AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO: 696-0127
2. COUNTRY: Rwanda
3. CATEGORY: Cash Transfer
4. DATE: July 12, 1985

5. TO: Mark L. Edelman, Assistant Administrator for Africa

6. OYB CHANGE NO.:

7. FROM: Eugene R. Chiavaroli, AID Representative

8. OYB INCREASE:

TO BE TAKEN FROM: $12.0 million ESF

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 12.0 million

10. APPROPRIATION - ESF

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: 9/85 to 11/87

14. TRANSACTION ELIGIBILITY DATE:

15. COMMODITIES FINANCED

16. PERMITTED SOURCE

U.S. only:

Limited F.W.: $2.0 million (including Rwanda)

Free World:

Cash: $10.0 million

17. ESTIMATED SOURCE

U.S.:

Industrialized Countries:

Local: $10.0 million

Other: $ 2.0 million

18. SUMMARY DESCRIPTION

This Program Grant is a resource transfer with a technical assistance component. The purpose of the program is to assist the Government of Rwanda (GOR) in making necessary structural adjustment and policy changes in order to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise (SME) sub-sector.

Subject to the availaibility of funds and the mutual agreement of the Parties to the terms and conditions set forth herein, dollar disbursement will be made to the GOR in three tranches of $3.5 million, $3.0 million and $3.5 million, for a total of $10.0 million. Concurrent with the signature of the Program Grant Agreement, a Project Grant Agreement will be signed with the GOR in the amount of $2.0 million for direct payments by A.I.D. of the foreign exchange and local currency costs of technical assistance, including policy studies, in-country and U.S./third country training, modest staff support for the Rwandan Development Bank, an end-of-program evaluation and program monitoring. Each of the dollar disbursements is tied to conditions precedent which evidence progress in the implementation of the Policy Reform Initiatives in Manufacturing and Employment (PRIME) program (see p. 39 of the PAAD).

19. CLEARANCES

	DATE
DAA/AFR:LRichards	9/4/85
AFR/DP:HJohnson	8/23/85
AFR/PD:LHausman	8/26/85
GC/AFR:AVance	
AFR/CCWA:JColes	8/23/85
AFR/PD/CCWAP:HHelman	

20. ACTION

☒ APPROVED ☐ DISAPPROVED

Mark L. Edelman — 9/4/85

AUTHORIZED SIGNATURE — DATE

Assistant Administrator for Africa

TITLE

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Laurence Hausman

SUBJECT: Rwanda AEPRP - Policy Reform Initiatives in Manufacturing and Employment

ACTION REQUESTED: Your approval is requested for a grant of $12.0 million from the Economic Support Fund for the Rwanda Economic Policy Reform Program, Policy Reform Initiatives in Manufacturing and Employment (PRIME, 696-0127). It is planned to obligate the total amount of the grant in FY 1985.

1. DISCUSSION

A. Background

In the period 1981-83, Rwanda experienced an economic crisis which resulted in deficits in both the government budget and the balance of payments. The Government of Rwanda (GOR) imposed a series of emergency measures in March, 1983. Today, in reevaluating the economic situation, the GOR wishes to address the following problems to improve economic performance: (a) existence of a dozen subsidized inefficient parastatals, (b) tax, tariff, and credit policies discriminating against small and medium enterprises (SMEs), (c) burdensome price controls, (d) import restrictions of undetermined efficacy, and (e) fiscal deficits. These operate as constraints to realization of Rwanda's development potential.

The GOR has undertaken a broad examination of its economic policies with the aim of promoting economic recovery. The GOR wishes to encourage the development of the manufacturing sector, with particular emphasis on the SME sub-sector. Elements of the reform program planned by the GOR will address each of the aforementioned constraints.

B. Summary Program Description

The purpose of the PRIME program is to assist the Government of Rwanda (GOR) in making necessary structural adjustments and policy changes in order to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise (SME) sub-sector. The program will provide $10 million to support economic policy reform, complemented by $2 million for technical assistance and studies (detailed below). The total LOP funding level is $12 million.

Economic Reforms

The reform program is designed to promote growth in the manufacturing sector primarily through increased participation of SMEs, to encourage GOR efforts to privatize parastatals, and to provide production incentives to the manufacturing sector through changes in the tariff system. Specific reforms to be supported by the PRIME program include:

(a) Revision of the Investment Code to broaden access to Code benefits for small and medium enterprises
Such a revision would involve the extension of preferential treatment (i.e., lower asset requirements for access to benefits, lengthened tax holidays and tariff concessions) to SMEs;

(b) Revitalization of the Guarantee Fund
This fund, established to help enterprises unable to meet the usual collateral requirements, has been underutilized in part due to cumbersome application and review procedures.

(c) Restructuring of the pricing system
The PRIME program will encourage the GOR to repeal the 1983 measures calling for prior price approval and to ease price reporting procedures for small enterprises.

(d) Reform of the trade regime
An industrial incentives study will be conducted to help inform Government decision makers and to prepare recommendations on improvements to the trade regime which will stimulate manufacturing.

Use of Funds

The local currency equivalent of $10.0 million will be disbursed to the GOR in three tranches and programmed for three purposes. The equivalent of an estimated $3.5 million will be released to the Rwandan Development Bank (BRD) to supplement its local currency line of credit to SMEs. In support of the GOR's efforts to privatize parastatals, the equivalent of about $3.0 million will be allocated to capitalize an Equity Participation Fund within the BRD. Decisions regarding which parastatals will be privatized and the means by which privatization will evolve will be made by the GOR during the first year of the program. The Fund should be "on line" in time to receive PRIME local currencies released under the second tranche of the program. The Fund will provide credit to members of the private sector who are interested in purchasing shares in parastatal organizations. The third use of funds will be for modest budget support to the GOR in recognition of the loss of tax and tariff revenues which result from the reform process. The funds will be targeted for specified priorities within the GOR's budget which have been approved by the Mission. If unforeseen circumstances preclude establishment of the Equity Participation Fund, the funds earmarked for it ~~will~~ MIGHT be reprogrammed for either the BRD's local currency line of credit or budget support. Such reprogramming will be authorized by AID/W.

Technical Assistance

The PRIME program will provide $2 million in technical assistance for five studies and activities in support of the reform program. These studies and activities include:

(a) Industrial Incentives Study;
(b) Analysis of Household Budget Survey Data;
(c) Policy Reform/Divestiture Studies (planned);
(d) Staff Support for the BRD;
(e) PRIME Program Management;
(f) Training for Government Planners; and
(g) PRIME Program Monitoring and Evaluation.

2. FINANCIAL SUMMARY

The PRIME program will be a grant to the Government of Rwanda, to be obligated in FY 1985. The program will be implemented over a period of about two years. The GOR implementing agency will be the Ministry of Finance and Economy.

SUMMARY FINANCIAL PLAN
($ millions)

Activity	1st Tranche Sept-Nov 1985	2nd Tranche Jun-Aug 1986	3rd Tranche November 1987	Total
1. Expanded SME Lending - BRD	1.5	1.0	1.0	3.5
2. Equity Participation Fund BRD		1.5	1.5	3.0
3. Generalized Budget Support MOF	2.0	1.0	.5	3.5
TOTAL	$3.5	$3.5	$3.0	$10.0

The financial plan for the technical assistance component of PRIME is as follows:

	($000)
Industrial Incentives Study	820
Analysis of Household Budget Data	260
Other Reform/Divestiture Studies	435
Staff Support for BRD	45
PRIME Program Management	440
TOTAL	2000

3. SUMMARY PROGRAM FINDINGS

The program review sessions have concluded that the program approach is technically and economically sound, as well as socially acceptable. PRIME will be administered for AID by a full-time PRIME program manager, assisted by the Mission staff. An interagency policy committee of the Rwandan Government will be responsible for program implementation on the Rwandan side; AID and the GOR will collaborate through a joint review committee.

In view of the complexity of some of the policy reform-related actions, it is recommended that, as information is generated from the various studies and other sources, the Mission be granted authority (1) to set and adjust quantitative benchmarks in conditions precedent for the second and third tranches with respect to the number of SMEs registered and receiving credit under the revised Investment Code, and (2) to adjust quantitative benchmarks in the conditions precedent for the second and third tranches with respect to the Guarantee Fund. If the GOR is not prepared to proceed with the Equity Participation Fund, authority to reprogram PRIME funds to either the BRD line of credit or specified priorities approved by the Mission within the GOR's budget will rest with AID/W. Changes in the conditions precedent for disbursement of the first tranche must also be approved by AID/W.

A Categorical Exclusion has been approved by AID/W because the program involves a contribution to a national organization which will not be used to carry out a specifically identifiable project or projects and will be used to provide technical assistance, analyses and studies.

4. WAIVERS

The requirement in AID Handbook 1, Supplement B, Chapters 4 and 5, that commodities procured with grant funds have their source and origin in the U.S. will be waived to permit the procurement of four vehicles and spare parts of non-U.S. manufacture from AID Geographic Code 935 (Special Free World) countries at an approximate cost of $51,000.

5. CONDITIONS AND COVENANTS

A. Conditions Precedent

Prior to the disbursement of the first tranche of funds the GOR will:

(1) prepare an action plan which specifies new administrative and review procedures for access to the Guarantee Fund, especially by small and medium enterprises;

(2) determine whether or not continuation of the local currency deposit requirement (imposed in March 1983) is justified for the remaining categories of goods now subject to it; if the requirement is no longer justified, affirm that it will be repealed;

(3) approve the terms of reference for the industrial incentives study, assign Rwandan counterparts to participate in undertaking the study and define respective responsibilities; and

(4) in collaboration with AID, define responsibilities for management of the PRIME program.

Prior to the disbursement of the second tranche of funds the GOR will:

(1) promulgate a revised Investment Code which gives preferential treatment to SMEs and offers the broadest possible access to the Code's benefits for such enterprises;

(2) adopt and apply improved administrative and review procedures to facilitate access to the Guarantee Fund;

(3) repeal the requirement for the prior approval of prices and ease the reporting procedures for small enterprises;

(4) evidence satisfactory progress in undertaking the industrial incentives study; and

(5) evidence continued satisfactory performance in the allocation and disbursement of program local currency.

Prior to the disbursement of the third tranche of funds the GOR will:

(1) review the tariff-related recommendations emanating from the industrial incentives study and adopt major recommendations;

(2) evidence continued satisfactory performance in the allocation and disbursement of program local currency; and

(3) provide evidence that program performance targets established pursuant to conditions precedent (1) and (2) to the second tranche have been met.

Also, there will be a separate condition precedent to disbursements for the Equity Participation Fund. The GOR will provide evidence that planning for the EPF has been completed and that preparations have been made for application of EPF financing to private purchase of equity in specific parastatals.

B. Covenants

There will be two covenants in the Program Grant Agreement. The GOR will:

(1) not in any way discontinue, reverse or otherwise impede any action which it has taken in satisfaction of any condition precedent to initial or subsequent disbursements except as otherwise agreed in writing; and

(2) establish a Special Local Currency Account in the Rwandan National Bank and deposit therein Rwandan francs in amounts equal to the dollar disbursements under the Grant. Funds in the Account will be used for purposes to be mutually agreed upon by AID and the GOR. In particular, it is understood that funds on-lent to the Rwandan Development Bank will constitute a long-term line of credit, renewable each year under the terms and conditions in effect at the National Bank at the time of renewal.

6. COMMITTEE ACTION

The program was reviewed by the Program Committee on July 26 and approved by the ECPR on August 1.

A Congressional Notification was forwarded on July 26. The fifteen-day waiting period expired on August 10.

7. RESPONSIBLE OFFICERS

The PRIME program will be managed in the field by Michael Fuchs-Carsch, the Agricultural Development Officer, OAR/Rwanda. The program will be backstopped in AID/W by AFR/PD/CCWAP.

RECOMMENDATION: That you sign the Program Authorization (PAAD face sheet) approving life-of-program funding for $12,000,000 to be obligated in FY 1985. It is further recommended that, after the dollar disbursement of the first tranche has been made, authority be delegated to USAID/Rwanda for negotiating and approving modifications in the program conditions precedent to subsequent disbursement.

Drafted:AFR/PD/CCWAP:DBlane:8/14/85:632-9066:1744K

Clearances:
AFR/PD/CCWAP:PGelman (Draft)
AFR/PD/CCWAP:HBHelman (Draft)
AFR/CCWA:RMaushammer (Draft)
AFR/DP:CClaude (Draft)
GC/AFR:AVance (Draft)
AFR/CCWA:JColes (Draft)
DAA/AFR:LRichards

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RWANDA: POLICY REFORM INITIATIVES IN MANUFACTURING AND EMPLOYMENT (PRIME)

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ANNEXES

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ABBREVIATIONS AND ACRONYMS

AEPRP	AID's African Economic Policy Reform Program
AID	Agency for International Development
BNR	Rwandan National Bank (Banque Nationale du Rwanda)
BOP	Balance of payments
BRD	Rwandan Development Bank (Banque Rwandaise de Developpement
CIF	Cost, insurance and freight
EEC	European Economic Community
FRw	Rwandan Franc ($1.00 = FRw 102)
FY	Fiscal year
GDP	Gross domestic product
GNP	Gross national product
GOR	Government of Rwanda
IBRD	International Bank for Reconstruction and Development/World Bank
IDA	International Development Association
ILO	International Labor Organization
IMF	International Monetary Fund
MINIFINECO	GOR Ministry of Finance and Economy
MINIMART	GOR Ministry of Industry, Mines and Artisanat
MINIPLAN	GOR Ministry of Plan
OAR/R	Office of the AID Representative/Rwanda
PAAD	Program Assistance Approval Document
PRIME	Policy Reform Initiatives in Manufacturing and Employment
PSC	Personal services contract
PVO	Private voluntary organization
REDSO/ESA	AID's Regional Economic Development Services Office/East and Southern Africa (Nairobi)
SDR	Special drawing rights
SME	Small and medium enterprise
UNIDO	U.N. Industrial Development Organization

RWANDA: POLICY REFORM INITIATIVES IN MANUFACTURING AND EMPLOYMENT (PRIME)

I. SUMMARY AND RECOMMENDATIONS

A. Program Purpose

The purpose of the program is to assist the Government of Rwanda (GOR) in making necessary structural adjustment and policy changes in order to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise (SME) sub-sector.

B. Summary Program Description

Rwanda's development potential is constrained by: high population density and a high population growth rate; a low level of agricultural technology; fluctuating export revenues determined by world market prices, especially for coffee, tea and tin; import dependence; its landlocked situation; weak human capital resources; and a low level of modern industrial development. The GOR's desire to address this situation and set the stage for economic recovery and future growth has engaged it in a broad-ranging examination of its economic goals and objectives. The GOR is moving on reforms in five areas which will stimulate the industrial sector toward a more effective use of resources in areas of comparative advantage: promoting the growth of SMEs; rationalizing the foreign trade regime; relaxing price control mechanisms; reducing the fiscal deficit and expanding the tax base; and reducing the role of the parastatal sector. The Policy Reform Initiatives in Manufacturing and Employment (PRIME) program will support policy reforms and/or provide financial assistance in each of these five areas.

Specific policy reforms to be supported relate to a revision of the Investment Code, a revitalization of the Guarantee Fund in the Rwandan National (Central) Bank (BNR) and a restructuring of the pricing and tariff system. The program will provide to the Government of Rwanda a total of $10.0 million, to be released in three tranches upon joint GOR-AID agreement that the specific policy reforms have been put into effect. The utilization of funds will be guided by three general criteria: (1) promoting the development of SMEs; (2) encouraging the GOR to proceed with its privatization efforts; and (3) providing incentives to the industrial sector through changes in the current tariff and fiscal systems. Allocations will be made to supplement local currency resources in the Rwandan Development Bank (BRD) for lending to SMEs, to assist the Government's dealing with the privatization of a number of parastatals and to provide modest general budgetary assistance, necessitated by the implementation of policy reforms which will reduce government revenue over the near term.

An additional $2.0 million will be provided for technical assistance to support the GOR's strategy for economic recovery. A major industrial incentives study will be undertaken, as well as an analysis of data already collected in an urban and rural household survey and other studies which will provide the in-depth analyses required to initiate policy reforms. Support will also be provided to the Rwandan Development Bank for staff development, including a modest increase in personnel to handle an estimated increased volume of loans to SMEs. In-country seminars and workshops plus U.S. and third training will be offered to government planners and banking officers.

The PRIME program directly supports the GOR's strategy for economic recovery. It also complements the assistance activities of the World Bank (providing a fourth, $9.0 million line of credit to the BRD to meet the foreign exchange requirements of SMEs), the EEC (assisting with parastatal management and potential divestiture) and UNIDO (assisting with industrial promotion in the Ministry of Industry, Mines and Artisanat). With AID funding, Technoserve is also providing business and management advisory services to SMEs, training in accounting and financial management and analyses of the Rwandan private sector and the institutions which can promote its development.

C. Summary Financial Plan and Terms of the Program

The PRIME program is a grant to the Government of Rwanda, to be obligated in FY 1985. The program will be implemented over a period of about two years. The GOR implementing agency is the Ministry of Finance and Economy.

Policy Reform		$10,000,000
Technical Assistance		2,000,000
	Total	$12,000,000

D. **Summary Findings**

It has been concluded from the economic and institutional analyses in the Program Assistance Approval Document (PAAD) that: (1) the program approach is technically and economically sound, socially acceptable and administratively feasible; (2) the timing and funding of program activities are appropriately scheduled; (3) sufficient planning has been made for monitoring and evaluation of the program; and (5) all statutory criteria have been satisified.

E. Required Waivers

A waiver for the procurement of vehicles from AID Geographic Code 935 (Special Free World) countries will be requested following authorization of the PAAD.

F. PRIME Design Team Members

Design team members included:

Colette Claude Cowey, Economist, AFR/DP
Michael Fuchs-Carsch, Agricultural Economist, OAR/Rwanda
Kiertisak Toh, Economist, USAID/Niger
Alan Batchelder, Economist, PPC
Hadley Smith, Economist, REDSO/ESA
Dianne Blane, Project Development Officer, REDSO/ESA
Eugene Chiavaroli, AID Representative, OAR/Rwanda

G. Recommendation

The U.S. Mission in Rwanda strongly recommends that the Assistant Administrator for Africa authorize the program grant to the Government of Rwanda.

II. PROGRAM BACKGROUND

A. Social and Political Setting

A landlocked country with an estimated area of 26,338 km^2 (about the size of Maryland), Rwanda is one of poorest countries in the world based on an estimated per capita income of $270 in 1983. Rwanda is also the most densely populated country in Africa, with an average of 380 persons per square kilometer and a population of more than 6.0 million. The annual population growth rate is about 3.7%, and life expectancy at birth was 47.0 years in 1983. The adult literacy rate is estimated at only 23%.

Over 90% of the Rwandan labor force is engaged in agriculture, with an estimated 1.0 million farm families operating complex farming systems on an average of only 1.15 hectares of land. Primary food crops are beans, bananas, sorghum, sweet potatoes and maize.

Relations between Rwanda and the United States are excellent. Trying diligently to practice true non-alignment, the Government of Rwanda does its best to offend neither of the great powers. The GOR's philosophical orientation is quite compatible with that of the United States. Over the years the U.S. has become one of the largest bilateral donors in Rwanda, with a program total of almost $25 million in FY 1984.

B. Development Constraints

A number of basic constraints affect Rwanda's development potential:

- the high population density and high rate of population growth create increasingly strong pressure on the land, which is already being farmed in average parcels of one-half hectare or less;

- the level of agricultural technology is low (few purchased inputs are used in production) and there are few prospects for quick solutions to help intensify production;

- the principal export, coffee, is subject to world quotas and sharply fluctuating prices: although Rwanda has been able to sell its surplus to non-quota countries, an increase in production has limited income-generating potential unless efforts are made to improve quality. Tin is beset by technological as well as management difficulties; and prospects for tea have been revised downward following a sharp decline in the unprecedented high prices of 1984; one positive note nevertheless is that current price projections for both tea and coffee indicate stability in real terms at the average 1981-83 level through 1995;

- the import dependence of the economy increases its vulnerability to external price changes and international transport disruptions;

- the landlocked situation 1,000 miles from Indian Ocean ports implies a heavy burden of international transport costs as well as delays that induce users of imported inputs to hold high inventories; Rwanda currently depends on foreigners, mainly Kenyans, to haul up to 70 percent of its international freight. Net transport charges (including insurance) constitute 60 percent of the deficit on the balance of services, itself the largest component of the overall deficit in recent years;

- human capital resources are still very weak: inadequate management capacity affects the productivity of many local enterprises, particularly government-controlled operations in tea and agricultural processing and marketing;

- modern industrial development is hampered by the small size of the domestic market as well as by the lack of raw materials and skilled manpower; to date, few opportunities for regional marketing in neighboring countries through official channels have been explored, although firms manufacturing light consumer goods can and do take advantage of the sizeable unrecorded trade between Rwanda and its neighbors.

None of these constraints is amenable to a "quick fix" solution. Measures to reduce the rate of population growth and to increase agricultural productivity, though they are being undertaken, have a long gestation period. Increases in human capital cannot occur without substantial additional investment in the social sector which already takes up a large part of the government budget.

Finally, the external constraints are also fairly rigid and are to a certain extent responsible for the difficulties which have beset Rwanda since early 1981: in the short term, earnings of traditional exports are constrained and import dependence as well as the high transport charges and risks affect prospects for developing foreign exchange-saving activities. Stimulation of small and medium, labor-intensive enterprises, particularly in the rural sector, is one area which appears to offer possibilities for increasing purchasing power and raising the standard of living of the rural population.

C. Recent Economic Trends

The precipitous decline in world coffee prices which occurred in 1981 not only contributed to a 1982 balance of payments deficit of FRw 4 billion (approximately $45 million), the first such deficit in many years; it also held down growth of government revenues just as a large wage increase took place and major commitments were undertaken in the education sector, thereby putting the budget into a deficit situation for the first time as well.

In order to restore equilibrium without resorting to excessive foreign borrowing, in March 1983 the GOR instituted a number of restrictive measures, among them an increase in import tariff rates and institution of a highly restrictive prior-deposit system for imports. These were accompanied by controls on prices of imports and domestic manufactures. Simultaneous expansion of rural bank branches during this period is credited with increasing savings mobilization and helping to avoid undue pressure on the banking system, though credit to the private sector was sharply affected by government borrowing.

The austerity measures were effective in restoring balance of payments equilibrium in spite of the 1984 drought: a surplus of approximately $1.6 million was achieved in 1984, although the balance of trade remained in substantial deficit. Projections for breaking even in 1985 may have to be revised, however, because of the 50% decrease in tea prices.

At the budget level, improvements have been sought in both expenditure control and revenue collection. In early 1984 the GOR ended subsidies for production-oriented parastatals. With technical assistance from the World Bank, the Ministry of Finance is developing a forward budgeting plan as well as reinforcing its revenue collection capacity.

The fact remains that adverse external and internal pressures together contributed to a marked slowdown in the country's economic growth, compared to levels achieved before the 1980s.

D. GOR Strategy for Economic Recovery

The Government's desire to address this situation and set the stage for economic recovery and future growth has engaged it in a broad-ranging examination of its economic goals and objectives. Since early 1985, the GOR has been formulating a coherent set of economic policy measures to further these goals.

-- Economic goals

- improvement in resource allocation; and
- improved fiscal management.

-- Measures undertaken

- government spending more tightly controlled;

- parastatal subsidies eliminated;

- with assistance from the IMF, a far-reaching revision of the domestic tax system undertaken which will lift the burden of revenue generation from the external tariff structure;

- with assistance from the World Bank, a training program established, initially for staff of the Ministry of Finance but eventually accessible to private sector operators, to improve accounting and management skills of the domestic and customs revenue divisions;

- with assistance from the EEC, management and accounting systems for the parastatals improved with a view toward recommending divestiture if and when appropriate; and

- interministerial committees established to improve government-wide coordination and develop a consensus -- so important in the Rwandan context -- on implementing these measures.

-- Measures to be determined

- incentives to manufacturing enterprises, with particular attention to allowing small and medium enterprises to benefit from such incentives;

- incentives to exports, including research on new products, external marketing promotion, etc.;

- encouragement of firms to locate in rural areas;

- revision of pricing and tariff practices; and

- adoption of incentive prices to encourage an increase in the marketing of surplus agricultural production which will lead to development of agricultural processing activities.

The Interministerial Committee on Economic Policy, chaired by the Ministry of Finance and Economy, is charged with developing an overall recovery plan and defining specific policy measures and administrative changes required to implement it. Details of the plan are still being worked out. The GOR expects to have the basic framework in place before the end of 1985 to coincide with the publication of the next Five-Year Plan. Discussions with GOR officials indicate that proposed policy measures will still be of a fairly general nature and subject to revision as more information from studies becomes available.

As formulated to date, the plan has equity as well as efficiency objectives: it aims to promote maximum increase in domestic value added while increasing productive employment and equitable distribution of incremental income. A specific goal is to increase the rural sector's purchasing power. Its broad conception is to take sectoral actions on three fronts, supported by external sector and fiscal measures, that will contribute to revitalizing the country's productive apparatus and improve budget and balance of payments management and foreign exchange allocation. While the GOR is convinced of the importance of competition as a prime incentive to production efficiency and reasonable prices, it is equally convinced of the need, given Rwanda's small market, to regulate the framework within which efficient production can take place.

The three-pronged effort of the proposed plan is to:

1. <u>Provide incentives for an increase and expansion of manufacturing activity, especially processing of domestic commodities,</u> by:

- expanding infrastructure in provincial towns and providing special benefits to firms which locate outside Kigali;

- insuring the consistency of Investment Code benefits with those provided under the tariff system;

- improving access to Investment Code benefits for existing and new small-scale firms which process local resources and use labor-intensive methods, including small enterprises and cooperatives in rural areas;

- facilitating access to credit for small enterprises in particular by improving the operation of the Guarantee Fund;

- improving production efficiency and competition by introducing much more flexibility in the existing cost-plus pricing structure; and

- streamlining administrative procedures which govern firm registration and licensing.

At the same time that benefits are extended to a new class of firms, provisions of the Investment Code will be improved to allow greater differentiation of benefits than currently exists. Thus, for example, the duration of tax holidays would depend on an assessment of the time it will take for a plant to reach a profit-making stage, rather than the five years automatically granted now.

2. Continue to use incentive prices and improve storage capacity in agriculture to insure an adequate supply of commodities for processing. A number of foreign aid projects, including AID's, already contribute to this objective.

3. Search out ways of improving competition in international transport in order to insure a more reliable and less costly supply of imports.

External sector measures associated with the domestic production incentives include:

- monitoring foreign exchange use to ensure least-cost procurement of intermediate and final goods and to guard against over-invoicing; and

- a major reform to restructure import tariffs which, combined with oversight of domestic and import prices, is expected to encourage economically sound substitution for imported consumer goods and allow "more flexible" tariff treatment of imports to provide competition as appropriate.

Finally, at the domestic macro level, the expected fiscal impact of the production incentives is a broader taxable base which, in conjunction with the tax reform already in the planning stage, will improve government revenues, though not necessarily in the first several years.

The restructuring of the tax system, moving from reliance on external tariffs to a greater reliance on domestic taxes, inevitably implies slippage and an initial decrease in revenues before the productive apparatus is capable of taking up the slack. By the same token, revival of the productive apparatus requires an inflow of foreign exchange for raw materials and inputs before foreign exchange savings can begin to be realized through import substitution and before tax contributions increase. Financial assistance from the donor community is being sought to bridge this difficult restructuring period. U.S. assistance through the Africa Economic Policy Reform Program, now available at the inception of Rwanda's reform program, will not only help the GOR implement some of its proposed measures in a timely manner, but also contribute to an analysis of the long-term impact of some of these measures.

E. U.S. Assistance Strategy

AID objectives in Rwanda are: (1) to increase the productivity of the rural sector and (2) to improve the health status of the Rwandan family. To achieve these objectives, assistance is being provided in the following areas:

1. Promotion of producer incentives by increasing the capacity of cooperatives and other intermediaries to store and market food crops and, eventually, to engage in other economic activities. The cooperative movement is strong, and further strengthening of cooperatives to permit them to provide some of the services presently offered by government service agencies seems promising. Cooperatives are already beginning to give farmers institutional access to improved production methods, markets, agricultural knowledge and financing. AID projects in the storage and marketing sub-sector have had a positive effect on Rwandan agriculture policy, particularly in adherence to market-determined prices for major food crops and in decentralization of the Government's cooperative support system.

2. Research, including a project to conduct a census of the agricultural sector. The data will form the basis of an information system which will be an integral part of the GOR's policy formulation process. A farming systems research project providing more micro-level information on farming activities will link the extension and research services in an effort to make agronomic research more responsive to farm situations. A third element of the research program is examining the conditions under which the basic food crops (beans and sorghum) can be stored to reduce storage losses due to insect infestation and shell hardness.

3. Dissemination of information, education and services pertaining to health care for mothers and children and family planning. Reasonably low population growth is essential if Rwanda is to maintain a viable economy. The three major elements of the AID strategy in the health sector are: oral rehydration therapy and immunization against communicable childhood diseases; family planning; and nutrition education.

4. Assistance to the Rwandan business community to develop small and medium enterprises which serve the rural population. Project assistance is concentrating on training entrepreneurs in financial and other management skills and providing management consulting services to small Rwandan businesses. Medium-range goals include a rigorous policy discussion within the framework of the PRIME program. See also Section IV.F. below.

III. ECONOMIC BACKGROUND

A. Summary Macroeconomic Analysis

1. Major Macroeconomic Factors and the Principal Areas of Reform

The course of the Rwandan economy is largely determined by two domestic and two foreign factors:

- domestic agricultural production,
- domestic government activities,
- international coffee, tea, tin, and energy markets, and
- foreign assistance programs.

While individual output and welfare rose gradually in Rwanda after 1962, the trend was interrupted in the early 1980s by an economic crisis. After surmounting that crisis, the GOR initiated an array of economic policy reforms, and AID proposes to assist with those economic reforms in five areas of government activities:

- to promote small and medium sized private enterprises (SMEs),
- to rationalize the foreign trade regime and, eventually, the tariff system,
- to relax price controls,
- to reduce the fiscal deficit, and
- to review the role of parastatals.

2. Trends before the 1981-83 Crisis Period

Favorable comparisons with other countries in the region. Among World Bank members, Rwanda ranked twelfth from the bottom in 1982, with a per capita GNP of $260. But this is because Rwanda reached independence with very low production. Since 1962, it has persistently raised per capita output. Other countries in the region, such as Zaire, Malawi, Burundi, Tanzania, Madagascar, Kenya, and Zambia, have similar climates and resources and have been spared extensive civil wars in recent years. Compared with them, Rwanda has distinguished itself since 1970 by doubling its GDP growth rate while the rate fell for all the others except Malawi, by raising its GDP growth rate and the real volumes of both imports and exports, while the latter volumes fell for the others, and by achieving the second highest GDP growth rate. Between 1969-71 and 1980-82, it alone among the seven increased its food production per capita. Rwanda's distinctiveness suggests that its economic policies have been superior to its neighbors' and provide a solid foundation for the present economic reform program.

Small size, narrow concentration in merchandise trade. Among the seven comparison countries, Rwanda ranked the lowest (tying Burundi) in the "normal years," 1976 and 1982, in merchandise exports per capita (running under 10 percent of GDP). Coffee, tea and tin account for over 90 percent of merchandise export revenue. Petroleum accounts for nearly 24 percent of merchandise imports. Further, because of its elevation and distance from the sea, high transportation expenses bring c.i.f. costs to over 25 percent of f.o.b. import values (2-1/2 times the world average). With more than 90 percent of families on subsistence farms and only 5 percent in urban areas, most Rwandans are largely independent of foreign trade. Yet Rwanda's non-petroleum import capacity is highly vulnerable to fluctuations in world coffee, tea, tin, and energy markets.

Large flows of donor assistance. Irregular from year to year, net unrequited transfers and concessional public sector loans equal some two-thirds of merchandise imports. The largest amounts of assistance come from West Germany, Belgium, the World Bank, the EEC, France, the United States, and Arab funds.

Commendable economic policies. Throughout the 1970s, Rwanda maintained commendable economic policies, with small balanced budgets, few parastatals, few price controls, a realistic foreign exchange rate, and little foreign debt. It neither needed nor used IMF assistance.

Compounding problems during the 1970s. During the 1970s, finite arable land (with 50° slopes cultivated), a growing population, and strong inheritance customs resulted in declining average farm size. Also during the 1970s, a series of well-intended government economic initiatives had counterproductive effects: new parastatals brought inefficiency; tax, tariff and credit favors benefitted a few large firms at the expense of small and medium enterprises; and the farmgate coffee price was kept below the world price less delivery expenses.

3. The Crisis Period: 1981-83

After 15 years of stability, world coffee prices tripled between 1975 and 1977 and stayed up through 1979. Increased foreign exchange and tax revenues proved irresistible incentives to big increases in imports after 1977 and again after 1979 and in government spending after 1980. The incentive to import rose after 1980 because the post-1973 franc was tied to the rising dollar. As the dollar rose, 100 francs bought more and more lira and marks and yen; and the Rwandan Central Bank remained committed to providing dollars for almost all importers' requests -- even when, after 1980, coffee export revenues fell, and the Central Bank had to take dollars out of foreign exchange reserves to meet import demands.

Immediate causes of crisis. The years 1981-83 brought unprecedented deficits in both government budgets and the balance of payments. The immediate causes were the upward surge in government spending, undiminished imports, and declining export revenues. During 1980-81, the GOR granted a 20 percent general salary increase, undertook reforms of local administration and of the judicial and edcuational systems which entailed increased expenditures, increased overall GOR employment, subsidized parastatals, and granted tax and tariff concessions to large manufacturers. Between 1979 and 1982-83, coffee prices fell 32 percent; wolfram export quantities and prices fell, each over 40 percent; tin prices fell 20 percent; and petroleum prices doubled. Imports did not fall in nominal amount. The fiscal and BOP deficits followed in 1982 and 1983.

4. Emergency Measures

In March 1983, the GOR imposed, for most imports, the requirement of an interest-free 100 percent local currency deposit prior to obtaining import licenses. The resulting reduction in imports was expected to raise prices of imports and of import-competing goods. So, also in March 1983, the GOR introduced a system of pre-sale price approvals for both imports and locally-produced goods (homologation des prix). These price controls tend to create incentives to bypass the system, impose substantial reporting burdens on producers and, in the event of non-compliance by SMEs, deny these firms access to BRD and commercial bank credit and tax favors available to larger firms.

Consequent economic distortions. Between 1982 and 1983, the BOP deficit was cut in half while the fiscal deficit rose slightly. The combination of the new and old government policies created economic distortions adversely affecting productive efficiency in at least five areas:

- existence of a dozen subsidized, inefficient parastatals (subsidies to production-oriented parastatals terminated in 1984);
- tax, tariff, and credit favoritism discriminating against SMEs;
- price controls burdening SMEs in the manufacturing sector;
- import controls (restrictions and tariffs) accumulated with consequences which were not always those foreseen; and
- continuing fiscal deficits threatening increased taxes, increased inflation, or both.

B. Overview of the Manufacturing Sector

1. Characteristics and Performance

Information on the manufacturing sector is incomplete and the limited data which does exist only gives a very partial view of its characteristics and performance. There is no census of manufacturing and only a few surveys have been done of specific enterprises for specific purposes. Such a survey recently undertaken by the Ministry of Industry, Mines and Artisanat (MINIMART) of 25 firms newly established in 1983 and 1984 yields the following picture:

New Rwandan Firms Created in 1983-84

	Small	Medium	Large
Number of Firms	10	9	6
Total Investment ($ millions)	1.2	3.3	30.4
Total Turnover ($ millions)	3.2	4.6	29.2
Total Employment	146	169	753
Average Employment per firm	15	19	126
Cost/Job Created ($)	8,000	19,600	40,400
Investment/Firm ($)	117,000	369,000	506,500

Enterprises are categorized as small, medium or large according to the following definitions: small firms have total assets of $5,000 to $150,000, an annual turnover of $3,000 to $120,000 and employ 3 to 30 people; medium firms have total assets of $150,000 to $750,000, an annual turnover of $120,000 to $500,000 and employ 30 to 100 people. Large firms have total assets of over $750,000, annual turnover above $500,000 and employ more than 100 people.

Together these firms provided a total of 1,000 jobs, far short of the 75,000 annual entrants into the labor force. The average cost per job created is $34,000, slightly higher than in other African countries. Six of these new firms process agricultural commodities, two produce agricultural inputs and about seven produce mass consumption goods. This is a new trend as most established firms producing consumer goods for the local market primarily sell to high income and expatriate consumers.

MINIMART estimates that over the 1985-86 period an additional 35 new firms will be established, representing a total investment of $36 million and 1,900 additional jobs. Of these firms, 15 will be involved in agro-processing, 3 in production of agricultural inputs and 5 in the production of mass consumer goods. Most of these firms will be in Kigali.

The predominant form of rural enterprise are the 7,000 cooperatives, pre-cooperatives and associations. Only 400 of these rural businesses are legally registered. Because certain taxes are avoided by retaining the pre-cooperative status, there is a disincentive to registering as a cooperative.

The private sector is the predominant investment force in the economy and is most active in agriculture, export crop production, manufacturing, commerce and most service industries.

DISTRIBUTION OF PUBLIC AND PRIVATE ENTERPRISES

Number of Enterprises as of 12/31/81

Sector	Public	Mixed	Private	Total
Agriculture	5	2	1/	7
17				
Manufacturing:				
-Registered Firms	2	7	83	92
-Unreg/Artisanal	0	0	81,500	81,500
Trade and Services:				
-Import/export/wholesale	1	3	150	154
-Retailing	0	2	5,014	5,016
-Banks	2	4	1	7
-Other Trade/Services	8	0	1,775	1,783
Mining	0	1	0	1
Energy	1			1
Total	19	19		

1/ Includes 1 million small farms.

Public investments tend to concentrate in tourism, banking, transport, coffee and tea export, mining and energy. The latter three are closely tied to the national interest and the GOR's preference is to retain control of these areas. Reasons given by the government for its participation in other activities and manufacturing is because private investors are not yet ready to enter these areas. The GOR feels that at this point in time their intervention increases competition and promotes Rwandan interests in the market place. Information from the MINIMART Bureau of Industrial Promotion indicates that, although private Rwandan investors represented 58% of their clientele seeking assistance, only 28% of their project proposals were actually implemented. By contrast, foreigners, who represented 42% of the Bureau's clientele, implemented almost 64% of the projects they proposed. This is largely because Rwandans do not have access to the management and technical assistance necessary for project implementation. This is also the basic rationale for OAR/Rwanda's Private Enterprise Development Project (696-0121) which will provide this assistance to Rwandans.

Government participation in industry has not been as successful as hoped, and the GOR is interested in some cases in divesting public holdings to the private sector. Parastatals have suffered from rising costs and diminished profitability. Subsidization has sometimes been necessary but was terminated by decree in 1984. The GOR, with EEC assistance, is undertaking several studies of its industrial parastatals aimed at rehabilitation and possible divestiture.

Promotion of industry, especially of small and medium enterprises, is a high priority for the GOR. It is hoped that this sector can provide increased employment opportunities that are no longer possible in agriculture. Promotion of private investments has increased substantially. Import substitution is stressed. While export promotion is an objective, there is little assistance to exporters. While there is not an explicit policy of protection for private industry, there is effective protection insofar as the ex-ante price control system provides assured profits (up to 15 percent), imports of goods competing with local production are controlled, imported inputs for manufacturing purposes are rarely taxed and the high tariff rates provide an additional barrier. A study of protection is currently being designed.

As a result of this incentive system, growth in manufacturing is accelerating. A World Bank Manufacturing Sector Assessment places present growth of manufacturing at 9% which means it is the fastest growing sector in the economy. However, capacity utilization is low, usually 45-50% in larger enterprises, which is due to small markets, inexperience in dealing with foreign suppliers and assured profit margins through the ex-ante price control system. A major conclusion of the IBRD report is that industrial investment is likely to remain high, but due to the evolving pattern of distortions, will probably include projects of dubious merit which will not always promote the most efficient use of resources in Rwanda.

2. Policies Affecting Manufacturing

Rwanda's tariff structure appears to bear out a typical pattern among developing countries. Duties on raw materials and capital goods are low; medium rates are imposed on intermediate goods and consumer goods produced locally; and high rates are imposed on non-essential consumer goods. Duties vary from 0 to 150% on CIF value including customs duty of 0 to 20% and fiscal duty of up to 130%. Generally duties increase with the range of processing. The large variations in duty rates result in widely different rates of protection to various manufacturing industries. Low duties on industrial inputs provide little incentive to develop local substitutes and may discourage industries that could be viable in Rwanda. On the other hand, high duties on a number of consumer goods encourage local production that may be economically inefficient.

With the introduction of the import deposit scheme in March 1983 controls over prices were also tightened in order to prevent prices from rising as a result of the reduction in imports. A form of control over prices has existed since 1967, though it was not applied very strictly. However, as of March 1983, all prices have to be approved before goods are sold. Producers can claim a margin of 15% above costs while traders are allowed a margin of 15% wholesale and/or 25% retail. As in other countries where a similar system exists, most large manufacturing firms seem to have been able to obtain approval for prices which ensure them an adequate return. While the measure has had some success in reducing profit margins in spite of insufficient inspection, its main drawback is that it discourages efforts toward greater efficiency.

Rwanda's Investment Code was established in 1964 and revised in 1977 to extend provisions to Rwandan investors. The Code allows for guaranteed repatriation of interests and dividends, exemptions from payment of import duties, tax holidays and restrictions on competing imports. To qualify, an enterprise must have a minimum investment of $100,000 for Rwandan firms and $200,000 for foreign firms. To help the promotion of SMEs the Government created a Special Guarantee Fund to help enterprises unable to meet normal collateral requirements. Neither the Fund nor the Investment Code have been used very extensively in the past. It is hoped that the revision of these instruments under this program will contribute to increasing incentives for SME growth and participation.

3. Rationale for Assistance to SMEs

Rwanda's SME sector is diverse and dynamic and has, compared to other African countries, developed without much institutional assistance. Manufacturing now represents about 35% of SME activity with agriculture, commerce and other services also being important. Generally, SMEs are found in brick and tile making, grain milling, bakeries, garment making, wood and metal products. At the artisan level production includes banana wine, sorghum beer, baskets, bricks, wood furniture, butchering, masonry and blacksmithing. Virtually all SMEs are owned by Rwandan nationals and are either family businesses or cooperatives. Unlike modern manufacturing, which is mainly concentrated in Kigali, SMEs are spread countrywide. According to surveys conducted by MINIMART, there are about 25,000 industrial artisans and people working in SMEs as compared to 14,000 employed in larger enterprises. SMEs are productive, labor intensive and less dependent on imported inputs than many modern enterprises. SMEs are profitable and provide their workers with relatively good income. An 1980 ILO study found that small enterprises generally pay their workers more than the legal minimum and that owners have an average income of $140 per month, which is well above what they would get in modern enterprises, given their level of education and experience.

A recent IDA-financed study of the SME sector covering 220 enterprises revealed that the potential for SMEs in Rwanda is significant. They are less constrained by the small size of the market and there is ample scope for development in such diverse areas as food processing, agricultural tools, livestock, construction materials, etc. However, the sector also faces severe constraints. More than modern enterprises, SMEs suffer from a lack of incentives, limited availability of training facilities and difficult access to bank credit and foreign exchange to import a few, key items. Credit is not well organized or developed. Short-term credit provided by commercial banks mainly goes to enterprises in commerce, transport and construction. The Banques Populaires, a cooperative system, does not lend for industrial activities. Long-term loans (up to ten years) are mainly provided by the Rwandan Development Bank which has only recently developed a priority program for SME lending. See Annex E for a full discussion of the BRD.

C. The Need for the GOR Economic Reform Program to Elicit Structural Change

The two preceding sections described the background to the set of economic policies in place in 1984 and provided an overview of the Rwandan manufacturing sector. This section describes recent economic events and medium-term prospects relevant to the GOR's choice of the content of its economic reform program and to AID's choice of reform elements which it will support.

1. Recent Economic Developments

Until the 1984 drought, Rwandan agricultural output was expanding more rapidly than population. During the past 20 years, acreage, productivity per acre and the proportional mixture of crops changed substantially showing clearly the flexibility of Rwandan farm families. The basis of productivity and the causes of changes in cropping patterns are not well understood, but the shrinking of farm size makes further agricultural improvements imperative.

Tea and coffee prices and quantities rose in 1984; tea prices are down in 1985, testimony to continuing Rwandan export uncertainties. Foreign assistance has been falling as a share of GDP but holding up as a fraction of merchandise imports. A 50 percent increase in 1983-84 in concessional public sector borrowing and a 20 percent increase in merchandise export revenues turned the FRw 1.9 billion BOP deficit, forecast by the IMF for

1984, into a FRw 1.5 billion BOP surplus. IDA repayments cut BRD resources by 50 percent during 1984, and new lending drew local currency resources down to very low levels by January 1985.

2. Medium-Term Prospects

Agricultural acreage cannot be much expanded. Output increases therefore require increased agricultural productivity and labor movement into non-agricultural production. For exports, the World Bank predicts that the real prices (in terms of manufactures) of coffee, tea, and tin will, though fluctuating, stay at about their recent levels through 1995. In the past, Rwanda's coffee quota has increased at about the same rate as production thus minimizing non-quota sales at 40-60 percent below quota prices. As a small exporter, Rwanda can hope for more of the same.

If foreign assistance continues to lag behind growth of GDP, imports will also be pressed down as a percent of GDP. Debt service will double between 1983 and 1988 but will remain below 17 percent of merchandise export value. The BRD will be able to lend very little in local currency to any businesses, large or small. The GOR is trying to keep down taxes on agriculture and manufacturing and encourage expansion of the tax base. In the meantime, fiscal deficits will continue near 2 percent of GDP.

3. The Government's Choice of Structural Adjustment Reforms

The GOR is moving on reforms which will permit market prices to lead private producers to efficient use of resources in areas of comparative advantage. This means much more small-scale and labor-intensive manufacturing and increases in trade and services. Acting in five areas, the GOR actions and intentions are as follows to provide the growing labor force with alternatives to further subdivision of farms:

<u>To promote the growth of SMEs</u>: The GOR is concentrating on reforms intended to expand employment opportunities with private employers by:

- planning a study of the incentive and of the discriminatory effects of existing tax and tariff programs;

- seeking help in analyzing the results of the recent household survey to determine the demand structure facing SMEs;

- simplifying licensing procedures;

- revising the Investment Code to extend benefits to SMEs;

- revising Guarantee Fund procedures to make it more accessible to SMEs;

- revising BRD procedures to direct more of its assistance to SMEs;

- seeking donor assistance to add to its ability to lend in local currency;

- opening BRD offices outside Kigali to reach provincial SMEs; and

- planning the extension of manufacturing sites and services into urban centers outside Kigali.

To rationalize the foreign trade regime: The GOR:

- readjusted its currency in 1983 by delinking from the dollar;

- will arrange a study to seek recommendations concerning foreign exchange policy appropriate to the near future;

- is committed to repealing the import restrictions imposed in March 1983;

- will arrange for a study to determine the effective rates of protection of present tariff policies; and

- will investigate the extent to which present import restrictions and tariff schedules discriminate against SMEs.

To reduce price controls: The GOR is committed to relaxing the restrictions imposed in March 1983.

To reduce the fiscal deficit and expand the tax base: The GOR will:

- continue to allow real compensation to fall for government employees,

- continue the ban on subsidies to parastatals, and

- for the longer run, seek tax and tariff reforms which will encourage expansion of the tax base.

To reduce the role of parastatals. The GOR has (a) created no new parastatals since 1980 and (b) ended subsidies to parastatals after January 1984 (thereby increasing demand for local currency loans from the BRD and tending to crowd out private borrowers.) The GOR is now investigating possibilities for sales of parastatals (including commercial components in integrated agricultural projects being turned over to the GOR by donors) to private investors.

4. A.I.D.'s Choice of Means to Assist Reform

AID proposes to support reforms and/or to provide financial assistance in each of the five areas:

To reduce the role of parastatals. AID proposes:

- to establish an Equity Participation Fund in the BRD for loans to private buyers of shares of parastatals;

To promote the growth of SMEs. AID proposes:

- to finance a major study of the effects of present taxes and tariffs on SMEs;

- to finance an analysis of the data obtained in the household survey;

- to add to the BRD's local currency lending resources; and

- to finance training of BRD staff.

To rationalize the foreign trade regime. AID proposes:

- to condition assistance on a reduction of the import restrictions imposed in March 1983.

To reduce price controls. AID proposes:

- to condition assistance on substantial reduction in the price controls imposed in March 1983.

To reduce the fiscal deficit and expand the tax base. AID proposes:

- to encourage the extension of Investment Code benefits to SMEs; and

- to provide some budget support in recognition of the loss of tax and tariff revenues when Investment Code benefits are extended to SMEs.

D. Collaboration with Other Donors

PRIME is closely related to the assistance activities of several other donors. The IBRD is proposing a fourth line of credit ($9.0 million) to the BRD to finance the foreign exchange component of expanded credit facilities to SMEs. PRIME will complement this by financing the local currency requirements of SME lending operations. The IBRD and the Federal Republic of Germany will continue to provide technical assistance to the BRD.

The IBRD has also started a technical assistance program with the Ministry of Finance and Economy to improve the budgeting process and to restructure the tax base to give the GOR greater control over its revenue sources. PRIME will complement this activity by providing some general budget support to help meet the deficit in the ordinary budget.

The EEC has initiated several actions to help the GOR move along with its program of parastatal divestiture and/or improving the parastatals' management and efficiency. Studies are now underway with EEC support to identify those parastatals which should be divested as well as the modalities by which this will be accomplished. PRIME will support these efforts both through the establishment of an Equity Participation Fund in the BRD and through the provision of technical services under the REDSO/ESA-managed Parastatal Studies, Restructuring and Divestiture project.

UNIDO will continue its support of the MINIMART's Bureau of Industrial Promotion. A recent evaluation of UNIDO's activities recommended a greater focus on the promotion of smaller, more labor-intensive enterprises. PRIME will complement this activity directly by supporting the BRD's expanded SME credit operations and indirectly through the implementation of the industrial incentives study within MINIMART.

The design and negotiation to date of the PRIME program have benefitted from close collaboration with IBRD officials in Rwanda and in Washington. Both the IBRD and IMF regard the evolution of PRIME as a bellwether to gauge how fast the GOR is willing to move on its liberalization program and remove trade and price restrictions imposed in March 1983. It appears that the IBRD is now also willing to support the GOR's recovery/reform program, and an IBRD country economic mission is scheduled for September 1985. At this point it is not clear whether or not a structural adjustment program will result from this mission. Nor is it clear now whether and to what extent the IMF will be requested to implement any of its special facilities in Rwanda in the near future. The exchange rate issue is still open and complex. It appears that initial IMF estimates of the degree of overvaluation of Rwanda's currency were far too high. It is anticipated that the results of the industrial incentives study under PRIME, as well as the results of the tariff study proposed by the IBRD under its fourth line of credit to the BRD, will yield additional insight into the exchange rate issue. Collaboration among researchers undertaking these two studies will be an important element in the long-range reform of Rwanda's trade and payments regime.

IV. PROGRAM DESCRIPTION

A. Program Objectives

The PRIME program will assist the GOR in making necessary structural adjustment and policy changes in order to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise

(SME) sub-sector. The SME sub-sector has encountered a number of constraints. Among the most serious constraints are: (1) inadequate economic incentives; (2) limited access to bank credit; (3) a largely ineffective but managerially burdensome price control system; and (4) lack of an effective trade regime for promoting foreign trade.

The PRIME program will support the GOR's adopted plan for economic recovery by stimulating industrial production and employment. As discussed above in Sections II.D and III.C, the GOR has already adopted several policy measures to promote its economic recovery.

The policy changes to be supported under this program have the following objectives:

(i) Increase access to the benefits of the Investment Code for SMEs and local cooperatives. According to the Rwandan Development Bank's definitions, small-scale enterprises are defined as enterprises whose net assets are between FRw 500,000 and 15 million, or approximately between $5,000 to $150,000 at the current exchange rate. Medium-scale enterprises are defined as enterprises whose net assets are between FRw 15 million and FRw 75 million. The SMEs are also characterized as relatively labor-intensive and as having a low cost per job created.

(ii) Reduce burdensome procedures for the use of bank credit by SMEs (cost and price reporting beyond what is needed for statistical purposes) under the existing legislation of <u>homologation des prix</u>.

(iii) Increase the number of SMEs in Rwanda's manufacturing sector as well as their relative output and employment shares in the sector; and

(iv) Restructure the relative factor intensity in the sector towards increasing labor intensity and lowering import content.

B. Policy Conditionality

To achieve the policy reform objectives described above, the Government of Rwanda agrees to undertake the following policy actions under the PRIME program:

1. Investment Code Incentives

(a) Modify the present Investment Code to significantly lower a firm's required minimum net assets for eligibility under the Investment Code. The current minimum net assets for qualifying under the Code are FRw 10 million ($100,000) for Rwandan-owned firms and FRw 20 million ($200,000) for foreign-owned firms.

(b) Modify the present Investment Code to allow SMEs to receive preferential treatment in relationship to benefits granted to large enterprises. These benefits include: access to foreign exchange, fiscal and tariff exemptions and repatriation of interest, dividends and original capital at official exchange rates if applicable.

2. Guarantee Fund

(a) Take measures to ensure the proper functioning of the Guarantee Fund. These measures will simplify and speed up the administrative and review procedures for access to the Guarantee Fund by SMEs with insufficient collateral to secure loans and other lines of credit. A suggestive list of measures includes, but is not necessarily limited to, the following:

- establish clear criteria for access to the Guarantee Fund;

- reduce and simplify the information requested from applicants to the Guarantee Fund; for example, requested information should be limited to the purpose for which the loan will be used, the amount of the loan and some simple indication of the borrower's credit worthiness;

- establish unambiguously the terms and schedules of payments so that potential defaults can be dealt with in a timely manner to ensure the integrity of the Guarantee Fund and to minimize its degree of decapitalization;

- limit the size and composition of the Guarantee Fund review committee to technicians whose expertise is essential to the evaluation of the economic and financial viability of the project for which the guarantee is intended;

- establish the maximum amount of time which the review committee can take in evaluating each application to the Guarantee Fund.

(b) Promote the use of the Guarantee Fund by SMEs by widely disseminating information about the changes in the Investment Code, particularly in areas outside Kigali.

3. Pricing and Tariffs

(a) Take necessary measures to introduce greater flexibility in the cost and price reporting now required under the system of homologation des prix intended for indicative profit margin and pricing purposes.

(b) Repeal the ex ante price approval system.

(c) Take necessary measures to lighten the burden of the cost and price reporting requirements under the system of homologation des prix for SMEs.

(d) Within the context of the joint GOR-AID industrial incentives study:

- evaluate the existing tariff structure and its functioning including the administration and enforcement of the tariff system;

- assess the extent to which the existing tariff structure and levels of protection, as measured by effective rates of protection, provide appropriate incentives for developing indigenous industries with potential for import substitution and/or exports over the long run (as measured by potential net foreign exchange savings in the case of import substitution and by net foreign exchange earnings in the case of exports); and

- make specific recommendations for modifications of the tariff system taking into consideration relevant effects of any fiscal and exchange rate distortions.

(e) Take appropriate action, in accordance with the conclusions and recommendations of the industrial incentives study.

(f) Review the circumstances which require equivalent local currency deposits for certain imports (decree of March 1983) with an eye to determining if continuation of this temporary measure is justified.

(g) Ease the trade and import licensing requirements for SMEs in order to facilitate the development of SMEs.

C. Policy Measures and Conditional Dollar Disbursements

The dollar disbursements for local currency provision under the program will be conditional on evidence that the Government of Rwanda has implemented agreed-to policy measures in support of the policy reform program described above. The funds will be disbursed (earmarked) in three tranches of $3.5 million, $3.5 million, and $3.0 million during FY 1986-1988. The technical assistance component of the program will not be conditional on the policy reform program.

The following table outlines the policy measures to be taken by the GOR under this program, the anticipated effects of these policy measures and the conditions giving evidence that the reform measures have been undertaken.

POLICY AREA	POLICY MEASURES	FIRST TRANCHE (Sept.-Nov. 85)	SECOND TRANCHE (June-Aug. 86)	THIRD TRANCHE (Nov. 87)	COMMENTS
Access to the Investment Code	1. Code revision to expand enterprise access 2. Incentives to SMEs to include: --lower minimum asset requirement for eligibility --preferential tax holidays --tariff concessions --additional preference for rural-based firms		CP: Revised Code promulgated, per col.(2) Performance criteria/ benchmarks: --increased % of SMEs registered under the Code, including rural-based firms	Performance criteria/ benchmarks: --sustained increase in % of SMEs registered and receiving credit	--Investment Code and Guarantee Fund provisions, combined with credit availability, should work together to produce desired performance
Access to the Guarantee Fund	1. Preferential treatment for SMEs	CP: Preparation of Action Plan to specify new administrative and review procedures	CP: Improved administrative and review procedures in force		
	2. Improvment of administrative procedures for reviewing and processing applications	Preformance criteria/ benchmarks: --clear criteria for access to the fund --simplified application forms for SMEs --streamlined technical review committee	Performance criteria/ benchmarks: --at least 10% of the value of guarantees extended goes to SMEs --processing time decreased: to allow 50% of applications to be processed in 30-45 days	Performance criteria/ benchmarks: --15-25% of the value of guarantees extended goes to SMEs --75% of applications processed in 30-45 days	--Third tranche criteria to be adjusted on basis of experience with program --Special emphasis to be given to small enterprises

POLICY AREA	POLICY MEASURES	FIRST TRANCHE (Sept.-Nov. 85)	SECOND TRANCHE (June-Aug. 86)	THIRD TRANCHE (Nov. 87)	COMMENTS
Prices	I. Eliminate prior approval and introduce flexibility in reporting requirements for SMEs		CP: Repeal prior price approval system and ease reporting procedures for small enterprises Performance criteria/ benchmarks: --appropriate executive order issued to repeal requirement for prior approval of prices for manufactured goods --simplified reporting procedures for small enterprises in effect	CP: Continued satisfactory performance	--The analysis of the industrial incentives study related to pricing may result in recommendations for further improvements in the price system
Trade Regime	I. Eliminate administrative restrictions on imports which were imposed to deal with a temporary situation	CP: Review whether continuation of local currency deposit requirement is justified for the remaining categories of goods now subject to it. Repeal requirement if it is no longer justified			

POLICY AREA	POLICY MEASURES	FIRST TRANCHE (Sept.-Nov. 85)	SECOND TRANCHE (June-Aug. 86)	THIRD TRANCHE (Nov. 87)	COMMENTS
	2. Rationalize the tariff system to remove economic distortions and facilitate management	CP: Terms of reference for the industrial incentives study approved; counter-parts assigned and their responsibilities	CP: Satisfactory progress on study Performance criteria/ benchmarks: --workshop held to discuss initial findings with respect to trade/payments regime	CP: Tariff-related recommendations received from the industrial incentives study reviewed and major recommendations adopted	
	3. Facilitate SME access to foreign exchange and import of key commodities				
Others	None	CP: In collaboration with AID, definition of responsibilities for management of PRIME program	CP: Satisfactory performance in allocation and disbursement of local currency	CP: Satisfactory performance in allocation and disbursement of local currency	

D. Use of Funds

1. Policy Reform Component

Since the main focus of this program assistance is to support the Government of Rwanda's policy reform and economic recovery effort, conditional dollar disbursements for the provision of local currency is chosen as a financing mechanism. The dollar disbursements will be effected only when certain policy actions, as agreed by the GOR and AID, have been taken. The disbursements will be tranched and tied to policy performance as described above.

The allocation of funds under this component will be (1) for promoting the development of SMEs; (2) for encouraging the GOR to move forward with its privatization effort; and (3) for encouraging reform in the industrial incentive structure (through changes in its current tariff and fiscal systems). Within these general criteria and subject to the program fund constraint ($10 million), the fund allocation in priority ranking will be as follows:

(a) Credit for Small/Medium Enterprises

Since 1982, the Rwandan Development Bank (BRD) has been engaged in a program of outreach and lending to SMEs with assistance, both credit and technical assistance, from the IBRD. While the IBRD's assistance and those of other donors are able to satisfy the foreign currency needs, the BRD is constrained in the amount of local currency to which it has access. By the end of 1984, the BRD had practically exhausted its local currency resources available for loans.

The BRD estimates that its lending for SMEs will increase significantly over the period 1985-1987, from the 1984 level of $1 million to $1.5 million per year. Approximately half of this amount ($750,000) per year would represent lending in local currency. It is estimated that $3-4 million of the program fund will be disbursed for the support of this activity over the period 1985-1988.

(b) Equity Participation Fund

The GOR is actively seeking ways to privatize part of its interests in a number of parastatals. As of 1984, the GOR ceased all direct subsidies to parastatals which engage in production of goods and/or services. It has also undertaken a program, with assistance from the EEC, to examine and improve management and accounting practices of these parastatals. Studies to identify possible divestiture of some of these parastatals are underway. Furthermore, the GOR has also expressed interest in finding ways to spin off some elements of publicly-financed development projects to the private sector.

Program funds will be used to assist the GOR in dealing with the parastatal question in two ways: first, for necessary appraisals and analyses to determine the relative merits and prospects of individual parastatals (see Section 2(c) below); and second, for making resources available to private Rwandan investors to purchase equity in those parastatals which the GOR decides to privatize. An estimated $2.5-3 million of the program funds will be set aside for this purpose.

(c) Budgetary Assistance to Encourage Industrial Incentive Restructuring, Especially for SMEs

Like many low-income, less-developed countries, Rwanda's tax structure is weak, inefficient, and inflexible. The main sources of government revenue are concentrated in indirect taxes: international trade taxes and sales and excise taxes. Together, they accounted for approximately 75 percent of total government tax revenue in 1984 - with international trade taxes alone accounting for 40 percent. In recent years, government revenue has been stagnant, while expenditures, though contained, have been growing in nominal terms. Consequently, estimated budget deficits range from FRw 1.5 to 2 billion ($15-20 million) annually during 1984-1986. The budget prospect is not expected to improve significantly in the near future (see Annex G for a projection of budget deficits based on an econometric model by the Ministry of Finance).

The tax and tariff concessions anticipated under the revised Investment Code, together with other policy measures intended to raise economic incentives for enterprise development in the near future, will adversely affect government tax revenue, at least in the immediate future. These are measures which AID is encouraging under this program. With the prospect of tax revenues remaining generally unchanged in nominal terms and current expenditures rising modestly, the GOR is reluctant to move ahead with reform efforts which would reduce revenues even more. Since such reforms are beneficial to the economy as a whole and may even raise the GOR's tax base in the long run, some temporary and modest budgetary assistance is required to support the GOR in adopting a revised Investment Code and changing its tariff structure.

It is difficult at this point to estimate the effects of the revisions in the Investment Code and tariff structure on revenues for several reasons. First, the exact changes in the Code - in terms of tax exemptions, length of tax holidays, number of enterprises qualifying under the Code, the extent of the reductions in the tariffs and import duties, etc. - remain to be negotiated in the National Assembly. Second, the effects of these changes on increased economic activity (and consequently the economy's tax base) and the tax elasticity have yet to be determined. The Ministry of Finance and Economy, however, has provided the PRIME design team with its estimates of the potential effect of the policy changes on its tax revenue. These estimates suggest a revenue loss of $12.0 million over the immediate future (2 years). These estimates seem to be on the high side because they include potential or hypothetical revenue loss instead of the actual reduction of revenue from the existing revenue base. They also do not take into account a possible expansion of the revenue base to offset lower rates. This, however, is more relevant over the longer run.

While budgetary assistance may have potential negative effects by decreasing some of the pressure for controlling government spending, in the case of Rwanda such potential effects are minimized by the following facts. First, there is an attempt by the GOR, with assistance from the IBRD following its appraisal of the planning and budgeting process, to improve the budgeting system and restructure the tax base to give the GOR greater control over its revenues. Second, the budgetary support under the PRIME program will be extremely modest. The maximum amount is estimated at $3.5 million over a two-year disbursement period. For indicative purposes, this amount represents just under 2 percent of budgeted government expenditures in 1984.

2. Technical Assistance Component

In addition to the $10.0 million cash transfer, the PRIME program will finance $2.0 million in technical assistance for five studies and activities to support the GOR's economic recovery and reform program. These studies and activities are:

(a) Industrial Incentives Study ($820,000): The services of a Senior Economist will be provided to the Ministry of Industry, Mines and Artisanat for two years (see terms of reference in Annex F). PRIME will buy into the centrally-funded Employment and Enterprise Policy Analysis project for the long-term and supplemental short-term technical services. The budget for the study will also include funds for Rwandan researchers, in-country and U.S./third country workshops and seminars and equipment procurement, including computers and software.

(b) Analysis of Household Budget Data ($260,000): The short-term services of an economist and a statistician/data processing specialist will be provided to the Ministry of Plan. PRIME will buy into the centrally-funded "Food Security" Cooperative Agreement with Michigan State University for these services and the procurement of requisite equipment.

(c) Other Policy Reform Studies ($435,000): Consultant services will be financed to assist the GOR primarily in undertaking studies related to use of the Equity Participation Fund. For this purpose, PRIME will buy into the REDSO/ESA-managed Indefinite Quantity Contract for Parastatal Studies, Restructuring and Divestiture. The funds will also be used to finance and/or support other policy studies, either planned or on-going, as well as to procure supporting data processing equipment.

(d) Supplemental Staff Support for the BRD ($45,000): Funds will be provided to enable the SME division of the BRD to increase its staff by 2-3 Rwandan loan officers. This supplemental staff support will be necessary to handle the increased workload resulting from the PRIME's local currency line of credit. The funds will support the staff salaries on a cost-sharing basis for the first two years of the PRIME program.

(e) Program Management ($440,000): The services of a program manager will be provided for three years to assist OAR/Rwanda and the GOR in implementing the PRIME program. Terms of reference are also included in Annex F.

E. Program Financing Requirements and Composition

An illustrative schedule of disbursements by tranche and type of activity is presented in the following summary financial plan.

SUMMARY FINANCIAL PLAN
($ millions)

Activity	1st Tranche Sept-Nov 1985	2nd Tranche Jun-Aug 1986	3rd Tranche November 1987	Total
1. Expanded SME Lending - BRD	1.5	1.0	1.0	3.5
2. Equity Participation Fund - BRD	-	1.5	1.5	3.0
3. Generalized Budget Support - MOF	2.0	1.0	.5	3.5
TOTAL	$3.5	$3.5	$3.0	$10.0

The PRIME program allows for flexibility among the line item activities. For example, if in the third year of the program, SME lending by the BRD increases at a rate faster than projected, funds can be shifted first from generalized budget support and then from the Equity Participation Fund to make up the shortfall in expanded SME lending.

F. Complementary AID Assistance

Both the policy reform and technical assistance components of the PRIME program will complement other, on-going AID projects and will be able to not only draw upon the expertise available under other projects but also contribute to their success.

PRIME's policy reform measures and resources will complement the support to the small and medium enterprise sector which AID is providing through the Rwanda Private Enterprises Development Project (696-0121). This project, being implemented by an American PVO, Technoserve, seeks to:

-strengthen the management and technical capability of enterprises and institutions,
-increase the flow of private investment by improving the quality of loan applications and analysis,
-develop and implement basic financial and accounting systems for enterprises,
-increase the transfer of appropriate technologies, both management and production, into the private sector,
-provide education opportunities for training professional accountants, and
-strengthen the capabilities of Rwandan institutions to promote private enterprise and provide appropriate training.

Policy reforms being undertaken by the Government with regard to the Investment Code, Guarantee Fund, and industrial pricing and tariffs are expected to result in an increased demand for both local currency and foreign exchange resources at the Rwandan Development Bank. This demand can only be realized if the BRD can base its loans on adequate analyses of requirements and of the management capability of borrowers. The Technoserve program of management and technical assistance to enterprises and training of small entrepreneurs will fill a huge void which now exists and which has served to restrain the development of the small and medium enterprise sector. Technoserve's training of bank officials will facilitate the bank's review of dossiers and enhance the services which the BRD can give to its clients.

Also important is the policy analysis component of the Technoserve project. Technoserve will conduct studies to help clarify the needs of the private sector and the potential benefits of management assistance. Three studies are envisaged: a needs assessment of institutions which promote private sector development; an analysis of the market for management and technical services and training; and, late in the project, a study of credit needs. Technoserve will also establish a data bank of information constituting a profile of several levels of the private sector in Rwanda. The Technoserve studies will feed into the industrial incentives study to be conducted under this PRIME program, as well as into the proposed World Bank study of the incentive/disincentive effects of tariff policy. The Mission will review the terms of reference for both the PRIME and Technoserve studies to assure that the studies do not overlap and that maximum use is made of the information being developed by each.

Buying into the AID centrally-funded "Food Security" Cooperative Agreement will permit analysis of data being developed by the GOR through a national rural and urban household budget survey (see p. 28). This data set can provide the Government with vital and useful information about farm, food security and non-farm needs. The household survey analysis will draw on some of the expertise being made available to the GOR through the AID-financed Agriculture Sector Survey and Analysis project. The two surveys have been coordinated from their inception, and data and survey experiences have been shared. The proposed expansion of the analysis of the household budget survey to include an analysis of those factors which affect and can promote rural enterprises will enhance the ability of the Ag. Survey project in the formulation of Rwanda's agriculture and rural development policy.

V. PROGRAM IMPLEMENTATION

A. AID Program Management

A PRIME Steering Committee will be constituted at the Mission. The Committee will be chaired by the Mission Agricultural Development Officer (an agricultural economist) and will also include the Program Officer and the Project Development Officer (a macro-economist). The PRIME will finance under a personal services contract (PSC), for a period of three years, a program manager with extensive experience in working with financial institutions and with programs supporting private enterprise development. The Program Manager will provide the day-to-day monitoring of the program and its implementation and will also serve as advisor to the Office of the AID Representative on the program. The Program Manager will work under the direct supervision of the PRIME Committee Chairman. The terms of reference for the contract economist are provided in Annex F., Technical Assistance Component.

The responsibilities of the PRIME Steering Committee will include:

- assuring that the conditions precedent in the Program Grant Agreement are satisfied;

- monitoring the covenants in the Program Grant Agreement to determine the degree to which they are being met;

- monitoring the policy reform program and preparing reports to the AID Representative and AID/Washington, as required;

- preparing and reviewing with the Government of Rwanda any changes or revisions in the Program Grant Agreement;

- coordinating and carrying out the necessary reviews and evaluations to ensure that policy reforms are properly implemented;

- Supporting the PRIME Joint Committee (commission mixte) in evaluating the policy reform program and recommending disbursement or non-disbursement of funds, and any additional conditions to be attached thereto (see Section I. below); and

- reviewing and monitoring the use of funds by the Rwandan Development Bank.

B. Government of Rwanda Program Management

1. Policy Reform

The Ministry of Finance and Economy is the agency for economic policy formulation and implementation, and it is this ministry which will constitute the official point of contact for AID on the policy reform elements of the program. An Inter-Agency Policy Committee, to be headed by the Ministry for Finance and Economy, and including representatives from the Ministry of Foreign Affairs and Cooperation; Ministry for Plan; Ministry for Industry, Mines and Artisanat; the Rwandan National Bank (Central Bank); and the Rwandan Development Bank will be responsible for implementing the policy reform program. While other ministries, the Central Bank and the Development Bank will be involved in the utilization of local currency and the technical assistance component of the program, the Ministry for Finance and Economy will be responsible for providing to AID the documentation and reports specified in Section H. below unless this responsibility has been delegated, with AID concurrence, to another entity which accepts this responsibility.

2. Technical Assistance

Terms of reference for the studies to be undertaken and the technical assistance to be provided by the program will be developed collaboratively by the AID PRIME Steering Committee and the GOR Inter-Agency Committee. The Government will facilitate the work of the consultants by providing office space and access to documents and officials relative to the work to be undertaken. The Ministry for Industry, Mines and Artisanat will provide office space for the long-term Senior Advisor to undertake the proposed industrial incentives study.

C. Disbursement Approval

Disbursement of program grant funds will be made in three tranches pursuant to requests from the Government which detail the policy reforms which have been undertaken to justify the release of the respective tranches of funds and indicate that conditions precedent to disbursement have been fulfilled. The release of each tranche of funds to the Central Bank will be made following a determination by a PRIME Joint Committee (commission mixte) that policy measures have been undertaken which justify the release of funds. Members of the PRIME Joint Committee will be drawn from the AID PRIME Steering Committee and the GOR Inter-Agency Committee. Section IV.C. of the PAAD provides the guidelines for evidence that the policy measures have been undertaken. Approval of disbursement of funds will be made by the AID Representative, upon consultation with REDSO/ESA as necessary.

Prior to the disbursement of each tranche of funds, the PRIME Joint Committee will review and discuss the progress made or problems encountered in the policy reform program, in the use of local currency, and in the performance of the technical assistance component. The evaluation will provide the basis for determining subsequent disbursements of funds. It will also provide an opportunity to make necessary adjustments or correct any mistakes made during the design or implementation of the program.

D. Financing and Disbursement Mechanisms

When disbursal has been approved, the program funds will be deposited in the Central Bank with approximately 65% of the proposed $10 million transferred to the Rwandan Development Bank and the remaining funds used for budget support. Funds will be released in tranches according to the schedule set forth in Section IV.E above.

1. Rwandan Development Bank

The approximately $6.5 million to be transferred to the Rwandan Development Bank will help finance their program of credit to small and medium enterprises and the Equity Participation Fund. For this purpose, funds transferred by AID to the Central Bank for further on-lending to the Development Bank will be under terms and conditions which govern normal lending procedures of the Central Bank and which have been operational in previous Central Bank loans to the Development Bank. It is presumed, and will be so stated as a covenant in the AID Program Grant Agreement, that the loan to the Development Bank will constitute a long-term line of credit, renewable each year under terms and conditions in effect at the Central Bank at the time of the renewal.

2. Budget Support

The funds permitted to be used for budget support (approximately $3.5 million) will be transferred to the Central Bank when it has been determined that the criteria for disbursement and release of the individual tranches of funds have been met.

E. Implementation Documentation

It is proposed that two agreements be negotiated and signed with the Government of Rwanda. A Program Grant Agreement will outline the economic policy reform component of the program. This agreement will describe the policy measures to be undertaken by the Government and the evaluation benchmarks which will trigger the release of funds.

Pursuant to the Program Grant Agreement, Implementation Letters wil be issued, as necessary, providing clarification and supplementary implementation details to the Government on the policy reform component o the program. Implementation Letters will also be used to inform the Government that the policy reform program has met its intermediate and fir conditions and that funds are to be released to the Central Bank per the terms of the Program Grant Agreement.

A second agreement will detail the technical assistance component o the program, including experts to be recruited for the studies, the participant training to be financed, the commodities (office equipment, computers, vehicles, etc.) to be procured, and local cost support.

F. Implementation Schedule

The program implementation schedule below assumes that the PAAD will be authorized by AID/Washington in August 1985.

Action	Month/Year
Grant Agreement negotiated and signed	September 1985
Terms of reference for industrial incentives study agreed upon and approved by the GOR	September 1985
Recruitment for technical assistance begins	September 1985
Request for technical assistance for the industrial incentives study issued	October 1985
Confirmation of repeal of local currency deposit requirement for SMEs made	October 1985
Measures for increased access to the Guarantee Fund prepared	October 1985
Progress report submitted and approved for disbursement of 1st tranche of funds	October 1985
Plan for the use of local currency from the 1st tranche of funds prepared	October 1985

Disbursement of local currency begins	December 1985
Recruitment for technical assistance for studies and other procurement begins	December 1985
Industrial incentives study team arrives	December 1985
OAR/R Program Manager begins three-year assignment	January 1986
Measures for improving the management of the the Guarantee Fund in effect and functioning	January 1986
Relaxation of the reporting procedures required under the <u>homologation des prix</u> begins	January 1986
Review of performance in allocation and disbursement of local currency	May 1986
Promulgation of a revised Investment Code which gives preferential treatment to SMEs	August 1986
Progress report submitted and approved for disbursement of 2nd tranche of funds	August 1986
Review of performance in allocation and disbursement of local currency	June 1987
Tentative policy recommendations from the industrial incentives study reviewed with the GOR	September 1987
Expressed intention shown by the GOR to implement a significant number of the recommendations proposed by the industrial incentives study	October 1987
Conditions precedent satisified for disbursement of 3rd tranche of funds	November 1967
Industrial incentives study completed	January 1988
End-of-Program evaluation	September 1988

G. Procurement of Technical Assistance Services

Project Implementation Orders (PIO's) will be issued pursuant to the Project Grant Agreement for Technical Assistance nominating AID as authorized agent to procure technical services, commodities and training. In view of the fact that the program will be buying into two on-going, centrally-funded projects, contracting for technical assistance will be AID-direct rather than host country. Except for waivers which will be requested for vehicle procurement, expenditures under the technical assistance component of the program will be tied to AID Geographic Code 941, including host country, procurement. Funds for staff support to the Development Bank will be released pursuant to an Implementation Letter to be issued by AID and agreed to by the Government.

H. Monitoring and Reporting

The Ministry of Finance and Economy, chairing the GOR Inter-Agency Policy Committee, will be responsible for (1) review and preparation of periodic reports on the progress (or problems) of the policy reforms, the allocation and use of funds provided by the program, and the technical assistance component of the program; (2) policy discussions with AID; and (3) general program monitoring. The Development Bank will agree to maintain financial records of expenditures made under this grant for three years and will agree to AID inspection of such records during that period. More specific reporting requirements on both the policy reforms and the use of funds by the Development Bank may be outlined in the Program Grant Agreement and/or Implementation Letters subsequently issued.

Reporting requirements for the technical advisors and consultants will be detailed in the technical services contracts to be negotiated.

I. Evaluation Plan

Internal evaluations by the PRIME Joint Committee have been discussed in Section C. above. In addition, an end-of-program evaluation is scheduled for September 1988, or about 10 months following the anticipated disbursement of the last tranche of funds. The evaluation will assess the contributions of the program to the goal of expanding production and employment in the small and medium enterprise sub-sector. To the extent possible, the evaluation will also identify any direct effects of policy changes on production and employment generation in the manufacturing sector in particular and on Rwanda's economic development in general.

J. Environmental Considerations - Rationale for Categorical Exclusion

Given the nature of this Program Grant, approval is requested for a Categorical Exclusion. The activity meets the following criteria for this exclusion:

Section 216.2(c)(2)(i) and (iii) - exclusions with respect to technical assistance and for analyses and studies; and

Section 216.2(c)(2)(vi) - an exclusion for contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects.

The Initial Environmental Examination or Categorical Exclusion is attached as Annex D.

VI. CONDITIONS AND COVENANTS

In addition to the standard conditions precedent (legal opinion, specimen signatures, and designation of authorized representatives), the following conditions precedent and covenants will in substance be included in the Program Grant Agreement.

A. Conditions Precedent to Initial Dollar Disbursement

Prior to the disbursement of the first tranche of U.S. dollars under the Grant, the Grantee shall, except as the Parties may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D. evidence that the Grantee has carried out the following:

(1) Prepared an action plan which specifies new administrative and review procedures for access to the Guarantee Fund, especially by small and medium enterprises;

(2) Determined whether or not continuation of the local currency deposit requirement (imposed in March 1983) is justified for the remaining categories of goods now subject to it; if the requirement is no longer justified, affirmed that it will be repealed;

(3) Approved the terms of reference for the industrial incentives study, assigned Rwandan counterparts to participate in undertaking the study and defined their respective responsibilities; and

(4) In collaboration with A.I.D., defined responsibilities for management of the PRIME program.

B. Conditions Precedent to Subsequent Dollar Disbursements

(1) Prior to the disbursement of the second tranche of U.S. dollars under the Grant, the Grantee shall, except as the Parties may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D. evidence that the Grantee has carried out the following:

(a) Promulgated a revised Investment Code which gives preferential treatment to small and medium enterprises and offers the broadest possible access to the Code's benefits for such enterprises;

(b) Adopted and applied improved administrative and review procedures to facilitate access to the Guarantee Fund;

(c) Repealed the requirement for the prior approval of prices and eased the reporting procedures for small enterprises;

(d) Evidenced satisfactory progress in undertaking the industrial incentives study; and

(e) Evidenced continued satisfactory performance in the allocation and disbursement of program local currency.

(2) Prior to the disbursement of the third tranche of U.S. dollars under the Grant, the Grantee shall, except as the Parties may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D. evidence that the Grantee has carried out the following:

(a) Reviewed the tariff-related recommendations emanating from the industrial incentives study and adopted major recommendations; and

(b) Evidenced continued satisfactory performance in the allocation and disbursement of program local currency.

C. General Covenants

1. Continuance of Actions taken by the Grantee in Satisfaction of Conditions Precedent

The Grantee shall not in any way discontinue, reverse or otherwise impede any action it has taken in satisfaction of any condition precedent to initial or subsequent disbursements except as the Parties may otherwise agree in writing.

2. Special Account for Local Currency Disbursements

The Grantee will establish a Special Local Currency Account in the Rwandan National Bank and deposit therein currency of the Government of Rwanda in amounts equal to the dollar disbursements under the Grant at existing rates of exchange. Funds in the Special Local Currency Account may be used for purposes as will be mutually agreed upon by A.I.D. and the Grantee. In particular, it is understood that funds on-lent to the Rwandan Development Bank will constitute a long-term line of credit, renewable each year under the terms and conditions in effect at the National Bank at the time of renewal.

ANNEX A

REPUBLIQUE RWANDAISE

Kigali, le 15 JUIL. 1985

N° 1401/Fin 07.15/C

MINISTERE DES FINANCES ET DE L'ECONOMIE
DEPARTEMENT DES FINANCES
SECRETARIAT GENERAL
B.P. 158 Kigali

Son Excellence Monsieur l'Ambassadeur
des Etats-Unis d'Amérique
KIGALI

Réf. N°

Annexe :

Objet :

S/Couvert de Monsieur le Ministre des
Affaires Etrangères et de la Coopération
KIGALI

P.O.

RUKASHAZA Oswald
Secrétaire Général

Monsieur l'Ambassadeur,

Au cours de ces derniers mois, le personnel de l'USAID a travaillé avec les autorités rwandaises, essentiellement le Ministère des Finances et de l'Economie en vue d'élaborer un programme de soutien aux réformes économiques que le Gouvernement rwandais a l'intention de mettre en place. Ces réformes ont notamment pour objectif d'augmenter les investissements dans le secteur privé et comportent des mesures visant à favoriser l'accès au Code des Investissements aux petites et moyennes entreprises et aux coopératives locales, à améliorer la gestion du Fonds de Garantie afin de mobiliser davantage de crédits au profit des petites et moyennes industries et à modifier l'actuel système de marges bénéficiaires et les lois tarifaires en faveur de ce secteur.

Le Gouvernement rwandais et la mission de l'USAID ont évalué à un minimum de 10 millions de dollars des Etats-Unis la somme nécessaire pour renforcer le programme d'assistance de la Banque Rwandaise de Développement aux petites et moyenne entreprises et pour encourager les investissements dans le secteur privé au Rwanda, ainsi que pour soutenir à court terme le budget rwandais de développement en vue de compenser le manque à gagner dû à l'octroi des avantages du Code des Investissements et à la modification du régime tarifaire.

Le Gouvernement rwandais est également conscient qu'il pourrait s'avérer nécessaire d'approfondir certaines études en vue de déterminer les effets, sur son économie, des réform en cours ou celles à envisager dans l'avenir. Il est par ailleurs souhaitable que le personnel rwandais appelé à participer à la formulation et à la mise en application de ces réformes puisse bénéficier d'une formation appropriée dans le cadre de stages, conférences ou séminaires organisés à cet effet. Nous souhaiterions par conséquent que si le besoin s'en fait sentir, une telle assistance soit envisageable et qu'une allocation supplémentaire puisse être ajoutée au montant de 10 millions de dollars requis dans le cadre du programme de réforme, comme souligné plus haut.

Vous me permettrez, Monsieur l'Ambassadeur, de saisir cette occasion pour vous exprimer les remerciements du Gouvernement rwandais pour le soutien du Gouvernement américain à l'effort de développement de notre pays en général et particulièrement dans le cadre du programme de relance et de redressement de l'économie nationale.

Veuillez agréer, Monsieur l'Ambassadeur, l'expression de ma haute considération.

Le Ministre des Finances
et de l'Economie
HATEGEKIMANA J. Damascène.-

REPUBLIQUE ...
DEPARTEMENT OF ...
MINISTERE DES FINANCES ...

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ANNEX B

MACROECONOMIC ANALYSIS

1. Major macroeconomic factors and the principal areas of reform.

The course of the Rwandan economy is largely determined by four factors, two domestic, two foreign:

--domestic agricultural production,
--domestic government activities,

--international coffee, tea, tin, and energy markets, and
-foreign assistance programs.

The net effect of these, and of the many lesser factors at work since 1962, has been a modest rise in individual welfare in Rwanda. The trend was interrupted in the early 1980s by an economic crisis. After surmounting that crisis, the GOR undertook an array of economic policy reforms; and U.S. A.I.D. proposes to assist with those economic reforms in four areas of government activities:

--to shrink the role of parastatals,
-to promote small and medium private enterprises (SMEs),

--to rationalize the foreign trade regime and, eventually, the tax system, and

--to reduce price controls.

2. Trends before the 1981-83 Crisis Period

Low, gradually rising output per person. Among World Bank members, Rwanda ranked twelfth from the bottom in 1982, with a per capita GNP of $260 (the same as India, ranked 11th). The consequences of low output per person appear in Rwandan life expectancy and caloric intake. In 1982, Rwandan life expectancy at birth was 46 years (much below India's 55). Only 11 countries (mostly Sahelian) ranked lower. The Food and Agricultural Organization estimated Rwandans' 1981 per capita caloric intake as fifteenth from the bottom among World Bank members (ahead of India in a tie for 11th).

These conditions prevailed even though, between 1960 and 1982, Rwandans averaged a per capita GNP growth rate of 1.7 percent a year.

Persistent concentration in agriculture. At 91 percent, Rwanda had a larger portion of its 1980 labor force employed in agriculture than any other country in the world except Niger, Nepal, and Bhutan. In 1982, 5 percent of Rwandans lived in urban areas. Only Burundi and Bhutan reported smaller urban shares. As a result of the concentration of Rwandans in agriculture, the country is distinctive in the low level of its cereal imports and in the small quantity of its food aid. But to be meaningful, this distinctiveness requires comparisons with other countries.

The seven southern African countries of comparison. Preceding paragraphs compared Rwanda with the rest of the world. In the following paragraphs, Rwanda is compared with seven neighboring countries with similar climates and resources, and without extended civil wars during the past decade. The seven are Zaire, Malawi, Burundi, Tanzania, Madagascar, Kenya, and Zambia. The Statistical Annex includes tables in which detailed comparisons are made among the eight nations. In each table, the eight are listed in ascending order of 1982 per capita GNP, with Rwanda third lowest.

Independence from grain imports and from food aid. Among the eight, Rwanda had the smallest per capita cereal imports in 1974 (under 1 kilo) and in 1982 (under 4 kilos). Of the other seven, only Burundi was under 10 kilos in 1982. Excepting Malawi, Rwanda's cereal food aid was the lowest (2.1 kilos per capita) of the eight in 1981-82. (Statistical Annex Table 1, SA-Table 1, presents the details). While output per Rwandan has been rising for twenty years, caloric intake remains low. However, the nation remains largely self sufficient in food.

Rising position among the countries of comparison. Rwanda's 1.7 percent growth rate in per capita GNP, 1960-82, ranks a poor fifth among the eight nations (SA Table 2). But that inferior position is due to poor performance during the 1960s. During the 1970s and into the 1980s, Rwanda's relative position has been lifted by its superior economic performance. Among the eight (as SA Tables 2-4 show):

--Rwanda achieved the second highest 1970-82 growth rate in GDP (5.9% per year),

--only Rwanda increased its GDP growth rate, a doubling between 1960-70 and 1970-82 (Malawi held roughly constant),

--only Rwanda increased (by 5%) its food production per capita between 1969-71 and 1980-82,

--between 1970 and 1982, the real volume of both imports and exports fell for most of the other seven; real volumes of both increased for Rwanda,

--during the more recent period, 1976-82, Rwanda's GNP per capita rose from eighth to sixth among the comparison nations. More significant, during those years, Rwanda substantially improved its position relative to six of the seven (against all but Burundi).

This list of economic comparisons suggests that Rwandans have followed economic policies that have set the nation apart from its neighbors and that provide a solid foundation for the present economic reform program.

Narrow concentration in merchandise trade. During 1982-84, coffee, tea, and tin provided over 90% of Rwanda's export revenue. Coffee alone provided 65%. Taken together, the five minor export product groups, wolfram, pyrethrum, cinchona, hides and skins, and fruits and vegetables have fallen in importance during the 1980s. Among the five, only fruits and vegetables have grown in importance, to some two percent of export revenue. Hides and skins held constant at about two percent each year. But wolfram is down from above six percent of the total in 1978 to under two percent recently. Cinchona is down from almost three percent in 1978 and 1980, to nearly zero; and pyrethrum is down from 1.5 percent in 1980 to very little in 1983-84.

Imports are much more diverse than are exports, but petroleum's share of F.O.B. import value (near 24 percent in 1984) has doubled since 1980 and has almost tripled since 1978. Because Rwanda is nearly 1,000 road miles from a port and almost a mile above sea level, transportation costs are high. Delivery from Mombasa to Rwanda is roughly equivalent to delivery from Houston to Casper, Wyoming --except that the roads to Rwanda are much harder on trucks. Consequently, C.I.F. costs run over 25 percent of F.O.B. import values, in contrast with the 9.5 percent average the IMF uses. Because Rwandan farm families use almost no fertilizer (see SA-Table 3), or pesticides, or machinery, agricultural inputs are insignificant among imports.

Merchandise imports rose abruptly in 1978 to above 16 percent of GDP then held near 16 percent through 1981. They were lifted first by use of the revenue generated by the 60 percent surge in coffee prices between 1976 and 1977. They remained high because coffee prices remained high enough to offset a sharp dip in export volume in 1980 and because the trade weighted index of the exchange rate appreciated 21 percent between the 1980-81 midyears and 11 percent between 1981-82 midyears.

Relatively low trade volume. From a high above 19 percent of GDP in 1979, merchandise exports have dropped to within the normal range of 7-9 percent during 1981-84. Similarly, merchandise imports are down from the 16 percent range to a more normal 12 percent during 1983-84. In both of the normal years, 1976 and 1982, among the eight comparison countries, Rwanda and Burundi ranked lowest in per capita exports (SA-Table 4).

Large foreign assistance. Somewhat irregular from year to year, unrequited transfers and concessional loans have equalled two-thirds of merchandise imports during 1981-84. Dipping to $80 m in 1980, unrequited transfers have held near or just above $ 100 m a year in 1979, 1982, 1983 and 1984 (involving a drop in real value between 1979 and 1984). Concessional loans ranged between $23 and $26m a year during 1980-1983. West Germany, the ECC, Belgium, and the World Bank provide the most assistance; while France, The United States, and Arab funds are also large donors.

Commendable economic policies. Throughout the 1970s, Rwanda maintained commendable economic policies. Prominent among these were:

--balanced central government budgets,

--public administration and defense at a consistently small percent of GDP: 8,4% in 1972, 8.3% in 1979,

--before 1976, only six manufacturing parastatals,

--over 90% of food crop marketing through private firms,

--for Africa, minimal price controls, with major exceptions being control of interest rates and of producer coffee prices,

a fairly open trade regime,

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a realistic exchange rate, tied to and floating with the U.S. dollar after 5 Sept 74, and

--little government borrowing from abroad except on concessional terms from donors and multilateral agencies.

The beneficial effects of these policies are reflected in the favorable economic comparisons cited above between Rwanda and the seven other countries of comparison.

Problems growing during the 1970s. Two kinds of problems grew during the 1970s as threats to economic development beyond the modest base then being established. The first problem was growth of the farm population coupled with inheritance customs bringing persistent decline in the size of farms. Although productivity per hectare may have risen as much as a half percent a year, 1966-83, declining farm size was --and remains-- a threat to per capita output.

The second problem that grew during the 1970s involved an accumulation of new policies and programs, each intended to promote development but, in practice , threatening to slow it. Three areas were affected:

--parastatals: in the mid - 70s two marketing-storage parastatals were created; of 22 industrial projects completed during 1977-81, 13 were fully or in the majority publicly owned,

--the competitive position of small and medium enterprises (SMEs) was eroded after 1977 by government efforts to promote manufacturing with tax exemptions, credit provision exemptions from tariff law, and protective import prohibitions that benefited only large firms, parastatal and private;

--prices as guides to efficient resource use :while interest ceilings were raised in 1979 to promote saving, prices of agricultural exports were kept independent of world price movements and generally below world prices.

3. The Crisis Period: 1981-83

The years 1981-83 brought about an economic crisis with unprecedented deficits in both central government budgets and the balance of payments. The immediate causes were surges in government spending and in imports at the same time that coffee, tea, and tin prices fell and petroleum prices jumped. Prior causes were higher imports induced by the tripling of world coffee prices, in 1975-77, and the tying of the franc to the U.S. dollar while the dollar's value rose, in 1980-83. In addition, the increase in the number of subsidized parastatals and the bias against small private firms inhibited growth.

Prior causes. During 1960-75, world coffee prices moved roughly in line with world inflation. But between 1975 and 1977, they tripled (SA Table 5). They fell back in 1978 but held at double their 1975 levels through 1980. Adding to export revenues, coffee exports doubled in quantity between 1977/78 and 1979, fell to near the 1977 level in 1980 and rose 50 percent in 1981. Rwanda's foreign exchange reserves were lifted from 58m SDRs in 1978 to 132m SDRs in 1980 and 142m SDRs in 1981. But the surge in fiscal and in foreign exchange revenue proved an irresistible incentive to raise imports and

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government spending.

The incentive to import rose each year after 1980 as the dollar-tied franc appreciated. Begun in January 1974, tying had the commendable intent of floating the franc with the dollar against all other currencies. The tied rate of 92.84 francs to the dollar was, and through the 1970s remained, close to the market equilibrium. But less than five percent of Rwandan merchandise imports have been from the United States: half have come from Europe. When the dollar began its rapid appreciation after 1980, the franc was carried along, pari passu. Earlier, the rise in coffee revenue had added to the supply of foreign exchange and matched rising Rwandan demand. No immediate problem there, but then the appreciating franc-and-dollar provided a persistent fall franc cost of marks, lira, yen, and European francs. Since the central bank made dollars available at the 92.84 franc fixed price, all Rwandans who received import licenses faced an unlimited supply--a perfectly elastic supply--of dollars. This meant also a perfectly elastic supply of other foreign currencies. To prospective importers, the falling franc price of foreign currencies appeared to involve an increase in supply of foreign currencies. But outsiders were not providing any increase in supply. Instead, after 1982, the Central Bank drew down its foreign reserves to supply the increase in quantity demanded of foreign exchange; and imports remained at levels reached during the period of high export coffee prices and quantities.

Immediate causes. With coffee prices and the appreciating dollar as background, the immediate causes of the 1981-83 fiscal and foreign exchange crisis were:

--government initiatives, following relatively high coffee taxation receipts in 1977 and 1980, raising expenditures by:
- -a 20 percent general salary increase in September 1980,
- -establishment of a large Ministry of Education in 1981,
- -additional recruitment after 1980, and
- -subsidization of parastatals; and

--external changes after 1979
- -world coffee prices fell 32 percent between 1979 and 1981 and remained almost as low through 1983,
- -coffee export volume fell 17 percent between 1981 and 1982, 36 percent between 1979 and 1982,
- -between 1979 and 1983, wolfram exports fell 46 percent in volume, 44 percent in unit price, and 70 percent in value,
- -between 1979 and 1982, tin ore prices fell 21 percent and
- -between 1978 and 1980, petroleum prices almost doubled.

Economic consequences. The upward ratcheting of government expenditures (up 34 percent between 1980 and 1981), the volatility of Rwanda's foreign markets, and the appreciating franc-dollar exchange rate brought fiscal and balance of payments (BOP) deficits and a drop in foreign exchange reserves (SA Tables 6-8). The central government budget surplus equalling one percent of GDP in 1980 changed to deficits of 1.4 percent of GDP in 1980 and of 2.2 percent in 1982 and 1983 (all of these calculations exclude the GOR's concessional development borrowing running above 1.5 percent of GDP per year). The BOP was in surplus in every year, 1975 through 1981 inclusive, but was negative to a value equalling to 2.6 percent of GDP in 1982 and 1.0

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percent in 1983. As a result of the BOP deficit, gross official foreign exchange reserves fell from December 1980 value equalling 8.5 months of imports, c.i.f., to a March 1984 value equalling 4.8 months of imports.

4. Emergency Measures

To halt the drain on its reserves, Rwanda might have untied from the ascending dollar and tied to some European currency. Instead the GOR remained on the runaway horse and restricted merchandise imports by requiring, after February 1983, importers of many goods to place an interest-free 100 percent local currency deposit with the Central Bank at the time of receipt of an import licence. Goods covered included those with already high import duties and most goods competing with domestic production. Industrial inputs were not affected.

Price controls. To try to prevent the rise in prices the new import restrictions promised, the GOR required importers and domestic manufacturers to submit detailed breakdowns of their costs to justify initial prices on 1 March 1983 and to justify any subsequent price increases. The scheme revived a moribund 1967 law limiting profit margins to 15% net for manufacturers, importers and wholesalers and 25% for retailers. On preliminary analysis, the scheme, with a field inspection team of 19, appears to have had little affect on the rate of price increase. The GDP deflator rose from 5.7 percent for 1980 to 9.2 percent for 1982 then fell to 4.5 percent in 1984. The price control system does invite corruption. Perhaps more important, it imposes heavy labor obligations on firms that must supply data. Because of customary differences in record keeping and data manipulation, the burden of reporting falls relatively heavily on small and medium sized forms.

Consequence of the sum of policies. The 1983 initiatives (along with increased export revenue and foreign aid) cut the BOP deficit by more than half between 1982 and 1983. The fiscal deficit rose slightly between 1982 and 1983 . And the combination of new and old government policies created a melange of distortions adversely affecting productive efficiency in at least six areas:

--parastatals: a dozen parastatals were using government to draw subsidies from farm families, i.e., the principal government revenues come from the agricultural sector (income and export taxes),

--SMEs: while large private and parastatal firms had access to preferential tariff, tax and credit terms and to protection from import competition, SMEs were generally denied those favors and were obliged to deal with the favored large firms; in addition, the price control system offered SMEs a new dilemma, either shoulder the burden of reporting and other compliance provisions or be denied access to tax and credit favors,

--import restrictions: the March 1983 import controls had cut imports but were added to a set of restrictions that had grown without an overall plan and whose actual effects were not known to anyone,

--price controls: in addition to their burden on SMEs, the cumulative efforts to control selling prices were a Canutian attempt to regulate a tide. While failing to control prices, the attempt provided incentives for wasteful evasion exercises. In agriculture, fixed prices for coffee exports were a moderately heavy tax on coffee growers; the nominal protection coefficient (i.e., the portion taken by government from "farm gate value" --world price less all transportation and transaction costs between farm gate and world markets) was 4 percent in 1980, a subsidy of 6 percent in 1981, and 21 percent in 1982 and 1983. Steady at 164.4 francs per kilo of washed coffee, 120 francs per kilo of unwashed coffee, this price fixing both severed the domestic price from movements in world prices and depressed production incentives.

--exchange rates: the dollar's appreciation had clearly overvalued the franc. On 6 Sept.83, the GOR devalued the franc by 5.2 percent and tied it to the SDR at 1SDR= 102.71 francs. This left the franc still overvalued but to what extent no agency and no person seems to know.

5. Recent Economic Developments

Table 1 shows recent changes in output of bananas, other food crops, coffee, and tea. No satisfactory weighting system is available to use to combine the several series into a single output series for agriculture. Presumably, " other food crops" is much the largest of the four with bananas perhaps half as large, coffee third, and tea a distant forth in value. In each year, 1979-81, one of the big three increased by at least 18 percent over the previous year. Until the 1984 drought, agricultural output continued to expand, as during the 1970s, faster than population. The Ministry of Agriculture estimated , as shown at the bottom of table 1, that the combined output of bananas and other food crops rose an average of four percent a year, 1979-83.

The 6.3 percent drop in output of other food crops, shown in Table 1 for 1983 was due almost entirely to a reported fall in casava and sweet potato output (vegetable production rose 10 percent) and is now being questioned.

Agriculture's share of GDP. The persistent pre-drought growth of agricultural output casts doubt on the IMF report of persistant rapid decline, 1979-84, in agriculture's share of GDP (see SA Table 10). Table 1 presents IMF estimates of real annual growth of GDP and of agriculture's share of GDP for 1979-84 inclusive. The IMF estimated a fall in agriculture's share of GDP from 37.8 percent in 1982 to 32.5 percent in 1984. The drought may account for that fall. But the IMF estimate of a fall in agriculture's share from 41.4 percent in 1979 to 37.8 percent in 1982 conflicts with the figures on growth of agricultural output. Either other sectors increased real output much above the 4.5 percent average growth rate of real GDP in those years, and agriculture grew slowly --

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or suffered severe relative price decline, or the IMF's GDP figures are both too pessimistic about agriculture and too optimistic about rate of economic development in other sectors.

Table 1: Yearly Growth in Major crop Outputs, Percentage Change in Real GDP, Agriculture as a Percent of GDP, 1979-84.

Year	Yearly percentage Change in quantity: Bananas	Other food crops	Coffee	Tea	IMF Figures: Change in real GDP	Agriculture as a percent of GDP
1979	4.7[g]	20.0[g]	-15.8[g]	-	4.3[g]	47.4[g]
1980	2.0[g]	0.2[g]	18.8[c]	16.3[b]	4.9[b]	45.8[b]
1981	12.5[a]	4.0[a]	26.3[c]	3.3[b]	4.7[b]	39.8[b]
1982	2.4[a]	6.8[a]	-6.7[c]	4.2[b]	4.0[b]	31.8[b]
1983	-0.1[d]	-6.3[d]	15.1[c]	4.9[b]	3.5[b]	35.3[b]
1984	-16.1[f]	-16.6[f]	6.9[f]		2.9[b]	32.5[b]
1979-83	4.0[e]					

Sources: [a] IMF, "RECENT ECONOMIC DEVELOPMENTS ", Sept 1984, p6.
[b] Ibid, p3 , 1983 provisional, 1982 estimate.
[c] Ibid, p.10
[d] Calculated from, G. Delepierre, "Evolution de la Production Vivriéres et les Besoins d'Intensification"., Ministère de l'Agriculture, de l'Elevage et des forets memos, 17 juin 1985, pp 2-4.
[e] Ibid, p.5.
[f] Service des Enquetes Agricoles Rwandais, "Premiers Resultats Bruts et Provisoires de la Phase Réelle de l'Enquete Nationale Agricole " Ministère de l'Agriculture , memos, May 1985, no pagination, table, "Production des Principales Cultures Vivrières."
[g] IMF", Recent Economic Developments", Sep. 1983 , pp 3, 5, 7, Banque Nationale du Rwanda, Bulletin No 10, April 1984, p 51.

Crop growth slightly exceeding population growth . The central point here is that, before the drought, growth of agricultural output was keeping a little ahead of population growth. Table 2 ranks food crops in order of importance as contributors to Rwandans' caloric intake. The first column presents the Agriculture Ministry's estimates of the share of calories provided by crops (as distinct from animals) to the population by each crop. Because of differences among regions in soil and climate, diets differ among regions; so column one does not portray the diet of any one regions' typical family. Table 2 goes on to show average annual growth rates, 1966-83, 1966-73, and 1974-83, in output, productivity, and acreage by crop as estimated by the Ministry of Agriculture in the spring of 1985. Although estimated separately, the productivity and area figures ought together to account for the quantity - change figures for each crop. In most -- but not all -- cases they do. The six "major" crops are sweet potatoes, beans, bananas, sorghum, maize, and manioc. Each accounts for above 8 percent of caloric intake from crops. During the earlier period, 1966-73, sweet potatoes, maize, and manioc output grew most rapidly. During the most recent period, 1974-83, maize output grew little , bean output grew almost 7 percent and each of the others grew about 5 percent a year. Sweet potatoes productivity per hectare grew signicantly during the earlier period while productivity of each of the other crops fell. During the later period, maize and sorghum productivity grew modestly while productivity in the other major crops changed little. For the entire period, 1966-83, productivity per hectare edged up, on average, each year. The area planted to the eleven crops, listed in Table 2, grew on average above 3.5 percent a year. The differences among crops and between time periods in productivity, area, and output growth figures suggest that farm families are adjusting their efforts to variables not identified here. Future growth in output will depend in part upon learning the role of those variables. The recent agricultural and household surveys have collected much of the relevant information. But the analysis of that data must be undertaken before it can serve to guide policy changes. In the meantime, the five-million-plus farming Rwandans, divided among some one million farms in 1985, are clearly approaching the limit of possible expansion of cultivated acreage. One indication of the approach to that limit may be the drop in rate of growth of food crop output from well above 5 percent during 1974-79 to only 4 percent during 1979-83.

Table 2: Growth of Agriculture Output, Productivity, and Acreage, 1966-73, 1974-83, and 1966-83 and Breakdown of Protein Source by Food Crop

Food	Protein Source (Percent)	Average Annual percentage change b 1966-83 Qn'ty	Prod'ty	Area	1966-73 Qn't	Prod'ty	Area	1974-83 Qn'ty	Prod'ty	Area
Sweet potato	20	9.1	1.6	6.6	12.6	3.1	13.0	5.6	.1	.3
Beans	20	3.8	-.6	4.5	.8	-1.5	3.5	6.8	.3	5.5
Bananas	19	2.9	-1.6	4.6	-1.4	-3.9	5.5	4.4	.7	3.7
Sorghum	17	2.6	0	2.0	.4	1.4	.4	4.8	1.4	3.6
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Maize	9	5.2	.2	3.7	9.0	-1.8	7.2	.9	2.2	.2
Manioc	8	6.0	.2	4.7	7.0	-.2	4.2	5.0	0	5.2
Irish potato	4	7.8	.4	-7.4	7.2	.6	14.3	8.4	.2	.5
Peas	1	-3.2	-.1	-2.4	1.2	1.2	1.6	-7.6	-1.4	6.5
Peanuts	1	6.2	.3	4.2	11.0	-1.0	3.8	.7	1.6	4.6
Soybeans	.4	45.2	.9	31.9	75.0	1.7	62.0	14.7	.1	.9
Wheat	.2	9.3	-.3	9.8	18.0	.3	19.6	-.1	0	0
Total		4.3	0.6	3.7	3.7	-.6	4.3	4.9	1.8	3.1

A. Source: **Services des Enquetes Agricoles Rwandais, "Premiers Resultats Bruts et Provisoires de la Phase Réelle de l'Enquete Nationale Agricole," Ministère de l'Agriculture, mines, May 1985, no pagination, table, 'Production des Principales Cultures Vivrières."**

B. Source: **Calculated from G. Delepierre, "Evaluation de la Production Vivrière et les Besoins d'Intensification", Ministère de l'Agriculture, de l'Elevage et des Forets, mines, 17 juin 1985, pp.5,11, and 15.**

Coffee exports. Table 3 shows coffee export revenues flat at 58 m SDRs equivalent in 1981 and 62m SDRs in 1982 then rising to 75 m SDRs in 1983 and to 78 m SDRs in 1984. As Table 3 also shows, the increases in value have been based partly on increases in world prices and partly on

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increases in efforts. Though Rwanda's producer price tend to draw in coffee from Uganda and Burundi, most export growth follows from increased production. Between 1981 and 1983, total coffee acreage increased almost 25 percent, mainly because of the IBRD-assisted Kivu Coffee Project which now accounts for 25 percent of coffee acrage and 40 percent of production. Since 1977, the price paid growers has remained fixed at 164.4 francs per kilo although the Kigali consumer price index almost doubled between 1977 and 1984.

Table 3: Coffee Export Values and Quantities and World Coffee Prices, 1981-85

Year	Export Values (Million SDRs)	Export quantity (Million metric tons)	New York Prices (Cents per Pound)
1981	57.9	30.0	115.8
1982	61.9	25.1	125.6
1983	75.0	31.6	127.9
1984	78.5	30.0	141.2
1985 (May)		31.0 est.	144.0

Sources: **"IMF, Recent Economic Developments", August 1984, p. 84; Statistical Annex, Table 5, and Rwandan Ministry of Finance.**

Tea exports. Table 4 shows tea export revenues rising from 0.9 billion francs in 1981 to 1.0 billion francs in 1984. Table 4 shows the basis of that growth in increased volume and rising prices (and the 1983 devaluation). Tea acreage rose from 1,600 ha in 1970 to 7,800 in 1981. Since tea bushes require three years to start bearing and eight years to bear a full crop, production would continue to expand for some years to come even if no new acres were planted. Tea prices have fluctuated widely during the past 18 months as India twice imposed restrictions on exports and twice removed them. The recent fall in price has returned that incentive (which is not controlled by the government) back near the levels of the early eighties.

Table 4: Tea Export Values and Quantities and World Tea Prices, 1981-85.

Year	Export values (billion francs)	Export quantity (1,000 metric tons)	London prices (cents per pound)
1981	.9	6.7	91.0
1982	1.0	6.7	89.9
1983	1.4	6.7	105.2
1984	2.2	7.6	156.2
1985 (May)			109.7

Source: **Statistical Annex, Tables 11 and 12.**

Tin exports. Subject to large price fluctuations, tin exports began in 1982 at 817 tons then rose to 1,155 tons in 1983 as prices rose 37 percent. Between 1983 and 1984, prices fell five percent as exports held level.

Foreign assistance. With dips in 1980 and 1981 and a peak in 1983, unrequited transfers have fluctuated around 100 m SDRs a year while falling persistently as a percent of GDP. Table 5.

Table 5: Unrequited Transfers and Public Sector Gross Capital (almost entirely concessional borrowing) Inflows, 1979-84, in SDRs and as a Percent of GDP, and as a Percent of Merchandise Imports.

Year	Unrequited transfers			Gross public sect. inflows			GDP
	In SDRs (millions)	As a % of GDP	As a % of Imports	In SDRs (millions	As a % of GDP	As a % of Imports	In SDRs (millions)
1979	101.2	12.5	82.0	14.1	1.7	11.4	814
1980	80.1	9.0	53.3	25.3	2.8	16.8	893
1981	87.1	7.8	49.6	26.1	2.4	15.2	1,117
1982	99.5	7.4	51.2	22.9	1.7	11.8	1,346
1983	108.4	7.3	59.6	27.2	1.8	15.0	1,482
1984	96.3	6.0	51.0	40.5	2.5	20.8	1,600

Source: **IMF, Recent Economic Developments, Aug. 84, p. 48, reproduced below as SA Table 7, and Ministry of Finance mimeo of 1984 BOP statistics, June 1985.**

Table 5 shows these movements and also shows that, as a percent of merchandise imports, unrequited transfers dropped sharply from above 80 percent in 1984 to near 50 percent during 1981-83 before falling back to 51 percent in 1984. Between 1980 and 1983, gross public sector capital inflows (almost entirely concessional borrowing) ranged between 23 and 27 m SDRs. As a percent of GDP, these inflows have ranged between 1.7 and 2.8. These capital imports paid for 15-16 percent of merchandise imports, 1980-1983 inclusive, but for above 20 percent in 1984.

Table 6: The Balance of Payment and its components, 1980-84 and the August 1984 IMF Estimates for 1984.

(in billions of francs)

	1980	1981	1982	1983	1984 IMF est	1984 actual
Exports, f.o.b	12.4	10.5	10.1	11.7	12.8	14.3
Imports, f.o.b	-18.1	-19.2	19.9	18.6	-19.6	-19.8
Trade balance	-5.8	8.1	-9.9	-6.9	-6.8	-5.5
Service balance	-8.4	-1.0	-8.4	-8.8	-9.3	-8.7
transfers	9.1	9.5	10.2	11.1	10.5	10.1
Current account balance	-4.4	-6.2	-8.0	4.6	-5.6	-4.1
Gross public sector capital	3.1	2.9	2.4	2.8	3.3	4.2
Capital balance	6.5	6.1	4.7	2.9	3.8	5.6
Overall balance	1.2	0.0	4.1	-1.8	-1.9	1.5
As % of GDP:	1.1%	0.1%	2.9%	-1.2%	-1.1%	-0.9%

Source: **IMF, "Recent Economic Developments", Aug. 1984, pp.47-48, and Ministry of Finance mimeo of 1984, "BOP Statistics", June 1985.**

<u>The balance of payments</u>. Table 6 shows the movement of the balance of payments from surplus in 1980 to balance in 1981, to deficit in 1982 and 1983, and back to surplus in 1984. The individual accounts in 1984 were much like those the preceding year and were much like the IMF August 1984 estimates for the full year, 1984, with two big exceptions, both in favor of a Rwandan surplus. One big change was a 22 percent increase, 1983-84, in merchandise export revenue, surpassing the IMF forecast by almost 12 percent. The other big change was the 50 percent increase in the gross public sector capital inflow, surpassing the IMF forecast by 21 percent. Instead of the projected BOP deficit of 1.1 percent, Rwanda ended 1984 with a BOP surplus of 0.9 percent of GDP —and with 50 percent more concessional public borrowing than during 1983.

6. Medium Term Prospects

In agriculture, no major technological changes are in prospect for any of Rwanda's crops. The drought extended production into low lying wetlands where normal rainfall may rot crops. Since neither productivity nor acreage can be much extended in the near future, farm families will be hard pressed to keep output up with population growth of 3.5 percent per year.

<u>Export prices</u>. The World Bank's September 1984 "Price Prospects for Major Primary Commodities" predicts that over the decade 1985-95, the average real prices of coffee, tea, and tin will tend toward constancy in terms of costs of manufactured goods (volume II, pp. 23 and 59 , reproduced below as SA Tables 13-14, and volume IV, p.7).
Since Rwanda is clearly Lilliputian in Brobdignagian markets, what she does cannot affect prices in those markets. In 1987, negotiations begin on a new coffee agreement to take effect in 1989. Rwanda's quota has been increased during each previous round of negotiations and she can hope for another substantial increase like the 33 percent increase of 1977 and the 15% percent increase of 1983.

Therefore, the import purchasing power of Rwandan exports may be held constant by prospective price movements. Quantity growth may increase real revenues from the big three export commodities. But the increase may not exceed the rate of population growth.

<u>Foreign Assistance</u>. In 1984, the IMF projected growth of net unrequited transfers from 10.5 b francs in 1983 to 11 b in 1985, 11.5 billion in 1986 and leveling off at 12 billion francs for 1987-89. If realized, the rate of those increases (2.1% year) will be but one third the rate of increase in merchandise imports (a projected 7 percent a year).

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Foreign debt. Debt amortization will almost double from 660m francs in 1985 to 1,217m in 1988 and to 1,269m in 1989, according to the August 1984 IMF forecast. But even in 1988 and 1989 this amortization is predicted to be under 8 percent of merchandise exports. The IBRD's 1984 World Debt Tables predicted total date service ratios of 15 percent in 1987 and 16 percent in 1988 (see SA Table 15).

BOP. If all of the IMF's August 1984 predictions were realized (see SA Table 16), Rwanda's BOP deficits would run:

1984	- 1.9b francs	1987	-2.9b francs
1985	- 1.9b	1988	-3.9b
1986	- 2.5b	1989	-5.2

The actual 1984 BOP surplus of 1.5b francs raises doubts about the rest of the IMF projections for Rwanda. But the tendency toward deficits growing with time may exist.

Fiscal. After the upward ratchet on expenditures in 1980-81, the GOR continues to operate with deficits running above two percent of GDP. The GOR is trying to keep down taxes on agriculture and on manufacturing in order to expand the tax base. Eventually, an expanded tax base will raise total revenue from current rates. In the meantime, rates are held down, expenditures are constrained, and fiscal deficits continue.

7. The Rwandan Governments' Economic Reform Program

As noted above, the GOR began, after weathering the 1981-83 crisis period, an economic reform program encompassing a variety of measures. Part of the program has been implemented. Part is close to being implemented. But part depends upon the outcome of studies not completed or, even, not yet begun. Some of the latter studies involve very important areas of trade and of industry where the GOR is convinced problems exist but where it is postponing "reforms" until it has enough information to be able to distinguish between genuine reforms and changes making matters worse. The reform program, in both its precise and its inchoate parts, is summarized as follows.

Respecting parastatals. The GOR has already introduced several reforms:

No new parastatals have been created since the match company (Usine d'Allumettes) was formed in 1980 (RWAKINA's cinchona processing plant, closed after eight weeks of unsuccessful operations in 1983, is the exception.)

In January 1984, the GOR ordered an end to overt subsidies to parastatals.

Apparently, overt subsidies have stopped. But while this reform has lifted a burden from the treasury, it has imposed on the Banque Rwandaise de Developpement an increased credit demand that threatens to crowd out private borrowers (for base figures, see SA Table 17). With EEC support, the GOR is examining the operation and prospects of the parastatals with a view to selling all or shares of some of them (including commercial components of integrated agricultural projects being turned over to the GOR by donors) to private buyers.

Respecting SMEs. The GOR is in the process of changing a number of programs to provide much improved incentives for SMEs.

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-- The GOR is to undertake an extensive study to determine the incentive and disincentive effects of the existing tax and tariff system and to determine the extent to which it descriminates among large, medium, and small enterprises.

-- The legislature is now considering a proposed revision of the Investment Code, with changes that would admit SMEs to the tax, tariff, and protection benefits--- perhaps on a preferential basis-- that are now extended to large manufacturing firms.

-- The GOR is now revising procedures for access to the Guarantee Fund, first, to make it operational, after a moribund decade, and second, to make its protection available to SMEs applying to the BRD and to commercial banks for long term credit.

-- The GOR is revising BRD procedures so that a larger share of its lending will go to SMEs. Starting in 1985, expansion of the SME portfolio (begun in 1982) is being reinforced with the establishment of rural bank branches.

-- The GOR is concerned that while IDA assistance provides the foreign exchange used by the BRD for onlending, no donors have contributed to the local currency resources of the BRD.-- The GOR is therefore seeking local currency assistance to add to the BRD's ability to lend to SMEs.

-- The GOR is to reduce the cumbersome administrative procedures that now govern licensing of new firms.

-- Finally, on behalf of SMEs, the GOR is soliciting help in analyzing the results of the recent household and agricultural surveys to the end that enough information should be made available so policy decisions can effectively support entrepreneurs.

<u>Respecting the foreign trade regime</u>. The GOR is committed to reductions in trade restrictions and to trade policies promoting efficiency and development. Already:

-- most of the import restrictions, imposed 1 March 1983, have been removed,

-- the franc was devalued 5.2 percent in 1983 (see SA Table 18).

The GOR next plans, with the assistance, as needed, of other agencies:

-- To investigate effective rates of protection accorded major firms,

-- To compare the official with parallel exchange rates to determine the extent, if any, of present overvaluation, and to determine an appropriate exchange rate policy for the near future, and

-- to investigate the extent to which present tariffs and trade restrictions discriminate against SMEs.

<u>Respecting price controls</u>. The GOR continues to express concern that markets will not work well in Rwanda if not elaborately policed. The GOR exhibits a continued fear that private merchants will be able to obtain and exercise monopolistic powers unless constrained by government. However,

some influential government figures fear that government constraints will do more to promote inefficiency than to promote equity, and these leaders are willing to experiment with reduced constraints and freer markets. Recently the GOR

import and

-- has lifted most of the/price controls imposed in March 1983 -- but new forms of price control have been discussed within the government,

-- has considered introducing flexibility into the present system of fixed coffee prices,

-- has continued a policy of flexibility that allows farm gate tea prices to fluctuate in response to changes in world tea prices.

Respecting monetary, fiscal, and debt practices, while the GOR is committed to fighting inflation to reducing the fiscal deficit, and to minimizing its borrowing, both the GOR's domestic and its foreign (concessional) debt have been rising. In its effort to balance its budget, while promoting SMEs, the GOR

-- has allowed real levels of compensation to fall each year since 1981 for all government employee groups,

-- has cut budgetary expenditure from 13.7% of GDP in 1981 to below 13% of GDP in 1984 (and has accepted a fall in revenue from 12.3% of GDP in 1980-81 to below 11% in 1983-84).

8. Reform Assistance from Outside Agencies.

Lacking both data and information about the effects of current policies, but unable to implement relevant studies itself, the GOR may soon be helped

-- by an IMF investigation of the possibility the franc is overvalued,
-- by an EEC study, already underway, of parastatals,
-- by an IBRD two month investigation of current effective rates of protection for the products of the 20-25 largest Rwandan manufacturers,

-- by an analysis of the household budget survey, and
-- by an IBRD study, also underway, of tax management.

9. The U.S Role in assisting the GOR Economic Reform Program.

Regarding parastatals. The U.S. proposes to assist parastatal reforms by:

-- providing the BRD with an "Equity Fund" local currency account to be used to assist local entrepreneurs to pay for parastatal shares bought from the government,

assistance, in view of the fact

-- providing some technical / that divestiture steps impose extraordinary costs on government (e.g., to finance studies of terms, to administer sales, and to reassign and retrain some former parastatal staff).

Regarding SMEs. The U.S. proposes to assist reform of policies affecting SMEs by:

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-- financing a study of the effects on SMEs of existing taxes, tariffs and other production incentives,

-- financing an analysis of the household survey data,

-- financing an increase in BRD resources available for local currency lending, and

-- Continuing policy dialogue respecting the practices of the Guarantee Fund, and The Investment Code.

The U.S. is already financing accounting and management training for SME entrepreneurs.

Regarding the trade regime. The U.S proposes to assist reform in the trade regime by :

-- financing the study of effects on SMEs of existing taxes and tariffs,

-- continuing policy dialogue respecting the results of studies by the IMF, IBRD, and other donors of subjects such as exchange rates and effective rates of protection.

Regarding the price system. The U.S. proposes to assist reform in the price system by policy dialogue respecting the March 1983 regulations and other pricing interventions.

Regarding the fiscal program. The U.S. proposes to assist reform in the fiscal program by :

-- modest budget support during the first years of the general reform program, and by

-- policy dialogue encouraging continuation of the post-1984 restraints on taxing and expenditures.

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STATISTICAL ANNEX

Tables

TABLE 1: Population, Cereal Imports, and Cereal Food Aid of the Eight Southern African Countries of Comparison.

	1982 Population (Millions)	Cereal import (1000 MT) 1974	1982	1982 kilos per cap.	Cereal food aid (1000 MT) 1974-5	1981-2	1981-82 Kilos per cap.
Zaire	30.7	343	323	10.5	n.a.	93	3.0
Malawi	6.5	17	88	13.5	n.a.	2	.3
RWANDA	5.5	3	21	3.8	19	13	2.4
Burundi	4.3	7	20	4.6	6	9	2.1
Tanzania	19.8	431	360	18.2	148	254	12.8
Madagascar	9.2	114	392	42.6	7	78	8.5
Kenya	18.1	15	194	10.7	2	115	6.4
Zambia	6.0	93	225	37.5	1	100	16.7

Source: **WORLD BANK, WORLD DEVELOPMENT REPORT 1984, pp.218 and 228.**

Table 2: Average Annual Percentage Growth, 1960-82, in per Capita GNP, in GDP, and in GDI in the Eight Southern African Countries of Comparison.

Average annual percentage growth

	1960-1982 in per capita GNP	In GDP 1960-70	1970-82	In GDI 1960-70	1970-82
Zaire	-0.3	3.4	-0.2	9.6	5.7
Malawi	2.6	4.9	5.1	15.4	2.0
RWANDA	1.7	2.7	5.3	3.5	14.9
Burundi	2.5	4.4	3.5	4.3	15.0
Tanzania	1.9	6.0	4.0	9.8	3.4
Madagascar	-0.5	2.9	0.2	5.4	-1.4
Kenya	2.8	5.9	5.5	10.3	2.1
Zambia	-0.1	5.0	0.9	10.6	-10.5

Source: **WORLD BANK, WORLD DEVELOPMENT REPORT, 1984, pp. 218, 220, and 224.**

Table 3: Food Production per Capita, Fertilizer Use per Hectare, GNP per Capita for the Eight Southern African Countries of Comparison.

	1980-82 Food production per capita (1969-71 = 100)	Fertilizer use per hectare (kilograms) 1970	1981	GNP per capita Dollars 1976	1982	Rwanda = 100 1976	1982
Zaire	87	8	12	$140	$190	127	73
Malawi	99	52	106	140	210	127	81
RWANDA	105	3	3	110	260	100	100
Burundi	96	5	8	120	280	109	108
Tanzania	88	30	56	180	280	164	108
Malawi	94	56	23	200	320	182	123
Kenya	88	224	344	240	390	218	150
Zambia	87	71	166	440	640	400	246

Source: **WORLD BANK, WORLD DEVELOPMENT REPORT, 1978, p. 76, and WORLD DEVELOPMENT REPORT, 1984, pp. 228 and 218.**

Table 4: Average Annual Growth Rate of Real Merchandise Trade, 1970-82, and Nominal per Capita Exports, 1976 and 1982, for the Eight Southern African Countries of Comparison.

	Average annual growth rate in real merchandise trade, 1970-82		Nominal exports per capita	
	Exports	Imports	1976	1982
Zaire	-5.6 %	-12.4%	$25.4	$18.5
Malawi	-5.1	1.2	120.8	40.3
RWANDA	2.4	11.5	19.3	16.4
Burundi	n.a	n.a	14.5	20.5
Tanzania	-5.8	-1.5	30.4	24.2
Madagascar	-3.6	-3.4	32.1	47.1
Kenya	-3.3	-2.7	47.5	51.1
Zambia	-0.5	-6.8	204.5	176.5

Source: **WORLD BANK, WORLD DEVELOPMENT REPORT, 1978, p. 86, and WORLD DEVELOPMENT REPORT, 1984, p.234.**

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TABLE 5: COFFEE PRICES 1/

Year	Price (¢/lb)	Index (1980=100)	3-year average (¢/lb)	3-year index (1980=100)
1960	33.81	22.4	33.16	22.8
1965	41.04	27.2	40.92	28.21
1970	50.53	33.5	44.57	30.7
1975	72.48	48.1	94.13	64.8
1976	141.96	94.2	147.84	101.7
1977	229.09	152.0	175.35	120.6
1978	155.00	102.8	184.53	127.0
1979	169.50	112.5	158.40	109.0
1980	150.71	100.0	145.34	100.0
1981	115.82	76.8	130.71	89.9
1982	125.62	83.4	123.13	84.7
1983	127.94	84.9	131.60	90.5
1984	141.24	93.7	137.72	94.8
1985(5)	144.00	95.5	--	--

1/ All coffee, New York.

Source: IMF, International Financial Statistics, May 1985, pp. 74-77, and IMF, IFS Yearbook 1984, pp. 128-35. May 1985 price from Herald Tribune, June 1-2.

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TABLE 6: CENTRAL GOVERNMENT FINANCES, 1980-84

(FRW million

Item	1980	1981	1982	1983	Budget 1984
Budget Revenue	13,406	14,993	15,445	15,989	17,925
Tax revenue	11,240	12,230	12,450	13,056	15,028
Nontax revenue	2,166	2,763	2,995	2,933	2,897
Budget Expenditure	-12,529	-16,773	-18,595	-19,955	-20,109
Current expenditure	-10,195	-13,839	-15,180	-16,265	-16,649
Capital expenditure	2,327	-2,714	3,250	-3,031	-3,396
Capital transfers	-214	-202	-154	-88	-271
Net lending	-7	-221	-165	-659	-64
Extra-budgetary, net	59	103	80	481	--
Surplus/deficit (-) commitment basis	-937	-1,677	-3,070	-3,486	-2,184
Arrears	--	--	--	--	700
Surplus/deficit (-), cash	937	-1,677	-3,070	-2,786	-2,884
Financing	-937	1,677	3,070	2,786	--
Domestic	-598	2,294	3,582	3,188	--
Bank	2,235	-2,411	1,836	2,166	800
NBR	2,075	-2,197	1,264	1,404	--
Deposit money banks	-160	214	572	762	800
Nonbanking institutions	968	825	1,100	1,504	1,760
Other treasury transactions	669	-943	646	-482	--
Foreign	-339	-617	-512	-402	-590
Amortization	-339	-617	-512	-402	-590
Memorandum item: Surplus/deficit, commitment as % of GDP	0.9	-1.4	-2.2	-2.3	-1.3

Source: IMF, Recent Economic Developments, September 1984, p. 32.

(p?)

TABLE 7: BALANCE OF PAYMENTS, 1980-84

(Million SDR)

Item	1980	1981	1982	1983 1/	1984 2/
Exports: f.o.b	102.64	96.10	98.23	114.14	124.55
coffee	48.11	57.93	61.89	75.02	78.47
Imports, f.o.b	-150.43	-175.67	-194.43	-181.81	-190.68
petroleum	-22.05	-36.61	-41.58	-46.96	-50.63
Trade balance	-47.79	-79.57	-96.20	-67.67	-66.13
Service (net)	-69.14	-64.1	-81.78	-85.46	-90.76
Freight and Insurance	-41.22	-39.50	-46.05	-42.58	-44.90
Other transportation	-8.48	-10.12	-11.33	-11.34	-11.98
Travel	-6.15	-6.85	-6.27	-5.52	-5.94
Investment Income	3.90	9.79	0.05	5.75	7.79
Scheduled interest on external debt	-1.72	-1.52	-3.08	-2.32	-3.78
Other private services	-8.73	-7.09	-1.04	-4.36	-4.35
Other gov services	-8.46	-10.54	-17.14	-15.91	-15.82
Current account balance (excluding transfers)	-116.93	-143.88	-177.98	-153.13	-156.89
Unrequited transfers	80.12	87.09	99.53	108.38	102.23
Current account balance (including transfers)	-36.81	-56.79	-78.45	-44.75	-54.66
Public sector capital	22.98	21.08	18.85	23.38	26.77
amortization	-2.81	-5.64	-4.99	-3.92	-5.75
Direct and portfolio investment	13.08	15.81	18.75	10.23	9.74
Other long-term capital	1.32	1.74	0.06	--	--
Short-term capital	16.77	16.86	7.76	5.50	--
Capital account balance	54.15	55.49	45.42	28.11	36.51
Allocation of SDRs	2.40	2.30	--	--	--
Errors and ommissions	-9.53	-0.24	-6.69	-0.73	--
Overall balance	10.21	0.76	-39.72	-17.37	-18.15
Financing	-10.21	-0.76	39.72	17.37	18.15
Change in net foreign assets (increase -)	-10.21	-0.76	39.72	17.37	18.15
NBR	-14.16	6.39	31.00	17.62	18.15
Deposit money banks	3.95	-7.15	8.08	0.25	--

1/ Preliminary. 2/ Estimate

Source: IMF, Recent Economic Developments, September 1984, p.48.

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TABLE 8: INTERNATIONAL RESERVES, 1978-84

(SDR Million)

Item	1978	1979	1980	1981	1982	1983	1984 1/
NBR (net)	52.4	96.9	115.7	120.6	95.4	77.8	77.5
Assets	67.2	115.6	145.3	150.3	118.3	107.3	104.5
SDR holdings	2.4	4.6	4.8	9.8	10.7	8.5	8.4
Reserves in IMF	2.9	5.3	8.5	8.4	9.6	11.0	11.2
Foreign exchange	61.9	105.7	132.0	132.1	98.0	88.3	85.0
Liabilities	14.8	18.7	29.6	29.7	22.9	30.0	27.0
Commercial banks (net)	5.9	13.7	10.2	10.8	2.6	2.9	4.6
Assets	9.5	19.2	16.9	22.5	25.3	20.0	20.0
Liabilities	3.6	5.5	6.7	11.7	22.7	17.1	15.4
Total net int. reserves	58.3	110.6	125.9	131.4	98.0	80.7	82.1
Assets	76.7	134.8	162.2	172.8	143.6	127.8	124.5
Liabilities	18.4	24.2	36.3	41.4	45.6	47.1	42.4
Memorandum items:							
Exchange rate RWF/SDR	120.95	122.30	118.41	108.06	102.41	102.71	102.71
In months of imports (CIF)							
Gross official reserves	4.66	7.44	8.55	7.49	5.85	4.92	4.77
Net official reserves	3.63	4.93	6.25	5.89	5.00	3.88	3.85

1/ March 31.

Source: IMF, Recent Economic Developments, September 1984. p.55

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TABLE 9: INDICES OF AGRICULTURE AND FOOD PRODUCTION

(1969-71=100)

Year	Crops	Agric.	Food	Per capita Agric.	Per capita Food
1974	102	103	103	92	91
1975	120	132	121	105	105
1976	128	129	129	109	108
1977	130	131	129	106	105
1978	134	135	133	106	105
1979	143	143	141	109	108
1980	143	144	142	107	105
1981	146	147	145	105	104
1982	145	146	144	101	100
1983	147	148	147	99	98

Source: USDA, World Indices of Agricultural and Food Production, 1974-83, 1984, p. 150.

TABLE 10: GDP BY INDUSTRIAL ORIGIN AT CURRENT MARKET PRICES, 1980-84

(FRW million)

Item	1980	1981	1982 1/	1983 2/	1984 2/	1984(%)
Agriculture, livestock, forestry, fishing	49,506	48,646	52,420	53,801	53,122	32.5
Subsistence agric,.	38,923	39,131	42,090	39,741	37,608	23.0
Mining	1,841	809	607	597	452	0.3
Manufacturing	16,482	19,036	20,855	22,243	23,357	14.3
Electricity, gas, water	126	81	339	489	608	0.4
Construction, public works	4,818	5,389	7,181	9,551	11,603	7.1
Commerce, restaurants	15,885	19,694	23,513	26,702	30,111	18.4
Transport, communications	2,292	3,247	4,870	7,114	8,881	5.4
Public admin., other nonprofit institutions	9,176	16,37	16,079	16,495	17,564	10.7
Other private services	4,113	5,32	8,949	11,215	13,908	8.5
Import duties	3,752	3,485	3,873	4,016	4,016	2.5
GDP	107,991	122,083	138,686	152,221	163,622	100.0
Memorandum item:						
Real GDP growth (%)	4.9	4.7	4.0	3.5	2.9	

1/ Provisional.
2/ Estimate.

Source: IMF, Recent Economic Developments, September 1984 p.3

TABLE 11: TEA PRODUCTION AND YIELDS, 1979-84

Year	Volume (MT) Green	Dried	Area (ha)	Yield of dried Leaves/(kg/ha)
1979	25,714	5,696	6,585	865
1980	30,441	6,627	7,316	906
1981	31,207	6,845	7,417	923
1982	31,204	7,130	8,392	965
1983	32,123	7,479	7,656	977
1984 1/	33,000	7,650	7,656	999

1/ Estimates.

Sources: IMF, Recent Economic Developments, September 1984, p.3.

TABLE 12: TEA PRICES

Year	Price (¢/lb) 1/	Index (1980=100)	3-year average (¢/lb)	3-year index (1980=100)
1960	64.62	63.7	63.27	65.4
1965	58.04	57.3	58.05	60.0
1970	49.55	48.9	47.26	48.8
1971	47.76	47.1	48.31	49.9
1972	47.62	47.0	47.81	49.4
1973	48.06	47.4	53.02	54.8
1974	63.39	62.5	57.93	59.9
1975	62.36	61.5	65.20	67.4
1976	69.85	68.9	84.40	87.2
1977	120.00	119.4	96.69	99.9
1978	99.22	97.9	106.03	109.6
1979	97.88	96.6	99.49	103.3
1980	101.36	100.0	96.75	100.0
1981	91.02	89.8	94.08	97.2
1982	89.87	88.7	95.37	98.6
1983	105.22	103.8	117.10	121.0
1984	156.22	154.1	--	--
1985(3)	109.72	108.2	--	--

1/ London, average auction.

Source: IMF, International Financial Statistics, May 1985, pp. 76-77, and International Financial Statistics, 1984 Yearbook, pp. 130-31, 134-35.

TABLE 13: CURRENT AND CONSTANT ACTUAL AND PROJECTED COFFEE PRICES

(Cents/kg)

Year	Current prices	Constant 1983 prices 1/	Index (1980=100)
1950	111	468	149.0
1955	133	482	153.5
1960	92	306	97.5
1965	100	323	102.3
1970	115	331	105.4
1975	144	205	65.3
1976	315	440	140.1
1977	517	669	213.1
1978	359	395	125.8
1979	382	378	120.4
1980	344	314	100.0
1981	282	269	85.7
1982	309	299	95.2
1983	290	290	92.4
Projected			
1984	321	310	98.7
1985	330	296	94.3
1986	353	290	92.4
1990	480	291	92.7
1995	689	312	99.4

1/ Deflated by manufacturing unit value (MUV) index.

Source: IBRD, Price Prospects for Major Primary Commodities, September 1984, p. 23.

TABLE 14: CURRENT AND CONSTANT ACTUAL AND PROJECTED TEA PRICES 1/

Year	Current prices	(Cents/kg) Constant 1983 prices 2/
1950	126.1	534.3
1955	154.3	557.0
1960	142.2	469.3
1965	129.2	414.1
1970	109.6	314.9
1971	105.4	278.8
1972	105.4	254.1
1973	105.8	214.2
1974	140.2	226.5
1975	138.5	196.7
1976	153.7	214.4
1977	268.7	346.7
1978	218.9	240.3
1979	215.5	211.7
1980	223.1	203.2
1981	201.7	191.7
1982	193.2	187.0
1983	232.8	232.8
Projected		
1984	335.0	324.0
1985	300.0	268.0
1986	280.0	230.0
1990	355.0	215.0
1995	515.0	233.0

1/ Average of all teas at London auctions.

2/ Deflated by Manufacturing Unit Value (MUV) index.

Source: IBRD, Price Prospects for Major Primary Commodities, Vol. II. September 1984, p. 59.

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TABLE 15: PUBLIC AND PUBLICLY GUARANTEED DEBT

($ million)

Item	1978	1980	1981	1982	1983
Debts outs. inc. undisb.	201.0	268.5	318.9	383.8	423.0
Official Creditors	199.8	268.2	318.9	383.8	423.0
Multilateral	123.0	194.6	241.9	309.9	329.4
IBRD	--	--	--	--	--
IDA	74.9	115.6	129.1	162.5	198.0
Bilateral	76.8	73.6	77.1	74.0	93.5
Private Creditors	1.3	0.3	--	--	--
Suppliers	1.2	0.3	--	--	--
Financial Markets	0.1	--	--	--	--
Debts Outs. Disb. (DOD)	98.7	155.8	170.7	189.3	219.7
Commitments	31.7	54.8	67.9	80.3	56.1
Disbursements	20.2	33.7	25.9	28.2	38.5
Principal Repayments	1.0	0.6	0.9	3.3	1.9
Net Flows	13.1	33.0	25.1	24.9	36.6
Interest Payments (INT)	0.7	1.2	1.8	1.9	2.3
Net Transfers	18.4	31.8	23.3	22.9	34.3
Total Debt Service (TDS)	1.7	1.9	2.6	5.2	4.2
Official Creditors	1.1	1.5	2.4	5.2	4.2
Multilateral	0.3	1.1	1.2	3.8	2.7
IBRD	--	--	--	--	--
IDA	0.2	0.5	0.7	2.8	0.8
Bilateral	0.8	0.4	1.1	1.5	1.4
Private Creditors	0.7	0.4	0.3	--	--
Suppliers	0.4	0.4	0.3	--	--
Financial Markets	0.3	--	--	--	--
Avg. Terms: New Commit.					
Interest (%)	2.4	1.4	1.2	1.2	1.6
Maturity (years)	36.9	36.0	43.5	44.7	37.1
Grace Period (Years)	8.8	8.3	9.3	9.3	7.6
Grant Element (%)	64.1	67.7	75.9	76.4	68.0
Economic Aggregates					
Gross Nat. Prod (GNP)	871	1,152	1,265	1,448	1,613
Exports of G. & S. (XGS)	132	184	178	163	--
Import of G. & S. (MGS)	284	350	361	375	--
Intl. Reserves (RES)	89	187	173	128	107
Ratios (%)					
DOD/XGS	74.5	84.9	96.1	115.9	--
DOD/GNP	11.3	13.5	13.5	13.1	13.6
TDS/XGS	1.3	0.1	1.5	3.2	--
TDS/GNP	0.2	0.2	0.2	0.4	0.3
INT/GNP	0.5	0.7	1.0	1.2	--
INT/GNP	0.1	0.1	0.1	0.1	0.1
RES/DOD	89.7	119.8	101.4	67.8	48.8
RES/MGS	3.7	6.4	5.8	4.1	--

Projected Debt Serv.	1984	1985	1986	1987	1988
Principal	3.9	6.6	8.6	11.5	12.2
Interest	2.9	3.3	3.7	4.0	4.1
Total	6.8	9.9	12.3	15.5	16.4

Source: IBRD, World Debt Tables, Second Supplement, July 1984, p.34.

TABLE 16: MEDIUM-TERM BALANCE OF PAYMENTS, 1985-89

(FRW Million)

Item	1985	1986	1987	1988	1989	Percent annual change (85-89)
Exports, f.o.b	13,576	14,089	14,537	15,166	15,818	4.1
Coffee	8,861	9,266	9,610	10,015	10,421	4.1
Imports, f.o.b	-20,729	-22,284	-23,808	-25,469	-27,221	-7.1
Trade balance	-7,153	-8,195	-9,271	-10,303	-11,403	-12.5
Services (net)	-9,772	-10,279	-10,664	-11,040	-11,510	-4.2
Credit	3,122	3,114	3,158	3,264	3,380	2.0
Debit	-12,894	-13,393	-13,822	-14,304	-14,890	-3.7
Current acct. inc. excl. transfers	-16,925	-18,774	-19,935	-21,343	-22,914	-7.9
Unreq. transfers (net)	11,000	11,500	12,000	12,000	12,000	2.2
Current account incl. transfers	-5,925	-6,974	-7,935	-9,343	-10,913	-16.5
Capital account	4,050	4,500	5,000	5,400	5,700	8.9
Sched. amortization	-665	-865	-1,145	-1,217	-1,269	-17.5
Overall balance	-1,875	-2,474	-2,935	-3,943	-5,213	-29.1

Source: IMF, Staff Report, August 1984, p.13.

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TABLE 17: CREDIT TO PRIVATE BORROWERS BY SECTOR AND SOURCE

(Percent)

Sector/Source	1981	1982	1983
Sector:			
Agriculture	1.2	2.1	2.3
Industry	14.7	13.8	19.0
Mining Sector	8.2	12.8	12.6
Construction	4.9	2.7	3.0
Commerce	50.8	44.7	39.2
Coffee	33.5	25.5	19.5
Transport, other services	5.5	7.4	7.7
Miscellaneous	14.7	16.5	16.2
Total	100.0	100.0	100.0
Source:			
National Bank of Rwanda	7.2	3.5	2.6
Commercial banks	66.8	67.6	65.7
Development Bank	12.8	14.9	15.3
Banques Populaires	3.0	4.0	4.0
Savings Bank	10.1	9.9	11.3
Mortgage Bank	0.1	0.1	0.1
Total	100.0	100.0	100.0

Source: IMF, Recent Economic Developments, September 1984, p. 79

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TABLE 18: FOREIGN EXCHANGE RATE

Year	1$=FRW	100FRW=$	Depreciation Index
1965	50.00	2.00	185.2
1966	100.00	1.00	92.6
1970	100.00	1.00	100.0
1975	92.84	1.08	100.0
1976	92.84	1.08	100.0
1977	92.84	1.08	100.0
1978	92.84	1.08	100.0
1979	92.84	1.08	100.0
1980	92.84	1.08	100.0
1981	92.84	1.08	100.0
1982	92.84	1.08	100.0
1983	98.54	1.01	93.5
1984	104.36	.96	88.9
1985(5/30)	102.72	.97	89.8

1/ End of period.

Source: IMF, International Financial Statistics, April 1985, pp. 390-91, and 1984 Yearbook, pp. 496-99, and Banque Nationale du Rwanda.

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In part B a distinction is made between the criteria applicable to Economic Support Funds and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY.
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 85 Continuing Resolution Sec. 525, FAA Sec. 634A, Sec. 653(b)

a. Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;

A Congressional Notification was forwarded to Congress on July 26, 1985.

b. Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that amount)?

Yes.

c. If the proposed assistance is a new country program or will exceed or cause the total assistance level for the country to exceed amounts provided to such country in FY 84, has notification been provided to Congress?

Yes.

d. If proposed assistance is from the $75 million in ESF funds transferred to A.I.D. under the the CR for FY 85, for "programs or activities in sub-saharan Africa not previously justified to the Appropriations Committees", has the notification required by the CR for FY 85 been made?

Yes.

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2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No GOR legislative action is required to initiate the PRIME program. Legislative action related to the revision of the Investment Code will be completed prior to the release of PRIME funds.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral plans to the maximum extent appropriate?

No.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce and (f) strengthen free labor unions.

The purpose of the PRIME program is to assist the Government of Rwanda (GOR) in making necessary structural adjustment and policy changes in order to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise sub-sector. Policy reforms which may impact favorably on (a) through (f) may be realized under the program.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The long-term effect's of the GOR's economic recovery and reform plan, supported under the PRIME program, may encourage U.S. private trade and investment in Rwanda. U.S. expertise in economics will be recruited to participate in the technical assistance component of the program.

6. FAA Sec. 612(b), Sec. 636(h); FY 85 CR Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services in lieu of dollars.	The U.S. does not own any excess foreign currency in Rwanda.
7. FAA Sec. 612(d). Does the Unites States own excess foreign currency of the recipient country, and if so, what arrangements have been made for its release?	No.
8. FAA Sec. 610(e). Will the project utilize competitive selection procedures for the warding of contracts, except where applicable procurement rules allow otherwise?	Yes.
9. FY 85 CR Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative and is such assistance likely to cause substantial injury to U.S. producers of the same or similar competing commodity?	Not applicable.
10. FAA 118(c) and (d). Does the program comply with the environmental procedures set forth in AID Regulation 16? Does the program take into consideration the problem of the destruction of tropical rain forests?	Pursuant to AID Reg. 16, the PRIME program is determined to be categorically excluded from further environmental examination. The Categorical Exclusion is attached as Annex D of the PAAD.
11. FAA Sec. 128. Has an attempt been made to finance productive facilities, goods and services which will expeditiously and directly benefit those living in absolute poverty under the standards adopted by the World Bank?	Stimulation of small and medium, labor-intensive entperises, particularly in the rural sector, is one area which appears to offer possibilities for increasing purchasing power and raising the standard of living of the rural population, including those living in absolute poverty. Policy reforms to be supported under the PRIME program will provide such a stimulus.

[illegible]. [illegible] Continuing Resolution. Has full consideration been given at each stage of design to the involvement of small minority (including women-owned businesses) enterprises, historically black colleges and universities, and minority PVO's?

The PRIME program is focused on policy reform in Rwanda.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Funds.

a. FAA Sec. 531(a). Will this assistance support and promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

Yes.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No.

c. FAA Sec. 534. Will ESF funds be used to finance the construction or the operation of maintanance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No.

2. Nonproject Criteria for Development Assistance.

a. FAA Secs. 102(c), 111, 113, Sec. 281(a). Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward

The policy reforms to be supported under the PRIME program will stimulate labor-intensive production and spread investment in small and medium enterprises from Kigali to the rural growth centers and areas. It will also encourage and support the more efficient and democrati[illegible] operation of the Rwandan Development Bank and the Guarantee Fund in the Rwandan National Bank.

better life, and otherwise encourage democratic private and local government institutions?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g, a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source].

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

Not applicable.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which activity gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, agriculture production, rural development, and assistance to urban poor?

Not applicable.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or

The PRIME program will support and strengthen the management and policy-making capability of several Rwandan institutions, including the Ministry of Industry, Mines and Artisanat and the Rwandan Development Bank.

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strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problem; — Not applicable.

(b) reconstruction after natural or manmade disaster; — Not applicable.

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance; — Not applicable.

d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development. — The PRIME program will assist the GOR in making structural adjustments and policy changes which will stimulate production and employment in small and medium enterprises. Policy reforms related to pricing should favorably impact on the marketing system in Rwanda.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries. — Not applicable.

c. FAA Sec. 113. Extent to which assistance reflects appropriate emphasis on integrating women into the recipient country's national economy. — Not applicable.

d. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? — Yes.

e. FAA Sec. 281(b). Describe extent to which program recognizes the — Not applicable.

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particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

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ANNEX D

INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

Country: Rwanda

Title of Activity: Policy Reform Initiatives in Manufacturing and Employment (PRIME)

Funding: FY 1985 - $12.0 million

IEE Prepared by: Dianne Blane, REDSO/ESA

Environmental Action Recommended: Categorical Exclusion

Discussion: This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2(c) of Regulation 16 and is therefore excluded from further review. A total of $10.0 million will be used to support the GOR's policy reforms related to access to a revised Investment Code by small and medium enterprises, revitalization of the Guarantee Fund in the National Bank of Rwanda and revisions in the present pricing and tariff systems. The balance of $2.0 million will be used to finance technical services in support of policy reform measures, training and project monitoring. The use of grant funds is not tied to either financing specific commodities or for a specifically identifiable project or projects. Section 216.2(c)(2)(i) and (iii) provide for a Categorical Exclusion from environmental procedures for education, technical assistance or training programs and for analyses, studies, academic or research workshops and meetings. The activity also meets the criterion of Section 216.2(c)(2)(vi) which provides a Categorical Exclusion for contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects.

Concurrence: Eugene R. Chiavaroli
A.I.D. Representative, Eugene R. Chiavaroli

Bureau Environmental Officer's Decision

APPROVED: Bessie L. Boyd
Bessie L. Boyd

DISAPPROVED: ______________________

DATE: 8/9/85

Clearance: GC/AFR Anthony Vance

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ANNEX E

BANQUE RWANDAISE DE DEVELOPPEMENT (B.R.D.) *

The Banque Rwandaise de Developpement (BRD) was established in 1967 as a limited liability company to encourage the creation and development of private enterprises in Rwanda, to promote the diversification of the country's economic structure and to help attract foreign investment into the country. To achieve these objectives, BRD is authorized to grant term loans or guarantees and make equity participation in enterprises. It can also receive deposits from enterprises it assists, administer funds, issue notes and borrow in Rwanda and abroad. The institution is autonomous. BRD is not subject to credit control by the Central Bank as its resources (mainly foreign exchange) come from abroad. BRD deals primarily in long term loans (4-10 years) and is the most important long term lender in Rwanda, accounting for 72% of the 25.8 million long-term credit outstanding at the end of December 1984. Lending decisions are made on the basis of BRD's own appraisal results deriving from financial, economic and technical merits of projects.

BRD's share capital consists of "A" shares which must account for at least 55% of total share capital and are reserved for the Government and Public Rwandese agencies and institutions, and "B" shares for private and foreign shareholders. There are no differences between the rights and privileges of either category of shareholder. Since the commencement of operations in 1967, five share capital increases have occured. They demonstrate BRD's ability to convice shareholders to put up fresh resources to streghten the institution's capital base. The last increase took place in June 1983, when the broad approved a raise in authorized capital by $1.2 million to $10.7 million. Most of the increase in share capital came from the Dutch Development Finance Corporation which now holds 8.6% of the total share capital. The remaining increase was provided by the GOR to maintain its 55 % minimum. Ownership of BRD's share capital is presently distributed as follows: public sector 55.1%, domestic private sector 12.5% and foreign institutions 32.4% BRD's Board of Directors consists of 13 members, seven of

* Material taken from IBRD's draft proposal on " The Fourth Line of Credit to the BRD". MAY 1985.

whom represent the "A" shareholder and six the "B" shareholders. The President of the Republic appoints the Board Chairman. The Board meets on a regular basis to determine BRD's policy and to approve equity participation, guarantees and loans exceeding $300,000. BRD's staff totals 90. Thirty-nine are professionals with formal training in banking, accounting, economics finance and business administration, The staff has almost doubled within the last three years in line with the expansion of operations. About 12 new recruitments (of whom 4 professionals) are planned during 1985-6, mainly to reinforce the SME and Supervision Divisions. The staff situation is very stable without notable turnover. Salaries are adequate and help maintain the generally hard working and dedicated staff. There are two expatriate advisors. A Belgian expert, recruited in 1984, works in BRD's project supervision division. A German expert, recruited in 1975 advises the Managing Director. BRD's training program relies mainly on practical on-the-job training given by the German expert and other BRD senior staff. With the increasing complexity of its operations, BRD will expose its staff to external training in small enterprise development, appraisal of agro-industrial projects, financial aspects of rural industry and management of development finance institutions.

BRD's organizational structure is relatively simple, consisting of two departments reporting to the Managing Director. The Investment Department is responsible for project appraisal and for the supervision and provision of technical assistance to enterprises managed by BRD. The Administration and Finance Department is in charge of disbursement, loan collection and relations with foreign donors. A third department - the Studies and Development Department - is presently being organized. BRD is also considering a phased program of small regional offices to provide assistance to clients in the interior of the country. BRD, therefore, intends to set up two small "bureaux regionaux" staffed with one professional to provide on-site assistance to clients and identify and appraise future projects. The cost of this program of regionalization is estimated at $7,500 per office for installation and $2,500 in operating cost per year.

Until 1982, BRD did not put any particular emphasis on SMEs in its lending strategy and required them to provide the same information asked from larger enterprises. Many SMEs could not comply and their applications were not processed. According to a review of its own experience with SME financing conducted in 1981, during the six year period ending in 1981, BRD received an average of 63 SME loan applications per year amounting to $1.4 million per year. However, the BRD only financed 15% of these SME applications because of staff constraints and higher priority given to larger loans. BRD's reluctance to finance SMEs was also due to the higher administrative cost and bad debt losses associated with such lending. The BRD's review also showed that at March 31, 1982 most of the arrears over three months were due to small enterprise clients. This analysis concluded that several factors could alleviate the negative financial impact of SME lending. First, more experience in the sector should lead to improved repayment performance through better criteria for selecting projects and promoters. Second, streamlining of loan processing procedures for SMEs would hold down administrative costs. Third, an increase in BRD lending rates should help improve its average spread. Fourth, access by BRD to an effective guarantee scheme could help minimize the financial impact of bad SME loans. On the basis of the above BRD estimates it should be able to break even on SME lending with a spread of 7-9%. If this proves insufficient, BRD nevertheless enjoys sufficient whom represent the "A" shareholder and six the "B" shareholders. The President of the Republic appoints the Board Chairman. The Board meets on a regular basis to determine BRD's policy and to approve equity participation, guarantees and loans exceeding $300,000. BRD's staff totals 90. Thirty-nine are professionals with formal training in banking, accounting, economics finance and business administration, The staff has almost doubled within the last three years in line with the expansion of operations. About 12 new recruitments (of whom 4 professionals) are planned during 1985-6, mainly to reinforce the SME and Supervision Divisions. The staff situation is very stable without notable turnover. Salaries are adequate and help maintain the generally hard working and dedicated staff. There are two expatriate advisors. A Belgian expert, recruited in 1984, works in BRD's project supervision division. A German expert, recruited in 1975 advises the Managing Director. BRD's training program relies mainly on practical on-the-job training given by the German expert and other BRD senior staff. With the increasing complexity of its operations, BRD will expose its staff to external training in small enterprise development, appraisal of agro-industrial projects, financial aspects of rural industry and management of development finance institutions.

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As of December 31, 1984, BRD had approved loans and equity investments totalling $362 million. Virtually all of BRD's financing has gone to private (or majority private) enterprises. Most of the equity investments were made before the mid-1970s and loan approvals started to become important only in 1974 when they amounted to $1.6 million and reached $5.9 million in 1984. With increase in activities, the sectoral mix of BRD-financed projects has changed. The transport and tourism sectors were the main focus of BRD's lending in the early 1970s. In the late 70s and early 80s, manufacturing predominated and by 1982 accounted for 92% of approvals. Over the last two years the sectoral mix of BRD project approvals has been more evenly distributed among manufacturing (32%), agriculture and livestock (22%), hotels and tourism (21%), other services (23%) and agro-industry (2%).

Generally BRD keeps the size of its investment within 20% of net worth in order to spread the risks over its portfolio. During 1982-84, BRD approved 129 projects with a total cost of $26.7 million, it financed $13.3 million and thus helped mobilise an additional $13.4 million worth of investments. The projects typically have financial rates of return in excess of 15% and an estimated investment (including initial working capital) per job created in the range of $3,000-8,000 for small projects, and $20,000-$30,000 for medium and large projects.
As of December 31, 1984, BRD had an equity portfolio of $18.8 million in 130 projects. Total arrears of more than three months at the end of 1984 amounted to 6% of the total loan portfolio and affected 38 projects. Of the $3.3 million in loans considered doubtful or bad, BRD has made specific provisions for $700,000. Also, there is a reserve for general risk of $620,000, representing 3.3% of the outstanding portfolio. The quality of BRD's portfolio is good, with adequate provisions sêt aside for possible losses.

Over the last five years, income from loans showed strong growth, surging at an annual compound growth rate of 22% per year mainly as a result of doubling the loan portfolio between 1980 and 1984 and an increase in BRD's interest rates by an average of 2% over the same period. In 1984 BRD's total income was 15% higher than 1983, but net profits were substantially lower ($220,000 in 1984 compared to $725,000 in 1983). This was primarily due to record provisions of $1.0 million to reflect the conditions of two large problem projects. The 1984 provisions amounted to 5.7% of the average loan portfolio, up from 2.5% in 1983. Financial charges as a percentage of the average loan portfolio increased from 2.8% in 1983 to 3.3% in 1984, reflecting the increasing cost of BRD's borrowings. Administrative expenses were, however, tightly controlled, and amounted to 3.7% of the average portfolio, down marginally from 3.8% in 1983.

BRD is a financially sound institution and among the most credit worthy in Rwanda. Over the past 5 years, its term debt/equity ratio has never exceeded 1.1. The institution is immune to exchange rate fluctuations on its borrowings because the Government bears the foreign exchange risk on the portion of its term debt which comes from foreign sources. BRD has substantial equity resources and 47% of all assets were financed from net worth. Its loan portfolio is adequately protected because it has made large provisions for possible losses.

As of December 31, 1984 BRD had the equivalent of $2.2 million available for new approvals of which $110,000 in local currency and $2.1 million in foreign exchange. The low local currency resources should improve somewhat with the expected collection of $3.0 million equivalent in loan repayment in 1985. However, most of these funds will be immediately reimbursed to lenders. In addition to its equity, BRD's local resources include loans from the Central Bank and Government, two investment funds and retained earnings. BRD's foreign exchange resources consist of eight lines of credit from four different donors (KFW, CCCE, IDA and EIB) totalling the equivalent of $12.6 billion and a large credit line provided by the Central Bank from an IMF Trust Fund Loan. Interest rates on the foreign loans range from .75% to 6.9% and maturities are from 9 to 50 years with grace periods of up to 10 years. The line of credit from the Central Bank, which is now fully used, had a relending rate of 8-12% depending on the maturity of subloans and the sector. All other loans are relent at BRD established rates and carry no restrictive conditions.

BRD has a strong project pipeline for the next two years which far exceeds its resource availability for that period. Its tentative list of projects includes 23 medium and large operations with a total investment cost of about $70 million and numerous SME projects. With regard to SME lending, BRD expects to at least maintain the level of approvals reached in 1983/84 of $1.5 million per year (half of which is foreign exchange). The majority of projects in the pipeline are in industry and agriculture and include carpentry, brickmaking, soft drinks, plastic, metal working, vehicle repair, cattle ranching and grain milling.

Despite the strength of its project pipeline, BRD plans to maintain a cautious approach to approvals, especially because it recognizes the potential risks in proceeding too fast with SME operations, its new area of activity. Projections assume a steady growth but a cautious 5%/yr of nominal growth in loan approvals over the next 3 years. Total approvals are projected to grow from $6.7 million in 1985 to $7.6 million by 1988. Commitments over the same period are expected to total $28.5 million of which about 66% is in foreign exchange. Disbursements over the period total about $26.5 million. BRD's forecast of operations is realistic.

The average cost of BRD's new borrowings are 9%. BRD is expected to increase its interest rate, the major source of its income, from 12% to 14.5%, a level which would permit BRD to have a spread of 5.5% on its new borrowings. On the basis of this assumption, BRD's net income is expected to resume a steady rise to $715,000 in 1988.

During 1984, net lending and equity participation increased by about $3.1 million. However, resources available fell by about $5.3 million from $7.5 to $2.2 million, the $2.2 million available for lending last December was almost entirely in foreign exchange.

	DEC 83	DEC 84
Total Available:	$7.6 m	$2.2 m
Foreign exchange	$6.1 m	$2.1 m
Local currency	$1.5 m	.1 m

Thus, BRD is now short of local currency funds to maintain its projected growth in loan approvals. Later in 1985, the local currency fund will be increased by borrower repayment. However, since most BRD loans are long term, and the Bank is young, reflows will remain slow over the 1985-88 period.

ANNEX F

TECHNICAL ASSISTANCE COMPONENT: TERMS OF REFERENCE AND BUDGET

I. INTRODUCTION

A central feature of any policy-based program should be to help the recipient country improve its own capacity to develop reliable information and use it to inform the policy-making process. Rwanda is consistently cited by donors as a country where reliable economic information is particularly lacking. This is especially true for non-farm production and consumption and for the small-scale manufacturing sector.The PRIME program can help remedy this situation in two important ways:

-- by designing and executing, in collaboration with the GOR, a study of industrial incentives which will be instrumental in informing policy decisions; and

-- by contributing to analysis of the comprehensive survey of rural and urban households of which the second, urban, phase is currently in process

Because of the timeliness of the information which will derive from these studies, both for formulation of specific reform measures and for the Fourth Development Plan currently in preparation, it will be important to have both of the above studies begin as soon as possible after the Program Agreement is signed. Contracting for these studies can be done with minimal delays by buying into the S & T Bureau's Employment and Enterprise Policy project which is being jointly implemented by the Harvard Institute and Michigan State University.

A third technical assistance initiative under the PRIME program will be to support divestiture of parastatals through the intermediary of services available under the REDSO/ESA-managed Parastatal Studies, Restructuring and Divestiture project.

II. INDUSTRIAL INCENTIVES STUDY

A. Background

The GOR is trying to put in place its own structural adjustment program with help from a number of donors. Yet, as noted above, there is rather little reliable data on which to base a sound policy reform program. This is particularly the case for data on the manufacturing sector, which the PRIME initiative supports.

In late summer 1985 the World Bank intends to conduct a study of the incentive/disincentive effects of tariff policy on manufacturing, with particular emphasis on the impact of differential rates of effective protection. This study will be primarily concerned with the 20-30 most important enterprises.

The approach proposed by PRIME would build on these results but also broaden the scope of investigation by (1) working with a more representative sample of manufacturing units, (2) developing a general sense of comparative advantage in a variety of manufacturing activities, and (3) exploring the impact of other incentives to production, such as fiscal, pricing, credit, marketing and input supply policies. This approach will make it possible to determine policy impact beyond the modern sector, to make a better assessment of the effect of policies on employment, and to recommend changes that would improve employment prospects.

Finally, through close collaboration with Rwandan officials and researchers in all phases of the study, the team of consultants will insure that issues relating to industrial policy are widely discussed and understood.

B. Purposes of the Study

1. To improve the information base relative to the characteristics of manufacturing activities and their comparative advantage in Rwanda;

2. To understand the role of incentives (prices, including tariffs and exchange rate; fiscal advantages; access to raw materials and intermediate goods; access to credit; access to infrastructure, etc.) in promoting production and employment; and

3. To recommend to GOR decision-makers alternative policy measures which might improve the allocation of economic resources and result in more efficient production and employment patterns.

C. Resources and Implementation

1. U.S. consultants will work in close collaboration with Rwandan staff to conduct the study. A Rwandan official in a position of responsibility in the Ministry of Industry (MINIMART) will be assigned to supervise the study. The long-term (2 years) U.S. Industrial Economist directing the study will act as Senior Advisor to this official.

2. Senior Rwandan staff representing the principal agencies with expertise in the areas to be covered (MINIMART, MINIFINECO, MINIPLAN and the Development Bank) will assist the consultants in initiating the study and will act in an advisory capacity, meeting with the consultants on a regular basis as the study progresses.

3. 2-3 qualified Rwandans recruited jointly by the Study Supervisor and his Senior Advisor will be assigned to work on the study.

4. Appropriate office space will be provided for the study team by the GOR (e.g., in the Ministry of Industry)

5. Computer hardware, software and supporting materials (e.g., paper) will be provided from study funds.

D. Terms of Reference

1. Review existing data sets, including data available from the household survey (see Section III below); determine what additional data should be collected in order to develop a comprehensive view of the characteristics of manufacturing activities in Rwanda (use of capital, employment level, products, price formation, etc.); and conduct additional survey work as necessary.

2. Based on a representative sample, compare characteristics of large and small firms both in general and in the same industrial branch; and determine the comparative advantage of different industries.

3. Review data available on tariff policy and practices; and develop information on effective rates of protection for a broad range of manufacturing activities, including a representative sample of the traditional sector.

4. Working with the information collected in undertaking (1), (2) and (3) above, analyze the differential impact of current levels of effective protection on manufacturing activities, including agro-industry.

5. Explore alternatives for tariff simplification and develop estimated impacts of these alternatives.

6. Analyze the differential impact of the fiscal regime on the type and scale of productive activities.

7. Explore and analyze the impact of other incentive systems (pricing policy, input availability, market access, infrastructure, credit, etc.) on the type and scale of productive activities.

8. Explore the potential for export diversification and promotion of existing and new export products.

9. On the basis of the above analyses, explore the relative economic efficiency of different types of enterprises. Develop recommendations on alternative policies which would improve resource use and lead to increased employment in particular, on activities where industrial promotion efforts should be focused, and on optimal promotion mechanisms.

10. Provide for broad-ranging discussion of key issues addressed in the study by organizing seminars and workshops on some of these issues.

11. Suggest terms of reference for studies which could be carried out by the GOR, AID or other donors.

III. ANALYSIS OF HOUSEHOLD SURVEY DATA

A. Background

Under the sponsorship of the French statistical institute, INSEE, the GOR is conducting a comprehensive survey of Rwandan households. The survey is divided into rural and urban components. data-gathering on the former is complete and the data set is being processed; data-gathering for the urban component will be finished in December 1985. Resources for analyzing this data are not

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sufficient to derive maximum use from it: the French project provides for only limited analysis which would be undertaken in France rather than Rwanda.

More thorough analysis of the data set would yield a wealth of information on household production and consumption patterns. For the rural sector in particular, it is expected to reveal the extent to which households engage in non-farm productive activities and the range of goods and services they consume. Such information will improve understanding of the economic dynamics in this sector. From the PRIME perspective, it will yield insights into means of mobilizing labor resources to produce the desired goods and services more efficiently. This should help guide GOR efforts to promote decentralized production and increase employment in rural areas in particular.

Other parties interested in rapid availability of the data set include researchers working on the AID-funded Agricultural Survey and Analysis project, Ministry of Plan officials working on the Fourth Development Plan and other government agencies, donors and service organizations. The PRIME Program Manager in OAR/R will collaborate with the Ag. Survey researchers in working out arrangements with the French and Rwandans for use of the data base, as well as securing equipment and staffing for data processing and analysis.

B. Purpose

To assist the GOR in analyzing in a timely manner the results of the household survey in order to develop more accurate social and economic information in support of policy formulation.

C. Resources and Implementation

1. The services of a statistician for 6 months to clean the data set and process data for analysis. This specialist will work in close coordination with the Rwandan statistical office, the PRIME industrial incentives team and the Ag Survey team.

2. The services of an economist for 6-12 months to analyze the household survey data and develop information on the range and scale of productive activities. This specialist could work part-time in conjunction with complementary work on the industrial incentives study. He/she will work under the general supervision of the Industrial Incentives Study Supervisor.

3. The services of a Rwandan counterpart who could be on a short-term detail from the Statistical Office in the Ministry of Plan

4. Computer hardware and softward will be provided through the Ag. Survey project. Supporting materials will be provided with study funds.

D. Terms of Reference

1. Process both the urban data set and that portion of the rural data set which deals with non-farm activities.

2. Insure the consistency of the data with previously available (presumably less refined) information by adjusting earlier data as appropriate.

3. Develop information on the range, scale and location of non-farm productive activities of rural households, on effective rural demand and marketing channels for goods and services, and on sources/uses of credit if possible.

4. As the urban household data become available (end CY 1985), develop corresponding information on production, demand and marketing channels.

5. Analyze and interpret the data in collaboration with GOR staff in order to improve understanding of the range of existing and potential productive activities performed by Rwandan households.

6. Apply the results of the investigation to the study of industrial incentives also included in the PRIME program (see Section II above).

IV. OTHER STUDIES SUPPORTING POLICY REFORM

In order to help the GOR achieve its goal of reducing its involvement in productive parastatals, the PRIME program proposes to draw on the technical services (under an IQC with Coopers and Lybrand) available under the REDSO/ESA-managed Parastatal Studies, Restructuring and Divestiture project. These services would also be drawn upon to develop implementation plans for the spin-off to the private sector of productive units established under development projects (e.g., a dairy operation).

PRIME funds under this component have also been budgeted to undertake additional studies which will support the GOR's strategy for economic recovery (see Section V below).

V. TERMS OF REFERENCE FOR THE SENIOR ADVISOR, MINISTRY OF INDUSTRY

A. Objective

To assist the Ministry of Industry, Mines and Artisanat in the design and implementation of a series of studies supporting the Policy Reform Initiatives in Manufacturing and Employment (PRIME) program. The objective of the PRIME progrma is to assist the Goverment of Rwanda (GOR) in making necessary structural adjustment and policy changes in order to stimulate production and employment in the manufacturing sector, particularly in the small and medium enterprise (SME) sub-sector.

B. Scope of Work

Over a period of two years, the Senior Advisor will perform the following specific tasks in close collaboration with his/her Rwandan counterpart (the Study Supervisor) in the Ministry of Industry, Mines and Artisanat:

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1. Examine the tariff structure, exchange rate and other instruments of trade and fiscal policy to determine their effects on resource use in the industrial sector and on Rwanda's trade and payments regime.

2. Recommend policy changes and/or additional studies of the trade and payments regime to promote industrial incentives, remove distortions and increase investments, especially of small-medium rural enterprises.

3. Prepare specific terms of reference for the industrial incentives study and for all short-term specialists in conformity with Section II.D above, supervise their work and assure publication of final reports. Liaise with the OAR/R Program Manager in providing adequate support services for consultants and in implementing training programs, workshops and seminars.

4. Advise the Minister of Industry, Mines and Artisanat on all aspects of industrial policy and assist in the formulation of an industrial policy, strategy and plan.

5. Liaise with the research staff of other donors and appropriate Rwandan institutions, especially those researchers working on the IBRD-supported tariff study.

6. Assist the Ministry of Industry, Mines and Artisanat in developing plans for parastatal divestiture and arrange for suitable short-term studies related to divestiture.

7. Liaise with the Rwandan Development Bank (BRD) in the implementation of the Equity Participation Fund.

8. Undertake other duties which may be assigned by the OAR/R Agricultural Development Officer.

C. Qualifications

The candidate must have a Ph.D. in industrial economics, a minimum of five years of experience in senior advisory work overseas and a French proficiency level of at least FSI-3 in both speaking and reading.

VI. TERMS OF REFERENCE FOR THE PRIME PROGRAM MANAGER IN OAR/RWANDA

A. Objective

To assist the Office of the AID Representative in Rwanda (OAR/R) in all aspects of implementing the Policy Reform Initiatives in Manufacturing and Employment (PRIME) program. The objective of the PRIME program is to assist the Government of Rwanda (GOR) in making necessary structural adjustment and policy changes in order to stimulate production and employment in the manufacturing sector, particularly the small and medium enterprise (SME) sub-sector.

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B. Scope of Work

Under the supervision of the OAR/R Agricultural Development Officer and over a period of three years, the Program Manager will perform the following specific tasks:

1. Monitor GOR progress in implementing and/or promulgating the reforms which have been agreed upon in the Program Agreement.

2. Assist in determining whether or not the conditions precedent to disbursements of successive tranches of the cash transfer have been satisfied.

3. Assume responsibility for all documentation (Program Implementation Letters, etc.) triggering disbursements of the cash transfer.

4. Assume responsibility for all documentation (PIO/Ts, PIO/Ps, PIO/Cs, etc.) related to implementation of the technical assistance component of the PRIME program. Terms of reference for consultants will be prepared in close collaboration with the Senior Advisor to the Ministry of Industry (see Section V above).

5. Liaise with other donors who are assisting the GOR in undertaking an economic recovery and reform program.

6. Monitor and, when applicable, assist in supervising all studies which may be undertaken under the technical assistance component of the PRIME program.

7. Assume responsibility for all participant training (in-country, third country and U.S.) which may be provided under the PRIME program

8. Undertake additional duties as may be assigned by the OAR/R Agricultural Development Officer and AID Representative.

C. Qualifications

The candidate must have a M. Sc. degree in one of the economic disciplines, preferrably industrial and/or macreconomics. The candidate must also have a minimum of three years of working experience overseas and a strong familiarity with AID regulations and documentation. S/he should have fluency in French at the FSI-3 level in both reading and speaking.

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VII. BUDGET FOR THE TECHNICAL ASSISTANCE COMPONENT OF THE PRIME PROGRAM

A. Industrial Incentives Study

Senior Advisor - 2 py @ $125,000/py	$250,000
3 Rwandan researchers - 2 py ea. x $15,000/py x 3	90,000
Short-term support from MSU - 12 pm x $15,000/pm	180,000
2 vehicles	24,000
Seminars and workshops, both in-country and U.S./third country	80,000
Computers and software	40,000
Miscellaneous expenses	156,000
Sub-Total	820,000

B. Analysis of Household Survey Data

Economist - 1 py @ $125,000	125,000
Statistician - 6 pm x $15,000/pm	90,000
1 vehicle	12,000
Miscellaneous expenses	33,000
Sub-Total	260,000

C. Other Studies Supporting Policy Reform
(including divestiture, end-of-program evaluation, etc.)

22 pm x $15,000/pm	330,000
Miscellaneous expenses (computer time, secretarial services, translating services, vehicle rental, purchase of supplies and documents, etc.	105,000
Sub-Total	435,000

D. Supplemental Staff Support for the BRD

2 Rwandans - Yr. 1 @ 100%		$15,000 x 2	30,000
Yr. 2 @ 50%		7,500 x 2	15,000
		Sub-Total	45,000

E. Program Management

Economist - 3 py	375,000
Vehicle	15,000
Miscellaneous expenses and support	50,000
Sub-Total	440,000

GRAND TOTAL $2,000,000

ANNEX G

Projection of Ordinary Budget Deficits for 1984, 1985 and 1986 ($millions)

	1982	1983	1984*	1985*	1986*
Ordinary Budget					
Receipts					
Direct Taxes	33.9	35.9	35.9	38.1	37.4
Indirect Taxes	90.9	95.0	105.8	107.0	110.4
Coffee	9.8	11.0	19.0	15.6	11.0
Beer	29.2	36.7	37.9	40.8	48.7
Imports	40.9	36.8	38.9	40.6	40.7
other	11.0	10.5	10.0	10.0	10.0
Other Receipts	15.2	16.8	18.4	19.0	15.0
Total Receipts	140.0	147.6	160.2	164.1	162.3
Total expenditure	167.2	163.6	167.2	175.3	180.0
Surplus/Deficit	-27.2	-16.0	-7.0	-11.2	-17.7

* MODEL ESTIMATES

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