

REPUBLIC OF RWANDA



MINISTRY OF TRADE AND INDUSTRY

# **RWANDA PRIVATE SECTOR DEVELOPMENT STRATEGY 2013-18**



***Unleashing the private sector in Rwanda***



## TABLE OF CONTENTS

List of Figures .....	4
List of Tables .....	6
Acronyms .....	7
Executive Summary .....	8
1. Introduction .....	13
2. Overview of the Private Sector in Rwanda .....	17
3. The constraints to investment and growth .....	36
4. The Private Sector Development Strategy .....	63
5. Implementation of the Private Sector Development Strategy .....	79
6. Monitoring and Evaluation .....	93
7. Cost and Financing of the Private Sector Development Strategy .....	95
Annex 1: Logframe .....	109
Annex 2: Ongoing projects .....	111
Annex 3: Challenge Funds .....	115
Annex 4: References .....	117

## LIST OF FIGURES

Figure 1: Rwanda PSDS Theory of Change .....	11
Figure 2: Institutional structure for implementation of PSDS .....	12
Figure 3: GDP per capita since 2006 .....	14
Figure 4: Fastest growing countries, 1986-2010 .....	15
Figure 5: Achieving Vision 2020 with investment .....	15
Figure 6: GDP growth in Rwanda by main sector of economy 2006-2012 .....	17
Figure 7: GDP growth in Rwandan industrial sector 2006-2012 .....	18
Figure 8: GDP growth in Rwandan services sector 2006-2012 .....	18
Figure 9: Poverty headcount ratio in Rwanda .....	19
Figure 10: Rwandan exports including re-exports .....	19
Figure 11: Concentration of Exports .....	20
Figure 12: Breakdown Export Sectors and Destinations .....	20
Figure 13: Relationship between export concentration and GDP per capita .....	21
Figure 14: Cost of importing and exporting a container (USD) in the region .....	21
Figure 15: Rwandan rank by indicator vs. SSA average in DB 2013 .....	22
Figure 16: Changes in employment between three EICV surveys .....	23
Figure 17: Growth of Off Farm Employment as % of Workforce .....	24
Figure 18: Investment (Gross and Private as Percentage of GDP) .....	24
Figure 19: FDI inflows to Rwanda in USD millions: 2007-2011 .....	25
Figure 20: Financing of SMEs by Banks and MFIs .....	26
Figure 21: Revenue contribution of manufacturing sub-sectors in 2011 .....	27
Figure 22: Agricultural Growth in comparison to GDP Growth .....	28
Figure 23: Value of Rwandan horticulture exports: 2006-2010 .....	29
Figure 24: Visitor revenues by purpose of visit .....	30
Figure 25: Visitor arrivals by purpose .....	30
Figure 26: Air Cargo Rates vs. Land/Sea Freight Rates .....	31
Figure 27: Rwandan mineral export receipts: 2002-2011 .....	32
Figure 28: Evolution of export volumes and price for cassiterite (2002-2012) .....	33
Figure 29: Number of exporters by size .....	34
Figure 30: World Bank Firm Entry Density .....	36

Figure 31: FDI inflows and registered FDI, Rwanda: 2007-2011 .....	39
Figure 32: FDI pledge data into Rwanda by sector in 2010 and 2011 .....	39
Figure 33: Spread between commercial bank lending and deposit rate .....	41
Figure 34: Non-performing loans .....	42
Figure 35: Collateral Requirements for loans .....	42
Figure 36: Achieving Vision 2020 with domestic credit .....	43
Figure 37: Rural Investment Fund Disbursements in 2011 by sector .....	44
Figure 38: Electricity consumption in Rwanda and comparator countries .....	45
Figure 39: Achieving Vision 2020 with electricity .....	46
Figure 40: Electricity tariffs in Rwanda, East Africa and comparator countries .....	47
Figure 41: EWSA's cost to deliver electricity .....	47
Figure 42: Paved road as a percentage of total roads in the EAC .....	48
Figure 43: Mobile phone penetration .....	50
Figure 44: The skills mix and economic development of sample of countries .....	52
Figure 45: Effects of Lack of Core Skills in Rwandan Manufacturing .....	53
Figure 46: Achieving Vision 2020 with off-farm jobs .....	54
Figure 47: Additional annual growth improvement in ease of DB .....	59
Figure 48: From binding constraints to PSDS programmes .....	63
Figure 49: Rwanda PSDS Theory of Change .....	64
Figure 50: Institutional structure for implementation of PSDS .....	84
Figure 51: Pathways to crowding-in interventions .....	90
Figure 52: Challenge fund concept, applying to business linkages projects .....	116

## LIST OF TABLES

Table 1: Sustained growth experiences since 1961, and investment levels .....	14
Table 2: Commercial bank credit in Rwanda by sector .....	25
Table 3: Enterprises in Rwanda by no. of employees and location of origin .....	34
Table 4: Comparison between SMEs and large firms in Rwanda .....	37
Table 5: FDI per job created in different sectors and 2011 FDI pledges .....	40
Table 6: Key skills indicators for EAC countries .....	52
Table 7: Interns in key sectors of the Rwandan economy .....	55
Table 8: Taxes payable in Rwanda .....	60
Table 9: Rwanda Revenue Authority tax revenue in 2009 by type of tax .....	61
Table 10: Compliance costs faced by business in Rwanda .....	61
Table 11: Contribution of PSDS to EDPRS-II Thematic Areas and Priorities .....	78
Table 12: Sequencing of intervention outputs .....	79
Table 13: Risk analysis for PSDS programmes & mitigation strategies .....	86
Table 14: Capacity requirements for PSDS and capacity building strategy .....	88
Table 15: Outcome indicators .....	93
Table 16: M&E indicators for PSDS up to 2017/18 .....	94
Table 17: Financing programmes of PSDS .....	96
Table 18: Logical framework with key indicators for delivery of PSDS .....	109
Table 19: Key ongoing projects for private sector area and relation to PSDS .....	111

## ACRONYMS

BPO	Business process outsourcing
CET	Common external tariff
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EDPRS-II	Economic Development and Poverty Reduction Strategy-II (2013-2018)
EWSA	Energy, Water and Sanitation Authority
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
GoR	Government of Rwanda
HC&ID	Human Capital and Institutional Development Department (RDB)
ICT	Information and communication technology
IDEC	Industrial Development and Export Council
MFIs	Microfinance institutions
MIFOTRA	Ministry of Public Service and Labour
MINAFFET	Ministry of Foreign Affairs and Cooperation
MINAGRI	Ministry of Agriculture
MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
MINICOM	Ministry of Trade and Industry
MININFRA	Ministry of Infrastructure
MINIRENA	Ministry of Natural Resources
MSME	Micro, small and medium enterprise
NBR	National Bank of Rwanda
NISR	National Institute of Statistics
NPLs	Non-Performing Loans
PPP	Public private partnership
PSD	Private Sector Development
PSDS	Private Sector Development Strategy
PSF	Private Sector Federation
R&D	Research and development
RBS	Rwanda Bureau of Standards
RDB	Rwanda Development Board
REMA	Rwanda Environment Management Authority
RRA	Rwanda Revenue Authority
RSSB	Rwanda Social Security Board
SEZ	Special economic zone
SME	Small and medium enterprise
SPS	Sanitary and phytosanitary measures and agreements
TVET	Technical and vocational education and training
WDA	Workforce Development Agency

## EXECUTIVE SUMMARY

Rwanda has a small but growing private sector. If unleashed, it has the power to transform the country, delivering broad-based and inclusive economic growth, resulting in many more and better paid jobs for our people. However, at present the private sector mainly consists of small enterprises that are constrained in activities that provide low returns to investment and do not generate many jobs; and there are only a few, large competitive businesses.

The Private Sector Development Strategy (PSDS) aims to redress this imbalance and unleash Rwandan entrepreneurship. The PSDS is at the heart of the new Economic Development and Poverty Reduction Strategy (EDPRS-II), to be implemented from 2013 to 2018, and help achieve the goals for growth, jobs, exports and investment. The PSDS provides an overarching framework for reform initiatives, helping to inform priorities and establishing a framework for monitoring progress. It sets out the key gaps and weaknesses of current efforts and how they can be addressed by Government and other institutions.

The PSDS seeks to take advantage of the opportunities that exist. We are well positioned in the East African Community (EAC), and are increasingly serving markets in the eastern Democratic Republic of Congo (DRC) as well as Burundi, providing investors with a sizeable and attractive market. However, despite such opportunities, the country faces key challenges and constraints that need to be addressed. This is particularly in terms of infrastructure, finance, skills and the regulatory environment – all of which provide significant additional costs for private sector firms. Addressing these constraints will make entrepreneurs' investments more likely to happen, and therefore enable the rapid and broad-based growth that the country strives for.

Thus, the PSDS aims to develop an entrepreneurial, innovative and competitive sector that delivers broad-based and inclusive economic growth resulting in many more and better-paid jobs for Rwandans. In order to achieve this, the PSDS includes a number of interventions aiming to unlock the binding constraints to investment and growth, and therefore to unleash the private sector in Rwanda.



## KEY INTERVENTIONS:

The PSDS will be delivered through seven programmes to be implemented over the period from 2013 to 2018. These will be the main focus for driving the development of the private sector over the period. Figure 1 shows how they link - through the theory of change - to jobs, growth and exports.

### Programme 1:

**Infrastructure for Growth.** Infrastructure, and in particular energy, is the principal constraint to growth and investment. Addressing it will require investment in power generation and transmission capacity, as well as connectivity to pools of energy in the East African Community (EAC) region.

This will take time. In the interim the Government of Rwanda (GoR) will develop locations where the energy constraint is minimised. This should be through continuation and expansion of Rwanda's Special Economic Zone (SEZ) programme. The SEZs should function on the principle of providing localised areas for which land and energy are specifically prioritised, which are not designated for any specific sub-sector nor type of company. The GoR has already developed the Kigali SEZ.

In addition to this, the Kivu Belt should be developed as a SEZ, and SEZ status should be extended to Bugesera Provincial Industrial Park. The additional three Industrial Parks at Rusizi, Nyabihu and Huye should be developed as low-cost SEZs. Infrastructure is also required to address logistics challenges, the GoR will therefore seek PPPs to establish an integrated logistics system based on a Kigali Logistics Platform, linked to Regional Logistics Centres, and supported by an e-freight exchange system.

### Programme 2:

**Investment Promotion.** Foreign Direct Investment (FDI) is essential for the achievement of our targets over the next few years. The attraction of FDI needs to become more targeted and more professional, as does the investor aftercare service provided by the GoR. The key will be to develop marketing capacity within the Rwanda Development Board (RDB), and to create a more streamlined investment promotion service, developing a network of outsourced agents, working together with commercial attachés in target markets, and co-ordinated by RDB.

Core to this will be the marketing of Rwanda as an opportunity - for example as a base to access regional markets - with clear and well-implemented incentives to invest through the Investment Code. The RDB will need the option of involving an inter-ministerial forum at an early stage in negotiations with large potential investors, giving the RDB greater powers to propose a package backed by firm inter-ministerial commitments and a clear public-service delivery schedule. Once investors are in the country, investor aftercare processes within RDB should address issues as they arise and ensure cross-government collaboration to do so.

### Programme 3:

**Entrepreneurship Development.** Entrepreneurship, the taking of risk involved in producing goods and services to earn profit and incomes, is the driving force for the private sector to create wealth. Micro, small and medium enterprises (MSMEs) will be the key driver for job creation and urbanisation in coming years - MSMEs in the informal sector employ over 70 per cent of the active labour force including youth<sup>1</sup>; while informal exports reached \$66 million from January to September 2012, up 85 per cent on the same period for 2011.<sup>2</sup> Government will create an enabling environment for informal and formal MSMEs.

In particular, there needs to be a large expansion in the locations in which such enterprises can operate - this should include low-cost areas in or around town centres, with longer operating hours. In addition, the mentoring and counselling services to promising borrowers will make a big difference. BDS will also be expanded to allow entrepreneurs with the requisite attributes to develop better products and services.

Further, the Hanga Umurimo business plan competition should be expanded both in scope and to provide support to medium-sized firms with transformational potential. Working with larger firms, a vendor development programme will build capacity amongst suppliers and distributors, encouraging large firms to contract out parts of their core business while supporting small businesses to provide new goods and services they require. Finally, work to strengthen value chains (particularly in key commodity products) will be undertaken.

<sup>1</sup> NISR (2011) *The third integrated household living conditions survey (EICV3): Main indicators report.*

<sup>2</sup> Ministry of Trade and Industry (2012) *Trade Performance Report: January – September 2012*

**Programme 4:**

**Credit Expansion.** Given the low levels of private sector investment in the country, much still needs to be done to ensure greater credit is available to the private sector. Although interventions have been identified through the Financial Sector Development Strategy, currently lacking are the instruments available to increase bank lending.

The Credit Expansion Programme addresses this through a multi-pronged approach including a significant expansion of the current credit guarantee scheme (CGS) that reduces the risk to banks while assisting enterprises to establish a reputation for credit-worthiness. Over time this should result in an enlargement of the loan size, a longer repayment period, a decrease in the interest rate and/or the levels of collateral demanded.

Furthermore, the programme will develop and deepen new ways in which finance is provided to the private sector, including private equity, and quasi-equity instruments through the current BDF scheme for medium and larger scale enterprises. For MSMEs, the programme, will examine innovation and greater use of structured finance products providing the potential to move from collateralised loan products to other forms of security for debt finance.

**Programme 5:**

**Skills and Innovation.** The percentage of firms identifying an inadequately educated workforce as a major constraint has doubled since 2006. Evidence consistently shows that training in the workplace environment, and training closely linked to the requirement of private sector firms, provides the best chance of overcoming skills deficits.

In order to address these issues, the private sector needs to have a greater role in the provision of and development of what is taught to prospective new employees. This includes expansion of RDB's Skill Sector Councils, bringing together the private sector via relevant Chambers of Commerce, with PSF, RDB, WDA, as well as TVET and higher educational institutions. In addition to wider reforms to the TVET system, a scheme will be piloted and assessed in which Government and employers work directly together to address in-house company skills training deficits.

In order to successfully implement such a scheme there needs to be an accreditation of service providers, either local or international, that do not currently fit in the country's TVET institutional structure. Finally the programme will rapidly expand private sector internships and apprenticeships. Easier registration, with support through existing allowances for interns and broadening trades and professions will permit better outcomes to be achieved.

**Programme 6:**

**Better Regulation.** Despite significant work undertaken to improve the regulatory environment, a number of key issues remain for which better regulation is still required. This includes improvements to the taxation system, developing better insolvency laws, reviewing concessions for key sectors such as mining, and other sector specific laws. The key remains to continually seek the real regulatory constraints to private sector operations, and address them on an ongoing basis. The Better Regulation Programme will begin with tax simplification.

There is a need for a fundamental change in the way that companies are taxed to ensure that there is greater certainty and transparency in the system, particularly with respect to corporation and withholding taxes, and creation of tax business advisory panels (TBAPs) to push for further, targeted reforms.

Finally, there are a number of sector specific regulations that threaten the competitiveness of the Rwandan private sector. These, such as the law relating to polythene packaging or concessions in the mining sector should be addressed on a continual basis, by the implementation of the PSDS and extensive, regular consultation with private sector stakeholders through public private dialogue (PPD).

**Programme 7:**

**Market Access.** Our traders face significant costs for both importing and exporting goods. The challenge is to reduce these costs for businesses, through a combination of increasing market access, reducing barriers to trade, and developing promotion activities to link producers with markets.

The EAC provides a natural trading bloc, countries with which Rwanda can do business. In addition the EAC in combination with the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) through a tripartite free trade agreement (TFTA) can significantly improve market access in coming years.

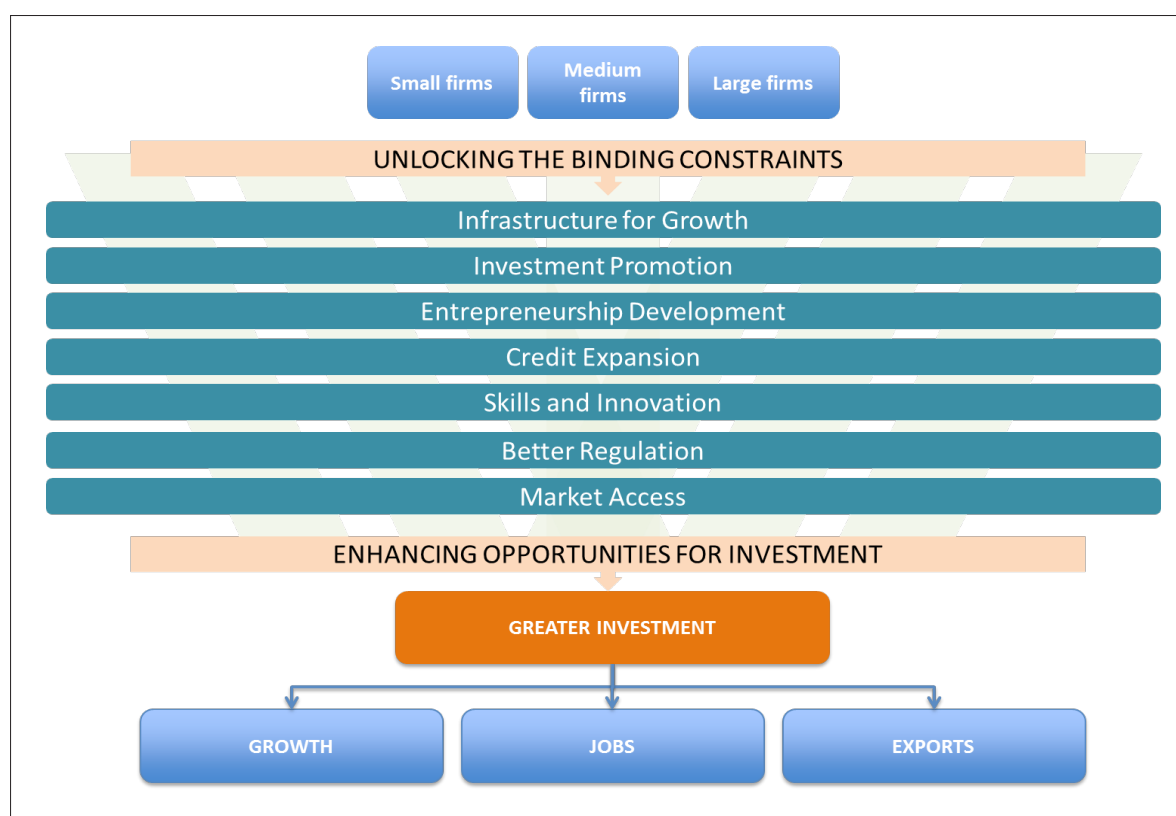
We will develop a Strategic Approach to this process, and always be informed how policy and tariff change impacts on Rwandan businesses. Regional transport initiatives will be the key in the long run to reduce the cost of transportation

for Rwandan traders. In the meantime further work needs to be done with EAC countries to steadily reduce non-tariff barriers (NTBs) on the Northern and Central Corridors, ensure all Rwandan borders are covered by one-stop border posts (OSBPs), and develop regional standards. Furthermore, with the current skills deficit within the country, Rwanda will need to ensure that commitments to improve the free flow of highly skilled workers are being kept to.

Export promotion activities should be developed through the strengthening of RDB's export promotion capacity, the development of Export Councils for major export sectors and the provision of support to trade missions. Tailored support to exporters will come through the Rwanda Export Development Programme (REDP), a crosscutting programme that provides support to qualifying companies in all sectors.

It will support the growth, product range diversification and value addition of existing exporters as well as identifying and supporting new exporters. Finally, cross border trade will benefit from the construction of large markets and storage facilities at key locations.

Figure 1: Rwanda PSDS Theory of Change



## UNLEASHING THE PRIVATE SECTOR IN RWANDA

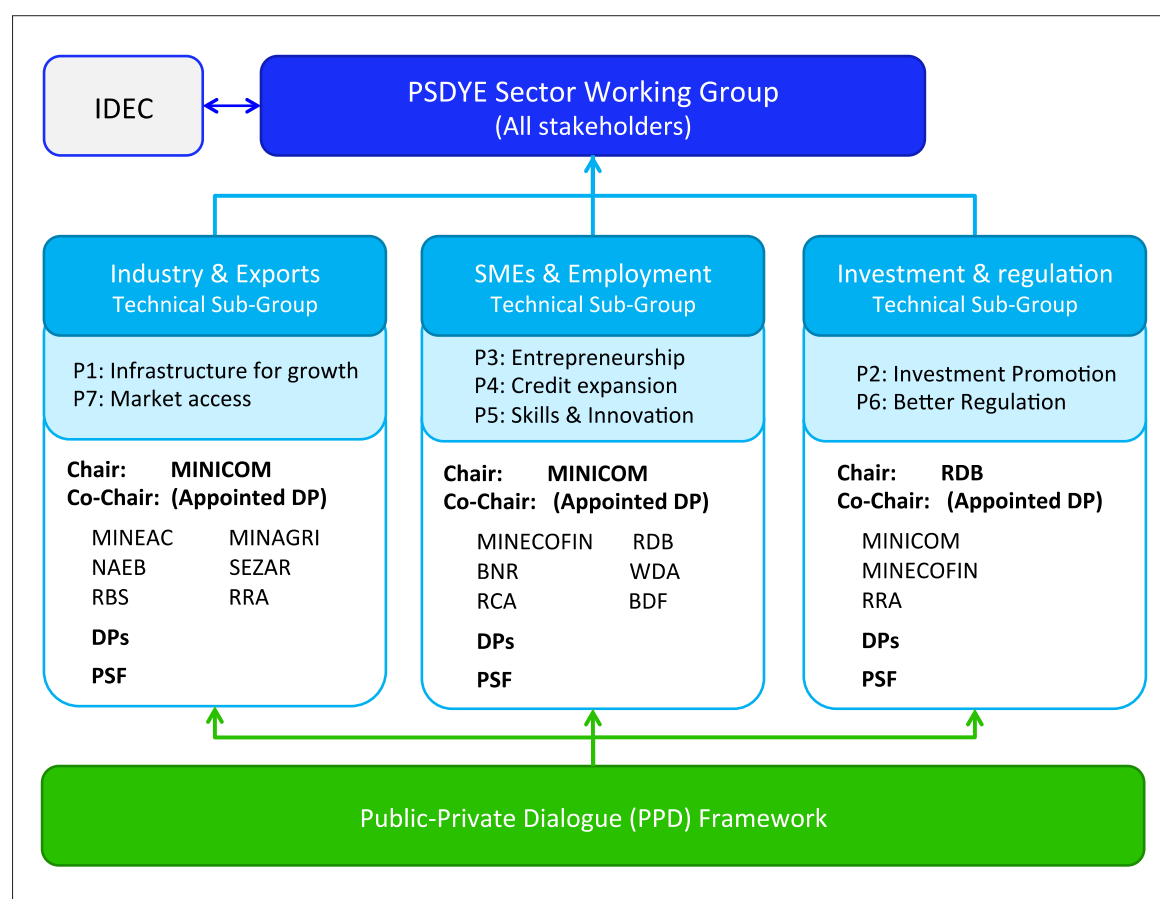
The estimated total cost for these interventions is RWF 307.9 billion (USD 500 million) from 2013/14 to 2017/18. This covers a wide range of programmes and institutions. While funds may come from largely from the GoR, additional funds will need to be leveraged from development partners as well as the private sector through PPPs.

These should be the pivotal programmes for the coming years to develop the private sector in Rwanda, and to unleash it to become the leading player in the development of the country.

Figure 2 gives a simple overview of the institutional framework proposed by the PSDS, from the major Government Ministries to key agencies, development partners, and the private sector itself.

Three Technical Sub-Groups will lead coordination of implementation, monitoring and evaluation at the technical level, reporting on progress to the larger, general Sector Working Group. The Technical Sub-Groups are grouped as (a) Industry and Exports, (b) SMEs and Employment and (c) Investment and Regulation.

Figure 2: Institutional structure for implementation of PSDS



Each of the seven programmes will be allocated to a Technical Sub-Group as per Figure 2. A Chair and Co-Chair will be appointed for each of the three groups, being a government institution and Development Partner respectively. The three Sub-Groups will report to and be directly under the larger forum – the Sector Working Group (SWG). The SWG will need to monitor the performance of the PSDS, as well as other relevant policies and strategies as they arrive.

The Industrial Development and Export Diversification Council (IDEC) should be the ultimate inter-ministerial forum. There should be close coordination between IDEC and the SWG. IDEC should be a regular (between monthly and quarterly) forum, and should seek to escalate issues of coordination raised in the SWG and the Technical Sub-Groups. Again, meetings should be themed, ideally around Programmes of the PSDS, and particularly difficult issues arising from implementation. IDEC should also seek to involve private sector stakeholders for issues under discussion.

MINICOM will have ultimate responsibility for the delivery of Programme 1 on infrastructure for growth, Programme 3 on entrepreneurship and Programme 7 on market access. RDB will have ultimate responsibility for the delivery of Programme 2 on investment promotion and on Programme 5 on skills. The third centre of responsibility will be MINECOFIN. This will be for Programme 4 on credit expansion, and Programme 6 on better regulation.

Overall the PSDS provides a new platform for genuine engagement with the private sector in Rwanda. Through a more robust institutional structure, better programme coherence, and private sector buy-in throughout the process of this strategy development there is better alignment of Government and private sector objectives.

## 1. INTRODUCTION

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The Government of Rwanda has developed a Private Sector Development Strategy (PSDS) at the centre of the new Economic Development and Poverty Reduction Strategy (EDPRS-II), to be implemented from 2013 to 2018. The main reason is that in order to meet the ambitious targets set in the Government's Vision 2020 to transform Rwanda into a middle-income country and achieve the Millennium Development Goals (MDGs), the private sector must become the engine of growth of the economy. Consistently, the PSDS has been developed as an instrument to tackle the constraints to growth and investment in Rwanda faced by businesses, both local and international. It aims to unleash the potential of the private sector in Rwanda and create the conditions so it can thrive and create the jobs, exports, investment and growth needed to achieve the country's ambitious targets.

### 1.1 The Concept of the Private Sector

Before embarking on the initial stages of developing the strategy it is critical to have a clear definition of what is meant by the "private sector". The private sector is defined to include a broad range of operators and organisations from large corporations, medium enterprises, small owner-managed firms to micro-enterprises and even livelihood activities operated on a part-time basis, be they in the formal or informal economy. Civil society operators such as business associations also fall within this definition.

The concept of private sector development (PSD) is defined as a set of interventions and policies aimed at establishing the critical elements required to achieve a well-functioning, private business sector. This represents Government's commitment to develop a well-functioning enabling environment. Government will work in partnership with other stakeholders including the private sector itself, towards the development of a strong private sector in Rwanda in return for economic growth, superior return on investments and social transformation.

### 1.2 Policy context

The Vision 2020 sets an ambitious range of targets for the economy, for the private sector and for exports over the next few years. This includes a number of key targets:

- Achieving \$1,240 GDP per capita by the year 2020.
- Achieving 11.5 per cent average annual growth to reach GDP target.
- Achieving growth rates of 13.5 per cent in services, 8.5 per cent in agriculture, and over 14 per cent in industry.
- Annual export growth of 28 per cent – reaching \$3.6 billion of formal exports by 2020<sup>3</sup>.
- External trade as proportion of GDP to rise from 41.5 per cent to 60 per cent.
- An additional 200,000 off-farm jobs per year up to 2020.

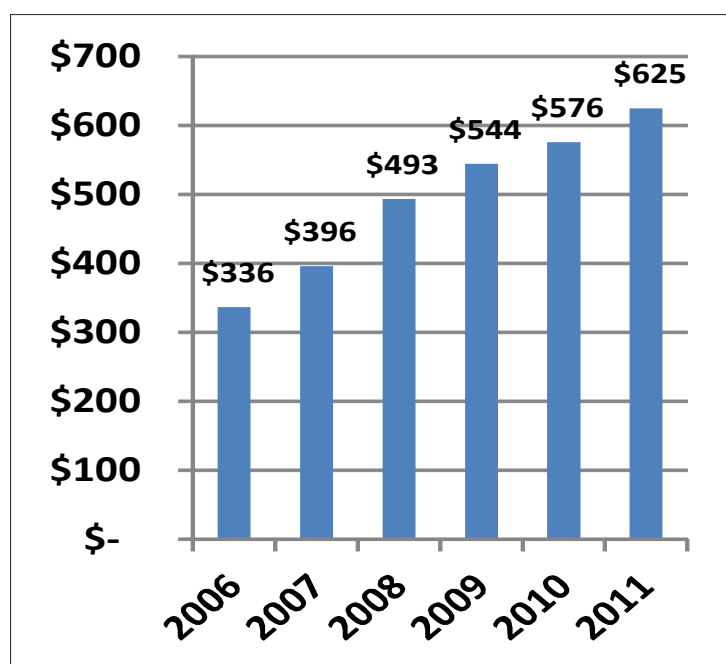
In addition to the targets set in the Vision 2020 document the Government has also implemented the Seven Year Government Program (7YGP). These targets were also very ambitious and in some cases were more ambitious than those contained in the original Vision 2020. These include among others a target for percentage of population below poverty line of 20 per cent of the population and for access to electricity to cover over 70 per cent of the population.

### 1.3 Addressing the challenge

The ambitious growth targets envisaged by Vision 2020 give Rwanda a significant challenge in reaching middle-income status. Although progress has been impressive, as shown in Figure 3<sup>4</sup>, the challenge remains huge.

<sup>3</sup> The figure of \$3.6 billion of exports by 2020 is calculated using the \$387 million of formal exports in 2011 and extrapolating at 28 per cent annual growth.  
<sup>4</sup> Source for GDP is NISR, calculated in USD with annual exchange rate from IMF and population data from World Bank WEO 2012.

Figure 3: GDP per capita since 2006



This is shown in Figure 4, where the fastest growing countries achieved slower growth rates than Rwanda's target over the period from 1986 to 2010. The fastest growing was China with average GDP per capita growth in real terms of 7.7 per cent, and real annual growth of total GDP of 9.3 per cent.

Historically, only a few countries at any point in time experience sustained periods of high economic growth. There have only been nine instances of countries experiencing over 10 per cent growth for five years or more since 1961<sup>5</sup>. In the same period, there have been 41 instances of five or more years of sustained growth above 7 per cent. While there have been 94 instances of sustained growth for five years or more at or above 5 per cent growth.

Many of the South East Asian countries remarkable growth in recent years reflects a migration from agriculture to more productive industries and services, a path typical of the "East Asian Miracle".

At the same time, a number of countries in these country groupings such as Vietnam has benefited from a young and growing labour pool and from policy reforms that have opened up the economy after years of isolation. Both rising domestic private investment and new flows of foreign investment sparked significant transformations in the manufacturing and service sectors, and resulted in the growth rates seen in Figure 4.

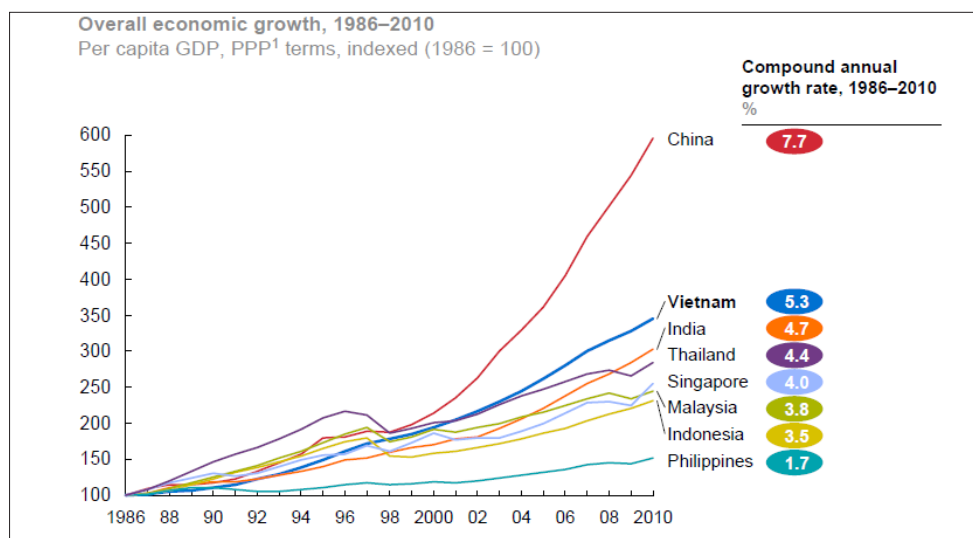
What is clear from these experiences, as shown in Table 1 is that they have been accompanied by high FDI and high private sector investment, as well as high total investment.

Table 1: Sustained growth experiences since 1961, and associated average investment levels<sup>6</sup>

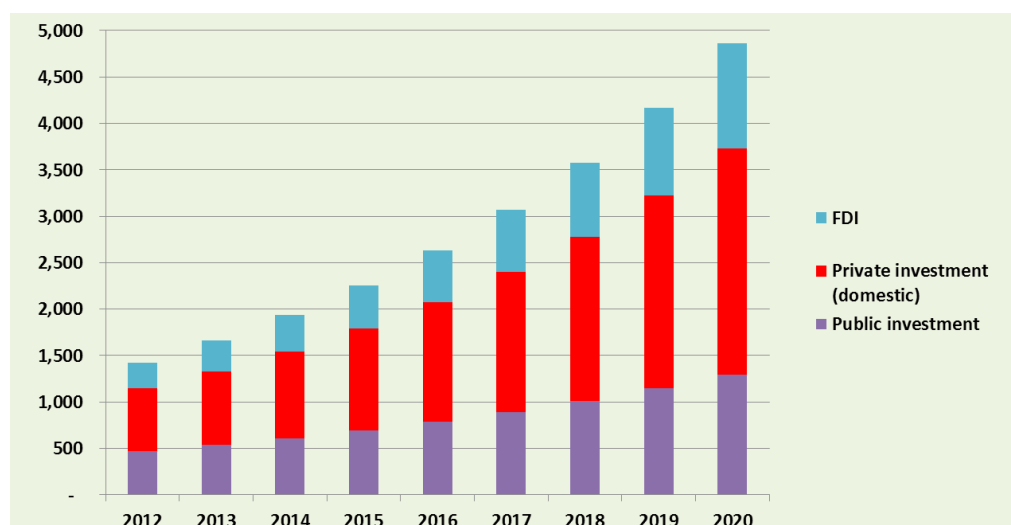
Sustained growth spells (five years at > 5 per cent GNI growth)	Average FDI	Average capital formation by private sector investment	Average total capital formation
94 experiences	5.5 per cent	18 per cent	25.6 per cent

<sup>5</sup> Turkmenistan from 1999 to 2006, Myanmar from 1999 to 2010, Lesotho from 1988 to 1994, Armenia from 2002 to 2007, Azerbaijan from 2000 to 2007, Gabon from 1971 to 1976, Hong Kong from 1961 to 1966, Malta from 1975 to 1979, Botswana from 1976 to 1980. World Bank, World Development Indicators. Growth reported is in gross national income (GNI).

<sup>6</sup> World Bank, World Development Indicators. Growth reported is in gross national income (GNI).

Figure 4: Fastest growing countries, 1986-2010 (per capita GDP in PPP terms, indexed 1986 = 100)<sup>7</sup>

This evidence shows that to achieve high growth for a sustained period, FDI, private investment and total investment need to be high. Figure 5 shows the level of investment that is required to meet the 30 per cent investment target to GDP by 2020. This assumes that total private sector investment reaches 22 per cent of GDP, including FDI at 7 per cent of GDP, and public sector investment reducing from 11 per cent to 8 per cent of GDP by 2020.

Figure 5: Achieving Vision 2020 with investment (USD millions)<sup>8</sup>

#### 1.4 Guiding Principles for the Development of the Strategy

The PSD Strategy (PSDS) has been developed in accordance to EDPRS-II guiding principles. This ultimately aims to drive Rwanda to achieve growth of 11.5 per cent per year and to reach middle-income status. It aims to support emerging priorities and challenges that have emerged since the first EDPRS and Vision 2020 documents were developed.

<sup>7</sup> McKinsey Global Institute (2012) "Sustaining Vietnam's growth: The productivity challenge"

<sup>8</sup> Consultants projections based on Vision 2020 targets for total investment (30 per cent), comprising of 7 per cent FDI, 15 per cent domestic private sector investment and the remainder as public investment.

The process adopted in the development of the strategy has required a considerable level of consultation, both with the varying sub-sectors of the private sector and government institutions as well as development partners operating within Rwanda.

The PSDS aims to achieve accelerated, broad-based, diversified economic growth; the creation of new jobs and increasing the returns from existing jobs; as well as increased incomes for the self-employed. The key objective of developing a PSDS is to build broad consensus across the private sector, civil society and the Government of Rwanda (GoR) on the vision of a private sector capable of delivering rapid and sustained pro-poor growth in the country and the strategy for delivering that vision.

The PSDS will provide an overarching framework for reform initiatives, helping to inform priorities and establishing a framework for monitoring progress. It will set out the key gaps and weaknesses of current efforts and how they can be addressed by Government and other institutions.



## 2. OVERVIEW OF THE PRIVATE SECTOR IN RWANDA

### 2.1 A snapshot of the economy

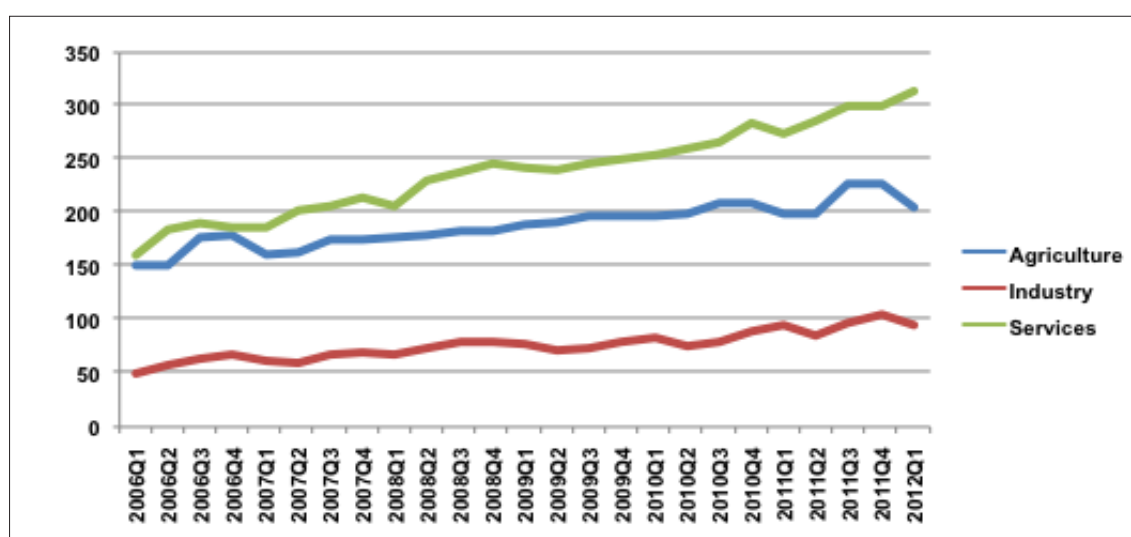
#### *A rapidly growing economy...*

Since 1995, the Rwandan economy has been growing rapidly, recovering from the massive economic disruption caused by the Genocide. This rapid growth together with one of the most improved business environment climates on the continent, regional integration within the East African Community (EAC), and impressive macroeconomic stability has seen per capita gross domestic product (GDP) nearly double from \$336 in 2006 to \$625 in 2011.

From the first quarter of 2006 to the first quarter of 2012, the real annual GDP growth rate for the economy averaged 9.1 per cent. Total GDP in 2011 was 3.8 trillion RWF, or \$6.1 billion at current exchange rates<sup>9</sup>. As shown in Figure 6, the growth rate of GDP has varied by sector. The highest growth rate has been in services with 11.8 per cent growth from 2006 to 2012. The rate was similar for industry at 11.5 per cent. The rate for agricultural growth was slower at 5.3 per cent annual growth.

The past six years have been characterised by numerous external shocks, as well as increasing global food and fuel prices, a regional food shortage due to drought in the Horn of Africa, and ongoing crisis in the Euro area. Rwanda has demonstrated economic resilience during this period, which has had significantly more serious consequences for many neighbouring EAC countries.

*Figure 6: GDP growth in Rwanda by main sector of economy 2006-2012 (RWF billions in 2006 prices)<sup>10</sup>*

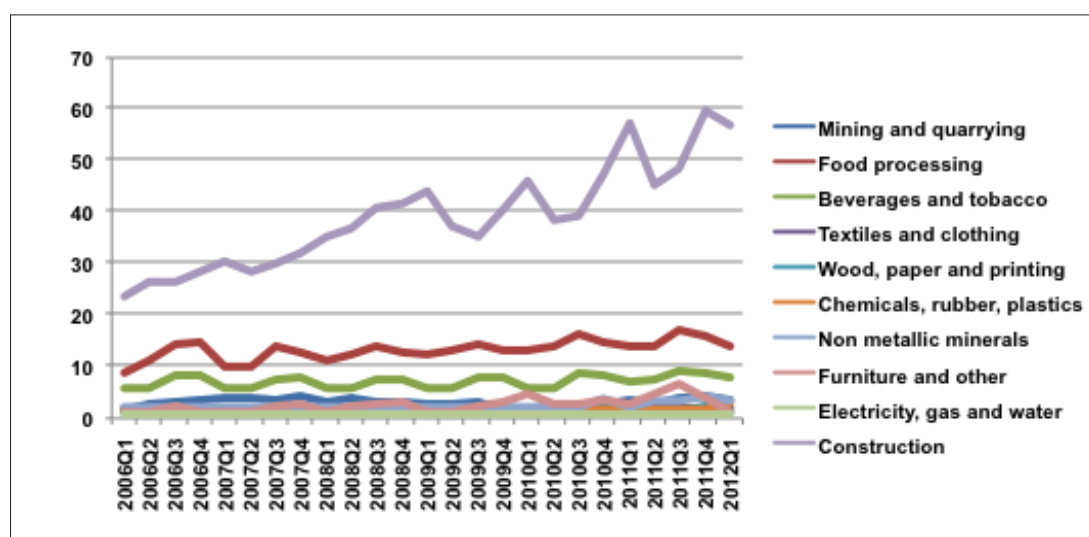


Breaking down each sector further shows the sub-sectors that dominated growth in the period. Agriculture composed 34 per cent of the Rwandan economy in 2011<sup>11</sup>. Rwandan agricultural production is largely based on subsistence farming. As a result, food crops account for 85 per cent of agricultural output, forestry 7 per cent, livestock 5 per cent, export crops 2 per cent, and fisheries make up just 1 per cent.

<sup>9</sup> MINECOFIN. Exchange rate of RWF 627 = 1USD. Average of buying and selling rate from [www.bnr.rw](http://www.bnr.rw) on 05/11/2012.

<sup>10</sup> National Institute of Statistics of Rwanda (NISR) (2012) GDP tables Q1 2012

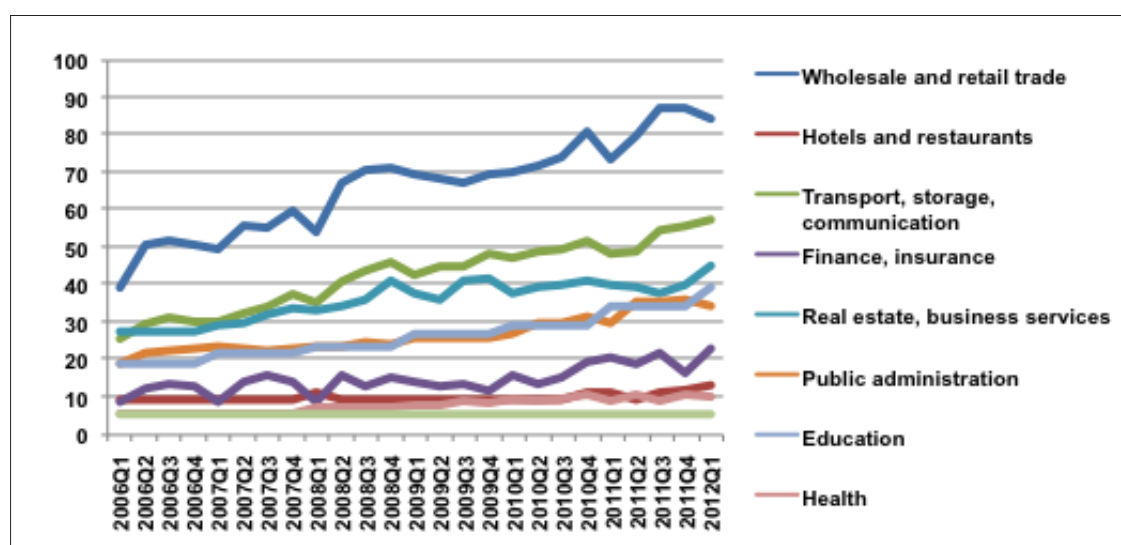
<sup>11</sup> Ibid. This is the share of GDP excluding adjustments (less inputted bank service charge, plus VAT and other taxes on products).

Figure 7: GDP growth in Rwandan industrial sector 2006-2012 (RWF billions in 2006 prices)<sup>12</sup>

The industrial sector accounted for just 17 per cent of the Rwandan economy in 2011, a share that is up from 15 per cent in 2006. As shown in Figure 7, this growth rate has again been variable by sub-sector.

The largest sub-sector is construction, worth RWF 317 billion in 2011, half of industrial output. Manufacturing makes up 40 per cent of industrial output, of which food processing is the largest sub-sector.

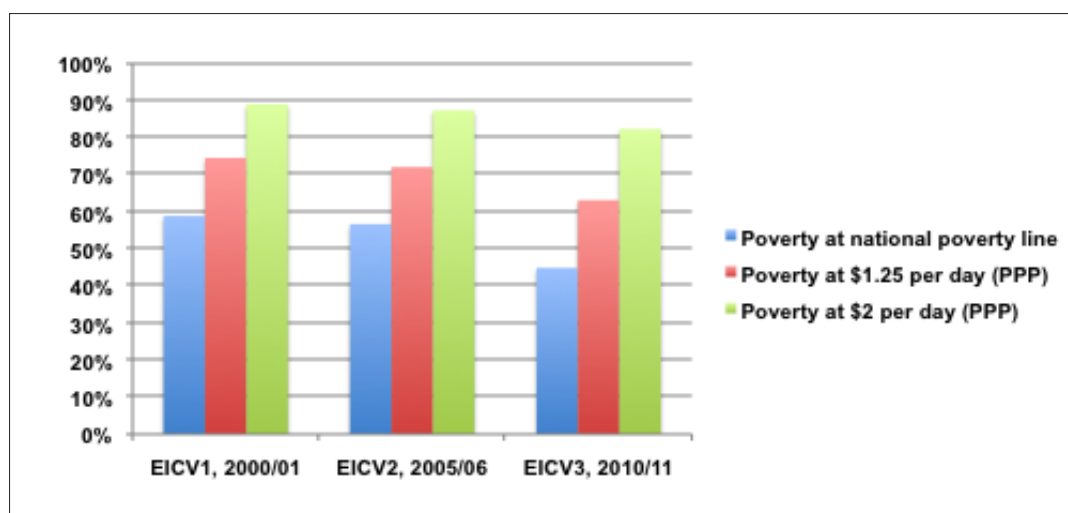
Mining and quarrying make up 9 per cent of industrial output. In recent years manufacturing growth has lagged other sectors, at just 6.2 per cent from 2006 to 2012. This compares to 15.7 per cent growth in the construction sector. The construction sector leads industrial output and is taking up a growing share year-by-year.

Figure 8: GDP growth in Rwandan services sector 2006-2012 (RWF billions in 2006 prices)<sup>13</sup>

As shown in Figure 8, services sector growth is more evenly spread across sub-sectors than for industry or agriculture. Services is the largest sector of the Rwandan economy, composing around half of GDP. Wholesale and retail trade is the largest sub-sector, worth over RWF 80 billion in 2011, and has grown 13.5 per cent per year since 2006.

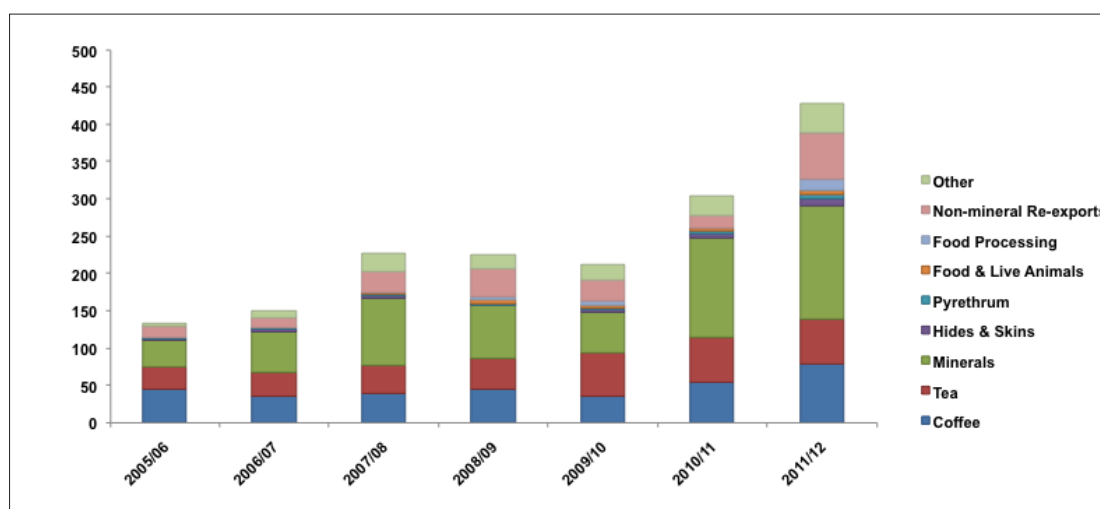
This compares to growth of 14.4 per cent in transport, 13 per cent in education, and 17.4 per cent in the fastest growing service sub-sector, finance. This compares to lagging growth in the hotels and restaurants sector of just 6 per cent.

<sup>12</sup> Ibid.  
<sup>13</sup> Ibid.

Figure 9: Poverty headcount ratio in Rwanda – 2000/01, 2005/06, and 2010/11<sup>14</sup>

Rwandan GDP growth shows rates of economic activity across the population are increasing. Inequality has seen a slight decline in the period with the Gini coefficient declining from 0.52 in 2005/06 to 0.49 in 2010/11, and the ratio of the 90<sup>th</sup> percentile of consumption to the 10<sup>th</sup> falling from 7.1 to 6.4<sup>15</sup>. Recent evidence suggests that growth has had an impact on poverty in Rwanda.

As measured in the recent EICV3 survey, using international standards (\$1.25 purchasing power parity per day) the poverty rate has fallen from 72 per cent to 63 per cent over the past five years. Using the national poverty line poverty fell from 57 per cent to 45 per cent from 2005/05 to 2010/11. This accelerates the decline in poverty experienced in the previous five years, as shown in Figure 9.

Figure 10: Rwandan exports including re-exports<sup>16</sup>

#### ...with high concentration of exports...

Rwanda has made significant progress in terms of growth of exports, which have increased from \$133 million in 2005/06 to \$429 million in 2011/12 as shown in Figure 10. However, 88 per cent of goods exports (excluding re-exports) are still in traditional sectors (tea, coffee and minerals) that are natural-resource based.

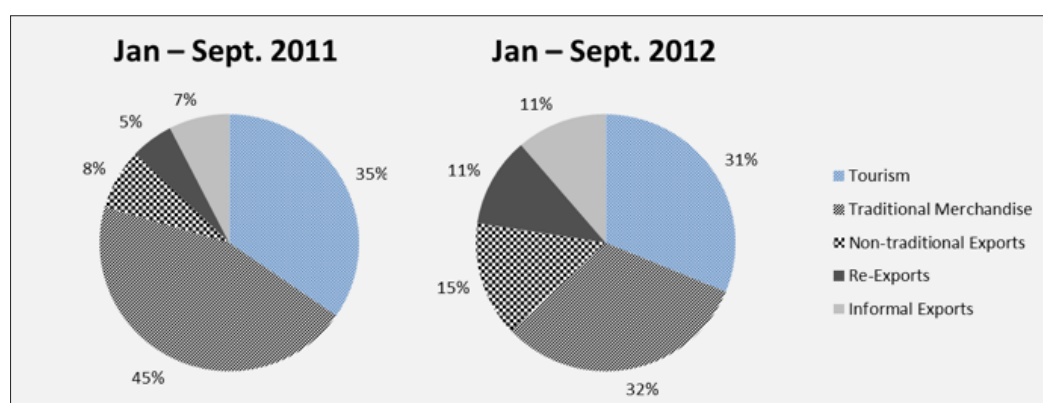
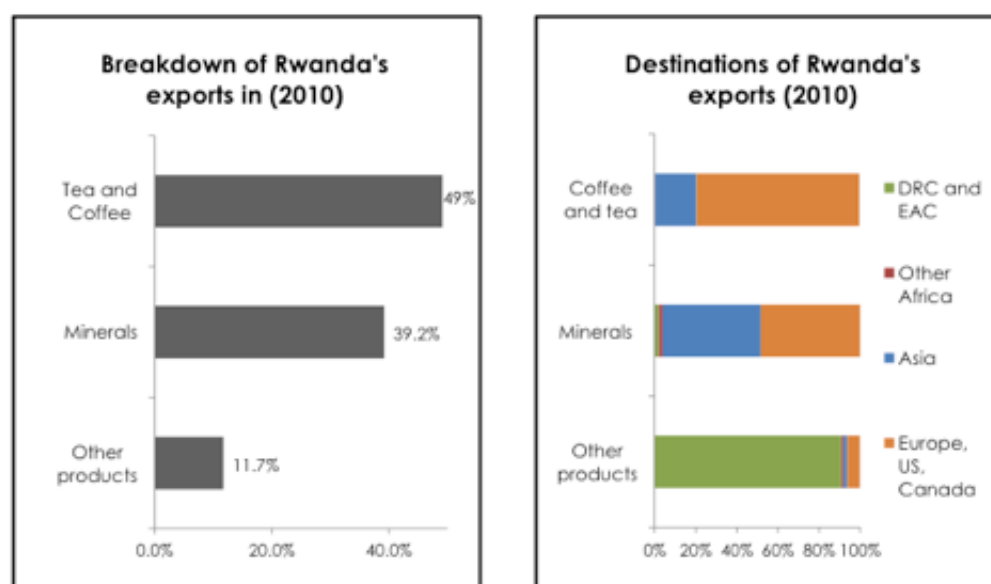
Deepening of regional integration is desirable because regional trade helps in integrating fragmented markets, allowing economies of scale and helping in developing new exports to third markets. Rwanda has seen traditional exports have a wide range of markets that they can access (across Europe, Americas and South East Asia). However, there is increasingly a rapid expansion of exports of a wide variety of non-traditional products to countries in the EAC and in the Great Lakes region more generally – primarily the DRC and Burundi – although much of this trade is informal.

<sup>14</sup> For \$1.25 and \$2 PPP poverty headcount – World Bank (2012) World Development Indicators. For national poverty line – NISR (2011) The third integrated household living conditions survey (EICV3): Main indicators report.

<sup>15</sup> IMF (2012) "Rwanda: Fourth Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria" IMF Country Report No. 12/152

<sup>16</sup> MINICOM Report for October 2012 IDEC meeting

Figure 11: Concentration of Exports

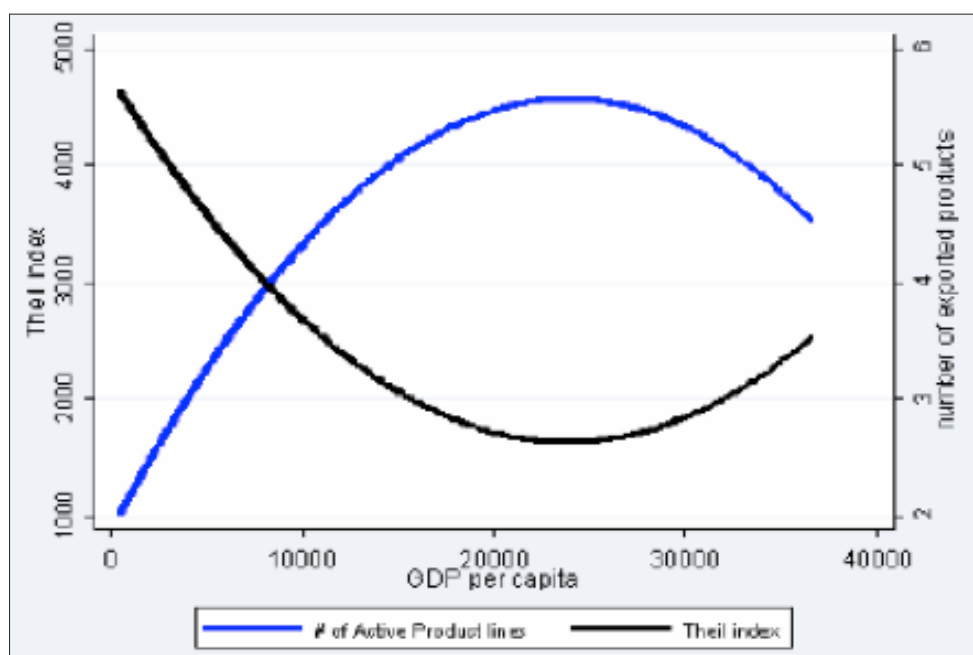
Figure 12: Breakdown Export Sectors and Destinations<sup>17</sup>

Whilst expanding into these areas is intrinsically good, Rwanda needs to produce differentiated products with higher value added (i.e. processed and manufactured goods) that provide security in the market. In the past few years, non-traditional exports have risen faster than total exports and manufactured exports are driving their growth, showing that the country is entering new product markets.

If Rwanda remains a commodity exporter, it will be vulnerable to the fluctuation of international commodity prices and the appearance of new competitors. Producing differentiated products from those of other developing countries ensures that that the country will be able to export not only to them, but also to markets in developed countries. Moreover, added value products will enjoy a more stable and longer presence in these markets and will make the economy less vulnerable to international commodity price shocks.

Export diversification remains essential if Rwanda wants to improve and sustain its rates of economic growth and ensure that the poor participate in and benefit from growth. As shown in Figure 13 countries experience a U-shaped relationship between concentration of exports and level of income in the country.

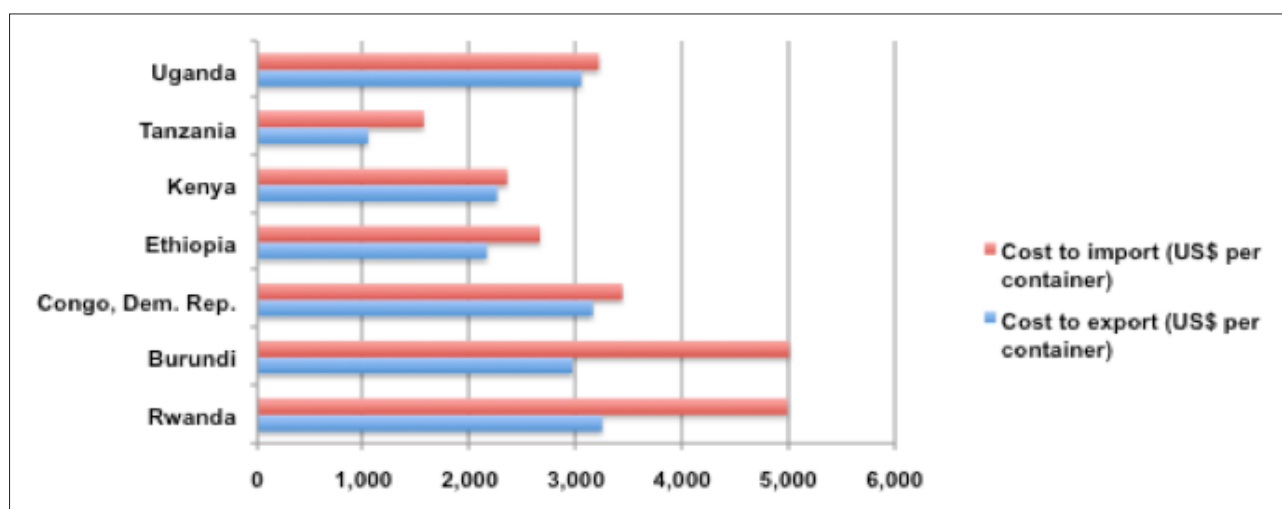
In other words, countries must diversify their export base until they reach a point (relatively late in the development process) at which they start specialising again. Rwanda, as a low income country, has not yet reached that stage in the development process (more or less around US\$9,000 per capita).

Figure 13: Relationship between export concentration and GDP per capita<sup>18</sup>

The objective of achieving greater diversification in Rwanda's economy is challenged by the fact that it is a resource-based economy. However, several other resource based countries have been able to get into a path of export diversification (for example Chile, Nigeria, and Indonesia) and generate inclusive economic growth.

#### ...and high trading costs...

However, Rwanda faces significant challenges in the cost of trading across borders, mainly because it is a landlocked country. On the World Bank Doing Business trading across border indicator, Rwanda ranks 158<sup>th</sup>, clearly behind the sub-Saharan African (SSA) average of 128<sup>th</sup>. In terms of bureaucratic indicators such as the time and number of procedures to import and export a container, Rwanda ranks fairly well in the region, although can improve. For example, to export a container, it takes eight documents from Rwanda, compared to six in Tanzania. The main challenge is the cost of trade. As shown in Figure 14, Rwandan exporters currently pay the highest cost to export a container in the region at \$3,245; compared to \$2,965 in Burundi, and just \$1,040 in Tanzania. Import costs for Rwanda and Burundi are much higher than regional averages.

Figure 14: Cost of importing and exporting a container (USD) in the region<sup>19</sup>

<sup>18</sup> Cadot, Carrère, and Strauss-Kahn (2007), "Export diversification: What's behind the hump?"  
<sup>19</sup> EAC plus DRC and Ethiopia. Data from World Bank DB 2013.

### ...but centrally located in East Africa...

Rwanda is a member of the East African Community (EAC), which has a population of 140 million people and a combined GDP of \$100 billion in 2012<sup>20</sup>. With an EAC Customs Union and Common External Tariff (CET), and now a Common Market, the EAC market will provide significant opportunities for business, for trade, for investment, and for people in coming years. Rwanda is also a member of the larger Common Market for Eastern and Southern Africa (COMESA) and is therefore strategically positioned between Anglophone and Francophone Africa.

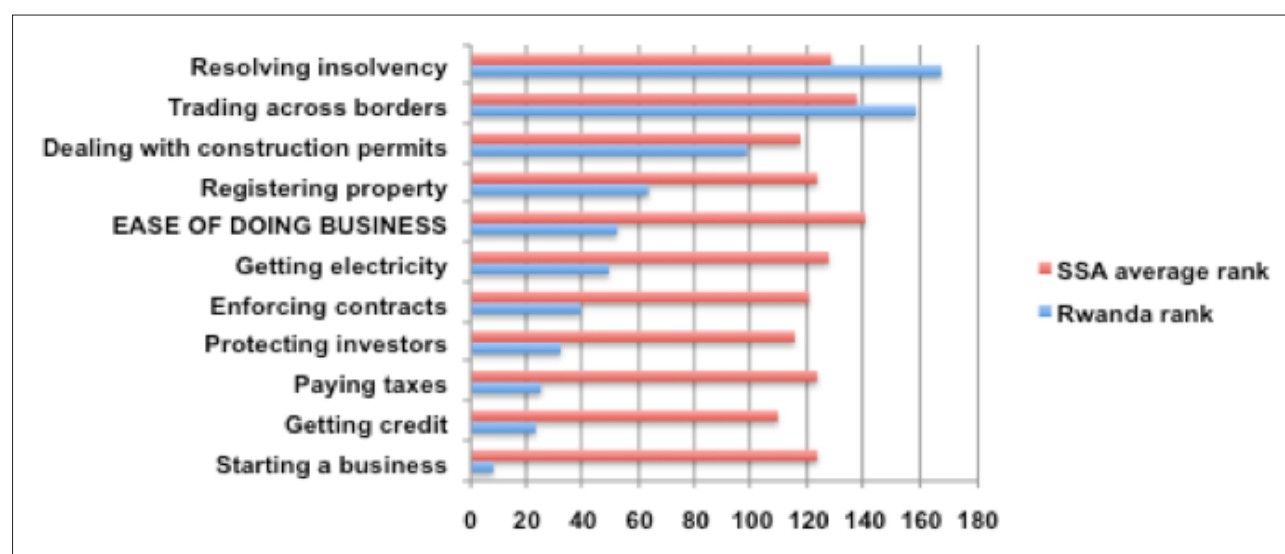
This is significant, as Rwanda can become a key bridge from over 120 million people living in Uganda, Tanzania and Kenya, to a market of 30 million people in the country itself, and in neighbouring Burundi and the Kivu Provinces of the DRC.

### ...and an improving business environment...

Together with the growth and poverty experience, the other great success story in Rwanda in recent years has been the improvement in the business environment as represented by the performance in the annual World Bank Doing Business (DB) reports. Between DB 2009 and DB 2010 Rwanda jumped from 139<sup>th</sup> in the World to 67<sup>th</sup>, becoming the 'top reformer' in the world. Since then improvements have continued and Rwanda was ranked 52<sup>nd</sup> in DB 2013. Only Mauritius, Tunisia and South Africa rank higher on the continent; while Rwanda ranks higher than Poland, Italy and China.

As shown in Figure 15, Rwanda ranks significantly better than sub-Saharan African (SSA) on the ease of doing business. It ranks particularly high in the following indicators: starting a business (8<sup>th</sup>), getting credit (23<sup>rd</sup>) paying taxes (25<sup>th</sup>) protecting investors (32<sup>nd</sup>) and enforcing contracts (39<sup>th</sup>). There are, however, two indicators where the country lags significantly: resolving insolvency and trading across borders.

Figure 15: Rwandan rank by indicator vs. SSA average in DB 2013



On resolving insolvency, Rwanda clearly has some more work to do as it ranks 167<sup>th</sup> compared to a SSA average of 128<sup>th</sup>. Improving the ease of resolving insolvencies would impact the incentive of the private sector in Rwanda to invest in two key ways:

- Entrepreneurs would be less reluctant to invest knowing that they may be able to exit failed businesses relatively quickly, recovering a good proportion of their investment at not too high a cost.
- Banks would be more confident in lending to businesses if they know that they can recover the value of securitised assets quickly and at low cost if the business fails.

It is important to note, however, that addressing the DB constraints only tackles a subset of indicators of the overall investment climate.

They can be considered a necessary condition for attracting investment, but not sufficient. Moreover, the need to find internationally comparable indicators limits their coverage and their usefulness in understanding the conditions that impact the private sector on the ground.

<sup>20</sup> IMF (2012) *World Economic Outlook*, October 2012.

In fact, the DB report accepts the following limitations:

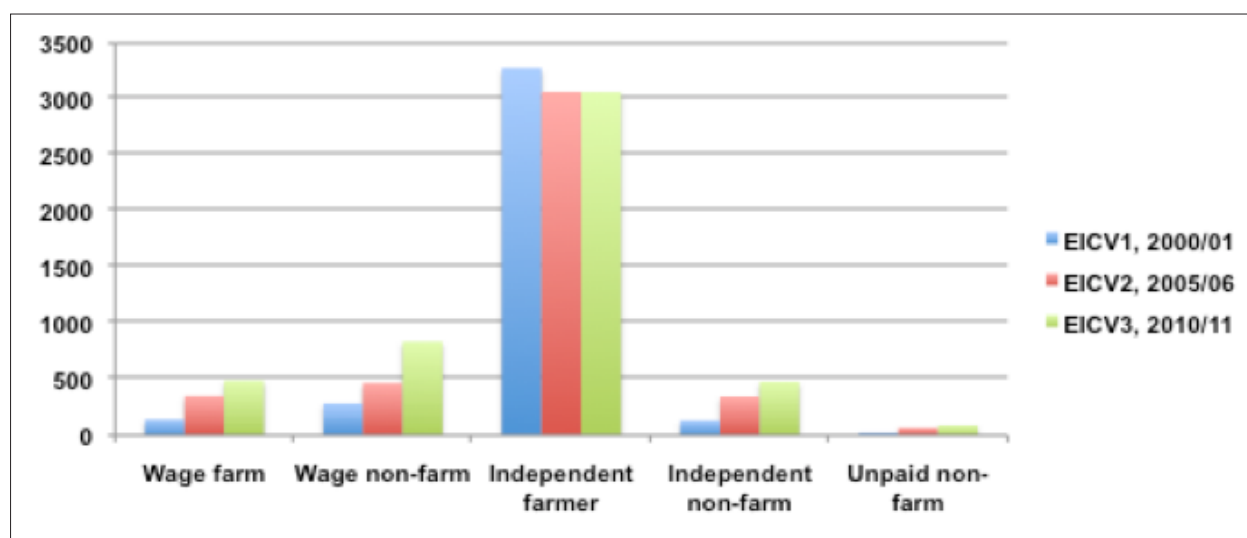
- Relevance of indicators used. The DB does not cover many important areas of the business environment. For example, the only infrastructure indicator is obtaining an electricity connection. But in Rwanda, the problem with electricity is power outages and the high cost of electricity.
- Geographical coverage: DB covers only the capital city. This is why, in recent years, countries have commissioned sub-national DB indices. In a country such as Rwanda, despite its relatively small geographic size there may be differences in key provinces and districts across the country.
- Focus on one type of business: The type of business for which cost of registration is calculated is a limited liability company. In Rwanda, limited liability companies made up around 2 per cent of the businesses registered<sup>21</sup>. But 91 per cent of businesses in Rwanda are in fact sole proprietorships. Therefore, the DB survey does not measure the barriers to starting the most common type of business.

#### ...but growth is not reducing under-employment...

Rwanda faces considerable challenges in ensuring adequate jobs to not only cater for a young, growing workforce which increases by an average of 125,000 jobs per year (based on figures for the past five years), but also even higher levels to reduce relatively significant levels of under-employment. Micro and household enterprises in the informal sector employ over 70 per cent of the active labour force including youth<sup>22</sup>.

Recent changes in income and poverty levels have not been reflected so strongly in terms of data on employment and jobs. As shown in Figure 16, the main change over the period of the three EICV surveys has been in an increase in wage earners, both on the farm and in non-farm labour. However the number of independent or subsistence farmers has stayed level at 3 million between the 2005/06 survey and 2010/11 survey. This suggests that job creation has not been sufficient to take up underemployed in Rwanda to date. However the total non-farm labour force has increased from 442,000 in 2001 to 883,000 in 2006, up to 1.4 million in 2011. This suggests that over the past five years, around 100,000 opportunities including independents have been created per annum. This is half the annual target now envisaged for the year 2020.

Figure 16: Changes in employment between three EICV surveys: 2000 to 2011 (thousands)<sup>23</sup>



The employment to population ratio is an indication of the ability of an economy to absorb adults seeking employment that is to provide full employment. A ratio of over 80 per cent is generally an indicator of an abundance of low-quality jobs and the need to work to survive. In Rwanda the economic activity rate is over 80 per cent, although it has declined since 2000 from 86.7 per cent to 84.2 per cent in 2010/11.<sup>24</sup>

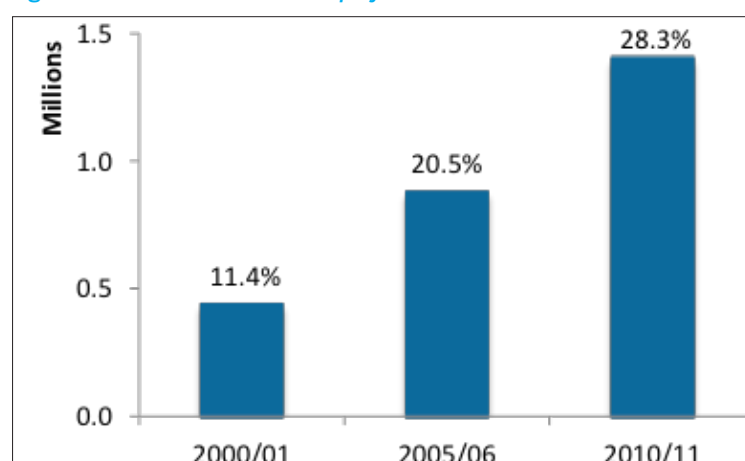
<sup>21</sup> Based on MINICOM Establishment Census report of August 2011

<sup>22</sup> NISR (2011) The third integrated household living conditions survey (EICV3): Main indicators report.

<sup>23</sup> NISR (2011) The third integrated household living conditions survey (EICV3): Main indicators report.

<sup>24</sup> Ibid.

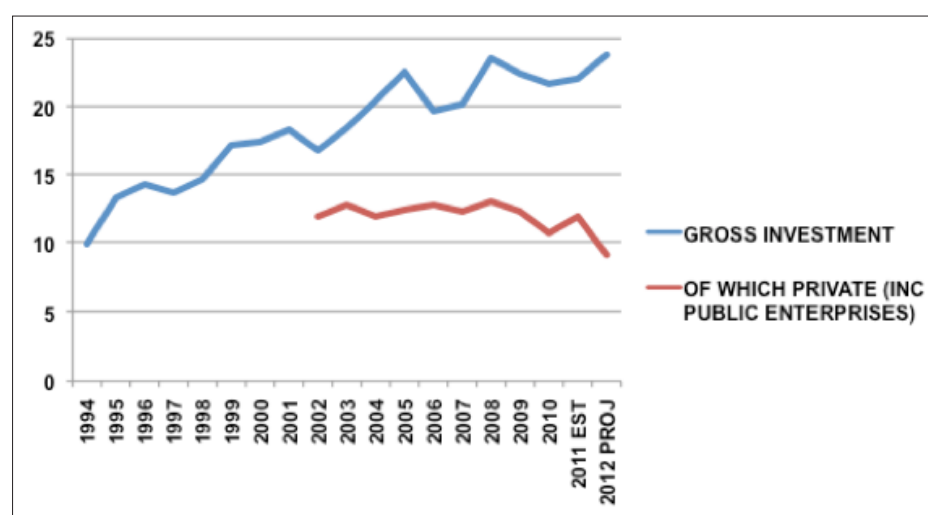


Figure 17: Growth of Off Farm Employment as % of Workforce<sup>25</sup>

Furthermore, the level of under-employment where people remain either in farming or unpaid non-farm sectors has generally remained static over the past six years between the last EICV2 survey and the most recent survey, EICV3.

#### ...and levels of private investment remain low...

Between 2000 and 2011, gross capital formation, which determines the capacity of the economy to expand output in the future, was reasonably high by SSA standards, reaching around 24 per cent of GDP in 2011. This is shown in Figure 18. In Africa, however, there is now strong evidence that it is private investment which determines growth, and that the correlation with public investment is low<sup>26</sup>. Worryingly, private growth capital formation has been declining from an average of around 12.5 per cent between 2001 and 2011 to a projected less than 10 per cent of GDP for 2012<sup>27</sup>. This is lower than the SSA average for 2011 (12.9 per cent) and significantly lower than the 2010 average for lower middle income countries (18.6 per cent).

Figure 18: Investment (Gross and Private as Percentage of GDP)<sup>28</sup>

FDI inflows in the meantime have surged from \$81 million in 2007 to \$161 million by 2009 and \$231 million in 2012 as shown in Figure 19. This has been driven by investments in a few larger projects<sup>29</sup>. FDI therefore made up 3.8 per cent of GDP in 2011, still below the level associated with sustained growth spurts.

<sup>25</sup> EICV3, as reported by NISR

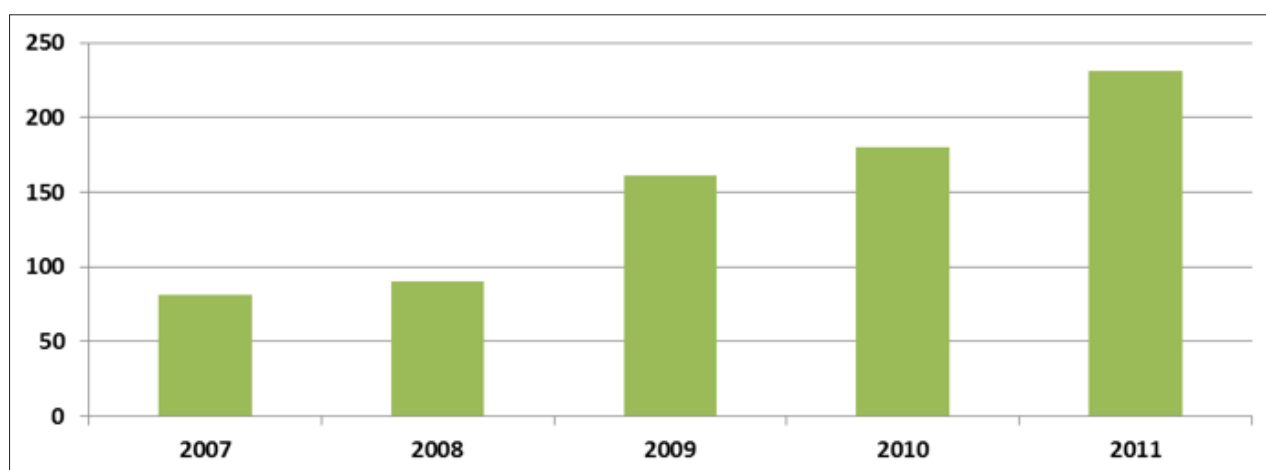
<sup>26</sup> Shantayanan Devarajan, W. R. Easterly and H. Pack (2001) "Is Investment in Africa too Low or too High?"

<sup>27</sup> Based on latest IMF data is a projection at this stage for 2012

<sup>28</sup> BNR, investment as a per cent share of GDP

<sup>29</sup> IMF Article IV Report, 2012



Figure 19: FDI inflows to Rwanda in USD millions: 2007-2011<sup>30</sup>

Despite these levels of investment over the past decade, it has had a limited impact on the structure of the economy, which has not yet been able to undergo the rapid period of structural transformation that characterised some of the most dynamic South East Asian economic. Structural change – the shift of capital and labour from low productivity sectors to high productivity sectors – would allow the country to diversify from its traditional sources of growth and enter a new path of higher and more sustained, inclusive growth.

In order to effect such a change there is need to ensure that private gross fixed capital formation increases significantly in Rwanda.

An enabler of private gross fixed capital formation is credit provided by the domestic financial sector to the private sector. In fact, countries that have high growth (over 8 per cent per annum) have tended to have private credit to GDP ratio of between 17-20 per cent of GDP, whilst low growth countries (2 per cent per annum or less) have had a ratio closer to 10 per cent. In Rwanda this figure has fallen from 12 per cent in 2009 to less than 10 per cent by the end of 2011.

There are a number of reasons why the private credit to GDP ratio is low in Rwanda. Firstly, returns to investment are low. This in turn, may be because business costs other than the cost of labour and capital are high. These include the high cost and unreliable supply of infrastructure services, particularly transportation and energy, as well as opportunity costs due to logistics bottlenecks, such as delays of shipments and trading costs at the border. Secondly, access to finance, although significantly improved in recent years are limited and costs are high for certain categories of borrowers, such as rural and small entrepreneurs. The net impact of these nonfactor costs on a business is either reduced sales revenue - and hence reduced profitability and productivity or higher total costs of production.

Table 2: Commercial bank credit in Rwanda by sector<sup>31</sup>

	2009	2010	Q1	Q2	Q3	Q4	Total
AGRICULTURE, ANIMAL, HUSBANDRY & FISHING	3.7	5.1	3.8	2.0	4.2	1.9	11.9
MINING INDUSTRIES	0.1	0.1	0.0	0.0	0.0	0.0	0.0
MANUFACTURING INDUSTRIES	20.1	26.8	2.5	7.8	3.4	5.0	18.7
ENERGY AND WATER	3.2	1.4	0.0	0.1	0.0	0.4	0.6
PUBLIC WORKS AND BUILDING & INDUSTRY	36.7	45.1	14.5	20.7	26.7	21.4	83.1
COMMERCE, RESTAURANT & HOTELS	73.0	111.8	20.8	29.5	35.5	37.6	123.4
TRANSPORT, WAREHOUSING & COMMUNICATIONS	31.9	22.7	2.6	3.2	7.6	4.7	18.2
O.I.F.I INSUARANCES AND OTHER NON FINANCIAL SERVICES	7.5	8.5	7.0	1.3	8.2	2.7	19.2
SERVICES PROVIDED TO THE COMMUNITY	4.7	9.8	1.6	2.2	1.3	4.5	9.6
ACTIVITIES NOT CLASSIFIED ELSEWHERE	17.6	30.9	8.3	10.1	14.7	18.4	51.5
TOTAL	198.4	262	60.9	76.9	101.4	96.6	336

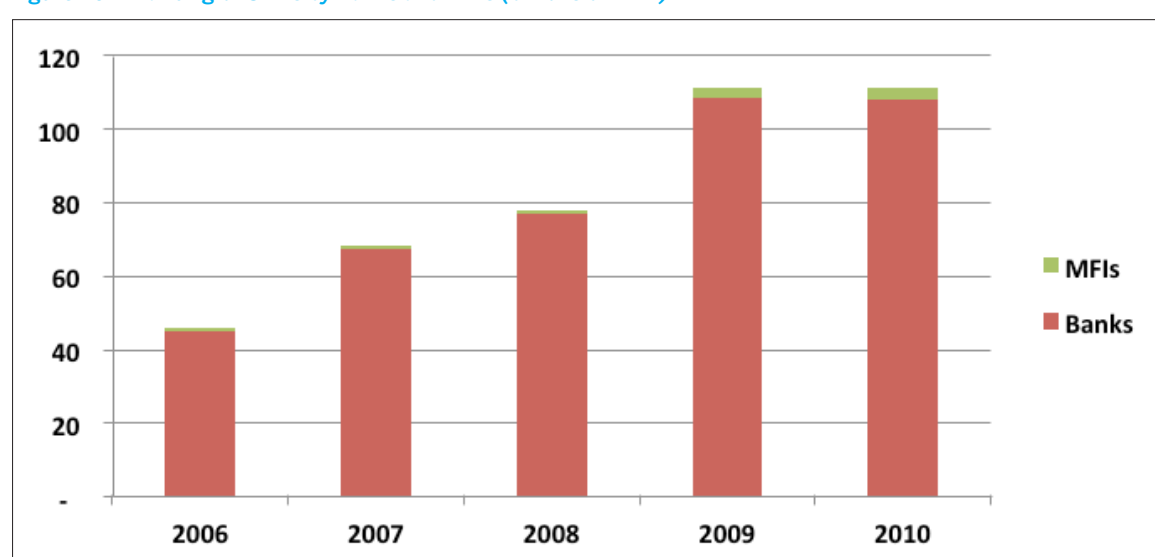
<sup>30</sup> RDB figures  
<sup>31</sup> BNR, 2011 data

In terms of overall financing, much of the credit has been concentrated on commerce, restaurants and hotels as well as infrastructure. Thus most of the credit provided by the banking sector has been focused on construction – particularly domestic as well as retail facilities. Relatively little credit has been provided to the productive sectors of agriculture (3.5 per cent of total credit in 2011) and manufacturing industries (5.6 per cent). This is shown in Table 2.

Both banks and micro-finance institutions (MFIs) played a key role in financing all segments of the economy, but in particular in terms of financing the SMEs sector. Since 2005, there has been significant foreign bank entry. As of the end of 2011, the banking sector consisted of thirteen commercial banks (including four microfinance banks), 497 microfinance institutions (including 486 SACCOs) and a number of specialised financial institutions (including eight insurance companies).<sup>32</sup> The commercial banks accounted for over 60 per cent of the assets of the financial sector. Both banks and MFIs have recorded an upward trend in financing available for SMEs (in nominal terms) for the past five years from 2006 to 2010 as seen in Figure 20.

The banking sector is the key to finance mobilisation and reallocation to the private sector - commercial banks control around 90 per cent and 78 per cent respectively of the total sector deposits and gross loans<sup>33</sup>. According to the Central Bank 88 per cent of deposits financed credit to private sector in 2011.

Figure 20: Financing of SMEs by Banks and MFIs (billions of RWF)<sup>34</sup>



Thus future growth in credit to the private sector will ultimately be dependent on the growth of savings. It is here where Rwanda faces weaknesses – gross domestic savings in Rwanda is only 3.8 per cent of GDP (2010/11) in comparison to 12.3 per cent in Kenya and 19.5 per cent in Tanzania for the same period<sup>35</sup>. The private savings rate is imbedded in these figures are lower than the gross rate. However, a rapid increase in the private savings rate to increase investment into the private sector would require an initial slowdown in the growth of personal consumption and could in the short-term have a negative impact on GDP growth.

Despite this situation there is potential for increasing longer-term financing through the rising demand for long-term assets from insurance companies and pension funds. Both sectors are dominated by the Rwanda Social Security Board (RSSB) after the merger of two social security schemes formerly administered by Rwanda Medical Insurance (RAMA) and Social Security Fund of Rwanda (SSFR).

There were at the beginning of 2011, eight insurance companies operating in the sector with total assets estimated at RWF 118 billion, whilst over 40 pension funds were operating with assets over RWF 142 billion<sup>36</sup>. This potentially provides opportunities for longer-term placements in the banking sector, and thereby further increasing the liquidity in the banking sector.

## 2.2 Key sectors in the Rwandan economy

Rwanda is steadily enhancing its position in international trade with sustained growth of exports in both the traditional sectors (such as tea, coffee, and minerals) as well as new emerging sectors. Non-traditional exports have risen faster than total exports, driven by both services and light manufactured goods which are permitting Rwanda into new

<sup>32</sup> Rwanda: Financial Sector Development Programme II, October 2012.

<sup>33</sup> Ibid.

<sup>34</sup> BNR (2012) Monetary Policy and Financial Stability Statement

<sup>35</sup> IMF Article IVs for each country, 2012

<sup>36</sup> IMF Rwanda: Financial System Stability Assessment, 2011

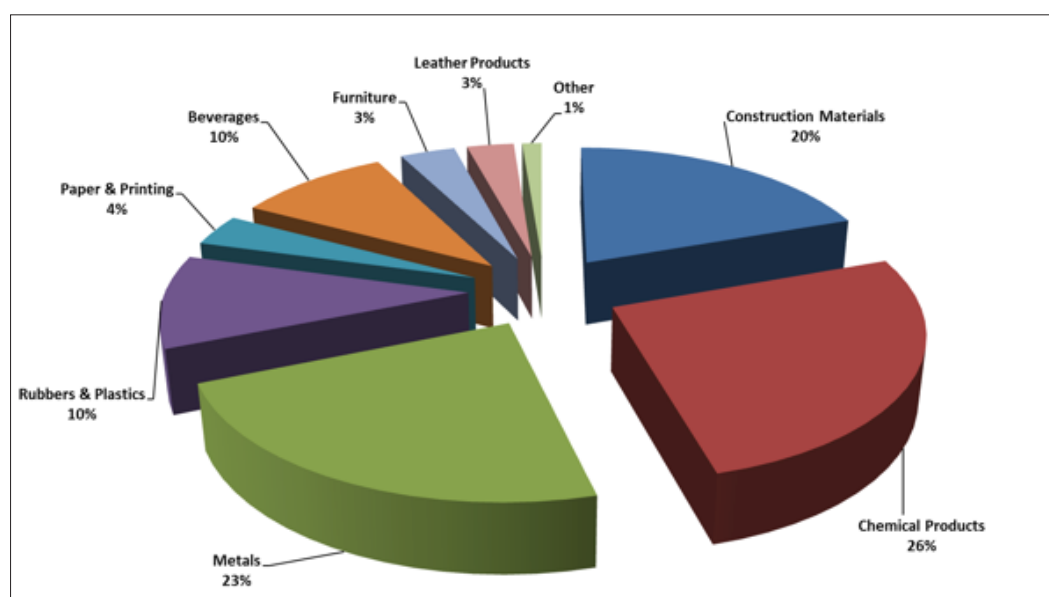
product markets, particularly in the DRC and in East African Community (EAC) countries. Furthermore, domestic demand is increasing, driven by construction and services sectors. This has led to increased economic activity across all sectors and has had a large positive impact on new business formation.

The following provides a basic assessment of the impact of key sectors on growth and job creation.

### *The Manufacturing Sector*

The manufacturing sector has been one of the key drivers of GDP growth in the past two years, leading to an impressive set of figures generated - nominal industrial output rose by 27.4 per cent in 2011 compared to 2010 (which also saw growth of 14 per cent from the previous year). This growth was driven by a rapid increase in output rather than prices, which has seen real industrial output growth of 17.6 per cent in 2011, a 9.2 percentage point increase on 2010 (which saw a robust growth of 8.4 per cent)<sup>37</sup>. Figure 21 represents the proportion of revenue generated by each of the key sub-sectors within the manufacturing sector.

*Figure 21: Revenue contribution of manufacturing sub-sectors in 2011<sup>38</sup>*



With revenues rising through increases in output, there has been a steady increase in capacity utilisation. Based on industrial survey samples carried out by MINICOM in September 2011, manufacturing firms operated at an average of 54 per cent capacity utilisation. The most efficient industries in terms of capacity utilisation include rubber & plastics (90 per cent), whilst at the other end of the spectrum the chemical product industry was estimated to be operating at a capacity of 39 per cent.

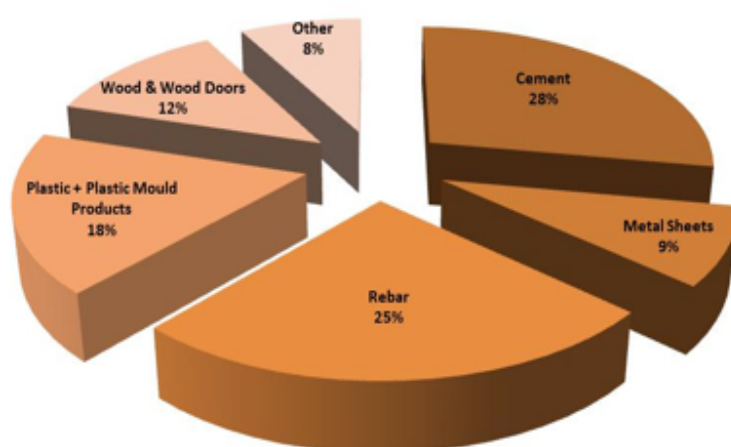
Prices for manufactured goods targeted at the local market have risen steadily since 2009, and rose by 6.1 per cent annually by the end of 2011. Exports have also seen rapid growth - the hides and skins industry doubled exports to \$7.6 million by the end of 2011 from the previous year, whilst chemical products (including soaps & cosmetics) also doubled to \$6 million during the same period.

The construction material sector is the largest manufacturing sector in Rwanda generating US\$700 million (IGC, 2012) with over 65 firms registered and active in the sector in Rwanda by 2011 compared to just two in 2006. Thus it has become one of the fastest growing sectors in terms of new firm creation. Overall the ten largest companies employ over 1,500 full time staff.

The largest and most successful manufacturers of building materials tend to be sizeable regional industry groups that are able to exploit advantages in:

- Access to capital and equipment (e.g. decreased reliance on commercial banks)
- Expatriate (experienced) management and technicians
- Capacity for minimising time and costs associated with the procurement of raw material and inputs as production demands require

<sup>37</sup> Ministry of Trade and Industry (2012) "Rwanda Industrial Bulletin – 2011 Report".  
<sup>38</sup> Ministry of Finance

**Breakdown of Exports - 2011 (in Value Terms)**

In terms of local players, the largest cement producer has current installed capacity of 100,000 tonnes per year but has ambitious plans to increase capacity to 600,000 tonnes per annum by 2016, depending on availability of power. Similar plans are also being considered by a Joint Kenyan company which aims to treble production to 60,000 tonnes by 2013.

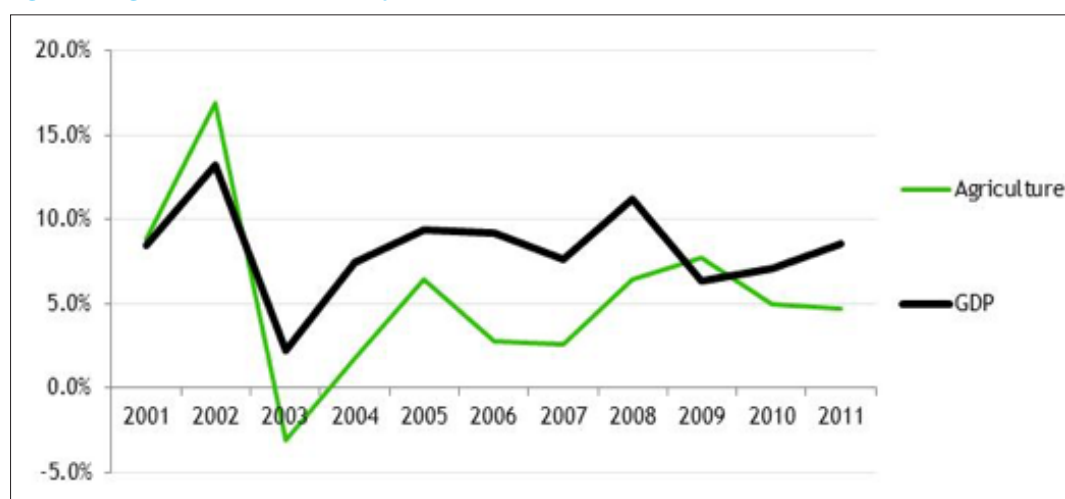
This rapid increase in capacity to meet growing market demand means that present reserves of limestone are sufficient for only the next 12-14 years of production. A new source of limestone has to be found to secure local production of cement and competitiveness. In comparison, other cement plants in Kenya and Tanzania have limestone reserves in excess of 25-30 years (RDB, 2012).

### The Agro-processing Sector

Despite efforts to diversify the economy, Rwanda remains an economy heavily dependent on agriculture in terms of employment opportunities and export revenues – tea and coffee alone comprise around 50 per cent of formal exports. Despite this the agricultural sector in Rwanda is mainly subsistence with over 85 per cent of output being targeted for food crops. Over the past three years the rate of growth of agriculture has been below that of increases in real GDP (see Figure 22 below).

Agricultural crop production in Rwanda can be grouped in three categories: food crops (legumes, cereals, roots and tubers, bananas), the traditional cash crops (coffee, tea, pyrethrum), and the new cash or export crops (fruits and vegetables, flowers, spices etc.). Food crops occupy by far the largest share of the cultivated land.

Figure 22: Agricultural Growth in comparison to GDP Growth<sup>39</sup>



Agricultural landholdings are very small with more than 60 per cent of households cultivating less than 0.7 ha. whilst 50 per cent are cultivating on less than 0.5 ha.<sup>40</sup> This constraint is aggravated by the fact that most farms have multiple, scattered plots. Furthermore, it is estimated that about 40 per cent (800,000 ha.) of Rwanda's land as having a very high erosion risk<sup>41</sup>, 37 per cent requires soil retention measures before cultivation, and only 23 per cent of the cultivated land is more or less free from risk of erosion<sup>42</sup>.

These issues are also compounded by the challenges of lower utilisation of farm inputs, partly necessitated by the

<sup>39</sup> NAEB, 2012

<sup>40</sup> MINAGRI, *Agricultural Sector Performance Report, 2010*

<sup>41</sup> *Land Use and Agriculture, REMA, 2008*

<sup>42</sup> *Ibid*

terrain of the country; lack of irrigation schemes which results in only 0.6 per cent of the land under irrigation<sup>43</sup>; and an inability of local farmers to access loans from banks and other financial institutions.

Despite these difficulties, an emerging large-scale agro-processing sector is beginning to evolve in Rwanda. This has primarily been driven by a number of significant regional players that have invested in multi-million dollar processing facilities in the country to exploit both trade to Rwanda's poorer neighbours, the eastern DRC and Burundi, as well as the domestic market. The flour milling industry has developed from a very small sector to one which averages turnover of over US\$ 50 million driven by two firms from Tanzania and Kenya<sup>44</sup>, in part to overcome the relatively high tax on flour imports and opportunities to supply the large conurbations in neighbouring DRC.

In terms of agricultural exports, coffee and tea still dominate. Currently an estimated 500,000 rural families are engaged in coffee growing and over 60,000 in tea growing. Prices for both commodities have been increasing upward, for instance the gradual movement to more fully washed coffee (including fine and specialty coffees) has led to a substantial price premium for Rwandan coffee producers, with the consequence of marked increases in coffee export earnings.

Tea constitutes the second largest traditional export crop. As with the coffee industry, privatisation of tea estates has led to increases in prices obtained, and movement to higher value added niches including Fair-Trade certification and higher quality processing. The key issue affecting the sector is pricing mechanism for green leaf which is impacting on planted and harvested tea areas due to the prices received by farmers as well as the wages obtained by pluckers leading to shortages of pluckers, longer plucking rounds, and hence lower leaf quality.

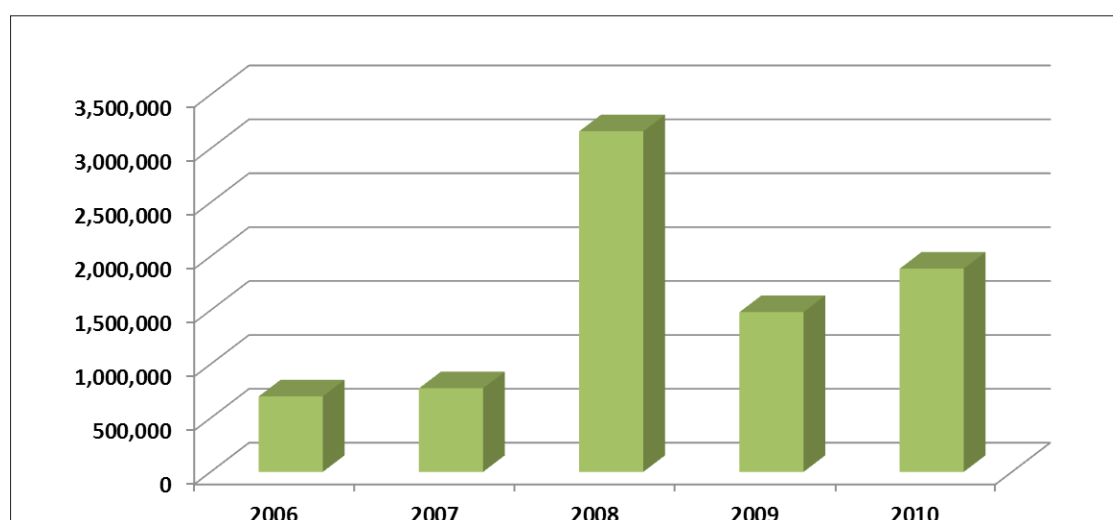
The other important traditional export crop is pyrethrum. Approximately 25,000 farmers cultivate pyrethrum on around 3,200 ha concentrated within a small radius around the country's single pyrethrum processing plant located outside Musanze. Despite rehabilitation of the factory and a move to refined pyrethrum, it represents relatively modest export revenues, less than US\$ 3 million per annum.<sup>45</sup>

Although considerable focus has been placed on non-traditional exports there is potential (after recognising natural constraints) to improve export revenues from moving to higher value added products from the traditional export sectors. For example, fully washed coffee is increasing in volume (12 per cent of the total coffee crop was fully washed by the end of 2010) and has a significant premium over existing semi washed.

In 2010-11 Rwandan fully washed coffee sold at a premium of US 30-35 cents per pound over the benchmark market rate (New York Futures) while semi washed Rwandan coffee sold at a 19-22 cents discount<sup>46</sup>.

For non-traditional export sectors, considerable emphasis has been placed on horticulture. Horticultural products exported in raw form accounted for RWF 1.9 billion in revenues in 2010 (\$3 million). A significant part of this export trade is targeting other EAC Member States and neighbouring countries including the DRC. However, a large part of this trade is informal and is not adequately captured by export statistics.

Figure 23: Value of Rwandan horticulture exports (USD): 2006-2010<sup>47</sup>



43 Rwanda Agriculture Sector Situational Analysis, IPAR, 2009

44 Understanding Rwanda's Agribusiness and Manufacturing Sectors, S. Gathani, and Stoelinga, D. (2012)

45 Briefing to Primer Minister Office on Key Trade Growth Sectors in next 3-5 years. MINICOM, undated.

46 Technoserve, 2011

47 NAEB (2011)

In other sectors there is a potential for Rwandan agro-processors to re-capture the domestic market. For instance Rwanda is a net importer of sugar – forcing it to rely on special duty free waivers to import sugar from outside of the EAC. The current local consumption of 55,000 metric tonnes per year is estimated to reach 150,000 tonnes by 2020 based on economic development and population increase.<sup>48</sup>

From its current production of 15,000 tonnes per annum, the sole sugar processor, Kabuye Sugar Works, has set up an ambitious program to expand processed sugar to 25,000 tonnes per annum by integrating 3,500 ha. of smallholder producers land (through an out-grower scheme) and doubling the capacity of factory by 2014.<sup>49</sup> Other investors are interested in expanding sugar processing but are currently constrained by access to suitable land.

The desire to access higher-value added markets has been constrained by a lack of certification and well-established traceability systems, which has meant that beside a very few niche products (pyrethrum, as well as various essential oil extracts) Rwandan horticultural products remains firmly geared towards the regional market and are often made up of informal exports.

### The Tourism Sector

Rwanda's tourism industry is one of the largest earners of foreign revenue for the country. Over the past decade around 20 per cent of FDI went into the hotels and leisure sector, whilst 16 per cent total local private investment also went to the sector (MINICOM, 2010). It was estimated that that tourism industry directly employed over 34,000 people by 2010<sup>50</sup>, whereas the direct and indirect employment from the sector accounted for around 74,300 jobs, or 4 per cent of total employment.

The tourism sector has seen a steady rise in visitor numbers year on year with total arrival numbers in 2010 estimated to be over 660,000. Of this number, non-African markets (US, Europe and Asia) accounted for 18 per cent of all visitors, and were estimated to raise total tourist revenues to US\$ 200 million in 2010.

However, statistical information on the tourism sector is weak with the collection of arrival statistics from the entry points only beginning in January 2008. Furthermore, there remains issues about the weights applied to estimate tourist revenues.

Figure 24: Visitor revenues by purpose of visit<sup>51</sup>

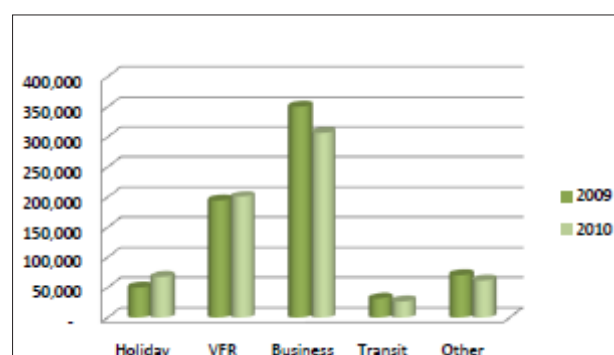
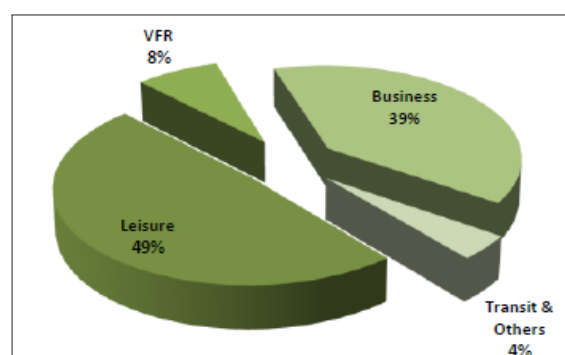


Figure 25: Visitor arrivals by purpose<sup>52</sup>



One of the acknowledged key constraints to continuing growth of Rwanda's tourism industry is the lack of diversity of the tourism product - around 90 per cent of the industry's earnings are driven by gorilla tours. At present, the majority of high-value international visitors to Rwanda spend no more than three nights on average in the country, leaving little time to visit out-of-the way places or attractions that are not already included in their tour operator's itinerary. It is thus not surprising that foreign tourists dominate national park visitor numbers and also accounting for around 70 per cent of revenues generated.

Over the past few years considerable effort has been placed on diversifying the industry to include a wide range of other products. This diversification has included the strengthening of Meetings, Incentives, Conferences and Exhibitions (MICE) tourism, as well as attempts to develop and market a range of cultural and community tourism products. Significant resources have been used to expand this growing sector, especially with the construction of the Kigali Convention Centre. Complementary investments in higher quality hotel rooms are being currently developed to improve the MICE experience.

Rwanda still has limited air routes from the main high end tourism markets of North America, Europe and Asia, which the country is keen to exploit. However, the country's growth targets for the sector require new routes to develop.

<sup>48</sup> Report on key sector initiatives & opportunities. MINICOM, June 2012.

<sup>49</sup> Ibid.

<sup>50</sup> RDB Tourism Skills Development Report, 2012

<sup>51</sup> RDB "Highlights of Tourist Arrivals in Rwanda – 2010"

<sup>52</sup> Ibid.



A number of challenges are still to be met including the fact that the majority of hotels, including some new ones are poorly maintained and suffer from a number of construction and operational challenges. Furthermore, the tourism master plan for Rwanda highlighted the fact that only around 23 per cent of the reported available rooms stock is considered to be of acceptable international standard with most of these based around Kigali.

In comparison with other regional destinations, airfares to Rwanda are expensive, whilst accurate basic market intelligence such as up-to-date database of tour operators who feature Rwanda in their programmes is lacking making targeted marketing difficult.

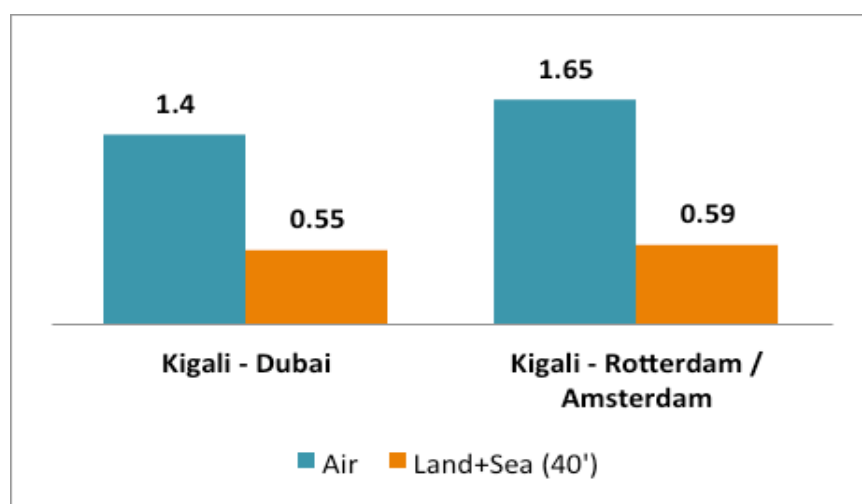
### Service Sectors

Rwanda faces a number of challenges in terms of logistics costs and time as a consequence of its relatively poor supply chains.<sup>53</sup> The main Northern and Central corridor gateways are affected by long processing times at the port due to inefficiencies in terminal handling procedures, difficult and time consuming customs transit transport requirements, and poor truck access.

In addition trucking rates (the dominant form of cargo transport) are high in comparison to regional averages. This is partly due to the fact that on the return trip trucks are frequently faced with empty backhauls due to trade imbalances (Rwanda imports exceed exports by a factor of 11 in terms of weight) and as a result the Rwanda haul is often required to bear the full cost burden of the round trip. Thus there is very little difference between the various corridors in terms of the high road transport costs that importers and exporters have to bear.

Similarly sea transportation is either through ports in Dar es Salaam or Mombasa which is over 1,500 kilometres away. Air transportation provides a faster and more secure route, but also one which is a lot more expensive - around three times more expensive than the land-sea routes (see Figure 26).

Figure 26: Air Cargo Rates vs. Land/Sea Freight Rates (US\$/kg)<sup>54</sup>



Despite these challenges a number of favourable factors both in relation to Rwanda's geography and neighbouring populations provide an opportunity to develop a regional services hub:

- A large regional market incorporating eastern DRC and Burundi – larger in size and scope providing a stronger base of high value goods to generate logistics demand.

Rwanda's current exposure to transit traffic (inbound and outbound movements) was estimated at

348,600 tons in 2009, a volume that is comprised of 49,800 tons for Burundi and 298,800 tons for (Eastern) DRC<sup>55</sup>;

- Rwanda is currently linked to world markets by a number of international supply routes including: all-road truck transport on the Northern Corridor with Mombasa Port as the ocean gateway and a Central Corridor with Dar es Salaam Port as the ocean gateway; as well as intermodal rail-road transport on the Northern Corridor with Kampala as the interchange point, as well as Kigali international airport. This potentially provides opportunities for exporting Rwandan logistics services to neighbouring countries in the extended market whose traffic (import and export) could be temporarily diverted to Rwanda for value added services and then re-exported to their final destinations. As seen in recent trade statistics re-exports are becoming increasingly an important export activity.
- A densely populated area which has the potential to promote efficient logistics in the supply chain. In relation to other countries in the EAC, Rwanda has the highest population density which means distances are short and activities are relatively concentrated, generating economies-of-scale for logistics operations; and

<sup>53</sup> Logistics and distribution services strategy for Rwanda, White Paper, July 2012. Rwanda Investment Climate Project II.

<sup>54</sup> Logistics and Distribution Services Strategy for Rwanda, MINICOM, 2012

<sup>55</sup> Ibid.

- One of the best business environments on the continent. This allows Rwanda to have a high level of freight security which provides a significant attraction for provision of value added services from logistics providers.

In order to achieve this goal, a number of complementary investments will have to be made, which are currently in the planning and / or construction phase: bonded warehouses located near the border and/or in proximity to SEZs or Industrial Parks; establishment of off-dock inland container depots at both gateways for the Northern and Central corridors; as well as advocacy at the EAC level to speed up corridor reforms on a wide range of issues from infrastructure to onerous procedures.

Other service sectors which could have potential include banking and finance. Although the Rwandan market has been perceived as too small to attract large multinational banks, the recent increase in bank profitability and increased stability of the sector has encouraged a number of regional banks, particularly from Kenya to enter the market.

In addition to this, central banks of the East African Community member states are working on a cross border payments system to facilitate payments and money transfers across their borders. This is known as the East Africa Cross Border Payments System (EAPS), which will involve the integration of the Real Time Gross Settlement System (RTGS) of the five member countries. Currently, only Kenya, Uganda, Tanzania and Rwanda have operational RTGS systems.

A number of niches potentially exist across the banking, insurance, and other financial services but Rwanda must either find niches that:

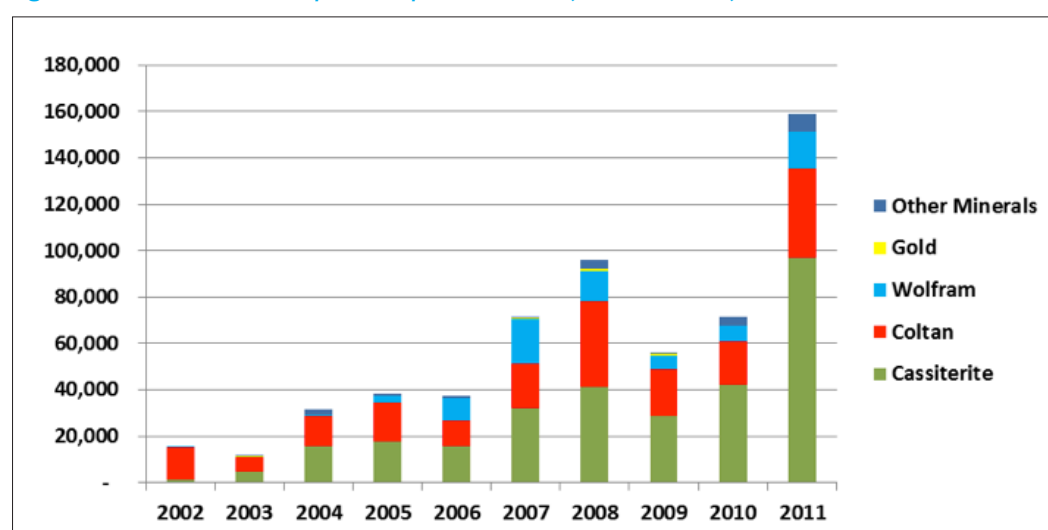
- Kenya has overlooked; or
- Kenya is not interested in pursuing; or
- Partner together with Kenyan financial institutions and other Anglophone nation (i.e. Uganda, Tanzania) institutions to offer similar services in EAC Francophone countries (i.e. Burundi, Democratic Republic of Congo and Rwanda) – possibly under licensing arrangements.

### The Mining Sector

The mining industry in Rwanda is in a state of transition, with recent privatisation of big concessions and a move from artisanal mining to a sustainable economic and competitive industry. As the largest export earner, it plays a significant role in the economy - it provides employment to over 35,000 people and earned over USD 150 million, 38 per cent of export revenue in 2011 as shown in Figure 27.

Mineral exports mainly consist of cassiterite (tin ore), wolframite (tungsten ore) and coltan (tantalum ore) with small amounts of gold and sapphires. In Rwanda, tin is sourced from the mineral cassiterite - regional exports contribute around 5 per cent of the world market. In terms of Wolfram, Rwanda and the Democratic Republic of Congo are the main African producers, accounting for 2 per cent of global production. The mining industry in Rwanda has seen large growth in the last decade due to privatisation and mining sector reform (regulations, cooperatives, organisational development), yet it is still a young industry. Recent growth of the mining sector has been driven by world market price increases for Rwanda's major export mineral – Cassiterite (see Figure 27).

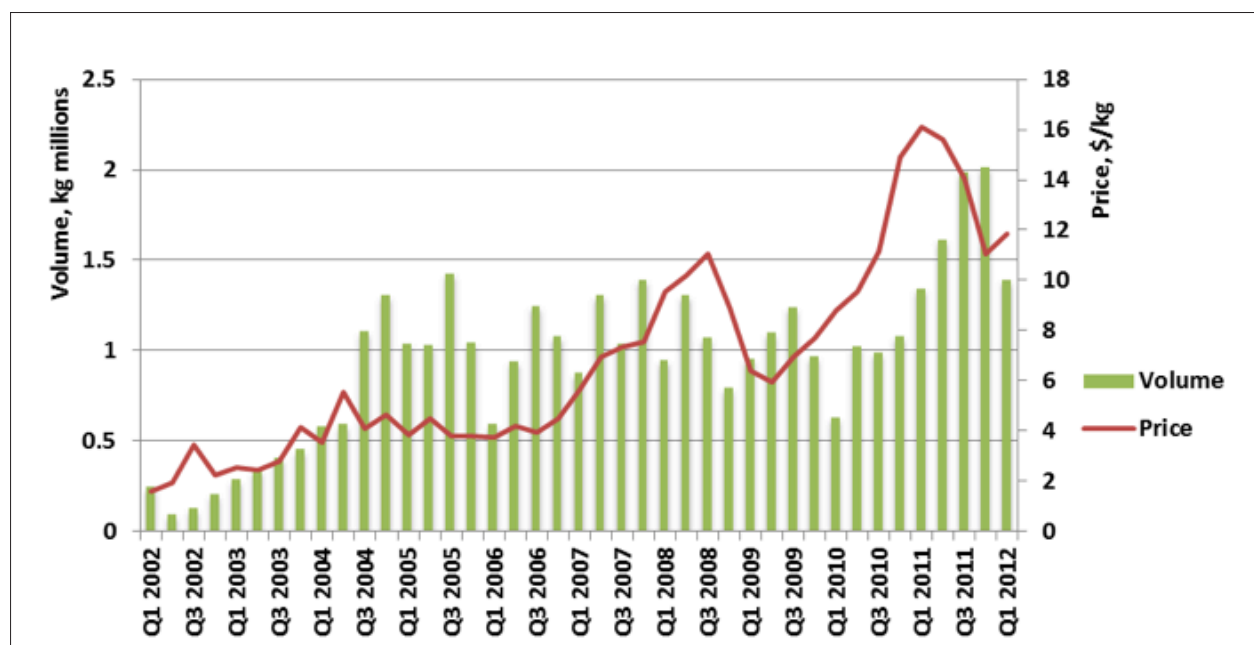
Figure 27: Rwandan mineral export receipts: 2002-2011 (USD thousands)<sup>56</sup>





Artisanal mining remains dominant in Rwanda, with few industrial and semi-industrial mining activities. There are few exploited reserves with sufficient production for industrial mining, though knowledge of reserve potential in the country is lacking. Rwanda is the second biggest producer of tin in Africa (after the DRC) and is among the world's top 10 tungsten producers<sup>57</sup>. In 2009, the EU imported 8.6 per cent of its tantalum from Rwanda and Rwandan tungsten was responsible for 2.4 per cent of total EU imports<sup>58</sup>.

Figure 28: Evolution of export volumes and price for cassiterite (2002-2012)<sup>59</sup>



Until recently, mining companies in Rwanda enjoyed a very favourable tax rate in an effort by the government to attract investment. With the increasing presence of industrial mining companies in the sector (as compared to prevalence of artisanal miners previously) and growing revenues, the government will begin to collect royalties once the new law on mining concessions becomes approved.

Companies entering into mining in Rwanda must first apply for a mining permit. Presently Rwanda has the policy of giving out two year permits for exploration, five year and thirty year concession permits to companies looking to exploit a mining area.

Virtually no mineral processing currently occurs in Rwanda, which results in lost opportunities for the sector. This is highlighted by the lack of processing of coltan, which is a mineral which consists of two oxides, niobium and tantalite. Currently Rwanda lacks the facilities to separate these two oxides.

The market dictates that exporters must choose what to supply the mineral as, niobium or tantalite. While niobium fetches around \$15 per pound, tantalite goes for up to \$130 (in 2011). Even though Rwandan coltan may consist of up to 45 per cent niobium, mineral traders sell the mineral as tantalite. Not only does Rwanda lose out on being able to sell niobium, but companies also have to transport half of the mineral with no financial reward.

### 2.3 The private sector in Rwanda

According to the Establishment Census of 2011 there are over 123,000 firms operating in Rwanda (see Table 3). Of these firms, only around 14,000 are registered with the Rwanda Revenue Agency (RRA) and of these only 40 per cent are registered for Value Added Tax (VAT) and just 11 per cent for income taxes. The Establishment Census therefore estimates that there are just over 13,000 formal firms, around one business per thousand people in the country.

Of the 123,000 firms operating in Rwanda, around 114,000 are micro by the definition of having between 1 and 3 employees, 8,000 are small (4-30), while only just over 500 firms are medium or large. Around 84 per cent of formal sector employment comes from SMEs, and a much higher proportion for informal sector employment.

<sup>57</sup> British Geological Survey (2011) *World Mineral Production 2005-2009*.

<sup>58</sup> Ramdoo, I. "Shopping for Raw Materials? Should Africa be worried about EU Raw Materials Initiative?" (2011), p. 22. ECDPM Discussion Paper no. 105.

<sup>59</sup> Ibid.

Table 3: Enterprises in Rwanda by numbers of employees and location of origin<sup>60</sup>

	Micro (1-3)	Small (4-30)	Medium (31-100)	Large (101+)
Rwandan firms	113,504	8,026	445	81
Foreign (EAC)	353	101	7	2
Foreign (Other)	401	252	26	14
Joint (Rwandan + EAC)	8	14	4	1
Joint (Rwandan + other)	48	98	19	9
<b>TOTAL</b>	<b>114,314</b>	<b>8,491</b>	<b>501</b>	<b>107</b>

A large number of MSMEs is engaged in lower productivity activities that lack the competitiveness to enter international markets and are mostly informal, but employ most of the workforce. On the other side there are the few large, primarily international and regionally (EAC) owned firms concentrated across a few sectors. The latter are the main drivers of economic growth but only employ a small percentage of the workforce.

In fact, the creation and emergence of larger firms has accelerated from 2006 onwards, driven by a number of factors including: i) significant capital investments to increase production capacity in existing firms – most notably in the manufacturing and agribusiness sectors; ii) the consolidation of some of the larger sectors of the economy, with large domestic groups such as Crystal Ventures and the Horizon Group, playing an increasingly important role; and iii) Rwanda's entry into the EAC in 2007, which led to a wave of new investments in the manufacturing and agribusiness sectors from large East African groups<sup>61</sup>.

Larger firms predominantly work in four broad sectors including manufacturing (accounting for 24 per cent of firms), agriculture, wholesale retail and trade (both accounting for 15 per cent of firms) and construction (11 per cent of firm). The main industries outside of Kigali are handicrafts, beverages and grain mill products. Coffee washing stations are widely spread across the country, while tea plantations are mainly in the North West and South West. The Kigali area is the predominant location for leather products, for chemicals industries and for textiles.

Although larger firms play an important role in terms of formal employment creation, their importance to Rwanda is their ability to transform the economy. Thus entry into the country from large Kenyan and Tanzanian groups has had a significant impact on key markets. For example, in the construction sub-sector, Safintra (roofing sheets) and Steelrwa (construction materials) became dominant players in the market and helped to develop the emergence of the sub-sector as one of the largest within the manufacturing sector.

Figure 29: Number of exporters by size<sup>62</sup>

<sup>60</sup> MINICOM and PSF (2011) Establishment Census. Analytical Report.

<sup>61</sup> "Understanding Rwanda's Agribusiness and Manufacturing Sectors" Sachin Gathani and Dimitri Stoelinga, International Growth Centre, 2012

<sup>62</sup> MINICOM 2012 Figures

Given the size of the Rwandan economy it is unsurprising that the number of exporters is narrow (around 850 firms export) despite recent growth in the number of exporters<sup>63</sup>. However, what is surprising to note is that 90 per cent of all exports in 2011 were derived from just 50 firms. This concentration is even starker if the levels of concentration are increased – thus around 65 per cent of all 2011 exports (excluding re-exports) came from 19 firms, whilst 8 firms accounted for 45 per cent of all export revenues. The largest exporters (US\$10 million+) are focused on traditional exports (coffee, tea, and minerals) as well as construction, whilst firms in the US\$5–10 million are generally focused on the agro-processing and light manufacturing sectors.

In the short-term, large firms are likely to spearhead growth – they are able to get to scale quickly, unencumbered by access to finance or market issues faced by smaller firms. Furthermore, larger firms, particularly those owned by regional groups, have been able to benefit from better access to raw materials through their subsidiary firms – in the case of Bakhresa they were able to use their subsidiaries in Tanzania to import milling grade wheat. In addition to these factors, most of these firms are able to manage uncertainty and volatility caused by external shocks, especially in the start-up phases of their operations.

Thus with the current constraints that the Rwandan economy faces, particularly in the key manufacturing and agribusiness sectors, these larger firms are likely to out-perform smaller firms until Government's efforts to address binding constraints bear fruit. In addition the very recent emergence of domestic investment groups, with their highly diversified portfolios of companies, they have yet to develop the types of economies and synergies that similar groups elsewhere in the region have achieved. With increasing use of specialised external expertise within these groups considerable potential for growth remains.

63 MINICOM 2012 Figures

### 3. THE CONSTRAINTS TO INVESTMENT AND GROWTH

To identify the constraints that prevent Rwanda from achieving the ambitious targets set out in Vision 2020, this section borrows from the Growth Diagnostics framework developed at the Centre for International Development at Harvard University, which is used internationally as a best-practice diagnostic tool.<sup>64</sup>

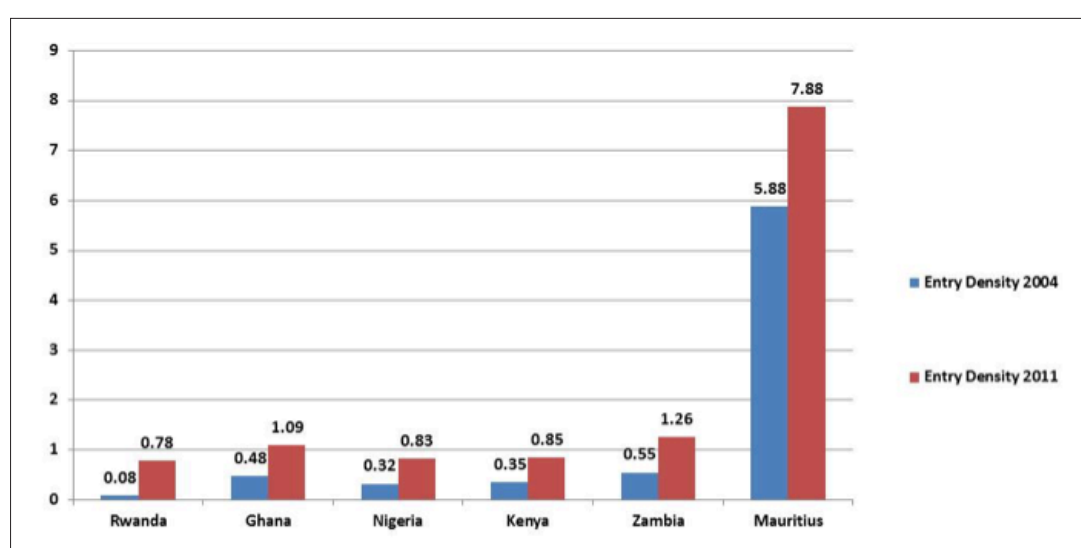
Therefore, this section assesses the binding constraints that explain the low levels of private investment in Rwanda and looks at the current efforts from the GoR in each of these areas. The findings of this section will then guide the PSD Strategy framework and programmes presented in section 4.

#### Binding constraint #1: Low level of entrepreneurship

Whatever the underlying business environment, for the private sector to flourish, there needs to be a pool of investors to seek and develop the opportunities available. This is the rate of entrepreneurship, and is the driving force for the private sector to create wealth.

The level and quality of entrepreneurship is low in Rwanda, as evidenced by a relatively small number of businesses. As presented in the previous section, the Establishment Census of 2011 estimated that there are over 123,000 firms operating in Rwanda, which is around one business per hundred people in Rwanda. A higher business density reflects high rates of formal entrepreneurship and hence lower barriers to formalising business activity. The more businesses form, the more likely that there will be new investment and contestation in markets to drive up efficiency and innovation, thus driving up productivity and growth.

Figure 30: World Bank Firm Entry Density (new firms per 1,000 of working age adults)<sup>65</sup>



Although business entry has increased significantly in Rwanda in recent years, comparable international evidence suggests that entry rates are still relatively low. Figure 30 shows that business entry in Rwanda is lower than regional comparators such as Kenya or Zambia, and much lower than a middle-income country such as Mauritius. While there were 0.78 new firms per 1,000 working age adults in Rwanda in 2011, there were 1.26 in Zambia and 7.88 in Mauritius.

Research by the IGC<sup>66</sup>, shows that SMEs are generally less productive than their larger counterparts. They are less likely to export, as shown in Table 4. While 46 per cent of large firms export, just 12 per cent of small firms do so. Further, the value added per worker of larger firms is three times as high as smaller firms, while employing double the capital stock.

<sup>64</sup> Ricardo Hausmann, Bailey Klinger, Rodrigo Wagner (2008) "Doing Growth Diagnostics in Practice: A 'Mindbook'". CID Working Paper No.177. Center for International Development at Harvard University.

<sup>65</sup> World Bank Entrepreneurial snapshots, 2010. Entry Density 2009 Data for Ghana is for 2008, and for Kenya is 2007.

<sup>66</sup> IGC (2012) "SME Policy Note"

Table 4: Comparison between SMEs and large firms in Rwanda<sup>67</sup>

	SMEs	Large	Difference
Exporter	12%	46%	34% pts
Investment	73%	73%	0% pts
Any foreign ownership	16%	38%	22% pts
Value added per worker (Median in USD)	1501	4369	191%
Capital stock per worker (Median in USD)	1396	2683	92%

Many MSMEs are run by relatively young entrepreneurs, with an average age of 34 according to 2006 data, who tend not to be very well educated - 80 per cent having at best completed primary school<sup>68</sup>. There is evidence that informal enterprises are less likely to invest in the enterprise itself and its workers, providing at most minimal formal training for their staff.

Despite this, micro and household enterprises in the informal sector employ over 70 per cent of the active labour force including youth<sup>69</sup>. These enterprises therefore form the backbone of the Rwandan economy.

In particular, they are the principle place for those moving from agriculture into the non-agricultural labour force, particularly given the limited number of jobs available in the formal economy. While it is desirable for these firms to formalise, in the short run this will not necessarily increase their productivity<sup>70</sup>, particularly if they are not ready to do so.

Research from IPAR<sup>71</sup> has found that entrepreneurs starting informal household enterprises usually do so due to the lack of alternatives, as well as a lack of access to land. For farmers, such activities act as a way of diversifying and reducing household risk. In addition, women are particularly likely to start-up due to having no alternatives, for example becoming hawkers when they no longer have a husband to support them and their children. Such enterprises can therefore act as a means of increasing incomes for the very poorest and even allow them to pay schools fees and keep children in school. Evidence in Rwanda suggests that household enterprises have reduced poverty in Rwanda.

<sup>72</sup>Current Government policy for SMEs

The Government of Rwanda is currently implementing the SME Development Policy, which aims to stimulate SME growth through enhanced business support service provision, access to finance and the creation of a conducive legal and institutional framework. However, Rwanda has not yet adopted a policy culture that completely recognises and rewards entrepreneurship. For example the micro and household enterprises in Rwanda in the informal sector face a difficult environment.

In urban areas, informal livelihood and household enterprises must confine their business activities to marketplaces designated by town master plans, for which they must pay charges to local authorities, and for which there is an under-supply<sup>73</sup>. IPAR has found that due to such zoning, household enterprises are often required to move to new locations away from where customers are to be found and that may have been poorly constructed<sup>74</sup>.

In fieldwork for IPAR research, informal traders were the most likely to say that their business was doing less well than in the past.

One of the reasons for this was being moved to less favourable locations<sup>75</sup>. In addition, the opening hours of markets has been raised as an issue – where in some urban locations they closed at about the time office workers would be leaving work, while in some rural locations they only opened for a couple of afternoons per week.<sup>76</sup>

In urban areas hawkers have a particularly difficult struggle to survive. This may be due to a number of constraints – including paying local taxes and market fees. In addition, many hawkers have complained about regulations preventing them selling their good on the sides of roads and the police confiscating their goods<sup>77</sup>, with fines resulting for non-compliance<sup>78</sup>. IPAR research found that women hawkers are more likely to be stopped by the police and it seemed to be more common in urban than rural areas.<sup>79</sup> Household enterprises operators have raised concerns about lack of representation and lack of consultation from Government.

<sup>67</sup> Ibid.

<sup>68</sup> FIAS (2006) *Sources of Informal Economic Activity in Rwanda*

<sup>69</sup> NISR (2011) *The third integrated household living conditions survey (EICV3): Main indicators report*.

<sup>70</sup> Suresh de Mel, David McKenzie, Christopher Woodruff (2011) "What is the Cost of Formality? Experimentally estimating the demand for formalization"

<sup>71</sup> Institute of Policy Analysis and Research-Rwanda (IPAR) (2010) *Re-evaluating the Role of the informal Sector: The Role of Household Enterprises in Poverty Reduction and Employment Creation in Rwanda*. Pamela Abbott and John Rwirahira.

<sup>72</sup> Cichello, P. and Sienaert, A. (2009). *Making Work Pay in Rwanda: Employment, Growth and Poverty Reduction*. Washington DC: The World Bank.

<sup>73</sup> World Bank (2011) *Rwanda Economic Update. Resilience in the face of economic adversity: policies for growth with a focus on household enterprises*.

<sup>74</sup> Institute of Policy Analysis and Research-Rwanda (IPAR) (2010) *Re-evaluating the Role of the informal Sector: The Role of Household Enterprises in Poverty Reduction and Employment Creation in Rwanda*. Pamela Abbott and John Rwirahira.

<sup>75</sup> Abbott, P (2010a). *Rwanda Country Study: Raising Productivity and Reducing the Risk of Household Enterprises. Fieldwork Report*. Kigali: IPAR-Rwanda.

<sup>76</sup> Ibid.

<sup>77</sup> Ibid.

<sup>78</sup> World Bank (2011) *Rwanda Economic Update. Resilience in the face of economic adversity: policies for growth with a focus on household enterprises*.

<sup>79</sup> Ibid.

A key GoR programme to support entrepreneurship is the “Hanga Umurimo” business plan competition. The programme has targeted the creation of 1,500 enterprises by the end of 2012. Run through MINICOM, the programme solicited 16,000 business ideas by the end of October 2012 and managed to link 475 business-plan “winners” to financing institutions. Of these, around 44 plans were able to obtain bank financing so far. It is estimated by Government that this scheme created 1,200 new jobs<sup>80</sup>.

Although the aim of Hanga Umurimo is to start small and expand rapidly, there remains a substantial challenge to reach the levels of growth in entrepreneurship and associated new job formation expected in the Vision 2020 document. Strong support and wide press coverage through the business plan competition should give Rwandans a better understanding (and raised the profile) of entrepreneurship. However, by itself it will not deliver the rates of business formation that the country needs. To achieve this, it is important to create an enabling environment for micro informal sector enterprises.

In addition to starting businesses, entrepreneurs need business development services (BDS) to develop and expand their businesses. Unfortunately, the market for the provision of BDS in Rwanda is underdeveloped, with the few firms and individuals involved consistently recorded as providing very low quality services<sup>81</sup> and only a handful providing high quality (and expensive) services. In order to improve this, the Private Sector Federation (PSF), with support from the European Commission, helped to set up BDS centres in each district. However, most were providing relatively subsidised services – primarily company health checks, with variable quality. This resulted in difficulties in establishing more financially sustainable fee-paying models.

RDB is now also providing BDS services through a partnership with four private sector providers to run BDS centres. The main challenge that they face is that most SMEs confine BDS usage to operational service (e.g. accounting or legal services) because of the cost and scepticism over the efficacy of strategic services (e.g. preparation of business development plans). Thus there is currently limited demand for their services. This in turn impacts on the ability of these private BDS centres to recruit and retain high quality staff which ultimately impacts on their ability to provide high quality and value added services.

There is need for the use of smarter BDS provision, as progressively attempted by RDB and BDF through schemes such as their Quasi equity scheme. This scheme is targeted at new high growth small and medium-sized companies by Rwandan standards (up to 7-8 employees) and includes embedded or linked BDS provision as part of the services provided. This can include fee-for-service, such as product design or quality improvement consulting, as well as services that are exchanged as a package such as obtaining commercial loans.

International evidence on the best practice in BDS shows that financial sustainability is a critical issue for all types of services<sup>82</sup>. However, it appears difficult to cover costs for non-financial BDS with customer fees. Interventions supporting supplier and producer enterprises organised in clusters or value chains have been found to be more effective in terms of achieving a systemic impact on the stakeholders and actors involved. Furthermore, training of labour and youths also shows positive results but only when skills are relevant and demand-oriented and labour market stakeholders are involved with effective providers<sup>83</sup>.

Thus for BDS to make a difference at the SME level in Rwanda, what is required is greater specificity at the individual sector level, providing more tailored sector / value chain specific solutions which can be provided through embedded services, such as the sale of agricultural seeds with private extension support, though to specific support on management and marketing through the adoption of cost effective private standards verification, such as fair trade certification in the traditional export markets of tea and coffee. This will require much greater capacity building efforts on BDS providers themselves.

## **Binding constraint #2: Low and variable levels of foreign direct investment (FDI)**

Rwanda has experienced a mixed picture for FDI in recent years. As shown in Figure 31<sup>84</sup>, FDI inflows climbed from \$81 million in 2007 to \$231 million in 2011. As in the case in many developing countries, actual FDI inflows are much lower than FDI registrations or pledges.

The data for the past decade shows that FDI in Rwanda is dominated by a very small number of very large investments. The top ten investment pledges from 2000 to 2009 made up 72 per cent of the total for the period.

This included the two entrants to the mobile telecoms industry - Tigo and Rwandatel; the KivuWatt gas project; as well as the Kigali Convention Centre. The past decade therefore can be summarised as being dominated by periodic large investments in either the telecommunications, energy or hotels & restaurants sectors.

<sup>80</sup> Estimates provided by MINICOM, although it is unclear what methodology was used to calculate job creation.

<sup>81</sup> Based on reports and discussions with PSF, 2012

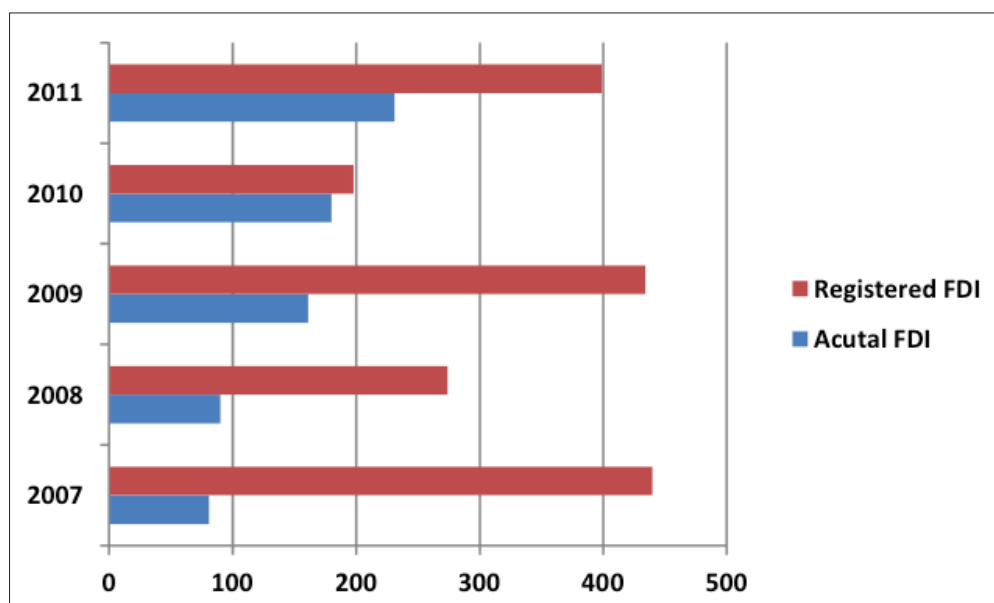
<sup>82</sup> DANIDA (2009) *Synthesis of Evaluations on Support to Business Development*. DANIDA's Evaluation Department, Study 2009/5.

<sup>83</sup> Ibid.

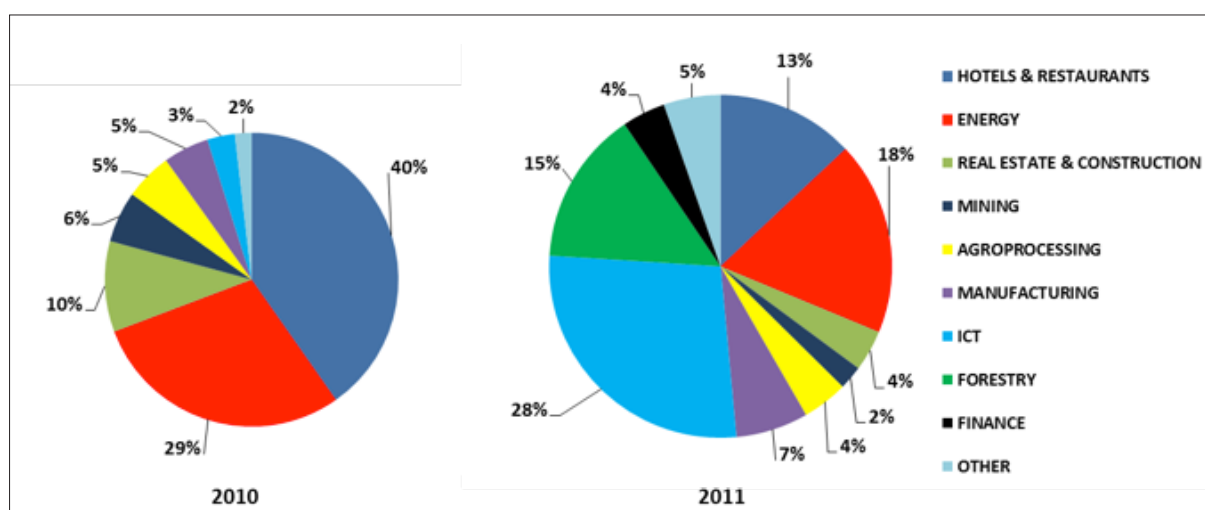
<sup>84</sup> RDB data and investment database for registered data



Figure 31: FDI inflows and registered FDI, Rwanda: 2007-2011



As shown in Figure 32, this picture has continued more recently. In 2010, FDI was dominated by a \$66 million pledge from Marriott Hotel, followed by a \$28 million pledge in the oil storage sector. In 2011, the largest sector for FDI pledges was ICT; this was due to a single \$100 million pledge from Airtel of India, becoming the fourth major entrant to the mobile telecoms market. This was followed by a \$73 million investment from DSI Energy Ltd of Denmark in the generation of 22MW of solar energy.

Figure 32: FDI pledge data into Rwanda by sector in 2010 and 2011<sup>85</sup>

It is unlikely that Rwanda will be able to achieve required targets for higher levels of FDI while continuing to rely on just a very few investments in the energy, telecoms and hotels & restaurants sectors. More investment in a wider range of sectors will be required, particularly in the manufacturing, agro-processing and finance sectors. Such a diversification in foreign investment flows will be particularly important for generating a higher number of jobs. As shown in Table 5, according to RDB FDI data, some sectors require less FDI to generate a job. Notably a job in financial services 'costs' just \$12,500 of FDI compared to over \$95,000 in mining, over \$216,000 in hotels & restaurants, and over \$638,000 in ICT.

85 RDB Registered Investments data.

Table 5: FDI per job created in different sectors for 2010 and 2011 FDI pledges to Rwanda<sup>86</sup>

Sector	FDI (USD) per job created
Financial Services	\$12,506
Agro-processing	\$16,220
Manufacturing	\$30,020
Other	\$31,264
Energy	\$55,170
Real estate & construction	\$57,305
Agriculture, fisheries & forestry	\$76,413
Mining	\$95,109
Hotels & Restaurants	\$216,971
Information and communications technology (ICT)	\$638,772

### Current Government approach to attracting FDI

Until recently, RDB has adopted a generic approach to investment promotion, which has primarily taken the form of attending international fairs, and awaiting leads to come through. However, over the past 6 months they have Promotional materials suggest Rwanda is structuring its offer to investors around a few major investment areas<sup>87</sup> – the international airport, railway and convention centre – as well as a number of key sectors – tourism, mining, finance, ICT and energy. RDB is also using the EAC Common Market, SEZs, and Rwanda's governance as selling points. In addition to attempted outreach, the RDB has a number of roles in relations to investors, these have been summarised around a few core areas of activity:

- Information hub for investors: single point of contact for guidance on laws, policies, incentives, investment climate and trends. Aim to signal investment opportunities including privatisation, processes and sector information.
- Linking investors to partners: advocating special incentives for large and strategic projects to Cabinet. Helping to find local joint venture partners and local service providers. Coordinating PPPs between government and investors.
- One Stop Centre (OSC) for starting a business. OSC for business registration with two steps and issuing certificates in six hours. OSC provides trading license, environment clearance and investment certificates. Delegated officers from government provide work permits and visas, tax exemption and tax payment, land and construction permit, utilities (water and electricity), and notary services.
- Facilitator for business implementation. Key Account Manager (KAM) as single point of contact once investors register. KAM assists in solutions for issues faced, coordination and introduction to stakeholders.

According to the recent UNCTAD survey on investors entering Rwanda, the current registration process itself is extremely good and comparable to the best available services in the developed world<sup>88</sup>. However perceptions are weaker following registration. Problems include “unclear decision making”, tax processes and enforcement, and constraints such as land and skills.

The UNCTAD research along with interviews with businesses suggests that investors feel alone when dealing with serious post-registration issues. The process of investor aftercare via KAMs has not therefore worked well so far – investors feel that once they are in the country and are operating, Government is no longer interested in their concerns. As a result RDB has recently set up the Public Private Dialogue (PPD) mechanism to escalate problems identified and bring together public agencies to find solutions and settle with arbitration if necessary.

The problem with this model is that it tends to only handle issues once they reach a high degree of severity for all concerned, and particularly for the private sector. Therefore by waiting until an issue becomes a serious issue it perpetuates the perception of the lack of interest by Government on investor aftercare.

<sup>86</sup> Calculated using RDB Registered Investments data.

<sup>87</sup> RDB (2012) Investing in Rwanda: An overview – presentation.

<sup>88</sup> UNCTAD (2012) A study of Foreign Investors' Perceptions of Rwanda



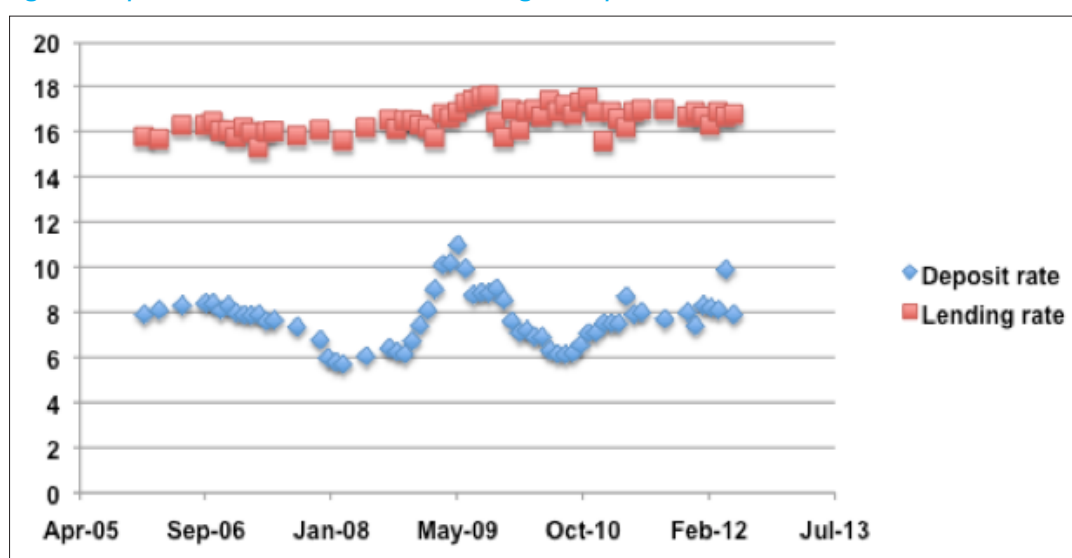
### Binding constraint #3: Access and cost of finance

According to many surveys undertaken of Rwandan businesses, the high cost of capital is rated as a significant constraint to business in the country. The amount of credit provided to the private sector is a vital indicator for any country and the ratio of private credit to GDP has been shown to be a causal factor for growth and poverty reduction. Currently credit is just 12 per cent of GDP in Rwanda<sup>89</sup>.

There is evidence that cost of finance is high. With single digit inflation, real interest rates are above 16 per cent, amongst the highest in the region<sup>90</sup> – real interest rates in Kenya are 2.7 per cent whilst in Tanzania they are 5.9 per cent. Only Uganda in the EAC has real interest rates that are comparable at 16.2 per cent. At such a high cost of finance, all but the most attractive or short term investment opportunity will be foregone by investors. Longer term investment in plant and equipment and buildings that are the cornerstone of capital formation will not take place. If an investment has a gestation period of 3-4 years, as is common with longer term investments in agro-processing and light manufacturing, the sum borrowed is likely to double in value before an investor starts to repay the loan.

In addition, the entry of new banks, primarily from the East African region into Rwanda appears to have done little to improve the efficiency of the banking system. The gap between what the banks pay their depositors to raise and what they charge borrowers on average is high at 9 per cent shown in Figure 33.

Figure 33: Spread between commercial bank lending and deposit rate: 2005 to 2012<sup>91</sup>



In 2008 and 2009 banks restructured their portfolios by writing-off bad loans. Banking assets doubled to RWF 1.1 billion between 2006 and 2010, accompanied by a decline in nonperforming loans (NPLs) from 26 to less than 6 per cent today<sup>92</sup>. Banks remain well-capitalised but have relatively low earnings compared to the region. Rwanda makes up only 3.3 per cent of EAC bank assets. Financial depth is low – the credit to GDP ratio stands at about 12 per cent, below the average of the EAC.<sup>93</sup>

Given the proportion of non-performing loans that were on Rwandan banks portfolios, it is unsurprising that collateral requirements have increased significantly. However they current stand at some of the highest in the region and amongst low income countries at over 275 per cent of the average loan value.<sup>94</sup> This makes it even harder for emerging SMEs to obtain investment capital to expand and grow their operations.

<sup>89</sup> IMF Rwanda: Financial System Stability Assessment, August 2011

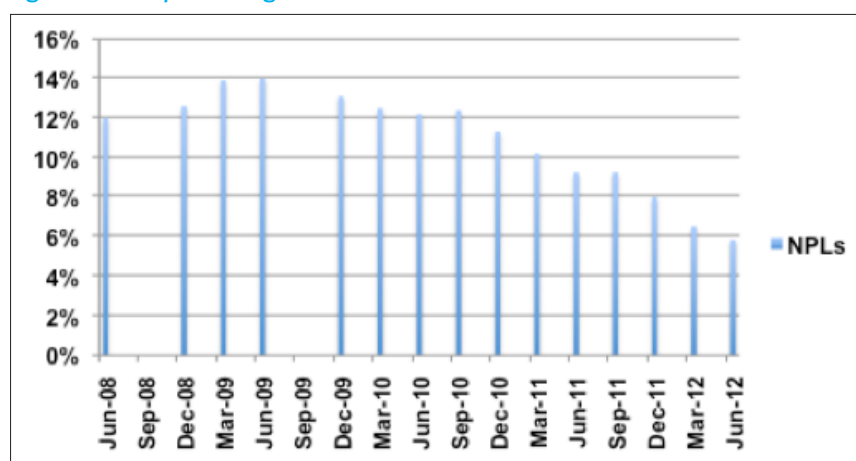
<sup>90</sup> Comparisons based on end 2011 figures from World Bank

<sup>91</sup> National Bank of Rwanda (2007-2012) Quarterly Bulletins

<sup>92</sup> IMF Rwanda: Financial System Stability Assessment, August 2011

<sup>93</sup> IMF Article IV Report, 2012

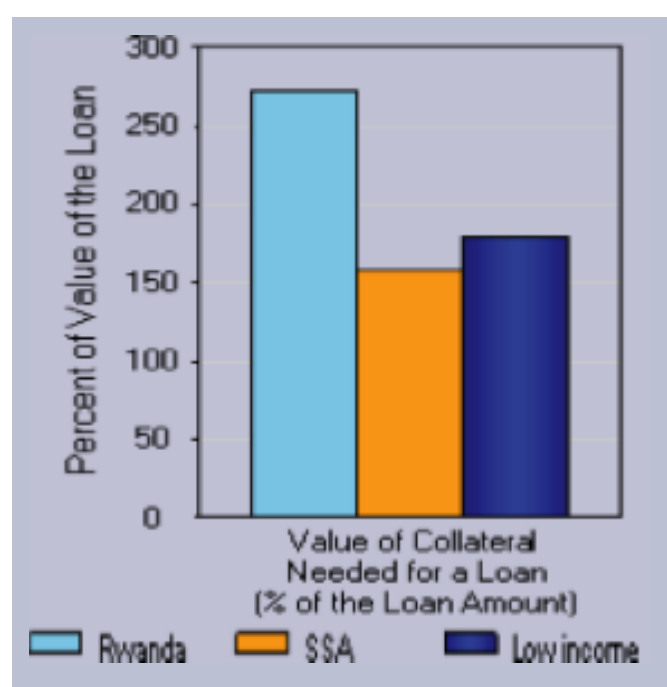
<sup>94</sup> World Bank Enterprise Survey results 2011

Figure 34: Non-performing loans<sup>95</sup>

There is no doubt that most surveys of Rwandan businesses, find that a combination of cost of and access to finance always figure strongly in the minds of entrepreneurs as the main constraints to business. This is a result of both demand and supply side issues that contribute to the market failure:

- Demand Side: the lack of proper governance and record keeping and the lack of well thought out business propositions make all but the large blue-chips high risk borrowers for the banks.
- Supply side: the banks response to high risk is to ask for collateral in the form of property and that is difficult to comply with because of difficulties in getting clear title to land. The banks are also able to earn attractive margins without having to deal with the high risk and transaction costs of dealing with small businesses and so, with notable exceptions, have not developed products suited to the needs of small business.

Figure 35: Collateral Requirements for loans



Investment builds the capacity of the economy to grow. As highlighted in the diagnostic report, the rate of investment in Rwanda is low, particularly private sector investment (private credit to GDP), and there is a need to increase and broaden investment to cover a wider range of sectors of the economy, thereby supporting more rapid and broader-based economic growth.

One of the major challenges to increasing and broadening investment is poor access to and high cost of finance. In the current climate, investment is limited to just a few sectors.

The poor quality of entrepreneurship and underdeveloped business support services are partly to blame, reducing the number of 'bankable' projects put forward to the financial sector.

But whilst large, foreign investors tend to have access to finance at a reasonable cost, the large majority of domestic firms tend to be reliant on the domestic financial sector.

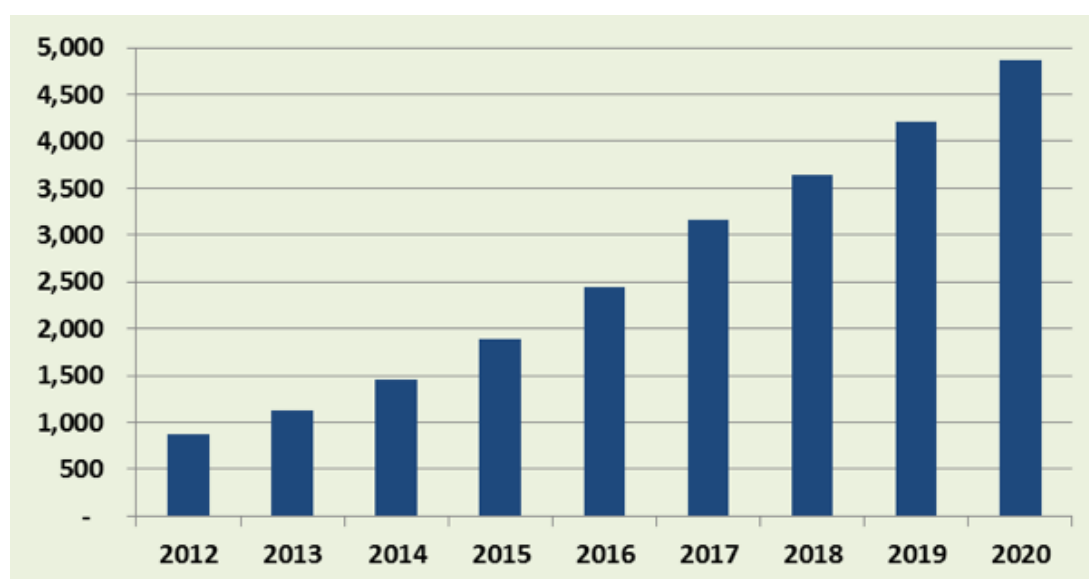
Lack of access to and the high cost of finance prevent the latter from taking advantage of potentially attractive returns and limit their potential growth. In order to achieve Rwanda's investment targets, particularly private sector investment, access to domestic credit will be a critical requirement, allowing Rwandan-based enterprises to undertake the investments needed to increase productivity and competitiveness. Rwanda has targets for domestic credit as a percentage of GDP to reach 27 per cent by 2017<sup>96</sup> and 30 per cent by 2020. In absolute numbers, this translates to credit growth of \$500 million in 2015/16<sup>97</sup>.

95

BNR

96 Financial Sector Development Programme II, October 2012

97 This assumes that real GDP will grow at its target rate of 11.5 per cent per annum.

Figure 36: Achieving Vision 2020 with domestic credit (USD millions)<sup>98</sup>

### Current Government strategy for finance

The core GoR strategy for increasing financing for the private sector, as articulated in the FSDP II strategy is to:

1. Ensure that formal financial sector institutions are able to mobilise more funds with a reasonably optimal maturity structure;
2. Improve the enabling environment to encourage more short- and long-term lending; and
3. Depend primarily on market forces to move the money in the most productive directions.

In response to these targets the Government has implemented a number of new interventions aimed at improving the supply of credit to the private sector. A number of instruments are being used to support the expansion of credit including a RWF 13.1 billion Credit Guarantee Fund (\$20.1 million), a smaller RWF 4 billion grant facility (\$6.4 million) to provide incentives for both financial institutions and for entrepreneurs to make productive investments in agriculture, and a RWF 1.2 billion quasi-equity fund (\$1.9 million). These funds are currently run through a newly formed Government financed entity – the Business Development Fund (BDF).

The lack of collateral of domestic entrepreneurs is deemed to be a major hindrance to the expansion of credit to domestic SMEs. Collateral-based lending is especially unfavourable to micro and small businesses that often lack collateral (e.g. clear titles to land and property) and may operate in informal markets. Despite the fact that the size of the banking system has almost tripled in nominal terms since 2008<sup>99</sup> there is a major problem of information asymmetry - banks never have full information about their potential clients' capacity and willingness to repay.<sup>100</sup> Though never a substitute for good loan appraisal, in many countries, including Rwanda, collateral provides the security the banks need in order to offset the risk of lending. The long and costly judicial procedures for exercising liens over collateral serves to undermine the value of collateral even if the borrower has title to land. This may also result in low allocation of credit to small enterprises, something that guarantee funds can help to overcome.

The current Credit Guarantee Fund (CGF) provides RWF 13.1 billion of guarantees through the provision of partial guarantees (in the range of 50 per cent to 70 per cent of total loan values). This has been able to leverage around RWF 35 billion of bank lending<sup>101</sup>.

As they provide only partial risk cover and only have to pay out in the case of default, a well-functioning credit guarantee scheme can leverage large sums of additional lending in addition to the initial investment. Ratios as high as 10:1 of loans covered over initial capital are not unknown for schemes that are well run<sup>102</sup>. However, the BDF is in its initial stages of development (the scheme only commenced in 2011) a higher level of prudence was adopted, with the fund currently leveraged on a 2.5:1 basis resulting in over US\$ 55 million of additional financing provided to the private sector. Although this figure is impressive, in order to achieve the additional financing requirements to reach

<sup>98</sup> Consultants projections based on achieving Vision 2020 target of 30 per cent credit to GDP ratio.

<sup>99</sup> Financial Sector Development Programme II, October 2012

<sup>100</sup> Leading economists including, Stiglitz & Weiss, recognised that the over reliance on collateral was a result of information asymmetry - Credit Rationing in Markets with Imperfect Information, Stiglitz J, and Weiss A, 1981.

<sup>101</sup> BDF Progress Brief, October 2012

<sup>102</sup> Malaysia's long running credit guarantee scheme has a leverage ratio of 8:1 whilst in countries such as Taiwan ratios are higher at 10:1 – World Bank data 2002

private credit as a proportion of GDP to 20 per cent by 2015, credit of over US\$ 500 million will need to be disbursed, a tenfold increase in the amount of funds that the BDF credit guarantee scheme has been able to leverage to date. Thus the current credit guarantee scheme will need to be significantly expanded and capitalised.

Furthermore, the current CGF is focused heavily on the agricultural sector – around 70 per cent of loans guaranteed by value fell within the agricultural sector<sup>103</sup>. Thus if credit growth targets are to be reached the guarantee facility should be encouraged to broaden its product offerings to include guarantees for other sectors – especially manufacturing and export financing, and better targeted to customers for whom banks would not otherwise take full risk exposure on.

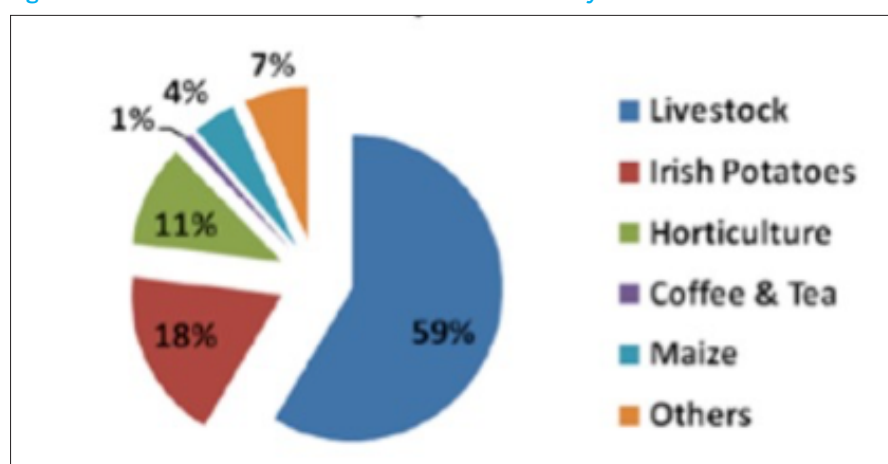
Given that most SMEs in Rwanda are in the start-up and early growth stage of their business life cycle, they remain unattractive to banks and micro-finance institutions even if they have adequate collateral because of their associated risk-return profile. Although venture capital and to a lesser extent private equity have the characteristics to fill this void, they are at the very early stages of development in Rwanda.

Given this thin market, the BDF in collaboration with the RDB is introducing a Quasi-Equity product - a hybrid debt and equity product bundled with business development assistance services aiming to cover from 10 to 90 per cent of individual SME financing needs.

The fund currently has an estimated capitalisation of RWF 960 million (excluding funds earmarked for business development services) and being targeted at companies with turnovers of less than RWF 60 million and winners of the Government's business plan competition. If according to BDF's plan for this product, the average Rwandan SME requires RWF 25 million of such financing, then the current size of the fund will only impact on a handful of businesses – less than 40.

Thus although it provides some potential, its current operation is simply too small to have any sizeable impact. Therefore, a significant up-scaling of this product needs to occur if even a small proportion of the over 112,000 small businesses are to be reached<sup>104</sup>. Furthermore greater penetration of private equity and venture capital will need to be induced to improve financing for these start-up firms.

Figure 37: Rural Investment Fund Disbursements in 2011 by sector<sup>105</sup>



In addition to new start-up businesses and SMEs, the agricultural sector continues to be hampered by a lack of both long-term financing and working capital. In response the Government has introduced through the BDF a Rural Investment Facility which provides grants up to 25 per cent of total value of the loans for primary agricultural production, agricultural support services, and agro-processing.

Depending on the category loans up to RWF 50 million will receive a grant of 25 per cent of the investment loan, whilst those up to RWF 150 million (and depending on the category) can receive a grant worth 15 per cent. Grants are paid only when the loan is fully paid off by the agribusiness. At the end of 2011 RWF 183 million were provided in grants to businesses across a number of agricultural sectors.

However, given the way the fund is currently structured, there are concerns whether it provides additionality (funds that would not have been provided through conventional means) – rather it provides modest grants to a very limited number of firms that already have been able to obtain loans from the commercial banking sector. As such it has been unable to address any of the structural issues that prevent agricultural producers and processors accessing longer-term financing.

<sup>103</sup> BDF Progress Brief, October 2012

<sup>104</sup> Establishment Census – Analytical Report, August 2011, MINICOM

<sup>105</sup> BDF Annual Report 2011,

In common with all of East Africa, the Rwandan insurance sector remains at an early stage of development. Private pension schemes have begun to develop in anticipation of the introduction of a new legal framework. The pension sector in Rwanda is currently dominated by the social security pension scheme managed by the Rwanda Social Security Board (RSSB), which also manages the national medical plan. The RSSB is the largest financial institution in the country, with total assets of about RWF 312 billion at end-June 2012 (USD \$496 million).

Expansion of participation in the RSSB pension from the current eight per cent of the work force will lead to significant increases in contributions and a major growth in the pool of savings managed by the RSSB. Currently it places virtually all of its bank deposits in maturities of one year or less, despite the long-term nature of its liability structure for pensions<sup>106</sup>. However, by piloting longer-term deposits (five years for instance) on both a fixed and variable interest rate basis it could provide greater capitalisation of banks and allow them to extend longer term loans to business.

### *Finance as a binding constraint*

Despite rapid improvements in the access to finance, particularly in rural areas, long term investment finance remains a considerable constraint for all but the largest foreign owned agro-processors operating in Rwanda. Furthermore, many farmers, especially small scale farmers face difficulties to obtain long term finance for their production operations, particularly with respect to tree crops and livestock. The high collateral requirements and the risks attached to the agricultural sector, a lack of commercially viable crop insurance products coupled with relatively limited product innovation from the financial sector has led to a considerable lack of investment finance for the sector.

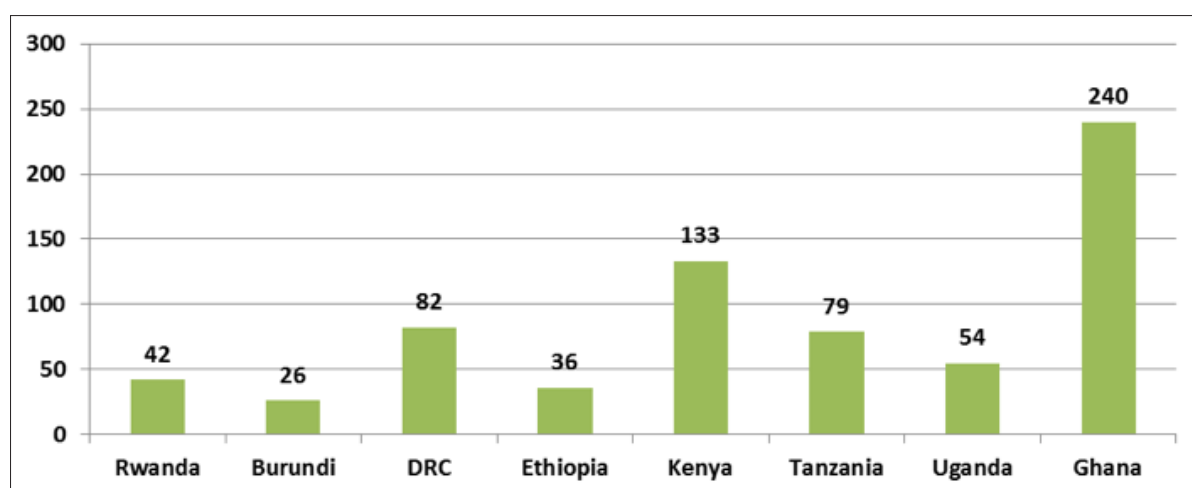
### **Binding constraint #4: Access to infrastructure**

Infrastructure encompasses a broad range of vital inputs to any economic activity. This includes energy provision, particularly electricity generation and distribution; water, waste and sanitation services; and transportation infrastructure such as roads, railways and airports. Infrastructure shapes the possibilities for what can be produced, in the long-run it is therefore intimately linked to investment and growth.

#### **Electricity**

As shown in Figure 38, electricity consumption per capita is lower in Rwanda than many other EAC countries as well as African comparators such as Ethiopia and Ghana. While Kenya consumes over 130 kWh per capita, Rwanda's rate is at 42 kWh. This is a fifth of energy consumption in Ghana. Middle and higher income countries consume much larger amounts, for example consumption in Vietnam is 1,000 kWh per capita and in South Africa is over 4,000 kWh per capita.

*Figure 38: Electricity consumption (kWh per capita) in Rwanda and comparator countries<sup>107</sup>*



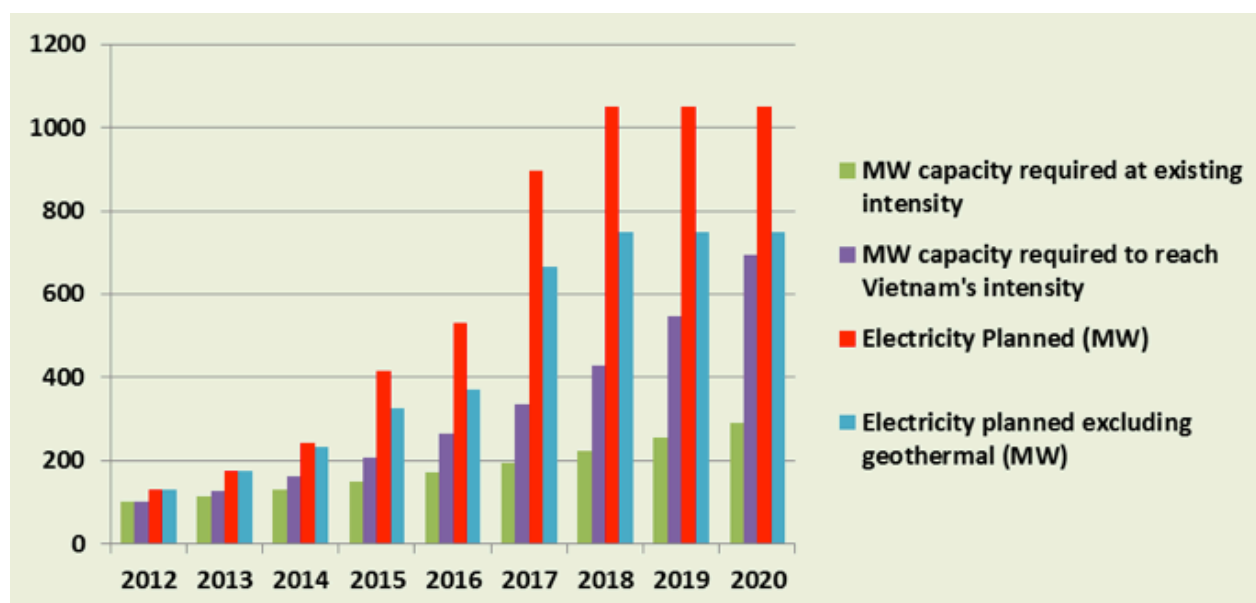
With the Vision 2020 GDP growth of 11.5 per cent per year, energy will need to rise at least as fast as this. Further, the targets for the changing structure of the Rwandan economy, particularly with industry's share of GDP rising from 17 per cent in 2011 to 20 per cent in 2020, will lead to an increasing energy intensity of GDP. Figure 39 shows how much additional capacity is required, firstly if energy intensity stays the same and Vision 2020 growth targets are achieved, and secondly if energy intensity rises to that of a middle-income country such as Vietnam.

<sup>106</sup> Financial Sector Development Programme II, October 2012

<sup>107</sup> Source: CIA World Factbook (2012). For Rwanda source is MININFRA (2012) Energy Sector Strategic Plan draft.

This is then compared to the current projections for increases in energy supply from MININFRA, as well as MININFRA projections excluding geothermal resources, which are considered to be most uncertain at this stage.

Figure 39: Achieving Vision 2020 with electricity<sup>108</sup>



This analysis shows that in order to achieve Vision 2020 growth targets and the changing structure of GDP, energy supply will have to rise at over 27 per cent per year<sup>109</sup>. The existing MININFRA estimates are more optimistic than this, but do rely on the exploitation of a geothermal resource, which carries a high degree of uncertainty. Luckily, even excluding this resource, existing targets should be enough to meet the required growth in energy supply.

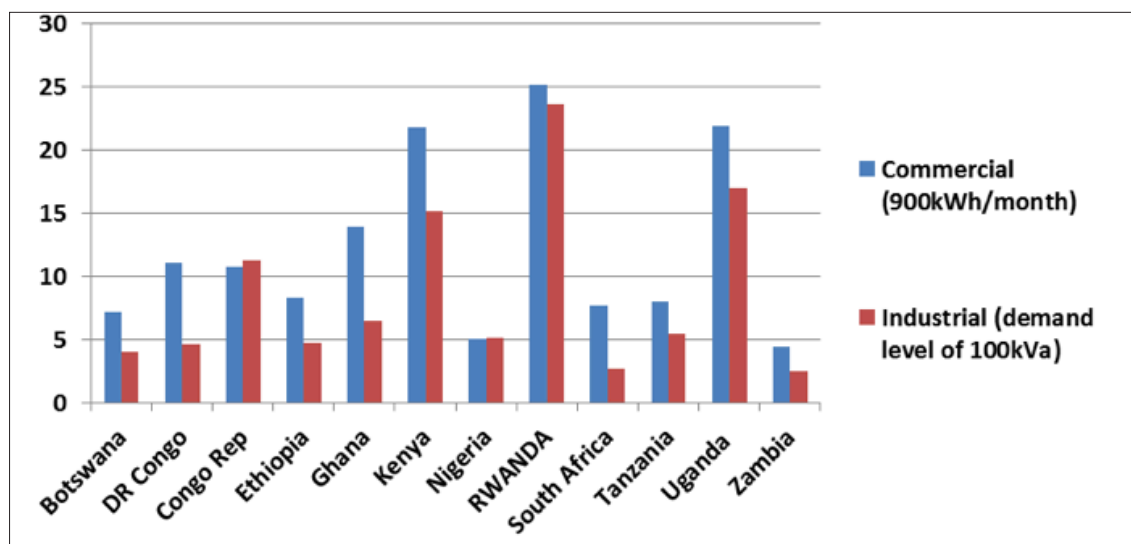
The pipeline of investments under the Energy Strategy is for \$3.2 billion of investment by 2018. In terms of individual years, there is a planned peak of \$898 million of energy generation investment in 2014-2015. This pipeline includes significant investment in peat, hydro, solar, methane and geothermal resources. If this occurs, electricity generation investment will take up around 37 per cent of projected total investment in the entire country in these years. This is a significant challenge.

As important for business as the availability of electricity, is the availability of electricity at competitive prices. As shown in Figure 40, Rwanda's price is higher than any country in the EAC, and many other regional comparators. In addition, most other comparator countries offer more significant discounts for industrial users of energy. For example in Ghana and South Africa, the price faced by industrial users is less than half the commercial price – this compares to a 6 per cent industrial discount in Rwanda.

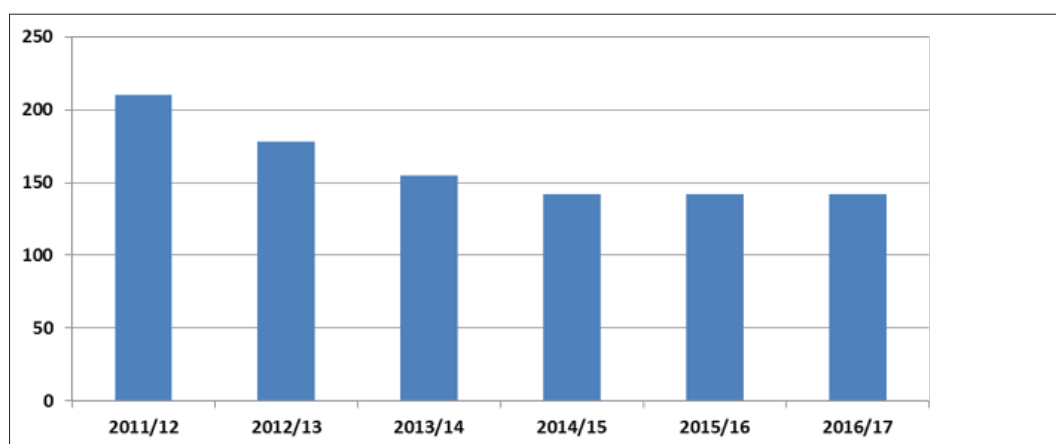
This means Rwandan firms are operating at a large competitive disadvantage to elsewhere in Africa. Since August 2012, a lower rate has been offered for different times of use, varying from RWF 113 or \$0.18 per kWh in low usage times (overnight) up to RWF 198 or \$0.31 at high usage times (daytime). However, this still is too high for manufacturing and energy intensive industries such as construction, mining and agro-processing.

<sup>108</sup> Electricity planned based on MININFRA (2012) Energy Sector Strategic Plan. Energy intensity calculated from the same source. Energy intensity for Vietnam from World Resources Institute. The projections for MW required assume that Rwanda continues with the same ratio of installed capacity to energy used.

<sup>109</sup> This assumes that Rwanda reaches Vietnamese energy intensity of GDP.

Figure 40: Electricity tariffs in Rwanda, East Africa and comparator countries (US cents per kWh)<sup>110</sup>

The high rate of energy tariffs in Rwanda does not even reflect the full cost that EWSA has to bear in delivering electricity, currently as high as RWF 210 per kWh (\$0.33). This is possible because around 43 per cent of the company's electricity revenue comes from a GoR subsidy of RWF 21 billion<sup>111</sup>. As shown in Figure 41, EWSA now has clear targets to reduce the cost of delivery, but this will still take it down to just over RWF 140 or \$0.23 by 2014/15 and beyond. This will still not allow electricity tariffs to be regionally competitive unless there continue to be significant GoR subsidies.

Figure 41: EWSA's cost to deliver electricity (RWF/kWh)<sup>112</sup>

### Transport

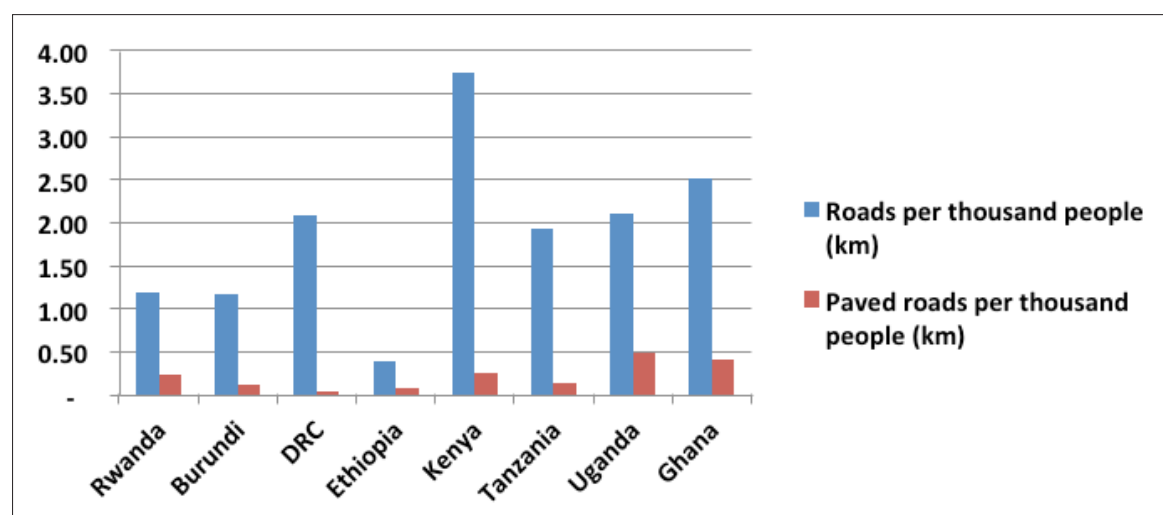
Transport, nationally and regionally, is also a significant constraint to business in Rwanda. As Figure 42 shows, in terms of the quantity of road per person, Rwanda is higher than Burundi and Ethiopia, but much lower than the DRC, Tanzania, Uganda, Ghana or Kenya. However, Rwanda performs slightly better in terms of paved road per person, which is almost level with Kenya and higher than that in Tanzania.

<sup>110</sup> World Bank (2011) *Africa's Power Infrastructure: Investment, Integration, Efficiency*. Anton Eberhard, Orvika Rosnes, Maria Shkaratan, Haakon Vennemo. For Rwanda prices – MININFRA (2012) *Ibid*.

<sup>111</sup> MININFRA (2012) *Ibid*.

<sup>112</sup> MININFRA (2012) *Ibid*.



Figure 42: Paved road as a percentage of total roads in the EAC<sup>113</sup>

Regional transport has potentially more significant costs for Rwandan businesses than national transport, and is a massive constraint to trade. Rwanda is 1,740 km from the Port of Mombasa and 1,480 km from Dar es Salaam and faces significant challenges and costs in getting its goods to international markets.

The bulk of Rwanda's exports go to a narrow range of markets, with minerals going to China, the UK, South Africa and Belgium, and coffee and tea exports going mainly to the EU. Imports come from a wider range of markets, including large quantities of road vehicles from South Africa, Belgium, Tanzania and the UAE, metals from Uganda and Kenya, telecoms equipment from Sweden and China, power generators from Finland, and pharmaceuticals from India and Denmark<sup>114</sup>.

Most of Rwanda's trade has traditionally been transported via the Northern Corridor, through Uganda and Kenya to the Port of Mombasa. Most of the remainder goes through the Central Corridor, directly through Tanzania to the Port of Dar es Salaam. Although in recent years there appears to have been a shift towards the latter. While transport costs affect both imports and exports, they are more harmful to the latter since they impede the competitiveness of Rwandan goods vis-à-vis those of other countries.

Rwanda faces some of the highest transport costs in Africa. Rwanda faces costs to import 30 per cent greater than average for the group and costs to export 7 per cent higher, with costs significantly higher than those faced by Ethiopia, Malawi and Swaziland, all much nearer to the Indian Ocean coast than Rwanda<sup>115</sup>.

As well as greater distances from ports, prices and costs of road transport in Africa are higher compared to other regions of the world and present a major trade barrier. The unit costs of road transport in Africa are about six times those in Pakistan, and more than 40 per cent higher than those of France (which has much higher transport labour costs). For the majority of African countries that are landlocked, transport costs are about three times those in developed countries and are between 15-20 per cent of the costs of importation<sup>116</sup>.

It has been found that the trade performance is sensitive to transport costs and that a 10 per cent reduction of the costs of transport results in an increase in trade volumes of 25 per cent of the trade value<sup>117</sup>.

Analysis by the World Bank on transport costs on the four long road transport corridors out of landlocked Africa (East, West, Central and South) show that the costs of transport comprise of:

- Direct vehicles operating costs such as fuel, tyres, labour, maintenance and depreciation.
- Indirect costs incurred by the transportation service providers such as licenses, insurance, payment for road tolls and weighbridges.
- Transport prices that are rates charged by transportation companies to the importer or end user. These include transport costs plus operators' overheads, and profit margin.

<sup>113</sup> Source: CIA World Factbook (2012)

<sup>114</sup> UN Comtrade data

<sup>115</sup> World Bank Doing Business reports

<sup>116</sup> Supee Teravaninthorn and Gaél Raballand (2009) *Transport prices and costs in Africa: a review of the International Corridors*. The World Bank.

<sup>117</sup> Supee Teravaninthorn and Gaél Raballand (2009) quoting a study by Limao and Venables (2001)

For the Kigali-Kampala route, the main cause of high operating costs are the poor road conditions, which increase fuel consumption and increase the cost of tyres, as well as reducing vehicle utilisation by reducing speed. World Bank research has found that prices of operating vary among the corridors, with the US Dollars per ton-kilometre from Mombasa to Kigali at \$0.90, compared to \$0.40 for just Kenya.

Costs are exacerbated by unequal flows on the route – many vehicles bringing goods to Rwanda, have no goods to take back to Kenya and Tanzania, increasing the overall cost. Furthermore, ‘cabotage’ restrictions in neighbouring countries currently prevent Rwandan transporters taking loads between countries (i.e. a truck returning empty from Rwanda is not allowed to pick up a load in Uganda for delivery in Kenya)<sup>118</sup>. East Africa suffers from some corruption on the corridors, although much less from corruption than in West Africa, where bribes can constitute up to 27 per cent of variable costs.<sup>119</sup>

The majority of trade logistics services in Rwanda are provided by foreign-based operators<sup>120</sup>. Kenyan and Tanzanian firms offer competition to the three to five domestic companies, which only have one to four trucks each<sup>121</sup>. An expansion in the domestic logistics industry is likely to be important for Rwanda to reduce costs of trade.

A number of Rwandan trade procedures also constitute NTBs to trade. Procedural obstacles can account up to for half the time goods are in transit<sup>122</sup>. The time taken to comply with Rwandan export procedures can be high by international standards. For example, the requirement that export documents must state the vehicle registration adds to cost by forcing exporters to pay for vehicles before they are actually needed. The unpredictability of delays at each stage also adds to costs<sup>123</sup>.

The EAC is not the only vital market for Rwandan trade. In recent years, exports to the DRC have been increasing significantly. More of Rwandan exports go to the DRC than the EAC. In 2011 RWF 41 billion was exported to DRC both formally and informally<sup>124</sup>, accounting for close to 70 per cent of total formal cross border exports and almost 80 per cent of informal exports (to regional markets). MINICOM’s recent Cross Border Trade Strategy found a number of constraints existing on the DRC border, particularly for informal traders. This includes:

- Cross border traders regularly have to pay bribes and are often subject to harassment from officials at the border. A recent World Bank survey at the Goma-Gisenyi border found that 85 per cent of respondents had paid bribes to cross the border.
- When trading over the border with the DRC, there are numerous customs services, only some of which are authorised to work there. Taxes are reported to change on a daily basis and for informal traders these taxes are primarily informal and typically cost the equivalent of 50 RWF per payment made in cash or in kind. The number of payments varies but there can be as many as ten separate payments to different officials at each crossing.
- Market Registration: For traders to sell their goods in markets they first have to pay an annual subscription fee. The fees in Goma are roughly US\$65 per year.

In addition, there are also a number of issues with formally exporting to the DRC<sup>125</sup>:

- Regular importers and exporters to the DRC must be in possession of an import-export number issued by the Ministry of Trade and Industry in the DRC. The import-export number costs US\$250 per annum for legal persons and US\$125 for natural persons. If the value of the goods being traded exceeds US\$2,500 a “Declaration” issued by an approved bank is also required. Additional authorisation issued by MINAGRI is required when importing agricultural products.
- For all imported goods, with the exception of those with a value of less than US\$2,500, mandatory inspection is required upon arrival. During this inspection the volume and price of the goods is checked by a privately contracted company, BIVAC, on behalf of the Congolese Control Office. All imports, irrespective of their mode of transport undergo pre-shipment inspection.
- Documents required for pre-shipment inspection include: a copy of the import permit or prior declaration obtained from the Central Bank of Congo or from any approved commercial bank; a copy of the pro forma invoice for the goods, the purchase order, the price list, the letter of credit, and any other document considered necessary by BIVAC for supplying its services.
- An inspection and control tax is levied at 0.75 per cent of the FOB value or a minimum of US\$100 for imports valued over US\$2,500. For goods valued at US\$2,500 the minimum charge amounts for levy of 4 per cent of the value of those goods.

118 DFID (ibid.)

119 Supee Teravaninthorn and Gaél Raballand (2009).

120 World Bank (2005) DTIS

121 DFID (ibid.)

122 World Bank (ibid.) DTIS

123 DFID (ibid.)

124 Ministry of Trade and Industry, GoR (2012) National Cross-Border Trade Strategy

125 Ibid.

- Interviews with importing firms in the DRC highlighted that it is possible to remove the time constraint by double paying for each procedure, once officially and once unofficially.

## ICT

In terms of communications technology, Rwanda fairs better. As in many African countries, the penetration rate of mobile phones has risen significantly in recent years. While this is evolving rapidly, latest data suggests close to 40 per cent penetration in Rwanda, compared to 20 per cent or less in Burundi, the DRC and Ethiopia. However, this is still not at the rates seen in Kenya, Tanzania and Uganda, as well as Ghana, all between 50 and 85 per cent as shown in Figure 43.

Figure 43: Mobile phone penetration (mobile phones as share of population)<sup>126</sup>



In Rwanda, the mobile phone take-off has been driven by fierce competition between the two early entrants, Rwandatel<sup>127</sup> and MTN Rwanda, since 2009, a third operator, Tigo, and most recently Bharti Airtel. The country has also moved further ahead in telecommunications with the introduction in 2010 of high-speed Internet, through the National Fibre Optic Backbone project. Now with the fastest Internet speeds in the region and the third fastest in Africa<sup>128</sup>, Rwanda has placed itself on a good footing to become regionally competitive in the sector of information and communications technology (ICT).

## Government policies at present

In order to achieve the Energy Sector Strategy targets, there is a priority to bring in private sector participation, with PPPs at the heart of infrastructure development including design, build, finance, maintenance and operation. In light of this, there has been the recent establishment of Energy Water and Sanitation Authority's (EWSA) Investment Unit – established to take responsibility of the entire procurement process of energy projects with private sector participation – including project inception, feasibility studies, dissemination of information to potential bidders, procurement and contract negotiations.

The ESWA Investment Unit has been given some support and in addition a firm of transaction advisors have been contracted to provide a pool of financial, technical and legal expertise to assist in project development and negotiations with the private sector.

This work is not directly aligned to wider GoR PPP Policy. At present, a 3-year plan is being developed for the implementation of PPP projects from an initial list of 15 projects and the first, the airport project, is now being tendered. The PPP policy and procedures, still in draft will aim to define the responsibilities of RDB, the MINECOFIN public investment team, and the Capital Markets Authority (CMA).

<sup>126</sup> Source: CIA World Factbook (2012)

<sup>127</sup> Rwandatel has now been liquidated.

<sup>128</sup> NT (2010) 'Rwanda's internet fastest in the region', 22 July 2010.

The policies and procedures will differentiate between very large projects and smaller projects for which Rwandan sources such as the stock exchange and local lenders are potentially relevant. The policy for the smaller PPP projects intends to inform bidders that some weighting will be placed on the extent to which there is local participation in the form of i) raising capital on the stock exchange; ii) debt participation by local lenders; and iii) advisory services contributing to the packaging process<sup>129</sup>.

Given the separate role of EWSA and its Investment Unit, there needs to be a very clear relationship between the two structures.

### *Special economic zones and industrial parks*

Rwanda has already established its first SEZ, in Kigali. The Kigali SEZ has taken over what formally were two zones – the Kigali Industrial Park and Kigali Free Zone. The first two of three phases for the Kigali SEZ are well underway:

- Phase 1 consists on: 100ha in Masoro; fully booked with 52 companies In addition MINCOM and MINAGRI projects are being developed (an Agri Park with silos plant of 20,000MT and warehouse of 20,000MT); infrastructure almost complete (92 per cent per cent) in September 2012.
- Phase 2 is 178 ha. in Kayumba; infrastructure provision currently at 23 per cent per cent; four companies have booked plots (50 per cent); Bakhresa are already operational.

In addition to the Kigali SEZ, MINICOM has been developing four Provincial Industrial Parks. These are located in Bugasera in the Eastern Province, Huye in the Southern Province, and Rusizi and Nyabihu in the Western Province. These Parks have not all been designated land. MINICOM owns just 7 ha. in Nyabihu – where a larger park “will involve a large resettlement effort with related financial, social and political costs.”<sup>130</sup> Huye Industrial Park is designated for 50 ha.<sup>131</sup> Bugasera is designated at 180 ha. Where construction is ready to begin in 2012/13 for 50 ha. In addition, Rusizi has 57 ha. to be developed.

The business plans for Provincial Industrial Parks envision 70 per cent ownership by the private sector, 25 per cent by MINICOM and 5 per cent by the District Authority.

### *International transport infrastructure projects*

A number of transport projects are underway in Rwanda and regionally that could significantly reduce the cost for Rwanda’s international transport. These include the planned railway that would provide transit from Kigali to Dar es Salaam, and a new airport at Bugesera. Regional projects include the rehabilitation of the 440 km Kampala – Gatuna road, roughly a quarter of the Northern Corridor, as well as smaller stretches of road in Kenya.

Rwandan trading costs are predominantly down to a combination between poor transport infrastructure, together with procedural delays. An EAC Regional Forum on NTBs was launched in December 2008 in order to tackle the problems. The Forum had its 6<sup>th</sup> meeting in March 2011, and there was a Ministerial meeting on NTBs in March 2012. The Forum monitors a selection of NTBs affecting the Northern and Central corridors, and develops actions planned to mitigate them. However, there is no consistent monitoring mechanism for these NTBs in place.

In recent years, one stop border posts (OSBPs) have been heavily promoted in the EAC region. In 2012, the Governments of Rwanda and Burundi entered into an agreement for the establishment and implementation of a one-stop border post (OSBP) at the border Kasenyi, with the OSBP at Nemba launched<sup>132</sup>. The objective of the OSBP is to enhance trade facilitation through the efficient movement of goods, persons and services within the EAC. OSBPs will reduce the number of stops and procedures involved in crossing the border and, simplify and harmonise border documents and procedures<sup>133</sup>.

There is also an agreement between Rwanda and Uganda to cooperate in fully implementing OSBPs at the border Gatuna/Katuna and at Kagitumba / Mirama Hills. Currently there is an agreement for the Border crossing at Gatuna / Katuna to remain open for 24 hours a day. There are also plans to house both countries border institutions within a single building in the near future. Rwandan and Tanzania are in discussions to begin the process of establishing an OSBP on the border at Rusumo.

### **Binding constraint #5: Lack of skills**

- <sup>129</sup> Rwanda FSDP-II  
<sup>130</sup> MINICOM (2012) Nyabihu Industrial Park Business Plan  
<sup>131</sup> MINICOM (2012) Huye Industrial Park Business Plan  
<sup>132</sup> World Bank (2012) World Development Report 2013.  
<sup>133</sup> [http://www.rra.gov.rw/rra\\_article889.html](http://www.rra.gov.rw/rra_article889.html)

To ensure that education and skills training is rewarding for employees and provides the skills that the private sector needs, the systems of higher education and TVET must be more responsive to the needs of employers. Unfortunately the lack of adequate numbers of appropriately skilled workers is becoming a significant constraint to business across all of Rwanda's high growth sectors. As shown in Figure 44, Rwanda has a very high level of manual skills in its labour force, while the share of the labour force using non-routine cognitive skills is extremely low, even for Rwanda's level of GDP per capita. This points to the likelihood of skills being a major constraint on the Rwandan economy.

Figure 44: The skills mix and economic development of sample of countries<sup>134</sup>

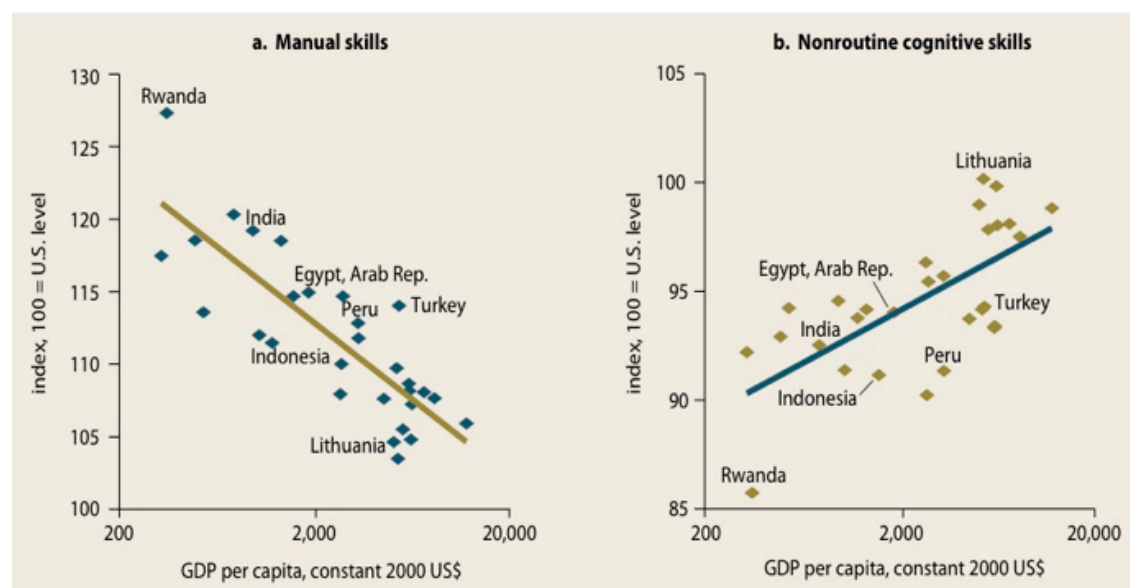


Table 6 presents some key skills indicators for Rwanda and the other four EAC countries as comparators. The headlines from this analysis are that Rwanda and Burundi are more densely populated – this has the potential to provide a ready supply of unskilled labour to growing industries. But higher up the skills levels,

Rwanda performs worse than EAC competitors. This is particularly the case when comparing with Kenya – Rwanda has adult literacy of 65 per cent compared to 74 per cent in Kenya, while the number of years in secondary school is considerably less than in both Kenya and Uganda. Only Burundi in the region has lower secondary school enrolment ratios.

Table 6: Key skills indicators for EAC countries<sup>135</sup>

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Land to labour ratio (square kilometres of land per 100 adults)	0.6	2.7	0.45	4.27	1.55
Adult literacy (% for over 15 years)	59	74	65	72	74
Secondary school gross enrolment ratio	18	58	36	-	25
School life expectancy (school end year 2007)	8.2	10.5	8.6	5.3	10
	Burundi	Kenya	Rwanda	Tanzania	Uganda
Number of students enrolled in tertiary education (per 100,000 inhabitants)	301	433	730	137	352

<sup>134</sup> World Bank (2012) World Development Report 2013

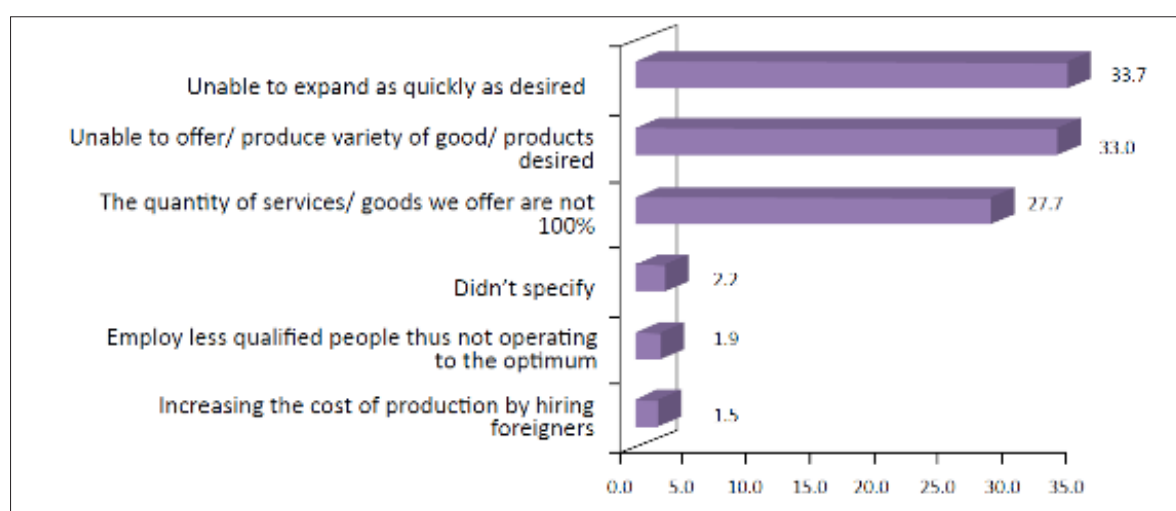
<sup>135</sup> Source: UNESCO EFA Global Monitoring Report 2010. Secondary school enrolment from UNESCO Stats and for 2008. For Rwanda, secondary school enrolment from EMIS 2011, likewise for Rwanda tertiary number. Other tertiary numbers from UNESCO Stats, for 2009 for Burundi, Kenya, for 2008 for Uganda, for 2007 for Tanzania. University rankings from [http://www.webometrics.info/top100\\_continent.asp?cont=sub-saharan](http://www.webometrics.info/top100_continent.asp?cont=sub-saharan)

Universities in sub-Saharan African (SSA) top ten (excluding South African universities)	None	University of Nairobi (6 in SSA, 3190 in world) Strathmore University Nairobi (10 in SSA, 3556 in world)	National University of Rwanda (7 in SSA, 3330 in world)	University of Dar es Salaam (4 in SSA, 3118 in world)	Makerere University (1 in SSA, 2158 in world)
Emigration rate for tertiary educated (%)	8.5	38.4	26	12.4	35.6

Whilst Rwanda leads the way in terms of number of students enrolled in tertiary education, it is the significant skills gaps in many sectors which are now concerning businesses operating in the country. Thus for example Rwanda's manufacturing sector has experienced a high overall growth in the last decade but recent surveys undertaken by RDB (2012) indicate that the level of skills gaps in both technical and soft (qualitative) skills in the manufacturing sector is high. As Figure 45 shows this lack of skills has had a considerable impact on the 440 firms surveyed.

In the tourism sector the shortage of skills is most acute and being felt more keenly. Within the next year in Kigali alone, a further 4 new four-five star hospitality facilities are expected to start operating requiring at least an additional 1,200 skilled professionals. With relatively poor training and only limited numbers of quality trained employees in the sector, there is increasing incidence of poaching staff from other establishments, giving rise to wage inflation and further undermining the competitiveness of the sector.

Figure 45: Effects of Lack of Core Skills in Rwandan Manufacturing<sup>136</sup>



Furthermore, the Technical Vocational Education and Training system (TVET) is not only facing challenges of poor perception by the public but also with the need to enhance quality of its training programmes – many existing staff of these institutions were found to need upgrading of their qualifications. Thus skills shortages remain one of the critical binding constraints.

Skills are at the heart of economic development and have been shown to be a significant constraint in Rwanda across the entire private sector. Skills can be split between cognitive skills, social skills and technical skills. Cognitive skills include verbal ability, working memory, numeracy, and problem-solving abilities. Social skills include personality traits that underlie behaviours such as teamwork, reliability, discipline, or work effort.

Technical skills entail the performance of specific tasks in specific industries, and are more likely to be attained later in life. However, jobs require a combination of all three types.

Cognitive skills form the base of skills development and are acquired very early on in life. New skills build on earlier ones, and if the foundation of skills is strong, higher-order cognitive and social skills can be added later on. This leads to higher adaptability in rapidly changing job environments. The key policy environment for the creation of such skills will lie in early and primary education. So the fruits of investment will take time to come through, in the meantime investment can be placed in the generation of young people ready to join the workforce soon as well as with the existing workforce.

<sup>136</sup> National Skills Survey, RDB, 2012

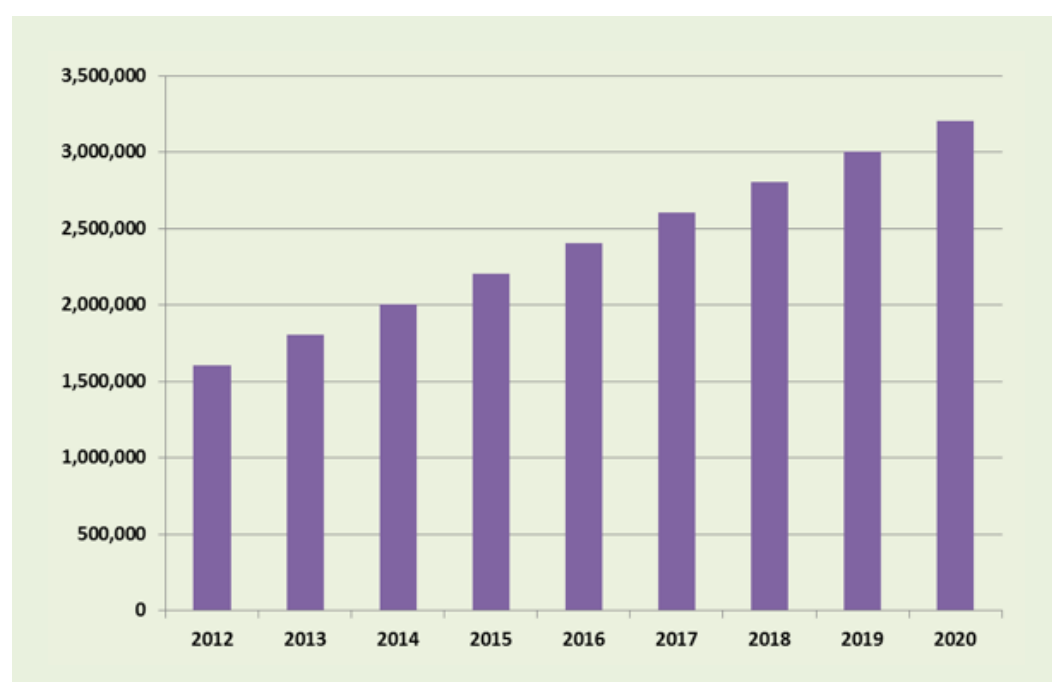


Skills, especially cognitive abilities, are strongly related to productivity growth, more so than school attendance rates<sup>137</sup>. Internationally, on-the-job training is consistently found to correlate with higher earnings and productivity increases, even more so in developing than in industrial countries. TVET has a more mixed record; however there is good evidence that TVET in countries including Rwanda has led to higher earnings<sup>138</sup>. However, it is important that signals match those in the wider economy, so skills are acquired in the right sectors. This can be through providing information, for example in India, informing rural women about job opportunities led to increased schooling for girls and delayed marriage and childbearing for women<sup>139</sup>.

Technical and social skills can be built through experience in the workplace. On average across countries, the return to an additional year of work experience in non-agricultural activities is roughly one-half the return to an additional year of education at the beginning of work life. This shows the importance of bringing together training with private sector firms. In Korea, the Korea University of Technology and Education (KUT) established the Bridge Model. This is a three-way partnership involving a major enterprise and clusters of SMEs that serve as its main subcontractors. The major enterprise contributes technical knowledge, the SMEs bring in the employees to be trained, and KUT supplies the teaching facilities and content. Samsung was the first “bridge” in 2006; five other major companies have become bridges since then.

In Singapore, India's Tata group was the first international company to partner with the Economic Development Board in 1972 to establish a company-owned training centre for precision engineers. This partnership model was successfully replicated in subsequent years with other foreign companies, eventually leading to the consolidation of various institutions in 1993 to form Singapore's Nanyang Polytechnic. Today, the polytechnic has become a source of international expertise on industry-led training.

Figure 46: Achieving Vision 2020 with off-farm jobs<sup>140</sup>



Several studies have highlighted skills as a significant issue in Rwanda, both as a constraint to business and the investment climate, as well as detailed studies quantifying a skills gap across the Rwandan economy.

The RDB (2012) National Skills Survey looked at eight sectors in detail to give a more detailed picture of the skills issue. The highlights of this exercise are as follows:

- There is a significant lack of general skills in the country. This includes customer handling skills, oral communication skills, written communication skills, general IT skills, and problem-solving skills. The vast majority of Rwandan employees are deemed to be in need of additional training.

<sup>137</sup> World Bank (2012) World Development Report 2013.

<sup>138</sup> Ibid.

<sup>139</sup> Ibid.

<sup>140</sup> Based on Vision 2020 off-farm employment target of 200,000 jobs per year.



- There is also a large gap in technical skills. Gaps are identified across the economy, including gaps in agricultural technicians and scientists and managers, and accountants. In mining – skilled craftsmen such as electricians, carpenters, masons, mechanics and plumbers. In ICT - technicians, network and hardware professionals, and ICT trainers. In finance – finance and policy managers, accounting professionals and at the front-end, bank tellers and customer service clerks. In manufacturing – management, accountancy, technicians – particularly in metalwork, bakers, pastry cooks, woodworking machine tool setters and operators, and blacksmiths. In construction - building construction labourers, stonemasons, carpenters, and civil engineering labourers. In the energy sector - electrical and mechanical engineers. And in tourism, waiters, cooks, and managers.
- Firms are not providing adequate training for their workforces. The proportion of firms providing funding or arranging for training for their employees is extremely low. The proportion of firms offering no training is 76 per cent in agriculture, 71 per cent in mining, 73 per cent in tourism, 90 per cent in ICT, 69 per cent in financial sector, 84 per cent in manufacturing, and 88 per cent in construction. The principal reason stated for those not offering training was that firms “cannot afford it”. In addition, firms can be afraid that once trained, workers will move on to higher wages elsewhere.
- TVET institutions are putting forward a number of interns, but a lower amount than universities. As shown in Table 7, a large number of internships are being created, particularly in the service sectors of finance and tourism. A much lower number are being created in manufacturing. Currently, TVET provide more interns than universities only for the tourism sector.

**Table 7: Interns in key sectors of the Rwandan economy, from university and from TVET<sup>141</sup>**

	University graduates and students	TVET graduates and students	Total interns
Agriculture	190	47	237
Tourism	689	952	1,641
ICT	247	73	320
Manufacturing	306	120	426
Finance	1,279	329	1,608

### **Government policy at present**

RDB's Human Capital and Institutional Development Department has developed a number of very good initiatives in skills development. This includes bringing together the private sector through Chambers of Commerce, with GoR institutions and higher education and TVET institutions through Sector Skills Councils.

The Workforce Development Agency (WDA) is making significant progress in bringing the private sector to a more central role in the development of curricula. This is based on 'Competence-based training', in which a four-phase process is followed. This begins with a situational analysis, followed by the development of the course structure, the development of assessment procedures, and then testing and piloting. The PSF are involved in the situational analysis to bring together the relevant Chamber of Commerce and bringing together experienced and qualified people in the sector in a workshop.

Private sector involvement is reduced to comprising of 30 per cent of the expert panel from 50 per cent for the development of curricula, where experts and teachers play a more prominent role. The private sector also plays a role in the testing and piloting stage. However, more recent approaches to improve TVET systems across a number of countries place much greater importance to TVET graduates obtaining on the job practical experience within the workplace.

WDA are also now starting Tracer Surveys, firstly with the Integrated Polytechnic Regional Centre (IPRC) in the Northern Region. This has shown encouraging results, with 65 per cent of graduates employed immediately, and 85 per cent being in employment after one year. However, there is no structured feedback system with the private sector relating to the quality of these individuals.

In addition to these initiatives the WDA has established a Skills Development Fund (SDF) that provides funds for rapid skills delivery through TVET. Sub-Grants range from a minimum of US\$ 10,000 to a maximum of US\$ 100,000, with two types of eligible applicants. The first type includes training providers who would be expected to use the funds to add or expand short-term training offerings. The second type includes other entities that would act as providers by adding or expanding short-term training offerings for a broad group of prospective trainees in a number of key sectors, including tourism, agriculture, construction, and technical servicing sector such as electronics servicing, and automotive technology (light and heavy vehicles).

In the past vocational training has been mainly provided to those who dropped out of or completed only primary education, the Government is now moving toward providing vocational training to those who completed nine-year basic education. This move is expected to result in entrants into vocational training who have a stronger basis of general knowledge and cognitive skills, and are thus more able to acquire the necessary skills to become productive in the labour market.

To date, Rwanda's system of TVET has relatively limited coverage, with approximately 50,000 students enrolled in various types of publicly provided one to three year training courses<sup>142</sup>. The TVET system is characterised by extensive private provision - over 2,300 private training providers, comprising mostly small cooperatives and associations serving the informal sector<sup>143</sup>. The TVET system faces a number of challenges: (1) not enough access for a wider cross section of students; (2) with the exception of schemes such as IPRC) in the Northern Region, TVET graduates on average face considerable challenges to enter the formal employment market; (3) the existence of insufficient firm level involvement in training courses and limited opportunities for enterprises to absorb trainees into their workplace; (4) inadequate financing; and (5) the absence of monitoring and evaluation of TVET system performance.

### **Binding constraint #6: Co-ordination and market failures**

Government and market failures are pervasive in the developing countries and this equally applies to Rwanda. When markets fail, outcomes are determined by established patterns of power and wealth, reducing growth and disadvantaging the poor. The markets that are particularly important for pro-poor growth are the factors needed for production (land, labour and capital) and those from which the poor earn their livelihoods and meet their consumption needs. In some of these sectors there is evidence of failures in markets. These failures undermine growth and result in market outcomes that disadvantage the poor.

In Rwanda many market failures continue to persist despite the efforts of government and donors and they manifest in the following ways:

- **Information failures:** Entrepreneurs are unaware of possible opportunities for entrepreneurship and investment. Even when they are alerted to possible opportunities, they lack information on how to take advantage of opportunities by deploying appropriate business models and technology. Information on demand trends, price formation and possible business models is lacking even in existing markets.
- **Size barriers:** The level of capital and business organisation required for businesses to achieve minimum economic scale is beyond the reach of many entrepreneurs, the overwhelming majority of whom are involved in micro businesses. Processing non-traditional agricultural products such as flour provides example of an attractive opportunity denied to the large number of entrepreneurs because of size barriers.
- **Market power:** Within the domestic markets there are a few medium to large companies can come to dominate what is essentially a small market. The potential to use this market power (although more detailed analysis will need to be undertaken to assess this) has the potential to restrict investment and entrepreneurship by others.
- **Co-ordination failures:** Co-ordination failures are prevalent in agricultural value chains and petty trading which are dominated by large numbers of small actors with no one to co-ordinate their activities.

Within the agricultural sector there is potential for a number of market failures, with co-ordination a significant binding constraint in many instances. For example, in order to establish a sufficient, reliable supply of wheat to feed a sizeable flour mill, it is necessary to contract a very large number of farmers to grow the same variety of wheat and to supply the inputs that farmers will need.

This increases investment and operational costs. Thus in the case of Bakhresa Grain Milling, which recently established a large wheat mill in Rwanda with a sizeable investment in 2011. The plant produces wheat flower flour for the domestic market although it produces more than half of its wheat for exports to the Democratic Republic of Congo.

Although a success in terms of rapidly increased flour exports to DRC, the company has not been able to tap into local wheat production as the wheat is grown on small family plots, using a number of varieties which have low protein and wet gluten content. Hence despite the costs of transportation the company is importing from both within the region and internationally to ensure capacity is maintained at their facility.

<sup>142</sup> World Bank Skills Development Project, 2011  
<sup>143</sup> Ibid

Given the lack of raw materials many firms have had to engage in complementary investments to strengthen local supply chains. Thus a number of the larger agro-processing companies are developing new models to service delivery models to smallholder farmers such as ProDev owned by Minimex, through to mechanised farming supported by out-grower schemes which is being implemented by BraMin a joint venture of Bralirwa and Minimex.

A number of market failures prevalent across the Rwandan economy make it difficult for investors in Rwanda to capture potential returns. Information failures on demand trends, price formation and possible business models make investors unaware of potential opportunities for entrepreneurship and investment. Also, coordination failures - how to link the country's large number of very small farmers to markets for inputs and domestic and foreign produce markets efficiently, translates into missed opportunities for increasing their access to markets. For instance, 80 per cent of the rural population is subsistence farm families with an average of 0.35 hectares of land per family<sup>144</sup>, which makes coordinating production from a firm's perspective expensive and time consuming.

Market failures are pervasive in Rwanda. When markets fail, outcomes are determined by established patterns of power and wealth, reducing growth and disadvantaging the poor. As seen in the diagnostic report, there is strong evidence of widespread market failure particularly in agricultural markets.

Government interventions also have the potential to lead to failures in key markets. Thus for example the practice of setting administered prices for fertilisers is making investments in distributorships and dealerships unattractive. This has led to a general lack of profitability in the distribution chain, for distributors and agro dealers. Consequently, default rates on fertiliser loans have been very high among agro-dealers as well as among farmers<sup>145</sup>.

In order to overcome these coordination failures, the Government has promoted the development of cooperatives, particularly as part of MINAGRI's Strategy for the Transformation of Rwandan Agriculture (2012). The experience in Rwanda has generally been positive, and has demonstrated that they can be effective in consolidating land for the purpose of cultivating larger areas of the same crop. However, where they remain weak is their lack of capacity to develop marketing linkages.

MINICOM has recently implemented a programme aimed at prioritising a total of 20 unique SME clusters ranging from fish and horticulture through to ICT and eco-tourism. A number of short-term interventions are proposed including providing a basic market information services through RDB and MINICOM, through to organising land where raw materials are produced and to train producers on latest production techniques. This approach has tended to focus on direct public sector interventions with limited support to developing more market-based approaches. Thus they fail to address the problem of missing and thin markets for these services, and do not examine ways in which the private sector can deliver these services in the longer term rather than relying on government.

Other approaches to improve coordination include supporting linkages between lead companies such as exporting companies in the coffee industry that are moving from their core activities of dry-milling and marketing processed coffee to also managing wet mills – the majority of which are run by farmer cooperatives. Furthermore, they are providing extension programmes to farmers, thus improving capacity utilisation in the already established wet mills and constraints in postharvest handling.

The need for improvements in domestic supply chains has resulted in some companies moving deeper into their supply chains. For example in maize production, two of the largest companies - Minimex and one of the main users of maize Bralirwa - have developed high quality maize through experimental farmers and out-grower schemes. However, longer-term, their ability to move away from imported intermediate inputs will depend on the both the nature of the production process but also the quality of business linkages they can develop with other suppliers, farmers and cooperatives in order to achieve improved productivity, specialisation and their ability to transfer their technology to local enterprises.

It is commonly believed that the type and strength of linkages established depend on the technological and other resource capabilities of local enterprises. Special support measures and programmes can nurture these capabilities. Such interventions can best succeed when they respect the principle of subsidiarity, i.e. allowing each partner to undertake what it can do best, and when they are embedded in a coherent policy framework that fosters investment, competition, technology transfer and SME development.

Experience across a number of countries shows that when Governments directly get involved in facilitating this linkage then the outcomes are often less than expected, frequently creating a series of further distortions<sup>146</sup>. Rather, addressing these linkage issues could be undertaken through a market systems approach by incentivising the private sector to address market failures or to innovate new business models and technologies that will benefit the poor.

<sup>144</sup> Preliminary strategy for the Transformation of Rwandan Agriculture, MINAGRI, November 2012

<sup>145</sup> Ibid, 2012

<sup>146</sup> DFID Business Linkages Challenge Fund, Final Report 2009, Emerging Markets Group

In order to achieve this, the right conditions need be in place. These conditions include:

- **The existence of strong triggers for change:** Policy issues and processes, or market forces which represent powerful opportunities or threats, should be in place motivating stakeholders to respond to them.
- **Legitimate and credible stakeholders willing to take leadership:** Specific interventions should ideally be led by stakeholders from the private sector and in some instances the public sector who can influence others.
- **Capable private sector participants:** It is essential that motivated stakeholders have the ability to convince a sufficient number of private actors, with the capability to innovate new technology or business models, to alter market outcomes.
- **Ensure good facilitation:** the role of external support or interventions should be to facilitate the work of the stakeholders leading them to deliver change itself; otherwise simply relying on government intervention is likely to increase dependency and the intervention unlikely to prove sustainable.

### *Market failures as a binding constraint*

Market and coordination failures are a binding constraint particularly for the agricultural and agro-processing industries. Due to the scattered nature of production, it is difficult to gather sufficient agricultural products of even quality and quantity over a short period of time to meet either production requirements or to meet export deadlines.

Thus the lack of co-ordination causes inefficiencies that may prevent growth or place a high burden in terms of costs for firms to coordinate with farmers and / or cooperatives. Furthermore, entering higher value added segments will require greater requirements on the supply chain in terms of traceability and quality which may be set too high, causing exclusion for both farmers and firms.

For inputs sourced abroad (such as fertiliser), the high transportation costs and delays in sourcing mean that even if prices and returns to farmers improve, greater use of inputs will be tempered by this constraint. In addition, raw agricultural inputs sourced locally often are inconsistent supply (both in terms of quality and quantity) and have vulnerability to shocks (e.g. weather disruptions) due to the limited use of irrigation.

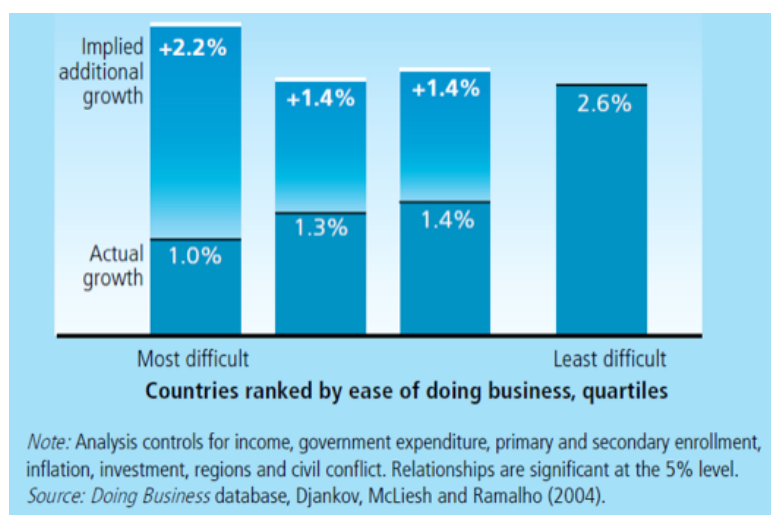
### **Binding constraint #7: The regulatory environment**

Whilst businesses attempt to maximise the risk adjusted rate of return after tax, Government has a critical role to play in terms of impacting how this will be affected through the following:

- **Risk:** macro stability, policy stability, crime, corruption, property rights, enforcement of rule of law & contracts.
- **Return:** access to and cost of: finance, infrastructure, land, labour, skills, natural resources and critically taxation.

Given the stellar performance of Rwanda in implementing business reform it is unsurprising that most surveys show that businesses in Rwanda do not perceive the business environment as being the binding constraint to investment and expansion.

In fact, most international sources suggest that the business environment in Rwanda is very conducive to investment especially when the country's level of development is taken into account.

Figure 47: Additional annual growth from a hypothetical improvement to the top quartile on ease of DB<sup>147</sup>

Those responsible for developing the Doing Business index claimed that moving from the top quartile in terms of rank (meaning the worst performers) to the bottom (the best) would add as much as 2.25 per cent to growth<sup>148</sup>. Moreover, it found that moving from the third quartile (in which Rwanda was previously placed) to the fourth one results in a 1.4 percentage point increase in average annual growth (see Figure 47).

But there are some reservations regarding the validity of these findings because of the use of cross-country data shows only associations, not causality. Others have contested the extent to which there is a simple linear relationship between growth, income and regulation and so whether as precise a figure could be estimated as the World Bank suggests.

The appropriate level of regulation varies with the level of development and nature of the economy and so the associations found from cross-country data should not lead to normative guidelines for deregulation. Moreover, consideration should be given to the quality of regulation – not simply the volume – and the effect this has on firm's behaviour.

In addition to the costs of doing business, there are presently a number of policies and strategies that have been developed. The key is to examine whether there is duplication or contradiction within them that affects either risk or return that businesses face. During the course of the inception period a careful assessment of a number of policies were undertaken including:

- Policies that will ensure that there is a level playing field: Competition and Consumer Protection Policy 2010,
- Policies that promote private investment: Trade Policy 2010, Investment Promotion Policy 2006, SME Policy 2010, Cross Border Trade Strategy 2012, and SEZ Policy, National Land Policy, 2004, Investment Code.
- General industrial policy: Industrial Policy 2011, National Export Strategy (2011). Intellectual Property Policy 2010.
- Industry specific policies: Hides and Skins Policy (2006), Tourism Policy (2009), Rwanda Craft Sector Strategic Plan (2009-13). Logistics and Distribution Strategy, Mining Policy (2010), Transformation of Rwandan Agriculture Strategy (2012), Transport Sector Strategic Plan (2012), Energy Sector Strategic Plan (2012), Financial Sector Development Programme II, ICT Sector Strategic Plan (2013-18), and FSI Hub Strategy.

## Taxation

Rwanda has an evolving taxation framework for companies, which may lead to confusion for some businesses. This is made up of a number of key taxes, although there are also numerous exemptions. As with many countries in the region, the Rwanda Revenue Authority, is aiming to balance increases in tax take without hampering the growth of the private sector.

<sup>147</sup> *World Bank Doing Business 2005: Removing obstacles to growth.*  
<sup>148</sup> Djankov, S., McLiesh, and C., Ramalho (2006). *Regulation & Growth.* World Bank Institute

RRA has been successful in increasing tax revenue from 12.7 per cent of GDP in the financial year 2011/12 to 13.5 per cent<sup>149</sup> because of implementation of previously agreed on tax policy measures (introducing a gaming tax, increasing the tax rate on imported construction materials, streamlining exemptions in the investment code and revenue administration enhancements (installation of electronic registers).

Table 8 shows the main taxes payable for companies and individuals operating in the country:

Table 8: Taxes payable in Rwanda<sup>150</sup>

Tax	Levied on	Rate	Levied by
Corporate income tax	Profits	30%	RRA
Corporate income tax exemptions	Registered investor entitled to profit tax discount if employing certain amount of employees	2% (100-200 employees) 5% (201-400) 6% (401-900) 7% (>900)	
Personal income tax and PAYE	Monthly taxable income 0-36,000	0%	RRA
	Monthly taxable income 36,001-1,200,000	20%	RRA
	Monthly taxable income >1,200,000	30%	RRA
Intermediate business owners	< RWF 2 million annual turnover	No tax payable	RRA
	RWF 2-4 million annual turnover	RWF 60,000	
	RWF 4-7 million annual turnover	RWF 120,000	
VAT	Taxable goods or services	18%	RRA
Capital gain	Sale or cession of commercial immovable property	30%	RRA
Excise duty	Mineral water	10%	RRA
	Soda and Lemonade	39%	RRA
	Beer	60%	RRA
	Wine, brandies, liquors and whisky	70%	RRA
	Cigarettes	150%	RRA
	Telephone communication	3%	RRA
Withholding Tax	Dividends, interests, royalties, services fees, lottery proceeds	15%	RRA
	Imports CIF value	5%	RRA
	Public tenders	3%	RRA
Property tax	Buildings	Value x 0.2%	Districts
	Land lease (three bands – high, med, low standing)	M2 x RWF 80-150	Districts
	Property transfer fees	RWF 20,000	Districts
Trading license	Depends on type of activity	RWF 40,000-240,000	Districts
Rental tax income	Depends on band of income – six bands: Lowest band RWF 0-60,000 (no tax) RWF 60,001 – 180,000 Highest band: RWF above 1,000,000	0% 10% 30%	Districts

Businesses with turnover of between RWF 2 million and RWF 7 million have recently seen tax rates reformed<sup>151</sup>. This system aims to reduce compliance for small firms and the cost of revenue collection to the Rwanda Revenue Authority (RRA). However, in addition SMEs face local taxes on property, Pantente (trading license) and a tax on rental income from property or land. Furthermore, there are anecdotal reports of fear of the aggressive approach of RRA and tax audits<sup>152</sup>. As shown in Table 9, “Small” companies only contribute around 4 per cent of total tax revenues, so the approach may not be effective even as a basis for increasing revenues.

<sup>149</sup> IMF Country report, June 2012

<sup>150</sup> Deloitte (2012) International tax: Rwanda Highlights 2012. RDB (2012) Investor Info Pack. GoR (2010) Official Gazette no Special of 28/05/10. In addition for SME tax change - <http://focus.rw/wp/2012/10/with-a-fair-tax-regime-rra-can-help-smes-grow/>

<sup>151</sup> <http://focus.rw/wp/2012/10/with-a-fair-tax-regime-rra-can-help-smes-grow/>

<sup>152</sup> Institute of Policy Analysis Research (IPAR) Rwanda (2011) “East African Taxation Project: Rwanda Country Case Study”



Table 9: Rwanda Revenue Authority tax revenue in 2009 (billion RWF) by type of tax<sup>153</sup>

Type of tax	Tax collected in 2009 (billion RWF)	% of tax revenue
Taxes on goods and services	174.6	44,5%
- Excise Duty	49.6	12.6%
- VAT	125	31.9%
International trade	37.8	9.6%
Direct taxes	179.9	45.9%
- Income and profit	135.3	34.5%
- Large companies	27.4	7%
- Small companies	17.2	4.4%
Total tax revenue	392.3	100%

Despite considerable progress on development of double taxation agreements with a number of countries, Rwandan businesses continue to be subject to a 15 per cent withholding tax whenever they hire firms from outside the EAC. This has therefore pushed the Rwandan transporters and importers who are forced to pay the tax, to petition the government to remove the tax.

Research undertaken by RPSF and GTZ (2008) has found that the cost of compliance with taxation is high as well as compliance with a number of other regulatory requirements. As shown in Table 10 the total cost of compliance is found to be RWF 55 billion or 3 per cent of Rwandan GDP in the year surveyed. The largest share, around 40 per cent of this cost comes in the area of tax compliance.

The survey found that the largest component of tax compliance is made up of costs associated with VAT compliance in terms of internal staff costs and the costs of external accountants, advisors and consultants. They find that the requirement for businesses to pay VAT as soon as an invoice is issued - in advance of receiving payment from the recipient of the goods or services - to be a particular problem, creating cash flow problems, particularly for SMEs.

Another significant compliance cost associated with tax is the time-consuming monthly in-person payments at RRA offices. In the survey, businesses complained about a lack of predictability and consistency, even in terms of which individual employee they were served by at the RRA office.

Table 10: Compliance costs faced by business in Rwanda<sup>154</sup>

Compliance cost	RWF (millions)	% of total compliance costs
Initial registrations	728	1.3%
Annual registrations	1,952	3.6%
Tax regulation compliance	21,233	38.8%
Labour regulation compliance	8,510	15.5%
Export requirements compliance	1,608	2.9%
Import requirements compliance	18,390	33.6%
Doing business with government (tendering)	2,334	4.3%
Total	54,754	100%
Rwandan GDP	1,746,700	
Compliance costs as a percentage of Rwandan GDP		3.1%

### Standards

International markets are extremely competitive and many markets can have strict standards on products imported into their territory. Technical regulations extend from the level of toxins in food, to the safety of household electrical appliances.

153

Ibid.

154

GTZ (2008) *Cutting the cost of red tape for business growth in Rwanda*



The safety of imports is of paramount concern to agencies concerned for the health of their citizens. Standards are the main way of signalling safety and quality, and ensuring that levels of consistency can be trusted. Rwandan firms therefore must meet the standards required in order to allow their goods to reach key foreign markets.

The particular area with heavy standards implications for Rwandan firms is in the exportation of food products to the EU. The challenges faced are in quality control of processed food products and packaging.

The use of traditional technology to process different products has revealed challenges in exporting to the European market. The EU requires the use of Hazard Analysis and Critical Control Points (HACCP) as a minimum for the processing of food, but importers often apply private standards which are much more onerous. For example many importers require firms to comply with EurepGAP standards.

However, it is often the even higher private standards that determine the potential of commodities and products to make it retail shelves in the European market. For instance the British supermarkets Marks & Spencer's and Sainsbury's require suppliers to have Fair-trade certification for many of the items that Rwanda produces including tea and horticultural products whilst Rainforest Alliance certification is required by many of the larger tea and coffee brands that are European based. These more exacting private standards are increasingly becoming more important for exporters to meet, placing greater pressure on Rwandan fledgling Rwandan exports as well as traditional sectors such as tea and coffee.

The issue of packaging is common to all exporters but affects specifically exports of fruits and vegetables. Rwanda's exporters have to first import packaging before they can export since there is no packaging plant in Kigali, but the ban on the import of plastics has meant that exporters struggle to import the optimal packaging products. A long-term solution is that RDB continues its efforts to encourage investors to invest in packaging plants, which will produce packages of high standards. In the short-term, there has been some progress on the plastic packaging issues, as exporters who write officially to REMA can gain authorisation to use plastic packages for export purposes.

The Rwanda Bureau of Standards is working together with MINAGRI to develop a one-stop-shop for export standards, including sanitary and phytosanitary testing, certificates of origin and other export standard support. However, further work is needed to provide potential exporters with clearer information on the standards that they need to meet coupled with direct support for meeting those standards. This of course should be done in collaboration with the EAC, which is increasingly seeking to harmonise standards.

### *Regulation as a binding constraint*

The private sector is significantly finding taxation, particularly in terms of compliance costs, as a big constraint to investment and growth. The limited transparency of the taxation system particularly with respect to how corporation and with-holding taxes are calculated and can be treated in terms of tax declarations leads to a high level of uncertainty amongst businesses. This leads to a considerable amount of time and money being expended by firms to obtain clarity on this issue and the risk of fines given the differing interpretations that currently exist about allowances.

Furthermore, the current system of allocating mining permits in Rwanda needs careful assessment. Presently Rwanda has the policy of giving out three types of licenses / concession permits to companies looking to exploit a mining area<sup>155</sup> including

- 2 years for exploration;
- 5 years for exploration and exploitation; and
- 30 years for exploitation.

However, for firms to absorb the expense of testing for reserves there may be need to increase the duration of the concessions to over 30 years to ensure more sustainable mining is undertaken. Importantly in addition, there is no flexibility for the GoR to issue licenses for between 5 or 30 years – this could lead to lucrative opportunities not being taken.








## 4. THE PRIVATE SECTOR DEVELOPMENT STRATEGY

The PSDS has been structured to develop a set of clear programmes that will enable the private sector to unleash its potential and become the engine of economic development in the country. The Strategy is formed around a vision of where the country and the private sector would like to be over the next few years. It aims to tackle the existing constraints and to ensure that the targets of Vision 2020 are met.

### 4.1 From binding constraints to programmes

The PSD Strategic Framework uses the binding constraints analysis undertaken in the previous section to develop specific interventions to unlock these constraints and achieve Rwanda's goals on investment, growth, exports and jobs in coming years. Figure 48 summarises how each of the binding constraints is being address by one of the programmes of the PSD Strategy.

Figure 48: From binding constraints to PSDS programmes

BINDING CONSTRAINTS		PROGRAMMES
Limited access to infrastructure		Infrastructure for Growth
Low and variable levels of FDI		Investment Promotion
Low level of entrepreneurship		Entrepreneurship Development
Access and cost of finance		Credit Expansion
Lack of skills		Skills and Innovation
Regulatory environment		Better Regulation
Co-ordination and market failures		Market Access

The PSDS has been built on a theory of change that has a clear logic chain. This can be summarised as unlocking of the binding constraints to growth for the private sector (including small, medium and large firms) so that levels of private investment in the economy increase significantly. This increased investment will in turn lead to higher economic growth, exports and job creation.

This approach is summarised in Figure 49. The theory of change is that by focussing on the specific binding constraints for each of the seven strategic pillars and unlocking them, whether in skills and innovation, infrastructure, finance, market failures, or the regulatory environment, this will enhance the opportunities for investment in the economy.

On the assumption that entrepreneurs and businesses take advantage of these opportunities, greater private sector investment should be generated. In turn this will lead to growth, more jobs, and greater exports, which form the main targets of Vision 2020.

Figure 49: Rwanda PSDS Theory of Change



## 4.2 Vision and Mission

The PSDS needs to be guided by the vision of what type of private sector Rwanda may hope to develop. Developing this vision was an iterative process of testing hopes and aspirations against what is likely to prove feasible. The vision for the PSDS is highlighted below:

***“An entrepreneurial, innovative and competitive private sector that delivers broad-based and inclusive economic growth, resulting in many more and better paid jobs for Rwandans.”***

In order to achieve this vision, the broad PSD Sector Working Group (SWG) of key institutions and stakeholders should follow a mission to:

***“Unlock the constraints to private sector-led investment and growth through an ongoing process of policy reform and dialogue that will allow an expansion in the quantity and quality of investment in Rwanda. This investment will need to deliver more secure, well-paid jobs for Rwandans by increasing the number of jobs created, be they from large or small and medium enterprises.”***

## 4.3 Strategies and programmes to achieve objectives and outcomes

The PSDS includes a number of interventions designed to unlock the binding constraints to investment and growth in the country. This will enable economic transformation to take the economy to higher levels of prosperity. Furthermore, this growth and transformation will be stronger if more of our people can contribute and benefit from it.

### Programme 1: Infrastructure for Growth

Removing the energy constraint will be the number one priority for the GoR over coming years. MININFRA has ambitious targets to do so, and this requires massive flows of investment into the sector. The Energy Strategy prioritises PPPs in this delivery, and the responsibility for this has largely been placed on the recently established EWSA Investment Unit. This should be closely coordinated with RDB, where investment promotion and deal-making

skills are more concentrated. In the short-run, measures can be undertaken to ensure the energy constraint is not crippling for Rwandan businesses.

Unlocking Rwanda's infrastructure constraint will also require the provision of land with good access to utilities that can be used for private sector development. Rwanda's fledgling Special Economic Zones (SEZs) programme provides the means and impetus to secure such spaces. In addition the Kivu Belt SEZ designation should also provide space and means to diversify Rwanda's tourism sector. Furthermore, logistics infrastructure will play a vital role in reducing costs to trade and regional transportation.

#### **Programme Indicator:**

- Hectares of land within Special Economic Zones with full connectivity to utilities, including electricity, as well as with good road access increase from around 100 hectares to over 750 hectares by 2018<sup>156</sup>.

#### **Other indicators to track:**

- Reduce the cost of importing a container from \$5,000 in 2012 to \$4,000 by 2018, and the cost of exporting a container from \$3,250 in 2012 to \$2,500 by 2018.

The Infrastructure for Growth Programme will aim to deliver these targets through two core initiatives:

- Continue and expand the development of SEZs in the country: The SEZ Policy of 2010 created a strong framework for the development of SEZs in Rwanda. Since then the Kigali SEZ has made progress and is now in partial operation. This programme should continue in coming years, and should also seek to extend SEZ capacity. The basic principle of SEZs in Rwanda should be the provision of high quality space for production with good energy connectivity and access to good roads. This should not specify which sub-sectors should operate in the zones nor have a specific targeting of the types of firms that would be eligible. The supply and demand forces of the private sector should ensure that the 'best' firms will benefit from location in the SEZs. SEZ status should be extended to further zones, including for the Kivu Belt, as well the Bugasera Industrial Park. In addition, the other three zones currently being developed as Provincial Industrial Parks – Nyabihu, Huye and Rusizi – should be developed as low-cost SEZs with land lease prices of less than \$1 per metre per year.<sup>157</sup>
- Establish an integrated logistics system based on a Kigali Logistics Platform, linked to Regional Logistics Centres, and supported by an e-freight exchange system: These centres should be developed in conjunction with the private sector, through PPP arrangements. They will provide distribution and logistics services at selected locations for transit goods arriving from Mombasa and Dar es Salaam, with final destination in Rwanda, the eastern DRC or Burundi. The central part of this integrated system is the Kigali Logistics Platform (KLP). This platform will be integrated to the Kigali SEZs and will be supported by an e-freight exchange system providing information on truck-loads to operators, improving the efficiency of the system and reducing coordination failures that lead to trucks travelling empty. The KLP will be directly linked to Regional Logistics Centres where services provided should depend on the local demand. These centres should be directly linked to planned Industrial Parks / SEZs in Rusizi and Nyabihu.

#### **Key initiatives led by other sectors:**

- Incentives for energy self-generation: While Rwandan businesses await the challenging generation targets of MININFRA to be achieved, policies should be in place to aid those firms that are seeking to generate their own energy in order for their businesses to operate with sufficient supply. In particular, subsidies can be provided through accelerated depreciation on imports of self-generating capital goods, while duty-free status should be considered for green, renewable technologies imported. This should include solar panels and mini-hydro generation technologies. In addition, feed-in tariffs to the national grid can be offered for those generating electricity.

156  
157

This reflects the completion of Kigali SEZ and four additional SEZs, currently being developed as Provincial Industrial Parks  
This is in line with market demand analysis undertaken in the development of the Ministry of Trade and Industry, GoR (2010) Special Economic Zone (SEZ) Policy.

## Programme

### 2: Investment Promotion

Achieving targets in FDI will be vital to the achievement of overall investment targets, as well as targets in growth, jobs and exports. RDB has been at the heart of efforts to increase FDI, but in recent years investment levels have not increased markedly. There has been an over-reliance on just a few large investors, and large investment pledges have not always translated to realised FDI flows.

In order to lead the country towards achieving higher levels of FDI, the PSDS proposes a new focus and primacy for investment promotion. This will aim to improve Rwanda's efforts to bring in international investors, making it more targeted and intelligent – this will be through an Investment Promotion network of agents and commercial attachés in target markets, co-ordinated by a reorganised structure under RDB. It will also be through ensuring that incentives are in place and that once investors register and put their money into the country, continued support is provided, particularly when investors face issues with other Government institutions and regulations. This is in itself an important investment promotion tool, since investors talk to one another and reputation can be formed this way as much as by performance in international business surveys.

### Programme Indicators

- Level of private investment as a proportion of GDP to increase from 10 per cent in 2012 to 13 per cent by 2015/16 and 15 per cent by 2017/18.
- Level of FDI as a proportion of GDP to increase from 2.3 per cent in 2011 to 3.5 per cent by 2015/16 and 4.5 per cent by 2017/18.

### Other indicators to track:

- Increase the proportion of registered FDI and Joint Venture (JV) investors moving from registration to implementation phase from 71 per cent in 2010/11 to 85 per cent by 2015/16.
- Increase the proportion of registered FDI and JV investors moving from registration to operation phase from 47 per cent in 2010/11 to 60 per cent by 2015/16.
- Increase proportion of active investors expressing satisfaction for investor aftercare services provided by the GoR (baseline will be required – should incorporate question into MINICOM annual Investor Perception Survey).

### To achieve these targets, the strategy will aim to:

- Develop a network of agents in target markets for Investment Promotion to work directly under the RDB: Investment promotion requires the prominence that the business environment achieved under the successful Doing Business Taskforce. The Investment Promotion Programme will require greater resources for the proactive targeting of key markets. This will involve developing a network of outsourced agents, working together with commercial attachés in target markets, and co-ordinated by RDB. The targeting activities should begin with London as an international financial centre with strong links to other global markets. It should then be extended to other markets in the U.S. and to East Asian centres such as Shanghai. The programme should eventually develop a presence in several target markets developing a strong and active presence for Rwanda in them.

Each outsourced resource will work closely with the commercial attaché based in the location, as well as with RDB. RDB will provide inputs to the team as required, helping to turn leads into actual investment. The outsourced resource will be paid on the basis of a retainer with the potential for performance bonuses as investments are realised (pay on performance). The targeted sectors should be those identified as having strong potential by RDB in collaboration with the IDEC, for example those developed in the National Export Strategy, but should remain flexible and adaptive depending on the apparent requirements and demand from investors as these emerge.

- Institute a core Marketing Division within RDB to lead promotional efforts on brand Rwanda and the attraction of investment into the country: The Division would be in place of the current investment promotion team<sup>158</sup>. The Division would be responsible for marketing of Rwanda as an investment destination. It would undertake sectoral market research and seek to identify targeted opportunities (these will be taken forward in conjunction with the Investment Promotion Programme). It would also co-ordinate investment promotion activities, in particular marketing campaigns, market outreach and co-ordination of commercial attaché's activities.

<sup>158</sup> This will be distinct from PR and Communication currently under the RDB CEO, and will not be responsible for the website for example. It will also not be responsible for marketing Rwanda as a tourism destination.

- This will include developing the proposition for Rwanda as an investment destination, which should utilise the incentive regime, as well as other attractions such as Rwanda's EAC membership.
- Develop a strong incentive regime for investors, with clear inter-agency cooperation on delivery: RDB is now working on the development of a clear package of incentives for investors, an Investment Code Revision. This includes fiscal incentives, as well as incentives for training, research and work permits. RDB should be held responsible for the delivery of this regime when investors are operating in the country. The Code should be flexible so that particularly attractive investors can be offered more generous packages of incentives. The RDB will need the option of involving an inter-ministerial forum at an early stage in negotiations with large potential investors, giving the RDB greater powers to propose a package backed by firm inter-ministerial commitments and a clear public-service delivery schedule. There should be legal safeguards in place when investors enter the country to ensure that the investment code they sign-up to is adhered to over the full period of investment and operation and that Ministries are held accountable.
- Build relationships with investors through the entire process of investing and undertake issue resolution: RDB should continue with Key Account Managers (KAMs) as points of contact for investors as they are identified as having significant potential. KAMs need to feed into a structured investor aftercare team within RDB, a Customer Relationship Management System (CRMS), with the powers to call upon other institutions to resolve issues in an efficient and speedy manner. UNCTAD evidence shows that investors wish to see the uncertainties and unpredictability of decisions resolved, for example around import duties and VAT. The KAM / Investor aftercare processes within RDB should escalate such issues as they arise to pre-empt difficulties later on. Where RDB cannot resolve issues, they should be escalated to the IDEC.

### Programme 3: Entrepreneurship Development

Entrepreneurship is the driving force for the private sector to create wealth, but it remains weak in Rwanda. Most entrepreneurs are informal household enterprises, and engaged in survival activities at a micro-level. The business environment for such enterprises can be restrictive, with limited areas designated for legitimate activities and punitive measures for those that do not comply with the rules. Formalisation should be the aim for these businesses in the medium-term, but all entrepreneurial activity should be celebrated to unleash the potential of the private sector in the country, and the role of informal enterprises as a gateway into the non-farming economy should be embraced.

The number of new formally registered companies has been increasing to around 6,500 in 2012, with an additional 2,500 registering as sole traders<sup>159</sup>. In order to increase the rate of business formation and formalisation further and diversify the private sector, the capacity of these businesses needs to be increased. It is necessary to provide newly formed businesses, mostly micro and small enterprises, with the tools that will allow them to increase their productivity, become more competitive and participate in and benefit from markets.

#### Programme Indicator:

- Increasing the number of new businesses created annually to at least 17,000 by 2018 from the current level of 9,000 in 2012.

#### Other Indicators to track:

- Number of medium sized formal enterprises increase from 513<sup>160</sup> in 2011 to 4,000 in 2018 based on establishment survey census.

#### To achieve these targets, the strategy will:

- Create an enabling environment for small informal micro and household enterprises: Informal enterprises form the bedrock of the Rwandan economy in terms of employment; micro and household enterprises in the informal sector employ over 70 per cent of the active labour force including youth<sup>161</sup>. In addition, they have a significant role in the transition for those working on farms to off-farm employment, particularly for women<sup>162</sup>. Due to better data, it is also now clear that informal trade plays a significant role in improving Rwanda's trade deficit; informal exports are performing well, with an estimated \$66 million from January to September 2012, up 85 per cent on the same period for 2011.<sup>163</sup>

<sup>159</sup> RDB (2012) Office of the Registrar General – Statistics of new business registration by the courts.

<sup>160</sup> Medium defined as 31-100 employees. "Establishment Census – Analytical Report" MINICOM and PSF, August 2011

<sup>161</sup> NISR (2011) The third integrated household living conditions survey (EICV3): Main indicators report.

<sup>162</sup> Institute of Policy Analysis and Research-Rwanda (IPAR) (2010) Re-evaluating the Role of the Informal Sector: The Role of Household Enterprises in Poverty Reduction and Employment Creation in Rwanda". Pamela Abbott and John Rwirahira.

<sup>163</sup> Ministry of Trade and Industry (2012) Trade Performance Report: January – September 2012



Given this pivotal role for small informal micro and household enterprises, the GoR should ensure that they are able to do business. These enterprises face particular challenges, especially in terms of the locations in which they are allowed to operate – they are currently restricted to certain zones or markets, which can be poorly located and have insufficient opening hours during the working week.

There is therefore a requirement to increase the number of locations in which small traders can operate. In particular, informal traders should be able to operate where there is significant demand for their products, and this should include areas in or around town centres, with less restriction on operating hours. These should not necessarily be markets that are constructed by Government. This could exclude certain areas of special sensitivity such as the Central Business District in Kigali. Creating an enabling environment for informal enterprises will require a high degree of sensitisation, particularly with public sector institutions such as the police.

- Develop Mentoring and Counselling Facility through financial institutions and funded through the BDF: Many small, indigenous, growing businesses fail because they do not have access to role models and mentors that could steer them through the pitfalls of growth. The provision of mentoring and counselling services to promising borrowers who are not able to access their loans because of weaknesses in their corporate governance and financial and business management capabilities, may make a sizeable difference. Mentoring and counselling services thus provide a track record for established small and micro enterprises that previously would not have been able to get financing. Alternatives such as one to one account manager services would be too time consuming and financially non-viable given the size of businesses for banks to provide.

Thus a new Mentoring and Counselling Facility will be established, funded by a special component of the BDF, and aimed specifically at SMEs. It will work with banks to provide another conduit for reducing the risks and uncertainties for lenders, through support from this facility. The banks would refer potential recipients of support to the Facility. It will provide counselling and mentoring support in the areas of corporate governance and financial management periodically for an extended duration of time (e.g. monthly review of accounts, quarterly review of business financial prospects over a three-year loan term). SMEs that access this facility will be required to pay a fee to avoid the risk of moral hazard. Moreover, the risk will be also significantly reduced as lending by the bank would be contingent on the SME successfully implementing the recommendations of mentors and counsellors.

Given that these services are expensive to deliver, the outreach of such services is limited. However, the facility will run in conjunction with and be additional to current activities such as the RDB and BDF quasi-equity scheme, and other BDS support schemes. The purpose of this facility is to help develop role models of successful entrepreneurs that can inspire others and increase the willingness of banks to lend to well-managed businesses. Moreover, it can show to the banks that instead of turning good business ideas away because of lack of sound management, they can incentivise entrepreneurs to seek counselling from professional service providers.

- Expand the Hanga Umurimo business plan competition: A vibrant private sector is needed to generate the virtuous circle of “creative destruction” that brings investment, creates jobs, and leads to innovation that increases productivity. The aim of the Hanga Umurimo programme should be to demonstrate that it is possible to promote entrepreneurship in the country by recognising and supporting its fledgling entrepreneurs.

Hanga Umurimo will need to expand rapidly, and have a many-fold increase in both its scope and financing if it is to: i) give potential entrepreneurs the help they require to develop a business plan that describes how their idea could work; and ii) help successful entrants to access finance and other services required to put their plans into practice.

It is important to note that the size of the awards determines the type of entrepreneurs that the competition attracts. The current limited size of the prizes means that the programme is targeted mainly at entrepreneurs who aimed to start their own business or expand their micro firms. Larger awards might have the potential to catch the attention of small and maybe some medium-sized firms, and could potentially have a greater impact in terms of job creation. Furthermore, it may be useful to consider prizes comprising a mixture of small grants, office space and hardware, as well as support services. Ideally these should be provided by sponsors of the competition on an in-kind basis. The programme could consider competitions by sector, for example a competition for ICT entrepreneurs making the best use of the country’s Internet connection infrastructure.

- Develop and deepen business linkages through a vendor development programme: SMEs can benefit from the support provided by larger enterprises in the value chain in the interests of developing their suppliers and distributors. Known as embedded services, this is the most effective form of business support in that it combines the transfer of know-how with the commercial incentive of growing the business by increasing the linkages with the large enterprise. The business linkages intervention will incentivise large businesses to provide embedded BDS to build capacity amongst their suppliers and distributors, encouraging them to contract out parts of their core business and supporting small businesses to provide new goods and services they require. Given that this does not take place with existing markets, there is a market failure to address. This means that there is need for subsidy to large firms to generate linkages.



Learning from international experience, there are models that offer prospects for success for developing linkages. Based on the experience of Malaysia's vendor development programme as well as that of India and Mozambique, the programme will consist of the following:

- Anchor companies: The programme will identify large Rwandan and foreign owned companies that are committed to a strategy of supplier development and hence willing to support the development of local businesses by providing product specifications, specifying purchasing criteria and transferring know-how to potential suppliers. They are required to sign a memorandum of understanding (MoU) with potential suppliers stating that they would buy from them if the purchasing criteria were met. This provides the incentive to local companies to invest to develop the required products and services.
- Supplier enterprises: Companies that meet the established criteria for ownership and size to participate in the programme have to show that they are willing to invest and commit management time to the development of products and services and have to convince the anchor companies that they have the potential to meet their purchase criteria. Ultimately, their participation in the programme is dependent on being selected by the anchor companies.
- Technology and training: These services are provided by established technology or vocational training institutes with the required know-how and capability to build the capacity of suppliers. RDB in conjunction with the anchor company will identify the relevant training institution(s). It may be necessary to source in the expertise required from private, possibly foreign, suppliers.
- Financial Institutions: A group of participating banks willing to fund suppliers based on the MoU and their participation in the programme.

The vendor development programme will be run through RDB. A Business Linkages Challenge Fund will also allow anchor companies to bid for support to participate in the programme<sup>164</sup>. The programme should be funded by GoR and development partners.

- **Expand BDS Provision:** To serve the larger target population of entrepreneurs with the requisite attitude and attributes to be transformative, requires the expansion of business development services (BDS) encompassing a range of management and skills training, bookkeeping and financial accounting, business planning and operational support. These are likely to include micro enterprises, with many not currently employing any paid workers, so the assistance has to be provided cost effectively. Although the track record of government and donor provision of BDS is mixed<sup>165</sup>, over the past decade, a considerable body of literature has emerged on how BDS can be provided cost effectively. The current approach adopted has focused on developing a limited number of privately run BDS centres across the country. However, adopting this approach has led to limitations in terms of outreach, since little has been done to change the services offered. Without significant innovations in the types and scope of services provided businesses will only value BDS if it is able to link it to finance. Thus the intervention will stimulate the supply of BDS to a greater number of businesses through the provision of training and business support to the providers of BDS. It is noted that achieving positive outcomes and impacts requires that the BDS is provided to entrepreneurs with the requisite attitudes and attributes. Thus the intervention will provide support to selected providers of good quality BDS, on a matching grant basis, to submit proposals on a competitive basis for the provision of new services. The proposals will need to demonstrate the use of innovative business models to increase outreach and effectiveness, and how transformative entrepreneurs will be targeted. This fund will be administered through RDB and work with existing programmes that they currently implement to support BDS provision.
- **Commodity value chains built:** the functioning of the internal trade system for key commodity products such as the Crop Intensification Programme (CIP) crops has a significant impact on prices received by producers and paid by consumers. In the medium to long run, transport infrastructure such as feeder roads plays an important role in reducing costs. In the meantime, the organisation of producers and linkages with both supply chains (traders, warehouses, consumers) and value chains (processors) must be facilitated. In addition to existent Value Chain Analyses (VCAs), key commodities requiring analysis will be identified and implementation plans developed based on the recommendations.

<sup>164</sup> Details of how the challenge fund mechanism operates are highlighted in Annex 4

<sup>165</sup> For example ANDE: The ANDE Research Initiative (2012) *Small and Growing Businesses: Investing in the Missing Middle for Poverty Alleviation*

## Programme 4: Credit Expansion

Financial services are a crucial input to any economy. Given the low levels of private sector investment in the country, much needs to be done in Rwanda to ensure greater credit is available to the private sector. Detailed work has already been done through the Financial Sector Development Strategy in terms of ensuring the regulatory environment as well as institutions and the supporting infrastructure are in place to expand outreach, efficiency and innovation, as well as integration of the financial sector in the EAC. However, currently lacking from this work are the instruments available to increase bank lending. The Credit Expansion Programme aims to deal with this issue through the implementation of a number of targeted interventions.

### Programme Indicator:

- Level of private credit to SMEs as percentage of GDP increases from 3.7 per cent in 2012 to 5.3 per cent by 2015/16 and to 7.2 per cent of GDP by 2017/18.

### Other Indicators to Track:

- Level of private credit to GDP increases from 12 per cent in 2012 to 27 per cent by 2017 and to 30 per cent of GDP by 2020 (Financial Sector)
- The percentage of new investment by formal businesses financed by banks<sup>166</sup> increases from 14 per cent in 2012 to 25 per cent by 2018.
- The value of collateral needed for a loan falls from 273 per cent to the sub-Saharan African average of 160 per cent<sup>167</sup> by 2018.

### To achieve these targets, the strategy will aim to:

- Increase the size, financial and economic additionality<sup>168</sup> of the credit guarantee scheme: The credit guarantee scheme (CGS) is meant to address the market failure of information asymmetry whereby banks know less than the businesses they lend to whether they can make adequate payments on a loan. However, if the CGS does not change the behaviour of financial institutions in terms of how they appraise borrowers and monitor their performance and the products they provide, it will not deliver systemic change. This is a widely acknowledged weakness of credit guarantee schemes the world over. They are justified by a lack of collateral on the part of SMEs but do not always give rise to better cash flow based lending practices or better products, thus perpetuating themselves indefinitely.

Furthermore, credit guarantee systems are not traditionally known to solve the problems of weak entrepreneurs. So, if high rates of default are caused by poor capacity of borrowers, the scheme will continue to experience high NPLs. It is vital therefore that the scheme includes measures for improving the practices of the banks.

Good practice in the design of CGS includes providing training to the participating banks and MFIs to improve their loan appraisal and monitoring practices in order to ensure that they comply with the requirements of the scheme. Furthermore, using the incentive the CGS provides, they can develop institutional capacity in SME lending by requiring participating banks and microfinance institutions (MFIs) to invest in systems that help to support borrower capacity. In this way, they can help to change the behaviour of the banks resulting in systemic change.

Overall the current CGS is too narrow (in terms of sector focus) and under-capitalised at around RWF 13 billion (approximately US\$20 million). In order to have a more sizeable impact relative to overall investment levels and the size of the Rwandan economy, there is need to assess the potential of increasing its size by a magnitude of at least an eight- to ten-fold.

A scheme involving more than one bank allows comparisons between successful and less successful lenders and lending practices, giving valuable insight into how the scheme might have to be adapted to become more efficient. If a particular bank exhibits a high rate of defaulting borrowers and thus makes larger claims, the guarantor and lender can examine the reasons and adjust the guarantee coverage or fees if necessary.

- Support product innovation and new outreach models through an Innovative Financial Outreach Challenge Fund: The predominant focus on lending by both banks and MFIs does not fully recognise that vibrant enterprises need a variety of financial products.

<sup>166</sup> World Bank Enterprise Survey, 2011

<sup>167</sup> World Bank Enterprise Survey, 2011

<sup>168</sup> Financial additionality primarily refers to an increase in commercial bank loans to credible SMEs who previously did not have access to credit as a result of lacking or inadequate collateral.

It is not only necessary to mobilise additional resources for lending but to incentivise and provide capacity to financing organisations to meet the multiple financial needs of businesses for borrowing and insurance, reduce transaction costs for serving rural businesses and reduce the risk of serving small, often informal businesses.

It is unlikely that any single approach or delivery channel will reach the large numbers of MSMEs in Rwanda, particularly those in rural areas. Investments need to be made to test the market for low-cost delivery technologies. Collaborations amongst providers can be utilised to sustainably serve rural and small enterprises. In this respect a performance grant facility is proposed to be developed, such as a challenge fund instrument, to support and test these new low cost delivery technologies. The Innovative Financial Outreach Challenge Fund (IFO)<sup>169</sup> will provide the risk capital in the form of grants for the private sector to develop new models. This will be financed by the GoR, but delivered by private sector financial services institutions.

While the microfinance sector is small as a proportion of the overall banking sector, it is much better placed to serve micro and small enterprises due to its experience with some of the members and due to much better physical outreach and low cost business models. However it is constrained by skills, lending capital and appropriate financial products. In the long-term there is need to develop wholesale finance markets for banks to lend to MFIs, helping the banks to take advantage of the outreach capability of MFIs and for the MFIs to benefit from the deposit mobilisation capacity of the banks.

In a generally conservative industry, the most innovative new development worldwide has been the emergence of the Islamic banking, in countries such as Bangladesh. On the investment side, such products are ideally suited to providing raw materials for MSME manufacturers and inventory for MSME traders, by making sure there is no diversion of funds to uses outside the business, full transparency of charges and enabling the customer to repay when they have concluded a transaction rather than having to pay interest before cash is realised from a transaction. The Mudaraba and Musharakah profit sharing products developed in Bangladesh are a form of project finance suited to small business. In common with the best banking systems in the world for financing business (i.e. the German) what they do is to put the bank and the borrower on the same side rather than in an antagonistic relationship. These products have proved so popular that foreign banks such as Standard Chartered have now started to provide them. An adaptation of such models could be considered in the Rwandan context and could be introduced and tested through risk sharing provided by the IFO challenge fund.

- Expand and develop instruments for impact investing including private equity and quasi-equity instruments, for medium to large enterprises: There is growing evidence that a small number of transformational businesses contribute disproportionately to creating wealth and reducing poverty<sup>170</sup>. Such businesses grow and invest in creating jobs and innovative new technologies and business models that connect the poor at 'the bottom of the pyramid' to markets. Impact investment seeks out and invests in such businesses, helping them to overcome financial market failures. It provides the patient capital that helps such businesses transform the lives of the poor. The provision of financial and technical assistance and hands-on support can help, in particular, to support new start-ups, investment in non-traditional sectors and new business models that benefit the poor through creating jobs or providing other economic opportunities. Such investment funds provide both debt and equity.

Players in the impact investment market include philanthropic organisations, development financial institutions (DFIs) and, increasingly, more commercial financial institutions and pension funds. The RDB through the BDF has recently introduced a new quasi-equity fund, to make an impact on increased investment to start-up and early stage expansion of firms. This facility needs to be significantly increased, should the evaluation of the first year of implementation prove to be successful. At least a ten- to fifteen-fold increase in its capitalisation from its current 2012 levels should be considered to make a sizeable impact on the transformational private sector in the country.

The Commonwealth Development Corporation (CDC), DFID's Development Finance Institution, has reorganised itself under a new Strategic Plan which focuses its operations more squarely on lower income countries, including Rwanda, and on investments that have a direct impact on poverty reduction. CDC now has the ability to make direct investments into businesses as well as channel its resources through other private investment funds that are impact investors. These types of investments fit the profile of investment that Rwanda needs to help to diversify its economy. DFID HQ has recently approved a £112 million IMPACT Programme that aims to catalyse investments in sustainable enterprises that benefit the poor. CDC has asked private investment funds to bid for these funds. Rwanda will be covered by this programme and provides an opportunity to leverage these funds.

The Government will also examine the feasibility to support the development of the market for impact investment in Rwandan SMEs. It could provide funds to co-invest alongside private investment funds, subordinating its returns to those accruing to private investors to make the proposition more attractive.

<sup>169</sup> <sup>170</sup> Annex 4 provides a description of how challenge funds operate  
"Can Entrepreneurship be Fostered", World Bank World Development Report, 2013

It could also subsidise the administrative overheads and cost of providing technical and management assistance to support deeper capacity building and supply chain linkages for specific investments thereby ensuring greater spillovers. In return, the GoR would require these funds to lower their investment thresholds, although acknowledging that smaller investments impose higher transactions costs on the fund manager. It should be possible by reducing the investment threshold to open up the opportunity to benefit from impact investment to a wider range of SMEs operating in Rwanda.

Large regional players such as GroFin have already established offices in Rwanda, and others such as have increased commitments to support financing for fast growing companies in countries such as Rwanda and provides significant potential. Using the co-investment model, it could be possible to attract greater numbers of these types of players to Rwanda.

- **Develop and innovate new forms of structured finance:** In examining the forms of collateral that financiers require, there is a significant opportunity to use trading relationships between buyer and seller as a form of security and finance cash-flows. Thus in such a situation the focus shifts from the strength of the borrower to the underlying cash flow and structure of the relationship between buyers and sellers. Rwanda has already implemented structured finance schemes in export crops and in the coffee sector in particular. In such models the security provided by a letter of credit can be used to finance payments to cooperatives and farmers, increasing liquidity and the ability of farmers to invest in their crop.

With very high requirements for collateral in Rwanda, the greater use of structured finance products for MSMEs provides the potential to move from collateralised loan products to other forms of security. However, this requires adaptation and risk sharing to allow financial institutions be they local, regional or international players, to innovate new products which could benefit Rwandan MSMEs. The establishment of new regional banks, particularly from Kenya has not addressed this lack of innovation. Thus it is proposed that a specific window on the Innovative Financial Outreach Challenge Fund will be assigned for developing innovations in structured finance for MSMEs.

#### **Key interventions led by other sectors:**

- **Agricultural lending, through warehouse receipts:** A pilot system is already being implemented in Rwanda which enables farmers to receive loans and provide more modern storage facilities that potentially reduce losses of their produce. Warehouse Receipt Systems (WRS) have a long history of use in facilitating commodity trade and finance in the EAC region.

The current system is being adopted by MINAGRI in collaboration with MINICOM. The implementing donor, USAID, will assess the pilot programme in terms of its potential to be scaled-up significantly. In order to improve the functioning of the system, the intervention will examine a number of approaches to: i) increase the provision of adequate infrastructure; ii) ensure greater warehouse security; iii) reinforce producers' organisations, through greater emphasis on capacity building programmes; and iv) increase the number of quality control specialists.

The commodity exchange potentially provides a mechanism for price discovery, and provides the means to hedge and trade at very low costs, and at the same time restricts the scope for arbitrage across time periods (inter-temporal arbitrage). This could permit a more secure system of warehouse receipts evolving reducing the risk premiums associated with the financing of working capital, and thereby the cost of financing intra-annual, or even inter-annual, storage of commodities. For this to develop, the current WRS system will need to be upgraded with an electronic WRS in order to accommodate the increased trading of futures contracts. It is also a means of making such financing much more widely available on competitive terms. However, for this to work and development of new products such as Warehouse Receipt backed Repos (re-purchase agreements) which can be sold to short-term investors like pension funds<sup>171</sup>, requires development of appropriate policies and regulation.

#### **Programme 5: Skills and innovation**

Rwandan firms face significant constraints in the quality of skills of new and existing employees. The percentage of firms identifying an inadequately educated workforce as a major constraint has doubled since 2006<sup>172</sup>. Evidence consistently shows that training in the workplace environment, and training closely linked to the requirement of private sector firms, provides the best chance of overcoming skills deficits.

<sup>171</sup> These in competition with other short-dated paper (done successfully in Colombia and Venezuela) can drastically reduce the interest cost to borrowers.  
<sup>172</sup> Based on World Bank Enterprise Surveys 2006 and 2011

Although there are numerous initiatives aimed at strengthening vocational training, the current system has yielded mixed results. The Skills and Innovation Programme will provide greater private sector input into training to ensure that they meet the needs of a fast growing and rapidly evolving economy.

#### **Programme Indicator:**

- 12,000 apprentices and interns per annum are placed in jobs by 2017/2018 (up from 1,200 per annum in 2011/12).

#### **Other Indicators to track:**

- 80,000 workers enrolled in training per annum by 2017/2018 through the restructured TVET system (up from 56,000 in 2011/2012).

#### **To achieve these targets, the strategy will aim to:**

- Support a more business-responsive TVET System: A combination of approaches should be considered to improve the linkages between business and TVET institutions. This includes expansion of RDB's Skill Sector Councils, bringing together the private sector via relevant Chambers of Commerce, with PSF, RDB, WDA, as well as TVET and higher educational institutions. The RDB should be driving forward these councils which provide both a means to identify and address skills gaps, as well as promoting private sector provision of training, and work experience and internship placements within existing firms.

Traditionally the GoR has directly financed training providers and training delivery. In order to improve the effectiveness of public spending, new forms of management are, however, being developed. Given the lack of financing available for the TVET system and the willingness of larger firms to engage in training activities, the tax system needs to be amended to allow enterprises to deduct the cost of training from their income as a cost of business before taxes.

- Piloting new public-private approaches to training and skills development: In addition to wider reforms to the TVET system, a scheme will be piloted and assessed in which Government and employers work directly together to address in-house company skills training deficits. The scheme run by RDB will encourage firms to apply for grants awarded on a matching basis to firm contributions to address a clearly identified skills deficit. The proposal brought forward by the company will need to demonstrate that the skills training will lead to greater productivity improvements within the firm and that the skills developed will be able to result in a recognisable qualification (within the industry or particular sub-sector) for those participating within the scheme.

In order to successfully implement such a scheme there needs to be an accreditation of service providers, either local or international that does not currently fit in the country's TVET institutional structure. The WDA in collaboration with the RDB will accredit service providers wishing to participate in the programme. Chosen training schemes will be administered through performance contracts where payments are based on achieving clearly defined outputs and outcomes.

- Expand internship and apprenticeship schemes: The benefits of vocational training schemes have been well documented and the success of existing initiatives especially working with school dropouts, and university graduates needs to continue. Although around 1,200 interns per year have been placed, a significant proportion has tended to be targeted to the public sector. Although individual firms have been involved in collaboration with some education institutes and the RDB, there is need for greater efforts to encourage the private sector to participate in the programme.

A larger nationwide programme is required to raise the level of vocational qualifications in existing professions and increasingly target the training of people for promising professions and sectors in terms of growth and jobs. The broadening of trades which are more pertinent to the needs of the economy requires much greater engagement with the private sector.

In order to encourage private sector internships, the burden of administration of these schemes needs to be simpler to allow medium and smaller sized firms to participate. Easier registration, with support through existing allowances for interns and broadening trades and professions will permit better outcomes to be achieved. The programme should be run by the RDB HC&ID Department.

It is important to note that any improvements to apprenticeship training should be matched with efforts to provide professional skills up-grading to the entrepreneurs. Given that the current population of informal sector entrepreneurs will comprise a significant portion of most sectors' operating capacity in Rwanda for a number of years to come, any sectoral improvements will need to ensure that this group is included.



## Programme 6: Better Regulation

Despite significant work undertaken by the GoR to improve the regulatory environment, a number of key issues remain for which better regulation is still required. This includes improvements to the taxation system, developing better insolvency practices, reviewing concessions for key sectors such as mining, and other sector specific laws. The key here is to continually seek the real regulatory constraints to private sector operations in Rwanda, and address them on an ongoing basis.

Public private dialogue (PPD) will be crucial to the identification of sector-specific regulations that can be improved. The current RDB PPD initiative should be further developed together with the Private Sector Federation (PSF) to ensure that the dialogue between the GoR and different sub-sectors of the private sector takes place, and that each are held accountable to one another. This should seek to provide a regular forum for the private sector and sub-sectors.

### Programme Indicator(s):

- Regulatory Environment Index: composite of indicators from the World Bank Doing Business Report related to the regulatory environment for businesses. The Index uses 2012 as a base year, and targets increases year-on-year from this point.

### Other Indicators to track:

- Percentage of firms identifying tax rates as the biggest obstacle to business reduced from 21 per cent in 2011 (Source: World Bank Enterprise Survey) to 10 per cent by 2018.
- Percentage of firms identifying tax administration as a major constraint reduced from 29 per cent in 2011 (Source: World Bank Enterprise Survey) to 10 per cent by 2018.

### To achieve these targets, the strategy will aim to:

- Simplify the tax system in collaboration with review of the Investment Code: The UNCTAD survey of existing investors found that they experience high degrees of uncertainty around the taxes they are required to pay<sup>173</sup>. There is a need for a fundamental change in the way that companies are taxed to ensure that there is greater certainty and transparency in the system. The programme will deliver research aimed at streamlining the implementation of Corporation and Withholding Tax, and other business taxes, from a private sector perspective. In particular the current system provides a number of areas where there are constraints which need greater analysis, prior to a detailed programme for reform being developed. They include:
  - Under the withholding tax dividends are paid to a non-resident company are subject to a 15 per cent tax. Although companies operating in the EAC region are exempt, for many others where double taxation treaties have not been signed or have lapsed (in the case for Mauritius for example) this provides considerable disincentives to invest. A similar situation arises for technical service fees which are also subject to a 15 per cent withholding tax. With the Government's stated aim of developing the services sector, taxes such as these are likely to discourage investment.
  - Non-deductible expenses on corporation taxes are frequently reported by business to be a significant issue. For instance ICT companies are only permitted to declare a small proportion of their ICT-related costs, the remainder is considered profit and liable to taxation even though these may be legitimate expenditures.
- Creation of Tax Business Advisory Panels: The UNCTAD survey of existing investors<sup>174</sup> found that they believe RRA should become "less zealous and more client-facing in its approach to tax collection". To some degree, this zealousness is understandable, given that there are only around 354<sup>175</sup> large taxpayers contributing approximately 75 per cent of total taxes in Rwanda<sup>176</sup>. However, this has had significant impact on resources spent by larger companies meeting the various taxation requirements placed by the Rwanda Revenue Authority (RRA). In order to improve tax administration in Rwanda the RRA should consider the establishment of Tax Business Advisory Panels (TBAPs). These panels would be distinct from PPD forums, and provide a new type of forum for business taxpayers to voice their concerns over tax administration procedures or practices that they consider unnecessarily burdensome, and to suggest practical alternatives.

173 UNCTAD (2012) *A study of Foreign Investors' Perceptions of Rwanda*  
 174 UNCTAD (2012) *A study of Foreign Investors' Perceptions of Rwanda*  
 175 Rwanda Revenue Authority (2012) data  
 176 IMF, Article IV, 2011

These panels are also used by the tax administration to seek input prior to implementing new programmes and procedures that will impact the business community.

- Improving the insolvency process: The issue of ease of resolving insolvencies impacts the incentive to invest in two key ways: i) entrepreneurs will be less reluctant to invest knowing that they may be able to exit failed businesses relatively quickly, recovering a good proportion of their investment at not too high a cost; and ii) banks will be more confident in lending to businesses if they know that they will be able to recover the value of securitised assets quickly and at low cost if the business fails.

A good rate of business failure can be an economic asset to a county, helping to replace the old with the new (creative destruction), provided bankruptcies do not tie up large amounts of capital in failed businesses thereby creating 'blockages' in the financial system. To address this, a programme of reform will be implemented which should include some of the following: expediting bankruptcy procedures; developing a framework for out-of-court debt negotiations; developing methods for insolvency laws to be applied to unincorporated entities, such as sole proprietorships.

- Reviewing Concessions for key sectors: There needs to be a periodic review of concessions provided by the GoR to the private sector. For instance under the current allocation of mining permits in Rwanda there is no flexibility for the GoR to issue licenses for between 5 and 30 years – this could lead to lucrative opportunities not being taken. Such regulations should be reviewed to provide an optimal climate for private sector investment.
- Enhance public private dialogue (PPD) forum to review sector specific regulations: There are a number of sector specific regulations that threaten the competitiveness of the Rwandan private sector. Although many of these were introduced for valid reasons, they have had unfortunate consequences for business. For instance the 2008 law relating to polythene packaging prohibits the manufacture, importation, use and sale of polythene. It was banned due to the fact that it does not naturally degrade, raising issues for environmental protection and waste disposal. However, polythene film is a dominant form of packaging due to its light weight, strength and ability to seal products. Although the Rwanda Environment Management Authority (REMA) has awarded exemptions for special cases where alternatives are not available, recent MINICOM analysis<sup>177</sup> highlights the negative impact this has had to domestic producers and exporters.

Different sectors of the Rwandan economy face very specific regulatory challenges, a number of which are affected by regulations at a regional level through the EAC. These should be addressed on a continual basis, by the implementation of the PSDS and extensive, regular consultation with private sector stakeholders. This will include enhancing the current Public Private Dialogue (PPD) forum, with representation from a cross section of the private sector and senior Ministry level officials. RDB should be the secretariat for the forum. Thus one immediate activity could include for example the 2008 law relating to polythene packaging, which needs to be reconsidered. The ban on polythene usage for processed food products should be lifted, in conjunction with fast-tracking investment in a multipurpose packaging plant, with support from RDB and MINICOM.

## Programme 7: Market Access

Access to regional and international markets is crucial for Rwandan firms to develop their exports, and for the country to reach targets for overall export growth and for export diversification. In addition, the high cost to access international markets increases the cost of imports, many of which are crucial inputs for production for Rwanda's private sector. With the EAC, Rwanda is a member of a club, which should be continually pushing for better market access and greater regional trade. But at times, the EAC, through the likes of exemption ("sensitive") lists that place higher duties on some imports, can impinge on the domestic private sector<sup>178</sup>. Rwanda needs to ensure that regional integration works for the country and that capacity is in place to take a strategic approach at all times.

Regional transport initiatives may be the key in the long run to reduce the cost of trade for Rwandan businesses – this includes the new airport being developed by the GoR, and the Kigali-Dar es Salaam railway<sup>179</sup>. However, much of the cost of trading across borders occurs at the borders themselves - in the form of corruption or informal procedures – or due to other bureaucracy faced on roads such as at weighbridges. Such non-tariff barriers (NTBs) must be addressed to ensure that costs to trade fall over time.

<sup>177</sup> Packaging in Rwanda: Analysis & Recommendations, MINICOM, September 2012

<sup>178</sup> For example, sugar even for industrial use faces a 100 per cent tariff due to being on the Sensitive Items List of the CET (Schedule 2). Source: East African Community (2012) Common External Tariff: 2012 Version

<sup>179</sup> The Bugasera International Airport and railway are under the MININFRA Transport Sector Strategy. The estimated cost for the entire railway (Dar es Salaam-Isaka-Kigali-Keza-Musongati railway line) has been put at \$4.5 billion and will take many years to complete.



**Programme Indicators:**

- Increase exports as a share of GDP from 14.6 per cent in 2012 to 21.1% by 2015/16 and 27 per cent by 2017/18.
- Increase the share of non-traditional goods exports in total goods exports from 56% in 2012 to 60% by 2017/18 (where traditional exports are tea, coffee and minerals).

**To achieve these targets, the strategy will aim to:**

- Promote market access for Rwandan products through a High Level Strategic Approach to international agreements and regional integration: Through the EAC, imports to Rwanda are subject to the Common External Tariff (CET) and this has substantially reduced tariff barriers in recent years<sup>180</sup>. Greater integration with a wider group of African countries is now being pursued through the tripartite free trade agreement (TFTA) together with COMESA and the Southern African Development Community (SADC). The TFTA should provide opportunities to further liberalise the trading environment and improve market access. MINICOM and MINEAC together with MINECOFIN should provide strategic leadership to this process. Negotiations on the reduction of tariff barriers should be continuously informed by cost benefit analysis on the impact on the Rwandan private sector, trade flows and revenue, with the GoR taking a balanced but strategic approach to assess these trade-offs.
- Enhance export promotion through more intelligent targeting of potential markets and strengthening of the export promotion department at RDB: Rwanda has a few core exports that it can market to international markets at any significant scale – currently these are coffee, tea, and minerals. But as the private sector develops, new export opportunities may arise and targeted at new markets – for example recent growth in the export of flour to the DRC and Burundi has been both novel and unexpected. Export promotion efforts therefore should take a flexible approach to sectors – with a combination of RDB and NAEB (for agricultural commodity exports) taking the lead.

An initial targeting of sectors could be considered based on a number of criteria including: i) key national priorities, such as becoming a regional services hub in ICT, efficient transport, logistics and distribution, and advanced financial services; ii) increasing PPPs in energy generation; iii) promoting already successfully emerging sectors further such as the building materials sectors, as well as focussing on high-end and conference tourism; and iv) meeting emerging economic trends such as the growing regional market for food which provides Rwanda's agriculture and processing sectors an opportunity to develop competitive value addition for exports as well as capturing the domestic market. These broader sectors could be tested through export promotion activities to gauge appetite and interest. Based on the feedback provided by investors, there may be need to review these sectors or adopt a broader strategy.

Export promotion should also seek to alert the private sector to opportunities and the potential of international markets – this can be through information provision, and linking firms to high-end services, for example for reaching international standards. As a part of this process the following should be developed:

- Export Councils should be established in identified sectors – this will be the channel through which government and industry interact and collaborate towards the formulation of an export 'vision' for the various sub-sectors and assist in the identification and implementation of the most appropriate levers with which to realise these visions. They should exist for all of Rwanda's major exports.
- Strengthened institutional set-up for export promotion—there will be shared targets and clear responsibilities between RDB (the lead institution for export promotion) and line Ministries/agencies, which will play a pro-active role in the entire export promotion process, leveraging their sector-specific know-how and promoting export promotion efforts overseas (thereby mimicking the new institutional set-up for investment promotion under Programme 2). This will have the objective of becoming more pro-active at targeting potential export markets and linking domestic firms to export opportunities.

The new institutional set-up will be backed-up by a stronger export promotion department at RDB, with greater resources (both human and capital) to conduct pro-active export promotion activities in target markets.

- Support to trade missions – both inward (bringing investors from outside Rwanda to connect to Rwandan exporters) and outward missions of Rwandan exporters to targeted markets. These missions will be organised by RDB with relevant companies supported by the Government to participate in the missions.
- Rwandan Exporter Development Programme (REDP): in 2011 a total of just 50 companies exported more than \$1 million of goods, up only marginally from 44 companies in 2008. The majority of these companies were in the

<sup>180</sup> There are three tariff bands - raw materials at 0 per cent, intermediate goods at 10 per cent, and finished goods at 25 per cent. East African Community (2012) Common External Tariff: 2012 Version.

traditional export sectors of tea, coffee and mining. The REDP will be a crosscutting programme that provides support to qualifying companies in all sectors. It will support the growth, product range diversification and value addition of existing exporters as well as identifying and supporting new exporters.

The programme will succeed through delivery of a combination of services tailored to the needs of individual companies, implemented through three components. The Exporter Development Advisor Initiative will train business development and export advisers focused on key sectors/clusters and cross company disciplines (finance, operations, marketing, production, HR). The Export Capacity Development Fund will establish a cost sharing grant scheme for companies with growth potential to enable implementation of export growth strategies. Finally the Export Growth Investment Fund will create a commercially managed Private Equity fund that addresses the funding gap for SME start-ups and growth companies through provision of equity and other relevant financial instruments to enable companies to grow.

- Institutionalise the monitoring of NTBs and work with EAC countries and institutions to steadily reduce NTBs on the Northern and Central Corridors: The cost of transport is extremely high for Rwandan importers and exporters. This is often caused by regional NTBs to trade. In the past few years, NTBs have been periodically assessed by ad hoc surveys by development partners, government institutions or the PSF. In future, monitoring of NTBs on the Northern and Central Corridors, as well as on corridors of activity with the DRC should be formalised, with continual tracking of cost, time and procedure information. This should include port delays, weighbridges, corruption and unofficial fees, and costs due to formal bureaucracies. This should be undertaken by MINICOM in collaboration with MINEAC. With the EAC Forum on NTBs, there is a mechanism for negotiation and agreement on actions across EAC countries to remove NTBs. Rwanda also has bilateral arrangements, for instance recently with Tanzania, aiming to improve key parts of transport infrastructure such as the port at Dar es Salaam<sup>181</sup>.
- Ensure all Rwandan borders are covered by one-stop border posts (OSBPs): OSBPs are an interim measure to reduce trade costs between countries, prior to fully implementing the common market for goods in which trade is free-flowing. In recent years, OSBPs have been heavily invested in within the EAC. This should be continued, particularly with a OSBP at the border Kasenyi and Nemba (for Burundi) and fully implementation of the OSBP at the Gatuna / Katuna and at Kagitumba / Mirama Hills borders (for Uganda), as well as at Rusomo (for Tanzania). Rwanda should seek for all borders to be open for 24 hours a day and both countries border institutions should be held within a single building.
- Establish Cross Border Market Centres in prioritised locations that decrease the cost of cross border trade: With growing demand from markets in DRC, it is necessary for larger amounts of goods to be held close to the borders. Large storage facilities in Rubavu and Kamembe suitable for a mixed variety of products should be constructed by the Government and made available for private leasing, as per the Cross Border Trade Strategy. Formal traders and informal trader cooperatives can bulk buy goods at lower prices and store safely close to the border, and traders and producers trading in goods with high seasonal price variation can build stocks when prices are lower and re-sell once prices increase. Comprehensive feasibility studies for the construction of market and storage infrastructure at selected sites will be conducted that meet the specific needs of the local traders and producers based on an analysis of cross-border trade at each of the sites.
- Improve the free flow of highly skilled labour: The EAC Common Market includes provision for the free movement of labour for citizens of EAC countries. In addition, free trade in services allows sole traders to move and set up in each Member State. The GoR will ensure that these commitments are adhered to, both to ensure EAC compliance, and to increase the pool of skilled workers in the Rwandan economy. MINICOM, MINEAC, MIFOTRA, MINAFFET and RDB, should work together to promote this section of EAC statute. In addition, working visas for those outside the EAC should be expedited for those with skills in areas where Rwanda is in deficit.
- Support low-cost certification for international standards: The use of traditional technology to process different products has revealed challenges in exporting to the international markets. However, it is often the even higher private standards that determine the potential of commodities and products to make it on to retail shelves in such markets. The cost of standards certification can be very high, especially for low-quantity exporters. Mutual recognition of SPS measures between countries is a first step to reducing cost, and this has begun within the EAC. In addition, the Rwanda Bureau Standards (RBS) should work with international standards agencies to provide cost effective testing solutions for Rwandan enterprises.

#### 4.4 Contribution to EDPRS-II

Contribution to thematic areas and priorities: Addressing the key structural constraints to PSD in Rwanda such as energy and transport infrastructure represents a huge agenda that will take much time, many resources and strong coordination to address. The PSDS is one of a number strategies being developed as part of the EDPRS-II process that will contribute to the overall themes of Economic Transformation and Productivity and Youth Employment. Table 11 shows how the PSDS will contribute to the thematic areas of EDPRS-II.

<sup>181</sup> The Rwanda Focus - <http://focus.rw/wp/2012/10/rwanda-squeezes-tz-to-remove-barriers-to-trade/>

Table 11: Contribution of PSDS to EDPRS-II Thematic Areas and Priorities

Thematic Group	Thematic Outcome	Sector Programme / Output
1. Economic Transformation	1.2. Accelerated access to electricity, water, roads, and land to priority sectors of the economy and/or large investors	PSDS 1.1: SEZs expanded in number, locations and size
	1.3. Increased private sector investment targeted at strengthening value chain inter-linkages in priority sectors	PSDS 3.1: Vendor Development Programme developed (including Business Linkages Challenge Fund) PSDS 3.6: Commodity value chains built
	2.2. Transformed logistics system with a strategic focus on exports and re-exports to Burundi and Eastern DRC	PSDS 1.2: Integrated logistics system: Kigali Logistics Platform, linked to Regional Logistics Centres, and supported by an e-freight exchange system established
	2.3. Accelerated growth of exports	PSDS Programme 7: Market Access
	3.1 Increased private sector investment and financing	PSDS Programme 2: Investment Promotion PSDS Programme 4: Credit expansion
	3.3 Strengthened business environment through regulatory reform to spur medium and large enterprise growth and attract large investors in priority and emerging sectors of the economy	PSDS Programme 6: Better Regulation
3. Productivity and Youth Employment	1.2 Male and female graduates prepared for job market with critical skills needed	PSDS Programme 5: Skills and innovation
	3.1 Increased MSME businesses	PSDS Programme 3: Entrepreneurship PSDS Programme 4: Credit expansion
	3.2 Higher productivity amongst MSMEs	PSDS Programme 5: Skills and innovation
	3.3 Better linkages between large firms and small firms	PSDS Programme 3.1: Vendor Development Programme developed
	4.1 Reduced unemployment among men and women	National Employment Programme (drawn from PSDS Programme 3 on Entrepreneurship and Programme 5 on Skills and Innovation).
4. Accountable governance	The key contribution of the PSDS to accountable governance is in seeking improvements in accountability of government to the private sector particularly through better dialogue.	Insolvency procedures and legal enforcement, standards support, improve investor aftercare

## 5. IMPLEMENTATION OF THE PRIVATE SECTOR DEVELOPMENT STRATEGY

The implementation of the PSDS will be a complex process due to the large range of institutions involved. This Chapter aims to make it clearer who will do what, and how institutional arrangements will function. This will require a great deal of working across institutions, collaboration between them, and therefore will require high level buy-in from the top of the GoR.

### 5.1 Sequencing of interventions

The interventions developed in the seven programmes of activity will have a number of subcomponents. They can be broadly classified in specific years. Table 12 is an indicative plan for the implementation of the key interventions of the PSDS over the financial years up to 2017/2018 over the period of EDPRS-II.

**Table 12: Sequencing of intervention outputs**

Output statement	Key activities	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		1	1	1	1	1	1	1
		2	3	4	5	6	7	8
		/	/	/	/	/	/	/
		1	1	1	1	1	1	1
		3	4	5	6	7	8	
<b>Programme 1: Infrastructure for Growth</b>								
SEZs expanded in number, locations and size	- Continue to develop Kigali SEZ.							
	- Develop Bugesera Industrial Park as SEZ.							
	- Develop Kivu Belt as SEZ.							
	- Develop three Provincial Industrial Parks as low-cost SEZs.							
Integrated logistics system: Kigali Logistics Platform, linked to Regional Logistics Centres, and supported by an e-freight exchange system established	- Through PPP arrangements seek investors in logistics system.							
	- Develop the Kigali Logistics Platform (KLP).							
	- Develop e-freight exchange system.							
	- Develop Regional Logistics Centres and link to Provincial SEZs and KLP.							
<b>Programme 2: Investment Promotion</b>								
Network of agents in target markets for Investment Promotion established with re-organised pro-active investment promotion team in RDB	- Undertake pro-active targeting of key markets.							
	- Develop contracts with outsourced providers of investor targeting services in target markets including elements of performance-based pay.							
	- Outsource to expert providers targeting activities in markets starting with 2-3 sectors in London and moving to 3-4 additional centres such as Shanghai.							
	- Work closely with the commercial attaché based in the location, as well as with RDB.							
Core Marketing Department set up within RDB	- Undertake sectoral market research and seek to identify targeted opportunities.							
	- Co-ordinate investment promotion activities, in particular marketing campaigns, market outreach and co-ordination of commercial attaché's activities.							
Strong incentive regime for investors developed with clear inter-agency cooperation on delivery	- Develop new Investment Code Revision.							
	- Deliver incentive regime when investors are operating in the country.							
	- Set up an inter-ministerial forum for use at early stage in negotiations with large potential investors, giving the RDB greater powers to propose a package backed by firm inter-ministerial commitments and a clear public-service delivery schedule.							
	- Put legal safeguards in place to ensure that the investment code investors sign-up to is adhered to.							

		2	2	2	2	2	2
		0	0	0	0	0	0
		1	1	1	1	1	1
		2	3	4	5	6	7
		/	/	/	/	/	/
		1	1	1	1	1	1
		3	4	5	6	7	8
Output statement	Key activities						
Investor aftercare improved with relationship based system established for issue resolution	- Establish Key Account Managers (KAM) as points of contact for all registered investors.						
	- Establish system for KAMs to feed into a structured investor aftercare team and customer relationship management system within RDB.						
	- Implement issue escalation as they arise to pre-empt serious difficulties later on.						
	- Where RDB cannot resolve issues, escalate to the IDEC.						
Programme 3: Entrepreneurship Development							
Enabling environment for small informal micro & household enterprises created	- Undertake review of business environment and regulations for micro informal enterprises.						
	- Develop areas for micro and household enterprises to operate, with better facilities						
Mentoring and Counselling Facility developed	- Set up Facility, funded by a special component of the BDF, delivered by banks.						
	- Establish mechanism within BDF to work with banks providing services to SMEs.						
	- Link Mentoring and Counselling facility with RDB and BDF quasi-equity scheme, and other BDS support schemes.						
Hanga Umurimo business plan competition expanded	- Expand the Hanga Umurimo business plan competition to promote entrepreneurship in the country with targeted marketing and public awareness campaigns.						
	- Improve monitoring of Hanga Umurimo programme to ensure quality of services provided.						
	- Expand Hanga Umurimo to target existing small businesses with greater room for transformational growth.						
	- Develop sector specific competitions within Hanga Umurimo, for example for ICT entrepreneurs.						
	- Develop greater mix of prizes such as small grants, office space and hardware, as well as support services.						
Vendor Development Programme developed	- Set up vendor development programme within RDB.						
	- Tender for outsourced management of the vendor development programme.						
	- Run and monitor the vendor development programme						
	- Market to large businesses, business organisations, and PSF and run at least two rounds of the fund.						
BDS Activities expanded	- Review existing BDS programmes run by Government.						
	- Establish BDS matching grant programme, including assessment mechanism and governance structure, to be run through RDB.						
	- Target marketing to existing BDS providers and existing BDS programmes.						
	- Monitor performance contracts with payments based on milestone achievement.						
	- Disseminate successful business models to a wide number of participants in the BDS market.						
Commodity value chains built	- Key commodities identified for value chain analysis and action plans developed and implemented						

Output statement	Key activities	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		0	0	0	0	0	0
		1	1	1	1	1	1
		2	3	4	5	6	7
		/	/	/	/	/	/
		1	1	1	1	1	1
		3	4	5	6	7	8
<b>Programme 4: Credit Expansion</b>							
Expanded credit guarantee scheme	- Review performance of Credit Guarantee Scheme (CGS), particularly on additionality of scheme.						
	- Expand CGS from current RWF 13 billion (approximately US\$20 million) based on results of performance review.						
	- Develop institutional capacity in SME lending by requiring participating banks and microfinance institutions (MFIs) to invest in skills and systems that help to support borrower capacity.						
	- Regularly monitor programme to ensure that participating banks are adopting new systems.						
New outreach models, risk appraisal methods and monitoring systems for SME lending developed	- Develop Innovative Financial Outreach Challenge Fund (IFO) to promote better delivery to MSMEs (provide the risk capital in the form of grants for the private sector to develop new models).						
	- Recruit outsourced fund manager for IFO.						
	- Run and monitor the IFO Challenge Fund						
	- Working with BNR and MINECOFIN target fund to all active MFIs, banks, and financial services organisations						
	- Include Window of IFO to develop improved approaches to appraising borrowers and innovative credit reference systems for micro-enterprises.						
Instruments for impact investing developed including private equity and quasi-equity established for small, medium and large enterprises	- Review existing pilot Quasi-Equity Fund.						
	- Expand BDF Quasi-Equity Fund following review.						
	- Target Commonwealth Development Corporation (CDC) Impact programme and work with investors to promote applications from Rwanda to the facility.						
	- Develop matching fund to leverage larger regional private equity players to establish and invest in SMEs in Rwanda.						
	- Monitor regularly investment thresholds and outcomes to ensure SMEs are being targeted.						
New forms of structured finance products actively used in Rwanda	- Develop Innovative Financial Outreach Challenge Fund (IFO) window to improve innovations in structured finance.						
	- Market fund window to financial institutions in both Rwanda and the region.						
	- Monitor performance grants and disseminate successful models to the financial sector in Rwanda.						
	- Review need for changes in legislation to improve the delivery of structured finance products.						
<b>Programme 5: Skills and Innovation</b>							
More business-responsive higher education and TVET System operational	- Expand RDB's Skill Sector Councils, bringing together the private sector via relevant Chambers of Commerce, with PSF, RDB, WDA, as well as TVET and higher educational institutions.						
	- Review existing tax incentives for skills development within company training schemes						
	- Establish tax incentive mechanisms to promote private sector provision of training, and work experience						

Output statement	Key activities	2011	2012	2013	2014	2015	2016
		2011	2012	2013	2014	2015	2016
		1	1	1	1	1	1
		2	3	4	5	6	7
		/	/	/	/	/	/
		1	1	1	1	1	1
		3	4	5	6	7	8
Establish in-house company skills training Programme	<ul style="list-style-type: none"> <li>- Set up in house company skills programme including grant management mechanisms and governance mechanisms for the programme.</li> <li>- Wide public marketing campaign as well as more targeted marketing to larger businesses active in Rwanda.</li> <li>- Develop accreditation system for service providers and accredit those that match requirements.</li> <li>- Monitor programme and develop recognised qualifications with relevant skills councils</li> </ul>						
Internship and apprenticeship schemes expanded	<ul style="list-style-type: none"> <li>- Review value for money of existing internship / apprenticeship programmes.</li> <li>- Implement nationwide internship / apprenticeship programme based on review of previous programme implementation.</li> <li>- Monitor programme and undertaking tracer studies for students undertaking internships and apprenticeships</li> </ul>						
Programme 6: Better Regulation							
Tax system simplified	<ul style="list-style-type: none"> <li>- Undertake research on existing tax burden and levels of certainty or uncertainty for investors.</li> <li>- Review business taxation, in particular the implementation of Corporation and Withholding Tax, and other business taxes</li> <li>- Review non-deductible expenses such as costs for ICT for ICT companies.</li> <li>- Undertake mechanisms to continue to simplify tax system over time.</li> </ul>						
Tax Business Advisory Panels (TBAPs) created and operational	<ul style="list-style-type: none"> <li>- Establish TBAPs to provide a forum for business taxpayers to voice their concerns over tax administration procedures.</li> <li>- Periodically review sectoral taxation</li> <li>- Make necessary amendments to tax code.</li> </ul>						
Insolvency process improved	<ul style="list-style-type: none"> <li>- Review insolvency processes including commercial courts and due legal processes.</li> <li>- Implement a programme of insolvency reform.</li> <li>- Develop a framework for out-of-court debt negotiations; and how insolvency laws can be applied to unincorporated entities, such as sole proprietorships, etc.</li> </ul>						
Concessions for Key Sectors reviewed	<ul style="list-style-type: none"> <li>- Implement periodic review of concessions by GoR.</li> <li>- Include allocation of mining permits in Rwanda for more variable periods.</li> <li>- Review forestry concessions procedures, amend where necessary.</li> </ul>						
Sector Specific Regulations continually reviewed through PPD	<ul style="list-style-type: none"> <li>- Establish regular review mechanisms for sector specific regulations through PPD</li> <li>- Review packaging legislation and revise to ensure constraint not placed on manufacturing or agro-processing sectors.</li> <li>- Pursue additional sector-specific reforms as raised through review mechanisms.</li> </ul>						
Programme 7: Market Access							
Market access for Rwandan products through a High Level Strategic Approach to international agreements and regional integration improved	<ul style="list-style-type: none"> <li>- Develop strategic position on EAC tariff structure revisions.</li> <li>- Develop strategic position to improve market access through tripartite free trade agreement (TFTA) together with COMESA and the Southern African Development Community (SADC).</li> <li>- Develop cost benefit analysis of changes to de facto trade policy on the impact on the Rwandan private sector, trade flows and revenue</li> </ul>						

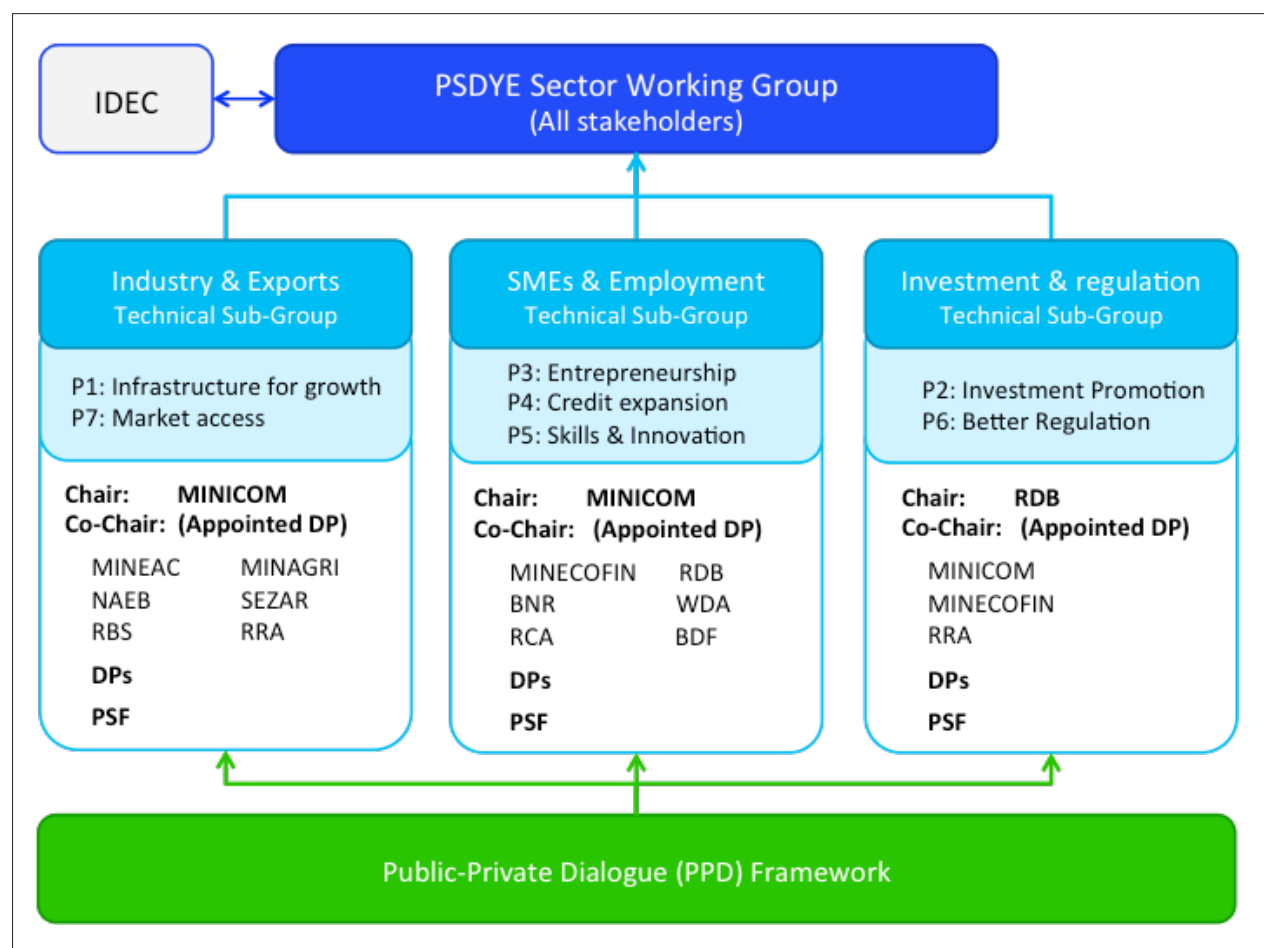


Output statement	Key activities	2011	2012	2013	2014	2015	2016
		0	0	0	0	0	0
		1	1	1	1	1	1
		2	3	4	5	6	7
		/	/	/	/	/	/
		1	1	1	1	1	1
		3	4	5	6	7	8
Export promotion undertaken with more intelligent targeting of potential markets	<ul style="list-style-type: none"> <li>- Establish Export Councils in identified sectors as a channel through which government and industry interact and collaborate towards the formulation of an export 'vision' for the sectors</li> <li>- Strengthened institutional set-up for export promotion with more re-sourced export promotion division at RDB</li> <li>- Improve provision of information to potential exporters on target markets.</li> <li>- Link exporters with services required for enhancing competitiveness in export markets through BDS.</li> <li>- Provide support to trade missions – both inward (bringing investors from outside Rwanda to connect to Rwandan exporters) and outward missions of Rwandan exporters to targeted markets. These missions will be organised by RDB with relevant companies supported by the Government to participate in the missions.</li> </ul>						
System for monitoring and targeting removal of NTBs institutionalised	<ul style="list-style-type: none"> <li>- Develop regular monitoring mechanism for Central Corridor NTBs. (This should include port delays, weighbridges, corruption and unofficial fees, and costs due to formal bureaucracies).</li> <li>- Develop regular monitoring mechanism for Northern Corridor NTBs.</li> <li>- Develop regular monitoring mechanism for NTBs on trade with the DRC</li> <li>- Work with EAC Forum on NTBs to ensure all NTBs are taken account of and put into action plans for removal.</li> <li>- Lobby for reductions in NTBs.</li> <li>- Undertake bilateral agreements for NTB removal.</li> </ul>						
Free flow of skilled labour enhanced	<ul style="list-style-type: none"> <li>- Collect information on flows of EAC skilled labour and other foreign labour.</li> <li>- Review laws in place to ensure they match EAC Protocols and requirements for other foreign nationals.</li> <li>- Regular meetings of key ministries and agencies to ensure compliance.</li> <li>- Collaboration with Sector Skills Councils on skills deficit and private sector feedback.</li> </ul>						
All Rwandan borders covered by one stop border posts (OSBPs)	<ul style="list-style-type: none"> <li>- Full implementation of the OSBP at Kagitumba / Mirama Hills border (for Uganda)</li> <li>- Establish OSBP at Rusomo (for Tanzania).</li> <li>- Establish OSBP at Gatuna (for Uganda)</li> </ul>						
Low-cost certification for international Standards supported	<ul style="list-style-type: none"> <li>- Develop mutual recognition of SPS measures between countries.</li> <li>- Develop low cost certification processes for international standards.</li> </ul>						
Exporter Development Programme launched	<ul style="list-style-type: none"> <li>- Establish Exporter Development Advisor Initiative to train business development and export advisers focused on key sectors/clusters and cross company disciplines</li> <li>- Establish Export Capacity Development Fund as a cost sharing grant scheme for companies with growth potential</li> <li>- Establish the Export Growth Investment Fund to create a commercially managed Private Equity fund that addresses the funding gap for SME start-ups and growth companies</li> </ul>						
Cross Border Market Infrastructure built	<ul style="list-style-type: none"> <li>- Conduct feasibility studies for the construction of market and storage infrastructure at selected cross-border sites</li> <li>- Construct large market and storage facilities and make available for private leasing.</li> </ul>						

## 5.2 Institutional overview for implementation

Given the number of agencies involved and the multi-faceted nature of PSD, it is explicitly recognised that implementation of the final PSDS will be a difficult process – particularly for institutions to be held accountable. The strategic management of resources is crucial, both to respond to where progress is likely to be fastest, and to take on new opportunities and challenges as they emerge. Funds should be used flexibly and strategically, not overly programmed in advance so that they cannot be shifted to other uses.

Figure 50: Institutional structure for implementation of PSDS



Governance and management arrangements should be clear and simple as to who has the authority to make what decision and who is accountable to whom. Figure 51 gives a simple overview of the institutional framework proposed by the PSDS, from the major Government Ministries to key agencies, development partners, and the private sector itself.

### 5.3 Mechanisms for co-ordination and information sharing

The Sector Working Group (SWG) will be the ultimate forum for monitoring the performance of the PSDS, as well as other relevant policies and strategies as they arrive. As now, the Cluster will be chaired by MINICOM and co-chaired by one of the development partners. It is vital that the SWG includes the entire range of stakeholders. Meetings should be thematic, and should include reports from each of the three Technical Sub-Groups. Attendance should include a wide range of stakeholders from the private sector.

The Technical Sub-Groups to lead coordination of implementation, monitoring and evaluation at the technical level will be (a) Industry and Exports, (b) SMEs and Employment and (c) Investment and Regulation. Each of the seven programmes will be allocated to a Technical Sub-Group as per Figure 51. As with the SWG, a Chair and Co-Chair will be appointed for each of the three groups, being a government institution and Development Partner respectively.

MINICOM, who will have ultimate responsibility for the delivery of Programme 1 on infrastructure for growth and

Programme 7 on market access, will chair the Industry and Exports Technical Sub-Group that will lead implementation of the two programmes. But the Ministry will have to work closely with other stakeholders, particularly MINEAC for market access, as well as MININFRA, MINAGRI, NAEB and RDB.

The second Technical Sub-Group on SMEs and Employment will also be chaired by MINICOM, and will combine implementation of Programme 3 on entrepreneurship (led by MINICOM), Programme 4 on credit expansion (led by MINECOFIN) and on Programme 5, promoting skills and innovation (led by RDB). For the skills programme, RDB will need to work closely with both the private sector and with MINEDUC and the Workforce Development Agency (WDA).

The third Technical Sub-Group on Investment and Regulation will focus on investment promotion (led by RDB) and better regulation (led by MINECOFIN). The Sub-Group will be chaired by RDB. For the Better Regulation programme, changes to the tax code will need to have very high-level authority to ensure they are carried through. This will require close working across agencies, particularly with RDB and the RRA.

The Industrial Development and Export Diversification Council (IDEC) should be the ultimate inter-ministerial forum. There should be close coordination between IDEC and the SWG. IDEC should be a regular (between monthly and quarterly) forum, and should seek to escalate issues of coordination raised in the SWG and the Technical Sub-Groups. Again, meetings should be themed, ideally around Programmes of the PSDS, and particularly difficult issues arising from implementation. IDEC should also seek to involve private sector stakeholders for issues under discussion.

Resource allocation issues should be dealt with by the SWG, as should monitor of expenditure by all stakeholders in the sector, and particularly funds related to PSDS programmes and activities. Major resource allocation decisions should be escalated to IDEC, and in turn to the Office of the President, as the ultimate arbiter of decision-making. In turn, the SWG should clearly seek to detail allocation requirements, and coordinate the activities of GoR Ministries and agencies, together with development partners.

#### 5.4 The role of Districts in supporting the implementation of PSDS

In order for the PSDS to be effectively implemented it requires a high level of coordination with and empowerment of local Districts. This is consistent with the Government's revised National Decentralisation Policy which aims to fast-track and sustain equitable local economic development.

These areas of support are indicated below as a guide for Districts to consider when developing their District Development Plans:

- Support to the identification and purchase of suitable land for industrial development: For those Districts that are on major transport corridors or near national borders, there is need to work with MINICOM and RDB to undertake feasibility studies for the potential of locating regional logistics centres and where appropriate the expansion of industrial parks or conversion to SEZ status. Based on the outcomes of these feasibility studies, there will be need to ensure suitable land is made available and the supporting process of compensation is undertaken with communities.
- Consistency in the application of incentives for new investors: The Districts and the newly formed RDB Marketing Division will need to ensure much closer collaboration to ensure that the incentives provided by the Districts are in line with those to be provided by RDB's Marketing Division under the revised investment code and vice versa. Furthermore, there needs to be consistency between RDB and the Districts in terms of allocation of land and services for new investors. This will include collaboration with MINAGRI and the agricultural sector in terms of allocations for land use under their own programmes.
- Improving the enabling environment for micro informal and household enterprises: With micro and household enterprises in the informal sector employing over 70 per cent of the active labour force, they are the principle mechanism for those moving from agriculture into the non-agricultural labour force. Given their pivotal role, more needs to be done to ensure that there is a relaxation of the restrictions imposed on their operation to certain zones or markets in Districts. Districts need to increase the number of locations these traders can operate, ensure good locations in terms of the quantity of business activity, and flexible and extensive opening hours. However, these markets need not necessarily be developed directly by the District. Rather informal businesses should be able to operate in areas and times where there is a significant demand for their products, whilst recognising the need to exclude them from certain areas of special sensitivity.
- Support to the creation of new businesses: Working with MINICOM, the Districts have the potential to enhance and deepen dissemination campaigns to encourage greater numbers of effective applications to the Hanga Umurimo business plan competition. Furthermore,

Districts can work with BDF and MINAGRI and MINICOM to increase awareness to emerging businesses about new initiatives to improve their access to finance including the BDF / RDB quasi-equity scheme and the recently developed warehouse receipt system (WRS).

- **Enhancing skills development:** A number of potential interventions could be considered by Districts to enhance skills of both potential workers and businesses. For worker skills development, Districts can develop, in collaboration with relevant RDB skills councils, local businesses and TVET institutions, pilot programmes to improve skills development and introduce more targeted training through apprenticeship and internship schemes. For enterprise skills development, Districts can target existing BDS providers to encourage them to apply for BDS matching grants in order to provide new and more relevant training courses that meet the needs of local businesses.
- **Review sector specific regulations:** Working with the Public Private Dialogue (PPD) mechanism, Districts could hold regular discussions with the private sector in their locality to address pressing concerns or constraints and where appropriate pass on higher level issues to the PPD mechanism.

## 5.5 Risk analysis and mitigation

Due to the broad nature of a number of the programmes developed under the PSDS, with a wide range of stakeholders involved, there are also a number of risks. These principally relate to the desired outcomes and behavioural change not taking place. The associated mitigation strategies have been developed and incorporated into the PSDS. These are set out in Table 13.

*Table 13: Risk analysis for PSDS programmes and suggested mitigation strategies*

Programme	Risks	Mitigation strategy
Programme 1: Infrastructure for Growth	<p>Private sector discouraged from investing due to lack of certainty on pricing and risk sharing mechanisms.</p> <p>Lack of demand for SEZs space developed.</p> <p>Lack of private sector interest in development logistics infrastructure</p>	<p>Develop flexible space for SEZs; do not be overly specific on sub-sectors of activity.</p> <p>Develop SEZs on a gradual basis, particularly for the Provincial zones, based on experience of piloted areas. Extend over time as demand arises.</p> <p>Build strong and detailed business case for Logistics infrastructure investments to attract private sector. Develop priorities for resource allocation among logistics interventions.</p>
Programme 2: Investment Promotion	<p>Lack of clarity on investment code and incentive regime before and after investors register.</p> <p>Sub-contracted parties do not deliver increase in FDI.</p> <p>Lack of cooperation between subcontracted resource and commercial attachés as well as RDB.</p>	<p>Clear mandate and Cabinet approval for investment code to ensure RRA and other institutions adhere to it.</p> <p>Legal mechanism developed to ensure that investment code investors sign up to is adhered to by the GoR over time.</p> <p>Develop contracts with sub-contracted parties with retainer and significant performance-based element.</p> <p>Ensure leadership is directly responsible for performance of RDB Marketing / Investment Promotion team.</p> <p>Increase operational independence of RDB to deliver their mandate.</p> <p>Set targets for RDB response rates in cooperation with Investment Promotion Programme.</p>

Programme	Risks	Mitigation strategy
Programme 3: Entrepreneurship Development	<p>Lack of clarity on informal sector liberalisation and resistance from other GoR institutions.</p> <p>Lack of quality responses to Hanga Umurimo business plan competition</p> <p>Lack of interest from banks and financial institutions in Mentoring and Counselling Facility.</p>	<p>Informal business liberalisation requires significant efforts in sensitisation – particularly to all levels of Government and key institutions such as RRA.</p> <p>Wide dissemination campaigns, and clear communication on what constitutes an effective application to Hanga Umurimo.</p> <p>Promote greater buy-in with banks and financial institutions to business plan competition and benefits of Mentoring and Counselling Facility.</p>
Programme 4: Credit Expansion	<p>Lack of additionality in Credit Guarantee Scheme (CGS)</p> <p>Lack of GoR funds for delivering large expansion of CGS.</p> <p>Lack of demand from financial institutions for new financial outreach business models.</p>	<p>Closer monitoring of CGS, particularly on additionality criteria.</p> <p>Encourage banks and financial institutions to develop different types of loans, particularly for use with CGS.</p> <p>Leverage development partner finance for expansion of CGS.</p> <p>Innovative Financial Outreach Challenge Fund targeted pool of institutions to include new entrants from Rwanda and from EAC.</p>
Programme 5: Skills and Innovation	<p>Lack of interest from larger firms to develop their supply chains.</p> <p>Low quality of goods and services produced by Rwandan SMEs.</p> <p>Insufficient quality graduates of higher education or TVET institutions</p>	<p>Clear incentives provided for working across supply chain.</p> <p>Challenge Fund incentivises SMEs to develop new business models and improve quality.</p> <p>Closer linkages between business and higher education and TVET institutions.</p>
Programme 6: Better Regulation	<p>Unwillingness to reform tax code due to trade-off between revenue, cost of collection and private sector dynamism.</p> <p>Courts unable or unwilling to expedite insolvency cases.</p> <p>Lack of willing to reform packing sector regulations from certain GoR institutions</p>	<p>PSD SWG and IDEC to provide much stronger guidance and lobbying activities on behalf of private sector.</p> <p>Out of court / commercial court settlements available for insolvency claims.</p>
Programme 7: Market Access	<p>Lack of regional co-operation on NTB removal</p> <p>Resistance to free movement of labour among EAC countries.</p> <p>Lack of interest among EAC Partners States in delivering commitments.</p>	<p>Improve pro-active issue-raising on NTBs to highest levels of GoR.</p> <p>Greater sensitisation on benefits of free movement of labour, particularly benefits in terms of productivity, investment, growth and jobs, as well as legal requirements of EAC protocols</p> <p>Improve negotiations and lobbying skills, and seek alliances within regional blocs.</p>

## 5.6 Capacity requirements for implementation of PSDS

Due to the broad nature of a number of the programmes developed under the PSDS, stakeholders will require capacity to both implement and influence the future directions of these programmes. Critically, a number of new instruments and approaches have been identified in the PSDS which will require capacities for the key institutions involved to be enhanced. These are summarised below in Table 14 with a brief outline of how these capacities will be met.

Table 14: Capacity requirements for PSDS delivery and suggested capacity building strategy

Institution	Capacity required	Suggested capacity building strategy
MINICOM	Support for developing PPP structures in infrastructure including logistics infrastructure  Trade negotiation skills for negotiating international trade agreement and NTBs	External training for key staff plus support from external transaction advisors  Supplement existing capacity with short term training and through TA resources
RDB	Improve capacity for Key Account Managers in investment promotion  Targeting investment promotion, understanding key markets available in key markets and sectors  Establish and implement a vendor development programme      Expand internship and apprenticeship schemes. Monitoring and improvement of schemes. Relationships built with private sector to improve skills provision through Sector Skills Councils.	External training courses and on the job training through TA resources  Develop outsourced external service providers   Study tours to Malaysia and India to understand how programmes developed. Implementation of programme and challenge fund to outsourced provider   Using capacity of RDB HC&ID Department with support from TA resources
MINECOFIN	Provide training to participating banks to improve loan appraisal and monitoring practices as part of CGS   Implement an Innovative Financial Outreach Challenge Fund  Structure impact investment fund co-investment  Improving insolvency processes    Simplifying taxation system for companies	External resources to provide training to banks and MINECOFIN  Study tour to learn from the implementation of successful CGS  Recruit outsourced provider   Support from external transaction advisor  Training on best practice insolvency processes, TA resources to help define a programme of reform, and support capacity development within MINECOFIN.  Ad hoc TA resources to support MINECOFIN capacity to undertake policy impact studies of tax simplification. Working closely with RRA.
BDF	Implement mentoring and counselling for SMEs   Refine and expand Quasi Equity scheme	Run through an outsourced provider  Core staff in BDF provided training on BDS development  Limited TA resources to support BDF implementation of expanded scheme
BANKS	Participating banks in CGS to improve loan appraisal and monitoring practices  New forms of structured finance developed	External training provided by outsourced provider through MINECOFIN  Replication of successful challenge fund models and best practice examples through dissemination workshops held by challenge fund administrators

Institution	Capacity required	Suggested capacity building strategy
MINEDUC	Restructure skills development curricula within TVET institutions to the needs of the private sector	Support from RDB and skills councils with some limited TA resources.
WDA	Accrediting skills training service providers for in house company training	Support from TA resources to develop an rapid accreditation system in collaboration with company and industry
MININFRA	Support for developing PPP structures in infrastructure	External training for key staff plus support from external transaction advisors
RBS	Mutual recognition of SPS measures within EAC  Low cost certification for international standards	On-going work and through ad hoc TA support when required  Through TA resources to build capacity within RBS

## 5.7 Addressing cross-cutting issues (CCIs) in the PSDS

The development of the PSDS has aimed to focus on a realistic assessment of where the private sector is in Rwanda today, and what it can achieve in the coming years. Underlying this is the theory of change linking interventions aimed to unblock the binding constraints to investment and growth, and the achievement of goals on the likes of jobs, exports and ultimately incomes for Rwandan people and the reduction of poverty in the country.

Unblocking these binding constraints without understanding the wider impacts on disadvantaged or socially excluded groups, impacts on capacity, as well as unintentional impacts on the environment will mean the strategy will not be able to meet its aims of delivering broad based and inclusive growth for the majority of Rwandans.

These issues constitute a range of cross cutting issues (CCIs) or themes that interact with the PSDS in a number of ways. The following six CCIs have been considered in the development of the PSDS.

### Capacity building

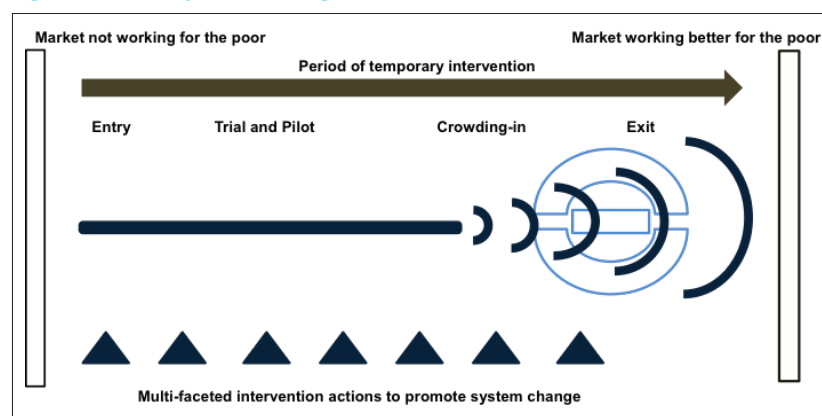
The task of stimulating a more entrepreneurial culture and a more successful private sector requires a mix of skills including in programme delivery, performance management, and strategic thinking. Some initiatives require very limited need for capacity development – for example liberalising the environment for informal entrepreneurs to operate. The context for these small players in the Rwandan economy can be extremely challenging, principally because of an extremely strict application of anti-hawking rules and regulations. The relaxation of this environment requires clear communication and attitudinal change among large swathes of the Rwandan civil service including the police force. This will require leadership and strategic foresight to unleash entrepreneurship.

However, other programmes have a greater degree of complexity. The support to improved trade negotiations and developing new public private structures for infrastructure provision requires a combination of structured training courses for implementation agencies as well as hands on support through technical assistance (TA) resources. For other programmes, notably the implementation of the Business Linkages and Innovative Financial Outreach Challenge Funds, there is need to consider the recruitment of an outsourced service provider to run the facility as well as provide hands on support to the implementation agency to ensure that the governance and oversight mechanisms are in place for the GoR to provide input in steering the outcomes of the funds.

In terms of the ultimate beneficiaries of the PSDS capacity building is built through a number of market orientated approaches. Thus entrepreneur skills enhancement will use the innovative business models developed by BDS providers to increase outreach and effectiveness, specifically targeted at transformative entrepreneurs. Through this approach once business models are shown to be successful, they are widely disseminated to other private sector BDS providers to crowd into the market and reduce the need to rely on Government or donor financed interventions has highlighted in Figure 52.



Figure 51: Pathways to crowding-in interventions



For other interventions, particularly the vendor development programme, which is new both to Rwanda and to the region, there may be utility in undertaking a limited number of study tours to countries such as Malaysia and India to understand how the programmes are developed and implemented in addition to TA support.

### Regional Integration

EAC integration with its focus on an open, liberal trade regime amongst member states, minimising barriers to trade as well as implementing policies to encourage foreign direct investment is at the very heart of the PSDS. The movement to an EAC Common Market is a key opportunity for Rwanda's emerging private sector in terms of not only potential exports but also to lower import costs for larger businesses operating within the country.

The context and requirements of regional integration have very much informed the development of the PSDS. A number of specific interventions in the PSDS have targeted regional integration. For example through the EAC, imports to Rwanda are subject to the Common External Tariff (CET) and this has substantially reduced tariff barriers in recent years. However, more needs to be done with the PSDS proposing a continuation of negotiations on the reduction of tariff barriers informed by cost benefit analysis on the impact on the Rwandan private sector, trade flows and revenue.

With the EAC Forum on NTBs, there is a mechanism for negotiation and agreement on actions across EAC countries to remove NTBs, which could potentially have a significant positive impact on reducing transportation costs that importers and exporters face, allowing Rwandan products to be more competitive in domestic and international markets.

In other instances, the PSDS proposes the further implementation of EAC statutes especially with respect to the free movement of labour, which will increase the pool of skilled workers that the Rwandan economy will require in the next five years to meet its growth targets.

### Gender and family

The Strategy's intended impact is increased economic opportunity for both men and women. To achieve this, each intervention will apply a "gender lens" in the process of implementation – an explicit understanding of the barriers and issues specifically faced by women as both entrepreneurs and employees and what is required to overcome them. This will include adapting the instruments used so that they incentivise institutions, the banks and employers to meet the needs of women as entrepreneurs and employees,

Women's enterprise development largely remains at the survivalist stage. While on the one hand this is due to many women engaging in survival enterprise due to the lack of access to jobs, in many instances women entrepreneurs with growth potential are stagnated by lack of opportunities to develop their businesses. Where employment for women in particular is concerned, there is a clear need to increase women's access to formal employment.

For many women entrepreneurs, despite successful start-ups, they lack access to external finance to grow their business because they lack collateral – especially as only 10.6 per cent of women have access to land title in Rwanda in comparison to over 21.3 per cent for men<sup>182</sup>. The PSDS has been developed to address this lack of collateral through the development of non-collateralised lending instruments including structured finance and increasing the size and scope of Credit Guarantee Scheme to target smaller enterprises, including female headed businesses.

182 Strategic Plan for the Implementation of a National Gender Policy, Ministry of Gender and Family Promotion, May 2010

Women fall behind their male counterparts in terms of both education and access to vocational and business skills. This is one of the root causes holding back women's economic empowerment. In addressing access to skills and knowledge, PSDS interventions will target women's specific training requirements both as employees and entrepreneurs. This includes explicitly targeting female entrepreneurs to participate in business plan competitions held through Hanga Umurimo, broadening the trades eligible for internship and apprenticeship schemes to encourage greater female participation, and mentoring alongside conventional BDS to support women entrepreneurs and a focus on identified skills gaps amongst women.

### *Environment, climate change and disaster management*

The development of the private sector does not occur in a vacuum. The environmental context sets the parameters of what is possible – for example what the land will produce with a given level of inputs. Furthermore, the side effects from production, particularly industrial production, can have unintended impacts on the environment, and on people. Pollution of air and water can lead to damages to health and hygiene. When such effects occur, regulation is required to insure that polluters face the cost of their own pollution<sup>183</sup>.

Technological support and infrastructure and service provision are also important – for example waste collection and disposal services – helping to avert the negative potential of polluting activities.

As covered by MININFRA's Energy Sector Strategy, the energy mix in Rwanda is very well proportioned towards renewable energy. With the exception of biomass, the carbon implications of Rwanda's energy mix are likely to be relatively low. Furthermore, even with investment, the carbon dioxide consumption per person in Rwanda is likely to remain far below international averages.

The greater impact of the climate change issue is in the change factor itself. Rwanda may face greater precipitation, higher temperatures, and greater variability of both. This means that the adaptive capacity of Rwandan society will need to grow. In the short-term with preparation and readiness for environmental damage, such as from flooding and land-slides. In the longer-term, as higher temperatures and changing rainfall affect the Rwandan population, the GoR must be flexible with respect to land management issues, in particular on crop selection. The PSDS does not have a specific focus on these issues, but does emphasise the freedom of the private sector and small entrepreneurs including informal enterprises to respond to their environment; while this should be supported by intelligent analysis and understanding from GoR institutions in the provision of public goods and information on best practices. Rwanda's ability to successfully adapt to changes will depend on a good balance between these two factors.

### *Disability and social inclusion*

Social exclusion needs to be assessed on a multi-dimensional level covering social, economic, cultural and political situations. For the PSDS the focus has been on economic exclusion of groups within Rwandan society. This exclusion gives rise to the issue of employment, as well as diversity of access to goods and services. Additionally, the PSDS has also aimed to incorporate aspects of spatial exclusion where disadvantages are based on remote or isolated areas.

The PSDS aims to target these socially excluded that constitute many of the smallest informal enterprises in the country. While these may provide limited value addition, the PSDS provides more opportunities for these people to escape poverty by improving the functioning of key markets that matter to them.

Thus a significant proportion of the socially excluded residing in more remote areas and on farms on which most toil provide little more than subsistence. The PSDS is supporting the development of a more productive agriculture by: i) helping to increase access to markets through the market access programme; ii) providing the investment to agricultural processors, through the credit expansion programme, to modernise methods of processing to increase the value of agricultural production produced by these groups; and iii) targeting training, skills developed and apprenticeship schemes to increase the employability of this cohort of the population.

Finally one of the most significant impacts of the PSDS will be through the greater liberalisation of informal sector economic activities, allowing these vulnerable households to improve coping mechanisms and allow them to diversify their livelihood activities.

### *HIV/AIDS and non-communicable diseases*

The health of the Rwandan population is a crucial factor in determining the productivity of the workforce. Private sector organisations have acknowledged the impact HIV and AIDS and have responded by developing and implementing HIV workplace policies and programmes.

<sup>183</sup> In the jargon of economics, polluters must internalise their externality.

The PSDS aims to build on this and mainstream HIV / AIDS by: i) supporting measures to reduce the socio-economic impact of HIV and AIDS on workplaces and surrounding communities; and ii) examining how economic activities can be adapted to support those living HIV / AIDS.

At one level there will be a concerted effort to continuously bring awareness, through the inclusion of HIV and AIDS awareness within training programmes for workers and entrepreneurs. At other levels the PSDS aims to introduce reforms and procedures to minimise risk of the spread of the disease, such as decreasing time spent at clearance / border posts.

At the other end of the spectrum has been the need to examine how households, particularly rural households have been impacted by HIV / AIDS. For most of these households the reduced availability of household labour at crucial times, particularly within the agricultural cycle is further exacerbated as HIV/AIDS takes its toll by weakening individuals, requiring more care by other household members. Therefore there is a need to target income generating activities which require relatively less time and effort for these labour-scarce households and facilitate the compatibility of localised economic activity with home nursing. Thus for instance in the agricultural sector this may mean developing more labour saving technologies – a move towards more mechanisation, which could be developed through business linkages programmes, and finance to smaller family businesses.

## 6. MONITORING AND EVALUATION

The PSDS will require a rigorous monitoring and evaluation (M&E) framework, supplying some key indicators for measurement under the EDPRS-II. This will include key outcome level indicators such as investment, as well as a clear set of outputs to lead to these outcomes, which will also be monitored. Indicators should be developed so they follow SMART principles, namely that they are specific, measurable, achievable, relevant and time-related. All indicators developed for the full PSDS M&E framework aim to adhere to these principles.

Annex 1 presents the detailed logical framework (logframe) with all the major indicators for monitoring over the period of implementation of the PSDS. This arose through the development of the key programmes for the delivery of the PSDS, and then developing associated targets for which these programmes would be logically responsible. The key assumptions here are that the inputs and outputs of the programmes developed will lead to the outcomes associated.

### 6.1 Monitoring and evaluation in EDPRS-I

There are a number of indicators that have been monitored over the EDPRS-I period (2008 to 2012). There are monitored by the PSD Sector Working Group (SWG) annual joint sector review (JSR) reports as well as the Common Performance Assessment Framework. Table 15 looks at these indicators, particularly assessing their pros and cons, as well as providing a recommendation on whether they should be fully continued or not.

*Table 15: Outcome indicators*

Indicator	Pros	Cons	Recommendations
Investment as a % of GDP	Easy to get data. Investment is broadly correlated with growth. Data likely to be comparable over time.	It is private sector investment that is more likely to drive growth in the long-term. However even private sector investment may be distorted by public enterprises' investment. It may therefore not be an adequate measure of the dynamism of the private sector and the economy.	Change to private sector investment as a share of GDP.
Business environment index (composite based on World Bank DB data)	Easy to get data. Based on tangible measures such as time, cost and numbers of procedures for key business processes.	Not at all exhaustive of regulatory factors leading to a good business environment.	Drop, but continue to follow at sub-sector level, in particular sub-indicators based on specific targets for time, procedures & cost of key processes for business e.g. insolvency
Investor perception index (based on annual survey)	Wide coverage of key issues – governance, infrastructure, trade costs etc. Difficult to get such a wide scope elsewhere. Data annually available (at cost). Potential to build relationship with investor community through outreach.	Difficult to get an unbiased sample of investors. Scores may be biased depending on economic performance – when business is good, constraints seem less bad. Does not give absolute costs of doing business – for example energy costs – but rather the perceived constraint of such cost. Only assesses existing investors, therefore does not measure why some investors may be choosing not to enter the economy.	Develop revised indicator for business environment

Indicator	Pros	Cons	Recommendations
Revenue from goods exports (USD millions)	Does not place distortion on the types of goods exports prioritised. Exports have a strong relationship with economic growth.	Flows may go up in volume but down in value due to price fluctuations, particularly for Rwanda's major exports of minerals, tea and coffee.  Does not incentivise the diversification of exports away from existing goods.  Does not place any emphasis on imports of goods and the balance of payments.	Supplement with a diversification of exports measure.
Revenue from tourism (USD million)	Data collected continually. Key service sector and foreign revenue earner.	Does not necessarily measure foreign currency flows due to methodology.  Methodology for estimating tourism revenue potentially suspect – based on simplistic assumptions of average expenditure, which may be variable by group and over time.	Combine with target on goods exports

Following discussion, this review of the existing M&E framework, together with the development of programmes projects and initiatives for this PSDS, will lead to the development of a new final M&E framework. The PSD SWG working in collaboration with all relevant GoR institutions, development partners, and private sector stakeholders should agree upon the final high-level indicators.

## 6.2 Monitoring and evaluation in the new EDPRS-II

This section develops a suggested high-level M&E framework for the EDPRS-II period for the PSD Sector to look at in detail year-by-year. This should be supplemented by the more full set of indicators that are presented in Annex 1 of this report in the PSDS Logframe.

The analysis undertaken has led to the identification of seven indicators to provide the base for M&E on the PSDS over the EDPRS-II period. These are shown in Table 16. This includes one amended indicator – private sector investment as a share of GDP. It then includes five additional indicators developed to relate to the Programmes developed through this PSDS.

Table 16: M&E indicators for PSDS up to 2017/18

Indicator	Baseline 2012/ 13	Target 2013/ 14	Target 2014/ 15	Target 2015/ 16	Target 2016/ 17	Target 2017/ 18	Source of data
Hectares of serviced land within SEZs	98	278	412	462	612	752	SEZAR
Private investment (% of GDP)	10.0	11.0	12.0	13.0	14.0	15.0	MINECOFIN
Foreign Direct Investment (% of GDP)	2.3	2.6	3.0	3.5	4.0	4.5	BNR/RDB
No of new SMEs created annually	9,000	10,500	12,000	13,500	15,000	17,000	Registrar General
Credit to SMEs (% of GDP)	3.7	4.3	4.9	5.3	6.1	7.2	BNR
Apprentices supported per annum	1,200	2,500	4,500	7,000	9,500	12,000	RDB
Regulatory Environment Index	100	TBD	TBD	TBD	TBD	TBD	World Bank DB Report
Exports (% of GDP)	14.6%	16.2%	18.3%	21.1%	23.8%	27.2%	BNR
Non-traditional goods exports (% of total)	56.0%	58.0%	59.0%	60.0%	60.0%	60.0%	BNR

## 7. COST AND FINANCING OF THE PRIVATE SECTOR DEVELOPMENT STRATEGY

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The total estimated cost for the delivery of the PSDS over the period from 2013/14 to 2017/18 is RWF 307.9 billion (approximately USD 500 million). A summary of these costs for each programme and key output is shown in Table 17. In addition the key agency responsibility centre for the output is shown first in the Agency column, together with other important agencies responsible for the output.

Funds will principally come from recurrent and capital expenditure budgets of GoR institutions. But funds may also be sought from development partner institutions or through the use of PPPs.

Table 17: Financing programmes of PSDS

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
Programme 1: Infra-structure for Growth	SEZs expanded in number, locations and size	Continue to develop Kigali SEZ.	500	4,000	4,500	MINICOM / RSEZA / RDB / MININFRA	Costs derived from Ministry of Trade and Industry Action Plan for 2012/13.
		Develop Bugasera Industrial Park as SEZ.	800	5,000	5,800		Costs derived from Ministry of Trade and Industry Action Plan for 2012/13.
		Develop Kivu Belt as SEZ.	1,000	6,000	7,000		Costs derived from Ministry of Trade and Industry Action Plan for 2012/13.
	Integrated logistics system: Kigali Logistics Platform, linked to Regional Logistics Centres, and supported by an e-freight exchange system established	- Through PPP arrangements seek investors in logistics system.	500	-	500	MINICOM, RDB, MININFRA, MINECOFIN	This cost is the recurrent cost for Ministry and RDB time to attract resources into the logistics sector.
		Develop Regional Logistics Centres and link to Provincial SEZs and KLP.	300	3,200	3,500		Costs taken directly from Ministry of Trade and Industry (2012) White Paper Rwanda Logistics & Distribution Services Strategy. It is assumed that this is half of the financing required; the remainder is assumed to come from the private sector, through project finance.
	Programme 1 Total	4,800	42,400	47,200			
		Develop contracts with outsourced providers of investor targeting services in target markets including elements of performance-based pay.	500	-	500		These costs were developed in conjunction with discussions with RDB representatives from the Investment Promotion Department.



Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		Outsource to expert providers targeting activities in markets starting with 2-3 sectors in London and moving to 3-4 additional centres such as Shanghai.	-	10,000	10,000		These costs were developed in conjunction with discussions with RDB representatives from the Investment Promotion Department.
		Co-ordinate investment promotion activities, in particular marketing campaigns, market outreach and co-ordination of commercial attaché's activities.	3,000	500	3,500		These costs were developed in conjunction with discussions with RDB representatives from the Investment Promotion Department. The recurrent cost here is taking into account several years of department expenditures.
		Deliver incentive regime when investors are operating in the country.	300	-	300		Ongoing costs for incentive regime do not include any foregone revenues.
		Set up an inter-ministerial forum for use at early stage in negotiations with large potential investors, giving the RDB greater powers to propose a package backed by firm inter-ministerial commitments and a clear public-service delivery schedule.	200	-	200		Recurrent costs are the time taken by ministry and RDB officials in discussions.
	Investor aftercare improved with relationship based system established for issue resolution	Establish Key Account Managers (KAM) as points of contact for all registered investors.	100	-	100	RDB / MINICOM / IDEC	Recurrent costs are the time taken by ministry and RDB officials.
		Establish system for KAMs to feed into a structured investor aftercare team and customer relationship management system within RDB.	200	100	300		Capital costs consist of technical support for development of customer relationship management system.
		Where RDB cannot resolve issues, escalate to the IDEC.	100	-	100		Recurrent costs are the time taken by ministry and RDB officials.
	Programme 2 Total	10,800	11,200	22,000			

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/ 18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
Programme 3: Entrepreneurship Development	Enabling environment for small informal micro and household enterprises created	- Undertake reforms to rules regulating micro informal enterprises.	200	-	200	MINICOM / MINIJUST / MINALOC	Costs based on Government staff time required to review existing regulations and to improve those that are restrictive to informal enterprises.
		- Sensitise public servants + institutions.	100	-	100		Recurrent costs include training public sector institutions such as the police in adopting the revised regulations.
		Sensitise general public.	100	-	100		Recurrent costs based on information and sensitisation campaign.
	Mentoring and Counselling Facility developed	Set up Facility, funded by a special component of the BDF, delivered by banks.	100	-	100	BDF / RDB	Costs relate to tendering and technical assistance for the development of the Mentoring and Counselling Facility for promising borrowers
		Establish mechanism within BDF to work with banks providing services to SMEs.	-	2,500	2,500		Capital costs are the funds required to institute and disburse the Mentoring and Counselling Facility for promising borrowers.
		- Improve monitoring of Hanga Umurimo programme to ensure quality of services provided.	200	-	200		Recurrent costs include development of improvements to monitoring of the programme, by Ministry, BDF and RDB staff.
		- Expand Hanga Umurimo to target existing small businesses with greater room for transformational growth.	-	10,000	10,000		Capital costs consist of the funding required to expand Hanga Umurimo.
		- Develop sector specific competitions within Hanga Umurimo, for example for ICT entrepreneurs.	100	-	100		Recurrent costs are staff costs for developing details of Hanga Umurimo components.

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		- Develop greater mix of prizes such as small grants, office space and hardware, as well as support services.	100	1,000	1,100		Recurrent costs are staff costs for developing details of Hanga Umurimo components. Capital costs are for new prizes and encouraging other private sector providers to support the programme.
	Vendor Development Programme developed	- Set up vendor development programme within RDB.	200	100	300	RDB / PSF	Recurrent costs are the RDB staff costs required to develop and set up the vendor development programme. Capital costs consist of short consultancies to support programme development.
		- Tender for outsourced management of the vendor development programme.	100	-	100		Recurrent costs are the RDB staff costs required to tender the vendor development programme.
		- Market to large businesses, business organisations, and PSF and run at least two rounds of the fund.	200	200	400		Recurrent costs are the RDB staff costs required to market and sensitise around the vendor development programme. Capital costs consist of the outsourced providers' costs relating to marketing.
	BDS Activities expanded	- Review existing BDS programmes run by Government.	100	100	200	RDB / BDF	Recurrent costs are the RDB and BDF staff costs required to review existing BDS. Capital costs consist of short consultancies to support this work.
		- Establish BDS matching grant programme, including assessment mechanism and governance structure, to be run through RDB.	200	4,000	4,200		Capital costs consist of the funding required for BDS funding including matching grants. Recurrent costs consist of RDB support.
		- Target marketing to existing BDS providers and existing BDS programmes.	200	-	200		Recurrent costs consist of RDB and Districts staff costs.

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		- Monitor performance contracts with payments based on milestone achievement.	100	-	100		Recurrent costs consist of RDB and Districts staff costs.
		- Disseminate successful business models to a wide number of participants in the BDS market.	200	-	200		Costs consist of RDB and BDF staff time and dissemination activities.
- Implementation of action plans	700	800	1,500	MINI-COM / RDB			
	Programme 3 Total	3,400	23,200	26,600			
Programme 4: Credit Expansion	Expanded credit guarantee scheme	- Review performance of Credit Guarantee Scheme (CGS), particularly on additionality of scheme.	100	200	300	BDF / BNR / MINECOFIN	Recurrent costs consist of BDF and MINECOFIN staff costs to review existing CGS with respect to additionality in particular. Capital costs consist of technical assistance to this process.
		- Expand CGS from current RWF 13 billion (approximately US\$20 million) based on results of performance review.	1,000	120,000	121,000		Capital costs consist of RWF 117,000 million for fund itself and RWF 3,000 million for technical assistance in fund delivery. The size of the revised CGS has been calculated to include a nine-fold increase, and to support increase in private sector credit to GDP as well as investment share of GDP indicators significantly. Recurrent costs consist of BDF and MINECOFIN staff time.
		- Regularly monitor programme to ensure that participating banks are adopting new systems.	500	200	700		Recurrent costs consist of BDF and MINECOFIN staff costs to undertake regular monitoring. Capital costs consist of technical assistance to develop monitoring system and periodic support

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
	New outreach models, risk appraisal methods and monitoring systems for SME lending developed	- Develop Innovative Financial Outreach Challenge Fund (IFO) to promote better delivery to MSMEs (provide the risk capital in the form of grants for the private sector to develop new models).	100	200	300	MINECOFIN / BNR	Recurrent costs consist of MINECOFIN staff costs for developing the IFO Challenge Fund. Capital costs consist of technical assistance to the process.
		- Recruit outsourced fund manager got IFO.	100	-	100		Recurrent costs consist of MINECOFIN staff costs for tendering.
		- Run and monitor the IFO Challenge Fund	200	10,000	10,200		Capital costs consist of allocation to the IFO Challenge Fund to be disbursed to financial institutions. Recurrent costs consist of MINECOFIN costs to monitor performance.
		- Working with BNR and MINECOFIN target fund to all active MFIs, banks, and financial services organisations	100	200	300		Costs consist of MINECOFIN (recurrent) and technical assistance (capital) for marketing.
	Instruments for impact investing developed including private equity and quasi-equity established for small, medium and large enterprises	- Review existing pilot Quasi-Equity Fund.	100	100	200	BDF / RDB	Costs consist of time and resource for reviewing existing quasi-equity fund by RDB (recurrent) and technical assistance (capital)
		- Expand BDF Quasi-Equity Fund following review.	500	8,000	8,500		Recurrent costs are those of RDB and BDF staff to develop greater capacity for the quasi-equity fund and to implement the project. Capital costs consist of the fund allocation itself.

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		- Target Commonwealth Development Corporation (CDC) Impact programme and work with investors to promote applications from Rwanda to the facility.	100	-	100		Costs for RDB to proactively target firms to apply for CDC Impact programme.
		- Develop matching fund to leverage larger regional private equity players to establish and invest in SMEs in Rwanda.	400	5,000	5,400		Recurrent costs are to develop matching fund facility for large regional players in private equity to enter Rwandan market. Capital costs consist of the matching fund allocation (RWF 4,500 million) and technical assistance for delivery (RWF 500 million).
	New forms of structured finance products actively used in Rwanda						
	- Develop Innovative Financial Outreach Challenge Fund (IFO) window to improve innovations in structured finance.	400	3,000	3,400	MINE-COFIN / BNR	Recurrent costs are those of MINECOFIN to develop special IFO window for structured finance innovations. Capital costs are the funds to be disbursed through the window by the IFO fund manager.	
		- Market fund window to financial institutions in both Rwanda and the region.	100	100	200		Costs consist of marketing expenditure by GoR (recurrent) and fund manager (capital).

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		- Monitor performance grants and disseminate successful models to the financial sector in Rwanda.	200	100	300		Costs consist of staff time (recurrent) and technical assistance (capital).
		- Review need for changes in legislation to improve the delivery of structured finance products.	100	100	200		Costs consist of GoR funds for reviewing and developing regulation, as well as technical assistance (capital).
	Programme 4 Total	4,600	148,000	152,600			
Programme 5: Skills and Innovation	More business-responsive higher education and TVET System operational						
		- Review existing tax incentives for skills development within company training schemes	100	100	200		Costs consist of staff time (recurrent) and technical assistance consultancy to undertake the review (capital).
		- Establish tax incentive mechanisms to promote private sector provision of training, and work experience	200	100	300		Costs consist of staff time (recurrent) and technical assistance to support process (capital).
	Establish in-house company skills training Programme	- Set up in house company skills programme including grant management mechanisms and governance mechanisms for the programme.	100	2,000	2,100	RDB / MINECOFIN / MINEDUC / WDA	Capital costs consist of cost for grants for the in house company skills programme. Recurrent costs are the costs for RDB to set up the scheme.
		- Wide public marketing campaign as well as more targeted marketing to larger businesses active in Rwanda.	100	-	100		Costs consist of staff costs to market the programme to relevant businesses, particularly through sector skills councils.
		- Develop accreditation system for service providers and accredit those that match requirements.	100	200	300		Costs consist of staff time (recurrent) and technical assistance to support process (capital).
		- Monitor programme and develop recognised qualifications with relevant skills councils	100	-	100		Costs consist of staff costs for RDB to monitor the programme and develop statistics on training undertaken.



Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/ 18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
	Internship and apprenticeship schemes expanded	- Review value for money of existing internship / apprenticeship programmes. - Monitor programme and undertaking tracer studies for students undertaking internships and apprenticeships	100	200	300	RDB / MINEDUC / WDA	Costs consist of staff time (recurrent) and technical assistance to help develop the review (capital). Costs consist of staff costs for RDB to monitor the programme.
	Programme 5 Total	1,500	8,700	10,200			
Programme 6: Better Regulation	Tax system simplified						
	- Undertake research on existing tax burden and levels of certainty or uncertainty for investors.	200	200	400	RRA / RDB / MINI-COM / MINE-COFIN		
	Costs consist of staff time (recurrent) and technical assistance to undertake the research (capital).						
	- Review business taxation, in particular the implementation of Corporation and Withholding Tax, and other business taxes		100	200	300		Costs consist of staff time (recurrent) and technical assistance to help develop the review (capital).
	- Review non-deductible expenses such as costs for ICT for ICT companies.		100	200	300		Costs consist of staff time (recurrent) and technical assistance to help develop the review (capital).
	- Undertake mechanisms to continue to simplify tax system over time.		200	-	200		Costs consist of staff time for RRA and RDB to undertake simplification.

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		- Periodically review sectoral taxation	200	100	300		Costs consist of RRA and RDB costs to review, together with technical assistance (capital cost).
		- Make necessary amendments to tax code.	200	200	400		Costs consist of RRA and RDB costs to amend tax code, together with technical assistance (capital cost).
	Insolvency process improved	- Review insolvency processes including commercial courts and due legal processes.	100	200	300	RDB / MINICOM / MINIJUST	Costs include RDB and MINIJUST costs for legal review, and additional technical assistance (capital cost).
		- Implement a programme of insolvency reform.	400	100	500		Costs principally consist of RDB and MINIJUST staff costs for reform implementation (recurrent) as well as some technical assistance (capital).
		- Develop a framework for out-of-court debt negotiations; and how insolvency laws can be applied to unincorporated entities, such as sole proprietorships, etc.	300	500	800		Capital costs consist of infrastructure for the implementation of out-of-court settlements, and some technical assistance in addition. Recurrent costs consist of justice costs for implementation.
	Concessions for Key Sectors reviewed	- Implement periodic review of concessions by GoR.	100	200	300	MINIRENA / OGMIR / RDB	Costs consist of staff time for RDB and relevant line ministries (recurrent) and technical assistance to undertake the reviews (capital).
		- Review forestry concessions procedures, amend where necessary.	100	100	200		Costs consist of staff time (recurrent) and technical assistance to undertake the review (capital).
	Sector Specific Regulations continually reviewed through PPD	- Establish regular review mechanisms for sector specific regulations through PPD	400	-	400	RDB / MINICOM / MINECOFIN	Costs consist of RDB staff time for implementation of greater PPD engagement, for sector reviews.

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/ 18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		<ul style="list-style-type: none"> <li>- Review packaging legislation and revise to ensure constraint not placed on manufacturing or agro-processing sectors.</li> <li>- Pursue additional sector-specific reforms as raised through review mechanisms.</li> </ul>	100	-	100		Costs consist of RDB and MINICOM time to review packaging legislation.
			500	500	1,000		Costs consist of RDB and MINICOM time to implement reforms to sector specific legislation (recurrent), as well as technical assistance to support this process (capital).
	Programme 6 Total	3,200	2,500	5,700			
Programme 7: Market Access	Market access for Rwandan products through a High Level Strategic Approach to international agreements and regional integration improved	- Develop strategic position on EAC tariff structure revisions.	300	400	700	MINICOM / MINEAC / MINECOFIN / RDB	Recurrent costs constitute staff costs for the Ministries and RDB to develop strategic position. Capital costs include technical assistance and costs for meetings and studies to support the process.
		- Develop cost benefit analysis of changes to de facto trade policy on the impact on the Rwandan private sector, trade flows and revenue	100	200	300		Recurrent costs constitute staff costs for the Ministries and RDB to develop cost benefit analysis. Capital costs include technical assistance.
	Export promotion undertaken with more intelligent targeting of potential markets	- Establish Export Councils in identified sectors as a channel through which government and industry interact and collaborate towards the formulation of an export 'vision' for the sectors	200	100	300	RDB / MINICOM / MINEAC / NAEB	Costs consist of development of councils, facilitation of meetings together with the private sector. Capital costs consist of technical assistance to the process.
		- Improve provision of information to potential exporters on target markets.	100	200	300		Costs include development of export databases and market information systems. Capital costs consist of technical assistance to support this process.

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		- Link exporters with services required for enhancing competitiveness in export markets through BDS.	100	300	400		Costs consist of staff time (recurrent) and technical assistance (capital).
	System for monitoring and targeting removal of NTBs institutionalised	- Develop regular monitoring mechanism for Central Corridor NTBs. (This should include port delays, weighbridges, corruption and unofficial fees, and costs due to formal bureaucracies).	400	100	500	MINICOM / MINEAC / RDB	Costs consist of staff expenditures for monitoring at key points on the corridor. Capital costs include equipment and software for system to monitor NTBs effectively.
		- Develop regular monitoring mechanism for Northern Corridor NTBs.	600	200	800		Costs consist of staff expenditures for monitoring at key points on the corridor. Capital costs include equipment and software for system to monitor NTBs effectively.
		- Develop regular monitoring mechanism for NTBs on trade with the DRC	200	100	300		Costs consist of staff expenditures for monitoring of routes to DRC. Capital costs include equipment and software for system to monitor NTBs effectively.
		- Work with EAC Forum on NTBs to ensure all NTBs are taken account of and put into action plans for removal.	400	200	600		Recurrent costs consist of staff time for working with EAC Forum. Capital costs consist of technical assistance to this process.
		- Lobby for reductions in NTBs.	200	-	200		Costs consist of staff costs.
	Free flow of skilled labour enhanced	- Collect information on flows of EAC skilled labour and other foreign labour.	200	-	200	MINEAC / WDA / RDB / MIFOTRA / MINAFFET	Costs consist of recurrent costs particularly for MINEAC to undertake information collection on EAC labour flows.
		- Review laws in place to ensure they match EAC Protocols and requirements for other foreign nationals.	300	-	300		Costs consist of recurrent costs for legal reviews; this should be coordinated by MINEAC, working with MINAFFET and RDB.
		- Regular meetings of key ministries and agencies to ensure compliance.	100	-	100		Costs consist of staff time for meetings.

Programme	Output statement	Key activities	Estimated budget allocation 2013/14 - 2017/18 (RWF m.)			Agency	Notes
			Recurrent	Capital	Total		
		- Collaboration with Sector Skills Councils on skills deficit and private sector feedback.	300	-	300		Costs consist of staff time for meetings particularly for RDB and WDA.
	All Rwandan borders covered by one stop border posts (OSBPs)	- Full implementation of the OSBP at Kagitumba / Mirama Hills border (for Uganda)	200	5,000	5,200	RRA / MINICOM / MINEAC	Costs estimates based on RRA data
		- Establish OSBP at Rusomo (for Tanzania).	400	11,000	11,400		Costs estimates based on RRA data
		- Establish OSBP at Gatuna (for Uganda)	400	5,000	5,400		Costs estimates based on RRA data
	Low-cost certification for international Standards supported	- Develop mutual recognition of SPS measures between countries.	1,000	3,000	4,000	RBS	Recurrent costs are staff costs for RBS. Capital costs mainly consist of testing and other equipment.
		- Develop low cost certification processes for international standards.	2,000	2,000	4,000		Recurrent costs are staff costs for RBS. Capital costs mainly consist of testing and other equipment.
		- Establish Export Capacity Development Fund as a cost sharing grant scheme for companies with growth potential					
		- Establish the Export Growth Investment Fund to create a commercially managed Private Equity fund that addresses the funding gap for SME start-ups and growth companies					
	Cross Border Market Infrastructure	- Conduct feasibility studies for the construction of market and storage infrastructure at selected cross-border sites	300	-	300	MINICOM / MININFRA / MINEAC	Costs based on proposal by MINICOM
		- Construct large market and storage facilities and make available for private leasing.	-	1,700	1,700		Costs based on proposal by MINICOM
	Programme 7 Total	9,700	37,700	47,400			
PSDS Total	38,000	273,700	311,700				

## ANNEX 1: LOGFRAME

The logical framework (logframe) has been developed using a bottom-up approach. This worked through the development of the key programmes for the delivery of the PSDS, and then developing associated targets for which these programmes would be logically responsible.

The key assumptions here are that the inputs and outputs of the programmes developed will lead to the outcomes associated. The high-level outcome indicators are presented in Chapter 6, and are shown in Table 18 in bold. Table 18 shows the full range of indicators for each programme, along with baselines, targets for the five years of EDPRS-II implementation and the best source of data.

This set of indicators will be used by the lead institution for each programme and by the Technical Sub-Groups of the PSD sector to monitor progress. The development of detailed implementation plans and M&E frameworks for programmes may lead to the revision of some indicators and addition/removal of others. The indicators below serve as a starting point in this regard.

**Table 18: Logical framework with key indicators for delivery of PSDS**

Strategic outcomes	Indicator	Baseline 2012/13	Target 2013/14	Target 2014/15	Target 2015/16	Target 2016/17	Target 2017/18	Source of data
Infrastructure for Growth	Hectares of serviced land within Special Economic Zones with full connectivity to utilities <sup>1</sup>	100 ha. (inc. Phase 1 of Kigali SEZ)	278 ha. (Kigali Phase 2 complete)	412 ha. (Kigali Phase 3)	462 ha. (Bugasera SEZ phase 1)	612 ha. (Bugasera other phases)	752 ha. (Rusizi SEZ _ Nyabihu SEZ Huye SEZ)	SEZAR
	Cost of importing and exporting a container	Importing: \$5,000 Exporting: \$3,250	Importing: \$4,800 Exporting: \$3,100	Importing: \$4,600 Exporting: \$2,950	Importing: \$4,400 Exporting: \$2,800	Importing: \$4,200 Exporting: \$2,650	Importing: \$4,000 Exporting: \$2,500	World Bank Doing Business surveys
Investment Promotion	Private investment as a proportion of GDP	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%	MINECOFIN
	Level of FDI as a proportion of GDP	2.3%	2.6%	3.0%	3.5%	4.0%	4.5%	RDB
	Proportion of registered FDI and Joint Venture (JV) investors moving from registration to implementation phase.	71%	75%	80%	85%	87%	90%	RDB
	Increase the proportion of registered FDI and JV investors moving from registration to operation phase	47%	52%	56%	60%	63%	66%	RDB
	Proportion of active investors expressing satisfaction for investor aftercare services provided by the GoR	Baseline required	Baseline + 5%	Baseline + 10%	Baseline + 15%	Baseline + 20%	Baseline + 25%	MINICOM Investor Perception Survey
Entrepreneurship Development	Number of new SMEs created annually.	9,000	10,500	12,000	13,500	15,000	17,000	Registrar General
	Number of medium sized formal enterprises <sup>2</sup>	513	800	1,300	2,000	3,000	4,000	Establishment Census

Strategic outcomes	Indicator	Baseline 2012/13	Target 2013/14	Target 2014/15	Target 2015/16	Target 2016/17	Target 2017/18	Source of data
Credit Expansion	Credit to SMEs (% of GDP)	3.7%	4.3%	4.9%	5.3%	6.1%	7.2%	BNR
	Private credit to GDP ratio	15.6%	16.0%	17.6%	18.0%	18.7%	20.2%	BNR
	Percentage of new investment by formal businesses financed by banks	14%	16%	18%	20%	22%	25%	World Bank Enterprise Surveys
	Value of collateral needed for a loan	273%	250%	230%	205%	185%	160%	World Bank Enterprise Surveys
Skills and Innovation	Apprentices and interns placed per annum in jobs	1,200	2,500	4,500	7,000	9,500	12,000	RDB
	Workers enrolled in training	56,000	60,000	64,000	68,000	74,000	80,000	WDA
Better Regulation	Regulatory Environment Index	100	TBD	TBD	TBD	TBD	TBD	World Bank Doing Business Report
	Percentage of firms identifying tax rates as the biggest obstacle to business	21%	19%	17%	15%	13%	10%	World Bank Enterprise Survey
	Percentage of firms identifying tax administration as a major constraint	29%	27%	23%	18%	14%	10%	World Bank Enterprise Survey
	PPD satisfaction index	Baseline required	Baseline + 3%	Baseline + 6%	Baseline + 10%	Baseline + 15%	Baseline + 20%	SME survey; Industrial Survey
Market Access	Exports as a share of GDP	14.6%	16.2%	18.3%	21.1%	23.8%	27.2%	BNR
	Non-traditional goods exports (% of total)	56.0%	58.0%	59.0%	60.0%	60.0%	60.0%	BNR



## ANNEX 2: ONGOING PROJECTS

This annex provides details of ongoing and planned projects in key PSD policies and strategies. These are activities yet to be started, or that are currently underway and which are expected to be implemented in the period from 2013/14 to 2017/18.

Table 20 highlights key actions of sizeable scale in terms of resource allocation. It then provides an analysis of where these activities fall within the PSDS, within other sector strategies under EDPRS-II, or that the PSDS does not prioritise at this stage due to the allocation of scarce resources.

*Table 19: Key ongoing projects for private sector area and comments on relation to PSDS*

Report	Actions	Comments
Rwanda National Export Strategy -2011	<p>The Strategy develops detailed actions for a number of target sectors. The major projects in this include:</p> <ul style="list-style-type: none"> <li>• Tourism: RWF 44.8 billion for the Tourism Cultural Village</li> <li>• Mining: RWF 1.7 billion to evaluate four Prospective Target Areas (PTAs)</li> <li>• Horticulture: US\$80 million in development of flower parks and land (not sure amount!). Budget for horticulture interventions in NES is £5.4m.</li> <li>• Agro-processing: RWF 1.1billion to set up the first agro park (500ha.) and support 10 companies with great agro-processing potential.</li> </ul>	The PSDS does not prioritise sector-specific NES interventions. Tourism sector addressed through Kivu Belt SEZ. Mining through longer mining concessions in Better Regulation Programme.
SME Development Policy, 2010	<p>The SME Policy aims to:</p> <ul style="list-style-type: none"> <li>• Promote a culture of entrepreneurship among Rwandans</li> <li>• Facilitate SME access to development services including: business development services; access to local, regional and international markets and market information; and promote innovation and technological capacity of SMEs for competitiveness</li> <li>• Put in place mechanisms for SMEs to access appropriate business financing</li> <li>• Simplify the fiscal and regulatory framework for SME growth</li> <li>• Develop an appropriate institutional framework for SME development</li> </ul>	The direction of the SME Policy has been carried forward by RDB and MINICOM, and is continued into the PSDS, particularly through the Entrepreneurship Development Programme.
Transport Sector Strategic Plan – 2012	<p>Largest projects envisaged under the strategy are the following:</p> <ul style="list-style-type: none"> <li>• 338km of national unpaved roads upgraded to paved: RWF 108.1 billion.</li> <li>• Acquisition of 780km of road reserve for National roads: RWF 78 billion.</li> <li>• Upgrading 400km for feeder roads to gravel standards: RWF 24billion.</li> <li>• Development of 17km of Bus Rapid Transport (BRT) corridor in city of Kigali: RWF 88.2 billion.</li> <li>• 90km Dedicated Bus Lanes (DBLs): RWF 33.7 billion.</li> </ul>	Transportation interventions are within the Transport Sector Plan. The PSDS agrees that these are crucial interventions.

Report	Actions	Comments
Energy Sector Strategy Plan – 2012	<p>Strategy developed for EDPRS-II and includes ambitious targets for energy sector with high costs associated:</p> <ul style="list-style-type: none"> <li>• \$3.2 billion to increase installed capacity by 900MW in the period 2012-2017, totalling 1,000MW.</li> <li>• \$1.1 billion for Electricity Access Scale-Up Roll-Out Program (EARP) Project – connect households to grid</li> <li>• \$387 million to improve transmission system.</li> <li>• \$15 million to improve distribution (lines and sub-stations) system.</li> </ul>	Energy interventions are within the Energy Sector Plan. The PSDS agrees that these are crucial interventions. Energy is the number one binding constraint and this investment must happen.
Financial Sector Development Program (FSDP-II)– 2012	<p>Key programmes for FSDP-II are the following:</p> <ul style="list-style-type: none"> <li>• Broadening and deepening financial literacy</li> <li>• The Umurenge SACCO strengthening program</li> <li>• Building capacity in the financial sector</li> <li>• Strengthening RSSB government, administration, investment, and risk management.</li> </ul> <p>There is no costing associated with this strategy.</p>	The FSDP key programmes are largely developed in the Finance Strategy under EDPRS-II. The PSDS picks up on FSDP interventions that are crucial to expand credit.
Financial inclusion in Rwanda 2008-2012	<p>This is the report with the key findings from the FinScope Rwanda 2012. The key findings are:</p> <ul style="list-style-type: none"> <li>• Financial exclusion has dropped by 46 per cent since 2008</li> <li>• Banked population has increased from 14 per cent of adults in 2008 to 23 per cent in 2012.</li> <li>• The establishment of Umurenge SACCOs has been key to providing formal access to population.</li> <li>• Insurance uptake has increased from 3 per cent in 2008 to 7 per cent in 2012.</li> </ul>	Financial inclusion is considered but through the lens of lending rather than saving. Credit expansion for SMEs is vital for their growth and for jobs.
Logistics and distribution services strategy for Rwanda - 2012	<p>The document proposes to develop feasibility studies and PPP arrangements to finance:</p> <ul style="list-style-type: none"> <li>• Air Cargo Centre and Commercial Mall: \$10 million</li> <li>• Regional Logistics Centres, including: Bonded warehouses near Goma &amp; Bukavu (\$10 million) and Kigali Logistics Platform (\$45 million)</li> <li>• Agro-Logistics Centres: \$14 million.</li> <li>• Inland container terminal for Rwandan operators in Mombasa and Dar: \$15 million.</li> </ul>	The major regional logistics interventions have been incorporated into the PSDS within the Infrastructure for Growth Programme. However, it is emphasised that they will only be viable under PPP arrangements.
Tourism Marketing Strategy – Beyond Gorillas – 2012	<p>Strategy for marketing the country. It proposes a number of actions that total a cost of \$1 million: fix website, create database, do some regional marketing, get eco-certification, create a tourism marketing unit.</p>	The PSDS Investment Promotion Programme includes the creation of a dedicated Marketing Division within RDB.
Special Economic Zone Policy – 2010	<p>This is the SEZ Policy document. The budget to set the SEZs was estimated at RWF 3 billion over three years. The Policy mainly sets the regulatory framework for SEZs and the establishment of the SEZ Authority.</p>	The PSDS continues the policy of promoting SEZs, within the Infrastructure for Growth Programme.
Rwanda SEZs Programme – 2012	<p>This is an update on the SEZ Programme. Kigali's SEZ is a merge of Kigali Industrial Park + Kigali Free Zone.</p> <ul style="list-style-type: none"> <li>• Phase 1 consists on: 100ha in Masoro; fully booked with 52 companies + MINCOM (?) and MINAGRI projects (Agri Park with silos plant of 20,000MT and warehouse of 20,000MT)); infrastructure almost complete (92 per cent) in September 2012.</li> <li>• Phase 2 is 178 ha. in Kayumba; infrastructure at 23 per cent; 4 companies have booked plots (50 per cent); Bakhresa already operational.</li> <li>• There is a phase 3 in the plans.</li> </ul>	The PSDS continues the policy of promoting SEZs, within the Infrastructure for Growth Programme. In addition the PSDS suggests developing the Provincial Industrial Parks and Kivu Belt as SEZs.

Report	Actions	Comments
National cross border trade strategy – 2012	<p>The Cross Border Trade Strategy includes:</p> <ul style="list-style-type: none"> <li>Investment promotion activities targeting investors in Kenya, Tanzania and Uganda; developing investment promotion materials; sponsoring investor trips to Rwanda. Budget: RWF 244 million.</li> <li>A pilot programme to establish a small traders finance facility through BDF using SACCOs. Budget: RWF 215 million.</li> </ul>	Investment promotion activities should focus on international markets where Rwanda has greatest potential. The PSDS concurs with a number of the trade facilitation recommendations of the Strategy and includes them in the Market Access Programme – in particular better borders through OSBPs, cheaper standards certification and NTBs monitoring and removal. All of these activities should reduce the cost for small informal traders.
Building Materials Overview	This report does an analysis of the sector and identifies three subsectors that could be sold to investors (need to prepare investment profiles) as sectors with good growth potential: electric cables/steel rebar/concrete.	The sub-sectoral work should be driven by RDB Investment Promotion. The Investment Promotion Programme may consider this a target sector.
Note - Gishari Flower Park as a quick win	Projection to export 22 million stems between July 2013-2014, but no airline available to transport such volume of stems. Required budget is around \$5.5 million (\$2.65m. for infrastructure + \$2.9 million. for Greenhouse) but National Agricultural Export Development Board's (NAEB) current budget is only RWF 300 million.	The PSDS does not prioritise the Gishari Flower Park. SEZs should not be developed to target specific sub-sectors.
Packaging in Rwanda: Analysis and Recommendations - 2012	The main point in this briefing is the need to lift the ban on manufacturing, importing, using or selling polythene.	The PSDS Better Regulation Programme will look in detail at packaging legislation, particularly for light manufacturing industries and agro-processing.
Note - Briefing to Prime Minister office on key trade growth sectors – undated.	<ul style="list-style-type: none"> <li>Importance of Pyrethrum sector. There is one processing plant (SOPYRWA) functioning at 40 per cent capacity because of lack of raw material. So a producer support programme of \$800,000 per year is being implemented and SOPYRWA contributes with \$500,000.</li> <li>The document also talks about the creation of a \$5 million. Export Growth Fund and a market linkages programme consisting on organising trade fairs (5 trade fairs @ cost of \$50,000 each).</li> </ul>	The PSDS does not prioritise sub-sectors. These should be competitive through market forces. The PSDS Entrepreneurship Development Programme will address better coordination of smallholders with larger firms through vendor development.
Joint Sector Review (JSR) Summary report 2010/11	<p>Three policies on “enhanced business climate” were fully achieved by 2011:</p> <ul style="list-style-type: none"> <li>Use of online business registration and other services established.</li> <li>Electronic land registry has been established.</li> <li>SME Policy Strategy finalised and implementation ongoing along MSME Development Programme.</li> </ul> <p>There is an Electronic Single Window project for trade facilitation that is being implemented but not fully operational yet.</p>	Electronic Single Window has now been launched.
MINICOM Single Action Plan 2012-13.	<p>This document set the targets for MINICOM for the period 2012-2013. It is a detailed action plan. The most relevant activities are:</p> <ul style="list-style-type: none"> <li>RWF 6.6 billion. to construct Kigali SEZ and Buge-sera Industrial Park.</li> <li>RWF 2.2 billion. for Hanga Umurimo</li> <li>RWF 1.5 billion. to develop and harmonise standards with EAC and COMESA.</li> </ul>	All actions taken forward by the PSDS and placed in relevant Programmes.

Report	Actions	Comments
Report on key sector initiatives & opportunities – 2012	The report looks at potential impact of 11 sectors (cement, pharma, sugar, edible oils, construction, wheat, fertiliser, rice, maize, motorcycles and insecticides). The only relevant intervention mentioned is the ongoing construction of Muvumba Irrigation Schemes, which alone should yield 21,000MT of rice per year.	Sub-sector investment opportunities should be developed by RDB in its ongoing work. The PSDS recommends that industrial policy should be through the development of markets and SEZs, for which varying sub-sectors can compete.

## ANNEX 3: CHALLENGE FUNDS

### Description of the Challenge Fund instrument and concepts

The Challenge Fund instrument originates in the UK public sector, but recently, the tool has been adapted for international development as a way of engaging with the private sector. This is in recognition of the key role this sector plays in generating economic growth, without which poverty reduction cannot be achieved.

A number of market and policy failures, as well as other constraints, inhibit enterprise and private sector development in most developing country contexts. These mean that firms active in these countries (both indigenous firms and transnational corporations) are often slow to respond to potential opportunities, or do not respond at all. A number of factors can potentially explain this situation:

- Risks are too high. A weak enabling environment and small markets, especially in rural areas where the investment climate is very poor, lead to greater costs, risks and uncertainty in doing business. Firms may just not find it viable to take on the risk of launching an enterprise. High costs and the high risk of transacting business make especially rural markets less attractive to innovators. Yet it is here that greater access to markets can achieve the highest impact in terms of pro-poor growth.
- Information failures. Information systems are often weak. This makes cost discovery more difficult, creates uncertainty and increases the perceived risk, thereby preventing firms from pursuing opportunities.
- Inertia within firms. Inertia is caused by a lack of competition from other firms and an inbuilt bias against going down market where the financial returns may be lower or more risky. Firms are often content to serve attractive, low risk market segments with little market pressure to seek new market opportunities.
- Failures in the innovation cycle. In addition to inertia within larger firms, many SMEs active in developing countries generally lack the market linkages, expertise and finance to innovate and expand their companies to a size that impacts on the market.

Challenge Funds work by offering incentives to the private sector to test a new approach that they would not be prepared to pursue on a purely commercial basis. Within firms, a risk-return hurdle exists that may prevent potentially profitable investments from being made.

This may prevent innovative projects with potentially high social impacts and potential commercial viability from going ahead. Such projects are likely to be passed over by investment committees with the choice of investing in ideas with far more proven or greater financial returns.

Given that the process of innovation is unpredictable, the Challenge Fund instrument does not attempt to pick winners. Rather, they support those proposals that meet specified criteria, and thus satisfy the Independent Appraisal Panel that the projects are able to innovate and find profitable ways of improving market access and functioning for markets for poor producers. Thus, they aim to start races that could lead to the ultimate goals of the challenges set by the Fund.

Challenge funds have traditionally used a portfolio approach to investment, similar to that used by venture capital. While it is expected that a relatively high proportion of initiatives will fail, the aim is that there will be successes where the payback through replication and/or systemic change is far higher than the return on the specific project that was initially co-funded.

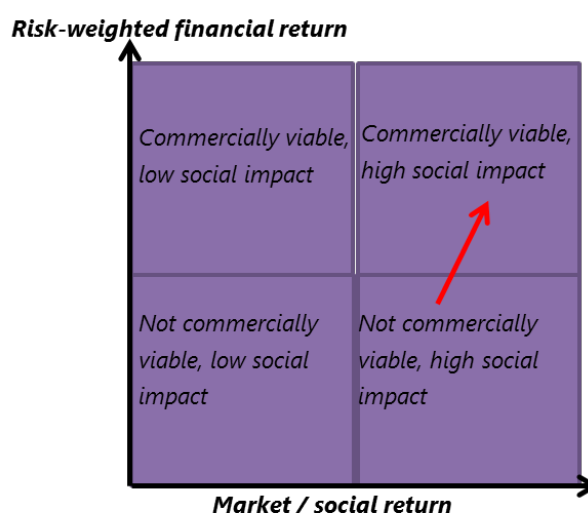
The PSDS proposes two challenge funds – a Business Linkages Challenge Fund and an Innovative Financial Outreach Challenge Fund. They can be implemented either as two separate challenge funds or alternatively one challenge fund with two windows (on business linkages and financial outreach).

### *Whichever mechanism is ultimately adopted the essential elements of a challenge fund are that it:*

- is a mechanism to align development and business objectives, aiming to enable innovative and inclusive business models to be tested by tipping investment decisions from 'no' to 'go', overcoming the purely commercial risk hurdle in return for potential development benefits;
- triggers innovation and helps to speed up the implementation of new inclusive business models and technologies which combine potential commercial viability with high social impacts, particularly where commercial returns are uncertain, and the investment is therefore high risk;
- harnesses the strengths of the private sector - the ability to generate and test new ideas, rapidly abandon them if they do not work and scale up those that do using the capability of business to implement;

- does not attempt to pick winners (as many matching grant schemes have done in the past) but instead, supports ideas generated by the private sector, through a transparent process of bidding rounds judged by an independent panel;
- is not aimed at developing the capacity of project implementers, and can therefore be 'light touch';
- requires the grantees to contribute to the overall funding of the project as an indication of their commitment to the commercial viability of the project and to share the risk, thus avoiding moral hazard; and
- is allocated through an open competitive process with public solicitation of applications. To remove the potential conflict of interest arising from a fund manager who also has to engage with potential applicants and successful bidders, awards are made by independent selection/investment panels against set criteria, thus avoiding picking winners.

Figure 52: Challenge fund concept, applying to business linkages projects



**Challenge fund concept:** Lift the risk-weighted commercial return to projects with high social or market impacts, to make them commercially viable. Allows social impact to be achieved with spillovers to wider economy in innovation and jobs.

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