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RWANDA'S AGENDA FOR ACTION

Executive Summary
June 2008



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EXECUTIVE SUMMARY

Economic reform in Rwanda is actively underway, but much more must be done before the necessary legal and institutional framework is in place to support a sound and thriving business environment. This report addresses the challenges to Rwanda's business environment and the root causes behind the country's low *Doing Business* scores. It provides analysis and practical, actionable recommendations for each of the ten *Doing Business* areas. While some of these recommendations relate directly to improving *Doing Business* scores, others address challenges to the business environment more broadly in order to remedy deeper issues plaguing the business environment.

This report provides valuable information for both the donor community and the Rwandan government with regard to major challenges in the business environment. It is designed to inform assistance decisions by USAID and other donors in the area of commercial legal and institutional reform. Specific recommendations are included at the end of each chapter and compiled in full in an appendix to the full report. A list of priority recommendations is also included at the end of this Executive Summary.

Rwanda: The Power and Potential of Good Governance

In the economic arena, so much is going well in Rwanda. Behind a growth rate of 6% in 2007, and realistic external projections for up to 6.5% growth in the near future, there is a remarkably intensive, informed, and carefully implemented agenda for reform. Together, Rwanda's government, private sector, professional communities, NGOs, and workforce – along with a large donor community – are striving to overcome a legacy of poverty, one that is uniquely complicated by the country's recent history of war and genocide.

Reform is taking place on several fronts. On a macro-level, the country's Economic Development and Poverty Reduction Strategy (2008–2012) (EDPRS) is the government's newly enacted "operational tool" that aims to push change forward.¹ The EDPRS reiterates the country's vision

¹ Formally implemented in September 2007, the EDPRS can be found at the website of Rwanda's Ministry of Finance, <http://www.minecofin.gov.rw/en/inno->

for growth and development (which encompass both the U.N.-established Millennium Development Goals and the country's own Vision 2020²) and then details a "medium-term" implementation strategy, one that emphasizes the contributions to be gained not only from government reform, but also from a vibrant and healthy private sector. As a core theme, the EDPRS emphasizes the importance of "soft" infrastructure – that is, a regulatory environment that is friendly to domestic enterprises and outside investors. The EDPRS also emphasizes the need for Rwanda to improve the skills of its citizens through better primary education, more opportunities in technical and vocational training, and stronger universities.

In addition, a host of targeted efforts are underway to achieve the overriding goal of a business-friendly environment, one that ultimately contributes to economic growth and reductions in poverty. For example, through a comprehensive legal reform program, Rwanda's key commercial laws are undergoing revision for the purpose, generally, of becoming more business-friendly and consistent with international best practice.³ At nearly all levels, the national government emphasizes the importance of administrative transparency, efficiency, customer

[print_article.php?articleId=50&PHPSESSID=10f983d1fc1127c65db4c7c8458c886e](http://www.minecofin.gov.rw/en/inno-print_article.php?articleId=50&PHPSESSID=10f983d1fc1127c65db4c7c8458c886e).

² Around the turn of the millennium, Rwanda developed, through a cooperative, consultative national process, a "vision" for the next two decades, one that includes a number of aspirational "pillars": (a) national reconstruction based on good governance; (b) strengthened productivity of agriculture; (c) a healthy private sector; (d) comprehensive improvement of human resources through better education, health, and information and communications technology (ICT); (e) an infrastructure that supports an efficient and productive economy; and (f) meaningful regional integration. See Government of Rwanda, Ministry of Finance and Economic Planning, *Vision 2020* (July 2000). The Millennium Development Goals, which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, constitute the United Nations' blueprint for development throughout the world by 2015. See United Nations, *Millennium Development Goals*, available at <http://www.un.org/millenniumgoals>.

³ Though mentioned at many points in this discussion, details of the commercial law reform program are set forth in this report's chapter on Enforcing Contracts.

Rwanda's Rankings in the World Bank Doing Business Categories

	2008	2007	Change
Doing Business Overall (178 countries surveyed)	150	150	0
Starting a Business	63	55	-8
Dealing with Licenses	124	132	+8
Employing Workers	95	95	0
Registering Property	137	134	-3
Getting Credit	158	156	-2
Protecting Investors	165	165	0
Paying Taxes	50	52	+2
Trading Across Borders	166	178	+12
Enforcing Contracts	44	44	0
Closing a Business	178	178	0

service, and private sector partnerships. At the same time, a nationwide emphasis on environmental preservation, tax and land reform, and construction of “hard” infrastructure indicates that the country is facing with all due gravity the problems that stem from its geography and recent history. New and re-invigorated supporting institutions are also taking shape – or are envisioned for the near future – including the increasingly dynamic Private Sector Federation, a consolidated legal training center, and various other private and public institutions dedicated to strengthening professional skills and capacities.

In response to its efforts to achieve meaningful economic reforms, Rwanda has been recognized throughout the world as an example to other less-developed countries. Following his February 2008 trip to Rwanda, U.S. President Bush summarized the impressions that many international observers currently hold: “Rwanda has taken bold steps to foster reconciliation, rebuild its devastated infrastructure, and to grow its economy,” he said. “It is a hopeful country.”⁴

Yet enthusiasm for all that is going right should not obscure a number of reservations that arise when Rwanda’s economic and political environments are

⁴ “President Bush Discusses Trip to Africa at Leon H. Sullivan Foundation” (February 26, 2008), available at <http://www.whitehouse.gov/news/releases/2008/02/20080226.html>.

scrutinized closely. Certain potentially detrimental dynamics exist that are at once plain to see and difficult to nail down. These are best confronted vigorously and now. As Rwanda continues to attract (and solicit) international interest in the role it can play as a stable, well-governed state at the crossroads of Africa, it must address certain significant challenges to its business environment and should avoid negative impressions that may present “red flags” against future engagement with outsiders.

This report sets forth six cross-cutting themes that identify these challenges. Addressing the following themes – detailed later in this section – will help Rwanda realize the power and potential of its remarkable steps to date:

1. Agriculture as the cornerstone of the Rwandan economy
2. Addressing the skills deficit: an imperative for long-term growth
3. Access, opportunity and connections: how more equitable treatment of all economic players would bolster the economy
4. The underplayed role of women in Rwanda’s economic development
5. The growing significance of regionalism
6. Building foundations of trust through law, institutions, and freedom

The BizCLIR Diagnostic and Indicators

This report is grounded in a comprehensive methodology, established through USAID’s Economic Growth Office, which has been used in over 30 countries since 1998. In 2007, incorporating lessons learned from its first-generation legal, institutional, and trade diagnostic tool, USAID sponsored the development of an updated and redesigned set of indicators through its Business Climate Legal and Institutional Reform (BizCLIR) project.⁵ The indicators now substantially align with the structure of the World Bank’s enormously influential *Doing Business* country reports.⁶

⁵ Detailed information about BizCLIR can be found at www.bizclir.com.

⁶ See generally, World Bank, *Doing Business 2008 (2007)*, and accompanying literature at www.DoingBusiness.org. The BizCLIR indicators also cover infrastructure and agriculture.

Since 2002, *Doing Business* has assisted countries in targeting where their regulatory environments may favor or interfere with economic growth. For each of the topics it examines, the World Bank considers a few key indicia of whether and how the environment for doing business is “working,” measured by such means as the number of procedures involved in achieving a goal, the number of days it takes, and the costs of the procedures in relation to per-capita income. The World Bank now gathers data from 178 countries and ranks each, thereby demonstrating how their respective regulatory environments compare to others throughout the world. In the most recent *Doing Business* report, issued in late September 2007, Rwanda ranked 150th – a showing that the government has vowed to improve.

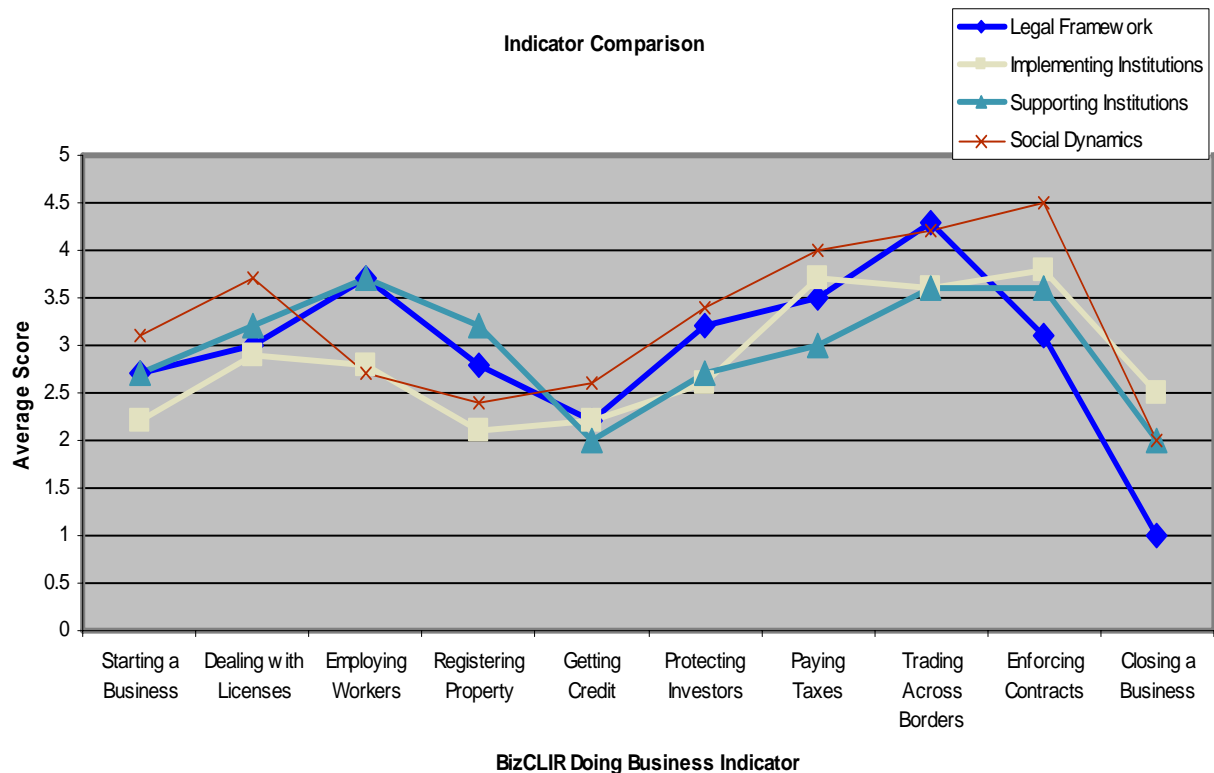
USAID’s BizCLIR indicators take each subject covered by *Doing Business*, and delve deeper into their respective legal frameworks, implementing and supporting institutions, and social dynamics to better understand *why* a country is where it is. In short, BizCLIR regards the *Doing Business* findings as “the tip of the iceberg” and aims to assist countries in improving their *Doing Business* areas by addressing the *whole* iceberg. The BizCLIR indicators consider each subject from a variety of perspectives, illuminating, for example, how certain business processes apply to rural communities, micro-enterprises, and small and medium-sized enterprises (SMEs). The BizCLIR indicators further examine aspects of a subject-matter area that do not necessarily impact a country’s ranking, but have considerable bearing on the business environment. The BizCLIR approach was chosen in light of recent demand for better understanding of the issues highlighted in the *Doing Business* initiative and the need to help donors and countries understand, with greater particularity, “how to reform.”

This diagnostic took place in two parts. Three of the subject-matter areas in this report – Registering Property, Paying Taxes, and Trading Across Borders – were covered chiefly through a “desk study” approach. That is, rather than visiting Rwanda, the authors reviewed the extensive literature available on these topics and prepared their chapters accordingly. To a limited extent, the desk studies are supplemented with information that came to light when a team of professionals looking at the other *Doing Business* topics visited the country, as discussed below.

USAID/BizCLIR Diagnostic Team	
Elizabeth Shackelford , Booz Allen Hamilton	Team Lead; Protecting Investors; Starting a Business
Anna Capetanakis , Booz Allen Hamilton	Deputy Team Lead Gender
Wade Channell , USAID (Washington, D.C.)	Getting Credit
Louise Williams , Independent Consultant	Employing Workers; Dealing with Licenses
Judge Michael Williamson , U.S. Bankruptcy Court, Middle District of Florida	Enforcing Contracts; Closing a Business
Desk study	
Anita Ramasastry , University of Washington School of Law	Paying Taxes; Registering Property
Raymond Saner , Centre for Socio-Eco- Nomic Development (CSEND)	Trading Across Borders

The second, in-country portion of this diagnostic took place from January 28 to February 8, 2008, when a consulting team traveled to Rwanda to study the country’s business environment. With respect to the seven remaining *Doing Business* topics, the team conducted interviews across the business environment, including state and local officials, owners of SMEs, industrial and agricultural enterprises, business associations, NGOs, the banking and lending sector, and many others. Interviews and observations took place in and near Kigali, Butare, Nyanza, and Ruhengeri. The team’s objective was to obtain the “whole picture” of Rwanda’s enabling environment for business and trade. Questions elicited a variety of perspectives and viewpoints, and sought explanations for how a certain subject works in all pertinent communities, whether urban, suburban, or rural.

The diagnostic culminated in a roundtable presentation and discussion on February 8, 2008, which was attended by representatives from Rwanda’s community of public and private sector reformers, as well as several donors. At the roundtable, team members introduced their preliminary observations, which were then subjected to feedback and elaboration from about 30 participants. This input helped shape the final conclusions of the team, which are now found in this report.



Each chapter of this report is structured the same way. Specifically, following an introduction, each has four substantive sections, which are themselves followed by recommendations.

Legal Framework. The chapters first examine Rwanda’s laws and regulations that serve as the structural basis for the country’s ability to achieve and sustain market-based development. They discuss the following questions: How accessible is the law, not only to elite, well-informed groups, but also to less-sophisticated actors, rural constituencies, or foreign investors? How clear are the laws, and how closely do existing laws reflect emerging global standards? How well do they respond to commercial realities that end-users face? What inconsistencies or gaps are present in the legal framework? In Rwanda, the team found that many key commercial laws are in the process of being updated or revised; accordingly, the team’s analysis looked closely at the legislative process and the content of the new laws, and the prospects for implementation following the revision of certain laws.

Implementing Institutions. Next, the chapters examine those institutions that hold primary responsibility for implementation and enforcement

of the legal framework. These institutions include government ministries, authorities, and registries, or, in certain cases, private institutions such as banks and credit bureaus. In addition, courts are examined with respect to their effectiveness in addressing disputes that arise in the commercial arena. Again, the indicators seek to uncover how these implementing institutions function not only within the capital city, but also in rural communities and among less-empowered constituencies.

Supporting Institutions. The chapters then look closely at those organizations, individuals, or activities without which the legal framework or policy agenda in Rwanda cannot be fully developed, implemented, or enforced. Examples include lawyers, banks, business support organizations and private services, professional associations, universities, and the media. Questions and analyses examine relative awareness of law and practice on the part of each institution, and the specific ways in which institutions increase public and professional awareness, work to improve the business environment, and otherwise serve their constituencies. In certain instances, weaknesses in one or more supporting institutions have been identified as critical areas for reform.

Social Dynamics. Finally, the chapters discuss key social issues. Roadblocks to reform, in particular, are considered, including those entities that may be undermining change. These indicators also seek to identify significant opportunities for bolstering the business environment – such as champions of reform or regional initiatives – as well as matters of access to opportunity and formal institutions. Social dynamics also concern such important matters of gender, human capacity, and public health, each of which may have a significant bearing on how the business environment truly functions. Indeed, often a full understanding of legal and institutional issues cannot be achieved without a nuanced consideration of a country’s social dynamics.

Recommendations. Following this four-part analysis, each chapter sets forth a set of recommendations. These recommendations are drawn from the key findings in each chapter, and reflect current reform capacities, opportunities, and an evident will to reform. Some of the suggestions within the respective sets of recommendations may overlap – that is, some may be consolidated into a single reform initiative – and all turn on the priorities and preferences enunciated by the Rwandan government itself. The recommendations in this report are intended to serve, among other functions, as a threshold list for donor coordination of immediate initiatives and preparation of scopes of work. In light of Rwanda’s professed interest in boosting its *Doing Business* scores, the Recommendations are divided into those that relate directly to the areas of the *Doing Business* inquiry, and those that are less directly related, but concern key aspects of improving the business environment.

With respect to each area of inquiry, this diagnostic uses a process of reviewing and scoring **key indicators** to develop a thorough analysis. Once as much relevant information as possible is gathered – from written sources, meetings and interviews, and consultation among colleagues – each of the key indicators was scored, based on the assessor’s best estimate of the issue at hand. To help an assessor determine a score, between 5 and 20 **supporting questions** accompanied each key indicator. These questions themselves are not scored, but are intended to guide the assessor toward a consistent, fact-based judgment from which the key indicator score is then derived.

The scores are not intended to serve as a stand-alone, number-based pronouncement on the state of affairs in Rwanda. Rather, they should be read in

conjunction with this report as a means of understanding the relative status of certain key indicators of a healthy legal and institutional environment for business and trade, and identifying priorities for reform.

As the Indicator Comparison table in this section demonstrates, Rwanda presents an overall impression that the social dynamics in the country are relatively favorable – specifically, roadblocks to reform are being dismantled and access to economic opportunity is growing. Yet the indicators also show that Rwanda’s major institutions – particularly those that are charged with implementing reforms – have not yet caught up with the practical implications of these trends. The country’s legal framework and supporting institutions as a category fall in the middle of the indicators’ overall scores. The need for enhanced institutional capacity, accordingly, is detailed throughout this report.

The score awarded key indicators aligns with the following conclusions:

- 1 = strong negative
- 2 = moderate negative
- 3 = neutral (or having some negative and some positive qualities)
- 4 = moderate positive
- 5 = strong positive

Summary of Subject-Specific Findings

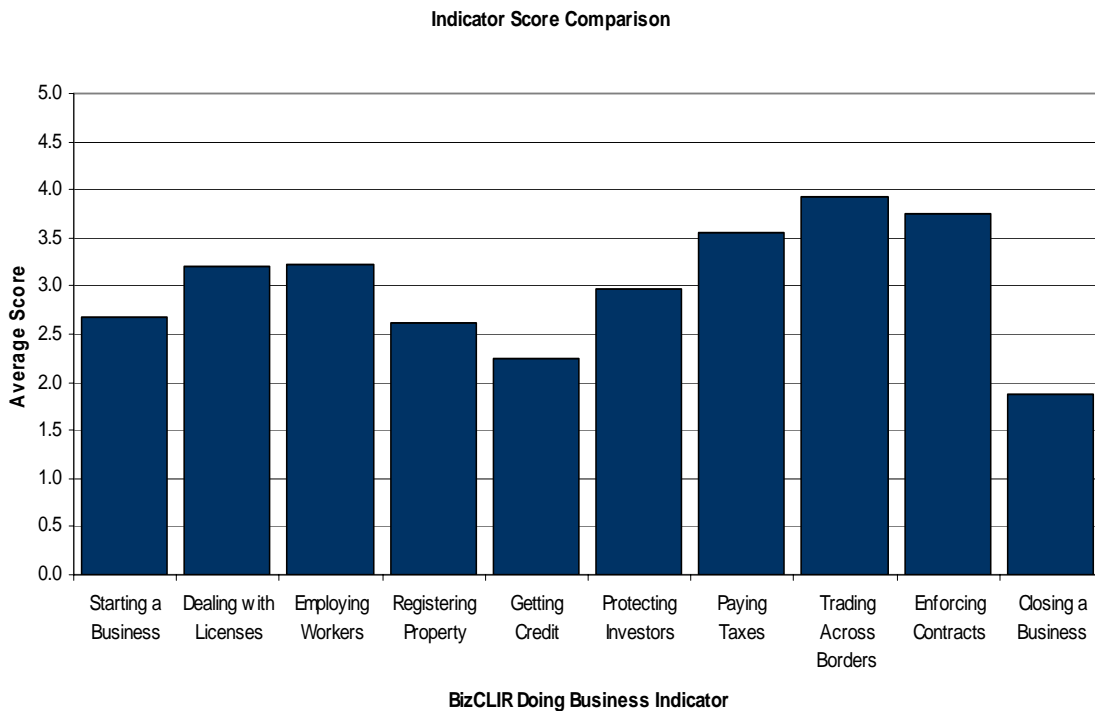
The findings of the 10 *Doing Business* subject-matter areas examined in this diagnostic are summarized below. In general, the areas that scored highest in the BizCLIR diagnostic – those with the most positive findings – were Enforcing Contracts (which chiefly concerns the courts), Trading Across Borders, and Paying Taxes. The weakest scores – indicating more negative circumstances than positive – emerge from the areas of Getting Credit and Closing a Business (insolvency). Beyond these trends, the general findings are as follows:

Starting a Business. Rwanda is in the process of addressing a variety of challenges pertaining to the start-up of new businesses. The company registration process is being overhauled, privatization of state-owned enterprises is well underway, and a legal framework for competition is being constructed. Resources to assist potential

entrepreneurs, both large and small, in pursuing new business in the country have also emerged. Each of these developments is a strong step in the right direction and is laying the groundwork for a welcoming environment for business start-up. The focus now must be on implementing the laws effectively, publicizing new processes and resources for entrepreneurs, and ensuring that the responsible institutions have sufficient staff and resources to

plans and procedures are in place, however, the licensing regime will be better poised to achieve the objectives it is intended to serve.

Employing Workers. In the near term, Rwanda is challenged with ensuring that its revised Labour Code – currently in draft form – both fulfills the country’s obligations under international conventions and better supports economic efficiency and



meet their mandates. In the long run, the growth of entrepreneurial spirit should be encouraged: for the most part, it does not yet exist in Rwanda.

Dealing with Licenses. Rwanda is beginning to apply the best practices of licensing regimes found in other business-friendly countries, but it has not yet avoided certain pitfalls of the licensing function. For example, although blatant corruption among government inspectors and other officials is not widely regarded as a problem with respect to obtaining a license, there is some indication that “preferred” business initiatives get treated more favorably than others. With respect specifically to the licensing of construction projects, Rwanda is forging a promising balance between the need for economic development and the long-term preservation of its environment and other key interests such as public safety. The advent of local planning initiatives may have the effect, at least in the short run, of elongating the licensing process; once

productivity. Legal and regulatory reform, however, will not be enough to pull Rwanda into a state of competitiveness with other dynamic African economies, let alone other states throughout the world that are vigorously seizing opportunities in productivity and competitiveness. Across Rwanda’s business environment, institutions must continue to be strengthened to address Rwanda’s critical needs in workforce capacity and productivity. Beginning with primary and secondary education, but concurrently emphasizing vocational and technical education, university education, and professional training, reforms must be both comprehensive and oriented toward long-term sustainability. Moreover, reforms should be mindful of the key place of agriculture in the Rwandan economy; that is, skills being taught should relate directly toward bolstering productivity and entrepreneurship in the agricultural sector.

Registering Property. Although a new Land Law was enacted in 2005, Rwanda has not yet moved to a fully operational and modern land-titling system. The duration for real property registration remains the most troublesome aspect of the country's system – it takes 371 days. At this time, a variety of national and local institutions are being put in place to address the difficulties people face in registering their land. There also remain questions about use of land, given the fact that, notwithstanding the clarification and strengthening of land-use rights, all land is ultimately owned by the state. Under the 2005 Land Law, the government has the right to reclaim land that is not being used in an “optimal” fashion – this term warrants clarification and outright assistance to landholders. The fact that there is not yet private ownership of land also causes concern to lenders – the risk of lending is greater when a debtor does not have the ultimate authority to transfer the land. Other major concerns over the use of land include the fragmentation of real property in Rwanda – namely, the proliferation of microplots that makes consolidation and efficient use of land difficult. The inheritance rights of women also remain a troubled area. Women have traditionally not been able to access wealth to which they are now unequivocally entitled, and strengthening their access to rights, through public education and education of judges, should continue.

Getting Credit. Like many developing countries, Rwanda's banks and other financial institutions do not lend at levels that meet the demands of the commercial sector, even though they have available funds to do so. Lending is constrained by costs and risks arising from five factors: high reserve requirements, defective legal and regulatory environments, crowding out by government bonds, asymmetrical information, and inadequate skills for assessing and managing risk. Many steps are underway to address these issues, including the improvement of lending-related laws, strengthening of court enforcement systems, and creation of credit information resources. At the same time, issues such as building trust in the economy (through, among other approaches, strengthened rule of law and court enforcement), insufficient competition (which contributes to lender risk), and specific sectoral concerns (particularly as they concern agricultural development) must be considered as reform moves forward.

Protecting Investors. The World Bank ranks Rwanda nearly at the bottom compared to other countries for Protecting Investors. This ranking

accurately reflects Rwanda's lack of an effective corporate governance regime or culture of investor protection. The existing Law on the Organization of Commercial Establishments covers corporate governance to some extent, but it does not create a comprehensive corporate governance framework in line with international best practices, and it provides no effective means of enforcing the provisions it does include. Continuing legal and institutional reforms, if successfully implemented, should place the country in a position to significantly improve its corporate governance regime and, as a result, its environment for protecting investors in the near future.

Paying Taxes. In 1998, the Rwanda Revenue Authority (RRA) was launched, and since then it has markedly improved Rwanda's system of tax collection and generated more revenues for the country. The RRA collected around US \$100 million in its first year and around \$480 million as of 2006. As a result of increased revenues, the national budget has grown, with more being spent on vital areas such as health, education, and sanitation. Rwanda fares well for taxes in the *Doing Business* 2008 assessment, ranking 50th in the world in terms of ease of paying taxes. One reason for its ranking is that the overall total tax rate has declined from 37.2% to 33.38%. Notwithstanding this promising backdrop, the tax rules are not yet sufficiently understood by businesses or tax collectors. Many of the rules are new, and few tax collectors have an adequate understanding of business to properly apply rules related to deductions and depreciation. As a consequence, numerous businesses and banks complain that tax liabilities are uncertain because it is difficult to predict what will be allowed or disallowed. This raises business risks, which in turn raises the risk premium charged by banks. Moreover, inappropriate tax assessments raise the costs of paying taxes, through both higher tax liabilities and the added cost of protesting the assessment.

Trading Across Borders. Multiple issues affect Rwanda's viability in the international trade arena. First, with 90% of the population dedicated to agriculture (mainly subsistence farming) contributing to roughly 40% of the GDP, Rwanda's economy clearly needs to diversify in order to reduce the exposure to commodity prices and weather uncertainty, as well as to fight the current account deficit caused by continuously growing demands for imports. In addition to poor export diversification, Rwanda's trade is negatively affected by production

and processing constraints, unfair trade practices, nontariff barriers to trade, and insufficient FDI. Though the country benefits from various duty-free and quota-free initiatives available to Least Developed Countries (LDCs), its vulnerability to international commodity prices and supply-side constraints limits such benefits. Further, government officials lack the necessary capacity to deal with complex trade issues. This impinges on successful participation in international trade negotiations and adequate implementation and observance of WTO and regional trade commitments in Rwanda. Rwanda will need continuous support to improve compliance with its multilateral commitments. Future assistance should focus on building capacity in trade negotiations, integrating trade into Rwanda's development strategy, transcribing the country's pre-Uruguay Round tariff commitments into the Harmonized System, and effectively implementing the WTO Agreements.

Enforcing Contracts. The legal framework and institutional environment for enforcing contracts in Rwanda is generally perceived as workable. Shortcomings remain, however, causing a perception that the enforcement of contracts in Rwanda is difficult. First, the framework laws dealing with contracts are archaic and ill suited to a modern commercial economy. Second, the court system is perceived neither to be efficient nor to have the necessary capacity to deal with complex commercial transactions. Both of these problems are the subject of ongoing progressive legal reform that should continue to be supported in future development efforts. The strengthening of supporting institutions, including associations of lawyers, bankers, and others, should contribute to a more robust regime for enforcing contracts, thereby increasing confidence in the rule of law and diminishing the perceptions of risk in the economy.

Closing a Business. While there are provisions of existing law in Rwanda that deal with insolvency and the liquidation of business enterprises, they are little used. In practice, bankruptcy is almost nonexistent as a viable method of dealing with insolvency in Rwanda. As current reform efforts are implemented and basic commercial laws such as those dealing with contracts, negotiable instruments, and secured transactions are enacted, commercial credit should become more available. This will inevitably result in an increase in business failures with a resulting need for an efficient insolvency system. Therefore, among Rwanda's commercial-law legislative priorities is a comprehensive law dealing with insolvency. Passage

of the law, however, will only be a first step in the creation of a working insolvency system. Without a corresponding effort to develop the institutions to support such a system as well as the appropriate capacity among the parties involved in the insolvency process – judges, attorneys, accountants, and other bankruptcy professionals – the system will not be able to achieve its full potential.

Crosscutting Themes

The instant diagnostic is organized so that 10 components of a healthy and prosperous economy are considered discretely and in relation to each other where appropriate. This format represents much of the Western construct about economics, civil society, and the individual's relationship to the state and other institutions. Certain issues and dynamics are so prevalent across this analytical framework, however, that they warrant special mention. These can be thought of as crosscutting themes or topical "layers" falling over all areas of review. In this diagnostic, the themes include the following:

I. Agriculture as the cornerstone of the Rwandan economy

The importance of agriculture in Rwanda's economy cannot be overstated. Agriculture is by far the dominant sector not only for basic livelihood, but also for entrepreneurial growth. Throughout this report, the significance of the agricultural economy – and agriculture-oriented solutions – is a common theme. At different junctures, the following points arise:

- There is need for demonstration centers to help farmers better understand what is necessary to succeed in business. Short-term training on basic farming issues such as seed selection, planting, production, cultivation, process transformation, and distribution would also be beneficial. For example, the development of an agency that supports cooperatives could ensure that agricultural issues, particularly those of small-scale farmers, are properly represented and championed.
- For the foreseeable future, Rwanda's workforce will depend on opportunities in the country's agricultural sector, including the growth of the specialty coffee sector, value-added processing of agricultural products, and the advent of new products such as sericulture. Business education and science education at the university level are

critical aspects of seizing such economic opportunities.

- Access to credit in the agricultural arena implicates a number of issues that call for agriculture-specific solutions, including with respect to land reform, insurance, microlending, and technical assistance directly targeted to specific agricultural products. By working through local counterparts such as the Ministry of Agriculture and farming cooperatives, development partners can supply technical assistance to create new credit and insurance products, identify additional constraints in the agriculture arena, and assist in formulation of policy solutions.
- Rwanda's main agricultural exports (tea and coffee) are of high quality, but transport constraints and the distance to ports undermine some of the trade efforts. The same issue impacts such nontraditional exports as horticulture. Trade solutions will need to consider the special issues associated with agriculture – such as spoilage and special infrastructure needs– as they go forward.

In short, the Rwandan government and donors alike must promote opportunities in agriculture that go beyond subsistence farming and allow for growth from increased productivity, entrepreneurship, and trade.

2. Addressing the skills deficit: An imperative for long-term growth

To a debilitating extent, the Rwandan workforce lacks skills. This point was stressed throughout the diagnostic, particularly by business people who are concerned with completing projects and attracting new business.

To address the skills deficit, the Rwandan government has placed education on the “front burner” of its development activities. For example, school fees for primary education have been abolished and efforts have been made to build more schools and improve school curriculums. Strengthening higher education and vocational training is part of the 2008–2012 Economic Development and Poverty Reduction Strategy. Nonetheless, constraints on accessing education at all levels remain a problem for many. The percentage of students that finish primary school remains low – current estimates hover at about 50%. The

percentage of children ages 13 to 18 proceeding to secondary school is even lower – although rates are increasing, only between 15% and 25% reportedly make this transition. And less than 3% of Rwandans attend university. Critical skills are therefore lacking throughout the economy, with tangible consequences including the following examples:

- Entrepreneurs often do not adhere to good bookkeeping and business management, and intermingling of business and personal funds is common. This fact undermines access to credit as well as the ability of SMEs to attract outside investment.
- Business and finance graduates often do not have the necessary skills in business, accounting, and finance that Rwanda's degree programs should bestow. Sophisticated or creative financial products are less likely to take root in this environment than if the graduates had more relevant skills.
- Employers in Rwanda must often rely on skilled professionals from neighboring countries to fill the professional and technical skills gap. This drives up the cost of doing business in Rwanda.
- Women continue to be deprived of their land inheritance rights, due significantly in part to their weak access to education and poor ability to absorb information.
- Corporate governance is an unfamiliar topic to the majority of business people in the country. For the foreseeable future, the possibility of shareholder derivative suits will not provide any benefits or contribute to investor protection if they are not used or understood.

All these issues, and many more noted in this report, relate to Rwanda's skills deficit. In Rwanda, “more training” is the unequivocal answer to the question of how donors can help. This request is usually accompanied by requests for books, materials, and other equipment that are necessary components of effective educational and training programs.

While basic literacy and quantitative skills are critical, higher education cannot be neglected. As noted in a recent report that underscores the vital relationship between higher education and economic development, university education supplies “the human capital that in turn builds the very institutions that are regarded as an indispensable factor of

development – the accountants, doctors, engineers, lawyers, teachers – that comprise the middle class.”⁷

3. Access, opportunity, and connections: how more equitable treatment of all economic players would bolster the economy

Any perception that economic opportunity is limited to political insiders, or that powerful local players receive the most favorable treatment from the government, can be harmful to a country’s prospects for future development. For example, if local citizens feel that their government is not equally concerned for the prospects of their business success as it is for those controlled by powerful insiders, they may resist entrepreneurial impulses and fail to seek meaningful support. Similarly, if they believe they cannot get a loan without “connections,” they may not even take that first trip to the bank. Moreover, if foreign investors believe that the government will reserve for its top players the best chances for commercial success, they will steer clear and look for sounder investment opportunities.

There is a stubborn perception in Rwanda that business success turns substantially on ties to the country’s ruling party – the Rwandan Patriotic Front (RPF) – or strong “connections” generally. This perception is exacerbated by structural difficulties experienced by smaller business interests in access to public services, including poor signage at public agencies (so that only people with special knowledge know where to seek the assistance they need) and other issues of access, such as inadequate distribution of critical laws and regulations. Examples from this diagnostic include the following:

- The RPF substantially controls a large investment company, Tri-Star Investments. Although Tri-Star is adopting certain best practices in corporate governance, the bottom line is that there are unusually strong connections between government officials and business opportunities arising from the government, including construction and development projects. The leadership of RIG, another large investment company, also has close ties to the government.

- The extent of the ties between the large local investment companies and the government is not subject to significant, rigorous scrutiny, due to the government’s heavy restrictions on press freedom.
- Mayors in Rwanda wield strong influence over their local business environments. Although they are not reputed to take bribes or engage in the type of corruption found elsewhere on the continent, one mayor reportedly “has his own business and his friends have their own businesses,” and a mayor can “find a way to stand in the way of a project” if he or she chooses.
- Certain high-level ministry officials have been known to throw up roadblocks – such as with respect to the employment of foreign workers – when a company’s actions conflict with the official’s personal interests.
- The extent of government intervention in construction projects, according to one construction company representative, may turn on who the project is *for*. That is, labor inspectors are more likely to “show up” at projects that are privately sponsored, he said, rather than launched by the government.
- There is an unacceptably high rate of non-performing loans in Rwanda’s banks. This fact suggests that individuals or companies may have been loaned money based on their connections, rather than on sound considerations of risk.
- Many public buildings lack the critical indications that all citizens are welcome to partake of their services. For example, it is often difficult to find basic information about where ministry offices are located and what public servants are available to assist with a certain government function or task. Access to information through the internet is also not well maintained and rigorously updated.

To embrace the promise it holds, Rwanda must revisit issues of real and perceived conflict of interest; competition law and policy; financial disclosure of the income and assets of government officials; government procurement; and freedom of

⁷ Devesh Capur and Megan Crowley, *Beyond the ABCs: Higher Education and Developing Countries*, Center for Global Development Working Paper 139 (February 2008), at 4–5.

the press. It also needs to improve the extent to which it provides information, including through accessible services beyond the capital city; clear information posted in government buildings; and better access to law, regulations, and other key information through the internet. Only when locals and outsiders feel that they have a genuinely fair chance at business success – one that is not compromised by the ambiguity of insider involvement or the challenge of limited access to information – will the country represent a genuinely attractive investment opportunity.

4. The underplayed role of women in Rwanda's economic development

It is increasingly recognized that, when women are unable to access the same conditions as men to participate in work and commerce, the economies where they live can lose billions of dollars of potential income and growth.⁸ At this time, conditions facing women in Rwanda indeed appear to have critical economic consequences.

Traditionally, females in Rwanda have been disadvantaged from a very young age – until very recently, primary-school attendance by girls has lagged significantly behind that of boys, and, as a consequence, female literacy is as much as 10% lower for women than it is for men. Rwandan girls are far more likely than boys to drop out of primary school and, although statistics among various sources are not consistent, the rate at which they proceed to secondary school appears to be somewhat less than boys (some recent statistics do suggest that enrollment has now achieved parity), and women are far less likely to pursue higher education.

Regardless of whether they have had access to formal education, women face special challenges in starting or continuing a business. They typically do not have collateral to obtain financing because houses and land are usually in the husband's name, they are culturally not viewed as business people, and their businesses generally remain informal. Furthermore, certain businesses, such as selling handicrafts, are considered "women's businesses," while certain businesses – those that are larger or

export-oriented – are "men's businesses." These stereotypes constrain both sexes.

Public and private sector representatives suggest that the government's recent efforts promoting women's equality are very positive, but it will take time for women to catch up in education and for cultural perceptions to change. The fact that women are accessing microcredit at very high rates is a promising development, so long as the businesses they start benefit from technical assistance in such areas as bookkeeping, marketing, and efficiency.

5. The growing significance of regionalism

Rwanda joined the EAC in 2007, signifying its commitment to regional integration of economic policy, regulatory frameworks, and trade in goods and services, among other facets. The five member states of the EAC cover an area of 1.8 million square kilometers and have a combined population of about 100 million people. The EAC currently operates a customs union and is planning a common system of tariffs, as well as a standard tourist visa and possibly a common passport. Given the interdependence of the EAC states, especially with respect to port access, the potential of streamlined administrative systems within the EAC to contribute to economic growth throughout the region is significant. Rwanda belongs to other regional organizations, such as the Common Market for Eastern and Southern Africa (COMESA), which also influences certain legal framework and policy initiatives.

Rwanda's place within the EAC presents enormous opportunities, particularly with respect to trade in services, including professional services, tourism, franchised businesses, and trade facilitation services. Rwanda's access to skilled labor, along with professional opportunities for its own workers, will improve greatly if EAC members continue to streamline practices allowing skilled workers to move freely among their borders.

Furthermore, there are important regional opportunities with respect to accessing credit. That is, if lenders regard Rwanda as part of an overall regional strategy, supply for credit may grow. There is a need for creditors to have access to credit information on a regional basis. In developing software and legal frameworks, Rwanda should pursue regional integration in credit information. This could include, among other possibilities, development and implementation of EAC protocols and standards, and joint ventures with trustworthy

⁸ See United Nations Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2007* (Chapter 3: Gender Inequality Continues, at Great Cost) (April 12, 2007); see also "Women and the World Economy," *Economist* (April 12, 2006).

credit agencies from other countries. Regional credit information will benefit Rwanda's access to finance.

Although harmonization of country practices and regionalism generally is beyond the scope of this report, they should be taken into account as Rwanda plans for its future growth.

6. Building foundations of trust through law, institutions, and freedom

During this diagnostic's public roundtable (conducted on February 8, 2008), the head of a prominent business posed a poignant question: "How do we get people to work together?" Another businessman posed the same question from a different angle when, during an interview, he noted that there were few wholesalers in Rwanda; most small businesses, he said, import their products directly. These observations about working together are quite relevant to the future of economic development in Rwanda. They go to the heart of the problem: trust.

Rwanda's legacy of colonial occupation and civil war has done much to destroy trust at various levels. Colonial government, followed by independence under a defective domestic government, led to an understandable distrust of government based on negative experiences, at least for all but a minority of favored elites. The civil war led to highly individualized distrust, when the social fabric of Rwandan society was torn apart. In its place, there is now a highly individualized, self-protective ethos in Rwanda.

At this time, there are grave concerns, voiced by both local and outside actors, that economic reform in Rwanda is taking place at the cost of political freedom. That is, Rwanda is perceived as taking a number of reform "shortcuts" that have been taken in certain other economically successful countries, but that ultimately limit the country's attractiveness as a destination for business formation and investment. Namely, limitations on free speech and actions that run counter to government interests diminish outside confidence in the country's leadership. Significantly, in its annual report issued in January 2008,⁹ Freedom House classified Rwanda as

⁹ Freedom House, *Freedom in the World* (January 2008). Freedom House's two other classifications, based on political rights and civil liberties, are "partially free" and "not free." Of the countries most recently ranked by the World Bank as the world's top 25 countries for doing business, Freedom House classifies 19 of them as

"not free." This classification reflects worldwide concern over Rwanda's restrictions on the media, constraints on meaningful political activity, and prosecution of individuals whose main crime seems to be that of crossing the ruling party. Rwanda is thus the *only* country within the five-nation East African Community (EAC) (which also includes Kenya, Tanzania, Uganda, and Burundi) that is found by Freedom House to be "not free."

Rwanda's government defends its heavy political hand at this time by saying, "Look at what we have been through."¹⁰ President Paul Kagame argues that outsiders criticize such practices as media constraints and prosecution of dissidents "because they are defensive" about their own unflattering roles in Rwandan history.¹¹ The president does suggest that, as new laws and institutions take hold, freedom will in fact increase "to the highest level we can take them."¹² One hopes that this is true. To have achieved so much in the area of good governance, yet to stop short of certain true hallmarks of a well-governed state, would be a disservice to the Rwandan people, depriving them of the true potential of all they have made happen in so short a period of time.

Ultimately, trust within a society can only be earned. The new policies of participatory policy-making are beginning to restore trust in the government. This must be guarded carefully by ensuring that the new policies are designed to benefit economic actors based on merit, not on connections. Such trust will increase social and political stability, with a positive impact on the economy, including the credit system.

At the village level, trust is rather easily established because the intimate nature of that society makes it easy both to know an individual's character in a transaction and to enforce agreements through a

"free." Four of the top 25 are classified as "partly free" (Singapore, Georgia, Hong Kong, and Malaysia), and just two (Thailand and Saudi Arabia) are categorized as "not free." Thus, as Rwanda seeks to improve its poor ranking under the World Bank's most recent *Doing Business* report, the country must recognize that, in the eyes of the world, its willingness to entertain dissenting views or atypical approaches is perceived as more like that of Saudi Arabia (which *Doing Business* ranks at twenty-third) than Estonia (a former Soviet republic ranked by *Doing Business* at seventeenth, and called, by Freedom House, "free").

¹⁰ "A conversation with Rwandan President Paul Kagame," *Ikaze Magazine* (Nov.-Jan. 2008), at 9.

¹¹ *Id.*

¹² *Id.* at 10.

variety of social sanctions. As an economy becomes more commercial in nature, credit and other economic needs outgrow effective local enforcement mechanisms. Lenders, for example, require more than trust in an individual borrower; they also require a trustworthy legal system that enforces commercial obligations when the individual fails to fulfill them. Such a system enables people to work together more effectively and capture the benefits of improved economies of scale.

To borrow Friedrich Nietzsche's famous phrase, building trust requires "a long obedience in the same direction." The commercial legal reform initiative referenced throughout this report presents many

short and midterm opportunities to build a rule of law that is accessible to all members of society. In addition, the government has a tremendous capacity to restore trust through building institutions that conform to international best practice: for example, it can continue to train judges to serve as fair and independent arbiters of dispute; it can ensure the more timely and effective enforcement of judgments; and it can improve its own ability, through both traditional and modern methods, to provide information to the public. Sound, transparent governance is itself a trust-building act, one that offers the long-term benefit of economic growth for all.

The BizCLIR Recommendations: Top Priorities

This report contains over 200 recommendations that suggest – in terms ranging from the very broad to the highly specific – a variety of approaches to improving Rwanda’s business environment. Although each of the report’s recommendations contributes to an overall vision for how Rwanda can continue its emergence into the world economy, the following can be considered the **top** priorities:

ALL SUBJECT MATTER AREAS	
No.	Recommendation
1.	Make all laws available to the public in a more thorough, user-friendly format than that currently provided by the <i>Official Gazette</i> and on existing government websites. Assist the Rwanda Investment and Export Promotion Agency (RIEPA) and the Center for Support to Small and Medium Enterprises in Rwanda (CAPMER) in making information on commercial laws and regulations available to the public in a simple, accessible, and understandable form.
2.	Improve accessibility of public services geared toward enterprise development, financing, and operation through better marking of Business Development Services (BDS) centers, better signage in public buildings, more plentiful availability of free information, and more readily available personal assistance.
3.	Encourage media coverage of business issues in a way that is more comprehensive, detailed, fact-based and accountable than media coverage is now.

STARTING A BUSINESS	
No.	Recommendation
1.	Support public awareness campaigns on entrepreneurialism, business opportunities, and the benefits of joining the formal sector.
2.	Assist with establishment and capacity building for BDS centers throughout the country.

DEALING WITH LICENSES	
No.	Recommendation
1.	Continue reviewing and streamlining business licensing environment. Create a legislative, regulatory, and institutional reform program that defines and implements necessary reforms.
2.	Create a developers’ manual that sets forth all existing and anticipated legal and regulatory aspects of a construction project in Rwanda.

EMPLOYING WORKERS	
No.	Recommendation
1.	Engage in a long-term consensus-building activity that gets to the root of the relationship between labor law and economic productivity. Rather than rushing to adopt a Labour Code, seize the opportunity to learn from lessons throughout the world and to use the new code as a tool toward implementing the overall economic objectives of the government, private sector, and workforce.

2.	<p>Study and answer with tangible conclusions the following questions:</p> <ul style="list-style-type: none"> ○ What is the relationship among Rwanda’s current system of higher education generally, its current system of professional education specifically, and the country’s potential for sustained economic growth? ○ How can Rwanda achieve a well-working indigenous system of university and professional education?
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REGISTERING PROPERTY

No.	Recommendation
1.	Clarify ambiguities in the Land Law. Suggested solutions for consolidating land and “villagisation” need to be well elaborated, sequenced, and participative, including clear articulation of “public purpose” expropriation for national “optimal land use.”
2.	Involve civil society organizations in policy implementation, especially through raising awareness and dissemination of key aspects of policy, capacity building, and monitoring of the socioeconomic and gender impacts of land consolidation and “villagisation.”

GETTING CREDIT

No.	Recommendation
1.	Update, as necessary, the Financial Sector Development Plan to capture additional interventions identified in this report within the existing comprehensive approach to improving access to affordable finance.
2.	Fill gaps in the existing legal regime, including: <ul style="list-style-type: none"> ○ Improving and expanding credit information ○ Establishing a pledge registry system.
3.	Improve the enforcement regime through: <ul style="list-style-type: none"> ○ Establishing rapid enforcement mechanisms for credit transactions ○ Improving court performance ○ Developing agricultural lending products.
4.	Increase development credit (paired with risk-reduction programs).

PROTECTING INVESTORS

No.	Recommendation
1.	Support public awareness and training on good business practices and basic corporate governance through the PSF, CAPMER, and BDS centers. Create education and training programs on basic business management, with a special emphasis on training rural entrepreneurs.
2.	Revise the Draft Company Law to account further for the limited resources and nature of private, closely-held companies by simplifying their compliance requirements. Also, edit it for readability and to clarify provisions that are currently confusing or incomplete.

PAYING TAXES

No.	Recommendation
1.	Minimize the impact of taxation on companies' cash flow, including the removal of anticipatory payments on corporate income tax and the 3% tax on the value of invoice for winners of public tenders.
2.	Improve the capacity of the Rwanda Revenue Authority, promoting greater clarity in tax regulations and full consistency of the three-language versions of the fiscal laws and regulations.

TRADING ACROSS BORDERS

No.	Recommendation
1.	Implement the WTO Customs Valuation Agreement. To do so, train Customs officials in the content and implementation of the agreement, including the application of the transaction value method.
2.	Prioritize and implement the following needs: <ul style="list-style-type: none">○ Revision of Customs legislation○ Computerization of Customs administration○ Restructuring of the Customs Valuation Division○ Strengthening of the inspection process○ Establishment of two sections on rules of origin and post-clearance auditing○ Training of Customs officials in the revised Customs legislation○ Fraud control○ Post-clearance audit facilities and methods○ Rules of origin○ Training of the private sector in Customs procedures.

ENFORCING CONTRACTS

No.	Recommendation
1.	Support prompt passage of most laws drafted through the efforts of the International Law Institute and the Business Reform Cell.
2.	Plan and implement educational activities in conjunction with passage and implementation of the new commercial laws to include the Rwandan legal, banking, business, academic, and judicial communities.
3.	Develop programs in conjunction with the Institute for Legal Practices and Development in Nyanza for both judges and lawyers in the area of commercial law.

CLOSING A BUSINESS

No.	Recommendation
1.	Pass the Draft Insolvency Law in the 2008 legislative session.
2.	Once the Draft Insolvency Law becomes law, plan and execute educational activities for the legal, banking, academic, and judicial communities in Rwanda.

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