

Starting a Business in the DRC

Briefing note on factors behind the DRC's
improvement in the World Bank's *Doing Business*
indicator

Submitted By:



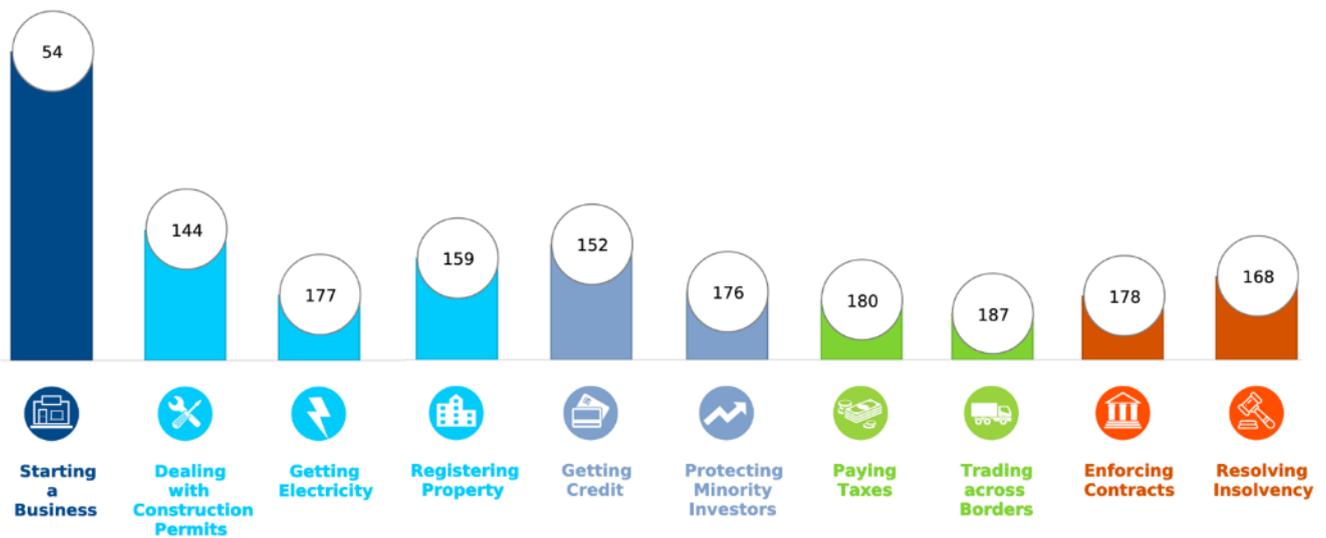
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1. Executive Summary

The improvement in the ease of starting a business is a success story in the business environment of the Democratic Republic of Congo (DRC). Uniquely among all the components of the World Bank’s Doing Business Index (DBI), the Starting a Business indicator has improved markedly in the past decade, moving the DRC from one of the poorer to one of the better performers on this metric amongst OHADA nations. No other DBI indicator has shown anything approaching this level of progress in the country.

There is a strong case that the establishment of the business registration single window in 2014, called the *Guichet unique de création d’entreprise* (GUCE) and Essor’s support, which commenced in 2015, were contributing factors. The trend for this indicator, however, has been strongly positive well before the introduction of the GUCE, showing that other factors have been at play. An important recent factor has been the dramatic reductions in minimum capital requirements to register a business in 2015 and 2016. On an equity dimension, progress was also made in 2018 with the elimination of discriminatory requirements that necessitated an additional registration procedure for women.

Figure 1: The DRC’s performance against the 10 main indicators



Source: Economy Profile of Congo, Dem. Rep., World Bank (2020)

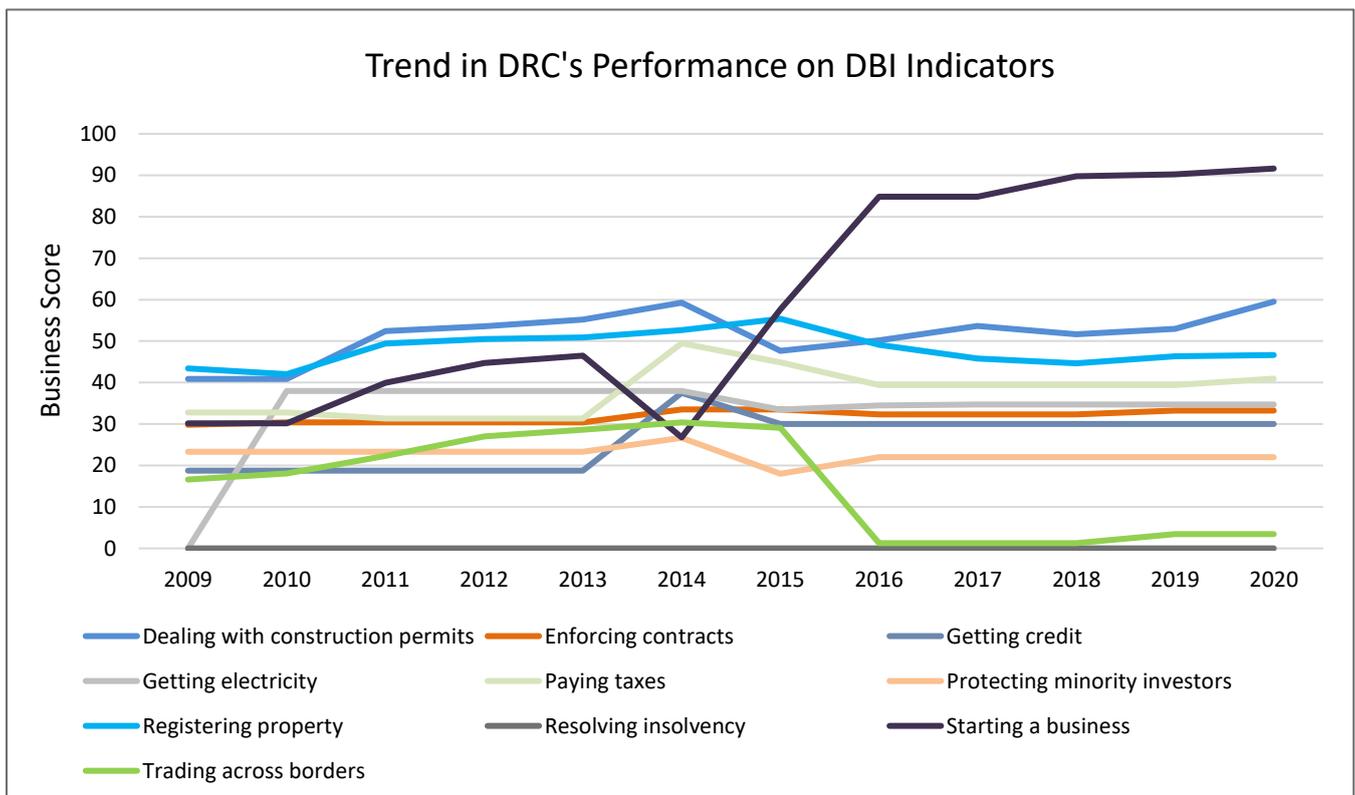
2. Introduction

The DRC is a challenging environment in which to do business. The Doing Business Indicators (DBI), an internationally recognized measure of a country's business climate, ranks the DRC 183rd in the world across a range of indicators of business regulations and enforcement.

The ten main indicators of the DBI include: (1) starting a business; (2) dealing with construction permits; (3) getting electricity; (4) registering property; (5) getting credit; (6) protecting minority investors; (7) paying taxes; (8) trading across borders; (9) enforcing contracts and (10) resolving insolvency.

While the DRC's performance in these areas has generally remained flat over the past decade, the country has achieved dramatic improvement on the *Starting a Business* Indicator. This briefing note will detail progress on this indicator and factors that have contributed to its improvement.

Figure 2: Ten-year trend in DRC's performance on DBI indicators



Purpose and methodology of the Doing Business Index

Purpose

The World Bank established the DBI in 2002 with the objective 'to encourage regulation that is efficient, transparent and easy to implement so that businesses can thrive and promote economic and social progress.'¹ The scores do not incorporate factors such as 'macroeconomic stability, development of the financial system, quality of the labour force, incidence of bribery and corruption, market size or lack of security.' In this way, the focus of the index is on the 'role of government policy in the daily operations of small and medium-size domestic firms.'² Since its inception, the Index has become 'widely used by governments, researchers, international organizations and think tanks to guide policies, conduct research and develop new indexes.'³

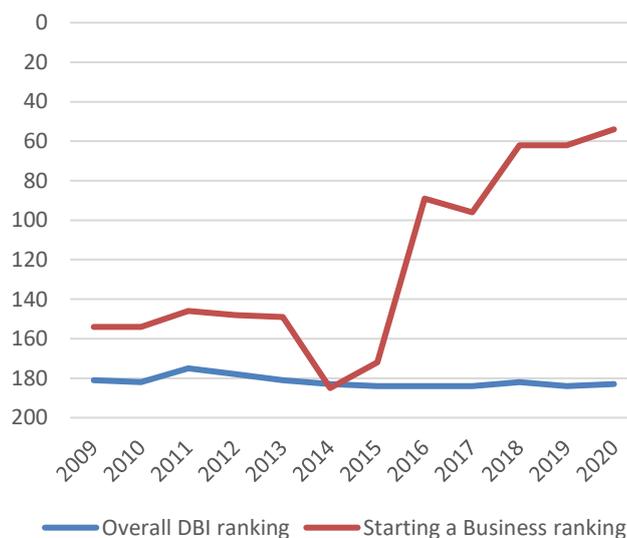
Methodology

The performance of the 190 countries included in the index is measured by an absolute score as well as a ranking relative to other countries. The score rates a country from 1-100, with a higher score indicating a more favourable environment. Conversely, with the rankings, a higher score indicates poorer performance relative to other countries. In 2020, the DRC ranked 183 out of a list of 190 countries, placing it ahead of the Central African Republic and South Sudan, and directly behind Chad and Timor-Leste. It received a rating of 36.2, compared to a score of 86.8 for Norway (the highest score in the index) and 20.0 for Somalia (the lowest score in the index).⁴

The Doing Business methodology measures performance against the ten indicators for small and medium-sized domestic limited liability firms

operating in the largest business city of an economy. The DBI relies on four main sources of information: laws and regulations, private sector practitioners, government officials and World Bank Group regional staff. Data is collected through questionnaires, conference calls, written correspondence and visits by Doing Business team researchers.

Figure 3: Trend in overall indicator ranking and Starting a Business ranking



The GUCE and Essor's support for the agency

The GUCE

The DRC is a member state of the Organisation for the Harmonization of Business Law in Africa (OHADA). Under OHADA Law, members are required to have a business registration single window. To comply with this requirement, the GoDRC opened its first GUCE office in Kinshasa in 2014 (which became fully operational in 2015). Before the establishment of this one-stop shop, registering a business entailed separate visits to nine different government agencies. This process was time-consuming, costly and involved significant side payments. Before Essor began its

¹ World Bank (2019). *About Doing Business*. Available at <https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB19-Chapters/DB19-About-Doing-Business.pdf>

² Ibid

³ Ibid

⁴ World Bank (Oct. 2019) *Doing Business 2020*. Available at <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>

intervention to support the GUCE, it consisted of only a single office in one city, which co-located government agencies, and had limited geographic coverage and limited organisational capacity.

The Essor Programme

Essor forms part of the Foreign, Commonwealth and Development Office’s (FCDO’s) Private Sector Development (PSD) portfolio in the DRC. It is a flexible facility that aims to improve the business environment in the country through providing technical assistance to institutions in a range of areas including establishment of improved systems, regulations and processes.

Essor is a seven-year programme that commenced in January 2015 and is expected to come to completion in January 2022.

Essor’s end state goal for its GUCE intervention is a financially sustainable institution with a network of functional and efficient sites, sharing a fully computerized and operational database, maintaining or improving current levels of service to business, that are overseen by GUCE leadership that can manage the organization independently after the phasing out of Essor support.

Since 2015, Essor has been working to achieve this through the following activity areas.

- **Strategic, technical and financial support to GUCE sites** – this has included the physical expansion of the GUCE to ten offices across the country.
- **IT support for the database, monitoring and other functionalities** – this has entailed the computerization of the GUCE database called the *Registre du Commerce et du Crédit Mobilier* (RCCM).
- **Financing the digitization of archives** that were previously only in paper form.
- **Legal framework reform** for bylaws that support GUCE reforms in areas that relate to the agency’s geographic coverage, costs and organizational/financial autonomy.
- **Organisational capacity building and strategic support** for the GUCE to transition to an autonomous agency, which requires staff restructuring, recruitment, training, development of a new business model and strengthening financial/accounting systems.
- **Financial and technical support for communication campaigns** on reforms and promotion of GUCE services.

Figure 4: Ten-year trend in *Starting a Business Score*



Milestones

1. Establishment of the GUCE
2. Introduction of 909.10% average per capita income min. capital requirement
3. Start of Essor support for the GUCE
4. Reduction of min. capital requirement to 500.00% of average per capita income
5. Reduction of min. capital requirement to 10.60% of average per capita income
6. Change in the Family Code eliminating discriminatory additional requirements for women

There has been a dramatic jump in the DBI *Starting a Business* score since the establishment of the GUCE and the inception of the Essor Programme. To what extent can this improvement be attributed to these two interrelated factors?

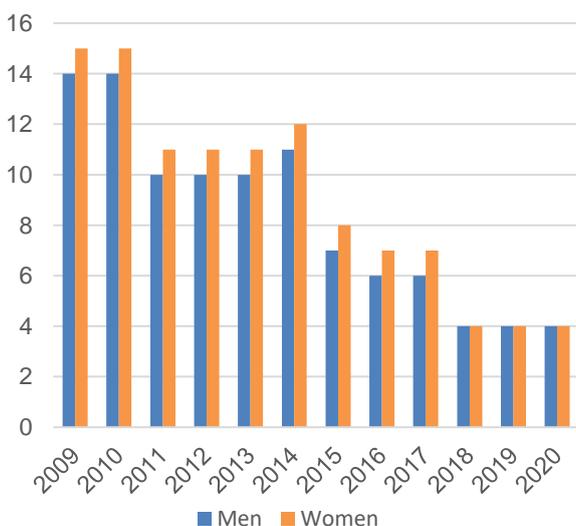
Starting a Business sub-indicators

The ten main DBI indicators are an aggregate of further sets of sub-indicators. The Starting a Business indicator is measured by: (1) the number of procedures required for registration, (2) registration time, (3) registration cost and (4) paid-in minimum capital requirement to formally register a business. All are gender disaggregated aside from minimum capital requirements. These sub-indicators and the DRC's performance on them over time are summarized below.

Number of Procedures

Figure 5 shows a decrease over time in the number of procedures required to register a business, with the most dramatic decreases occurring in 2011, 2015 and 2018. Until 2018, married women had to undertake an additional procedure to their male counterparts. This was due to provisions in the Family Code requiring women to obtain permission from their husbands to start a business. From 2018

Figure 5: N°. Procedures to Start a Business

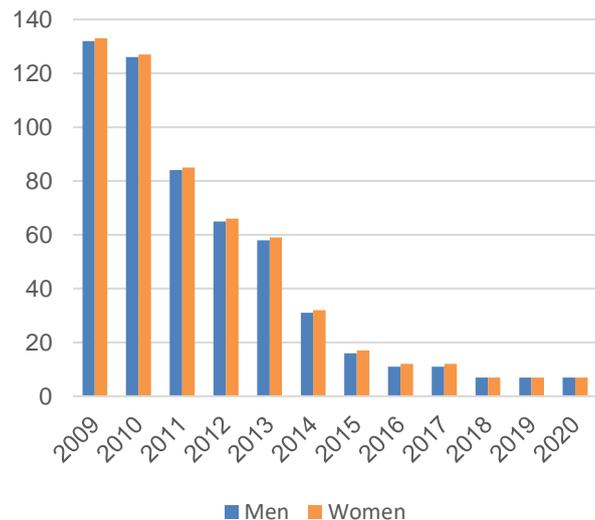


onwards, both genders were only required to undertake four procedures to register.

Number of days

An even more dramatic decrease in the number of days required to register a business was observed between 2009 and 2018, during which time the number of days required to register fell from 132 for men and 133 for women, to seven days for both genders in 2018.

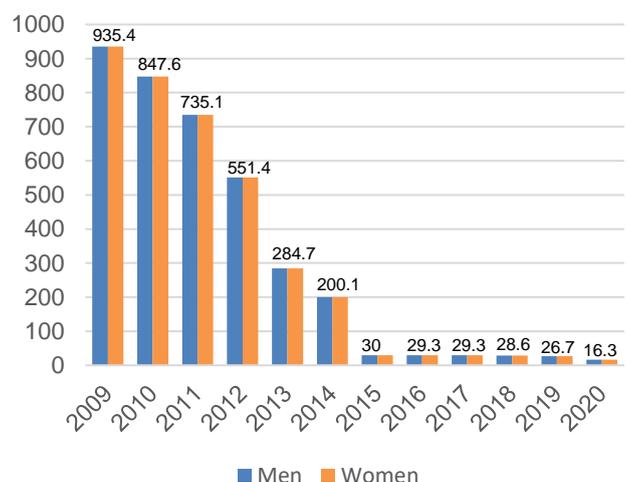
Figure 6: N°. Days to Start a Business



Cost of starting a business

Similarly, the cost of registering a business declined dramatically from 2009 to 2020. In 2009, the cost was 935.4% of average annual per-capita income. This had dropped to 30% in 2015 and 16.3% in 2020.

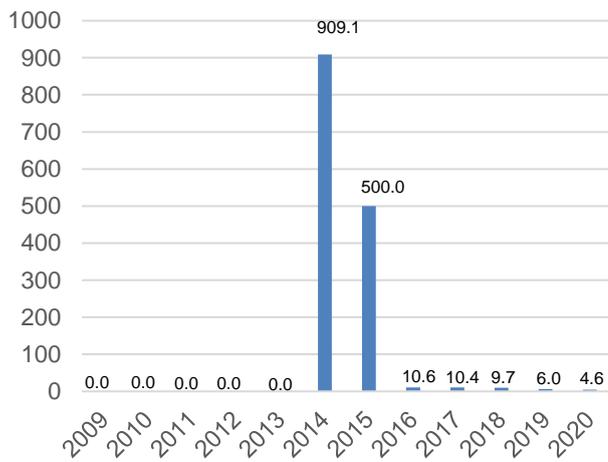
Figure 7: Cost to Start a Business (% income per capita)



Minimum paid-in capital

Changes in the minimum capital requirements for registration since 2009 presents a more mixed picture. Until 2014, no paid-in capital was required. In 2014, a capital requirement equivalent to 909.10% of average annual per-capita income was introduced. This dropped to 500.00% in 2015 and 10.60% in 2016. Since then, the minimum has

Figure 8: Minimum Capital Requirements to Start a Business (% income per capita)

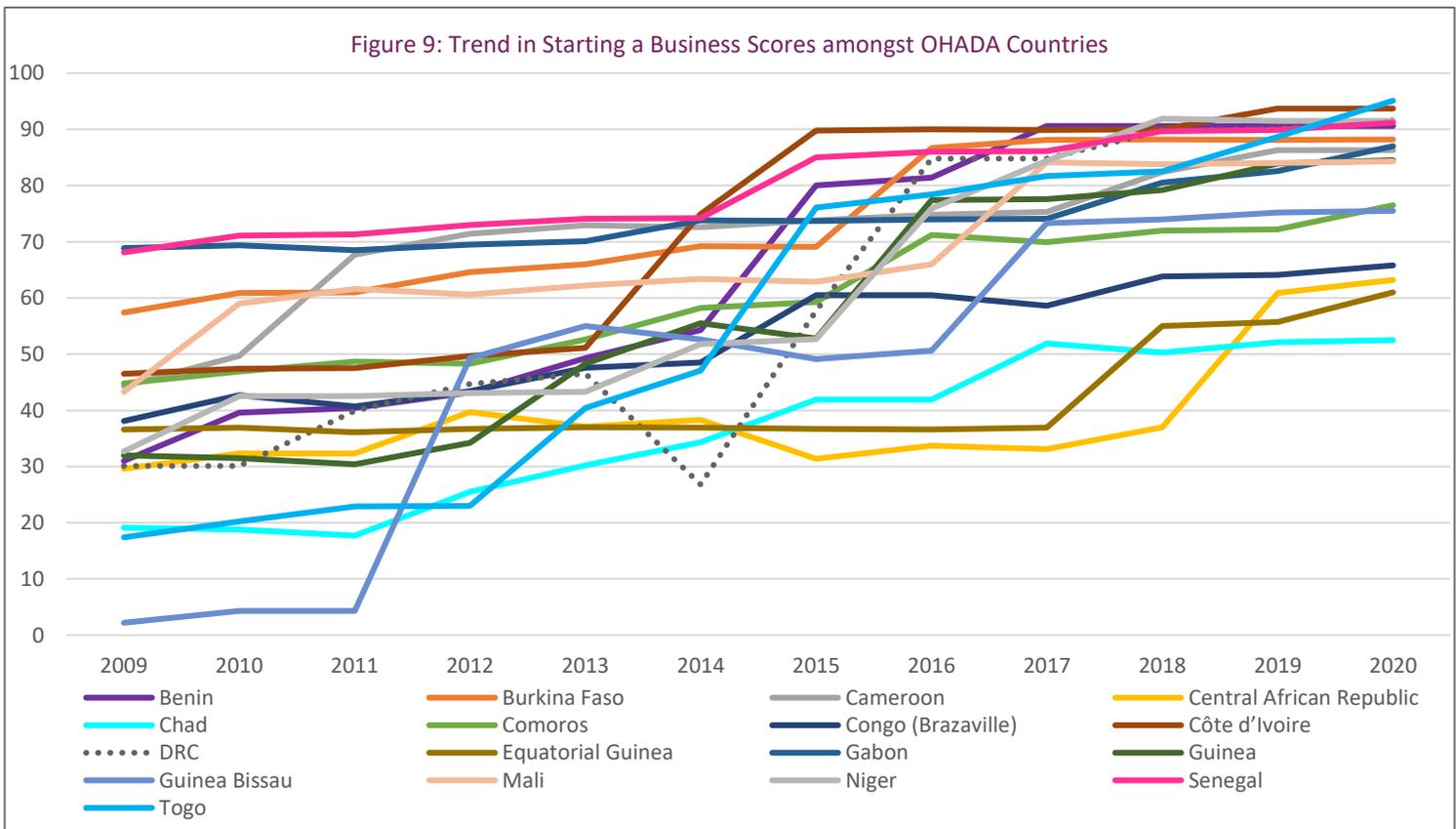


gradually declined, reaching 4.6% in 2020.

It should be noted that in reality, the experience of starting a business is more onerous than these figures suggest. This is because the aforementioned figures reflect official requirements and not the actual experience of businesses. For example, the number of procedures and time required to register a business is longer in practice if businesses provide incomplete information at the start, which can complicate and prolong the process. Moreover, they exclude informal payments which a business may be required to make.

The DRC's improvement in starting a business, however, should not be understated. Its progress is even more remarkable when compared with its OHADA peers. As illustrated by the chart below, the DRC moved from near the bottom to near the top of the group on this metric.

Figure 9: Trend in Starting a Business Scores amongst OHADA Countries



Reasons behind the DRC's improvement in the Starting a Business score

Attribution analysis

Trends in the overall Starting a Business score as well as all four of its sub-indicators shows a marked improvement since the establishment of the GUCE and Essor's support for the agency. In addition, changes introduced by the GUCE – most notably: (1) a reduction in the number of GoDRC agencies with which businesses are obliged to interact to register and (2) introduction of automated and digitized systems that have resulted in greater processing efficiencies – are closely related to the Starting a Business sub-indicators of the number of required procedures, time and cost of starting a business.

This has been borne out by additional research. In 2019, Essor commissioned an independent large-scale survey of businesses in Lubumbashi that compared the time and cost of registration before and after the introduction of the GUCE.⁵

The survey found significant savings on both metrics. Overall, there was an estimated USD 123 reduction in the net cost of registering a business, and the length of time it took to register reduced by 22 days following the introduction of the GUCE. The study also found a significant improvement in the quality of registration, as businesses registered with more agencies, and were more likely to find that their registration documents were correct. There was a 31% increase in the proportion of entrepreneurs who believed that the registration process was fair and ethical, accompanied by an equivalent drop in those reporting side payments.

Additional gender-focused internal research conducted by Essor found that women business owners reported that the establishment of the GUCE was even more impactful than changes made

to the Family Code in 2018 that removed procedural burdens for married women not faced by men.⁶

More detailed analysis, however, reveals that factors other than the GUCE and Essor were also at play. The scores of the Starting a Business indicator and sub-indicators have been steadily improving since 2010, well before the formation of the GUCE and Essor. According to the World Bank, these reasons include:

- Eliminating registration procedures, including the company seal (2011);
- Reducing the time required to complete company registration and obtain a national identification number (2012);
- Appointing additional public notaries (2013); and
- Eliminating the requirement to obtain a certificate confirming the location of the new company's headquarters (2014).

In terms of other major recent factors, in 2014, a large minimum paid-in capital requirement for registration was enacted. This made it expensive to start a business in DRC, deterred many entrepreneurs and led to a decline in the indicator's business score in 2014. Consequently, the rise in the overall Starting a Business score from 2014 – 2016 was primarily attributable to the removal of the minimum requirement indicator, rather than a dramatic change due solely to the GUCE and Essor.

Conclusion

Business registration is a success story in the DRC business environment. Uniquely among all the components of the DBI, the Starting a Business indicator has shown a strong rise over the past decade. In 2009, starting a business required 14 procedures (15 for a woman), cost 935.4% of per capita annual income and took 132 days (133 days for a woman). In 2020, it required 4 procedures for both men and women, cost 4.6% of per capita annual income and took 7 days for both genders. This shot the DRC up the rankings by an

⁵ Report available at <https://ahobs1979.files.wordpress.com/2020/08/essor-guce-final-report.pdf>

astounding 100 places on the DBI for the Starting a Business Indicator.

In addition, GUCE and Essor's support for the agency have achieved results beyond those measured by the DBI Starting a Business Indicator. This includes, for example, time and cost saving to the GoDRC, greater data security and greater data accessibility.

Trends for both the Starting a Business indicator as well as its four sub-indicators demonstrate continuous improvement since 2010. Although 2014 and (to an extent) 2015 dipped under this trend, this is likely to be due to the sudden imposition and then removal of a minimum requirement for capital in these years. Other indicators – including the cost and time of registering a business – show significant improvement between the years of 2010 and 2015. This suggests that the establishment of the GUCE and Essor's support contributed towards an ongoing process of improvement in the ease and cost of starting a business, rather than representing sole catalysts of change.

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