informal payment; however 31 percent reported making an informal payment of 10 percent of the value of the contract.

Driving investment climate reforms

3.27. The Government has a critical role to play to allow private sector development: it has to provide an enabling environment that allows the private sector to flourish. A strong and growing private sector would contribute tax revenues to the Government and would be a major source of job creation. As demonstrated by the survey, it is important that the Government ensures that the required infrastructure is available (in particular, power, transport) and that the investment climate environment is sound and enabling.

3.28. Undertaking investment climate reforms is complex as it involves many actors in the Government: it is not the responsibility of a single Ministry. One Ministry can have the lead, but it has to closely work with other key ministries.

3.29. The World Bank undertook an analysis of some of the developing countries which managed to grow out of poverty in one generation thanks to sustained GDP per capita growth. Achieving this economic performance required deep and broad economic reforms. The study analyzed how these various countries – Botswana, Cape Verde, Malaysia, Mauritius and
Taiwan (China) – managed to undertake the required reforms. The study shows that all these countries put in place high level “reform teams” (as described in Figure 18 below).

3.30. These small and dedicated teams were connected to the top of the Government and in charge of formulating and updating the reform strategy, building consensus, coordinating and mobilizing resources for implementing the strategy and nurturing the reformist political leadership over time.

3.31. The experience of Botswana can be relevant for the Republic of Congo, as Botswana managed to leverage its mineral wealth and to effectively manage these gains invested in infrastructure and social development.

**Figure 18: Reform teams**

**Summary table**

3.32. The table below summarizes the key reforms identified in this Investment Climate Policy Note. It does not aim at identifying all the possible reforms to improve the investment climate, rather, it aims at identifying specific activities that could be further supported or implemented in the short term. In addition, the table shows that a number of important reforms are already on-going, in particular in the infrastructure sector. The table also highlights the reforms that could be undertaken in the context of the proposed Economic Diversification Project.
<table>
<thead>
<tr>
<th>Reform</th>
<th>Activities</th>
<th>Status</th>
<th>Economic Diversification Support Project</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Improving power and transport infrastructure</strong></td>
<td>• Increasing power supply</td>
<td><strong>On-going</strong> Construction of a 450 MW gas fired power plant in Pointe Noire and of a 120 MW hydro power plant in Imboulou</td>
<td>Focus on improving the management and governance of the power utility</td>
</tr>
<tr>
<td></td>
<td>• Modernizing the Pointe Noire deep sea port</td>
<td><strong>On-going</strong> A concession which will bring in significant investments has been put in place</td>
<td>Technical assistance will be provided for customs modernization (see below)</td>
</tr>
<tr>
<td></td>
<td>• Rehabilitating the Pointe Noire – Brazzaville road</td>
<td><strong>On-going</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Restructuring of the CFCO (concessionning)</td>
<td><strong>Initialized</strong> Next steps: - To define a realistic timeline for the concessionning - To settle social liabilities - Pursue emergency investment program, with a focus on the infrastructure (railway)</td>
<td>Technical assistance to finalize the concession for the CFCO (in partnership with the European Commission)</td>
</tr>
<tr>
<td></td>
<td>• Improving the framework for Public Private Partnerships in infrastructure</td>
<td><strong>Initialized</strong> - Concession for the management of the Pointe Noire Porte - Preparation of the concession for the CFCO</td>
<td>Technical assistance to improve the framework for public private partnerships in infrastructure (in partnership with PPIAF)</td>
</tr>
<tr>
<td><strong>Improving the environment for private sector</strong></td>
<td>• Supporting key reforms along the Doing Business indicators</td>
<td><strong>Initialized</strong> (with IFC support)</td>
<td>Analyze whether further support is required</td>
</tr>
<tr>
<td></td>
<td>• Supporting the implementation of OHADA legal framework</td>
<td><strong>On-going</strong> (with European Commission support) Could benefit from further support</td>
<td>Analyze whether further support is required</td>
</tr>
<tr>
<td></td>
<td>• Strengthening commercial courts</td>
<td><strong>On-going</strong> (with European Commission support) Could benefit from further support</td>
<td>Analyze whether further support is required</td>
</tr>
<tr>
<td></td>
<td>• Promotion of arbitration centers</td>
<td><strong>On-going</strong> (with European Commission support)</td>
<td>Develop a collaboration strategy with IMF</td>
</tr>
<tr>
<td></td>
<td>• Improving customs management</td>
<td><strong>Initialized</strong> (with IMF support) Could benefit from further support</td>
<td></td>
</tr>
</tbody>
</table>
### Supporting small enterprises and workers

- **Reforming the tax system**
  - Technical assistance to review and propose reform to the tax system (in collaboration with IMF)
- **Improving access to land to investors and improving access to land titles**
  - Technical assistance to facilitate access to land for investors and to facilitate access to land titles

<table>
<thead>
<tr>
<th>Activity</th>
<th>Support</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing partial credit guarantees and technical assistance to commercial banks to lend to SMEs</td>
<td>Could be undertaken by IFC, under the Africa MSME initiative</td>
<td></td>
</tr>
<tr>
<td>Setting up a Greenfield Microfinance Bank</td>
<td>Could be undertaken by IFC, with other development partners. A feasibility study has been undertaken. The limited size of the market is a constraint</td>
<td></td>
</tr>
<tr>
<td>Strengthening existing microfinance institutions</td>
<td>On-going (with AFD and ADB support)</td>
<td>Could benefit from further support</td>
</tr>
<tr>
<td>Improving workforce skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishing a “Maison de l’Entreprise” to act as a platform for all interventions focusing on non financial services to MSMEs</td>
<td>Initialized (with AFD and AfDB support)</td>
<td>Technical assistance to the set up of a “Maison de l’Entreprise”</td>
</tr>
<tr>
<td>Supporting the establishment of a matching grant or voucher scheme (within the proposed Maison de l’Entreprise)</td>
<td></td>
<td>Technical assistance to analyze the feasibility to provide matching grants to MSMEs (in collaboration with the European Commission) or a voucher scheme.</td>
</tr>
<tr>
<td>Supporting backward linkages with the oil industry (within the proposed Maison de l’Entreprise)</td>
<td></td>
<td>Technical assistance to encourage backward linkages in the oil sector</td>
</tr>
<tr>
<td>Supporting SMEs access to public contracts (within the proposed Maison de l’Entreprise)</td>
<td></td>
<td>Technical assistance to facilitate SMEs access to public contracts</td>
</tr>
</tbody>
</table>
Developing new growth poles

- Identifying the opportunities and constraints along each growth pole

Driving investment climate reforms

- Supporting the establishment of a reform team

Technical assistance to develop the action plans

Technical assistance to set up a world class reform team

3.33. The text box below highlights some of the development partners’ initiatives to support the development of the private sector in the Republic of Congo.

Text box 11: Development partners’ initiatives to improve the investment climate

A number of initiatives are on-going to support the development of the private sector in the Republic of Congo.

**European Commission: Strengthening of Commercial and Entrepreneurial Capacities**

This project entitled aims, in particular, at improving the investment climate and will focus on the following activities:

(i) support to implementation of the OHADA legal framework and capacity strengthening of the commercial courts;
(ii) development of a conduct code establishing sound relations between the administration and the private sector;
(iii) diagnostic of the MSME support framework and recommendations for reform and
(iv) analysis of constraints to private sector financing and development of propositions to increase access to financing.

**African Development Bank (AfDB): Support to Socio-Economic Reinsertion of Disadvantaged Groups Project**

This project will, in particular, provide support to the development of micro and small enterprises as well as to the professionalization of microfinance institutions. It will also finance a Reinsertion and Mutual Guarantee Fund for microfinance institutions.

**French Agency for Development (AFD)**

AFD is providing support to the main microfinance institution in the Republic of Congo: MUCODEC. It is also considering the creation of a regional bank to provide financial services to MUCODEC and other similar institutions in the CEMAC region.

**AfDB and AFD: Strengthening of Professional and Technical Training**

AfDB and AFD have developed complementary programs to strengthen professional and technical training in the Republic of Congo. AfDB committed around US$12 million and AFD around US$10 million over 5 years. They focus on the following activities:

- Strengthening of the Ministry of Technical and Professional Education
- Modernization and strengthening of professional and technical training facilities
- Support to the transformation and creation of Centers for Vocational Training and Education (Centres de Formation d’Education et d’Apprentissage, CEFA),
ANNEX: The private sector in Pointe Noire and Brazzaville

This annex provides a detailed description of the private sector in Pointe Noire and Brazzaville, based on the Enterprise Indicator Survey. It is worth highlighting that the survey focused on firm with more than 5 employees.

The two tables below provide a description of the sectoral distribution of firms. In the manufacturing sector, construction is the most represented sector, with close to 11 percent of firms in this sector, food production comes in second position, with 6.4 percent of firms. In the services sector, hotel and restaurant is the most represented sector with 20.5 percent of firms, transport comes in second position with 16.2 percent of firms.

Table 22: Sectoral distribution of firms

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Percentage of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>6.4</td>
</tr>
<tr>
<td>Chemical</td>
<td>1.1</td>
</tr>
<tr>
<td>Plastics and rubber</td>
<td>0.6</td>
</tr>
<tr>
<td>Metal products</td>
<td>1.5</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>4.8</td>
</tr>
<tr>
<td>Construction</td>
<td>10.8</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>3.3</td>
</tr>
<tr>
<td>Retail</td>
<td>14.0</td>
</tr>
<tr>
<td>Hotel and restaurant</td>
<td>20.5</td>
</tr>
<tr>
<td>Transport</td>
<td>16.2</td>
</tr>
<tr>
<td>Other services</td>
<td>18.6</td>
</tr>
</tbody>
</table>


The table below highlights the sector distribution of firms, across size and locations. A number of industries are only represented in Pointe Noire (plastics and rubber, metal production and wholesale) as these industries are either linked with the oil industry (plastics and metal production) or to the deep sea port (wholesale). Larges industries are concentrated in a few sectors: food, construction and transport.

Table 23: Sectoral distribution of firms across size and location

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Small &gt; 5</th>
<th>Medium&gt;20</th>
<th>Large&gt;100</th>
<th>Brazzaville</th>
<th>Pointe Noire</th>
</tr>
</thead>
</table>

Most firms are owned by a single individual and have been operating for 8 years. The most common form of ownership is sole proprietorship (60 percent) followed by privately held limited liability companies (22.5 percent) while more complex legal status only account for 5.6 percent of the firms; in particular publicly listed companies account for 4.7 percent and partnerships for 0.7 percent. On average, firms have been in business for 12 years but most firms have been in business for 8 years. Small firms, on average, have been established more recently than others possibly indicating a higher survival rate among medium and large firms. Female business ownership is still uncommon: women are the main owner only in 3.4 percent of the firms, which are predominantly small single-owner businesses. In 24 percent of the firms the main owner is not African, most typically European (16 percent of the firms). Non-African owners are most commonly found in large firms and is more frequent in Congo than in DRC or Cameroon (see table below), which corroborates the issue of limited entrepreneurship spirit in Congo raised by private sector operators. This could be partly explained by the past experience of the country with communism.

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>Food</th>
<th>Chemical</th>
<th>Plastics and rubber</th>
<th>Metal products</th>
<th>Machinery and equipment</th>
<th>Construction</th>
<th>Other manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9.3</td>
<td>0.9</td>
<td>9.5</td>
<td>6.5</td>
<td>6.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>3.2</td>
<td>0</td>
<td>1.0</td>
<td>1.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.5</td>
<td>0.9</td>
<td>0</td>
<td>0</td>
<td>1.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.4</td>
<td>1.9</td>
<td>0</td>
<td>0</td>
<td>2.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.0</td>
<td>6.9</td>
<td>0</td>
<td>10.8</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8.1</td>
<td>12.5</td>
<td>25.8</td>
<td>11.9</td>
<td>9.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.5</td>
<td>3.7</td>
<td>7.8</td>
<td>3.4</td>
<td>1.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Services</th>
<th>Wholesale</th>
<th>Retail</th>
<th>Hotel and restaurants</th>
<th>Transport</th>
<th>Other services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.4</td>
<td>17.2</td>
<td>27.5</td>
<td>8.9</td>
<td>19.9</td>
</tr>
<tr>
<td></td>
<td>5.6</td>
<td>11.1</td>
<td>12.5</td>
<td>25.0</td>
<td>15.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>0</td>
<td>35.6</td>
<td>21.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>19.5</td>
<td>15.2</td>
<td>15.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>19.5</td>
<td>17.0</td>
<td>21.3</td>
</tr>
</tbody>
</table>

**Total** 100 100 100 100 100

### Table 24: Percentage of firms where main owner is of non-African origin

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Congo</td>
<td>33.94</td>
<td>21.57</td>
</tr>
<tr>
<td>DRC</td>
<td>26.52</td>
<td>6.62</td>
</tr>
<tr>
<td>Cameroon</td>
<td>17.27</td>
<td>18.18</td>
</tr>
</tbody>
</table>


**On average, establishments employ 33 permanent full time workers:** Establishments in Pointe Noire and in the manufacturing sectors are on average larger. Looking at both permanent and temporary employees, establishments in Pointe Noire employ on average 43 full time workers while firms in Brazzaville employ 32. Manufacturing establishments employ on average 47 full time workers while establishments in the services sector employ 36. On average 30 percent of full time employees are employed on a temporary basis, but in half of the establishments they account for less than 15 percent. Temporary workers are on average employed for 7 months.

**On average, women account for one fourth of full time permanent employees but in half of the establishments they account for less than 17 percent of full time employees.** Presence of women is even lower in Brazzaville, in large firms and in the manufacturing sector.

**Only 10 percent of the firms in the manufacturing and services sectors are exporters.** Exports in the Republic of Congo are almost exclusively concentrated in the oil and timber industries. As a result, 91 percent of the firms in the sample only sell their products in the domestic market, even in the manufacturing sector. The few exporters in the manufacturing and services sectors are not strongly export-oriented as less than 37 percent of total sales are sold abroad. All surveyed firms sell all of their exports in Sub-Saharan Africa. Exporting firms are concentrated in the chemicals and transport industries and, to a lesser extent, in other manufacturing, wholesale and other services.

**Exporting is more common among medium large firms.** The proportion of exporter firms is 14 percent and 13 percent among medium and large firms respectively while only 7 percent of small firms export their products. Congolese firms perform better in terms of export than firms in DRC but worse than firms in other comparator countries. Among the different countries compared, the best performing is Cameroon, with 38.5 percent of firms which exports.
Table 25: Exporter firms across countries (% firms that export directly or indirectly)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average</th>
<th>Small</th>
<th>Medium firms</th>
<th>Large firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Congo</td>
<td>10.3</td>
<td>7.4</td>
<td>14.3</td>
<td>12.5</td>
</tr>
<tr>
<td>DRC</td>
<td>2.5</td>
<td>1.0</td>
<td>7.7</td>
<td>15.1</td>
</tr>
<tr>
<td>Cameroon</td>
<td>38.5</td>
<td>18.5</td>
<td>38.5</td>
<td>83.3</td>
</tr>
<tr>
<td>Gabon</td>
<td>12.2</td>
<td>2.8</td>
<td>18.2</td>
<td>52.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>18.4</td>
<td>8.2</td>
<td>22.4</td>
<td>44.7</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>12.6</td>
<td>4.0</td>
<td>10.0</td>
<td>36.8</td>
</tr>
</tbody>
</table>

Note: definition of size is the following. Small firms: 5 – 19 workers; medium firms: 20 - 99 workers; large firms: 100+ workers

**Importing is instead fairly common.** Most of the firms (64 percent) procure their material inputs and supplies through imports, either directly or indirectly. Large firms, however, import 91 percent of their inputs and supplies. In other words, more sophisticated inputs and supplies have to be purchased from abroad. On average, importers buy 72 percent of their inputs and supplies from abroad, but more than half of the establishments import 80 percent or more. Overall 54 percent of the firms in manufacturing and services in Congo’s two main urban areas are internationalized through import or exports. The likelihood of participating in the international markets is higher for large firms and in the manufacturing sector.

**Overall, 54 percent of the enterprises are internationalized either through imports or exports.** Their incidence is above average in Brazzaville, in manufacturing and it increases with the establishment’s size. Internationalization through direct access to import or export market is of course less common: on average 28 percent of the establishments either export or import directly. Among large establishments the incidence is more than two times the average (67 percent), while among small establishments it less than 20 percent.
REFERENCES

Chambre de Commerce, d’industrie et des Métiers de Pointe-Noire, "Impôts et taxes au Congo"


IDC (Investment Development Consultancy), 2007, Mission d’identification d’axes de cooperation Congo-UE dans le domaine de la Gouvernance Economique et Commerciale


OTF (On the Frontier), 2009, Favoriser l’Adoption des TIC pour Réaliser le Potentiel Economique du Congo


République du Congo, 2008, Document Final de Stratégie de Réduction de la Pauvreté


World Bank, 2008, “Reform Teams: How the most successful reformers organized themselves”

World Bank, 2009, “Congo-Brazzaville Enterprise Indicator Survey”


