

GOVERNMENT OF RWANDA



PRESENTS

SPECIAL ECONOMIC ZONE POLICY

MAY 2010

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I. Summary

This document presents a policy to guide the development and operations of Special Economic Zones (SEZs) in Rwanda. It covers all the strategic components of SEZ programs that are critical to their success, including the scope of SEZ activities, public and private participation in SEZs, land use, zone benefits, complementary policies and institutional framework.

The policy underpins the new SEZ Act. Together they form the policy and legal framework to guide the development and operations of existing SEZs (the merged Kigali Free Trade Zone (KFZ) and Kigali Industrial Park (KIP) projects) as well as future SEZs.

Background and Issue

SEZs are increasingly used as an economic policy tool worldwide. They can potentially promote private investment, industry and export growth by offering quality infrastructure, streamlined business regulations and incentives to investors and businesses. While other policy tools exist, SEZs can be particularly effective by concentrating activities in one area, exploiting economies of scale in provision of public infrastructure and facilitating cluster development.

SEZs could be very effective in the Rwandan context as they address key business constraints, including difficulties in accessing land for industrial and commercial development, weak infrastructure, high regulatory burden and high tax compliance costs.

However, SEZs are not a panacea. 30 years of experience have shown mixed results with many successful and unsuccessful SEZs. The success, in large part, is determined by policy choices on the development, operation and benefits of SEZs and the legal and institutional framework.

The need to develop a strong policy and legal framework for SEZs is especially urgent in Rwanda as we have already begun to develop the KFZ and KIP projects using significant land and public resources. A SEZ policy, legal and regulatory framework will be essential to operationalise them if they are designated SEZs; for example, clarifying the benefits that users will receive.

Objectives of Policy

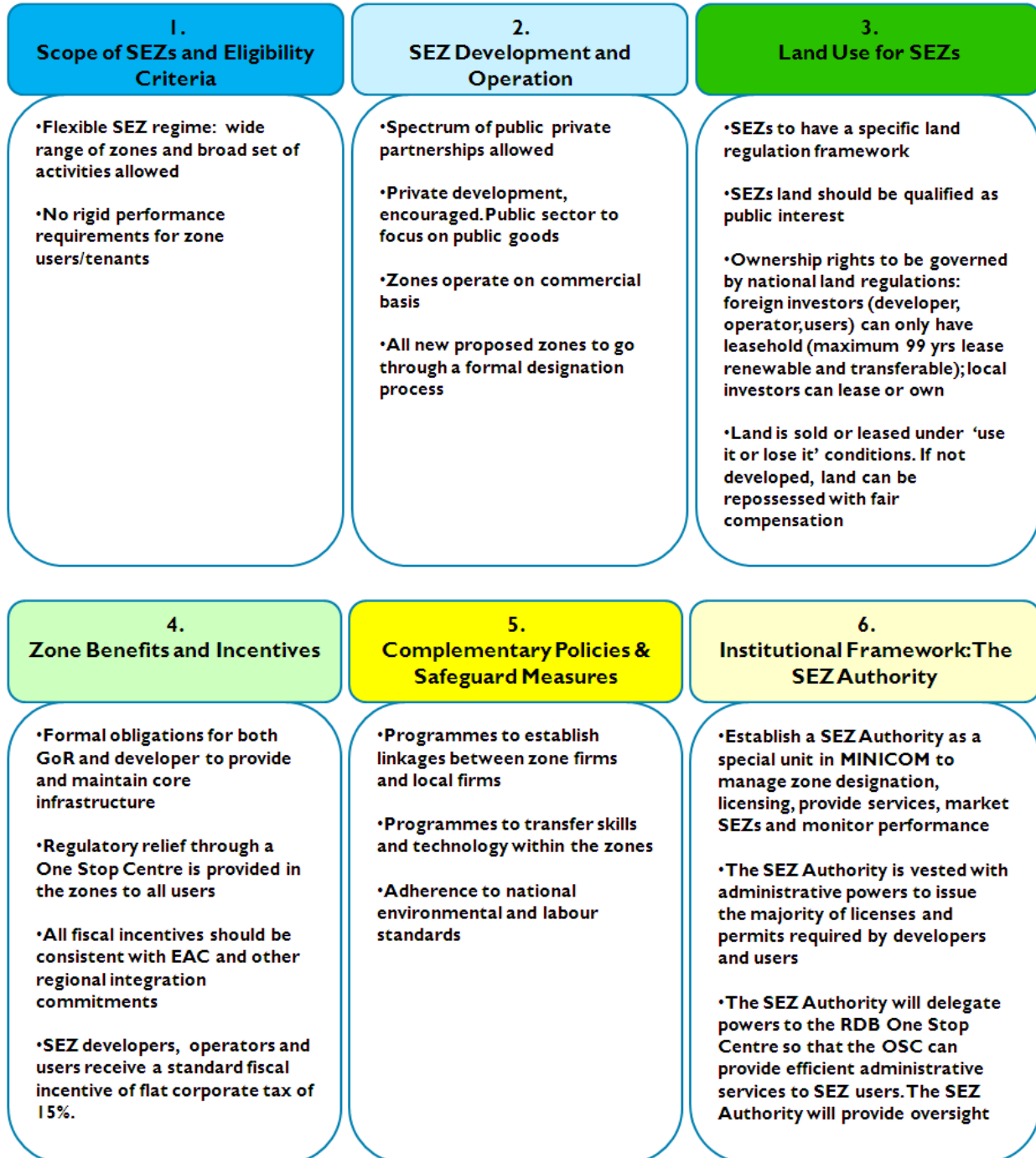
The overall aim of the policy is to ensure the successful development of existing SEZs and future SEZs so that SEZs can contribute significantly to the development goals of Rwanda whilst utilising public resources in the most efficient and cost effective way. The EDPRS and Vision 2020 goals that a successful SEZ program will contribute to are:

1. Increase foreign and domestic private sector investment (15.2% of GDP by 2012)
2. Export growth and diversification (annual export growth of 15% by 2012)
3. Development of industry/ non agriculture sectors (annual growth of 12% by 2020)
4. Creation of off farm employment and income (600,000 new non-farm jobs by 2012)

Policy Recommendations

This policy provides recommendations in six strategic policy areas. Together they aim to ensure a successful SEZ program in Rwanda.

Fig 1: Summary recommendations in each of the six strategic policy areas



To develop these recommendations a number of options in each of the strategic areas were evaluated with respect to their suitability (does the option achieve the desired objectives of promotion of investment, industry, exports and jobs?), their feasibility (is there sufficient financial and administrative resources?) and their acceptability (to GoR, private sector and the public). The policy analysis also drew heavily on global trends, best practice and learnings from the experience of other SEZs.

Stakeholder views

The SEZ policy development process has been highly consultative in nature. The policy team comprised of MINECOFIN, MINICOM and RDB. This team has held numerous consultations with GoR stakeholders and the private sector and their views have been incorporated.

Implementation and Timing

There are three key implementation steps for this policy:

1. Enacting the SEZ Law: The majority of the recommendations need to be codified through the new SEZ law¹. Once this law is enacted implementing regulations need to be produced. The national tax law needs to be modified for the SEZ fiscal incentives.
2. Establishment of the Rwanda Special Economic Zone Authority (RSEZA) is critical to oversee the implementation of the policy, laws and regulations.

As Rwanda has already embarked on a SEZ program there is urgency in establishing the SEZ policy, legal and institutional framework.

Roadmap for the rest of the paper

The remainder of this paper is structured as required by the Cabinet Manual: Section III and IV contains the background; the vision and objectives for the policy are in section V; section VI analyses the policy options and makes recommendations. Section VII discusses stakeholders' views; Sections VIII to X detail the implementation plan and the financial and legal implications of this policy followed by the impact of this policy on business, equality, unity and reconciliation. The Appendix contains details of the data sources, explanation of different types of zones and details of the stakeholder consultations undertaken in the development of this policy.

This policy paper is accompanied by the draft SEZ Act and together they will guide the development of existing and future SEZs.

¹ The implementation of the policy will require a new legal framework. To ensure comprehensiveness and clarity, we recommend that this is done through a new SEZ law rather than through the amendment of existing laws.

II. Acronyms and Definitions

“Cabinet” has the meaning specified in the Constitution of the Republic of Rwanda;

“Customs” means the Customs Services Department of the Rwanda Revenue Authority;

“Customs Control”: refers to the performance of specific acts by Customs, such as examining goods, verifying the existence and authenticity of documents, inspecting means of transport and other similar acts to ensure compliance with Customs Law;

“Customs Territory” means the geographical area of the EAC;

“Designation Decision” means the act of Cabinet in approving a new Special Economic Zone

“Duties”: Includes fees, levy, imposition, tax, or surtax imposed by any Act as defined in the East African Customs Management Act;

“EAC” means the East African Community;

“Economic Activity” means any commercial, industrial, agricultural, or service activity carried out by a legal entity in the Zone;

“Export” means to take or cause goods to be taken out of the Customs Territory;

“Free Trade Zone Area” means Free Trade Zone Area. Shortened to *FTZs*

“Free Trade Zone Task Force” means the legal entity in charge, before the the establishment and the entry into effective operation of the RSEZA, of managing GoR’s interest in the Kigali Free Trade Zone and the Kigali Industrial Park as decided by the Cabinet meeting of 6th September 2006;

“Import or Imported” means to bring or cause goods to be brought into the Customs Territory;

“Individual Land” has the meaning specified in the Organic Law n° 08/2005 of 14/07/2005 and in the Presidential Order n° 30/01 of 29/06/2007 and in any other relevant applicable Regulation;

“Kigali Industrial Park” means the Special Economic Zone to be developed and operated by Kigali Industrial Park Ltd

“License” means the administrative grant of authority issued by the SEZ Authority that licenses a legal entity the right to develop, operate or use Zone or a part of a Zone

“National Land Centre” has the meaning determined by the relevant Regulation;

“Negative List” means the list of Economic Activities which are not allowed within a Zone;

“Private State Land and Private Kigali City and Private District Land” have the meaning specified in the Organic Law n° 08/2005 of 14/07/2005 and in the Presidential Order n° 30/01 of 29/06/2007 and in any other relevant applicable Regulation;

“Kigali Free Trade Zone or Kigali Free Zone or KFZ” means the Special Economic Zone to be developed and operated by Rwanda Free Zones Co. Ltd

“SEZ Authority or RSEZA” means the proposed “Rwanda Special Economic Zone Authority”, in charge of regulating the activities in Special Economic Zones in Rwanda.

“Special Economic Zone or SEZ” means Special Economic Zone, which encompasses a range of different zones.

“Zone Developer Agreement” or **“Zone Operator Agreement”** means any development/operation agreement, executed by the RSEZA and a Zone Developer or Operator that establishes the terms and conditions under which such Zone Developer/Operator develops, creates and provides infrastructure and services related to the Zone, and promotes, operates, or manages a Zone;

“Zone Site or Site” means the physical location of an existing or proposed Zone.

III. Issue

Special Economic Zones have potential to address many constraints facing investors and businesses in Rwanda and support the achievement of key goals in EDPRS and Vision 2020.

However 30 years of experience have shown mixed results with many successful and unsuccessful examples of SEZs. The success of SEZs is, in large part, determined by policy choices on the regulation, development and operation of SEZs and what benefits and incentives are provided to developers, operators and users of SEZs.

The need to develop a strong policy and legal framework for SEZs is especially urgent in Rwanda as we have already begun to develop zones and use significant public resources.

A feasibility study conducted in 2006 by JAFSA led to the creation of a public private consortium: the Rwanda Free Zones Co. Ltd to develop a Free Trade Zone targeting export orientated firms. The government has a 30% equity share in the project. The Kigali Free Trade Zone (KFTZ) was due to come into operation in 2010. Simultaneously, the Kigali Industrial Park (KIP), which sits on land adjacent to the Free Trade Zone, is being developed by Kigali Industrial Park Ltd (with GoR equity share of 25%) and was also due to be operational in 2010.

The GoR requested IFC to analyse the progress of Rwanda's Special Economic Zone Program at the end of 2008. They found that while the program has many positive elements, a number of key challenges were identified:

- The lack of a policy, legal and regulatory framework to guide the development of the program. Free Economic Zones (FEZs) are given legal basis in Rwanda's Investment Law, and the Tax Law and other legislations make mention of FEZ stipulations in the Investment Law. However, these are not adequate; for example, they do not stipulate the rights and obligations of owning, developing, operating and locating in an SEZ, the process and criteria for designating new SEZs and only cover a specific type of SEZs .
- Currently the Free Trade Zone task force plays the role of developer and regulator.

The key recommendations of the study, which were accepted in August 2009, were:

1. A market demand and cost-benefit analysis for the Kigali Free Zone and Kigali Industrial Park projects.
2. The development of a legal and regulatory framework for Special Economic Zones to guide the development of SEZs to ensure that SEZs are successful tools for increasing investment, generating employment, promoting exports and industry and public resources are utilised efficiently.

A GoR technical committee was formed to work with a team of IFC experts to implement these recommendations. The technical committee agreed subsequently that it was important to have a SEZ policy to guide and underpin the new SEZ act.

In parallel, strategic business assessments of the Kigali Industrial Park and Kigali Free Zone projects have been carried out to recommend the optimal way to operationalise the projects for financial and economic sustainability.

IV. Context

a. Special Economic Zones are increasingly being used as an economic policy tool

The number of SEZs – defined as a geographically limited area administered by a single body offering certain incentives and benefits to businesses physically located within the zone – have grown dramatically over the last decade.

There are presently 3000 zones in 135 countries, with 2,301 zones in 119 developing countries. The majority of the zones is currently in Asia, Latin America, Central Asia and Central and Eastern Europe and engaged in labour intensive manufacturing of apparel, electrical and electronic goods for exports (accounting for 80% of zone output worldwide). The development of SEZs in Africa started in earnest in the 1990s. There are 114 zones in Sub Saharan Africa; Nigeria, Kenya, Ghana, Zimbabwe and South Africa have more than four zones each.

There are many different types of SEZs (*See Appendix B*) targeting different sectors, markets and investors. Traditionally SEZs were mostly Free trade zones (FTZs), Export processing zones (EPZs) and Single factory EPZs that were government owned and developed and operated as isolated enclaves with tight requirements e.g., 80-100% export requirements.

In response to increasing global trade liberalisation, the major trend has been towards developing Freeports (larger zones with a wider range of activities and integrated into the national economy) and increase in private sector involvement in the development of the zones. There has also been a growth in specialised zones such as technology parks and logistics parks.

Zones have a broad strategy of offsetting a general adverse investment climate by offering 1) serviced quality infrastructure and services, 2) streamlined business regulations and 3) incentives in order to attract investors and businesses.

The main potential economic benefits from zones are:

1. *Increase foreign and domestic private sector investment*
2. *Employment and Income Generation* - both direct (within the zone) and indirect through backwards and forwards linkages with businesses outside the zone.
3. *Export growth and diversification and increase in foreign exchange* –fiscal incentives are used to counteract the anti-export bias of other trade policies
4. *Development of industry and other sectors* requiring serviced, specialised infrastructure.
5. *Skills upgrade and technological transfer* – from increased foreign direct investment.
6. *Demonstration effects for new policies and reforms* – zones can act as experimental laboratories for application of new economic policies and approaches.
7. *Improve effective tax rates through enhanced tax collection within the zone* – incremental (net new) tax revenues collected from expanded tax base and improved tax collection procedures will serve to offset perceived foregone taxes from fiscal incentives.

While other policy tools exist, SEZs can be a particularly cost effective tool due to agglomeration benefits of concentrating businesses in one geographical area: 1) Economies of

scale in provision of public infrastructure and government services; 2) Improved environmental controls; and 3) Cluster development by developing linkages between firms.

b. SEZs in Rwanda can address key constraints facing businesses and investors

Rwanda faces many economic challenges which have potential to be addressed through SEZs.

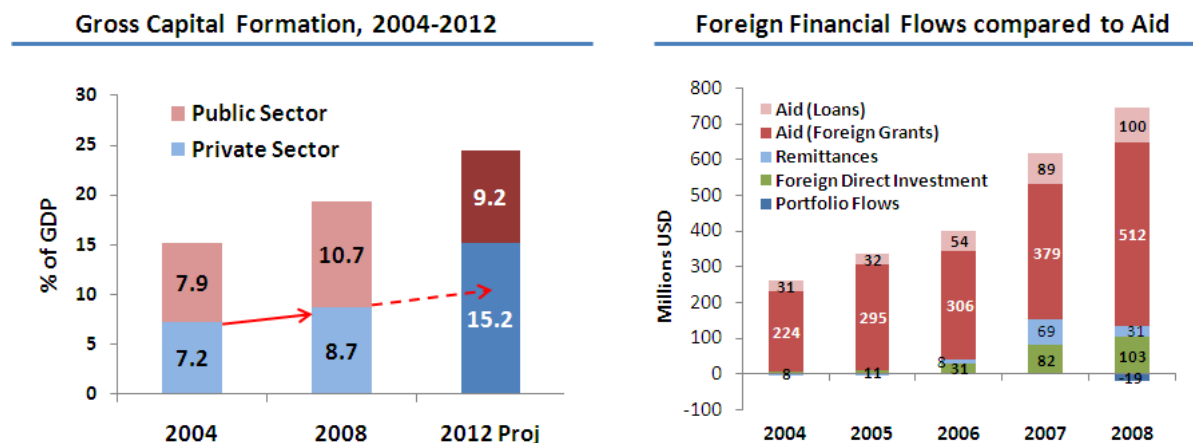
1. Low foreign and domestic private sector investment

Private sector investment is needed to sustain overall economic growth. The EDPRS shows that gross capital formation has to rise from 20% to 25% of GDP by 2012 of which 15% should be from the private sector. Private investment is also essential in reducing Rwanda's dependency on aid for financing investments and external deficits.

Domestic and foreign investments are both critical in building a competitive economy. Though domestic investments tend to be lower in value, they create deeper linkages with the local economy and create on average 30% more jobs than foreign investment². Foreign investments on the other hand are able to finance projects with large capital requirements and can bring crucial skills and technology transfers.

However, current levels and trends of private sector investment are inadequate. Private sector capital formation only grew from 7.2% of GDP in 2004 to 8.7% of GDP in 2008. FDI has increased rapidly from under \$10m in 2005 to over \$100m in 2008, but still remains below 2.5% of GDP - well below other African and EAC countries and a small fraction of total aid levels of \$600m in 2008.

Fig 1: Private Sector Investment Trends (Source: EDPRS and MINECOFIN, 2009)



2. High Unemployment: There is a shortage of non rural/agriculture formal employment opportunities in Rwanda. There are only 7,263 formal SMEs constituting offering full-time jobs to 1.4% of the working population. Growing unemployment, especially amongst Rwanda's rapidly growing youth population, will reduce the impact of growth on poverty.

² FIAS analysis of RDB operational investments, Feb 2009

3. **Export sector still small and widening trade deficit:** total exports remain a small proportion of GDP (5% in 2008) and reliant on a few commodities: coffee, tea and minerals, which are exported largely unprocessed with little value addition. Increasing exports is key in tackling Rwanda's growing trade deficit, which stands at 16.7% of GDP in 2009.
4. **Weak manufacturing and processing industries and sectors:** the manufacturing sector in Rwanda is small (6.5% of GDP) and growing slower than other non agricultural sectors. The manufacturing base consists of only a handful of companies in nascent industries; beverages and tobacco account for 34% of manufacturing in 2008. There is limited processing of domestic and export commodities: food crops, coffee and tea and minerals and nearly all processed consumer goods have to be imported. The weakness of manufacturing contributes to Rwanda's trade deficit and the lack of valuable non/off farm employment jobs.
5. **Skills gap:** the national skills audit showed gap of more than 60% in the private sector. This continues to constrain the growth of local small and medium enterprises.

SEZs could be very effective in the Rwandan context as they address key underlying constraints to private sector investment and export and industry growth

Fig 2: Business and Investment Constraints³ and Potential Improvements with SEZs

Private Sector Key Constraints	Can SEZs address these constraints?
Land for industrial and commercial development Both operational and non-operational registered businesses in a RDB Aftercare survey in 2009 indicated that the lack of supply of serviced land is a major chokepoint on business expansion.	Yes by having designated land available for small to large scale industrial and commercial development. X
Infrastructure Rwanda has high energy costs (0.22 per kWh compared to avg. of 0.10 in region). For many industries the unreliability of power is even more problematic.	Partly by concentrating public resources in one area to provide reliable (same cost), quality infrastructure while nationwide plans to improve infrastructure is implemented over the long term.
Transport Linkages/Market Access Transport costs in Rwanda are very high; they represent > 50% of export and import costs due to poor roads, limited air connection and lack of rail connections.	Partly: the SEZs can be located to that they lie on the main import and export transit routes thereby lowering some transportation costs.
Bureaucracy Though Rwanda has made huge improvements in the World Bank Doing Business rankings, the regulatory burden is	Yes: the zones can offer regulatory relief to investors and businesses by streamlining processes even further for registration, obtaining permits, land titles, EIAs and

³ From various business and investor surveys and interviews with private sector

still high. The compliance costs borne by formal businesses in Rwanda have been recently estimated at 3% of GDP.	clearing customs. They can act as a pilot for process improvements which can be rolled out more widely in the future.
Tax While Rwanda's tax rates are comparable to neighbours, the cost of tax compliance is very high, especially for SMEs.	Partly: by simplifying tax administration procedures, the zones can reduce compliance costs. But non smart fiscal incentives can represent a drain on fiscal revenues.
Skills Low skills of labour force	Partly, depends whether the zones have programmes for skills development
Cluster Development Weak value chain and cluster development	Partly, by providing a central location for anchor tenants, suppliers or contractors.

c. But SEZs not a panacea – there are cases of successful and unsuccessful SEZs.

Although there have been some notable successes in attracting FDI, increasing exports and job creation through SEZs in East Asia and Latin America, there have also been many unsuccessful SEZs. In all the five key objectives the overall results are mixed.

Fig 3: SEZ Main Policy Objective and Results

Objective	Results
Increase foreign and domestic private sector investment	<ul style="list-style-type: none"> SEZs have helped to increase FDI rapidly in countries such as Philippines, Mexico and China. In many zones, FDI has played a marginal role with most investment of domestic origin.
Employment and Income Generation	<ul style="list-style-type: none"> Zones employ around 68 million people directly globally but this is only about 0.2% of national employment. Indirect employment can be significant but depends on how integrated the zone is with the rest of the economy.
Export growth and diversification and Foreign Earnings	<ul style="list-style-type: none"> EPZs account for a significant share (between 35 and 50%) of manufactured exports in most regions. Some examples of diversification where EPZs have helped move from primary good to higher value manufactured exports. The results are mixed when it comes to foreign earnings and is dependent on whether export activities are reliant on imported inputs or use domestic inputs. In East Asia SEZs, firms developed backwards supply linkages to domestic firms, whereas in Latin America, exports tended to be low value added activities dependent on imported inputs⁴.
Development of	<ul style="list-style-type: none"> Some (but not all) zones have undergone industrial upgrading

⁴ The Republic of Korea is an example of a country where establishment of the EPZ program in 1970 spearheaded broad reform and structural transformation of the overall economy. By the 1980s, almost 35 percent of total consumption of equipment and components of EPZ firms was bought locally. In contrast, 30 years after the establishment of the first industrial free zone in the Dominican Republic, the 500 zone firms purchase no more than 0.01 percent of their material inputs from the domestic customs territory.

industry and other sectors	– moving from low skilled assembly to higher value manufacturing e.g., electronics in Asia.
Skills upgrade and technological transfer	• Similarly the impact on human capacity is mixed. Where there has been success there has often been explicit skills development activities e.g., training of local middle managers.
Demonstration effects for reforms	• Many SEZs, including the Freeport in China, have acted as a demonstration area for wider economic reforms.

Some zones, in addition to not achieving the key objectives of increasing investment, trade and generating jobs, have created serious problems including:

- Financial failures and a significant drain on public resources due to the high cost of infrastructure development and subsidised services and operations. For example, the Philippines Bataan EPZ needed \$25 million to build a dam.
- Poor labour and work conditions from many zones permitting companies to not comply with international and national standards.
- Significant negative environmental impact - especially from single factor EPZ programs such as the Maquiladoras in Mexico – from inadequate waste treatment and lax environmental controls.

In particular the performance of zones in Africa has not been good with unsuccessful zones in Kenya, DRC, Senegal, Namibia, Liberia and Cote D'Ivoire.

d. Success is determined by the policy and the institutional framework.

Whether a SEZ is successful or not depends on policy choices and the strength of the legal, regulatory and institutional framework.

Fig 4: Summary of the key policy areas which determines zone performance

Policy Choice	Common Reasons for Poor performance	Implications for Policy
Scope of SEZ activities and Eligibility	Low occupancy rates from restricting activities with rigid performance requirements.	SEZ regime should be flexible, allow a range of activities with no rigid requirements.
SEZ development and operation – public and private sector participation	Over developed and badly designed facilities with inadequate maintenance and promotion. Operations run on a non cost recovery basis.	Encourage private development and operation of zones on a market orientated, commercial basis.
SEZ development and operation – land designation	Poor site locations e.g., in remote areas entailing heavy infrastructure development expenditure	Establish a clear designation process and criteria for new SEZs with physical and environmental guidelines and standards.
Zone Benefits -	Reliance on tax holidays and other	Establish a universal set of

Fiscal Incentives	fiscal incentives not based on performance reduced government revenues with little benefits	performance based fiscal incentives in the national tax code.
Zone Benefits-Infrastructure	Weak coordination between private developers and governments in infrastructure provision	Formal development agreement between developers and government.
Zone Benefits-Bureaucratic Procedures	Procedures and controls remain cumbersome within the zones	Regulatory relief should be a core part of zone benefits. Zone authority can issue majority of licenses and permits.
Labour and Environmental Standards	Non adequate waste facilities Lax labour and environmental controls.	Adherence to universal labour standards (national and ILO) Discourage single factory EPZs
Integration with host economies	Ban on local sales by EPZ (forward linkages) High dependence on imported materials (no backward linkages) – often due to local firms not being able to meet the export standards.	EPZs can sell to local market. Equal footing basis – domestic firms selling to firms in EPZs are also eligible for export incentives. Programme to establish backwards and forwards linkages.
Institutional framework	Lack of institutional framework Weak, under-resourced administrative body	Autonomous regulator with authority over other agencies in core areas

The Dakar EPZ illustrates the common pitfalls of zone development

Box 1: Case Study of Dakar EPZ

Senegal was a pioneer in the creation of free zones, establishing its EPZ in 1974. The project generated significant hopes as Senegal expected to profit from the de-localization of enterprises from industrialized countries. The scheme's promoters sought to exploit Senegal's geographical position as well as the port and airport facilities offered by Dakar. In 1999, 25 years after its creation, Senegal's authorities closed the Dakar EPZ, which at the time was home to just 14 active enterprises. The principal obstacles to success for this program included:

- Excessive bureaucracy involving different institutions in the country, especially customs;
- Unnecessarily long delays in obtaining necessary permits (often more than one year);
- Unrealistic goals imposed on potential investors, both with regard to jobs to be created (each company was required to employ at least 150 people) and to initial investment;
- Elevated cost of other factors of production (energy, water, communications);
- Rigid and constraining labor regulations: employment contracts were permanent and employers did not have complete freedom to recruit the people they wanted.

V. Vision and Objectives

The overall aim of the policy is to ensure the successful development of existing SEZs and future SEZs so that SEZs can contribute significantly to the development goals of Rwanda whilst utilising public resources in the most efficient and cost effective way.

The specific EDPRS and Vision 2020 goals and objectives that the policy will contribute to are:

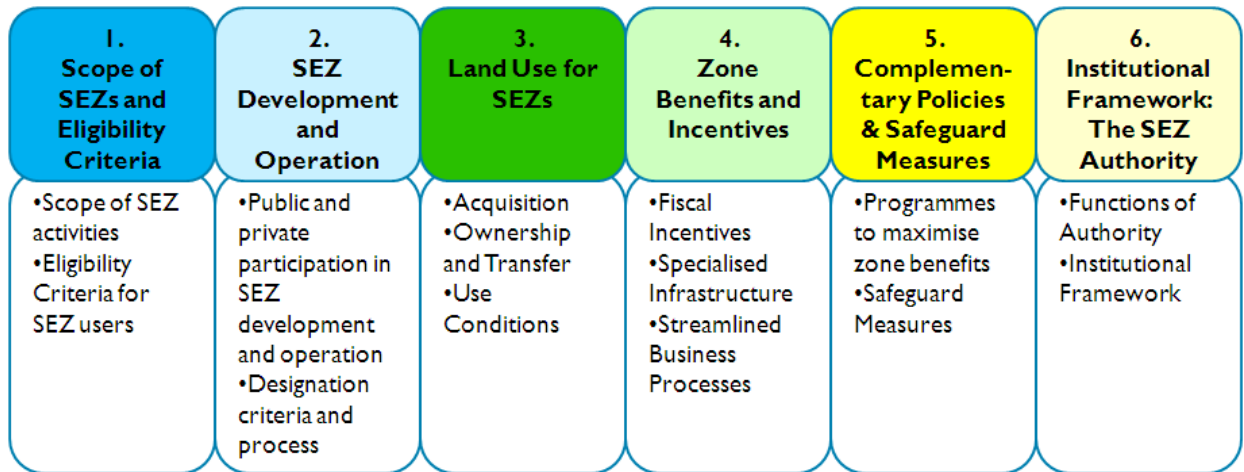
Box 2: SEZ Main Policy Objective and EDPRS and Vision 2020 goals and targets

- 1. *Increase foreign and domestic private sector investment***
 - EDPRS: Increase in private sector capital formation from 8.7% of GDP in 2008 to 15.2% of GDP in 2012 and increase in national investment from 16.3% of GDP in 2006 to 24.4% of GDP in 2012
 - Vision 2020: national investment to comprise 30% of GDP in 2020
- 2. *Employment and Income Generation (Direct and Indirect)***
 - EDPRS: increase off-farm employment from 20% of labour in 2006 to 30% in 2012 – means creation of 600,000 new non-farm jobs by 2012
 - Vision 2020: Creation of 1.4 million non-agricultural jobs by 2020
- 3. *Export growth and diversification and increase in foreign exchange***
 - EDPRS: annual export growth to increase from 10% in 2006 to 15% in 2012
- 4. *Development of industry and other sectors***
 - Vision 2020: increase real growth of agriculture sector from 4.4% in 2006/7 to 6% in 2020 and increase real growth of industry sector from 8% in 2006/7 to 12% in 2020
- 5. *Skills upgrade and technological transfer***
 - EDPRS: increase in % of TVET students in industry from 25% in 2006 to 75% in 2012

VI. Analysis of Policy Options and Recommendations

The SEZ policy covers six strategic policy areas that are critical in determining the success of SEZs in Rwanda.

Fig 5: Six Strategic Policy Areas Covered in the SEZ Policy



For each policy issue, the following analysis has been conducted:

1. Define the key questions to be addressed and the specific objectives to be achieved;
2. Identify different policy options and evaluate them against the following criteria:
 - Suitability: Does the policy option achieve the desired objectives?
 - Feasibility: Can it be delivered within the existing system and financial resources?
 - Acceptability: Is there sufficient political/stakeholder support?
3. Policy recommendations and details
4. Best practice and case studies/examples

a. Policy Issue 1: Scope of SEZs and Eligibility Requirements

1. The Issue and the Specific Objectives we are trying to achieve

The starting point in a SEZ policy framework is defining the type of zones, scope of activities allowed in SEZs and the eligibility requirements (if any) for SEZs users. These choices have an impact on which sectors and users receive the benefits of SEZs and on the viability and profitability of the zones.

Currently, the types of zones allowed under the Investment Code are Export Processing Zones (EPZ), Free Trade Zones (FTZ), and Single Enterprise Export Processing Zone (SEEPZ). The Rwanda Investment Code requires that any user of an EPZ/FTZ/SEEPZ export at least 80 percent of goods and services outside Rwanda.

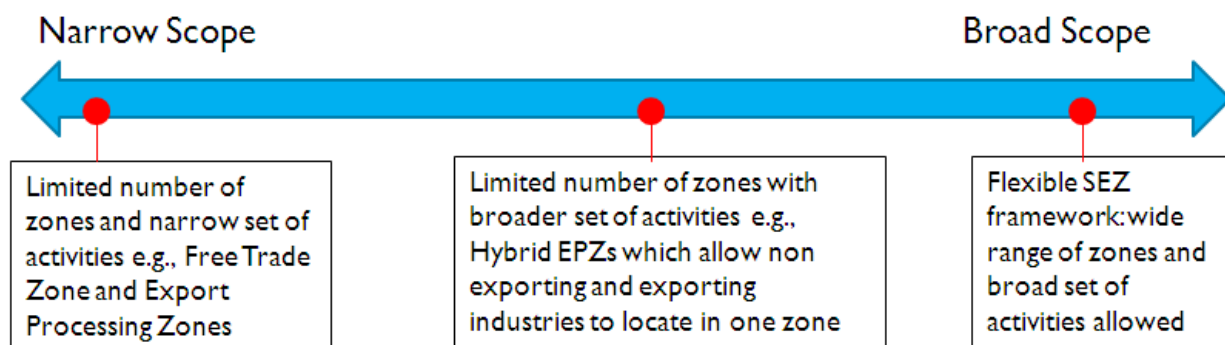
In defining the scope of SEZs and eligibility requirements, we want to achieve the following:

- Support the overall objectives of promotion of industry, exports and generation of jobs
- Ensure that those sectors and users which would get the most benefits out of SEZs can take advantage of SEZs
- Avoid negative impact on the financial and commercial viability of zones

2. Policy Options and Evaluation Against Criteria

Type of Zone and Scope of Activities Allowed

There is a spectrum of policy options: from very narrow e.g., only certain types of zones are allowed to a broad and flexible regime, allowing zones for different sectors a broad set of activities within the zones.



In the evaluation, the broad, flexible regime was the most preferred for these main reasons:

- Allowing many different activities for multiple markets attracts more users, resulting in higher demand and greater returns for zone developers and operators.
- A flexible regime gives the GoR a high degree of flexibility in terms of future SEZs, which is valuable given that many sectors are at nascent stages and their needs are still emerging.

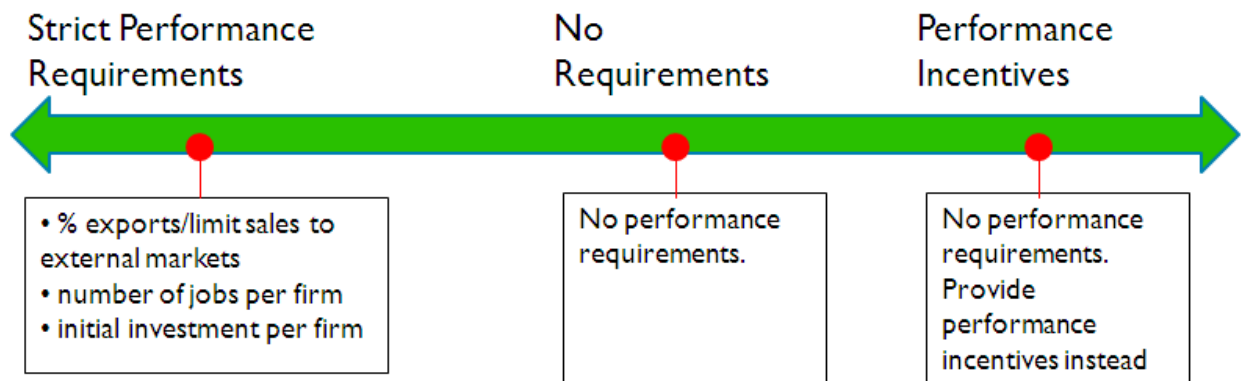
- Moreover with increasing trade liberalisation, the benefits of traditional zones (EPZs and FTZs) will be reduced. For example, under the EAC Custom Union, duties are already zero-rated on imports from outside of the EAC of raw materials and capital equipment.

Summary Evaluation of Options

Options	Limited type of zones and narrow set of activities e.g., FTZs or EPZs	Limited type of zones and broad set of activities e.g., Hybrid EPZs	Flexible Regime: wide range of zones and broad set of activities
Overall	Rejected	Rejected	Proposed
Suitability	Low: Many sectors and industries are nascent and would benefit from serviced land. Both domestic and export orientated activities are important for job creation.	Medium: Hybrid EPZs are preferable to EPZs as allow domestic orientated industry to benefit from the zone infrastructure and value added services	High: A wide range of sectors - domestic and export orientated - could benefit from SEZs. A flexible regime attracts more users and results in greater profitability for developers and operators
Feasibility	High: The existing program contains a FTZ and EPZ which has is at an advanced stage of development	High: The existing program contains a FTZ and EPZ which be modified to allow domestic orientated firms	Medium: It is not financially feasible for GoR to invest in several different zones. Private sector involvement in development will be key
Acceptability	Low: The majority of domestic firms which do not yet engage in trade will, in effect, be disadvantaged	Medium: Firms which do not engage in industrial/processing activities will, in effect, be disadvantaged	High: A much wider set of potential private sector developers and users can benefit from the SEZ regime

Eligibility Requirements for Users

There is a spectrum of choices from strict performance requirements to incentives.



In the evaluation, the incentive option was the most preferred for these main reasons:

- *Requirements reduce demand for the zones:* Export requirements limit the number of eligible companies. EAC rules means that export requirements are not a viable option for Rwandan SEZs since most firms serve local and regional EAC markets. Other requirements such as job creation and investment can also limit the number of tenants, reducing revenues for zone developers and operators. This creates a disincentive for private firms to invest their own capital in SEZs.
- *Requirements restrict the benefits of the zones from those who need it the most:* those companies which are small today but might venture into exports, employ more people etc as their businesses grow will not be able to take advantage of the zones' benefits.
- *Requirements are not an effective incentive:* Those companies fulfilling the requirements may hesitate to relocate in an EPZ because they risk failing the requirement in the future. For instance, a company that exports 90 percent of its coffee today might need to shift its business model toward selling to the domestic market if and when international sales drop or local demand for coffee increases. If the owner of the firm has invested in a factory in an SEZ, he or she will be obliged to vacate when exports drop below 80 percent. This constraint is not an attractive proposition for any business owner.
- *EAC and WTO Compliance issues:* Incentives contingent on exports, which results from having export requirements for companies to locate in the zones, may violate EAC and WTO rules. As a 'Less Developed Country', Rwanda is currently exempt from the prohibition on export subsidies under WTO. However, when this exemption expires, export contingent incentives may be in violation of WTO regulations.

Summary Evaluation of Options

Options	Performance Requirements	No Performance Requirements	Performance Incentives
Overall Assessment	Rejected	Rejected	Proposed
Suitability	Low: Requirements limit the number of potential companies. EAC rules means that export requirement will rule out Rwandan firms serving local and regional EAC markets	Medium: The number of potential companies will not be limited but the zones may not achieve its objective of promoting investment, exports and skills development	High: Performance incentives is a smarter way of promoting capital investment, export activities, skills development without limiting market demand for the zones
Feasibility	High: The export requirement is in the current legal framework	High: The export requirement is in the current legal framework but this can be modified	High: The export requirement is in the current legal framework but this can be modified
Acceptability	Low: The majority of domestic firms which do not yet engage in exports will be disadvantaged	High: A much wider set of potential users can benefit from the SEZ regime	High: A much wider set of potential users can benefit from the SEZ regime

3. Recommendations and Policy Details

- **A flexible regime that will leave room for different types of zones as needed should be supported by the new SEZ law.** The law should allow for a wide range of zones, including FTZs and non FTZs which include EPZs, hybrid EPZs, Freeports, Industrial Zones, and Sector specific zones such as an ICT Park. Though there should be flexibility in the design of different zones to meet the needs of different users, they should have a common set of incentives and privileges to avoid unnecessary competition and administrative complexity.
- **In general, a broad set of activities should be allowed, subject to a negative list of prohibited activities,** which will be codified in the legal framework.
- **Removal of eligibility criteria for operations and for receipt of benefits.** There should be no requirements for exports, number of jobs and initial investment amounts for the tenants of zones. There should also be no limitations on companies selling to domestic markets – in the case of a free trade zone, sales to domestic markets will be subject to payment of duties as per custom territory. Foreign and domestic companies should be equally treated.

4. Best Practice and Case Studies

Best practice

- The law allows in principle a wide range of activities in SEZs, while listing only a small set of prohibited activities i.e. a negative list approach.
- Many countries around the world are reducing or totally eliminating their export requirements. While export requirements were in vogue in the 1980s, countries now have a better understanding of the best environments to attract investors and export-oriented ventures—good infrastructure, access to markets, transparent business environment, skilled labor force, and cost-effective production.

Examples

- **Asia:** while EPZs were traditionally the most common zones, there is a trend towards large scale freeports in China, Philippines, Indonesia, India and Indonesia. The Philippine SEZ Act refers to Ecozones containing a broad range of special economic zones including industrial estates, export processing zones (with no export requirements), free trade zones, and tourist/recreational centers. In Singapore any trade or industry is allowed to be designated as a Free Trade Zones. China hosts hundreds of national, provincial and city level zones including FTZs, EPZs, and high tech zones.
- **Middle East:** The Aqaba Jordan Free Port and JAFZA Free Zone do not have export requirements. Jordan relies on its business environment, free trade agreements, access to Middle East markets, natural resource base, skilled workforce, and low flat tax to attract both export-oriented and domestic investors.

b. Policy Issue 2a: Public and Private Participation in SEZ programs

1. The issue and the specific objectives we are trying to achieve

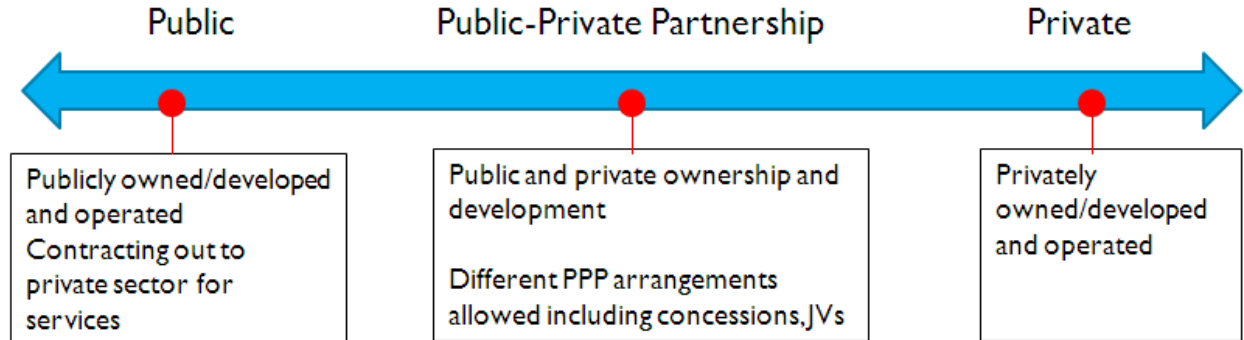
Currently there is no clear guidance in the laws on public and private involvement in the development and operations of SEZs. In which areas should they be involved in - development, operation, service provision? And under what conditions?

In answering these policy questions, we are seeking to achieve the following:

- SEZs are developed and operated to best meet the needs of users and generate high financial and economic returns.
- Strengthen the private sector and their role in driving the economy.

2. Policy Options and Evaluation

The policy options range from entirely public developed and operated zones – perhaps with some private sector contracting - to allowing a range of public private partnerships in which the public and private sector are involved in different parts of the zone development and operations (including purely privately owned/developed and operated zones) to only having privately owned/developed and operated zones.



In the evaluation, the option to allow a full spectrum of public-private partnerships, including purely private zones, was the most preferred for these main reasons:

- A review of performance of zones across the world indicates that private zones tend to be less expensive to develop and operate and yield better economic results (jobs, export and FDI creation) and financial returns.
- Private zones tend to offer better designed and maintained demand-led facilities, which command a higher price and attract higher end activities. For example, prices for private industrial zones in the Dominican Republic are up to three times higher than government run zones as they offer better quality services and infrastructure facilities, including telecommunications, business support and manufacturing and office space. Where there are private and public zones, companies prefer the private ones in most countries, including Vietnam, Thailand, Philippines, El Salvador and Kenya.

- Private sector involvement reduces the burden on public finance required to build infrastructure and operate zones.
- However, in most cases a minimum amount of public investment (core infrastructure and services) is required to make the zones viable.

Summary Evaluation of Options

Options	Only publicly owned/developed and operated	Public Partnerships including purely private zones	Only privately owned/developed and operated
Overall Assessment	Rejected	Proposed	Rejected
Suitability	Low: It is likely that the zones will not be as well developed and operated, less efficient and less demand driven.	High: SEZs can benefit from higher efficiency, investment and expertise brought by private sector developers and operators.	Medium: Some zones which have low rates of financial but high economic rates of returns will not be developed.
Feasibility	Low: Creates a very high financial burden on Government.	Medium: Less public finance required to develop zones. However, this will require strong legal, regulatory and institutional framework	Medium: Less public finance required to develop zones. But if zones are not well developed, a burden on government at a later stage can be created.
Acceptability	Low: The private sector will not be able to participate in a major commercial opportunity.	High: The private sector will be able to participate in the development of zones. This is in line with the PPP policy of GoR	High: The private sector will be able to participate in the development of zones. This is in line with the PPP policy of GoR

3. Recommendations and Policy Details

The overall policy recommendation is to allow the full spectrum of public private partnerships with an emphasis on encouraging the private sector to take the lead where appropriate.

- **The entire spectrum of public-private partnerships** should be allowed for the development and operation of SEZs. This includes the possibility of purely privately owned/developed zones which has minimum government involvement.
- **SEZ development should be guided by the general principles that the public sector should focus on providing public goods:** legal, regulatory framework, services and infrastructure and should only be involved beyond that in the development of the SEZs instead of the private sector if there is a market failure of some kind.

- **Public investments into individual SEZ projects should be guided by an economic cost benefit analysis** to determine whether the expected economic rate of return to government and society associated with funding off-site zone infrastructure, taking equity stakes in public-private SEZ development ventures, providing in-kind grants of land, or foregoing revenues through tax incentives, is high enough.

The economic rate of return should be compared to other policy instruments aiming to generate the same benefits of employment and growth in Rwanda. In addition whether the total costs can be publicly financed needs to be checked. Conducting the cost-benefit analyses and economic modeling should be the responsibility of the SEZ Authority.

- **Government equity investment (either through a financial investment or through an in-kind grant such as land⁵) should be guided by the *internal rate of return*.** If there is sufficient expectation of financial returns, Government should aim to attract a private sector firm to develop the SEZ. If not but the economic returns are high, Government can consider co-investing to kick start the development and reduce the risk for private developers.
- **Government equity stake should be open for privatization in the future.**

For private sector involvement to be successful there are a number of critical success factors

- **Strong legal, regulatory and institutional framework** which clearly sets the SEZ designation criteria, physical development standards, developer's license criteria, and the roles, rights and obligations of zone developers, operators and government in SEZs. The framework should allow for different kinds of PPP arrangements and ensure the process for developing privately developed zones is free from excessive administrative burdens.
- **Formal coordination mechanism and agreement between private developer and government (zone developer agreement)** outlining specific time-bound obligations of both parties for the development, financing, operation, regulation and promotion of a specific zone. The regulator will oversee the implementation of these agreements.
- **A level playing field between private and public sector developed zones is ensured through the SEZ authority.** This means that the designation process and evaluation of new proposals should be conducted with the same standards, and that the level of administrative services provided by the government should be the same for public and private developed zones.
- **Healthy competition within the private sector:** PPP opportunities should be tendered out through the SEZ Authority following an open, competitive process, which is open to both local and foreign private sector developers. There are highly skilled and experienced companies specialized in developing and operating SEZs all over the world.

⁵ In-kind land grant should be considered a financial contribution to the SEZ project. In general land should not be given by the state as a free contribution to the SEZ as it is a very valuable economic asset. The terms in which the GoR sells or leases state land that it owns to the private developer will be guided by the cost-benefit analysis e.g., whether it is sold/leased with subsidised or market rates, given in return for an equity stake or a share of profits etc.

- **The zones are operated under commercial terms:** the developers and operators of zones should be allowed and encouraged to operate the zones on a commercial basis with market prices for land leases/sales and value added services provided in the zones. The only exception would be in the case of a monopoly where the regulator will need to set prices, according to a pre-defined set of economic and financial criteria.

4. Best Practice and Case Studies

Good practice

- Over the past 15 years, there has been rapid growth of privately developed, owned and operated zones worldwide. 62% of 2,301 zones in 119 developing and transition countries in 2006/7 are private sector developed and owned compared to only 25% in the 1980s.
- Even in Asia and the Pacific, which has been at the forefront of zone development over the past 3 decades and where zones have been successfully government run, there is a trend towards private zone development.
- This has been primarily driven by the recognition that private zones tend to be better developed and managed, coupled with a lack of public funding for zone development.
- In the early days of private sector involvement, governments had little systematic criteria for private zone evaluation or designation and weak coordination mechanisms between the private sector and government. This resulted in many designated private zones lacking the necessary public infrastructure to make them work. For example, private EPZs and industrial zones in Vietnam sat vacant waiting for provision of offsite infrastructure.
- The response was to develop formal PPPs which clarified the roles and obligations of the public and private sector. Different PPP models exist but the core responsibilities are:
 - Government to finance and provide offsite infrastructure, utilities and secure land on long-term lease basis for private developers.
 - The private sector finances the development of the zone including the onsite infrastructure and facilities and manages the zones.

Examples

- Aqaba Freeport (Jordan): tenders out PPP opportunities through the authority. Government pricing of land sales, lease rates, and public services and fees are regulated by authority. Private sector services, unless monopolistic, are left to the market.
- Philippines: Different types of PPPs allowed. Currently there are 41 privately owned and 4 public owned zones. Zones are run on a commercial basis.
- India allows for private participation in the development and operation of SEZs. It allows private developers to make their own proposals for zone development, and also allows state governments and the private sector to enter into partnerships (PPP) for zone development. Developers, in turn, are allowed to hire separate operators to manage the zone facilities. The Indian law also very clearly defines the rights, obligations, and penalties of developers and co-developers (operators).

c. Policy Issue 2b: Zone Designation Criteria and Process

1. *The issue and the specific objectives we are trying to achieve*

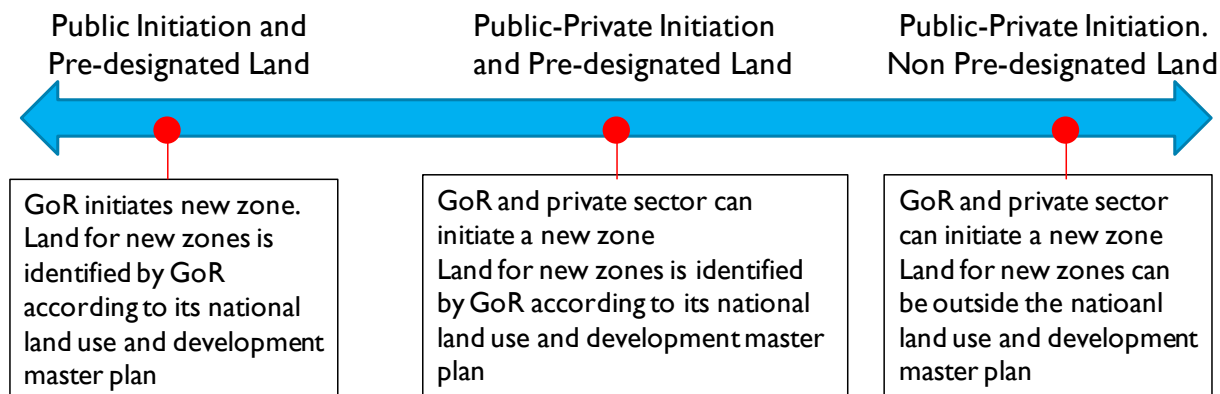
Currently there is no guidance on the criteria and process for zone designation – who is allowed to initiate a new zone, which land is allowed to be designated a zone, what is the designation process to be undertaken and which institutions should be involved? This is important as the designation of a zone would normally confer minimum obligations onto the government to provide core offsite infrastructure, services, regulatory oversight and any agreed incentives.

The designation criteria and process should aim to achieve the following:

- Encourage and facilitate private sector involvement in the development of SEZs.
- Increase the likelihood that SEZs are developed and operated which best meets the needs of users and generates high financial and economic returns.
- Prevent problems in the development and operational stages, which reduces the financial and economic returns of the zone e.g., low occupancy rates, cost overruns etc.

2. *Policy Options and Evaluation*

Two sets of choices needs to be made: 1) Who can initiate a new zone – the government, private sector? both?; and 2) What land can be considered for a new zone – pre-designated land (already in the land use plans) or also land which is outside of the current designated areas?



In the evaluation, the option to allow public and private initiation and the possibility to use non pre-designated land was the most preferred for the following reasons:

- Allowing the private sector to initiate a new zone will encourage private sector participation.
- Allowing non pre-designated land to be considered for a new zone maximises the ability to develop a wide range of zones which meets specific sector needs in the future.
- It is possible to minimise the risks of using non pre-designated land, which is unsuitable and entails excessive infrastructure development costs, and ensure consistency with the national land use policy by establishing a strong zone designation criteria and approval process.

Summary Evaluation of Options

Options	Public Initiation and Pre-designated Land	Public-Private Initiation and Pre-designated Land	Public-Private Initiation. Non Pre-designated Land Allowed
Overall Assessment	Rejected	Rejected	Proposed
Suitability	Low: Will not encourage private sector participation if they are not allowed to initiate a new zone	Medium: Encourages private sector participation but current pre-designated zones may not meet the needs of the proposed zone	High: Encourages private sector participation and ensures that a wide range of zones are possible
Feasibility	High: Some areas are already pre-designated as special economic zones in the national land use and development masterplan	High: Some areas are already pre-designated as special economic zones in the national land use and development masterplan	Medium: If poor location, can create additional costs for government in order to provide the necessary infrastructure. Requires a well managed zone designation approval process
Acceptability	Low: The private sector would prefer the freedom to initiate a new zone	Medium: The private sector would prefer the freedom to identify more suitable land for a particular zone	Medium: The designation criteria and process needs to ensure alignment with national land use strategy

3. Recommendations and Policy Details

Identification of New Zones

- **Both the private sector and the government can initiate and propose a new SEZ.**
- **It is possible to propose both pre-designated land** (The National Land Use and Development Master Plan will provide areas designated for SEZs; this plan is under preparation and was commissioned by GoR under NLC supervision) **as well as non pre-designated land for a new SEZ.**

Zone Designation Approval Process

- **All new zones**, regardless of who initiates it and if it is on land that is pre-designated or not **should go through a defined, formal designation process**. Even if land is pre-designated for SEZs, it is not possible to know upfront if it is suitable for a specific zone use, and if the

Government is willing to guarantee minimum obligations (for off-site infrastructure and core services) for a specific zone.

- The SEZ promoter – who wants to be the SEZ developer (whether GoR or a private company) - should conduct the following **feasibility studies to assess the viability of establishing a specific SEZ** in a given location to inform the designation decision.
 - Demand forecast for the SEZ (demand projections based on surveys of investors from target sectors and analysis of market trends) to show how much space is demanded at what pricing points and the infrastructure required.
 - Site and impact assessment: evaluates the physical, social and environmental characteristics attributes of the prospective site against the proposed zone.
 - Physical planning to determine the capital expenditure required to develop and operate the zone against agreed physical development standards.
- **The SEZ Authority will then do a cost benefit analysis** using the above demand analysis and capex requirements to project revenues, employment, capital expenditure and operational costs to estimate financial and economic rates of return.

Institutional Roles in the Approval Process

- **The SEZ Authority makes a recommendation of whether the land should be designated as a SEZ** to the lead ministry to take to Cabinet based on the feasibility studies and the cost-benefit analysis to determine whether public investment is justified. The SEZ Authority is responsible for ensuring that the whole process is conducted in a timely fashion.
- **The National Land Centre works in consultation with the Authority for the detailed planning of any new SEZ** as it is in charge of land use planning. In particular, it should evaluate any proposals for non pre-designated land against national land use policy.
- The lead ministry (either MINICOM or the ministry sponsoring the project) takes the SEZ proposal and the SEZ Authority recommendation to Cabinet for final approval.

4. Best Practice and Case Studies

Good practice

- In the early days of private sector involvement, governments had little systematic criteria for private zone evaluation or designation and weak coordination mechanisms between the private sector and government. This resulted in many designated private zones lacking the necessary public infrastructure to make them work. For example, private EPZs and industrial zones in Vietnam sat vacant waiting for provision of offsite infrastructure.

Examples

- Philippines: Both the public and private sector can initiate a new zone and the designation criteria apply to both. If a private zone does not meet the criteria, the private sector can develop the area privately without any exposure/obligation to government.
- India allows private developers to make their own proposals for zone development

d. Policy Issue 3: Land Use for SEZs

1. *The issue and the specific objectives we are trying to achieve*

The success of SEZs requires the ability to develop large tracts of land and ensure ease of access to land for industrial and commercial users. Given that access to land is a generally difficult process in Rwanda, it is key to clarify and define the terms of how land designated for SEZ is acquired, the ownership and transfer terms and the usage conditions for developers and users. The terms and conditions should aim to achieve the following:

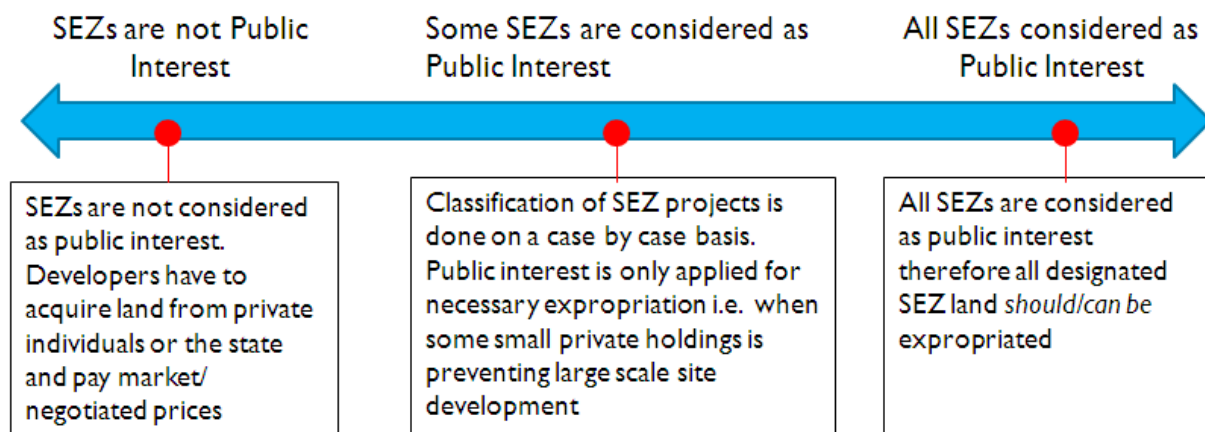
- Provide clarity on land allocation/acquisition, ownership/lease, transfer and use to both developers, operators and users
- The terms and conditions do not act as disincentives to developers and users of SEZs

2. *Policy Options and Evaluation*

Acquisition and Classification of Designated SEZ Land

The policy choices are whether SEZs should/can be considered as in the public interest and if this needs to be applied on blanket or a case by case basis. This will determine whether expropriation of the concerned land (for the development of SEZs) will take place. According to the Organic Land Law, the state has the right to expropriate land due to public interest.⁶ The Expropriation Act outlines the process of the state to acquire land free of claims (usually against prompt, fair, and appropriate compensation).

According to the National Land Centre (NLC) – the qualification of a given piece of land as in the public interest determines that expropriation will be the legal mechanism through which that land will be acquired. Furthermore, the inclusion of a given project (as a SEZ) in the *National Land Use and Development Master Plan* – in light of art. 5 of the Expropriation law – automatically classifies SEZ projects (and the concerned land) as public interest.



⁶ Article 3 (2) of the Organic Land Act of 2005.

In the evaluation, the option to always consider SEZs as public interest (and therefore to be included in the *National Land Use and Development Master Plan*) was the most preferred for the following reason:

- It may be difficult for the developer to acquire large tracts of land for SEZ use therefore expropriation is useful to get the projects implemented.
- If the zone designation process is followed, the cost benefit analysis would have shown that the approved SEZs generate considerable net economic benefits, and therefore qualifies as public interest.

A number of complementary measures need to be put in place to ensure that the expropriation process produces a fair and desirable outcome for all (see policy recommendations).

Summary Evaluation of Options

Options	SEZs are not Public Interest	Some SEZs are considered as Public Interest	All SEZs considered as Public Interest
Overall Assessment	Rejected	Rejected	Proposed
Suitability	Low: It may be difficult to develop some SEZs as they require large tracts of land given the difficulties in acquiring large tracts of land in Rwanda for industrial and commercial use	High: Land is only designated as SEZs if the economic returns are sufficiently high, which should be the criteria for defining public interest.	High: Land is only designated as SEZs if the economic returns are sufficiently high, which should be the criteria for defining public interest.
Feasibility	Medium: GoR does not have to administer expropriation but may incur costs identifying available land for the developer	Medium: GoR will have to consider and administer expropriation process case by case	Medium: GoR will have to administer the expropriation process for potentially large tracts of land
Acceptability	Medium: The developers will face barriers in the project implementation. Though the public may prefer this choice as there are less cases of expropriation.	Low: The developers and the public will face uncertainty and may view it as unfair that some cases are judged as in the public interest and are subject to expropriation.	Medium: SEZs developers will not face uncertainty and SEZ development plans will proceed at faster pace. However, the public will oppose if land is expropriated and sold to the developers at a significantly lower price than what the developer

			then sells it at.
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Ownership and Transfer

According to the Organic Land Law and its Regulations⁷, there are private and public land categories⁸ with private land being owned by individuals, companies, or the state.

Box 2: Definition of Land Categories

- Individual Land - “individual land” refers to land held and occupied by citizens and legal entities under some form of private tenure, including ownership and long term lease;
- Private Land – “private land” refers to land held by national and sub-national governments and their respective instrumentalities but made available for private use;
- Public Land - “public land” refers to land held and occupied by the national and sub-national governments and their respective instrumentalities and used for public purposes.

Individual land can be sold in form of a freehold or leased. The relevant regulation⁹ provides that for Individual Land the lease term shall be up to “*ninety-nine (99) years*”.

While Private Land can be allocated and leased for commercial and industrial purposes, the law allows also in principle holders of Private Land (used for commercial, industrial and residential purposes) to request an ownership title at any time prior to expiration of the lease term¹⁰. Nevertheless – as recently confirmed by a report released by the World Bank (“*Business Access to Land in Rwanda: Issues and Recommendations*” – February 2010) - it is not clear which national regulation or other official document comprehensively spells out the procedure for acquiring ownership title to Private Land.

According to the NLC a new law determining the modalities of obtaining full ownership of land is currently under development. The law will introduce a different regime for Rwandan and foreign legal entities with respect to the possibility of acquiring full ownership title of a given tract of Private Land, with foreign legal entities not entitled to have freehold rights of Private Land.

⁷ 14/07/2005 Organic Land Law No. 08/2005 Determining the Use and Management of Land in Rwanda (O.G. No. 18 of 15/09/2005).

⁸ Article 9 – 11 of the Organic Land Law of 2005.

⁹ Presidential Order No. 30/01 of 29/06/2007 “Determining the exact number of years of land lease”

¹⁰ Presidential Order No. 30/01 of 29/06/2007 “Determining the exact number of years of land lease”

From the Organic Land Law Private Land lease shall be between three and 99 years, but is further determined by Presidential Order for each area and according its intended use.¹¹ The relevant regulation¹² provides that for Private Land the lease term shall be “*Thirty (30) years (...) for industrial, economic and commercial, social or cultural and scientific services*”.

Based on a review of the “*Ministerial Order Determining the Content and Procedures for Land Allocation and Lease*” (No. 001/2008), dealing with leases of Private land, the current system does not adequately address some basic issues of lease rights for industrial and commercial purposes such as sub-lease procedures, change of land use, and securitization of lease rights.

Given the above, it is recommended that a special land regime shall be established for SEZs – in order to create a streamlined and business oriented land management system – covering the following:

- Ownership and transfer rights
- Lease durations for industrial and commercial leases
- The rights of creditors who finance development on SEZ land
- The right to continued occupancy and non-disturbance
- Liberal rights to change land use.

Land Use Conditions

Article 7 of the Expropriation law and articles 75 and 76 of the Organic Land Law allow for degraded and unexploited Private State land to be confiscated without compensation.

In order to set up the right system of incentives for SEZs developers and users, two competing interests should be balanced: (a) the risk that an entrepreneur faces when starting a business (*i.e.* its business might be affected by exogenous conditions, such as general market downturn, macroeconomic crises and so forth) that can prevent a successful performance of the business venture and the exploitation of the land; and (b) the need to avoid serviced SEZ land remaining unexploited. Three policy options shall be considered:

- No use it or lose it conditions on SEZ land;
- Use it or lose it conditions on SEZ land plus repossession without compensation;
- Use it or lose it conditions on SEZ land plus repossession with fair compensation.

Summary Evaluation of Options

Options	No use it or lose it conditions on SEZ land	Use it or lose it conditions on SEZ land plus repossession without compensation	Use it or lose it conditions on SEZ land plus repossession with fair compensation
Overall Assessment	Rejected	Rejected	Proposed
Suitability	Low: This option reduces ability of SEZs to attract the best	Low: This option might render investing in SEZs too risky for private	High: This option would contribute to the long term success of SEZs, by

¹¹ Article 24 of the Organic Land Law of 2005.

¹² Presidential Order No. 30/01 of 29/06/2007 “Determining the exact number of years of land lease”

	projects, as no incentive for entrepreneurs to exploit the land (versus speculation) and would prevent other entrepreneurs to replace failing ones.	entrepreneurs, which would have to face the risk of repossession without compensation even though their business might fail due to exogenous factors.	rendering them attractive for private investment and discouraging projects with low potential or high risk from locating in SEZs and land speculation.
Feasibility	High: GOR/SEZ Authority does not have to monitor the exploitation of the concerned SEZs' plots and to enforce any repossession procedure.	Medium: GOR/SEZ Authority shall monitor the exploitation of the concerned SEZs' plots and shall eventually enforce repossession procedures.	Medium: GOR/SEZ Authority shall monitor the exploitation of the concerned SEZs' plots and shall eventually enforce repossession procedures.
Acceptability	Low: Option only addresses <u>one</u> of GoR's interests: to encourage private entrepreneurs to invest in SEZs. It does not address GoR concerns over increasing land speculation.	Low: Option only addresses <u>one</u> of GoR's interests: to incentivize (with a use or lose it mechanism) the fruitful exploitation of SEZ land.	High: Meets both of GoR's interests: (a) to encourage private investment in SEZs (by removing the risk of repossession without compensation); (b) to incentivize the fruitful exploitation of SEZ land.

3. Recommendations and Policy Details

Land legislative framework

Given the importance of ensuring easy access and efficient management of land for SEZ developers and users it is recommended that **SEZs have a specific land regulation framework governing them**. Rather than proceed with the insertion of "Tailored SEZ" provisions in the different pieces of land legislation and regulation currently in place in the Rwandan legal system, it would be advisable to include in the SEZ law a chapter containing a specific regulation for SEZ land.

In order to avoid conflicts between such special regulation and the general land laws and regulations currently in place in Rwanda, the SEZ law shall include a general provision stating that the SEZ land special regulation prevails on any other general provision concerning land and that the latter shall instead apply only in the case the SEZ land special regulation does not provide any regulation for a specific case.

Acquisition and Classification of Designated SEZ Land

SEZs land should be qualified as “in the public interest” as designated SEZs should generate sufficient economic benefits to meet the criteria and this will allow expropriation to avoid difficulties in getting large tracts of land to develop as SEZs.

According to both NLC and some private entrepreneurs, currently in Rwanda there is a significant discrepancy between the prices set by means of public regulations for expropriation purposes (*i.e.* the price to be paid to private holdings to be expropriated) and the prices which are otherwise bargained in private negotiations, with a ratio ranging from 1 to 8 up to 1 to 30. In the current situation, a SEZ developer could benefit from an unfair/ anticompetitive profit by acquiring land through expropriation at below market prices and then leasing/selling the land to SEZ’s users at market prices.

Therefore the recommended policy should be enforced according to the **following process to avoid excessive profits captured by the SEZ developers** at the expense of the public:

- GoR to enforce expropriation of the SEZ designated land (to establish a SEZ);
- GoR to then sell/lease the designated land to the relevant/selected SEZ developer (either public, private, or public-private developer) at market prices (to prevent the latter from exploiting unfair/uncompetitive profits and avoid further distortions of the land market);
- SEZ Developer to then sell/lease land to SEZ’s users at market prices.

It is further recommended to consider a periodical update/revision of this specific aspect of the SEZ policy and to develop overtime a land management system in which:

- The current differential between expropriation and market prices for land is progressively reduced;
- Even by qualifying a tract of land as “in public interest” it would not lead automatically to expropriation, using instead the latter as a last resort mechanism to be applied only in case a privately bargained agreement is not reachable among the seller and the buyer.

Ownership and Transfer

It is recommended that in the special land regime to be established for SEZs the following rights shall be set forth to create a streamlined and business oriented land management system:

- **Ownership rights:** These are to be governed by national land regulations, which currently mean that foreign investors (developers, operators and users) can only hold lease and not freehold titles to the land; local investors can lease or own land.
- **Lease:** The maximum term of commercial and industrial leases for SEZs 99 years. The lease is renewable and transferable.
- **Transfer lease rights:** The developer should be able to sub-lease portions of land to SEZs users according to predictable rights of transfer which are not subject to bureaucratic discretion.
- **The rights of creditors who finance development on SEZ land:**
 - The right to notice of any lease default and the right to cure the default on behalf of the lease holder;
 - The right to take over the lease in case of default of the leaseholder, without the consent of the State/District;

- The right to transfer the lease through mortgage enforcement procedures without the consent of the State/District;
- **The right to continued occupancy and non-disturbance:** Expropriation of land that has been designated and developed as a SEZ shall be regulated and restricted to a limited number of cases. Moreover, in case SEZ land will be expropriated, a special regime shall be put in place to ensure that compensation will occur according to market values.
- **Liberal rights to change land use:** Present rules appear to require State consent to change of land use under a lease. In case of SEZs, except in rare cases (i.e. for particular and dangerous industrial activities) the use of land under investor leases should be subject only to the generally applicable SEZs' land use planning and zoning regulations, and not limited by narrow use clauses in the lease. Narrow use clauses decrease the value of the investment and pose risks to investors who may have to liquidate their original investment.

Land Use

It is recommended that **use it or lose it conditions on SEZ land plus repossession with fair compensation shall be provided.** In particular:

- **The license for the developer issued by the SEZ Authority will contain a time bound use it or lose it condition** (which can vary between different SEZs). The SEZ agreement will specify the nature and timeframes of required development of the land.
- If the developer (in case it owns the land) fails to develop/exploit the land, it has to sell it at the same price (adjusted for inflation to prevent capital gains that create incentives for land speculation) to another developer. In the case of lease, termination of lease with sufficient notice will apply. Additional market based compensation to be given for any infrastructure developed by the developer on the land which has added value to it.
- **User licenses will also contain a time bound use it or lose it condition.** If they fail to use/develop it, they have to sell it at the same price (adjusted for inflation) to another user or back to the SEZ developer (who is not obligated to buy it back). In the case of lease, termination of lease with sufficient notice will apply. Additional market based compensation to be given for any infrastructure developed by the user on the land which has added value to it.
- The time limit for development should be on average 3-4 years (depending on the particular features and size of a given SEZ) with regular reviews and an escalation process if development is off track with the original agreed plans.

4. Best Practise and Case Studies

Good Practise:

- In recent years, SEZs regulations tend to include specific land management provisions which are tailored on the specific needs of SEZs;
- These regulations aim to provide a clear set of rights for potential investors (both foreign and local), and to lower the risk faced by investors in long-term ventures;
- Expropriation has been used in SEZs to secure large tracts of land to be developed;
- Leasehold right have been regulated to attract investors in the SEZs.

Examples:

- Aqaba Freeport (Jordan): Expropriation applied when small parcels of land in private

ownership blocked large scale site development. Special SEZs land regulation has been issued (*“Regulation No. (7) for the Year 2001. Regulation for the Sale and Lease of Lands in the Aqaba Special Economic Zone”*), which includes use or lose it provisions, providing repossession at fair compensation.

- Philippines Economic Zone (Philippines): Lands and buildings in each Economic Zone may be leased to foreign investors for a period not exceeding fifty (50) years renewable once for a period of not more than twenty-five (25) years, as provided for under Republic Act No. 7652, otherwise known as the Investors’ Lease Act. The leasehold right acquired under long-term contracts may be sold, transferred or assigned, subject to the conditions set forth under Republic Act No. 7652.

e. Policy Issue 4a: Zone Benefits: Fiscal Incentives

1. *The issue and the specific objectives we are trying to achieve*

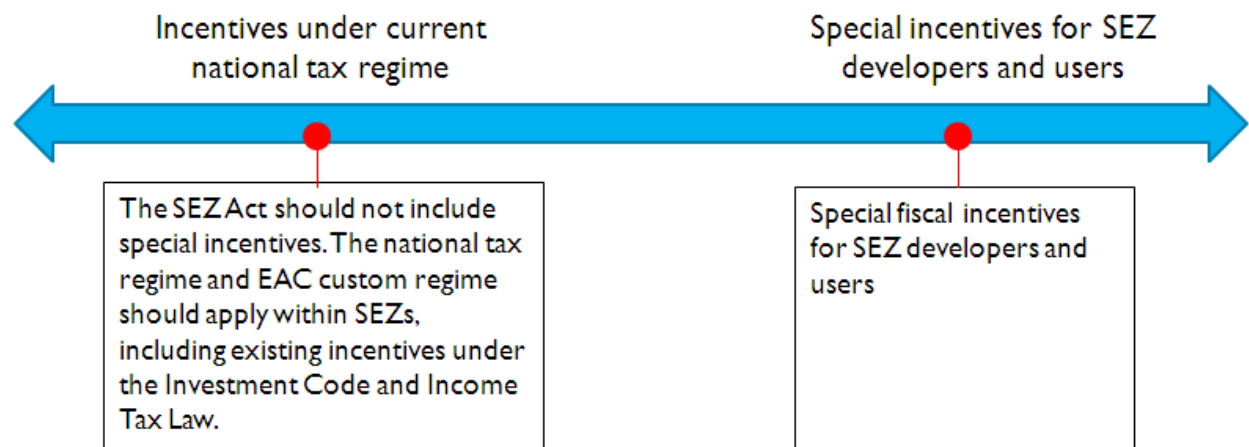
Fiscal incentives to users and developers of SEZs are a key component of most zones' package of benefits. However, given their potentially large impact on tax revenues, we need to consider their application in the context of Rwanda's current and future fiscal incentive regime. Moreover, fiscal incentives can take different forms with very different impact on production and investment decisions and so the specific incentive regime should be considered carefully.

The fiscal incentive regime should aim to achieve the following:

- Fiscal incentives for SEZs should result in a net economic benefit – meaning the cost of foregone tax revenues is less than the increase in future investment and tax base. To achieve this, the regime should adhere to the following principles:
 - The system of incentives should not create high administration costs;
 - Incentives should encourage investment and productive activities with minimum distortionary effects;
 - The overall tax burden is regionally and internationally competitive and attractive for investment and location in SEZs in Rwanda;
 - The system should be stable to reduce risk and uncertainty for investors.
- In the context of Rwanda, the system should also support planned tax reforms (including the tax simplification programme and the longer term flat tax proposals).

2. *Policy Options and Evaluation*

There are two broad sets of policy options: 1) providing incentives under the national tax regime; 2) provide a special set of incentives for SEZ developers and users.



The main rationale for offering special incentives in the SEZs is to create a competitive advantage for investment/location in the zones. According to the recent IFC market demand cost-benefit analysis, 'smart' incentives such as a low flat corporate tax rate within the zones would differentiate the zones from competitor locations both within and outside of Rwanda, including Kenya and Tanzania. Without additional incentives, investors into the zones would

have higher effective tax rates than their counterparts outside the zones since tax collection rates should be higher in the zones as businesses are formally registered and operate in demarcated spaces in the zones. They would also have higher effective tax rates than companies located in regional SEZs which offer extensive tax incentives such as tax holidays. Overall the study predicts that without some ‘smart’ incentives at the KFZ and KIP, investor demand for land and facilities at the two sites will likely be below the levels projected in the Base Case scenario.

Moreover, corporations in the zones will pay higher costs for the land within the zones compared to outside the zones. This is justified through the superior infrastructure and value added services to be provided. However, this may be difficult to market to investors for the first SEZs; a fiscal incentive such as a low flat corporate tax rate is a more effective marketing tool.

The main drawback of offering special incentives is that it complicates the tax system, working against the efforts to rationalise the system. How serious this is depends on the type and design of incentives.

The table below shows two options for the special incentives to be offered in the SEZs and compares them to those incentives offered to all registered investors under the national regime.

- Incentives in the Income Tax Law, which are given to businesses meeting the export requirement (80% of production) in FTZs/EPZs. The main incentives granted in EPZ/FTZ are indefinite tax holidays. Additional incentives can be given at discretion in and outside the EPZ/FTZs under the Investment Code.
- A standard set of incentives, which applies to all users and developers of SEZs comprising of a low flat corporate tax rate of 15% plus duty free exemptions for FTZs and EPZs. There is no discretion for additional incentives.

Table 1: Summary of Current¹³ and Proposed Tax and Incentive Regimes in Rwanda

Sources: Investment Code, Income Tax Act, Customs Act and Regulations.

	General Tax Regime	General Tax Regime Incentives under Investment Code <i>[All businesses with investment certificate]</i>	Incentives in FTZs under Income Tax Law <i>[Businesses in FTZs/EPZs only¹⁴]</i>	Standard SEZ Incentives <i>[All Developers and Businesses in SEZs]</i>
Corporate tax rate	30% 0% for micro finance businesses for 5 years, renewable	30% but reduction of profit tax rate by 2-7% depending on number of employees and export value	Zero percent for those who qualify to be in the FTZs/EPZs (export requirement)	Low flat corporate rate of 15%
Capital Investment		Investment allowances of 40-50%		Investment allowances of 40-50%
Withholding Tax	15% Withholding Tax		Exemption from tax ¹⁵	

¹³ Provided in the Income Tax Law and the Customs legislation

¹⁴ A company operating in a free trade zone which fulfills the requirements stipulated in the Investment Law is entitled to the following fiscal benefits according to the Law on Direct Taxes on Income. Article 41 of the Income Tax Law of 2005.

Customs duties	According to the EAC Custom Union - Duties within EAC 0% - Common external tariff: 0% for raw materials and capital goods; 10% intermediate goods; 25% finished goods - Common list of exemptions		Duty free imports on proportion of production exported (outside of the customs union)	EAC Custom Union for all non FTZs. Duty free imports on proportion of production exported (outside of the customs union) <u>for SEZs which are FTZs</u>
Other Benefits	Loss carried forward for 5 years	One-Stop-Centre services Additional incentives can be given at discretion	Tax free profit repatriation Additional incentives can be given at discretion	One-Stop-Centre services <u>No further discretionary incentives</u>

In the evaluation, the current set of special incentives and exemptions for FTZs and EPZs was not desirable for the following reasons:

- Tax holidays are an especially ineffective form of fiscal incentive, because they do not primarily target capital investment and create perverse incentives. As a result the Cost Benefit Ratio (additional investment generated per unit of revenue lost) is low.

Box 1: Tax Holidays: Ineffective form of Fiscal Incentive

- Tax holidays are a blanket benefit given to investors and are not related to the amount of capital invested or the growth in investment during the period of the Tax Holiday;
- It is of little benefit to companies not making profits, which is usually the case in the initial years of operation;
- Tax holidays are most effective at capturing the type of investor who may be considering multiple locations such as Kenya, Uganda, or Rwanda. However, it is less important to companies that would have located in Rwanda under any circumstance i.e. firms that must relocate from the Gikondo Valley;
- Longer-term projects that generate profits beyond the tax holiday period do not benefit from tax exemptions, unless firms are permitted to accrue and defer asset depreciation deductions beyond the tax holiday period;
- Tax exemptions do not benefit investors from many OECD countries that tax income on a global basis - unless a “tax sparing” agreement is in place;
- Firms have an incentive to close down and sell their business at the end of the tax holiday, only to then re-open as a ‘new’ investment to gain further tax holidays;
- They encourage firms to funnel profits, via transfer pricing, from an existing profitable company through the ‘tax holiday’ company, and therefore avoid paying tax on either.

- Incentives only for “exporters” are still legally allowable under the WTO given Rwanda’s status as a ‘least developed country’, though these subsidies still constitute ‘specific government subsidies’ that are actionable under the WTO framework. However, under the EAC Customs Union, ‘exports’ mean export destinations outside the EAC. Since these would be the primary markets of exporting firms in Rwandan SEZs, this does not make an export linked incentive attractive or viable.

¹⁵ Article 52 (2) No. 1 of the Income Tax Law of 2005.

- The GoR is currently trying to limit the practice of discretionary fiscal incentives in Rwanda due to the high cost of them and lack of evidence of commensurate benefits.

A standard incentive of a low flat corporate tax rate of 15% for developers and **users** of SEZs with no discretion for additional incentives is a preferable incentive system.

- The flat tax rate will be markedly lower than the standard current corporate tax rate and make the zone competitive. However it will not eliminate the tax revenue base or create perverse incentives in the same way as a tax holiday.
- The system addresses one of the major challenges of the Rwanda tax system - the high cost of tax compliance by providing for a simple flat rate system.
- Limiting additional discretionary incentives will help efforts to rationalize the system.
- It is in line with the proposed flat tax reforms so that any transition to an eventual national flat tax regime will be simple.

Summary Evaluation of Options

Options	Incentives under current national tax regime	Special Incentives in FTZs under Income Tax Law	Standard Incentives SEZ
Overall Assessment	Rejected	Rejected	Proposed
Suitability	Low: Rwanda already has generous incentives for investment but there is high cost of tax compliance. Other SEZs offer extensive fiscal incentives	Low: Tax holidays are not an effective type of incentive. Other discretionary incentives is against efforts to rationalise the tax system	High: The proposed lower rate of tax will make the SEZs more competitive and is an easily marketable benefit. The system of a flat rate will reduce tax compliance costs.
Feasibility	High: Does not require a further system of incentives to be administered and does not lead to further tax base erosion	Medium: GoR will have to administer additional incentive systems.	Medium: GoR will have to administer a special tax regime. However by eliminating additional discretionary incentives, it should not be too complex.
Acceptability	High: In line with GoR plans to simplify the tax system. Creates a level playing field with investors outside of the zones.	Medium: Investors who do not meet the eligibility requirements i.e. 80% export requirement will be disadvantaged. In the long term investors may be disadvantaged if there are national tax reforms e.g., the flat tax reform	High: In line with longer term GoR plans to reform the tax system.

3. Recommendation and Policy Details

- **A standard set of incentives will apply within all SEZs to all developers, operators and users:**
 - **A flat corporate rate of 15%.** The rate of 15% was considered by the market demand analysis to be low enough to make the SEZs competitive. Further consultations with the private sector also indicated that this is an attractive rate. Current work on the proposed flat tax reforms considers 15% as a feasible target within 7 years.
 - Duty free imports on proportion of production exported (outside of the customs union) for SEZs which are designated Free Trade Zones.
 - Existing non discretionary performance based incentives under the Investment Code for registered investors such as investment allowances will apply.
- **No additional discretionary incentives.** Although the current investment code provides for additional discretionary incentives such as tax holidays, these should not be used for SEZs. A recent study has shown that Rwanda has some of the highest incentives in the region (total tax incentives is equal to 27% of total tax revenue) of which a large part is made up of discretionary incentives. These have not been performance based and there has been no evidence that the benefits have justified the costs.
- **The SEZ tax system will transition to the national tax system once it is as competitive as the SEZ tax system.** For example, once a flat tax regime of 15% is in place nationally, SEZs will adopt the national tax system.
- **All fiscal incentives should be consistent with EAC and other regional integration commitments.**

4. Best Practise and Case Studies

Good Practice

- Most SEZs offer fiscal incentives as part of the benefits package to developers and users
- The general evidence of non performance based fiscal incentives such as tax holidays are that they are ineffective, representing a significant drain on budgets with little benefits.
- Incentives conditional on exports or conditional on use of domestic goods instead of imported ones create explicit and implicit export subsidies, which are problematic for WTO compliance.

Examples

Aqaba Freeport (Jordan): Flat tax rate of 5% of corporate profits in lieu of all other taxes

f. Policy Issue 4b: Zone Benefits: Infrastructure and Services

1. *The issue and the specific objectives we are trying to achieve*

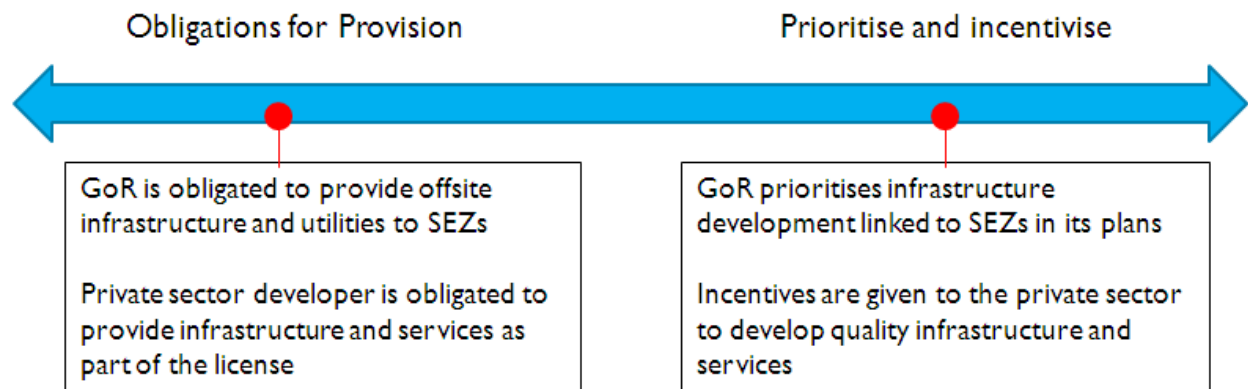
The provision of quality infrastructure¹⁶ and services are key features of successful SEZs. The more developed the provided infrastructure, the more advanced industries and firms which tend to be attracted into the zones. This is likely to be especially pertinent in Rwanda where the overall level of basic infrastructure is poor e.g., unreliable power for industries such as mining. The question is how do we ensure that quality infrastructure and services are provided by both the public and private sector?

The aim of the policy is to achieve the following:

- Provision of quality infrastructure which meets the needs of users and contributes to the success of SEZs.
- Avoid creating unrealistic burden for infrastructure provision on the government.

2. *Policy Options and Evaluation*

There is a spectrum of policy choices for both the government as a provider (in most cases of the off-site infrastructure) and the private sector developer (as a provider of the on-site infrastructure). The two ends are broadly obligations versus prioritization and incentives.



¹⁶ “Infrastructure” means facilities needed for the development, operation and maintenance of a Special Economic Zone and includes industrial, business and social amenities like development of land, roads, buildings, sewerage and effluent treatment facilities, solid waste management facilities, port, including jetties, single point moorings, storage tanks and interconnecting pipelines for liquids and gases, Inland Container Depot or Container Freight Station, warehouses, airports, railways, transport system, generation and distribution of power, gas and other forms of energy, telecommunication, data transmission network, information technology network, hospitals, hotels, educational institutions, leisure, recreational and entertainment facilities, residential and business complex, water supply, including desalination plant, sanitation facility.

In the evaluation, the option to obligate some minimal provision for both government and the private developer with incentives for the private developer for additional infrastructure was the most preferred for the following reasons:

- A guarantee that the off-site infrastructure will be provided reduces the risk substantially for the private developer to make its own infrastructure investment.
- The GoR has more certainty over the returns to public investment if the developer is obligated to develop the core on site infrastructure and facilities to make the SEZs a success.
- At the same time, we encourage the developer to respond to the specific needs of the SEZ users.

Summary Evaluation of Options

Options	Obligations for Provision	Prioritise and incentivise
Overall Assessment	Proposed (with modifications)	Rejected
Suitability	Medium: Reduces risks for the developer to be assured that the public infrastructure will be provided. Can be counterproductive if too prescriptive on the infrastructure and services to be provided by the private developer	Low: Higher risk that essential offsite and onsite infrastructure and facilities is not put in place.
Feasibility	High: As long as the designation process has ensured that the economic rate of return is high enough and that the budget is available the obligation should not create a burden	Medium: The government will spend resources in prioritising and negotiating which infrastructure to develop
Acceptability	Medium: The private sector will welcome this as it reduces risk and uncertainty in the SEZ project development. However too many obligations on their side would constrain them	Medium: Private sector developers would see this as undesirable as it leaves too much uncertainty on public infrastructure. However, they would prefer incentives to be applied to them

3. Recommendations and Policy Details

- GoR will be obligated to provide and maintain the necessary public infrastructure and services once a SEZ has been designated.
 - In designating a new area as SEZ, a cost benefit analysis should be done to determine whether the public investment, including the cost of the public infrastructure required, meets a desired economic rate of return, and if it can be publicly financed. The area would have only been designated as a SEZ if it does.

- If the area is designated as a SEZ then the GoR is obligated to provide the public infrastructure in a timeframe mutually agreed with the private developers in the SEZ agreement.
- If it is not, then the area should not be designated as a SEZ, which means that the private developer is free to develop and put in infrastructure at their own cost but GoR is not obligated to pay for or provide any of the infrastructure and services.
- Different zones will have different infrastructure requirements; the details will be outlined in the zone developers' agreement.
- For private developers, there will be mixture of minimum obligations and incentives
 - In the zone developers' agreement and developer's license, there will be an obligation for the private developer to provide a minimum set of infrastructure and services in compliance with the physical development standards.
 - To incentivise the provision of quality, demand driven, value adding facilities and services by the private sector, commercial pricing of these facilities and services will be allowed. Any tendering process for a PPP should also place value on the developer's plans to provide quality infrastructure and services.

4. Best Practise and Case Studies

Good Practise

- SEZs, especially privately developed ones, have increased the range of physical facilities and services available to users. In addition to the basics: reliable power and water, sanitation and waste treatment facilities, on and offsite roads and links to airports and main roads, common storage and warehousing facilities, office space and ICT infrastructure, a range of value added facilities and services have been provided, including residential facilities (medical, housing) and business support services (training facilities, maintenance/repairs centres, banking facilities). Specialised facilities and services serving the unique needs of target industries are also becoming common.
- These facilities and services generate revenue for the zone owner/developer so they are less reliant on traditional rental and sales income.

g. Policy Issue 4c: Zone Benefits: Regulatory Relief

1. The issue and the specific objectives we are trying to achieve

Regulatory relief (the simplification and streamlining of company registration, work permits, licenses, custom inspections, tax administration etc) for investors is frequently overlooked as a key benefit for SEZs. In general, successful SEZs offer less bureaucracy. In Rwanda's context, it is particularly important due to the high cost of doing business. The questions are: 1) which business processes should be streamlined? 2) what is the most effective institutional set up to do this?

The aim of the policy is to achieve the following:

- Ensure that the administrative processes which are the most problematic and incur the highest compliance costs are addressed in SEZs.
- Reliably provide streamlined business processes without creating undue high administrative burden on the government.

2. Policy Options and Evaluation

Regulatory relief/streamlined business processes to be provided

The table below sets out the administrative processes which users of SEZs will typically have to go through and an assessment if they should be streamlined for SEZ users.

Fig 6: Types of Business Processes and Potential for Streamlining

Regulation/Business Process	To be further streamlined in SEZ?
Company and investment registration	No - this process has already been streamlined for all investors through the Doing Business work.
License as user of SEZ	Yes – this is a new process and should be streamlined. The legal and regulatory framework should ensure that this.
Land administration processes: deed plan, lease contract and land title.	Yes – these are particularly cumbersome processes for investors in Rwanda. They should be able to be streamlined as the land has already been designated and ownership and title established.
Environmental Impact Assessment, Construction permit, occupation permit	Yes – these are particularly cumbersome processes for investors in Rwanda. They should be able to be streamlined as there should have already been a strategic impact assessment on the land during the feasibility study in the zone designation process.
Utilities connection – water and electricity	No - this process has already been streamlined for all investors through the Doing Business work
Custom procedures	Yes - these are particularly cumbersome processes for investors in Rwanda though improvements are underway. These should be streamlined especially in zones which are trading orientated.

Tax administration	Yes – tax compliance costs in Rwanda are currently high. The zones should be the first to implement tax simplification procedures.
Labour regulations	No – labour regulations are not perceived as major impediment to doing business. The new Labour Act passed in May 2009 has introduced a flexible labour regime and will apply in the SEZs.

The institutional set up for providing these services

There are two comprehensive policy choices: 1) The RDB One Stop Centre provides the services under the oversight of the SEZ Authority or 2) the SEZ Authority provides the services directly.

In the evaluation, the option for RDB to provide the services was the most preferred mainly due to the fact that capacity and technical expertise already exists in the RDB One Stop Centre.

Summary Evaluation of Options

Options	RDB One Stop Centre Provision and SEZ Authority Oversight	SEZ Authority Provision
Overall Assessment	Proposed	Rejected
Suitability	High: The One Stop Centre was set up with the purpose of streamlining administrative processes	High: One of the key roles of SEZ authorities is to regulate the Zone and ensure that processes are streamlined
Feasibility	High: Capacity and technical expertise already exists in the One Stop Centre	Medium: The government will have to spend resources to set up a service unit and staff with trained officials
Acceptability	High: Users will welcome as long as it is a One Stop Approach and not be concerned with the back office set up	High: Users will welcome as long as it is a One Stop Approach and not be concerned with the back office set up

3. Recommendations and Policy Details

Regulatory relief/streamlined business processes to be provided

- **SEZs should provide regulatory relief to users.** This means streamlined administrative procedures, reduced waiting times, fewer documentation requirements, accessible authorities, and business-friendly officials
- The particular administrative processes to be further streamlined in SEZs, include:
 - **Approval process to get a license for users** to locate in zones;

- **Land administrative processes:** Once the land is designated and title is transferred to the SEZ owner/developer, the service provider can prepare the deed plan, lease contract and certificate title and land titles for the SEZ users in advance (instead of the Districts and Kigali City). When the plots are purchased by the users, it only needs to get the NLC to sign the land title (which should be no more than 7 days).
- **EIA and construction permit process** should be shorter as the strategic environment assessment would have been done once land is designated.
- **Tax administration** will aim to reduce compliance costs for companies located in the zones. This includes reducing the burden of tax disputes with RRA by having a dedicated RRA team with better skills and knowledge of the sectors represented in the zones operating under clear timeframes e.g. for audits to be conducted and completed.
- **Simplified custom procedures in FTZs** is possible as authorities do not have to assess and collect duties. Instead they should focus on ensuring merchandise does not leak to domestic customs territory, rapid physical transfer of merchandise and reduced documentation e.g., single declaration form, single on site inspection.
- **Streamlined services are provided by a One Stop centre** for SEZ users, modelled on the existing One Stop Centre of RDB.
- **The services will operate under a SEZ client charter which will be at least as good as standard client charter and in most cases superior in terms of time and delivery.**

Institutional arrangements

- **The service provider should be RDB** as it already has expertise in operating the One Stop Centre and Office of Registrar in Kigali City which currently provides most of the services we would want to provide to SEZ users.
- **The SEZ Authority will provide oversight on the service provider based on a service delivery agreement** between the Authority and the service provider, which outlines the performance standards needed to fulfil the SEZ client charter.
- **The SEZ Authority and the service provider will jointly decide on the physical location of the One Stop Centre and resources required in order to meet the performance standards.** It is envisaged that at the beginning there will be a virtual fast channel for SEZ users at the RDB One Stop Center in Kigali and later on as the number of users increase and SEZs locate outside of Kigali, it is likely that there will be satellite offices of One Stop Centres located within the SEZs.
- **Relevant authorities will second staff to work in the service provider** so that the majority of services can be provided in house and shorten the time required. This is what RIEPA/RDB has done to increase the speed of services; for example, there are people from immigration, RRA, Districts and RECO-RWASCO at the One Stop Centre.
- The speed of services can be shortened further to allow the further streamlining of processes by **vesting administrative powers to approve most of the government secondary permits/licenses to the SEZ Authority**, who in turn has the power to delegate these powers to the Service Provider. For example, the SEZ One Stop Centre will be able to handle issues related to deed plans, preparation of lease contracts and

documents for land title (normally done by the districts) to be submitted to NLC for signature, which would normally be done by the districts. However there should be a clear mechanism for information flows between the Centre, the district where the SEZ is located and NLC.

4. *Best Practise and Case Studies*

Good Practise

- SEZs often act as demonstration areas for regulatory reforms.
- China, Malaysia, Jamaica, Costa Rica, Kuwait, Jordan and many others have used zones as demonstration areas to test the impact of new policies and approaches designed to improve the business environment. The Chinese SEZs, for example, experimented with market-oriented FDI, land, and tax policies before extending them to all enterprises.

Examples

- Aqaba Freeport (Jordan): automated business registration and customs systems first fast-tracked and proven in the zone are now more broadly applied in Jordan. The Aqaba SEZ Authority **controls 90% of processes**, is the taxing and customs authority in the zone and issues building permits.
- UAE: The Authority provides a one stop shop, which provides licensing, registration, immigration, utilities and leasing services.
- Philippines: the Authority establishes One-Stop-Shop-Centers for businesses in each Ecozone facilitating registration of new enterprises in the zones, licensing and the issuance of permits. All appropriate government agencies that are involved in registering, licensing or issuing permits to investors assign their representatives to the ECOZONE to attend to investor's requirements.

h. Policy Issue 5: Complementary policies and Safeguard Measures

1. *The issue and the specific objectives we are trying to achieve*

As we saw in section IV, the performance of SEZs have been varied with some zones acting as a catalyst for economic development and other zones remaining as enclaves and in general a wide variability in the net economic benefits that the zones provide.

The aim is to achieve the following with complementary policies and safeguard measures:

- SEZs act as a catalyst for the rest of the economy rather than enclaves.
- Negative social and environmental effects are limited and mitigated.

2. *Policy Options and Evaluation*

Objectives	Effective Complementary Policies and Safeguard Measures
Zones act as a catalyst for the rest of the economy rather than enclaves	<ul style="list-style-type: none"> • Programmes which create backwards and forwards linkages with the rest of the economy e.g., link companies with local suppliers. • Programmes to develop transfer skills and know-how within the zones.
Negative social and environmental effects are limited and mitigated	<ul style="list-style-type: none"> • Maintain national and international labour standards within the zones. • Maintain environmental standards within the zones.

3. *Recommendations and Policy Details*

- GoR and the SEZ developers should be actively encouraged to develop **programmes to create backwards and forwards linkages with the rest of the economy**.
 - Equal Footing policies to domestic suppliers of capital and intermediate goods¹⁷.
 - GoR should help to upgrade the skills of potential local suppliers to businesses in the zones to create the backwards linkages.
 - The developers should be incentivised to market and help link firms within the zones to local suppliers. Any tendering process for a PPP should place value on the developer's plans to support such a programme (without being prescriptive on the design of the specific initiatives – *see Best Practise for examples*).
- **Programmes to develop transfer skills and know-how within the zones** should be actively encouraged.
 - GoR should consider investing in a skills transfer/building programme within the zone as part of its human development strategy. It can be done in conjunction with other TVET programmes in Rwanda.

¹⁷ Equal footing basis means that domestic firms selling to firms in EPZs are also eligible for export incentives.

- The developers should be incentivised to develop these programmes. Any tendering process for a PPP should place value on the developer's plans to support capacity building initiatives (without being prescriptive on the design of the initiatives).
- **Maintain national and international labour standards within the zones.**
- **Maintain environmental standards within the zones:** ensure that waste and sanitation facilities are part of the physical development standards of any zones.

4. Best Practice and Case Studies

Good Practice and Case Studies

- Some countries have consciously viewed zones as mechanisms to change their economies. In countries as diverse as the Republic of Korea, Ireland, and Malaysia, deliberate efforts were made to integrate zones into national economies.
- The process of integration has typically been undertaken by extending “Equal Footing” policies to domestic suppliers of capital and intermediate goods. In Taiwan (China) and the Republic of Korea, governments provided local producers with efficient duty-free access to inputs that they supplied to zone-based firms. Local producers, including smaller businesses, received tax credits and rebates on duties paid on imported materials used in products sold to zone-based firms. In the Republic of Korea, local suppliers were able to import components on the basis of the original letters of credit of the zone-based firms.
- Another important mechanism was the extensive use of sub-contracting by zone-based firms to local producers. Zone-based firms provided materials, technical assistance, and financing as part of the sub-contracting arrangement. In Taiwan (China), the Republic of Korea, and Ireland, local authorities promoted personnel exchanges, supported training efforts, and provided technical assistance to potential suppliers. The Irish program to increase linkages included the technical departments of local universities. The program also encouraged purchasing managers of export-oriented firms to work with local suppliers to help them achieve the required quality standards and delivery times. In Singapore, the Local Industry Upgrading Program created in 1986 had 30 multinational corporations, 11 large local firms and 670 domestic suppliers by 1999.
- In Malaysia the Penang Skills Development Centre is a widely recognised successful model of EPZ company sponsored skills development.

i. Policy Issue 6: Institutional Framework for SEZs: SEZ Authority

1. *The specific policy issue that we are trying to address*

A SEZ has broad public functions and represents privileges granted by the state (provision of infrastructure, preferential administrative services, etc.). Therefore, a SEZ program requires government regulatory control in the form of a Regulator/Authority which ensures that each of the stakeholders (owners, developer, operators, users from government and the private sector) in a SEZ program fulfills its functions.

Fig 7: Roles, Participants, and Functions in SEZ Program Development

Role	Participants	Functions
SEZ Regulator/ Authority	Government— through an SEZ Authority and other line ministries and agencies	Responsible for planning and administering the SEZ programme, including: <ul style="list-style-type: none"> ○ Proposing designation of SEZ sites ○ Licensing and permitting developers, operators and users (tenants) ○ Provision of administrative services or coordinate other public agencies services/inputs ○ Marketing and promotion of SEZs ○ Monitoring and ensuring compliance
SEZ Owner	Government, private firm, private landowner, private holding company, or PPP	Owns the physical SEZ, and assumes risk for SEZ development. Collects all or a portion of the profits from SEZ operation.
SEZ Developer	Government, private firm, or PPP. The owner is often the developer but the developer can also be a separate entity under a contractual arrangement with the Owner.	Undertake SEZ feasibility study. Physically develop the site, including financing, designing and constructing the SEZ infrastructure and facilities.
SEZ Operator	Government, private firm, or PPP. Can be the Owner, Developer, or private firm contracted.	Run the day-to-day business of the SEZ. Leasing/sub leasing plots to users Provision of facilities and services
SEZ User	Private firms located in SEZ as tenants.	Licensed/permitted to establish business operations within SEZ.

The effectiveness of the SEZ Authority depends on whether it has sufficient independence, autonomy and powers to carry out its functions. Independence is important to avoid conflicts of interest when GoR is a potential owner and/or developer of SEZs. The SEZ Authority should be able to regulate and monitor compliance of all SEZs stakeholders against applicable national legislation, SEZ rules and development agreements.

Currently, the Kigali Free Zone Task Force within RDB effectively plays both the role of SEZ regulator for both the Free Trade Zone and the Kigali Industrial Park and developer and

operator of the Free trade zone. However, RDB does not have the mandate or authority to regulate the zones properly¹⁸.

In setting up an effective SEZ authority, the policy questions to be addressed are: 1) what functions should the authority have? 2) What is the best institutional arrangement to ensure independence, autonomy and the necessary powers to carry out these functions effectively?

The aim is to achieve the following:

- Creation of a strong Authority which can implement successfully the SEZ policy.
- The Authority should not create a huge administrative burden.

2. Policy Options and Evaluations

Functions of the Authority

Below are the core functions and key activities of the Authority in accordance with the implementation of the rest of the SEZ Policy.

Fig 8: Key Functions and Activities of SEZ Authority

Function	Key Activities
Propose the Designation of new SEZ sites	The authority will oversee the process of designating a new zone with both public and private developers, ensuring that there is a level playing field. It will review the feasibility studies by the developer, conduct the cost benefit analysis to determine economic rate of returns of public investment, and, in consultation with the National Land Centre and rest of GoR, make the recommendation for designation approval to the lead ministry to take to Cabinet
Licensing of developers, operators and users and approval of incentives.	The authority will issue licenses to developers, operators and users. It will approve incentives for qualifying parties.
Providing administrative services	The authority is responsible for ensuring that administrative services are delivered effectively to users as regulatory relief will be one of the zones' major benefits. It does this directly and through the coordination of other public agencies' inputs.
Marketing and promotion of SEZs	Alongside the owner/developer and operator, the Authority will market and promote SEZs
Monitoring performance and ensuring compliance	The authority will monitor the performance of developers, operators, users and government against national SEZ legislation, SEZ rules/standards, development agreements and license conditions. It can enforce compliance through setting of penalties.

¹⁸ RDB is in charge of the implementation of the FTZ provisions in Chapter VIII of the Investment Code. A specific Task Force has been appointed by Ministerial Order primarily focused on SEZ project development. However, Chapter VIII does not provide a comprehensive institutional framework. Detailed provisions on the mandate, powers, organization, finances and regulatory obligation of RDB are missing. According to the Constitution, a separate law must be enacted in case an independent SEZ Authority shall be established.

Institutional Arrangements

There are two broad policy choices: to create a unit or semi-autonomous agency within a ministry or institution or to create an autonomous separate agency. In the evaluation, the option to establish the Authority as a unit within MINICOM was the most preferred mainly to reduce the costs associated with setting it up.

Summary Evaluation of Options

Options	Agency/unit in RDB	Agency/unit in MINECOFIN	Agency/unit in MINICOM	Autonomous agency e.g., a RURA
Overall Assessment	Rejected	Rejected	Proposed	Rejected
Suitability	Low: At the moment the developer sit in RDB so this would not help with the conflict of interest	Medium: Aligns with the economic development function	High: Aligns with the trade and industry development function of the ministry very well.	High: Best option to ensure independence and autonomy
Feasibility	Medium: This would cost less than setting up an autonomous agency. However the authority will have to be staffed and training/technical assistance given at the beginning to ensure that it runs smoothly			Low: Significant costs to set up. Unclear whether justified by the volume of work
Acceptability	Medium: The private sector would not like the potential conflict of interest	Medium: Could be conflict with the public investment function	Medium: The authority will still be part of a ministry	High: Reassures the private sector that there is a level playing field

3. Recommendations and Policy Details

- **To avoid conflict of interest the government roles of the owner/developer and the regulator should be separated and executed independently.**
 - The GoR would be well served by immediately splitting its SEZ regulatory and development roles, even *before* creating an SEZ Authority.
- **A SEZ Authority should be established to carry out these core functions:**
 - Propose the designation of SEZ sites
 - Licensing and permitting developers, operators and users (tenants)
 - Provide administrative services and/or coordinate other public agencies' inputs to provide administrative services
 - Marketing and promotion of SEZs
 - Monitoring performance and ensuring compliance
 - Develop the overall strategy for SEZs in Rwanda
- **The preferred institutional set up for the SEZ Authority is to establish a special unit under MINICOM** as it is unlikely that the volume of work at the beginning of the SEZ program will require a semi-autonomous agency.

- **There should be one authority**, not different ones for different kinds of zones, to ensure consistency in policy application.
- To be effective the SEZ Authority should have the following:
 - **Its functions and powers outlined clearly in the law**
 - **Administrative powers to approve most government permits and licenses** and the ability to delegate powers to the service provider.
 - **Adequate funding and staffing.** This means having a dedicated budget and staffing within the Ministry.
 - **External technical assistance to build the capacity of the Authority** for the first three years. As the SEZ program and Authority is new, it is likely that GoR will lack the skills internally. External technical assistance by experienced experts will train the staff and help build the necessary systems and processes.
 - **A Board with representatives from the public and private sector** to ensure that decisions are made with the interests of both taken into consideration.

4. Best Practise and Case Studies

Good Practice

- The set up of a regulatory body with well-defined mandate, power, and obligations is common and good practice. The regulatory body is not involved in the development or operation of an SEZ to avoid conflict of interest.
- The regulatory authority can be part of a Ministry (often Ministry of Economy or Ministry of Finance) or an independent authority with its own legal status and budget. Most successful countries opt for a strong, independent authority with its own budget and right to hire employees.
- The tasks and powers of the authority include, among others, the issuance of licenses, compliance control, and the setup and operation of a one-stop-shop for selected administrative procedures (e.g. licensing for procedures like construction permits, environmental clearances).
- While the Zone Authority has the regulatory role of the government ensuring the rule of law and the application of the SEZ legislation, it is also a service and partner to the private sector. It should assist the businesses in the SEZ and provide the services that make doing business in the SEZ attractive.

Case Studies

- The Philippines Economic Zones Authority (PEZA) is a good example of evolution from publicly developed zones to privately developed zones. The Philippine Economic Zone Authority (PEZA) built and operated the initial free zones. Since that time, the SEZ framework has been broadened to allow private sector participation and PEZA has become primarily a regulator of zones. All new zones are privately developed and operated, and under the regulatory control of PEZA. PEZA is in charge of reviewing proposals for SEZs; it undertakes establishment, operation and maintenance of utilities, other services (it operates a One Stop Shop) and infrastructure and implementing the SEZ Act. It is a corporate body and governed by a Board in which the private sector has one representative.
- The Aqaba Special Economic Zone Authority (Jordan) is an autonomous authority; it collects taxes and retains a certain percentage to cover operating its costs.

VII. Stakeholder Views

The SEZ policy development process has been highly consultative in nature. The policy has been developed by a policy team comprising of MINECOFIN, MINICOM and RDB. This team has held numerous internal consultations as well as consultations with stakeholders within GoR and the private sector in developing this policy, including:

- MININFRA
- RDB Investment Promotion and One Stop Centre
- National Land Center
- Managing Directors of private companies in coffee, tea, agro processing, manufacturing, mining and textiles sectors.

The policy regarding the existing SEZs was also discussed in a large-scale consultation session on SEZs held 17th December 2009 which brought together the different groups of stakeholders. The summaries of all of these meetings are contained in *Appendix C*.

Throughout the policy development process and on all aspects of the SEZ Policy and Laws, the team received technical support, including examples of best practise and case studies, from the IFC team and the AECOM consultants working with IFC.

Public Sector

Government ministries and agencies recognised the need to offer good quality infrastructure and streamlined business regulations within the SEZs to attract companies to locate within the SEZs. They also understood the need to make the land administration processes and rules attractive for investors given that one of the major constraints SEZs set out to address is the difficulty in accessing land for industrial and commercial development.

Private Sector

Interviews with six companies operating in various processing and export orientated sectors were conducted. The objective of the exercise was to get the views of companies operating in Rwanda on what constraints they face which could be addressed by SEZs and what would they look for in a SEZ, focusing in particular on the two existing SEZs. Issues discussed were:

- Interest in locating in KIP and KFTZ
- Land administration and current land pricing in KIP and KFTZ
- SEZ benefits:
 - Fiscal incentives
 - Special infrastructure
 - Streamlined business processes

Interest in locating in KIP and KFTZ

Overall, the private sector indicated interest which supported the findings of the market demand and cost benefit analysis study. The mining industry indicated that the free trade zone would be

suitable for activities such as processing of tungsten as well as gold upgrading. For the tea and coffee sector, activities that would be susceptible to be located in the Zones include packaging and blending and value addition (if the volume and market size allows companies to benefit from economies of scale).

Land Administration

All companies highlighted the difficulties in acquiring land in Rwanda due to unclear processes and requirements despite improvements in the past few years. They hoped that these improvements should continue further and faster in the Special Economic Zones (SEZ).

Pricing

Two scenarios were presented to interviewed companies: Purchasing land in the Industrial park at \$35/sqm versus leasing land in the Kigali Free trade zone at \$2/sqm/year. Generally, companies found the lease price of \$2/sqm/year to be expensive and suggested that \$1/sqm/year would be more reasonable while purchasing land at \$ 35/sqm/year was considered to be reasonable. This is in line with the findings of the market demand study. However, although the price in KIP is considered to be fair, it presents difficulties for companies to be expropriated from Gikondo area since expropriation prices are lower than the KIP price. Another suggestion made was to allow a dual regime in the zone that would give tenants an opportunity to choose between leasing and purchasing land.

Companies also indicated that the lease period should be long enough to allow the lessee to access finance by using the lease title as collateral.

Zone benefits

The private sector felt it was important to have fiscal incentives in the zone to enhance the competitiveness of our zones compared to others in the region. Some requested a tax holiday and others a flat tax rate of 15%, which they felt was more sustainable for GoR revenues.

Streamlined business processes would be another important incentive to attract businesses into the zones. Areas for streamlining include customs services and tax administration. Among the tax administration issues pointed out is the retrospectivity of RRA's audits. The suggestion made was that there is a timeframe (two years) for RRA to conduct audits of companies located in the SEZs. Moreover, RRA staff operating in the zone shall be a well trained, seasoned team with a business friendly attitude. Another area for action would be to ensure predictability on due payments (taxes); Rwanda can learn from the world best practices.

The private sector agrees that high quality, reliable and affordable infrastructure can be another incentive that can entice companies to establish their operations inside the zone versus establishing outside of the zone. Such infrastructure includes electricity, water and ICT.

VIII. Implementation

Enacting the SEZ Law and Regulations

The majority of the policy recommendations for issues 1 to 4 will be implemented through the enactment of the SEZ law and implementing regulations (to be produced). For the fiscal incentives, the national tax law needs to be modified.

Objective	Activity	Responsibility	Timeframe
Implementing policy recommendations on policy issues 1 to 4	Submit and pass SEZ Law through Cabinet and Parliament	MINICOM	August 2010
	Develop and enact implementing regulations – priority is the licensing regulation. With assistance from IFC	MINICOM	October 2010
	Develop and enact remaining implementing regulations. With assistance from IFC	MINICOM	December 2010
	Modification of Income Tax Law to allow fiscal incentives within SEZs	MINECOFIN	October 2010

Establishment of the Authority

The establishment of the Rwanda Special Economic Zone Authority (RSEZA) is critical to oversee the implementation of the policy, laws and regulations. The RSEZA will begin as a special unit within the Ministry of Trade and Industry (MINICOM).

MINICOM will be responsible for establishing the RSEZA, in terms of funding, ensuring it has a location, and appointing its two executive branches – the Board of Directors consisting of seven members, and a Director General (DG). Once the Board and DG are in place, work should begin on recruiting staff and creating a detailed action plan for the first year of operation.

Within a year, the RSEZA should be discharging its full range of responsibilities under the SEZ Policy and Law. RSEZA will be responsible for planning and administering the SEZ programme, and this should include:

- Proposing designation of SEZ sites
- Licensing and permitting developers, operators and users (tenants)
- Provision of administrative services directly or through the RDB One Stop Centre
- Marketing and promotion of SEZs
- Monitoring and ensuring compliance
- Capacity building of the new institution

The full range of activities is outlined in the implementation plan below, including the responsible agency and the timeframe for completion of key tasks.

Objective	Activity	Responsibility	Timeframe
Setting up the Special Economic Zone Authority (RSEZA)	Appointment of Board of Directors – submission to Cabinet	MINICOM	September 2010
	A Director General (DG) appointed with executive responsibility for daily management – submission to Cabinet	MINICOM	September 2010
	Performance contract between RSEZA and MINICOM completed	MINICOM / RSEZA DG	September 2010
	Action plan and budget for first year of operation	RSEZA DG	October 2010
	Hiring of personnel	RSEZA DG	October - November 2010
	Capacity building of new RSEZA personnel	RSEZA DG	1 year starting December 2010
RSEZA planning and overseeing the SEZ Program	Licensing for developers, operators and users of SEZs (starting with the merged KFZ-KIP project)	RSEZA	Ongoing, starting December - 2010
	Marketing to private sector of SEZs (starting with the merged KFZ-KIP project)	RSEZA and SEZ Developers and Operators	Ongoing, starting December - 2010
	Analysis of new SEZ proposals, consultations, commission, completion and analysis of pre-feasibility engineering studies, and submission of recommendations for designations of new zones to Cabinet	RSEZA	Ongoing starting January 2011

	Monitoring including annual reporting to Cabinet on performance of existing zones and potential for new zones	RSEZA	Annually, starting January 2011
Objective	Activity	Responsibility	Timeframe
Provision of Administrative Services	Design the streamlined, simplified administrative processes to be offered: (a) Company registration; (b) Land Titles and Land Administrative Services; (c) Business licensing; (d) Utilities in-Site connection; (e) Environmental clearances; (f) Immigration and Labour related services; and (g) Tax clearances.	RSEZA with the support of RDB OSC, NLC and RRA	October to November 2010
	Performance contract between RSEZA and RDB completed	RDB (One Stop Centre) and RSEZA	December 2010
	Set up new One Stop Centre (OSC) for existing SEZs (physical location to be decided by RDB)	RDB and RSEZA	January 2011
	Second of staff to OSC	NLC, RRA, Districts	January 2011
	Provide space for Customs authorities to operate within KFZ if designated as SEZ	RDB and RSEZA	January 2011

As the RSEZA will be new, external assistance to help establish the Authority, put in systems and processes and capacity build the Authority and OSC staff will be sought from development partners, including the IFC, which has already provided technical assistance to the SEZ program.

IX. Financial Implications

The major financial implication from the SEZ Policy is the funding of the RSEZA and its activities. The financial implications for GoR to operationalise the merged KFZ-KIP project have been outlined separately.

The strategic business assessment of Kigali Free Zone and Kigali Industrial Park estimated the cost of the RSEZA at \$4.07 million over 20 years. The cost covers the salaries and work expenses of RSEZA staff – starting at 9 staff for the first 5 years to 20 staff by yr 20. The staffing and cost will vary depending on the number of SEZs developed in Rwanda.

X. Legal Implications

The implementation of the policy will require a new legal framework. To ensure comprehensiveness and clarity, we recommend that this is done through a new SEZ law rather than through the amendment of existing laws.

a. Current Legal and Regulatory Framework

Box 3: Existing Legal Basis for Rwandan SEZs

(Source: *Analysis of Rwanda's Special Economic Zone Program*, FIAS, March 2009)

Though Rwanda does not have an SEZ law in place, the Investment Law does include rudimentary rules on FEZs. In addition, the Law on Direct Taxes provides fiscal incentives, which are linked to the FEZ provisions in the Investment Law. The following provides an overview of legislation affecting the development and operation of SEZs in Rwanda, and compares it with the regime outside SEZs.

Investment Law of 2005¹⁹ provides a special FEZ regime in the five provisions of Chapter VIII. In addition, the Law on Direct Taxes on Income allows fiscal incentives for companies operating within an FEZ as prescribed in the Investment Law. The Investment Law itself repeats the fiscal incentives for FEZs allowed under the Tax Law in its Annex 2.

The main characteristics of the FEZ regime as provided in the Investment Law are:

- Article 2 of the Investment Law includes definitions of the terms “Free economic zone”, “Export commodity processing zone (EPZ)”, “Free trade zone (FTZ)” and “Single enterprise considered as export processing zone (SEEPZ)”.
- A “Free Economic Zone” is defined as an area designated by the competent authority where goods are imported free of duty (Article 2, No. 7); The definition of “Free Economic Zone” then introduces the term “international economic zone”, which is not further defined. An “international economic zone”, however, can come in form of an EPZ, an FTZ, or an SEEPZ according to Article 2.
- Though not defined, the three forms of an “international economic zone” are all characterized by an export requirement of 80 percent of all goods produced in the zone (Article 2, No. 7). Any good sold in the domestic market (maximum of 20 percent of the total production) is subject to duties and taxes.
- FEZs are established when the competent authority grants the respective land by issuing a certificate, the environment has been assessed, a study of the project has been presented, a master plan exists, and a plan indicates the how expropriated land owners will be compensated, Article 22 (1). *The law does not clarify who presents an FEZ project to whom and is silent on the criteria for the designation decision of an FEZ, or any details on the planning and development stage.*
- The line minister for FEZs determines the efficient operation and management of FEZs, Article 22 (2). *Again, the law does not provide any details on the procedure, criteria,*

¹⁹ Law No. 26/2005 of 17/12/2005 Relating to Investment and Export Promotion and Facilitation.

eligibility requirements, regulation, etc., of such a “determination through the Minister”.

- RIEPA is in charge of organizing and managing FEZs and is allowed to sub-contract a private company or individual to take care of the daily operation of an FEZ, Article 23.
- Applicants to locate in an FEZ will be selected by the Rwanda Investment and Export Promotion Authority according to a list of criteria including job creation, linkages to local economy, technology transfer, etc., Article 24.
- Applicants exporting 80 percent of their production as well as professional financial and technical enterprises engaged in the export of services do not need to meet any other performance criteria, Article 25.
- Applications for locating in an export-processing zone shall be submitted to RIEPA and a decision shall be issued within 10 working days. RIEPA shall determine a list of requirements for such a decision, Article 26.
- Non-fiscal incentives²⁰ include an automatic provision of work permits and residence visa for expatriate workers. Foreign investors are entitled to a renewable work permit and residence visa for one year. In addition, several administrative services are provided for a registration certificate holder.
- Business profits are taxable at a rate of 30 percent. However, a company operating in a free trade zone which fulfills the requirements stipulated in the Investment Law is entitled to the following fiscal benefits according to the Law on Direct Taxes on Income:²¹
 - Corporate income tax at the rate of zero percent
 - Exemption from withholding tax²²
 - Tax free repatriation of profits
- Furthermore, the Customs legislation together with the Investment Law offers to users of FEZs the following exemptions:²³ Duty free importation of machinery, equipments and raw materials (for the industry) and other goods (Investment Law), or as the Ministerial Order describes: capital goods.

The existing provisions on FEZs²⁴ in the Investment Law have major shortcomings—described below—partly because essential provisions are missing, and partly because existing provisions are sub-optimal.

- There is no framework for “special economic zones”; the existing rules cover only “Free Economic Zones”, which are in fact export-processing zones.
- There is no reference to Industrial Parks or other types of SEZs.
- The existing rules include a high export threshold (80 percent) for companies locating in the FEZs.
- There are no procedural rules for the selection, designation, regulation, and operation of SEZs.

²⁰ Chapter VII of the Investment Law of 2005. Interesting here is that the examined copy of the Investment Law repeats in Annex II, C the Art. 41 of the Income Tax Law but omits the reference to Free Trade Zones. IFC assumes this is a typographical error.

²¹ Article 41 of the Income Tax Law of 2005.

²² Article 52 (2) No. 1 of the Income Tax Law of 2005.

²³ Chapter IV, Section 7, Article 149 No. 1 of the Law Establishing the Customs System of 2006; Article 138 F) of the Ministerial Order of 2007 Implementing the Law Establishing the Customs Law of 2006; Investment Law, Annex I, No. 6.

²⁴ Rwandan law currently uses the terminology “Free Economic Zone”, which can be defined as an SEZ with duty-free privileges. The definition of FEZs remains narrowly defined by Rwandan law.

- There is no definition of the roles of the main players of SEZs: developer, operator, regulator, and user.
- There are no institutional rules regarding the establishment, mandate, and function of an authority in charge of SEZs.

Currently, there is no regulatory authority. RDB's Free Trade Zone taskforce has assumed some of these functions in the absence of an SEZ Authority. However, RDB lacks the institutional authority and capacity to regulate SEZs. The taskforce currently operates without assigned and formal accountability, adding institutional functions on an ad hoc basis.

Moreover, there is a conflict of interest. The same taskforce plays the role of both "regulator" and "developer". These two roles can frequently come into conflict with one another. For example, regulations governing road-bearing capacity may be in the public interest, but will increase costs for the "developer". Likewise, loose interpretation of environmental standards may be attractive to zone users, but are not in the public interest. There are natural tensions when the same government agency—or person—is acting as both "regulator" and "developer."

b. Proposed New Legal and Regulatory Framework

An SEZ law is essential in providing clear rules of the game for the developer, operator, regulator, and user, increasing predictability and transparency for all stakeholders. This by itself makes the development, operation, and use of SEZs much more attractive for private participation. An established legal framework is generally a prerequisite for companies—developers, operators, and users alike—to make a business plan and meaningful long-term financial calculations. The SEZ Act will include a clear definition of the roles, rights and obligations of the involved stakeholders: the state, the developer, the regulator, the operator, and the user. The law should separate the regulatory role of the supervising agency from the developer and/or operator as well as from the user.

The law should be designed to ensure compliance of Rwanda's SEZ Program with obligations stemming from EAC accession and WTO membership.

All SEZs should be covered under this single SEZ law and its accompanying regulations. The benefits of a single regulatory environment will result in the following:

- Uniform quality zone product throughout the country, regardless of location
- Less ambiguity about specific municipal ordinances that apply to zone. National legislation would standardize this, and make uniform zone codes for public and private zones throughout the country

A single set of legislation could allow for multiple types of zones and a broad set of activities as recommended in the policy.

XI. Impact on Business

The main goal of SEZs is to provide a better environment for businesses and investors. As outlined in Section IV, SEZs have the potential to address many of the key constraints facing the private sector in Rwanda including:

- Ease of access to land for industrial and commercial development;
- Weak, unreliable infrastructure;
- High transportation costs/difficult market access;
- High cost of doing business/regulatory burden including tax administration;
- Underdeveloped economic clusters.

Moreover the recent market demand analysis, which is based on surveying businesses in Rwanda, shows that there is indeed demand for serviced land from businesses and investors.

The policy aims to ensure that existing and future SEZs are designed, developed and operated successfully – primarily that they do provide a better environment for businesses, whether domestic or foreign and in a variety of economic sectors, improving their productivity and competitiveness and access to markets. The policy also aims to boost private sector involvement in the development of SEZs.

XII. Impact on Equality, Unity and Reconciliation

The SEZ policy contains a number of recommendations to improve the impact of SEZs on the wider community, including:

- Allowing for different types of SEZs and for land which has not been previously designated as a zone to be evaluated in a fair process. This should help ensure that those who need and most benefit from a SEZ are given an opportunity to develop SEZs.
- Complementary policies aiming to ensure skills upgrade to the local labour force and to link companies in SEZs with local suppliers should increase the positive economic spillovers to the communities around the SEZs.
- Safeguard measures on labour and environmental standards should minimise the negative impact of SEZs on local communities.

XIII. Handling Plan

The SEZ policy does not require any special handling plan.

XIV. Appendix

a. Data Sources

1. *Special Economic Zones: Performance, Lessons Learned and Implications for Zone Development*, FIAS, April 2008
2. *Analysis of Rwanda's Special Economic Zone Program*, FIAS, March 2009
3. AECOM Case Studies of Special Economic Zones for SEZ Policy Committee, Nov 2009
4. "Market Demand and Cost Benefit Analysis for Special Economic Zones in Rwanda" IFC, January 2009
5. "Business Access to Land in Rwanda: Issues and Recommendations" World Bank Group, February 2010

b. Types of Zones

(Source: FIAS, April 2008)

Free trade zones, also known as commercial free zones and free commercial zones, are small, fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations, located in most ports of entry around the world.

Export processing zones are industrial estates offering special incentives and facilities for manufacturing and related activities aimed mostly at export markets. In the traditional EPZ model, the entire area within the zone is exclusively for export-oriented enterprises licensed under an EPZ regime. **Hybrid EPZs**, in contrast, are typically sub-divided into a general zone open to all industries regardless of export orientation and a separate EPZ area reserved for export-oriented, EPZ-registered enterprises.

Freeports are generally a much broader concept and typically encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit people to reside on site, and provide a much broader set of incentives and benefits. The large-scale freeports in China are an example.

Enterprise zones are intended to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants. Most zones are in developed countries, e.g., United States, France, and the UK, although South Africa is developing a similar mechanism.

Single factory EPZ schemes provide incentives to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges. Leading examples of countries relying exclusively on a single factory scheme include Mauritius, Madagascar, Mexico and Fiji; other countries such as Costa Rica, the United States, and Sri Lanka allow both industrial estate-style zones and single factory designations.

With the exception of the single factory zone scheme, *these developments share most of the fundamental principles underpinning the special economic zone concept: a delimited, secure*

area under single administration; a special incentive and regulatory regime; and location-based incentive eligibility.

Type of Zone	Development Objective	Physical Configuration	Typical Location	Eligible Activities	Markets	Examples
Free Trade Zone (Commercial Free Zone)	Support trade	Size < 50 hectares	Ports of entry	Entrepôt and trade-related activities	Domestic, re-export	Colon Free Zone, Panama
Traditional EPZ	Export manufacturing	Size < 100 hectares; total area is designated as an EPZ	None	Manufacturing, other processing	Mostly export	Karachi EPZ, Pakistan
Hybrid EPZ	Export manufacturing	Size < 100 hectares; only part of the area is designated as an EPZ	None	Manufacturing, other processing	Export and domestic market	Lat Krabang Industrial Estate, Thailand
Freeport	Integrated development	Size > 100 km ²	None	Multi-use	Domestic, internal and export markets	Aqaba Special Economic Zone, Jordan
Enterprise Zone, Empowerment, Urban Free Zones	Urban revitalization	Size < 50 hectares	Distressed urban or rural areas	Multi-use	Domestic	Empowerment Zone, Chicago
Single Factory EPZ	Export manufacturing	Designation for individual enterprises	Countrywide	Manufacturing, other processing	Export market	Mauritius Mexico Madagascar

Special economic zones have also evolved into specialized facilities, configured to the needs of specific industries and activities. Examples shown below include special zones to promote high technology or science based industries; petrochemical and heavy industry zones relying on cheap energy sources; financial services zones to promote offshore financial and non-financial activities; software and information communications technology (ICT) zones accommodating software coding and other off-shore ICT services operations; airport-based zones, specifically support aviation and air-based activities; tourism zones to facilitate integrated resort and leisure community development; logistics parks and cargo villages/cities, providing specialized facilities and services to facilitate trade and supply chain management.

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Type of Zone	Development Objective	Size	Typical Location	Activities	Markets	Example
Technology or Science Parks	Promote high tech and science-based industries	< 50 hectares	Adjacent to universities, institutes	High technology activities	Domestic and export	Singapore Science Park, Singapore
Petrochemical Zones	Promote energy industries	100–300 hectares	Petrochemical hubs; efficient energy sources	Petrochemicals and other heavy industry	Domestic and export	Laem Chabang Industrial Estate, Thailand
Financial Services	Development of off-shore financial services	< 50 hectares	None	Offshore financial and non-financial services	Export	Labuan Offshore Financial Centre, Malaysia
Software and Internet	Development of software and IT services*	< 20 hectares	Adjacent to universities, urban areas	Software and other IT services*	Export	Dubai Internet City, United Arab Emirates
Airport-based	Air cargo trade and transshipment	< 20 hectares	Airports	Warehousing, transshipment	Re-export and domestic	Kuala Lumpur Airport Free Zone, Malaysia
Tourism	Integrated tourism development	200–1,000 hectares	Tourism areas	Resorts and other tourism	Export and domestic	Baru Island, Colombia
Logistics Parks or Cargo Villages	Support logistics	< 50 hectares	Airports, ports, transport hubs	Warehousing, transshipment	Re-export	D1 Logistics Park, Czech Republic

*Note: IT abbreviates information technology.

c. Special Economic Zone Policy Team and Stakeholder Consultations

c.1 Policy Development Team

Name	Title and Institution
Kampeta Pitchette Sayingoza	PS-ST, MINECOFIN
Leonard Rugwabiza Minega	DG of Planning, MINECOFIN
Yue Man Lee	RDB
Christine Akuzwe	RDB
Francesco Ferretti	RDB
Kaliza Karuretwa	Director General, MINICOM
Joseph Holden	MINICOM
Jeanne Francoise Ingabire	MINICOM

c.2 Technical Assistance

Name	Title and Institution
Sumit Manchanda	Global SEZ Team, ICAS, World Bank Group
Xiaofang Shen	Access to Land Specialist, ICAS, World Bank Group
Fanja Ravoavy	IFC Rwanda
Jim O’Gara	AECOM Project Leader
Steven Hamilton	AECOM Consultant
Molly McKay	AECOM Consultant

c.3 Summary of Stakeholder Consultations – Public Sector

No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
1	26 th November 2009	Didier Giscard SAGASHYA	National Land Centre (Land)	<ul style="list-style-type: none"> Incentives framework for users of SEZs <ul style="list-style-type: none"> What constraints face businesses that can be addressed by SEZ? What are the most effective incentives to offer users of SEZs?
		Amil Niyanadeniya	MININFRA (Infrastructure)	
		Eva Paul	MININFRA (Infrastructure)	
		Vivian Kayitesi	RDB (Investment)	
		Rosemary Mbabazi	RDB (Investment)	

	Joseph Mpunga	RDB (One Stop Centre Services)	<ul style="list-style-type: none"> Land use for SEZs <ul style="list-style-type: none"> Designation and classification of land GoR provision of land Conditions on use of land
<p>Key Recommendations</p> <p><u>Streamlined Business Services</u></p> <ul style="list-style-type: none"> SEZs should aim to provide comprehensive One Stop centre services with processes further streamlined and the service provider able to provide majority of the services in house. The SEZ client charter will be at least as good and in most cases better than the standard client charters: <ul style="list-style-type: none"> Relevant authorities will second staff to work in the service provider so that majority of services can be provided in house Streamlined land processes: Once the land is designated and title is transferred to the SEZ owner, the service provider can prepare the deed plan, lease contract and certificate title and land titles for the SEZ users in advance (instead of the district). When the plots are purchased by the users, it only needs to get the NLC to sign the land title (3 days) EIA and construction permit process should be shorter as the strategic environment assessment would have been done once land is designated. Utilities connection – how to make the service provider have more control – further consultation with MININFRA to be done Tax administration and custom procedures - further consultation with RRA needed The service provider is RDB (it already has expertise in operating the One Stop Centre) The regulator will provide oversight on the service provider There will be a service ‘contract’ between the service provider and SEZ operator to enforce performance standards needed for the SEZ client charter. It will be up to the service provider to decide on the physical location of the One Stop Centre in order to meet the performance standards. It is envisaged that at the beginning there will be a virtual fast channel for SEZ users at the RDB One Stop Center <p><u>Serviced infrastructure</u></p> <ul style="list-style-type: none"> Agreed that serviced infrastructure is key to attracting users of SEZs Different zones will have different infrastructure requirements In designating a new area as SEZ, a cost benefit analysis should be done to determine whether public investment, including the cost of the public infrastructure required, meets a desired economic rate of return. The area should only be designated as SEZ if it does. 			

- If the area is designated as a SEZ (either it was pre-designated as it was part of the national land use plan or a new area is granted designation according to the process outlined above) then the GoR is obligated to provide the public infrastructure in a timeframe mutually agreed with the private developers
- If it is not, then the area should not be designated as a SEZ, which means that the private developer is free to develop and put in infrastructure at their own cost but GoR is not obligated to pay for and provide the offsite infrastructure.

Fiscal Incentives

- The general tax system should apply within SEZs generally:
 - Should provide incentives which are smart/performance based e.g., based on capital investment, R&D and eliminate those which are ineffective e.g., Tax holidays
 - Eliminate incentives on duties to be compliant with the EAC customs union
 - Eliminate discretionary incentives for strategic sectors as these have proved to be distortionary and ineffective
- To be discussed further with RRA looking at the proposed flat tax system to determine transitional arrangements for SEZs

Land Administration for SEZs

- Land can either be designated by GoR according to land use master plans and feasibility studies OR The private developer is free to identify land and propose it to the authority for designating it as a SEZ
- SEZ Regulator/Authority makes recommendation of whether the land should be designated as a SEZ to lead ministry to take to Cabinet. In making recommendation it should do a cost-benefit analysis to determine whether public investment is justified
- National Land Centre is consulted as it is in charge of land use planning and management
- Lead ministry takes proposal to Cabinet for final approval
- Given the economic and political context of Rwanda, land should not be given for free. For example, previous cases where GoR has given land for free has created perverse incentives and sent the wrong signals e.g., investors complain that land is expensive and refuse to buy land as they believe that GoR will give them land for free if they see that the investment is delayed.
- The nature of how GoR sells land that it owns to the private developer will be determined by the cost-benefit analysis e.g., subsidised, market rate, given in return for equity or a share of profits etc.
- Transfer is governed by the law which says that only Rwandans or foreigners in a joint venture with Rwandans can have freehold title. Foreigners can only have 99 yr leasehold - which should be sufficient to mortgage the land to banks
- The license for the developer issued by the regulator will contain a time bound use it or lose it condition.
- Users will also have a use it or lose it condition. If they fail to use it, they have to sell it at the same price (adjusted for inflation but to prevent capital gains that create incentives for land speculation) to another user or back to the SEZ owner (not obligated to buy back).

	<ul style="list-style-type: none"> Further investigation required on the nature of the use it or lose it condition for SEZ users 			
No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
2	December 2009	Mr. Didier Sagashya, Deputy Director General	National Land Centre(NLC)	Land issues in the SEZs
Key Recommendations The general approach recommended by the NLC for land issues was for the team to suggest solutions that minimize changes/modifications to the current organic land law as procedures to modify organic laws are long and much more difficult. Therefore it was preferable to define special land legislation within SEZ Laws				

No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
3	17 th December 2009	GoR and private sector stakeholders	GoR and various economic sectors	SEZ Workshop hosted jointly by the Ministry of Commerce and Ministry of Finance. The IFC team presented the results of the market demand study and the cost-benefit analysis of the KFZ and KIP projects.
Key Recommendations of the IFC Market Demand and Cost Benefit Analysis Report presented It will take 20 years to fully absorb the current supply of serviced land between the two projects: KFZ and KIP. In other words, for the first 5-10 years there will be a significant excess supply of land. The successful absorption of the current supply of land will require that the GoR pursue the aggressive scenario: <ul style="list-style-type: none"> A legal and regulatory framework that is based on international good practice and grandfathers both KFZ and KIP projects. The SEZ Authority or SEZA needs to be fully funded by GoR for at least the first 3 years but maybe more. KFZ and/or KIP will be launched only with a new SEZ law and SEZA law and not under a ministerial order There will be a full and speedy relocation of all Gikondo Valley investors to KIP and KFZ over the next three years. This will require an immediate policy decision by the GoR on how to address Gikondo Valley relocation. Aggressive marketing and promotion of the zones by the government promotion agency i.e. RDB. A strong operator with significant regional and international networks for both KFZ and KIP. An international operator can be hired but can be prohibitive in terms of costs. Another option which is quicker and less costly is to hire a few international experts as consultants and build local capacity of the operators. A significant cash infusion (interest free) will need to be injected into the two projects. It is estimated that an additional \$24 -59 				

	<p>million will be required to make the projects sustainable.</p> <p>Key policy issues that arise for further consideration from this analysis include:</p> <ol style="list-style-type: none"> 1. Re-settlement of Gikondo Valley investors and source(s) for additional cash infusion 2. Tax rates inside the zone i.e. current national regime vs. piloting a flat tax regime 3. Streamlined business services that includes easy access to serviced land and land titles free from any claim 4. Optimum land lease rates and land sale prices in KFZ and KIP 5. Possible restructuring of the KFZ and KIP projects in light of the additional cash infusion and the sources for such cash funding
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c.4 Summary of Stakeholder Consultations – Private Sector

No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
1	January 2010	Mahmoud Saleem	Pyramid International (Mining sector)	Interest in free trade zone and KIP Land use in the SEZs Zone Benefits
<p>Key Recommendations</p> <ul style="list-style-type: none"> • Interest in free trade zone and KIP: The free trade zone is more attractive to the industry for the processing of tungsten (as it does not require much electricity) as well as activities related to gold upgrade. • Land use in the SEZs: <ul style="list-style-type: none"> ○ Land price: \$ 35/sqm would be reasonable ○ Lease price: \$2/sqm/year in the free trade zone would be quite expensive even for serviced land. \$1/sqm/year would be better ○ A dual regime giving tenants an opportunity to choose between buying or leasing land shall be envisaged. • Zone benefits: <ul style="list-style-type: none"> ○ Installing a tax holiday would be a mistake and would not be sustainable in the long run while a reduced tax (at 15% maximum) would be fair and attractive to businesses operating in the zone. ○ Adequate infrastructure is a pre requisite for any company to envisage locating in the zone. ○ Streamline tax administration would be the biggest incentive especially in areas regarding auditing: the current rules prevent companies to have any predictability in tax due. Suggestion: An audit retrospectivity of no more than two years 				

No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
2	January 2010	Raj Rajendran, CEO	UTEXRWA (Textile)	Interest in free trade zone and KIP Land use in the SEZs Zone Benefits
Key Recommendations <ul style="list-style-type: none"> • Interest in free trade zone and KIP: The company has no interest in the industrial park , free trade zone is more promising given the future plans of the factory (diversification of activities from cotton fabrics to manufacturing of silk and banana/pineapple fiber fabrics targeting outside markets: USA, Europe). • Land use in the SEZs: <ul style="list-style-type: none"> ○ Land price : \$35/sqm is reasonable ○ Land lease price: \$2/sqm/year is expensive and buying will always be the preferred option for investors. • Zone benefits: <ul style="list-style-type: none"> ○ The tax holiday is a must for Rwanda to be competitive in the regions especially for new investments (other free trade zone in the region offer tax holidays). ○ Infrastructure development has to be better than outside the zone ○ Zone operator to ensure there is a possibility for businesses to know the neighbours' businesses prior to buying/leasing a plot. ○ Tax administration has to be streamlined especially audit (Eliminate the retrospectivity of audits). Predictability in terms of due payments (taxes) has to be improved. 				

No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
3	January, 2010	Emmanuel Rwakagara, Managing Director	COOPAC (coffee processing and export)	Interest in free trade zone and KIP Land use in the SEZs Zone Benefits

	<p>Key Recommendations</p> <ul style="list-style-type: none"> • Interest in free trade zone and KIP: Coffee exporters would be more interested in the free trade zone than the industrial park • Land use in the SEZs: <ul style="list-style-type: none"> ○ Lease price: \$ 2/sqm/year is too high, \$ 1/sqm/year would be more fair ○ Purchase price: \$ 35/sqm is a fair price • Zone benefits: <ul style="list-style-type: none"> ○ A tax holiday is a must, reducing the current tax rates would not be considered as attractive enough by companies. ○ Formalities for exporting are already streamlined at satisfactory levels. The phytosanitary certificate still being issued by Minicom shall also be issued in one place with other export documents. ○ Streamlined services: within the country's border things are fine; however the GoR shall find a way of intervening at the port of Mombasa through MoUs, special arrangements with Kenyan authority etc. ○ Also being in the zone will expose the companies to the 'harassment' of the RRA hence customs shall really be exemplary.
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No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
4	February 2010	Mrs. Gloria Mukankuranga, Managing Director	SORWATOM (Agro processing-tomatoes)	Interest in free trade zone and KIP Land use in the SEZs Zone Benefits
		<p>Key Recommendations</p> <ul style="list-style-type: none"> • Interest in free trade zone and KIP: the free trade zone would eventually be interesting for future expansion plans • Land use in the SEZs: <ul style="list-style-type: none"> ○ Land purchase price : \$35/sqm is a fair price ○ Land lease price at \$2/sqm/year is on higher side ○ The leasing option might be more attractive to foreigners hence there should be flexibility in the zones for both options (buying and leasing). • Zone benefits: <ul style="list-style-type: none"> ○ A reduced tax would be better than a tax holiday for sustainability of the zones in the future. ○ Although the company considers the tax services to have improved significantly over the past years there is still room for improvement especially regarding tax administration procedures. 		

No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
5	February 2010	Mr. Benjamin Gasamagera, Owner of the company and Board member of PSF	Isuku (General Manufacturing -Toilet papers, tissues etc.)	Interest in free trade zone and KIP Land use in the SEZs Zone Benefits
Key Recommendations <ul style="list-style-type: none"> • Interest in free trade zone and KIP: The company owns the property where the factory is set up, for that reason the free trade zone would be more interesting to the company especially for its future activities • Land use in the SEZs: <ul style="list-style-type: none"> ○ Land price: \$35/sqm would be a fair price ○ Land lease price: \$2/sqm/year is on higher side. • Zone benefits: <ul style="list-style-type: none"> ○ A reduced tax would be better than a tax holiday for the sustainability of the zones in the future. ○ Availability of adequate infrastructure is important ○ Rwanda made a significant improvement in terms of service delivery especially those related to doing business and (yes) tax administration procedures will need to be streamlined further. 				

No	Date	Stakeholder Names	Institution (and Sector)	Points of Discussion
6	March 2010	Mr. Matt Smith, Managing Director	Rwanda tea trading (Tea processing)	Interest in free trade zone and KIP Land use in the SEZs, Zone Benefits
Key Recommendations <ul style="list-style-type: none"> • Interest in free trade zone and KIP: The company is currently located in the industrial zone of Gikondo and eventually will be expropriated and since most of the coffee processed is for export market the company will choose to be located in the free trade zone. • Land use in the SEZs: Both prices (for leasing and buying) are high. The current market prices for land are much lower. • Zone benefits: <ul style="list-style-type: none"> ○ A tax holiday would incentivize more businesses to locate in the zone. ○ Infrastructure is important and has to be better than outside the zone ○ Rwanda revenues services shall be streamlined, but also other services such as payment of social security contributions especially for casual labor, which are currently cumbersome to employers (employers have the obligation to enroll all their employees into CSR scheme including casual labor-even if they have work for 1 day- and the cost of complying with that obligation is considered to be high for companies employing casual labor such as companies in construction and tea sectors). 				