CLASSIFICATION UNCLASSIFIED

AID 1120-1 PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 696-0135 PAAD No. 696-T-602A
		2. COUNTRY RWANDA
		3. CATEGORY PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM (AEPRP)
		4. DATE August 8, 1991
5. TO: Scott M. Spangler, AA/AFR		6. OYB CHANGE NO. n/a
7. FROM James A. Graham, Director, USAID/K		8. OYB INCREASE $ 5.0 million
		TO BE TAKEN FROM: 72-11X1014
9. APPROVAL REQUESTED FOR COMMITMENT OF $ 25.0 million		10. APPROPRIATION DFA

11. TYPE FUNDING ☐ LOAN ☒ GRANT | 12. LOCAL CURRENCY ARRANGEMENT ☐ INFORMAL ☒ FORMAL ☐ NONE | 13. ESTIMATED DELIVERY PERIOD 9/91 - 12/92 | 14. TRANSACTION ELIGIBILITY DATE August 1991

15. COMMODITIES FINANCED

none

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $ 5.0 million	Other:
	Source Code: 935

18. SUMMARY DESCRIPTION

The goal is to contribute to growth in employment and production in the medium term. To that end, the program purpose is to increase competition in the short run, and subsequently production and employment, in manufacturing and related sectors.

The program has four components: (1) policy reform; (2) resource transfer in the form of cash transfer; (3) local currency generated from the resource transfer; and (4) technical assistance for program monitoring and institutional strengthening.

In order to achieve the program purpose, a set of policy reform conditions were developed jointly with the Government of Rwanda. The monies would be disbursed in two tranches of $15 million and $10 million, respectively.

Additional PMPR Program details are found on the attached pages.

19. CLEARANCES	DATE	20. ACTION
USAID/K PROG:CCantell	8/9/91	☒ APPROVED ☐ DISAPPROVED
USAID/K PROG:BNiyibizi	8/9/91	
USAID/K CONT:JGonson	8/9/91	James A. Graham — AUTHORIZED SIGNATURE — 19Sept91 DATE
USAID/K PROG:DDijkerman	8/9/91	
~~AA/AFR LSaiers~~	State 301158	
REDSO/ESA RLA AVance	Nairobi 22923	Director, USAID/Rwanda TITLE
State 306759 (17Sept91)	(fund cites)	

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Block 18. Summary Description: RWANDA PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM (696-0135) (continued)

DEVELOPMENT PROBLEM. It is becoming increasingly difficult for Rwandans to find productive employment. On-farm employment opportunities are limited. No exploitable areas remain and no acceptable agricultural technologies, which could productively use the growing labor supply, appear in hand. A landless labor class is emerging as many farms can no longer be subdivided among family members and still be feasible economic units. With Africa's highest population density (1,100 people per square kilometer of arable land), a high population growth rate (3.4 percent), and despite a generally conducive agricultural policy framework, the sector's ability to provide new productive employment opportunities does not appear encouraging.

In Rwanda, it is in the non-farm sectors where opportunities for new employment exist. Unlike that for agriculture, the policy framework facing non-farm sectors has been much less conducive to growth, having been characterized as dirigist, quasi-isolationist, and import substitution oriented. However, since the Government of Rwanda (GOR) launched a comprehensive structural adjustment program to reform its policy framework in late 1990, prospects for increasing productive employment in Rwanda's non-farm sectors of manufacturing and commerce have improved significantly.

Rwanda's structural adjustment program has been developed with support from the World Bank and IMF. At a recent donor meeting in Paris, bilateral donors, including the U.S., pledged financial support for Rwanda. Its reform program is replacing the dirigist policies of the 1980s with market-oriented reforms.

The non-farm manufacturing and commerce sectors are the key sectors adversely affected by the current economic and financial crisis and distorted incentive structure. The manufacturing and commerce (including services) sectors are defined to include both formal, i.e., registered, and informal, i.e., unregistered, firms engaging in production and marketing activities. A considerable body of analysis has concluded that Rwanda's current non-farm structure has evolved into its present state largely as the result of government policies and administrative regulatory mechanisms. These policies had the government directing and controlling imports, investment, profit margins, price, movement of labor, entry into business, and, just as importantly, exports. Given Rwanda's land and population constraints, these sectors have an important role to play. They can provide employment and domestic value-added goods needed and desired by Rwandans and help diversify Rwanda's virtual dependency on coffee and tea exports.

Program Goal and Purpose. The goal is to contribute to growth in employment and production in the medium term. To that end, the program purpose is to increase competition in the short run, and subsequently production and employment, in manufacturing and related sectors. The A.I.D. program is summarized in the logical framework in Annex B.

Program Components. The program has four components: (1) policy reform; (2) resource transfer in the form of cash transfer; (3) local currency generated from the resource transfer; and (4) technical assistance for program monitoring and institutional strengthening.

(1) The policy reforms A.I.D. has identified firmly support the Government of Rwanda's (GOR) own structural reform agenda and form the core of policies which support the change to market-driven signals in Rwanda's non-farm sectors. They address three critical areas affecting the manufacturing and commerce sectors: (a) the foreign exchange allocation and import system; (b) the restrictive trade regime; and (c) the number of prices under government control. These reforms are important interim steps in the process of moving toward an economic environment with a less restrictive import regime (an open general licensing system), a more export-oriented outlook, and fewer government-fiated price and profit margin controls. The A.I.D.-supported reforms address currently the key constraints facing the manufacturing and commerce sectors, as identified in Section III.B. above.

The proposed PMPR, together with institutional strengthening and complementary measures identified in Rwanda's larger adjustment program, can begin the restructuring of the distorted incentive structure facing Rwanda's manufacturing and commerce sectors from one that is responsive to government directives (the formal segments) or repressed (the informal segments) by directives to one that is less fettered by government and guided by market forces.

(2) The proposed PMPR will provide a total of $25 million. It will be disbursed in two tranches, with $15 million for the first tranche. The dollars will be disbursed in the form of cash transfers. The dollar resources are provided to reduce real and perceived risks and uncertainties associated with the change from the current administratively-allocated import system to the market- or price-driven system. Providing resources as a cash transfer had signalled firmly to the GOR the USAID priority that the new system be implemented in a transparent and non-discriminatory fashion. How the new import licensing and foreign exchange allocation system is actually implemented will be crucial in determining the momentum of the GOR's overall

structural adjustment program and the private sector's confidence in the reform program. Their assessment of the GOR's intent and commitment will influence whether and how they will respond to the changing incentive structure.

(3) The local currency (equivalent to $25 million) generated by the dollar transfers will be used to help reduce government arrears to private sector manufacturers, commercial concerns (e.g., transporters) and other private suppliers. The reduction of arrears will be a critical factor in boosting business confidence and reducing some credit crunch.

(4) The PMPR's monitoring and institutional strengthening component supplements GOR and other donor efforts to ensure that there is an on-going and timely monitoring and analysis capability for overseeing and assessing the impact of the A.I.D.-supported reforms and associated parts of the larger SAP on competition, production and employment. It addresses two weaknesses in the GOR's Structural Adjustment Program: the absence of a vehicle to rapidly assess the evolving impact of policy changes, and the unsatisfactory record of collecting, processing, and analyzing even small sets of survey data on a timely basis. USAID support is to help identify, on a timely basis, areas which could be implemented more rapidly or which require modifications. In this manner, potential problems can be identified and focused upon before they may become threatening to the over-all adjustment program. It may also help to control and dispel incorrect rumors and suppositions about the actual impact of PMPR, as well as its converse, provide concrete information to generate confidence in the new import system and the government's commitment to structural adjustment. Just as importantly, this component, while benefiting the GOR, will also benefit the Mission. First, the base-line data collected can permit a better assessment of the program's people-level impact. Second, information collected during the life-of-program can help USAID work with the GOR to correct problems as they are identified and take advantage of emerging opportunities.

A Monitoring Unit will be established in the Ministry of Plan to implement this PMPR program component. Given the overriding importance of this component to ensuring the PMPR program's impact is as envisaged, it is treated in a separate section (See Section VI.). Technical assistance will be provided as needed to support the implementation and further formulation of policy reforms, as well as to strengthen institutions which support the reform implementation, monitoring, and evaluation process. Twelve months of funding for this component will come from an on-going USAID policy reform project. Approximately $493,000 and local currency equivalent to $90,000 will be provided. Thereafter, a new A.I.D. project will provide the funding. The size of the project is projected to be $3.6 million and local currency to be equivalent to $566,000. This latter estimate does not yet include in-kind contributions by the GOR.

Program Impact and Beneficiaries. The program impact and beneficiaries are discussed in detail in Section VII and Annex F. The ultimate beneficiaries will be:

-- rural and urban Rwandans who will have a greater supply and variety of required and desired goods and services to purchase, some at lower real prices; and subsequently
-- Rwandans who will be employed as a result of new production activities, both for domestic and export markets, in the restructuring manufacturing and commerce sectors.

Given Rwandan social structures, new employment will result in part of the income earned being transferred to rural areas. Linkages and the passing of assistance from non-farm workers back to the farm through the extended family structures are very strong traditional social structures. Rwanda's adequate road network, by sub-Saharan standards, and large number of traders and rural merchants, will help ensure that the additional production by the manufacturing sector will be marketed widely throughout the country.

Women are also expected to benefit. If past experience in Rwanda can be used as a guide, roughly one-fifth of all new businesses created as a result of the reforms will be women-directed. Women will account for roughly one-fifth of all new employment. Of the women-directed enterprises, an overwhelming percentage (90 percent) of them can be expected to be small and micro enterprises. About two-thirds of the women will begin activities in commerce with most of the remainder being in small and micro manufacturing activities.

The PMPR's people-level impact, particularly on employment and output, can be more clearly seen by detailing the linkages between the ultimate and intermediate beneficiaries. Additional detail on the linkages can found in Annex G, Cases Studies. Intermediate beneficiaries include currently efficient manufactures and commercial concerns, importers, shopkeepers, and transporters. They will benefit from non-discriminatory access to foreign exchange, fewer constraints regarding the type of items which can be imported, fewer price and margin controls. Having greater freedom in making production and marketing decisions is expected to stimulate efficient manufacturers to increase employment and output in the first instance. Small rural and urban shopkeepers, and transporters in the commercial sector will benefit from a greater production which they can then buy and sell. Ultimately, Rwanda's consumers will benefit from having an increased supply of goods.

To economize on the increased price of foreign exchange, these firms are expected to seek out ways to take greater advantage of local inputs. This would stimulate a second round effect on enterprises heretofore benefiting little or not at all from formal manufacturing activity. Based on their first round of experience, manufacturers and commercial concerns can be expected to increase their investment and, possibly, entry into different product lines.

Importers of final consumer goods and intermediate goods have been constrained by government policies. They will benefit from the PMPR-supported changes. They can be expected to try to import more and different types of final goods, given the removal of government regulations on the types and quantities of imports. Goods whose import was tightly controlled include blankets, plastic products, hoes, and other small agricultural implements.

Larger importers are expected to serve the needs of small and informal sector enterprises who may not be large enough to participate directly in the new import system. These smaller producers will still benefit by obtaining access to needed imported intermediate goods and then being able to transform them domestically (i.e., adding local value-added).

Another group of intermediate beneficiaries are those manufacturers and commercial concerns who have been constrained by government policy from trying to develop export markets for their goods. While the impact of the program's export promotion component will be very limited during the life of the PMPR, it nevertheless can generate future benefits in terms of greater employment and linkages with other local suppliers, and foreign exchange earnings. As Rwanda becomes more supportive of exports, the smaller transporters who have long crossed borders illegally are expected to benefit in reduced operating costs. In some cases, an export market may serve to help bring along the development of domestic markets.

Groups Made Vulnerable by PMPR. It is important to differentiate between those Rwandans who may be made vulnerable (a) by the A.I.D. PMPR Program, (b) the GOR's overall Structural Adjustment Program, and (c) those likely to be vulnerable regardless of the presence of a reform program. The negative consequences of the PMPR program's reforms will fall on groups traditionally considered non-vulnerable: owners and employees of inefficient larger formal firms (including parastatals) in the manufacturing and commerce sectors, and to a minor extent civil servants. Traditionally vulnerable groups, including the rural poor, are expected to benefit from the A.I.D. supported reforms, as set forth above.

The A.I.D.-supported reforms have been designed to lessen the initial shock of the reforms, but not avoid their fundamental intent, in four ways. First, the reduction of GOR arrears to private sector firms will largely benefit formal firms, some of whom could be adversely affected by the PMPR. By having their arrears reduced, they will receive a needed cash injection that can be used to help them adjust. Second, the GOR has decided to change slowly from a GOR managed exchange rate. Rather than jump directly to a market-determined exchange rate, it is moving first to an interim managed system so firms will not see the dramatic exchange rate changes, hence changes in their costs of production, as were seen in other reform programs. Third, the GOR has decided to reserve 30 percent of all foreign exchange allocated under the new system for essential goods (e.g., petrol, oil, lubricants, pharmaceuticals, school supplies). Finally, the PMPR has a monitoring component which is intended to rapidly identify and assess the magnitude of impact, both negative and positive. In the case of the former, the monitoring system can give the GOR more time to respond and correct an adverse impact which it believes to be unacceptable.

The last three measures can help ease the adverse effects of reforms beyond those supported by the A.I.D. program. Since the monitoring system can help identify potential problems, the A.I.D. program could afford some assistance to groups vulnerable for reasons other than the A.I.D. program.

Policy Conditionality. In order to achieve the program purpose, a set of policy reform conditions were developed jointly with the Government of Rwanda. The monies would be disbursed in two tranches of $15 million and $10 million, respectively.

Conditions Precedent to the Disbursement of the First Tranche. Two conditions precedent to the disbursement of the first tranche are proposed:

"Condition 1. The Government of Rwanda will have replaced the existing administratively programmed foreign exchange allocation and controlled import licensing system with an interim licensing and allocation system that is responsive to market conditions and has the following characteristics:

(a) the Government of Rwanda will publicly announce the amount of foreign exchange available for allocation in each period;

(b) firms and individuals submitting requests for foreign exchange will pay at the time of filing a non-refundable application fee equivalent to five percent of the value of their request in local currency;

(c) if the requests exceed the available foreign exchange, the Government of Rwanda will reduce proportionately and non-discriminately by a factor equal to the relationship between the overall availability of foreign exchange and the total amount requested;

(d) the Government of Rwanda will issue the necessary documentation and approvals permitting those who received foreign exchange to import without undue delay; and

(e) the Government of Rwanda will publish each month for public distribution the names of firms and individuals who have requested foreign exchange under the new system, how much and for which imports they requested foreign exchange, and how much was allocated to each requestor and for which imports."

"Condition 2. The Government of Rwanda will have:

(a) eliminated all controls on profit margins, except for monopolies;

(b) abolished fixed prices and profit margins for all goods and services, except for a limited number; and

(c) replaced quantitative restrictions protecting local industry with a reduced number of tariffs from twenty-three to seven and reduced range of customs duties and import surcharges from between zero and 250 percent to 10 and 100 percent."

Conditions Precedent to the Disbursement of the Second Tranche. Three conditions precedent to the disbursement of the second tranche are proposed:

"Condition 1. The Government of Rwanda will have continued to implement the new import system which has the characteristics stipulated in Tranche 1., Condition 1. above; or will have implemented an Open General Licensing (OGL) system."

"Condition 2. The Government of Rwanda (GOR) will have initiated a comprehensive review of its export promotion policies."

"Condition 3. The Government of Rwanda will have reduced its arrears to domestic creditors by at least the equivalent US$ 15 million (calculated at the time of signing the Agreement)."

Covenants. Two covenants are proposed:

"Covenant 1. The Government of Rwanda shall covenant to take steps:

(a) to implement an Open General Licensing System for imports;

(b) to implement and reinforce, if necessary, its capacity to monitor the operation of the new foreign exchange allocation and liberal import licensing system, with particular reference to its effect on the manufacturing and commerce sectors and their linkages with the rest of the economy; and

(c) to further reduce arrears to domestic creditors by at least the equivalent of US$10 million (calculated at the time of signing the Agreement).

"Covenant 2. The Government of Rwanda will meet with USAID, as necessary, to discuss developments concerning the implementation of the policy reforms, their impact, and government's review of export promotion policies."

Disbursement Schedule. There are no set dates by which the GOR must comply with the PMPR policy conditions. The GOR can request, in writing, that A.I.D. release the funds when the GOR believes it has fulfilled the relevant conditions. USAID, in conjunction with the REDSO/ESA lawyer, will make the determination as to whether the conditions have been fulfilled. USAID estimates that the first tranche will be released in the fourth quarter of FY 1991 and the second tranche by the start of the second quarter of FY 1992.

Status of Negotiations. Changes suggested in the PAIP ECPR guidance cable (State 210761, dated June 27, 1991) were discussed with the GOR. Importantly, between the PAIP submission and the start of the PAAD design, the GOR requested USAID to begin implementing the PMPR institutional strengthening and technical assistance component as soon as possible, even before the PMPR ProAg would be signed. Drafts of the Program Agreement, Authorization, and Action Memorandum have been sent to REDSO/ESA for RLA clearance. Similarly, to expedite the process, the GOR has also begun reviewing a draft of the Program Agreement.

The Ministers of Plan, Foreign Affairs (in Rwanda, this Minister signs all donor agreements), and a special Minister in the President's Office have all indicated to USAID at various times, the GOR's overall agreement with the PMPR, and their willingness to proceed to the signing as soon as possible.

RWANDA

PRODUCTION AND MARKETING POLICY REFORM (PMPR)

PROGRAM

(696-0135)

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EXECUTIVE SUMMARY

RWANDA PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM (696-0135)

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(b) firms and individuals submitting requests for foreign exchange will pay at the time of filing a non-refundable application fee equivalent to five percent of the value of their request in local currency;

(c) if the requests exceed the available foreign exchange, the Government of Rwanda will reduce proportionately and non-discriminately by a factor equal to the relationship between the overall availability of foreign exchange and the total amount requested;

(d) the Government of Rwanda will issue the necessary documentation and approvals permitting those who received foreign exchange to import without undue delay; and

(e) the Government of Rwanda will publish each month for public distribution the names of firms and individuals who have requested foreign exchange under the new system, how much and for which imports they requested foreign exchange, and how much was allocated to each requestor and for which imports."

"Condition 2. The Government of Rwanda will have:

(a) eliminated all controls on profit margins, except for monopolies;

(b) abolished fixed prices and profit margins for all goods and services, except for a limited number; and

(c) replaced quantitative restrictions protecting local industry with a reduced number of tariffs from twenty-three to seven and reduced range of customs duties and import surcharges from between zero and 250 percent to 10 and 100 percent."

Conditions Precedent to the Disbursement of the Second Tranche. Three conditions precedent to the disbursement of the second tranche are proposed:

"Condition 1. The Government of Rwanda will have continued to implement the new import system which has the characteristics stipulated in Tranche 1., Condition 1. above; or will have implemented an Open General Licensing (OGL) system."

"Condition 2. The Government of Rwanda (GOR) will have initiated a comprehensive review of its export promotion policies."

"Condition 3. The Government of Rwanda will have reduced its arrears to domestic creditors by at least the equivalent US$ 15 million (calculated at the time of signing the Agreement)."

Covenants. Two covenants are proposed:

"Covenant 1. The Government of Rwanda shall covenant to take steps:

(a) to implement an Open General Licensing System for imports;

(b) to implement and reinforce, if necessary, its capacity to monitor the operation of the new foreign exchange allocation and liberal import licensing system, with particular reference to its effect on the manufacturing and commerce sectors and their linkages with the rest of the economy; and

(c) to further reduce arrears to domestic creditors by at least the equivalent of US$10 million (calculated at the time of signing the Agreement).

"Covenant 2. The Government of Rwanda will meet with USAID, as necessary, to discuss developments concerning the implementation of the policy reforms, their impact, and government's review of export promotion policies."

Disbursement Schedule. There are no set dates by which the GOR must comply with the PMPR policy conditions. The GOR can request, in writing, that A.I.D. release the funds when the GOR believes it has fulfilled the relevant conditions. USAID, in conjunction with the REDSO/ESA lawyer, will make the determination as to whether the conditions have been fulfilled. USAID estimates that the first tranche will be released in the fourth quarter of FY 1991 and the second tranche by the start of the second quarter of FY 1992.

Status of Negotiations. Changes suggested in the PAIP ECPR guidance cable (State 210761, dated June 27, 1991) were discussed with the GOR. Importantly, between the PAIP submission and the start of the PAAD design, the GOR requested USAID to begin implementing the PMPR institutional strengthening and technical assistance component as soon as possible, even before the PMPR ProAg would be signed. Drafts of the Program Agreement, Authorization, and Action Memorandum have been sent to REDSO/ESA for RLA clearance. Similarly, to expedite the process, the GOR has also begun reviewing a draft of the Program Agreement.

The Ministers of Plan, Foreign Affairs (in Rwanda, this Minister signs all donor agreements), and a special Minister in the President's Office have all indicated to USAID at various times, the GOR's overall agreement with the PMPR, and their willingness to proceed to the signing as soon as possible.

I. RWANDA'S LONG TERM DEVELOPMENT PROBLEM AND THIS AEPRP

It is becoming increasingly difficult for Rwandans to find productive employment. On-farm employment opportunities are limited. No exploitable areas remain and no acceptable agricultural technologies, which could productively use the growing labor supply, appear in hand.[1] A landless labor class is emerging as many farms can no longer be subdivided among family members and still be feasible economic units. With Africa's highest population density (1,100 people per square kilometer of arable land), a high population growth rate (3.4 percent), and despite a generally conducive agricultural policy framework, the sector's ability to provide new productive employment opportunities does not appear encouraging.

In Rwanda, it is almost exclusively in the non-farm sector where opportunities for new employment exist. Unlike that for agriculture, the policy framework facing non-farm sectors has been much less conducive to growth, having been characterized as dirigist, quasi-isolationist, and import substitution oriented. However, since the Government of Rwanda (GOR) launched comprehensive structural adjustment program to reform its policy framework in late 1990, prospects for increasing productive employment in Rwanda's non-farm sector, manufacturing and commerce, have improved significantly.

This AEPRP promotes increased competition in the short-run and subsequently employment in Rwanda's non-farm sectors. It provides financial support for the sustained implementation of new policies that ameliorate key constraints to the operation of market forces, in particular, the formal and informal manufacturing and commerce sectors. The expected short-term result is an increased supply of goods and services, with the subsequent effects of increased employment.

II. BACKGROUND: RECENT DEVELOPMENT AND GOVERNMENT ACTIONS

A. Current Macroeconomic Situation and Near-Term Outlook[2]

Rwanda's recent declining economic performance and financial difficulties have been influenced by three major factors:

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[1]"Tendenaces de la Production Agricole et Son Impact sur la Securite Alimentaire" O. Ngarambe, Dr. G. Lassiter, and Dr. S. Loveridge. Service des Enquetes et Statistiques Agricoles (SESA), April 1989. [an USAID-funded project]

[2]Annex A summarizes Rwanda's and the GOR's economic and financial information in tables.

-- unfavorable weather conditions;
-- worsening terms of trade due to falling world coffee prices; and
-- delayed macroeconomic adjustment by the GOR.

The war in October 1990 further aggravated the situation. Unexpected military outlays increased the budget deficit, significantly weakened the balance of payments position, and resulted in a substantial increase in domestic arrears to private suppliers and banks.

Real GDP stagnated in 1988 and declined by almost 6 percent in 1989, bringing it to a level below that in 1983 (GOR, February 15, 1991). Inflation during this period averaged less than 4 percent per year, reflecting the effect of GOR price controls and an appreciation of effective exchange rate. As a result of adverse weather, agricultural output fell by 14 percent during 1988-1989.

The economy's performance continued to worsen in 1990, especially in the last quarter as a result of the war. Real GDP was estimated to fall by 2 percent, despite a recovery in agricultural exports. The volume of coffee exports had increased by 60 percent over 1989 levels. Manufacturing, trade, tourism, and transportation activities were most adversely affected by the economic difficulties and the war.

Inflation began to pick up toward the second half of 1990, and is projected to be much higher in 1991, in the order of 25 to 30 percent. The expected increase will result in part from the GOR's implementation of its structural adjustment program and in part due to the continued closure of Rwandan's main export and import route through Uganda to Kenya's port of Mombasa. Rebel activity has closed the Rwandan-Ugandan border. Overland imports and exports must now go via Tanzania, which takes twice as long. Transport costs were also dramatically higher, until the GOR recently changed its policy to let Kenyan and Ugandan transporters deliver goods to Rwanda, as opposed to only Rwandan transporters. The cost of transport through Tanzania has fallen to only $20 per metric ton more than the average of $180 per metric ton paid before the border closed.

1. Government Finance.

By late 1990, the country's financial position reached a crisis stage. The budget deficit rose substantially, from 7.3 percent of GDP excluding grants (or 4.0 percent with grants) in 1989 to 11.7 percent (or 8.4 percent with grants) in 1990. The large increase in the deficit was due, in part, to falling tax revenue, but largely as a result of substantial increases in spending.

With the exception of the coffee export tax revenue, all tax revenues (i.e., income and profits, excise and sales, and import duties) declined in 1990. Total revenue was 9 percent lower than the previous year due to the decline in economic activity and lower imports. On the expenditure side, total government spending rose by more than 15 percent. All of the increase was in current spending (30 percent). Capital outlays actually fell by 11 percent as project implementation slowed down noticeably. The sharp increases in current spending are largely accounted for by the increased security-related outlays, and by the large transfer to the coffee sector. The latter went up from RwF 2 billion in 1989 to Rwf 4 billion in 1990.

The GOR also accumulated substantial domestic arrears, estimated at RwF 5.3 billion (3.9 percent of GDP) at the end of fiscal 1990. The deficit was largely financed by the domestic banking system. Net bank credit to the GOR rose by more than 20 percent. The rest of the economy was squeezed as credit to non-government entities fell by 3 percent. With net foreign assets declining sharply toward the end of 1990, the money supply rose by only 5 percent.

2. Balance of Payments.

Between 1986 and 1989, the cumulative deterioration in Rwanda's terms of trade amounted to approximately 40 percent. In 1990, the terms of trade continued to deteriorate. Coffee and tea prices, Rwanda's two principal export crops, were down significantly. Coffee accounts for over three-quarters of Rwanda's foreign exchange earnings and tea another fifth. The export price of coffee fell by about 33 percent in 1990. The impact on the balance of payments would have been worse had it not been for a 60 percent increase in the volume exported. The increased volume resulted from a good harvest and substantial draw down of stocks. Other exports fell by about 12 percent. The total value of exports stagnated in 1990 after a declining steadily since 1986.

Imports, constrained by export earnings, lower capital inflows, and restrictive import policy, continued to fall. Total imports fell by 10 percent in 1990, with military imports rising sharply at the expense of other imports. Total imports in 1990 were 20 percent lower than the 1986 level in nominal SDR terms (SDR 172 million in 1990 as compared with SDR 221 million in 1986). Tourism, another foreign exchange earning source, also went down in 1990 because the conflict was centered near several of Rwanda's main tourist attractions.

The current account deficit declined by about 10 percent in 1990; it was estimated at SDR 73 million ($95 million). This was mostly due to drastic cuts in imports. Total net capital inflows in 1990 (SDR 25 million) was only half of the 1989 level. This was partly due to the implementation slowdown of externally financed projects and partly because of much lower direct investment. The latter was estimated at slightly more than SDR 4 billion, about one-third of the 1989 level.

Because of a much lower level of capital flows, the current account deficit was largely financed by a draw down of foreign exchange reserves. Reserves were depleted by the end of 1990, and external arrears accumulated, estimated at SDR 4.6 million. Outstanding external debt went up to almost 30 percent of GDP, with debt service payments accounting for 18 percent of export earnings.

3. Near-Term Outlook.

For the next three years (1991-1993), the country's financial situation will continue to be very fragile. Economic growth is projected to be only one percent in 1991, rising to about 3.5 percent in 1992 and 1993. The annual inflation rate for 1991 is projected to be more then 20 percent, partly as a result of the recent devaluation and lifting of price controls. As tightening financial and income policies take hold, inflation is expected to be lower in 1992 and 1993.

The balance of payments position will remain weak. Exports in value terms are not expected to resume growth again until 1992 (currently projected at about 8 percent); they are estimated to fall by 4 percent in 1991. Imports, with balance of payments support from bilateral donors, the World Bank, IMF, and other multilateral donors, are projected to grow by 11 percent in 1991. The current account deficit for 1991 is expected to be about SDR 110 ($150 million). It is projected to fall modestly to about SDR 95 million ($130 million) in 1993.

Capital inflows are projected to increase sharply because of large anticipated external balance of payments assistance. Over the next three years, the average annual capital inflows are projected to be about SDR 115 million ($156 million). This should be adequate for financing the current account deficit, eliminating the external arrears, and building up the foreign exchange reserve position.

The budget deficit will continue to be high in 1991, estimated at more than RwF 20 billion (about $160 million). It is expected to be reduced to RwF 17 billion and RwF 15 billion in 1992 and 1993 respectively, as military spending and transfers to the coffee sector are reduced, other expenditure outlays contained, and government revenue increased.

GOR revenues are projected by the IMF to increase significantly (32 percent in 1991, and by 67 percent between 1990 and 1993) because of different reforms in tax policy and strengthening of tax administration. However, USAID has concluded that the revenue projections are based on overly optimistic assumptions regarding the tax reform impact on government revenue generation. Consequently, the projected budget deficit given in the IMF program should be viewed as the best hopeful, but unlikely, outcome.

B. The Government of Rwanda Response

The current economic and financial crisis reflects in part unfavorable external and non-economic factors, in part structural weaknesses in the Rwandan economy, but also postponed macroeconomic adjustment in response to changing world market conditions. The economic decline, structural weaknesses, and weakening financial position were evident since the coffee price collapse in 1987. Until 1990, the GOR chose to postpone difficult macroeconomic and structural adjustment. Instead its policy was one of "no adjustment." This policy was financially unsustainable, hence the resulting financial crisis.

In 1989 the GOR approached the IMF and the World Bank for assistance. Between 1989 and 1991, a Policy Framework Paper (PFP) for 1991-1993 was developed jointly with the GOR. The PFP was approved in April 1991 by both international institutions. It provides a policy framework for mobilizing external resources in support of economic stabilization measures and structural reforms.

Donors support the PFP. In the March 1991 special meeting in Paris, bilateral donors committed over $120 million above their regularly planned programs for Rwanda. These commitments covered the PFP's first year's financial gap. At the meeting, the U.S. Government committed $20 million of FY (US) 1991 DFA AEPRP monies.

In April 1991, the IMF agreed to a three-year $42 million (SDR 30.66 million) Structural Adjustment Facility (SAF) with Rwanda. This is the first IMF program since 1979. The first tranche of SDR 8.76 is scheduled for disbursement in 1991.

Shortly after the IMF's action, the World Bank approved its First Structural Adjustment Credit (FSAC) with Rwanda. This $90 million SAC was signed in July 1991 and will be disbursed in two tranches. The first tranche and retroactive financing of imports can amount to $73 million -- $55 million from the first tranche and $18 million for retroactive financing. USAID expects the World Bank to begin disbursement of the FSAC by October. The second tranche is scheduled for disbursement in the first half of 1992.

1. Structural Adjustment Program (SAP)

The Structural Adjustment Program adopted by the Rwandan Government includes a number of macroeconomic policies and structural reforms. They represent a significant change from the dirigist policies of the 1980s, because they rely more on market forces. The reforms are intended to (i) improve economic efficiency, (ii) restore economic growth with moderate inflation, and (iii) return to a more sustainable government finance situation and viable balance of payments position.

The 1991-1993 PFP outlines economic and financial stabilization measures for addressing the current macroeconomic disequilibria and correcting the major distortions in the incentive structure. It also provides a foundation for dealing with the country's longer-term structural constraints through a set of policy and institutional changes. The objective of these changes are:

(a) to foster an environment conducive to greater private sector activity, economic efficiency and international competitiveness;

(b) to rationalize the government budget, institute budgetary reforms, and improve public sector management, especially in public enterprise reforms;

(c) to address development constraints in agriculture, human resources (e.g., population, health, and education),

(d) to safeguard natural resources; and

(e) to develop a safety net to protect vulnerable groups which may be adversely affected during the transition period of the adjustment program.

2. Phasing and Timing of Reforms

The PFP policy matrix with its implementation schedule is attached as Annex A. Priority policy areas in the next 12 to 18 months are: (i) to address the macroeconomic and financial imbalances, and (ii) to initiate reforms in the country's incentive structure to enable the private sector to expand its role in the economy. **The latter set of reforms includes:**

-- adopting market-oriented policies toward foreign exchange allocation, exchange rate,

-- liberalizing the trade regime,

-- decontrolling prices and profit margins, and

-- reforming administrative procedures to reduce the cost of doing business.

Other longer term structural and institutional reforms are to be adopted in phases throughout the PFP period, with periodic revisions.

In discussions with USAID, the GOR has re-affirmed that the PFP's schedule for economic adjustment remains consistent with the government's priorities. An intensive GOR review of progress is scheduled for September-October, 1991. USAID support for that review has been requested by the GOR. Given the present economic and financial situation, USAID has concluded that the PFP's first year's measures to bring about economic stability and restore private sector confidence are indeed prerequisites for other structural reforms. The PFP priority reform areas in macroeconomic and financial policies together with reforms to revitalize private enterprises (largely in manufacturing and trade) are ambitious and will require external support in order to be fully implemented.

3. USAID Input into the Reform Process

Previous USAID studies (e.g., PRIME, MAPS) have played an important informative role in the gradual evolution of GOR policy thinking. Specifically, PRIME studies on the negative effects of regulatory measures protecting the manufacturing sector from competition were widely discussed and instrumental in influencing policy thinking. In the MAPS exercise, policy constraints in the areas of imports, price controls, exchange rate and enterprise registration procedures were clearly identified and discussed with GOR policymakers.

In the current structural adjustment program, USAID has closely monitored the GOR process surrounding the development of the new foreign exchange allocation and import system and, in discussions with the GOR, has emphasized the need for an open non-discriminatory system administered by commercial banks.

4. Progress By Submission of AEPRP PAIP

Since late 1990, the Government of Rwanda has implemented several of the key macroeconomic policies. They include:

(a) a 40 percent devaluation of the Rwandan franc to correct for the overvaluation;

(b) an adjustment in interest rates by raising the minimum (one-year) deposit rate to 12 percent, maximum lending rate to 19 percent, freeing all other rates on deposits, and introducing a unified rediscount rate of 14 percent; and

(c) an increase in petroleum prices by an average of about 75 percent to reflect the actual cost to the country.

Although the need for an exchange rate devaluation was the subject of USAID, World Bank, IMF, and other donor discussions since the mid-1980s and during the GOR's PFP discussions with the World Bank and IMF, the GOR took the devaluation action unilaterally. The GOR has agreed to periodically re-assess the correctness of the current exchange rate with the IMF. The IMF has indicated that it is pleased with the current rate and GOR statements to make further adjustments, if conditions warrant.

Other key incentive measures called for in the PFP were being discussed while this AEPRP's PAIP was being prepared in April. They include:

(a) an interim market-oriented foreign exchange allocation system;

(b) quantitative import restrictions were to be lifted;

(c) a more rationalized and unified tariff system with a reduced number of rates is being established; and

(d) a de facto policy of decontrolling prices and profit margins is being pursued, and the government is in the process of officially implementing the policy.

In May 1991, the GOR discussed the new policies, in particular the interim foreign exchange allocation and import system, with different parties in the private sector, such as industrial firms, traders, importers, and bankers. The existing price and profit margin controls have not been enforced since late 1990. In effect, a de facto price and profit margin liberalization has already taken place. However, there is a need to administratively repeal this law and make the liberalization de jure, to bring certainty and transparency to the policy measure. The GOR has begun working toward achieving this objective. Presently, the legal measure formally removing price and profit controls is before the nation's "Parliament," the Conseil National de Developpement (CND), for final approval.

5. Progress Since Submission of PAIP.

Since the submission of the PAIP to AID/W, the GOR has continued to take steps to implement the PFP, and in particular, several

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sectoral measures directly supported by the AEPRP (see Section V.B). The GOR:

(a) in May, reduced the maximum tariff rates from over 250 percent to 100 percent and reduced the number of different rates down to ten;

(b) in June, began the interim foreign exchange allocation system;

(c) in July, increased electricity rates by an average of 50 percent and water rates by 50 percent;

(d) in July, approved (the CND) the new Public Investment Program (PIP); and

(e) in July, raised the sales tax by two-thirds.

In early August, Rwanda's Parliament approved the removal of quantitative import restrictions, de jure liberalization of the price and profit controls, and law to reduce export taxes and export controls. The exact text of the new laws, including the new amendments and changes to the proposed language are not yet available.

USAID firmly believes that measurable financial assistance promised by the World Bank, IMF, and Rwanda's donors, combined with the severity of its economic and financial crisis, has helped the GOR decide to launch its structural adjustment program.

a. Performance of the New Import System. In June, $20 million was made available under the new foreign exchange and allocation system, of which $14 million (70 percent) was reserved for general imports and $6 million (30 percent) for essential imports. The results are summarized in Table 1. Overall, Rwandan firms requested only $16.7 million, or 83 percent of what was available. Of the total requested, $12.3 million was for general goods and $4.4 million was for essential goods. Unfortunately, $1.355 million was allocated for the import of unspecified goods, whose nature cannot be determined without further information. USAID has raised this as an issue with MINIPLAN in that it may not fulfill the GOR commitment to transparent government operations. Since the names of all the importers in the unspecified category are listed, MINIPLAN has indicated it will correct how the information is tabulated. USAID is conducting a separate verification as to what was approved for import.

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Table 1. Foreign Exchange Allocation Under New Import System, June 1991.

Use	Amount Allocated in US$ 000	Percent of Total Allocated
A. General Goods (1+2+3): of which:	12,310	73.8%
1. Intermediary Goods of which:	7,228	43.3%
raw materials	5,960	35.6%
durable goods	1,268	7.7%
2. Final Goods	3,727	22.3%
3. Goods whose exact nature is unclear	1,355	8.1%
B. Essential Goods (1+2): of which:	4,378	26.2%
1. Intermediate Goods	3,308	19.8%
2. Final Goods	1,070	6.4%
Total Allocated:	16,688	100.0%(a)
Allocated as Percent of Available for Allocation	83.4 percent	

(a) Totals may not add due to rounding.
Source: adapted from GOR report.

b. Government-Wide Review of Performance on SAP. On August 6, 1991, a three-day conference of senior GOR policy-makers and bureaucrats began. Its multi-fold objective is for MINIPLAN, the coordinating ministry for the over SAP and donor support for the SAP, to present the GOR's performance over the past nine months and delineate where the country is going in the next 12 months. The Minister of Plan also stated that progress to date, as agreed with donors, was lagging in certain areas. The conference was to determine where and why there were problems, and to come to agreement on how to proceed.

C. Government of Rwanda's Political Actions

This AEPRP is being implemented in a period of dramatic social change in Rwanda. Not only has the GOR embarked upon a wide-sweeping economic liberalization program, but it has also embarked on a fundamental political reform program. Rwanda is changing from a one party to a multi-party system. New political parties have been formed. Elections have been scheduled. Over fifty independent newspapers have sprung up in a country which did not even have one daily paper a year ago. Plans to remove ethnic information from identification cards and other official records are being developed. In Rwanda, there is currently an air of optimism combined with a large measure of concern for the changes that lay ahead, which some have compared to that which existed just before its Independence.

GOR actions on both the economic and political fronts can be viewed as its response to the wide-spread dissatisfaction of the Rwandan people with the government's management of the country and the demand for changes, both in the political and economic.

USAID consultants, part of the Mission's democratization assessment, have concluded that the atmosphere for democratization in Rwanda is favorable, but the process will nevertheless be fitful. The commitment of the country's current leadership to democratization is questioned widely by Rwandans. It is undeniable, however, that the process of political change has started and has already gained considerable momentum. A draconian reversal of the current measures would probably be required to return Rwanda to a single party system, according to USAID's consultants.

What the final form of Rwanda's economic and political systems will be is, at present, difficult to predict. It remains unclear whether the economic or political reforms will be altered by the country's leadership so as to subtly nullify their original intent. The risk of economic policy reversals is addressed by the PMPR's emphasis on strengthening the GOR's institutional capacity to monitor the program on a timely basis. It is intended to help keep the GOR and USAID abreast of social and institutional ramifications of the program as they evolve. At the present time, indications point to a continued willingness to change. While the USAID-supported "early warning" mechanism of monitoring may identify unforeseen complications and subsequent analyses may propose solutions in the spirit of liberalization, the inevitable political calculus could still reject them. While reduced, this risk cannot be eliminated. Nevertheless, a successful AEPRP could have positive spill-over effects regarding the GOR's credibility on democratization.

III. MANUFACTURING AND COMMERCE SECTORS ANALYSIS

A. Overview

The key non-farm sectors adversely affected by the current economic and financial crisis and distorted incentive structure have been manufacturing and commerce (including services) sectors. These sectors are defined to include both formal, i.e., registered, and informal, i.e., unregistered, firms engaging in production and marketing. They are considered as a group because, given the small size of Rwanda's market, treating each separately risks missing their commonalities. Indeed, survey work has revealed that a number of their problems, constraints, and policy issues are similar. Key elements of the GOR policy framework regulating the private sector have adversely affected each, and their linkages among one other and with agriculture, albeit to differing degrees.

The formal and more import dependent segments of manufacturing, commerce and services sectors have been adversely affected by the current economic and financial crisis. A roughly calculation based on the PAAD survey suggests that employment in registered companies may have dropped by upwards of 2,000 to 3,000 jobs since the 1989 MAPS exercise. This is not inconsequential. Total employment in registered companies was estimated to be around 10,000 in 1986. Capacity utilization is believed to have dropped from around 50 percent in 1989 to between 20 to 30 percent in 1991 for larger manufacturing firms.

Informal enterprises have also been adversely affected by the crisis since a significant number of them rely on imported inputs or goods produced with imported components. Tailors rely on spares for sewing machines, needles, cloth, thread. Shoe repair and shine people need needles, thread, and polish. The vibrant used clothing market is based entirely on imported clothes (and the U.S.'s largest export to Rwanda). Car mechanics need wrenches and spares. Small construction firms need saws, nails, and other building supplies. Similarly, reduced production by larger firms also reduces their demand for intermediate goods and services purchased from smaller formal and informal enterprises. It also reduces the supply of goods purchased by smaller enterprises as intermediate goods. Anecdotal evidence suggests that the net result has been to reduce the likelihood of finding productive employment in small enterprise and informal activities.

While the economic and financial crises have affected many firms and the level of employment, they also have been affected by the GOR's policy framework. Over the years, it has distorted or constrained the development of both the formal and informal segments and the possible linkages between them. Similarly, it has also resulted in reduced supplies of goods and higher prices for both urban and rural consumers. Finally, the GOR policy framework constrained production and marketing for export, and in some areas, reduced the country's already limited export capacity.

The analysis in this section is based primarily on studies produced under the a USAID-funded PRIME project (696-0127), such as Medium and Large Private Manufacturing Firms in Rwanda: Diagnostic Study of Current Situation and Policy Impact, by A. Ngirabatware, L. Murembya, and D. Mead, (Report No. 9, August

1988), and Analysis of Measures to Encourage Investment and Employment, by Nguyen-Huu Khiem, (Report No. 6, December 1987); the AFR/MDI and USAID-funded MAPS Private Sector Diagnosis, by SRI International and J.E.Austin Associates, Inc. (December 1989), and an ILO-funded report, Survey of Artisan, Small and Medium Industries in Rwanda (October 1990). These source documents were supplemented by other studies (e.g., IBRD Industrial Sector, Financial Sector, Agricultural Sector reviews, and so forth) and by discussions with knowledgeable people both in and outside of the government. As part of the PAAD design, a small survey was conducted to update certain data and information on attitudes (See Annex F).

The surveys conducted as part of these studies have provided a fairly representative picture of the non-farm sector, both formal and informal. According to the GOR, there are roughly 7,000 registered firms in Rwanda. The 1988 PRIME study included firms which together accounted for roughly 50 percent of all employment in registered manufacturing firms, more than 50 percent of the total value added by manufacturing sector, and over 8 percent of GNP in 1987. The MAPS sample surveyed 260 firms, of which 130 were registered and 130 were not. Eight percent were large firms (over $580,000 in fixed assets), 76 percent were small and micro (less than $15,000 in fixed assets), the remainder were medium-sized firms. Eighty-five percent were engaged in manufacturing, commerce and services, and agro-industry activities. Roughly a quarter were women-directed. The ILO sample surveyed 700 firms, of which 100 were registered and 600 were not. The ILO study complemented the MAPS exercise by focusing on rural areas, whereas MAPS focused on the capital and large regional towns. The findings of the ILO survey supported those of the MAPS exercise.

The following subsections provide an analytical description of the main non-farm **production** and **marketing** activities, including (i) economic efficiency of major categories of private sector activity, (ii) key economic incentives affecting their performance, and (iii) policy implications. The emphasis is on identifying the principal private sector manufacturing, commerce, and service activities, their direct relationship to employment, consumers, and import and export activities, especially with neighboring countries.

B. Structure of Employment and Production Manufacturing and Commerce Sectors

According to available national statistics, abstracted in Table 2, the manufacturing, commerce, and services sectors in Rwanda represents about 56 percent of total Gross Domestic Product (GDP).

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Table 2. Contribution to GDP by Sector and by All Sizes of Private and Public Enterprises, 1986.

Sector	Share of GDP	Private Share	Public Share
	- - - - - in percent - - - - - - - - - -		
Agriculture	42	95	5
Manufacturing	16	67	33
Commerce(a)	42	66	34
GDP	100	78	22

(a) Also includes services, transportation, finance.
(b) Percentages may not add due to rounding.
Source: adapted from MAPS, Volume II.

Rwandan firms are largely artisanal and small and medium-scale enterprises (i.e., less than 30 permanent employees or sales of less than $385,000). In comparison, public enterprises are few in number and larger than all but the largest registered private firms.

Table 3 shows the structure of employment in the Rwandan economy, excluding subsistence agriculture, which employs over 90 percent of the labor force. When subsistence agriculture is excluded, manufacturing employs the largest number of people in the non-farm sectors. In 1986, PRIME estimated that approximately 127,000 were employed in this sector, of which 92 percent were employed in the informal sector.

Table 3. Estimated Structure of Non-Farm Employment in Rwanda.

Sectors	Formal	Informal	Total
	- - - in percent - - -		
Formal Agriculture:(a)			
Estates and Mining	18.9	20.0	19.5
Public:			
Government	48.9	0.0	23.2
Business:			
Manufacturing	6.5	65.6	37.9
Commerce, including construction, transport, finance and other services	25.7	13.9	19.4
TOTAL	100.0	100.0	100.0

(a) Excluded from table is subsistence agriculture category.
Source: Adapted from PRIME report number 6, December 1987, pp. 9, 11, and 53.

As a group, the non-farm sectors experienced a relatively rapid growth (estimated at an annual average of between 3 and 5 percent in real terms) during the growth period of 1980-87. This contrasted with the declining rate of growth in agriculture, which was barely over 1 percent per year during the same period. The average annual growth rate in the non-farm sectors declined between 1987-89, to a reported 3-plus percent. As a result, during the 1980s, the non-farm sectors' relative share of GDP rose in contrast to the declining share in agriculture.

1. Manufacturing.

As in most countries at Rwanda's stage of development, manufacturing is primarily agro-industrial -- processing of food and beverages. Processing activities accounted for some 45 percent of employment in manufacturing in 1980. In this sector, public and mixed (private-public) enterprises have historically produced beer, cigarettes and soft drinks, while the private sector has become active in the production of animal feed, cookies, and candy. Outside the agro-industrial subsector, the private sector is the most important actor in manufacturing, whether in partnership with the GOR or on its own, accounting for over three-quarters of all employment. Overall, the IMF estimated that private sector accounted for 67 percent of manufacturing's contribution to GDP (see Table 2). The public sector provides the remainder.

In volume terms, the manufacturing sector grew by about one-third in between 1980 and 1986, averaging over 4 percent per year. In the 1983-1986 period, seventy-five new manufacturing firms were created, of which sixty-seven were in the private sector.

Broadly speaking, three categories of small private enterprises accounted for almost 40 percent of total value added in manufacturing. They were traditional beverage producers, tailors, and basket makers. Another 50 percent is accounted for by roughly thirty formal manufacturing firms. MAPS estimated that there may only be 100 manufacturing firms in Rwanda employing more than 30 people each.

Table 4 shows the trends and product composition in the sector. The data on the 1984-88 period indicate rising trends for industries, such as beer, sugar, paint, hoes, cloth and cement. Whereas production of soap, blankets, shoes, and radios stagnated or declined. Despite GOR efforts to broaden the manufacturing base, i.e., revised investment code, tax changes and credit, the sector remains to be dominated by agro-processing industries.

Table 4. Production of Major Manufactured Products, 1984-1988.

Item	1984	1985	1986	1987	1988
Beer (million bottles)	80.45	87.64	88.90	89.00	97.00
Nonalcoholic beverages (million bottles)	43.35	49.96	56.32	65.00	60.26
Sugar (thousand tons)	1.68	3.34	2.44	4.73	4.77
Soap (thousand tons)	11.81	15.07	12.16	8.60	9.00
Paint (thousand tons)	0.77	0.77	0.83	1.45	1.35
Corrugated iron sheets (thousands of tons)	7.38	10.72	10.75	8.63	9.24
Shoes (million pairs)	0.27	0.08	0.33	0.31	0.31
Blankets (million pieces)	0.46	0.48	0.39	0.35	0.48
Radio Receivers (thousands)	6.16	11.68	9.86	10.51	0.58
Cigarettes (millions)	685.69	697.32	648.42	698.27	697.95
Hoes (Thousand pieces)	234.35	743.42	529.79	800.00	825.15
Cloth (million yards)	-	1.72	5.26	12.56	12.09
Cement (thousand metric tons)	7.58	31.80	42.26	62.36	67.04

Source: Government of Rwanda

a. Import Dependence of Large and Medium-Sized Firms. An important structural element of the Rwandan manufacturing sector is a relatively high degree of import dependence, especially for large and medium manufacturing firms. According to a USAID-funded study which included 24 product groups and 34 firms in the sample, the (un-weighted) average of the import contents is estimated at 39 percent. For the 14 largest firms in the sample, the average was as high as 56 percent.

Table 5 shows the estimates of import contents for the 24 product groups included in the study. The data suggest that transformation of imported inputs is a significant activity in the manufacturing sector, and that firms are highly dependent on imported inputs. About two-thirds of the firms have value added (contribution from domestic resources) between 30 to 50 percent, and about 20 percent of them have value added of less than 20 percent. Given the degree of import content, these figures are surprisingly high and misleading. In reality, the situation reflects a high costs of production because of high factor costs (and/or low productivity), as well as high degree of protection (and indirect taxes) from imports. The latter allows firms to continue supporting high production costs and higher prices, even in cases where value added as measured by world prices is low.

Table 5. Estimates of the Import Content of Selected Goods.

Item	Import Content as a Percentage of Sales Price
Aluminum casseroles	93
Vaseline	70
Galvanized sheets	69
Wire fencing	59
Barbed wire	58
Foam rubber mattress	55
Wooden furniture	54
Radios	52
Tomato concentrates	50
Cloth (poly/cotton)	48
Candles	45
Plastic shoes	42
Metal furniture	42
Toilet paper	41
Metal truck trailers	40
Rubber sandals	37
Leather shoes	30
School exercise books	30
Hoes	27
Cigarettes	26
Passion fruit juice	21
Beer	10
Chalk	9
Wheat flour	0

Source: PRIME Report No. 9.

b. Import Dependence of Small and Micro-Enterprises. In Rwanda, the dependence of smaller enterprises on imported goods is also significant. Twenty percent of small and micro enterprises reported that 50 percent or more of their raw materials and intermediate inputs, excluding labor, were imported (See Table 6). While revealing, the 20 percent figure is felt to be low. The MAPS survey found that small and, particularly, micro enterprises tended not to include domestically manufactured goods that had a substantial import content.

Table 6. Percent of Firms Where Fifty Percent or More of Their Inputs Were Imported Goods.

Small/Micro	20 %
Medium	37 %
Large	66 %

Source: MAPS, p. 35.

In any case, the data make clear that a large part of Rwanda's manufacturing sector, regardless of size, is dependent on imported goods, hence the GOR foreign exchange allocation and import system. The performance of this system has a direct impact on the operation Rwanda's manufacturing sector, the people it employs, and the consumers of the products produced.

2. Commerce.

The major categories of commercial activities in Rwanda are small shopkeeping; restaurants and hotels; small transporters, including buses and taxis; personal services; tourism; larger transporters; larger retail stores; and finance and insurance. Overall, the rate of growth in commerce was slow during the 1980-1986 period, averaging about 1 percent per year. The subsectors of banking and insurance displayed slightly greater growth than did trading or transport. Nevertheless, the numbers of registered traders increased by 50 percent in the first half of the 1980s to over 9,600. Reportedly, it reflected a growing perception that more money is to be made in commerce than manufacturing. Table 7 shows where the most value-added originates within commerce. Ranked first are trading activities, then government provided services, finance and insurance, and finally transport.

Table 7. Value-Added in Commerce Sector, 1986.

Category	Percent of Sector's Value Added
Shopkeeping, Hotels, Restaurants	45
Government services	32
Finance, Insurance, and real estate	14
Transport	9
Total	100

Source: MAPS, p. 38.

While data indicating the import dependence of firms in the commerce sector are not available separately, it can nonetheless be inferred to be significant. Fuel is all imported. While fuel is the basis for the transport subsector, it also affects commerce's other subsectors. Shopkeepers see the price of fuel in the price of goods they buy. Those goods, whether domestically manufactured or imported as final goods also reflect the cost of foreign exchange and how effectively the import system operates. For example, GOR controls on the quantities of hoes imported has the net effect of raising the price of hoes made in Rwanda, raising the price of imported hoes, and reducing the overall supply of hoes. Thus, shopkeepers selling hoes pay more for their inventory (hence buy fewer), and ultimately the consumer pays more. The losers from this policy are those needing hoes, which in Rwanda means the majority of the population. The primary Rwandan beneficiaries are the Rwandan firm producing hoes and small artisans manufacturing hoes with scrap metal. Similar arguments exist for other goods demanded by Rwandan consumers where the GOR has instituted import controls to protect domestic import substitution industries. These include blankets, plastic products, small agricultural implements, and certain construction materials. Many are the very products demanded by Rwandans poorer consumers.

3. Capacity Utilization in Manufacturing and Commerce.

Another way of inferring the effect of the GOR's economic policies, in particular the foreign exchange allocation and import control, is to examine capacity utilization. A telling characteristic of the manufacturing and commerce sectors is that roughly half of all capacity is idle. There is, however, considerable diversity in the rate. Table 8 shows that in 1989, regardless of firm size or whether they were formal or informal, roughly 20 percent of the firms were operating at virtually full capacity. More than half the firms surveyed operated at less than 50 percent of capacity. Twenty percent of the firms were operating at below 20 percent of capacity.

Table 8. Capacity Utilization by Firms Engaged in Manufacturing and Commerce, by Size, 1989.

	Capacity Utilization			
Firm Size	x<25%	25-50%	50-75%	x>75%
	- - - - - - in percent - - - - - -			
6 employees or less	24	25	36	15
6-20 employees	15	30	34	19
more than 20 employees	16	34	31	19
all sizes	20	27	35	18

Source: MAPS, p. 41.

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The effect of the economic crisis on Rwanda can be seen from the decline in capacity utilization. In 1987, PRIME found that among large firms, nine percent were utilizing only a quarter or less of their capacity. By the 1989 MAPS survey, this figure had risen to 16 percent. The survey conducted as part of the PAAD design suggests the figure has risen to perhaps as high as 30-40 percent as of mid-1991 (see Annex G). Low capacity utilization has translated into reduced employment in most firms.

4. Efficiency in Manufacturing and Commerce

Several measures of the economic efficiency of the manufacturing industries have been estimated by a number of studies. Similar analyses of efficiency are not available for the commercial sector. For manufacturing, efficiency measures include the levels of protection accorded to industries and domestic resource cost (DRC) indicators. The DRC is a proximate indicator of the sum of various policy-induced distortions in the cost structure of affected enterprises.

Tables 9 and 10 summarize the results of industrial efficiency assessment (DRC, effective and nominal rates of protection) from World Bank and USAID-funded studies. The results should be interpreted with considerable caution primarily for two reasons. First, the DRC measure is a static concept and therefore does not take into account the possibility of a manufacturing activity becoming more efficient. For example, efficiency could improve through economies of scale or improved management as a firm or industry grows out of the infant stage. Second, there are data limitations and there are definitional differences between the World Bank and USAID studies.

With the above caveats, the tables suggest the following important points. First, there are significant policy-induced economic distortions and inefficiency in most of the manufacturing activities. Of the 15 manufacturing activities included in the USAID-funded study, only two of them (beer and toilet paper manufacturing) indicated that the activities constitute efficient use of the country's resources. Of the 20 manufacturing activities analyzed by the World Bank, eight of them (cigarettes, beer, mineral water, PVC tubes, macaroni, soap, candy, and pomade) suggested efficient use of resources. Parenthetically, cigarette manufacturing has been shown to be inefficient by the USAID-funded study. This conclusion has been further confirmed by USAID discussions with knowledgeable people in country.

Table 9. Estimates of Domestic Resource Cost and Protection

	Domestic Resource Cost Ratio	Protection Rate Effective (in %)	Protection Rate Nominal (in %)
High Protection:			
Tomato concentrated	-1.80	-4303	103
Plastic shoes	-1.28	969	111
Rubber sandals	-0.96	1419	149
School exercise books	-0.86	-1209	306
Wire fences	-0.56	-300	159
Barbed wire	-0.75	127	30
Galvanized sheets	0.15*	185	25
Leather shoes	7.82	188	83
Cloth (poly-cotton)	-4.30	108	37
Cigarettes	-0.26	243	65
Modest Protection:			
Wheat flour	2.35	76	76
Hoes	1.79	38	30
Toilet paper	1.61*	4	27
Low Protection:			
Foam rubber mattresses	0.68	36	13
Beer	-0.53	-94	-91
Export activities:			
Tea, at average world price, 1987	0.99		
Coffee, at average world price, 1987	1.18		

* negative net foreign exchange savings and negative net domestic resource costs.
Source: PRIME Report No. 9, p.43.

Note: Domestic Resource Cost = (DRL - DRM)/(FCM - FCL) * r, where:

- DRD is costs in domestic resources of domestic production;
- DRM is costs in domestic resources of imported finished product;
- FCM is foreign exchange cost of imported finished product;
- FCD is foreign exchange cost of domestic production, and
- r is exchange rate.

Table 10. Estimates of Protection and Domestic Resource Cost

Activity	Rate of Protection		Domestic Resource Cost	
	Nominal	Effective	Short run	Long run
Hoes	10.0	17.0	0.30	0.98
Cement	142.0	1151.0	1.65	...
Corrugated iron	43.0	...	-0.80	...
Sugar	101.0	480.0	2.65	4.04
Cigarettes	56.0	68.0	0.15	0.27
Beer	-39.0	-70.0	0.24	0.34
Mineral Water	-58.0	-70.0	0.11	0.16
Fruit Juice	161.0	760.0	2.76	...
Cement (small scale)	-5.0	-54.0	1.20	3.36
PVC Tubes	11.0	-11.0	0.28	0.62
Cookies	25.0	-8.0	9.83	21.79
Oxygen	-56.0	-61.0	0.49	1.96
Acetylene	36.0	42.0	1.96	6.51
Macaroni	43.0	72.0	0.28	0.51
Soap	14.0	33.0	0.28	0.63
Candy	25.0	29.0	0.21	0.47
Pommande	25.0	38.0	0.20	0.46
Detergent	20.0	207.0	1.74	3.93
Blankets	42.0	19.0	0.71	1.00
Blankets (luxury)	74.0	51.0	1.77	2.53

Source: The World Bank: "Rwanda: Recent Economic Developments and Policy Issues, p.30.

Note: DRC (short run) =(operating costs)/(value added at world prices), DRC (long run) = (operating costs + capital costs)/(value added at world price). When both short-run and long-run DRCs are less than one, the economic activity is economically viable; when both are greater than one, the activity is not economically viable. When the short-run DRC is greater than one, but the long-run DRC is less than one, the activity should continue, if it is already in operation but no additional investment should be made.

Second, there is a large dispersion of the rates of protection, and differences between the nominal and effective rates. In the USAID-funded study, the effective rates of protection (ERP) range from negative 4,300 percent to more than 900 percent. In the World Bank study, they range from negative 70 percent to 1,150 percent. The nominal rates of protection (NRP) from the two respective studies range from negative 90 percent to more than 300 percent, and from nearly negative 60 percent to 161 percent. The large negative rates accorded to beer and mineral water reflect substantial indirect taxes on them. In almost all cases the ERP is higher than the NRP.

Third, activities accorded import protection by the GOR tend to have a high DRC. This is more clearly borne out in the World Bank study. Examples include cement, corrugated iron, detergent, sugar, cigarettes, plastic and leather shoes, and wheat flour. Importantly, there are also protected manufacturing activities which appear to be operating efficiently. Examples are hoes and macaroni.

Fourth, the DRC concept involves measuring the cost of domestic resources required to save (or earn) one unit of foreign exchange. A critical variable in this concept is the exchange rate. Consequently, the lack of competitiveness could be attributed to inappropriate exchange rate policy (more on this in the next section).

Finally, the policy-induced economic distortions and inefficiency in most of the manufacturing sector's activities have direct spill-over implications for commerce activities, employment and consumers. This can be seen in terms of higher prices and low quantities of goods. Hence addressing these distortions can be expected to have benefits for commerce as well.

5. Exports

In the manufacturing and commerce sectors, there are few firms producing primarily for export, which is defined as more than half of a firm's output or service being for export markets. This is expected given the GOR's long-standing policy of restricting exports of most commodities except coffee, tea, and some minerals. In MAPS, only 10 percent of large firms were found to produce or serve primarily export markets. The percentage dropped sharply to 3 percent and 1 percent for medium and small/micro enterprises, respectively.

These figures underestimate the actual number of firms engaged in export activities. For example, several of the larger Kigali-based importers of final an intermediate goods have indicated that between 20 to 40 percent of their goods are re-exported by traders and small transporters to neighboring countries. One indicated that the development of several of its product lines were shaped largely by consumer preferences in Zaire and Uganda. Over 80 percent of small firms surveyed by MAPS identified Rwanda's neighbors as their most profitable export market.

C. <u>Key Current Constraints Facing Manufacturing and Commerce</u>

The major sets of factors influencing the performance of the manufacturing sector include: (a) structural characteristics in the sector, (b) macroeconomic management, and (c) government policies and regulations affecting the incentive structure. There are other sets of factors, but these are currently the most important. As policy reforms are implemented, new sets of factors will replace those currently identified as the most important.

Structural constraints include the small size of the domestic market, limited institutional and human resources capacity, and Rwanda's land-locked location, which results in high transport cost for imports and exporting. These constraints are associated with the country's resource endowments, the size of the market, and level of development. They can be changed relatively slowly as the country develops and through long term investment.

Macroeconomic management, policy and regulatory constraints affecting the sector's incentive structure, on the other hand, are under the government's control. They can be changed by the government. Several studies mentioned above had concluded that the government import substitution policy, its dirigist interventions, and postponed macroeconomic adjustment have shielded inefficient firms from competition and market forces, and stunted the development of export markets. <u>More specifically, the major policy constraints affecting the incentive structure of the manufacturing and commerce sectors are:</u>

(a) import policy;

(b) delayed macroeconomic adjustment, particularly in the areas of balance of payments management, exchange rate policy and fiscal and monetary policies; and

(c) government direct controls on prices, business entry, and labor practices.

The relative importance of these constraints corresponds with the views of Rwanda's private sector. Table 11 rank-orders the factors having the most negative effects on commerce and manufacturing activities, as judged by those in the private sector. Factors related primarily to the GOR's foreign exchange allocation and import system have been underlined. A cursory review of the table identifies the prominent role that the GOR's allocation of foreign exchange and import licenses system has been as a constraint to expanded private sector activity in Rwanda.

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Table 11. Factors Having the Most Negative Effect on Business Performance, By Size of Business, 1989.

Rank	Small and Micro	Medium	Large
1.	Taxes	Exchange Rate	Import Licensing
2.	Cost of Inputs (including spares and equipment)	Cost of Inputs (including spares and raw materials	Cost of Inputs (including spares and raw materials
3.	Output Prices (they would like to be able to sell at higher prices)	Access to Foreign Exchange (for spares and raw materials)	Access to Foreign Exchange (for spares and raw materials)
4.	Availability of Inputs (including spares and equipment)	Import Licensing	Competition (they think there is too much competition)
5.	Cost of Production (related to cost of inputs, inc. transport, and access to credit)	Competition (they feel there is too much competition)	Exchange Rate

Note: Factors related primarily to the GOR's foreign exchange allocation and import system are underlined.

Source: adapted from MAPS, p. 42, and discussions with MAPS Researcher.

Businesses in commerce and manufacturing both noted the problems caused by the cost of transport and access to spares. In addition, manufacturers tended to note problems caused by lack of access to raw materials. Other second order constraints to manufacturing and commerce identified by the private sector firms during the MAPS and other surveys are GOR efforts to control prices and profit margins, and controls on entry into business and controls on who can be hired.

While the lack of credit, the unavailability of new production technologies, and limited export opportunities were noted as constraints by many types and sizes of businesses, they were ranked after the above noted GOR policy constraints. If these GOR-instituted constraints are removed, USAID fully expects currently lower-order constraints, such as the limited access to credit, to become part of the set of "most binding" constraints facing the expansion of Rwanda's private sector and greater employment.

1. Import Policy

The basic strategy pursued by the Rwandan Government for the development of the manufacturing sector is an import substitution and inward-looking strategy. The major policy instruments are import licensing (quantitative restrictions), tariffs and administratively determined foreign exchange allocation. The combination of these policies over the years has resulted in distortion of economic incentives, misallocation of scarce resources, biases against export activities, an inefficient manufacturing sector, and stagnant economic performance. The import policy and the overvalued exchange rate pursued by the GOR to date has resulted in inefficient use of foreign exchange by those who could obtain it. The most damaging of these protectionist measures are import prohibitions and non-market determined foreign exchange allocation. Since the late 1980s, foreign exchange has been allocated in an increasingly non-transparent manner. Allegations as to the importance of political connections in order to receive foreign exchange had become widespread. By most indications, they had some foundation.

a. Licensing of All Imports. All imports in Rwanda require a license from the Central Bank. Until the mid-1980s, import licenses were granted routinely. However, with the emerging balance of payments difficulty and lower foreign exchange supply, the government adopted a system of import licensing and administrative foreign exchange allocations. Under this system, the Ministry of Commerce and Consumption (MINICOM) determines the amount of each imported product. MINICOM controls the quality and price of imports, and reduces or eliminates imports which it deems unnecessary.

Licenses for imports which compete with local products are granted only to the extent that domestic supplies are deemed inadequate. Imports of manufacturing inputs are accorded high priority and luxury imports are discouraged. Imports of 16 products are currently prohibited. Among them are blankets, plastic products, radios, small agricultural implements, cement, matches, and certain construction materials. These are products consumed by people at all levels of income, rural or urban.

In practice, the process of granting of a license can take several months or longer. Decisions appear to be **ad hoc** and to protect inefficient firms from market forces. The slow pace of approval and the length of time it takes to import goods to Rwanda combine to encourage investors to invest in overcapacity at the start to avoid delays later when trying to expand production.

b. Import Tariffs. Imports were subject to tariffs ranging from zero to 250 percent until end 1990, when they were reduced. For the majority of commodities, the rates currently range from 50 to 150 percent. In general, the rates are lower for raw materials and capital goods, and higher for intermediate and final goods. There are also product specific taxes on imports.

The tariff (and import tax) regime has been for the most part redundant in terms of protection of local industries. They were already effectively protected by the import licensing and foreign exchange allocation system. The tariff regime is, however, more important as a source of government revenue than taxes. It provided between 18 and 22 percent of total government revenue during 1987-1990.

c. Bias Against Imports for Exports. The import policy also worked against the development of any production for export. The GOR priority has been on serving the domestic market, period. This limited the ability of firms to take advantage of economies of scale or using export markets to develop Rwandan markets. Developing export markets to provide a vent for surplus domestic production will be an important element in the further development of Rwanda's commerce and manufacturing sectors, given the small domestic market. Reforming import policy, complemented by other policy changes, such as export-related institutional strengthening, will be a first step toward addressing important constraints to export-oriented manufacturing activities.

Potential candidates for export markets include agro-based industries, which available studies indicate have relatively low DRCs. In general, products that are relatively high bulk and low value can be profitably exported to Rwanda's neighbors. For example, beer and locally-made foam mattresses are two Rwandan products for which there is a regional demand and which are too expensive to ship in from other countries, such as Kenya or Europe.

2. GOR Macroeconomic Management

Two areas of macroeconomic management have important effects on the manufacturing sector performance: exchange rate and fiscal policies.

a. Exchange Rate. Until November 1990, the exchange rate as a policy instrument for managing the balance of payments had not been actively used. In response to the excess demand for foreign exchange, the GOR relied on non-price mechanisms, such as import licensing and administrative allocation of foreign exchange. Over time, this has resulted in an overvalued Rwandan franc. According to the IMF estimates, the

Rwandan franc appreciated in real terms by about 30 percent (in foreign currency with 1980 as the base) between 1980 and September 1990. The appreciation was as high as nearly 60 percent during 1984-1985.

With the Rwandan franc devaluation by 40 percent in November 1990, the overvaluation has been significantly reduced. The difference between the parallel market rate and the official rate was estimated at 10-12 percent in April 1991. More recently, the difference has risen to 40 percent. There are several possible reasons explaining this rise. The most likely reasons seem to be the thinness of market, the annual departure of expatriates finishing contracts and selling excess RwF, a recent GOR regulation against allowing business travellers going abroad any access to foreign exchange, and growing capital flight, a negative fallout from the October 1990 events.

The past overvalued currency has distorted the incentive structure in favor of activities based on imported inputs; it tended to put activities which relied more on local inputs at a disadvantage. The overvalued exchange rate also reduced profitability of Rwanda's actual or potential export activities. As export capacity was further constrained by overvalued exchange rate and foreign exchange reserves reduced, the government imposed quantitative restrictions and prohibitions of imports.

b. Fiscal Policy. Another macroeconomic constraint to the manufacturing and commerce activity has been the multiplicity of taxes on enterprises and the financing of the budget deficit, especially in recent years. The competing demand for credit for deficit financing has compounded the limited supply of funds (savings) available for private firms. The relative share of deficit financing from the domestic banking sector has more than doubled -- from 15 percent in 1988 to 38 percent in 1990. There were also large arrears accumulated in 1990, estimated at RwF 5.3 billion by the IMF. The unsustainable fiscal policy has aggravated the already limited credit availability. Given the significant crowding out of credit, the terms of lending became harder.

3. Direct Government Controls

The major regulatory policies that affect adversely the manufacturing and commerce sectors are: (a) price and profit margins controls; and (b) controls on business entry and labor practice.

a. Price and Profit Margin Controls. The government sets prices of goods and services by ministerial decree, and controls profit margins of almost all commodities. Each firm must report to the Ministry of Commerce the price at which it sells items. Manufacturers and importers are allowed to have a profit margin of 15 percent at the wholesale level. Retailers are allowed a 25 percent markup. Prices are reportedly calculated on a "cost-plus" basis. The controls are intended to limit excess profits by monopolists. In practice, however, the cost-plus system encourages inefficiencies because it does not provide incentives to reduce costs of production or seeking out more efficient methods of production.

For agricultural products, only official floor prices are set. The agro-processing firms are expected to follow the official floor prices, which have generally been above border prices. The floor price policy has increased production cost to agro-processing firms that use local raw materials. As a result, the policy encourages smuggling and the substitution of imported inputs for local materials.

b. Controls on Business Entry and Labor Practices. The GOR determines the number of firms in a given industry by allowing only a limited number of new firms to register and formally enter into business. The initial documentation required includes a written detailed plan and analysis of the projected business, including a detailed market study, income statement, balance sheet, explanation of purpose, method, technology, inputs required, and so forth. PRIME has identified a total of seven different steps may be required for even the smallest of activities. Once the authorization is given, there are other administrative procedures to follow with several ministries and departments for the licensing and registration of the business. For the diligent, the process can take between one and three years.

After the registration process is completed, the investor has to obtain permission from the Ministry of Labor to hire (or fire) any semi-skilled or skilled full-time workers, local or expatriate. Potential employers are provided a list from which to chose employees. First priority is given to civil service employees, then parastatals, and lastly the private sector. In practice, the system encourages **ad hoc** manipulations by individuals.

These GOR policies do not accurately reflect the level of skill and market research capabilities of Rwanda. In practice, they have effectively created artificial barriers to entry for potential new firms and barriers to expansion by successful small informal sector (e.g., unregistered) firms. They thus act as a disincentive for investment, stifle competition and reduce efficiency in both manufacturing and commerce. Most importantly for Rwanda, they have served to limit employment in non-farm activities.

D. Recent Major Reforms Affecting Manufacturing and Commerce

As indicated in Sections I.B. 3 and 4 above, the GOR has taken steps to correct several macroeconomic policy distortions, e.g., exchange rate, as well as a number of policy constraints facing the manufacturing and commerce sectors. It is clear, however, that after the macro-economic reforms, sectoral reforms related directly to the manufacturing and commerce are dominating the first phase of the broader structural adjustment program. The sectoral reforms are being implemented in a cautious manner.

1. The New Interim Import and Foreign Exchange Allocation System.

It is an initial step in the right direction. The final objective is the institution of an open general licensing system and the progressive elimination of discretionary elements in the allocation of foreign exchange. The interim system is initially applicable to 70 percent of imports. The other 30 percent are set aside for petroleum, pharmaceutical, and other essential commodities. The system involves a monthly announcement of a specific amount of foreign exchange available for importers at a given exchange rate. Twenty million dollars of foreign exchange was made available in June and again in July. A non-refundable 5 percent fee will be levied on the value of the license. If the demand exceeds foreign exchange supply, the allocation for each applicant will be reduced proportionately and non-discriminately.

The five-percent fee feature is intended to discourage over-bidding. The effective rate to each importer will vary, depending on the difference between the requested and the actual amount received. This gives some indication of the extent of the overvaluation of the Rwandan franc. The interim system provides policy-makers an opportunity to test market reactions and to adjust the exchange to gradually reach a market-clearing exchange rate. It also allows the private sector to gauge the GOR's commitment to reform.

It is important to note, that parliament has just passed (early August) the new law, submitted by the President in June, that reportedly repeals the law concerning quantitative import controls. Once the new law is published, it becomes law. Passage of this law is a pre-condition for the release of the World Bank's credit's first tranche.

2. Tariff Reform.

In conjunction with the reform in the import licensing and foreign exchange allocation system, the tariff structure has been revised and adopted since the submission of the AEPRP's PAIP document. It has just (early August) reduced the number of tariff rates from more than 20 to 6 and reduced the maximum tariff rate from 250 percent to 100 percent, and raised the minimum rate from zero to 10 percent. The purpose of the tariff restructuring is to simplify and bring more uniformity to the tariff system. Before implementing them, the GOR discussed the reforms in meetings with the private sector, which included industrialists, traders, and bankers, and received favorable comments.

3. Non-enforcement of Price and Profit Controls.

The GOR has also purposely not enforced the law of price and profit margin controls, with the exception of a small number of goods and services. It still intends to move toward officially repealing the law for most of the goods and services.

It is important to note, that parliament has just passed (early August) the new law, submitted by the President in June, repealing the existing law regarding price and profit controls.

4. Other Reforms Under Discussion.

Other reforms -- such as a one-stop business registration, tax reforms, and labor law reforms -- are still being discussed in the ministries and parliament. These measures are nevertheless likely to receive second priority when compared to operation of the interim import system. It is still a subject of concern and will likely influence the next steps the GOR takes on implementing its structural adjustment program.

IV. RATIONALE FOR PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM

A. USAID Program Strategy

USAID proposes to focus the AEPRP on correcting the distorted incentive structure facing Rwanda's formal and informal manufacturing and commerce sectors. This structure has had adverse effects on output, prices, and linkages to the rest of the economy, particularly on employment and on the efficient use of local and imported resources. A considerable body of analysis, reviewed in Section II, has concluded that Rwanda's current manufacturing and commerce sectors have evolved into their present state largely as the result of government policies and administrative regulatory mechanisms. These policies have the government directing and controlling imports, investment, profit margins, prices, movement of labor, entry into business, and, just as importantly, exports. These same policies have also constrained the operations and growth prospects of Rwanda's informal manufacturing sector, and most importantly, off-farm employment.

The Production and Marketing Policy Reform (PMPR) Program policy reforms are directed at helping to mitigate above noted distortions. The PMPR, together with institutional strengthening and complementary measures identified in the Structural Adjustment Program (SAP) and the Policy Framework Paper, can begin to restructure Rwanda's non-farm sector from one that is responsive to government directives (i.e., registered firms) and repressed by directives (i.e., unregistered firms) to one that is less fettered by government and guided more by market forces.

Notwithstanding the major policy changes made and announced to date as part of the GOR's promising reform program, rigorous and sustained implementation of announced and planned policy changes are the prerequisites for adjusting the entire non-farm sector's structure. The proposed revised incentives can have medium term effects that include increased investment, employment, and supply, as well as more variety of goods, as demanded by Rwandans operating in the market place and by markets outside Rwanda. Benefits from changing the policies supported by this program will have spill-over effects into the agricultural sector as well.

Addressing manufacturing and commerce sectors' constraints will directly support the GOR and USAID goal of establishing the foundation for sustainable participatory economic growth. It is expected to be a type of growth that will be more efficient in its utilization of resources (domestic and imported). It is also to be more diversified in terms of a better balance within manufacturing, both formal and informal, and between manufacturing, commerce, and agriculture. The PMPR complements other donor efforts to support the GOR's overall effort to adjust the structure of the Rwandan economy. As noted in Sections IV.D., several other sectors, such as agriculture, health, financial markets, budgetary and fiscal matters, are being addressed in the context of other donor programs. Moreover, several sectors are not ready for reform due to a lack of consensus on the types of policy changes or the specific interventions needed (i.e., export promotion). On balance, there exists a strong common recognition among donors and the GOR that the policy constraints, to be addressed by the PMPR, have become among the most binding on the country's development prospects. This has become particularly evident since the GOR resolved its other over-arching problem with a 40 percent devaluation (against the SDR) of the Rwandan Franc in November 1990.

Three important conclusions and assumptions underlie the PMPR strategy. These have emerged from the analysis of Rwanda's current difficulties in Section II. These assumptions are:

-- Economic incentives created by past policies have made a large part of the formal manufacturing and commerce sectors increasingly inefficient, dependent on government fiats for survival, and unsustainable in that it is neither generating sufficient export earnings to finance its own needs nor contributing materially to the larger needs of the country. These policies have also constrained the operation of the informal parts of both sectors and constrained growth in off-farm employment.

-- Restructuring the incentives facing the manufacturing and commerce sectors, both formal and informal, is possible and necessary for diversifying the economy's dependence on one export crop, increasing the sector's contribution to economic growth, and generating new off-farm employment.

-- USAID's and other analyses have concluded that Rwanda is at a point where changes in the policy framework are required to increase the absorptive capacity for future production-oriented projects, particularly in agriculture. The likely impact of such projects currently appears to be very limited. (This does not include projects whose primary impact on production is indirect, such as health and population activities.)

B. PMPR Program Rationale

This section discusses the rationale for a focus on the manufacturing and commerce sectors, a cash transfer program, and the use of PMPR's local currency to reduce GOR to the private sector.

1. Focus on Manufacturing and Commerce.

The manufacturing and commerce sectors were chosen because they appears to be the sectors most distorted by the GOR's current set of economic policies. They are also sectors that could be using the country's scarce foreign exchange resources more efficiently. Furthermore, given Rwanda's land and population constraints, they have an important role to play. With an estimated 80,000 new workers becoming of working age (between 18 and 64) each year, these sectors can provide sorely-needed employment and domestic value-added goods needed and desired by Rwandans. An expanded manufacturing sector could also help diversify Rwanda's virtual dependency on coffee and tea exports.

In reviewing possible sectors within which policy change could be identified and accomplished in a limited time period, USAID examined the major Action Plan strategic objectives in family planning, agriculture/natural resources, and the private sector. These are also the sectors where USAID has an established entree with the GOR and a base of experience. Tersely put, they were not selected as the focus of this AEPRP either because they do not face as serious a set of policy distortions as manufacturing, because there are no serious policy concerns, or because there is no consensus within the GOR on the need for reform or types of interventions.

In family planning, the policy framework is as positive as conceivable in a country where family planning was forbidden 10 years ago. In July 1990, the President announced the following goals to be achieved by the year 2000:

- -- reduce the population growth rate from 3.6 percent to 2.0 percent;
- -- reduce the number of children per woman from 8.5 to 4.0; and
- -- achieve a contraceptive prevalence rate of 48.4 percent instead of 11 percent.

Most striking is that national contraceptive prevalence rates have doubled from 5.6 percent to 11 percent between the inception of the USAID Action Plan in February 1989 and early 1991. Such doubling compares quite favorably with Kenya and Senegal, both of which achieved such doubling in a decade. Furthermore, there appears to be a degree of diminished opposition to family planning by the Catholic establishment, at least in terms of tacit permission for clinics to provide family planning services. In summary, family planning policies are strongly positive, and the operational response to such policies is becoming increasingly evident.

The agriculture/natural resource sector can be divided in terms of agricultural and environmental policies. The Mission's ASPAP project has been monitoring agriculture sector policies for the past 8 years and has concluded that, while certain aspects of selected policies could be improved, the overall policy constraints to further agricultural development are those found outside agriculture. They have been inappropriate macroeconomic policies. When SAP implementation is well underway, the Mission will begin to re-examine agriculture sector policies.

Regarding environmental policy, Rwanda has been strongly supportive of environmental activities. Over the past two years the GOR has worked closely with the IBRD and USAID to develop a national environmental strategy. This document was reviewed and formally accepted as GOR's environmental action plan in July 1991. The GOR has already had one policy session with interested donors. Indeed, USAID plans to provide $4-8 million to support the implementation of new environmental policies in FY 1992. Unfortunately, a detailed policy agenda is neither available today nor likely to contain specific policy changes which could be completed under the proposed timing of this AEPRP.

Policies affecting the private sector, as a whole, have been the focus of a significant number of studies financed under PRIME since 1986. Many of these studies have contributed to the GOR, IBRD, and IMF structural adjustment program as a whole. Indeed, several PRIME proposals (e.g., increased labor mobility, reduced barriers for starting businesses, and so forth) have become part of the World Bank's dialogue with the GOR. They were also subject of a Presidential Commission of Inquiry (1990), which was funded by PRIME. These policy changes are currently before Parliament and will continue to be part of PRIME's on-going policy dialogue, until passed and properly implemented. USAID believes it would be inappropriate to use this AEPRP as "leverage" to attain reforms to which the GOR has already given its commitment. It is for these reasons and the analysis in Section II. above that the focus on the manufacturing and commerce sectors was selected.

2. Cash Transfer of Dollars.

In light of Rwanda's continuing macroeconomic and financial constraints and the current momentum for substantive economic reform, program sector assistance not tied to projects can play a significant role in mitigating the financial constraints and in improving the policy environment. There is an element of additionality associated with this A.I.D. sector reform program. The Mission has maintained a dialogue with the GOR on policy constraints confronting small, medium, and larger enterprises, largely in the informal and formal manufacturing sector through the PRIME (Policy Reform Initiatives in Manufacturing and Employment) signed in 1985 and other activities (e.g., MAPS). That continuing effort, re-enforced by the size and potentially quick-disbursing nature of this program, has served to underscore two messages to the GOR. They are:

-- the importance placed on a sustained and non-discriminatory implementation of its proposed import, export, and pricing policy reforms, and

-- the importance placed on having the capacity to monitor and evaluate continuously the adjustment program.

This capacity can permit the early identification of unforeseen problems, and hopefully, extra time to develop responses in the spirit of the reform program. It will also aid in establishing base-line information against which program progress and impact can be objectively evaluated, both by the GOR and USAID.

3. Use of Local Currency Generations.

As A.I.D. experience in Senegal and elsewhere is showing, reducing a government's arrears to its private sector is an important element to vitalizing the sector. PMPR's counterpart funds will be used to reduce government arrears to the domestic business sector. These arrears are currently about the equivalent of US$ 42 million, of which 74 percent is owed directly to Rwandan businesses. The remaining 26 percent is owed to commercial banks and non-bank institutions. Reduced arrears will improve the cash positions of manufacturers and others, such as transporters, and contribute to an increased supply of credit. Given the financial sector and government fiscal reform measures agreed to with the IMF, the GOR should not be "crowding-out" the private sector in the competition for credit. As in the past, most of the credit to non-government bodies goes to the manufacturing, then commerce sectors.

4. PMPR Sustainability.

The sustainability of this sectoral reform program will depend on the way the GOR implements the reforms and the success of PMPR's monitoring and analysis component, discussed in detail in Section VI. It will also depend on the response of entrepreneurs, and their willingness and ability to adapt to an incentives structure guided by the market. While there will be dislocations in the near term, the proposed reforms have been designed to be non-discriminatory and to afford the inefficient segments of the manufacturing and commerce sectors additional time to adjust, and to reduce the likelihood of dramatic instability (e.g., in the price of foreign exchange, supply of credit, and so forth).

5. Program Risks

The Mission has become increasingly confident that the GOR will begin implementing the program's policy reforms. Rwanda's broader reform agenda, as outlined in the World Bank's Policy Framework Paper (PFP), was recently approved by the Bank's board. Following the World Bank PFP approval, the IMF board approved a Structural Adjustment Facility (SAF) for Rwanda. The World Bank and IMF involvement in developing the GOR's SAP over the past three years increases the chance, in USAID's assessment, that the A.I.D.-supported reform measures will be implemented. GOR consultations with the IBRD and IMF are fully expected to continue into the foreseeable future.

Nonetheless, three risks remain. It remains unclear whether the policies themselves will be reversed or altered so as to nullify essentially their original intent. It is unclear whether the economy can be sustained by coffee exports and donor assistance until exports, hence foreign exchange earnings, increase. It remains unclear how serious the need is for having a safety-net for the GOR's overall structural adjustment program in place before the GOR undertakes any more reforms.

The GOR's overall SAP, of which the PMPR is a part, is Rwanda's first notable shift in development strategy since the early 1970s. The risk of policy reversals is addressed by the program's emphasis on strengthening the GOR's institutional capacity to monitor the program on a timely basis. While this "early warning" mechanism may identify unforeseen complications and subsequent analyses may propose solutions in the spirit of liberalization, the inevitable political calculus could still reject them. While reduced, this risk cannot be eliminated. For example, if the GOR budget deficit does not decrease as projected by the IMF, which USAID expects to be the case, it is difficult to say ex ante how the GOR will respond.

The second risk also can be reduced but not eliminated. To its credit, the GOR has recognized the limits of its past export policy (e.g., self-sufficiency to the point of being quasi-isolationist). However, the necessary consensus on what to do next has not yet been achieved within the GOR, or for that matter, among donors. The next step is to undertake analyses and pilot test different export promotion schemes and policies. The need for steady progress in this area is addressed by the program's Conditions Precedent and technical assistance and institutional strengthening component.

Third, while USAID has sought to address the possible negative effects of the reforms it will support, the possible effects on the poor of the GOR's larger SAP are not yet fully understood. The World Bank has been working with other U.N. bodies to develop various safety-net programs. Some will be funded as part of the World Bank's First Structural Adjustment Credit (SAC). However, based on USAID social analyses, the possible negative effects of the reform program are likely to be concentrated in urban rather than rural areas. Possible disruptions of urban linkages to the rural sector (i.e., the flows of money and goods through family ties) are less of a concern than risk of drought or the continuing structural malnutrition problem. Even a mild drought, by Rwandan standards, could disrupt the GOR's implementation timetable. Awareness of the risk has led World Food Program (WFP) to take the lead in mobilizing a mechanism whereby donors contribute cash into a fund. When the need arises, WFP will use the resources to buy food locally and regionally and transport it to affected areas.

Other risks to the program are of a different order. First, serious ethnic violence, which began in October 1990 and was settled in early 1991 with a cease-fire and promises to move to a multi-party system, are assumed to not flare up again. The GOR response to the violence was pragmatic and encouraging. But uncertainties remain. Talks with Rwandan rebels have not progressed sufficiently far to permit the opening of Rwanda's most important and efficient external transport route through Uganda to the Kenya coast. As a result, continued military road blocks throughout Rwanda and tight movement controls on all transport has already been identified by most business interviewed as the newest factor depressing the business environment. Renewed fighting will cause increased military and security expenditures. At best, such a development would only delay the GOR's SAP implementation timetable. Another possible quarter from which problems could arise is the GOR's democratization process.

Finally, given Rwanda's continued dependence on export earnings from coffee, it is hoped that there will be no significant decrease in international coffee prices. If there is, there could be insufficient foreign exchange to support the implementation of the SAP. STABEX transfers, if authorized, are not expected to be sufficient to cover all lost export earnings from coffee.

C. Relationship to A.I.D. Country Strategy

The Mission will be submitting a Country Program Strategy Plan in the second quarter of FY 1992. At the present time, the Mission continues to work on having an impact on sustained, broad-based increases in rural per capita income, reduced fertility rate, and increased agricultural production, as discussed in its FY 1990-91 Action Plan (May 1989).

In essence, to make progress on the Mission's goals, it has become necessary to support change in the non-agricultural sectors. As concluded in Section II, the distorted incentive structure facing the off-farm sectors is a key culprit. If successful, the PMPR can contribute in the medium term to successive improvements of Rwandan living standards in both rural and urban areas by increasing employment, consumption opportunities (i.e., more and better quality goods at lower real prices) and production opportunities (i.e., produce for export or for domestic manufacturers with better linkages to the agricultural sector).

While the PMPR has been designed to provide rapid and focused support to key components of the GOR's SAP, the Mission will continue to seek changes in the country's economic environment that will enable Rwandans to earn more income by producing, transforming, and marketing goods more easily. On-going Mission projects and activities, PRIME, Agricultural Survey and Policy Analysis Project (ASPAP, 620-0126), and MAPS, will continue to engage the GOR on policy issues and were instrumental in helping design this program. Indeed, as Section VI details, resources from PRIME are being used to continue the dialogue on issues regarding the PMPR.

D. Other Donor Assistance.

Donor assistance plays a key role in financing the SAP. Indeed, donor insistence for reform and promised support is generally credited with having helped allay GOR concerns about embarking on a development strategy based on liberalization. At a special meeting in March, chaired by the IBRD and UNDP, donors pledged over $120 million for CY 1991. This sum is additional to that already committed by donors through their on-going bilateral programs. Total donor commitments to December 31, 1991 are summarized in Table 12.

Table 12. Other Donor Assistance to SAP During CY 1991.

Donor/Institution	Commitment (in millions of US$)
-AFDB	7.5
-Austria	6.5
-Belgium	19.2
-Canada	10.0
-EEC	12.0
-France	12.7
-Germany	16.0
-Italy	5.0
-Japan	---
-OPEC	5.0
-Switzerland	7.0
-U.S.	20.0
Total Committed	US$ 120.9 million

Donors are expected to provide further support to the SAP's out-year requirements (i.e., 1992 and 1993) and as the GOR's PFP and PIP are implemented. For example, the World Bank has already planned a series of follow-on loans. The first SAC is to be complemented by other sectoral adjustment operations. The next phase is to be agro-industrial credit for coffee and tea. According to a June Aide Memoire by the World Bank, the agricultural credit is projected to be effective late 1992 or early 1993. A public enterprise rehabilitation credit is also planned. Continued IMF support is also expected, if the GOR continues to perform.

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V. PROGRAM DESCRIPTION

A. Program Goal and Purpose

The goal is to contribute to growth in employment and production in the medium term. To that end, the program purpose is to increase competition in the short run, and subsequently production and employment, in manufacturing and related sectors.

B. Program Components

The program has four components: (1) policy reform; (2) resource transfer in the form of cash transfer; (3) local currency generated from the resource transfer; and (4) technical assistance for program monitoring and institutional strengthening.

1. Policy Reforms Supported.

The policy reforms A.I.D. has identified firmly support the Government of Rwanda's (GOR) own structural reform agenda and form the core of policies which support the change to market-driven signals in Rwanda's non-farm sectors. They address three critical areas affecting the manufacturing and commerce sectors:

(a) the foreign exchange allocation and import system;

(b) the restrictive trade regime; and

(c) the number of prices under government control.

These reforms are important interim steps in the process of moving toward an economic environment with a less restrictive import regime (an open general licensing system), a more export-oriented outlook, and fewer government-fiated price and profit margin controls. The A.I.D.-supported reforms address currently the key constraints facing the manufacturing and commerce sectors, as identified in Section III.B. above. The A.I.D. program is summarized in the logical framework in Annex C.

Other policy reform areas affecting the sector performance, such as exchange rate, privatization, tax and budget policy, deregulations, labor market, and financial market have been or are to be undertaken in phases as part of a World Bank's three-year First Structural Adjustment Credit (FSAC), planned sectoral adjustment credits, and an IMF SAF.

a. Liberalization of Import and Foreign Exchange Allocation System. The program supports the replacement of the present import programming system with a less restrictive foreign exchange allocation and more liberal import licensing system. It purpose is to smooth the transition from the present system to the open general licensing (OGL) system.

This interim system has been designed to transparently and non-discriminately allocate available foreign exchange in the absence of knowing what the actual demand for foreign exchange will be once the system starts, or whether the current exchange rate will be able to equilibrate demand and supply. While the IMF is satisfied that the current exchange rate is reasonably correct, further rate adjustments may be necessary. The GOR has agreed to further rate adjustments to establish and maintain a market-clearing rate, if necessary and in consultation with the IMF.

The two months of experience (June and July) with the new import system, where not all the available foreign exchange was demanded by Rwandan importers, is still insufficient to conclude that the Rwf exchange rate needs to be appreciated. Indeed, as the PAAD cases studies suggest, the currently low demand is due in part to the newness of the system, and in part to suppressed demand generally in the economy. The latter is associated with the continued presence of military roadblocks throughout the country and limits on in-country movements by people and transporters. These will hopefully be lifted in the near future.

Regarding the current import quota controls (quantitative restrictions), the program supports GOR efforts to reduce the number and range of customs duties and import surcharges.

During the initial phase of this liberalized import regime, a limited number of "essential" imported goods (e.g., petroleum products, pharmaceutical products) will continue to be subject to import programming in order to ensure an uninterrupted supply of those goods on the domestic market. The GOR has agreed that the value of these goods will not exceed 30 percent of total foreign exchange available for imports.

b. Lifting of Price and Profit Margin Controls. The program supports the GOR liberalizing of current price and profit margins, including their outright removal. These changes will help liberalize internal and external trade thereby further helping to partially offset the inflationary impact of the November 1990 exchange rate adjustment.

Actions indicating that this policy change has been implemented include the GOR continuing to do what it has announced as its intention, but has not yet made de jure. That is, eliminate all controls on profit margins, except for monopolies, such as Electrogaz; abolish fixed prices for all goods and services, except for a limited number.

c. Promotion of Exports. The program supports the GOR in reviewing its export promotion policies. A higher level of exports is one of the Government's few feasible options to financing and sustaining Rwanda's effort to develop. Donor assistance pledged in support of the SAP will provide considerable foreign exchange to support the operation of the new import system and encourage the GOR to take the necessary steps to implement the Open General Licensing (OGL) during 1992. However, neither the revised import system nor the government's overall SAP are sustainable in the absence of a reliable alterative source of foreign exchange.

This policy change will have been implemented when the GOR launches a comprehensive study which analyzes constraints to greater exports by focusing on domestic factors within the control of the government. Possible export promotion schemes to be explored include eased export procedures, partial foreign exchange retention accounts by exporters, reduced import duties for exporters, and so forth. Pilot testing of schemes will be encouraged by USAID.

2. Dollar Resource Transfer

The A.I.D. foreign exchange ($25 million) is provided to reduce real and perceived risks and uncertainties associated with the change from the current administratively-allocated import system to the market- or price-driven system. How the new interim foreign exchange allocation/import system is actually implemented, particularly when special interest groups lobby for changes, will be crucial in determining the momentum of the GOR's overall structural adjustment program and the private sector's confidence in the SAP. Their assessment of the GOR's intent and commitment will influence whether and how they will respond to the changing incentive structure.

A.I.D. considered the C.I.P. mechanism as an alternative to cash transfer, but decided against it at this time for the following reasons. Providing resources as a cash transfer signals firmly to the GOR the USAID priority that the new system be implemented in a transparent and non-discriminatory fashion. The cash transfer mechanism permits rapid disbursement at a time when Rwanda is critically short of funds to support the implementation of the new system. It is also an A.I.D. mechanism with which the GOR is familiar, thus avoiding undue burden on Rwanda's limited bureaucracy. Finally, USAID does not currently have the staff to implement a C.I.P. between signing and early CY 1992. Purchases under a C.I.P. are likely to be small and therefore quite staff intensive, since Rwanda imports less than $1 million per annum from the United States. Indeed, a REDSO/ESA CMO assessment of the potential market for U.S. goods in Rwanda in February 1991 concluded that, even with a C.I.P., imports from the United States were unlikely to increase by more than US$ 2-3 million.

3. Local Currency

The PMPR local currency will be used to reduce GOR arrears to private domestic creditors. Such arrears currently total nearly the equivalent of $42 million. Most GOR arrears are to the country's registered ("formal") manufacturers and commercial businesses. Local currency generated by this program will be used first to help reduce arrears to private suppliers, then mixed companies. Private suppliers are defined to include firms where the government has no shareholder interest or is only a minority shareholder. Priority for clearing outstanding Rwf arrears will be given to suppliers of goods and services, including financial services. Local currencies generated by PMPR will not be used to clear GOR arrears to state-owned enterprises.

The arrears reduction, in conjunction with continued GOR adherence to fiscal and budget austerity measures agreed to with the IMF, should increase the amount of credit available to the commercial sector in general, and improve cash flow in those firms owed Rwandan Francs by the GOR.

Domestic arrears exceed the value of this program nearly three-fold. Several other donors, notably the Austrians and the French, are supporting the reduction of arrears. At this time, USAID and the GOR expect to program all of this program's counterpart funds to the reduction of the GOR's arrears to the private sector.

4. Institutional Strengthening and Technical Assistance

This component supplements GOR and other donor efforts to ensure that there is an on-going and timely monitoring and analysis capability for overseeing and assessing the impact of the A.I.D.-supported reforms and associated parts of the larger SAP on competition, production and employment.

It addresses two weaknesses in the GOR's Structural Adjustment Program: the absence of a vehicle to rapidly assess the evolving impact of policy changes, and the unsatisfactory record of collecting, processing, and analyzing even small sets of survey data on a timely basis. USAID support is to help identify, on a timely basis, areas which could be implemented more rapidly or which require modifications. In this manner, potential problems can be identified and focused upon before they may become threatening to the over-all adjustment program. It may also help to control and quell incorrect rumors and suppositions about the actual impact of PMPR, as well as its converse, provide concrete information to generate confidence in the new import system and the government's commitment to structural adjustment.

Just as importantly, this component, while benefiting the GOR, will also benefit the Mission. First, the base-line data collected can permit a better assessment of the program's people-level impact. Second, information collected during the life-of-program can help USAID work with the GOR to correct problems as they are identified and take advantage of emerging opportunities.

A Monitoring Unit will be established in the Ministry of Plan to implement this PMPR program component. Given the overriding importance of this component to ensuring the PMPR program's impact is as envisaged, it is treated in a separate section below. How the Monitoring Unit will be organized, staffed, and integrated with existing GOR structures and other USAID and donor technical assistance is detailed in the following section (Section VIII).

At this juncture, however, it is useful to note that this component will be funded for the next twelve months, both the dollars and local currency, from the on-going USAID AEPRP project, PRIME (696-0127). Also during the next twelve months, the GOR and USAID will design a new project based on the experience of implementing the institutional strengthening component.

C. Policy Change Outputs

The PMPR is to contribute to the sustained implementation of four policy-related outputs:

(a) sustained implementation of the new import system,

(b) decontrolled prices and profit controls,

(c) initiated study of export policy, and

(d) reduced GOR arrears to domestic creditors.

These outputs are directly linked to the PMPR's Conditions Precedent to the disbursement of funds.

In addition to these four outputs, A.I.D. will continue to require GOR progress in taking steps (a) to implement an Open General Licensing System for imports, (b) to implement and reinforce, if necessary, its capacity to monitor the operation of the new foreign exchange allocation and liberal import licensing system, with particular reference to its effect on the manufacturing and commerce sectors and their linkages with the rest of the economy, and (c) meet with USAID, as necessary, to discuss developments concerning the implementation of the policy reforms, their impact, and government's review of export promotion policies.

D. Tranches, Conditions Precedent and Covenants

1. Two Tranches

A.I.D. will disburse the funds in two tranches. The first tranche will be $15 million and the second $10 million. As noted earlier, all support for the technical and institutional strengthening component will be financed from PRIME. As such, the costs and implementation plan regarding that component are detailed in Section VI.

There are no set dates by which the GOR must comply with the PMPR-specific conditions. The GOR can request, in writing, that A.I.D. release the funds when the GOR believes it has satisfied the relevant conditions. As detailed in Section VIII.C, the USAID, in conjunction with the REDSO/ESA lawyer, will make the determination as to whether the conditions have been fulfilled.

2. Conditions Precedent to the Disbursement of the First Tranche.

There are two conditions precedent to the disbursement of the first tranche. They are:

"Condition 1. The Government of Rwanda will have replaced the existing administratively programmed foreign exchange allocation and controlled import licensing system with an interim licensing and allocation system that is responsive to market conditions and has the following characteristics:

(a) the Government of Rwanda will publicly announce the amount of foreign exchange available for allocation in each period;

(b) firms and individuals submitting requests for foreign exchange will pay at the time of filing a non-refundable application fee equivalent to five percent of the value of their request in local currency;

(c) if the requests exceed the available foreign exchange, the Government of Rwanda will reduce proportionately and non-discriminately by a factor equal to the relationship between the overall availability of foreign exchange and the total amount requested;

(d) the Government of Rwanda will issue the necessary documentation and approvals permitting those who received foreign exchange to import without undue delay; and

(e) the Government of Rwanda will publish each month for public distribution the names of firms and individuals who have requested foreign exchange under the new system, how much and for which imports they requested foreign exchange, and how much was allocated to each requestor and for which imports."

"Condition 2. The Government of Rwanda will have:

(a) eliminated all controls on profit margins, except for monopolies;

(b) abolished fixed prices and profit margins for all goods and services, except for a limited number; and

(c) replaced quantitative restrictions protecting local industry with a reduced number of tariffs from twenty-three to seven and reduced range of customs duties and import surcharges from between zero and 250 percent to 10 and 100 percent."

Prices for monopolies and politically sensitive goods, such as electricity, water, and beer will continue to be controlled by the GOR. However, the prices will be set on the basis of cost-recovery. As noted earlier, to that end, in July, the GOR raised water and electricity rates by 50 percent each. After several high-level sessions devoted solely to the price of beer, it was raised, and then lowered when demand dropped dramatically.

3. Conditions Precedent to the Disbursement of the Second Tranche.

There are three conditions precedent to the disbursement of the second tranche. They are:

"Condition 1. The Government of Rwanda will have continued to implement the new import system which has the characteristics stipulated in Tranche 1., Condition 1. above; or will have implemented an Open General Licensing (OGL) system."

"Condition 2. The Government of Rwanda (GOR) will have initiated a comprehensive review of its export promotion policies."

"Condition 3. The Government of Rwanda will have reduced its arrears to domestic creditors by at least the equivalent US$ 15 million (calculated at the time of signing the Agreement)."

4. Covenants

Two covenants are proposed. They are:

"Covenant 1. The Government of Rwanda shall covenant to take steps:

(a) to implement an Open General Licensing System for imports;

(b) to implement and reinforce, if necessary, its capacity to monitor the operation of the new foreign exchange allocation and liberal import licensing system, with particular reference to its effect on the manufacturing and commerce sectors and their linkages with the rest of the economy; and

(c) to further reduce arrears to domestic creditors by at least the equivalent of US$10 million (calculated at the time of signing the Agreement).

"Covenant 2. The Government of Rwanda will meet with USAID, as necessary, to discuss developments concerning the implementation of the policy reforms, their impact, and government's review of export promotion policies."

E. Status of Negotiations

During the PAIP and PAAD preparation, the design team, including the Mission Director, met GOR officials intimately familiar with the SAP, including the Minister of Plan who has responsibility for designing, negotiating and overseeing the SAP's implementation. All components of the PMPR have been discussed with the GOR: policy reforms, resource level, use of dollars and counterpart funds, and the monitoring component.

Agreement in principle was obtained from the GOR on the PAIP proposed Conditions Precedent and Covenants, tranches, and the idea of support for institutional strengthening and technical assistance to monitor the PMPR.

Changes suggested in the PAIP ECPR guidance cable (State 210761, dated June 27, 1991) were discussed and accepted by the GOR. Importantly, between the PAIP submission and the start of the PAAD design, the GOR requested USAID to begin implementing the PMPR institutional strengthening and technical assistance component as soon as possible, even before the PMPR ProAg would be signed.

Drafts of the Program Agreement, Authorization, and Action Memorandum have been sent to REDSO/ESA for RLA clearance.

Similarly, to expedite the process, the GOR has also begun reviewing a draft of the Program Agreement.

The Ministers of Plan, Foreign Affairs (in Rwanda, this Minister signs all donor agreements), and a special Minister in the President's Office have all indicated to USAID at various times, the GOR's overall agreement with the PMPR, and their willingness to proceed to the signing.

F. Estimated Implementation Schedule

The following table presents the approximate dates by which USAID and the GOR expect to complete certain critical implementation actions. The schedule excludes the Monitoring Component, which has a separate schedule (see Table 14).

Table 13. Estimated Implementation Schedule of PMPR.

Action	Action Agents	Expected By
PAAD submitted to AID/W	USAID	12 Aug 91
Draft ProAg, Authorization, and Action Memo submitted to REDSO/ESA RLA	USAID	14 Aug 91
Draft ProAg submitted to GOR	USAID	14 Aug 91
PAAD approved	AID/W	26 Aug 91
Draft ProAg, Authorization, and Action Memo approved	REDSO/ESA RLA	27 Aug 91
Draft ProAg approved by GOR	GOR	27 Aug 91
Discussion of final changes to ProAg	USAID, GOR	30 Aug 91
Authorization and ProAg signed	USAID, GOR	31 Aug 91
Conditions Precedent to ProAg and first tranche fulfilled	USAID, REDSO/ESA RLA, GOR	10 Sep 91
First tranche released	USAID, AID/W	25 Sep 91
Conditions Precedent to second tranche fulfilled	USAID, REDSO/ESA GOR	Dec 91
Second tranche released	USAID, AID/W	Dec 91
Interim AID Implementation Review (a)	USAID	Aug 92
Final AID Evaluation (a)	USAID	Aug 93

(a) to be funded under planned Monitoring Unit project.

A. End of Program Status

By the end of the program, GOR progress on achieving the program's dual purposes of reducing distortions in the economy by increasing competition and private sector participation in economic activity, and supporting the sustained implementation of the new import system and complementary policy changes is anticipated.

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If the concept that the manufacturing and commerce sectors should be responsive to market forces has been entrenched by the implementation of the program, the probability of a whole-scale reversal of the GOR's structural adjustment program declines. The PMPR should then be considered to have contributed to that success. Changes could then be expected to continue to occur in these sectors long after the program's PACD. Indeed, it is unrealistic to expect that the sectors would have fully adjusted, e.g., completed restructuring, to the altered policy environment in one or even two years. In fact, in a market-driven economy, the adjustment process is continuous.

The program also will have contributed to continued GOR progress on amplifying the specifics of how the OGL (Open General Licensing), scheduled to be put in place mid-1992, will work.

As part of the institutional strengthening and technical assistance component, the data collected should enable a detailed assessment of its impact on:

-- increased availability and variety of goods produced domestically and imported (with some being sold at lower real prices);

--- increased investment and employment in the formal manufacturing sector;

--- increased linkages between the formal manufacturing sector and other concerns, in terms of changes in the percentage of inputs coming from local suppliers, in employment in related businesses, and in investment; and

--- decreased level of GOR arrears to domestic creditors, increased supply of credit from commercial banks, and its use by the manufacturing sector.

The level of exports is not projected to have improved dramatically by the end of the program. This is to be expected given the lack of GOR consensus on how to change export policies. Similarly, the export promotion study is not likely to be completed by the program's end. The GOR's continued need for foreign exchange and continued interest on the part of many donors in helping develop Rwanda's export possibilities means there will be continued pressure on and assistance for change. Depending on PMPR's results, and the analyses emerging from the Mission's Country Program Strategy Plan exercise, USAID may identify possible benefits from continuing NPA interventions.

VI. MONITORING AND ASSESSMENT COMPONENT

A. Purpose and Outputs

The purpose of the A.I.D.-funded monitoring and assessment component is to help keep GOR policy makers, donors, and the private sector abreast of the evolving impact of structure adjustment measures by establishing a system that collects, tracks, and analyses selected data in a timely manner. The information presented will be selected to accurately represent where the program is and is not achieving the desired impact by focusing on what groups of people are winning and losing as a result of the program.

The monitoring component will produce two outputs. First is the development and frequent updating of a brief report based on a table of impact indicators ("tableau de bord"). This report will be supplemented by the information gathered from periodic and special studies. The second output will be support for the collection, on a quarterly basis, and analysis of a broader set of data of social and economic data. It is envisaged that the report and its distribution will serve as one forum for focusing GOR, private sector, and donor attention on aspects of the PMPR program which are not working as well as those parts which are working well.

B. Organizational Structure

To attain these two outputs, a Monitoring Unit will be created. The Unit's work plan will overseen by a Project Coordinating Committee. It will be comprised of:

- President of the GOR SAP Monitoring Committee (who is now also the Director General of Conjonture, MINIPLAN) and Committee Chairperson;
- Director General of Statistics, MINIPLAN;
- The long term T.A. advisor and counterpart responsible for the preparing the brief report;
- 1 or 2 private sector representatives; and
- a USAID representative.

Organizationally, the Unit will work through the Ministry of Plan under the general supervisory direction of the Director General of "Conjoncture," which translated is equivalent to "current economic situation." The Ministry of Plan has overall responsibility for the GOR's SAP. The Director General is the key GOR technocrat responsible for the overall Structural Adjustment Program and the PMPR. He heads the SAP Monitoring

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Committee, a.k.a. "Committee de Suivi," which is the inter-ministerial group responsible for coordinating the implementation and monitoring of the SAP.

The Monitoring Unit will be comprised of four contract staff. Two of the Unit's staff will be long-term expatriate technical assistance and the other two will be long-term Rwandan technical assistance. One expatriate advisor and Rwandan counterpart will be responsible for developing and coordinating the production of the brief report, drafting the terms of reference for the periodic and other special studies to assess impact, and overseeing the execution of the contracts. He/she and the Rwandan counterpart will work closely with the Director General of Conjoncture and report frequently to the Minister of Plan. This expatriate advisor will also serve as the Unit's Coordinator.

The other long-term expatriate advisor and Rwandan counterpart will also work under general supervision of the Director General of Conjonture. However, they will be working on a daily basis with the Chief of the Analysis Division. Together, the three will oversee and help manage the GOR's quarterly survey of economic and social indicators, which is carried out by the Ministry of Plan's Directorate of Statistics.

In Rwanda, an organization unit who requires survey data, in this case the Directorate for Conjonture, generally works through that ministry's statistical service, in this case the Ministry of Plan's Directorate of Statistics. Conjonture's Analysis Division has already revised an existing quarterly survey, entitled the "Trimestral," with the Directorate of Statistics. Changes were made with the input of two expatriate technical advisors in Statistics. One is a specialist on economic data, the other on social data. However, there have been difficulties in completing the surveys, processing the information, and producing results. In fact, although the surveys have been undertaken, no quarterly reports have been produced since 1980.

1. Mechanisms for Gathering Information.

After receiving concurrence from the Project Coordination Committee, the Monitoring Unit will gather information in three different ways: from existing data sources and surveys; by contracting with private firms, local and international; and by small direct surveys by Monitoring Unit staff. The relationship between the Committee, the Unit, and mechanisms for collecting information are summarized in Figure 1. below.

First, the Unit would utilize to the extent possible, data which are already available in Rwanda, but frequently is neither being utilized nor currently published. Much of the data collected in Rwanda sits for long periods.

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Most of this information is macroeconomic in nature, but it also includes detailed sector studies, surveys on employment and costs of production by registered firms, and consumer prices and availability of goods. This kind of information is already being gathered by the GOR statistical services in MINIPLAN, or in other ministries, such as the ministries of Commerce, Finance, and Industry. Other existing sources include that collected by private business associations and NGO's (Caritas, SERDI), as well as reports funded by UNDP, World Bank, USAID, and others. The latter being relatively more concerned with the small and informal parts of the Rwandan economy.

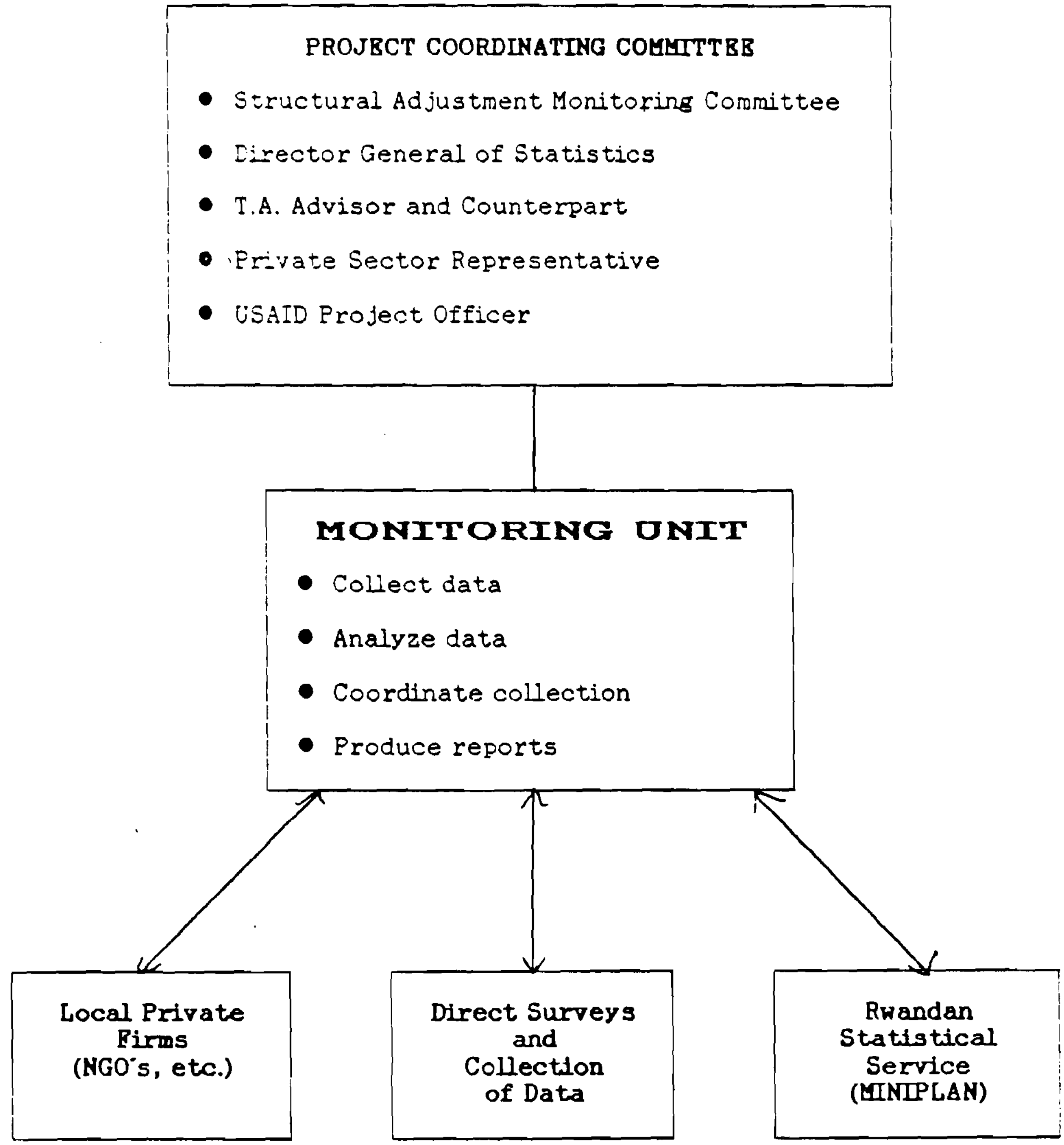
As part of this process, one long-term advisor and counterpart and Chief of the Analysis Division will work to further adapt, as necessary, the MINIPLAN quarterly survey and to coordinate with the other GOR statistical services. This will fully occupy their time. This is also expected that the Unit will work closely with staff in MINIPLAN's Directorate of Statistics. Such a collaborative relationship already exists between Conjonture and Statistics staff, fueled in part by the fact that the D.G. of Conjonture is of higher status than the D.G. of Statistics, and that he was most recently the D.G. of Statistics.

Second, the monitoring unit would undertake their own rapid appraisal similar to the one used for the case studies in Annex F. These rapid appraisals would be conducted by the technical advisor and Rwandan counterpart responsible for coordinating the production of the brief report. Appraisals will be small (10-20 interviewees) and fast (about one week in duration). They serve two purposes. First, they will provide rapid overview about some aspect regarding the impact of structural adjustment on businesses, employees, and consumers. Second, they will identify issues requiring additional follow-up, either as part of the quarterly survey or as a special study.

Third, the monitoring unit will work with Rwandan firms, NGOs, and U.S.-based firms to undertake focused periodic and special studies. The MINIPLAN has agreed to make heavier use of consultants than it normally prefers for several reasons. Its staff is already burdened with existing job requirements, do not have the technical qualifications, skills, or experience to do the studies. It is also being to recognize that is not necessary or possible to have staff that can do everything, particularly in light of the GOR's continuing budget problems and hiring freeze.

Results from the on-going monitoring of key indicators and rapid appraisals will serve as a guide as to which in-depth studies are needed. For example, it is already clear that information regarding the niches served by small and micro manufacturing enterprises, both men- and women-directed, and how well they are served by larger importers of intermediate goods is scant. An appraisal would survey such enterprises on their views regarding

Figure 1. Proposed Implementation Option.



the impact of the new import system on the availability of inputs they want. Depending on the results, a contract for a more in-depth study could be commissioned to, for example, quantify how they are benefitting. If problems are identified, the study could identity them and propose solutions. Other projects, like USAID's PRIME project, could try to implement proposed solutions, e.g., organize sessions between informal sector manufacturers and importers, and so forth. Studies to follow-up on a periodic basis, for example, at six-month intervals for 18 months, would also be commissioned. Then, if judged useful, they could be adapted to become part of the study could be incorporated in the quarterly MINIPLAN survey.

Another priority area of both the GOR and USAID is to analysis of changes in the efficiency of Rwandan firms in the manufacturing sector, as measured by NRP, ERP, DRCs. A study will construct a consistent base-line data set drawn on similar earlier studies, then update the analysis at the end of the PMPR's first year. Another follow-on would be planned a year later.

The intent is to gather data in an unbiased and unthreatening way in order to make clear that the monitoring of private firms is not confused with any of the government's regulatory activities, such as taxation. The use of contractors, both those from the Monitoring Unit itself or from contracted private firms, will further help allay the private sector's concerns. Fortunately, it also helps that MINIPLAN does not have any regulatory responsibilities.

2. Distribution of Information.

The planned flow of information from the Unit is illustrated in Figure 2 below. The Unit can be seen as gathering four types of information: (i) macroeconomic data; (ii) manufacturing sector data; (iii) commercial sector data; and (iv) consumer data.

The information gathered would be provided to the GOR Structural Adjustment Monitoring Committee and private sector groups such as the Association of Rwandan Manufacturers. It is intended that the information serve as a useful forum for discussion between the GOR and the private sector throughout the program period.

C. Monitoring Unit Implementation Plan

The Monitoring Unit implementation plan consists of a interim phase which then will be developed into a separate project. The interim phase will last no longer than 12 months. During that period, the follow-on project will be designed by USAID and the GOR.

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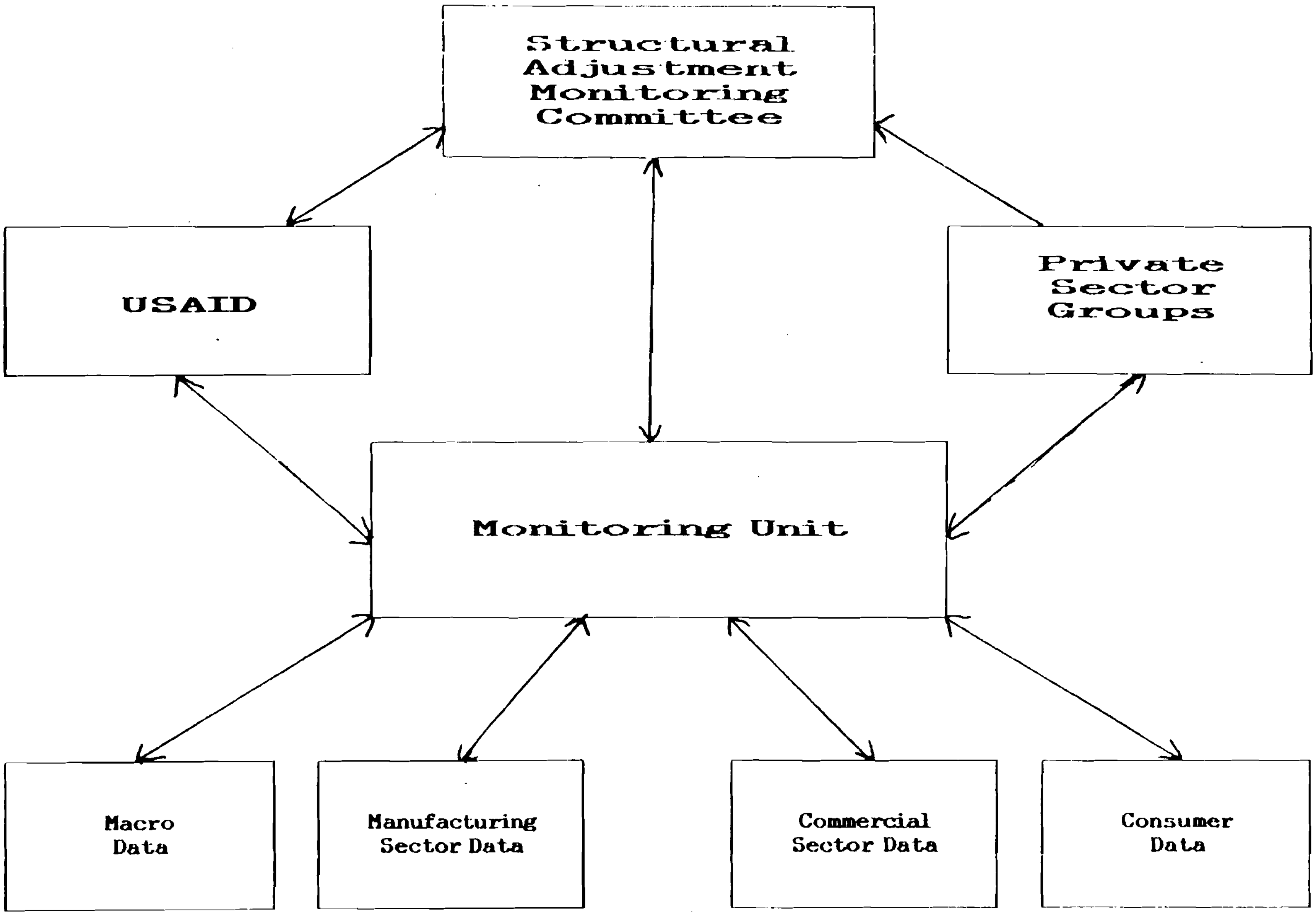
Figure 2: Information Flow



Initially, USAID's on-going AEPRP project, PRIME (696-0127) will be used to get PMPR's monitoring system functioning. PRIME is an on-going USAID project with the MINIPLAN whose purpose is to promote the development of small and medium private enterprises. MINIPLAN and USAID have agreed that it would be most expeditious to use PRIME as the vehicle to getting the Unit operating.

PRIME will provide dollars, local currency support, the part-time services of PRIME's current long-term advisor and use of PRIME facilities. This August, USAID and the GOR will amend PRIME to add $493,000 for this component. The MINIPLAN and USAID have agreed to use, as necessary, local currency generated from PRIME's cash transfer program. Presently, there is more than the equivalent of $3.5 million available, although much less is expected to be used. Given the similarity between the functions and skills PRIME's current long-term advisor and the Monitoring Unit's chief advisor, MINIPLAN and USAID agreed it would be useful draw upon the PRIME advisor's availability, contacts, and experience to get several appraisals and studies started, and contract for the Unit's two Rwandan counterparts. MINIPLAN and USAID have agreed to adjust the workload of PRIME's advisor to release up to 40 percent of his time to the Monitoring Unit activities.

In the meantime, the MINIPLAN and USAID will seek and evaluate candidates for the Unit's two expatriate positions. Given the importance of these positions, final candidates will first be contracted on a short-term basis to work on a Monitoring Unit task. Depending on when they are finally selected, the long-term advisors could be funded partially under the PRIME, and then be funded under the planned follow-on project, subject to it being approved and the availability of funds. Presently, the follow-on project is envisaged to be for three years and have a life-of-project (LOP) of $5.0 million.

During the interim period, the MU's administrative and logistical arrangements will be provided for by PRIME and MINIPLAN. The Monitoring Unit's chief advisor, if hired before the start of the follow-on project, and his/her counterpart will be located at PRIME. The other two will be located in MINIPLAN with the Chief of the Analysis Division. During the design of the follow-on project, a decision on whether the two at PRIME will be moved into ministry-provided facilities or rent a separate facility. The other two will remain in MINIPLAN, given that they will be working very closely with the Directorate of Statistics.

1. Illustrative Schedule of Monitoring Unit Implementation Actions

Table 14. Estimated Implementation Schedule of the Monitoring Unit.

Activity	Date	Action Agents
Selection process for the chief of the Monitoring Unit (MU) begun	3Q FY 91	GOR, USAID
PRIME Amendment for additional funding signed	4Q FY 91	GOR, USAID
Begin rapid appraisals of impact of the new import system on meeting needs: -- small and micro enterprises, -- large firms -- poorer consumers	4Q FY 91	PRIME, GOR, USAID
Selection process begins for the two Rwandan advisors and second expatriate advisor	1Q FY 92	GOR, PRIME, USAID
Based on results of appraisals, let one or two contracts for focused studies	1Q FY 92	PRIME, USAID
Short-term Contract signed with candidate for Chief of MU, to assist MINIPLAN in-house assessment of parts of SAP in preparation for up-comings IBRD and IMF consultation visits	1Q FY 92	GOR, PRIME, USAID
Develop PID for follow-on MU project	1Q FY 92	USAID, GOR, REDSO/ESA (?)
Based on subsequent appraisals, let one or two contracts for focused studies	2Q FY 92	PRIME, USAID
Develop PP for follow-on project	2Q FY 92	USAID, GOR, REDSO/ESA (?)
Monitoring Unit ProAg signed	3Q FY 92	GOR, USAID
PIL No. 1 on Cps issued and Monitoring Unit project implementation begins	3Q FY 92	USAID

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Table 15. Summary Budget Estimates for Monitoring Component.

Funding Source/Budget Item	FY 1992		FY 1993		FY 1994		FY 1995		TOTAL	
	US$	RwF '000	US$	RwF '000	US$	RwF '000	US$	RwF '000	US$	RwF '000
PRIME (696-0127)										
A. Long-term Technicans(a)										
1. Expat Advisor, COP										
short-term consultancy (1)	25,000	65	0	0	0	0	0	0	25,000	65
long-term contract	131,250	1,896	0	0	0	0	0	0	131,250	1,896
2. Expat Advisor										
short-term consultancy (1)	25,000	65	0	0	0	0	0	0	25,000	65
long-term contract	131,250	1,896	0	0	0	0	0	0	131,250	1,896
3. Rwandan Economist(b)	0	1,120	0	0	0	0	0	0	0	1,120
4. Rwandan Economist(b)	0	1,120	0	0	0	0	0	0	0	1,120
B. Studies										
@ $30,000/person month/expat										
@ Rwf 120,000/person month/local(d)										
1. Export Policy Review/Promotion	60,000	960	0	0	0	0	0	0	60,000	960
2. Import Needs of Small Enterprises	30,000	960	0	0	0	0	0	0	30,000	960
3. Efficiency of Formal Manufacturing	30,000	720	0	0	0	0	0	0	30,000	720
4. Impact on Small/Micro Manufacturing and Commerical Enterprises	30,000	960	0	0	0	0	0	0	30,000	960
5. Business Expectations	15,250	960	0	0	0	0	0	0	15,250	960
6. Impact on Rural and Urban Consumers	15,250	960	0	0	0	0	0	0	15,250	960
7. Support for Rapid Assessments	0	960	0	0	0	0	0	0	0	960
TOTAL from PRIME									493,000	11,682
(US$ equivl of Rwf)										89,859

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Table 15. Summary Budget Estimates for Monitoring Component. (continued...)

Funding Source/Budget Item	FY 1992		FY 1993		FY 1994		FY 1995		TOTAL	
	US$	RwF '000	US$	RwF '000	US$	RwF '000	US$	RwF '000	US$	RwF '000
Monitoring and Assessment of Policy Reforms Project (696-0136) (follow-on project for Monitoring Unit) (c)										
A. Long-term Technicans(a)	112,500	1,625	450,000	10,028	450,000	10,204	450,000	10,390	1,462,500	32,247
B. Equipment	71,500	618	6,000	2,470	6,000	2,470	6,000	2,470	89,500	8,028
C. Studies	0	0	300,000	13,840	315,000	4,240	200,000	4,000	815,000	22,080
D. Training	0	0	228,000	585	228,000	585	48,000	390	504,000	1,560
E. Other Costs	60000	0	120000	0	100000	0	60000	0	340000	0
Sub-Total, All Costs	244,000	2,243	1,104,000	26,923	1,099,000	17,499	764,000	17,250	3,211,000	63,915
F. Contingency and Inflation (US$ @ 10% p.a.; RwF @ 15% p.a.)	24,400	336	110,400	4,038	109,900	2,625	76,400	2,587	321,100	9,587
TOTAL for Project									3,532,100	73,502
(US$ equivl of RwF)(e)										565,398

(a) Estimate includes money for preliminary short-term consultancy and partial funding of long-term contract. While USAID will try to hire the advisors as PSCs, the estimate allows for an institutional contractor.
(b) Estimate consists of standard benefit package for local consultants, including slaray, rent, and transport.
(c) Local costs will be part of GOR contribution.
(d) If an individual is not hired, a local Rwandan consulting firm, or NGO may be contracted.
(e) Value of other GOR contributions, such as facilities, have not been included at this time.

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D. Key Indicators to be Tracked in the Tableau de Bord

The primary emphasis of the USAID-supported system will be on the effects of the A.I.D.-supported reforms on manufacturing and commercial sectors in terms of competition, business development, production, consumer issues, and employment. Most of the selected indicators will be at the micro and sectoral level, although some macro indicators will be monitored.

The rationale for this emphasis is that often the people-level impact of structural adjustment is overlooked by focusing most of the attention on macroeconomic indicators. In addition, in Rwanda, most of the key macroeconomic indicators (e.g., balance of payments, exports, public finance, debt, GDP growth, domestic savings, etc,) are already being gathered and closely watched by the Rwandan authorities such as the Central Bank, Ministry of Finance and the Ministry of Planning, as well as by international institutions such as the World Bank and the IMF.

In determining which indicators to track in the USAID-supported monitoring effort, the emphasis was on identifying useful data that is not currently being tracked by the GOR in its monitoring program. The GOR is already tracking, with the World Bank and IMF, a number of key macroeconomic variables. Thus, the Monitoring Unit will not become too involved in that area unless later asked to do so by the GOR.

The GOR is also implementing, with World Bank and UNDP assistance, a "tableau de bord" following key social and poverty indicators. This assistance is provided as part of the Social Dimensions of Adjustment (SDA) project. These indicators include location of the poorest groups (income levels), nutritional status of different segments of the populations, food consumption, educational status, and so forth. Similar to the macro data tracking, the USAID-sponsored Unit would only become involved in this area to the extent that MINIPLAN and USAID identify possible data not being covered in these areas, conclude there is a need to do so, and determine that the other donor-supported data collection and analysis activities will not be able to make timely adjustments in their procedures.

To help determine which sector and macroeconomic data to track, the process started with listing the key economic reforms and tracing their impact on the groups with which USAID and the GOR are concerned to see whether they are the desired results. The suggested "tableau de bord" will serve as the starting point. It is by no means exhaustive. Additional indicators may be added and others dropped, as experience implementing the PMPR program suggests.

The key indicators to be tracked along with their source and frequency in the tableau below:

Table 16. Suggested Tableau de Bord of Key Economic Indicators.

Data		Frequency of Collection	Source
Macroeconomic Data			
1.	Employment total and by sector(a)	quarterly	Ministry of Public Service
2.	CPI data	quarterly	Ministry of Plan, Statistical Service
3.	Exports traditional + non-trad.	annually	Central Bank
4.	Foreign exchange reserves	quarterly	Central Bank
5.	Foreign exchange allocations	monthly	Central Bank Ministry of Commerce
Business Development			
1.	No. of registered firms (Existing # and # of new approvals)	quarterly	Ministry of Commerce
2.	New investment foreign and national	annually	Ministry of Industry Central Bank
3.	Number and value of SOE divestitures	bi-annually	Ministry of Finance

Table 16.... continued

Data		Frequency of Collection	Source
Formal Manufacturing Sector			
1.	Employment sector and firm level	quarterly	Ministry of Industry rapid appraisals MINIPLAN Trimestral
2.	Imported vs. local raw material use	quarterly	rapid appraisals MU focused study MINIPLAN Trimestral
3.	Level of sales(b)	quarterly	rapid appraisals MINIPLAN Trimestral
4.	Capacity utilization	quarterly	rapid appraisals MINIPLAN Trimestral
5.	Value added	quarterly	rapid appraisal
6.	Efficiency analyses (DRCs etc)	yearly	contract study
7.	Business expectations	quarterly or as demanded	rapid appraisal MINIPLAN Trimestral
Small Scale Industry			
1.	Employment	quarterly	rapid appraisals contract studies
2.	Imported vs. local raw material use	quarterly	rapid appraisals contract studies
3.	Capacity utilization	quarterly	rapid appraisals
4.	Sales(b)	quarterly	rapid appraisals contract studies
5.	Business expectations	quarterly or as demanded	rapid appraisal MINIPLAN Trimestral

Table 16. ... continued

Data		Frequency of Collection	Source
Commercial Sector			
1.	Employment sector and firm level	quarterly	Ministry of Commerce rapid appraisal contract studies MINIPLAN Trimestral
2.	Sales(b)	quarterly	rapid appraisal MINIPLAN Trimestral
3.	Prices	quarterly	rapid appraisal MINIPLAN Trimestral
4.	Business expectations	quarterly or as demanded	rapid appraisal MINIPLAN Trimestral
Consumers			
1.	Urban experiences and expectations(a)	quarterly or as demanded	rapid appraisal contract studies
2.	Rural experiences and expectations(a)	quarterly or as demanded	rapid appraisal contract studies

(a) in all cases, data on employment and management, experience with reform and expectations, will be disaggregated by gender.
(b) information will be disaggregated to identify exports or export-related services (transport).

In the following table, intitial baseline data available at this time is presented to indicate the current starting point for the tableau de bord:

Table 17. Baseline Data for the Tableau de Bord

	Data	1990-1991 Baseline	Source
Macroeconomic Data			
1.	Employment total and by sector	total employment= 3.43 m. formal sector= 308.5 thous.	Ministry of Public Service
2.	CPI data	22% 7/90 to 7/91	Ministry of Plan, Statistical Service
3.	Exports traditional + non-trad.	traditional exports '90 $233 m.	Central Bank
4.	Foreign exchange reserves	June '91 $ 46 m.	Central Bank
5.	Foreign exchange allocations	June '91 - $ 16.9 m.	Central Bank Ministry of Commerce
Business Development			
1.	No. of registered firms (Existing # and # of new approvals)	to be confirmed	Ministry of Commerce
2.	New investment foreign and national	1990 = Frw 128m	Ministry of Industry Central Bank
3.	Number and value of SOE divestitures	9 divestitures schedules for 1991	Ministry of Finance

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Table 17. Continued....

Formal Manufacturing Sector			
1.	Employment sector and firm level	11,241 employed	Ministry of Industry
2.	Imported vs. local raw material use	ave. of 60% imported	rapid appraisals
3.	Level of sales	90/91 - 30% down on 1989 (70 to 100 m. Frw.)	rapid appraisals
4.	Capacity utilization	35% avenge	rapid appraisals
5.	Value added	27% average	rapid appraisal
6.	Efficiency analyses (DRCs etc)	ERP ranges -1209% to 1419%	PRIME report
Small Scale Industry			
1.	Employment	118,00	Ministry of Industry
2.	Imported vs. local material use	80% local	MAPS
3.	Capacity utilization	63%	SERDI
4.	Sales	1-4 m. Frw	Ministry of Industry rapid appraisal
Commercial Sector			
1.	Employment sector and firm level	down 30% on 1989	Ministry of Commerce rapid appraisal
2.	Sales	down 25% on 1989	rapid appraisal
3.	Prices	increased 50%	rapid appraisal

VII. PROGRAM IMPACT AND BENEFICIARIES

A. Overview.

This section discusses the PMPR's projected social and economic impact. A more detailed discussion is found Annex F, the Socio-Economic Assessment of Program Impact. The ultimate beneficiaries will be:

-- rural and urban Rwandans who will have a greater supply and variety of required and desired goods and services to purchase, some at lower real prices, and subsequently

-- Rwandans who will be employed as a result of new production activities, both for domestic and export markets, in the restructuring manufacturing and commerce sectors.

Given Rwandan social structures, new employment will result in part of the income earned being transferred to rural areas. Linkages and the passing of assistance from non-farm workers back to the farm through the extended family structures are very strong traditional social structures. Given Rwanda's adequate road network, by sub-Saharan standards, and large number of traders and rural merchants, the additional goods produced by the manufacturing sector are fully expected to be distributed widely throughout the country.

If past experience in Rwanda can be used as a rough guide, the number of women-directed firms will also grow. Roughly one-fifth of all new businesses will be women-directed and they will account for roughly one-fifth of all new employment. Of the women-directed enterprises, an overwhelming percentage (90 percent) of them can be expected to be small and micro enterprises. About two-thirds of the women will begin activities in commerce with most of the remainder being in small and micro manufacturing activities.

B. People-Level Impact.

The PMPR's "people-level" impact, particularly on employment and output, can be more clearly seen by detailing the linkages between the ultimate and intermediate beneficiaries. Additional detail on the linkages can found in Annex G, Cases Studies. Intermediate beneficiaries include currently efficient manufactures and commercial concerns, importers, shopkeepers, and transporters.

Currently efficient manufacturers, as measured by how efficiently they make use of local and imported inputs (e.g., measured by domestic resource cost -- DRC -- analysis) have been constrained by government policies. They will benefit from non-discriminatory access to foreign exchange, fewer constraints regarding the type of items which can be imported, fewer price and margin controls. Having greater freedom in making production and marketing decisions is expected to stimulate efficient manufacturers to increase employment and output in the first instance. Small rural and urban shopkeepers, and transporters in the commercial sector will benefit from a greater production which they can then buy and sell. Ultimately, Rwanda's consumers will benefit from having an increased supply of goods.

To economize on the increased price of foreign exchange, these firms are expected to seek out ways to take greater advantage of local inputs. This would stimulate a second round effect on enterprises already benefiting a little or heretofore not at all from formal manufacturing activity. Based on their first round of experience, efficient manufacturers could be expected to increase their investment and, possibly, entry into different product lines.

Importers of final consumer goods and intermediate goods have been constrained by government policies. They will benefit from the AEPRP-supported changes. They can be expected to try to import more and different types of final goods, given the removal of government regulations on the types and quantities of imports. Goods whose import was tightly controlled include blankets, plastic products, hoes, and other small agricultural implements. Small rural and urban shopkeepers, and transporters will benefit from a greater supplies of goods to buy and sell. Rural and urban consumers of final goods will benefit from importers increasing the availability of basic goods, and in some cases, providing them at lower real prices. Shopkeepers and transporters, most of whom are small, will also benefit from having more goods to sell and transport. As noted earlier, these goods are fully expected to be distributed widely.

Importers are expected to serve the needs of small and informal sector enterprises who may not be large enough to participate directly in the new import system. These smaller producers will still benefit by obtaining access to needed imported intermediate goods and then being able to transform them domestically (i.e., adding local value-added).

Presently inefficient manufacturers, as measured by a DRC, have been protected by government policies. Nevertheless, they will face the same opportunities to benefit from this program's policy changes as all others. However, it may be a more difficult process for them to adjust depending on the amount of protection they received under the old system. The company who imports tin-sheet and only crinkles it for roofing, for example, is expected to face stiff competition. An entrepreneur has plans to open a new plant to produce roofing from papyrus leaves (a U.S.-provided technology). The latter will have much higher local value-added and employment than the former, whose local value-added is less than 5 percent. The net effect of the reforms on this sub-group of manufacturers is indeterminate ex ante. It depends on whether and how they plan to adjust. In the near term, employment could remain level, or perhaps decline. It could increase in cases where means were found to substitute local labor for imported machinery or for production steps which might have otherwise be undertaken outside Rwanda. Just as the net effect on employment is indeterminate ex ante, the net effect on output and investment plans is unclear. What is clear, however, is that employees of inefficient manufacturers will be relatively more protected under this program than under a reform program that would jump directly to a fully open and uncontrolled market system. The phased nature of this and the GOR's overall SAP serves to dampen, not remove, the shock of having to adjust.

Another group of intermediate beneficiaries are those manufacturers and commercial concerns who have been constrained by government policy from trying to develop export markets for their goods. While the impact of the program's export promotion component will be very limited during the life of the PMPR, it nevertheless can generate future benefits in terms of greater employment and linkages with other local suppliers, and foreign exchange earnings. As Rwanda becomes more supportive of exports, the smaller transporters who have long crossed borders illegally are expected to benefit in reduced operating costs. In some cases, an export market may serve to help bring along the development of domestic markets. This could be the case where the domestic market for a product is not yet mature relative to others in the region or elsewhere (e.g., high-value vegetables for the Middle East and Europe) or large enough to sustain certain production processes.

As can be see in the above discussions of impact, commercial sector enterprises, such as merchants and transporters, will benefit from the increased manufacturing sector activity and reduced constraints to pricing and marketing. The ultimate benefits will be seen in new employment and greater supplies of goods and services.

Another potential impact of the reforms is of a different, yet important, nature. Implementation of the new import system will be the first element of the GOR's SAP requiring a complex set of implementation actions. At least five different major GOR institutions will be involved: the Ministries of Commerce, Finance, and Plan, and the National Bank of Rwanda (central bank). The successful and sustained implementation of this program's policy changes are fully expected to improve the confidence Rwanda's entrepreneurs have in the government's commitment to reform and ability to coordinate the reform process. Given the central importance of this program's policies to the implementation of the overall SAP, it may help lessen the possibility of wide spread demonstrations against the SAP by the general public. If this program is successful, it increases the likelihood that the IMF, IBRD, and other donors will continue to support the GOR's overall reform effort beyond this initial year.

A. Groups Made Vulnerable by PMPR

It is important to differentiate between those Rwandans who may be made vulnerable (a) by the A.I.D. PMPR Program, (b) the GOR's overall Structural Adjustment Program, and (c) those likely to be vulnerable regardless of the presence of a reform program. The negative consequences of the PMPR program's reforms will fall on groups traditionally considered non-vulnerable: owners and employees of inefficient larger formal firms (including parastatals) in the manufacturing and commerce sectors, and to a minor extent civil servants. Traditionally vulnerable groups, including the rural poor, are expected to benefit from the A.I.D. supported reforms, as set forth in the previous section on program impact, or at worst, receive no benefits.

1. Owners and Employees in Large Inefficient Formal Concerns.

In absolute terms, few Rwandans are projected to be made vulnerable by the A.I.D. supported reforms. They are most likely to be the owners of and employees in larger formal manufacturing and commercial firms that have benefitted from the GOR's past protectionist policies and are unable or unwilling to adapt to the changing incentive structure. If one takes total formal employment in manufacturing and commerce and makes two unjustified assumptions: (a) that they would all go out of business, and (b) that the level of formal employment has not declined since the 1989 MAPS survey, then the maximum number of employees that could possibly be laid off would be about 127,000 Rwandans out of a total of over 3.2 million currently employed in agriculture, informal enterprises, and government. Given Rwanda's economic decline since 1989, and substantiated by the PAAD survey, the number of those who could be laid-off is significantly over-estimated. Looking at the experience in Africa, large formal sectors are expected to adjust to the new opportunities (see Annex F). In Ghana, for example, capacity utilization in large formal firms were expected to drop, but in fact it rose.

There will be some dislocation. That is the essence of the process of structural adjustment. For example, one expatriate owner of a private firm import-substitution firm recently left Rwanda for Canada. His firm, however, did not close. Operations are continuing. If past surveys were reasonably correct, most firms welcome the planned policy changes and are planning to adapt to their operations. This view was again supported by the PAAD cases studies. Several of the firms found to be "inefficient" earlier studies stated that they believed they would benefit from and be able to compete effectively under the new GOR incentive structure.

1. Protective Measures Designed into Program.

The A.I.D.-supported reforms have been designed to lessen the initial shock of the reforms, but not avoid their fundamental intent, in four ways.

First, the reduction of GOR arrears to private sector firms will largely benefit formal firms, some of whom could be adversely affected by the PMPR. By having their arrears reduced, they will receive a needed cash injection that can be used to help them adjust.

Second, since the GOR has decided to change slowly from a GOR managed exchange rate. Rather than jump directly to a market-determined exchange rate, it is moving first to an interim managed system so firms will not see the dramatic exchange rate changes, hence changes in their costs of production, were seen in other reform programs, such as in Zambia.

Third, the GOR has decided to reserve 30 percent of all foreign exchange allocated under the new system for essential goods. The largest single category is petrol, oil, and lubricants (POL), then pharmaceutical and school supplies.

Finally, the PMPR has a monitoring component which is intended to rapidly identify and assess the magnitude of impact, both negative and positive. In the case of the former, the monitoring system can give the GOR more time to respond and correct an adverse impact which it believes to be unacceptable.

The last three measures can help ease the adverse effects of reforms <u>beyond</u> those supported by this program. Since the monitoring system can help identify potential problems, the A.I.D. program could afford some assistance to groups vulnerable for reasons other than the A.I.D. program.

VIII. PROGRAM IMPLEMENTATION

A. A.I.D. Program Management

The USAID Program Officer will have overall responsibility for managing the program. He will be assisted by (a) an experienced senior Rwanda FSN economist who will provide day-to-day management, maintain contact with the GOR, and help assure the smooth implementation of the program; and (b) and experienced Rwandan FSN Program Assistant who will facilitate and track the flow of documents through USAID, the GOR, and, as necessary, the PRIME project. In addition, the USAID Controller's Office will monitor the financial management of the dollars and local currency.

The major tasks for the Mission program management will include:

- assuring, in conjunction with REDSO/ESA RLA, 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;

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

- monitoring the policy reform program and preparing reports for the Mission Director and AID/Washington, as required;

- monitoring the financial management of the dollars and the local currency;

- coordinating with the Ministry of Plan and other donors;

- carrying out the necessary steps to ensure the early and rapid start-up of the Monitoring Unit;

- coordinating the activities of the on-going PRIME Program to supplement the PMPR as necessary; and

- conducting the necessary evaluations of PMPR.

B. GOR Program Management

Although various ministries will be responsible for implementing different aspects of the structural adjustment program, the Ministry of Plan (MINIPLAN), as the agency responsible for economic policy formulation and implementation, has been designated by the GOR to coordinate the program. MINIPLAN will be the official point of contact for A.I.D on the implementation of the program. Indeed, the Minister of Plan has played, and continues to play, a leading role in the development of and negotiation of the PMPR and the larger GOR SAP. He is also one of the primary USAID contacts for the PRIME program and the Natural Resources Management Project, and his ministry is involved in the coordination of several other Mission projects (e.g., ASPAP).

The GOR's main instrument for managing the SAP, however, will be the "Comite de Suivi". It is a committee composed of representatives from three key ministries and the central bank, Bank Nationale du Rwanda (BNR). This four-person committee (Comite de Suivi), includes two representatives from the Ministry of Plan: the Director General of Conjuncture, who is the chairperson and the person to whom the Monitoring Unit reports, and the Director General of the Statistical Studies Office. The other members are the Director General of Studies at the central bank; and the Director General of Studies and Evaluation at the Ministry of Finance. This committee is responsible for: monitoring the progress of implementation; coordinating the activities with other government ministries and donors; and developing workable solutions to problems with the SAP as they are identified.

In addition to the "Comite de Suivi", the National Committee for External Trade, within the Ministry of Commerce, monitors that portion of the SAP which deals with external trade. This committee, which has been in existence for a number of years, is also composed of members from other ministries, and works closely with the "Comite de Suivi" on trade issues under the SAP. Personnel from other ministries, such as Plan, Finance, Commerce, and the central bank are responsible for implementing those aspects of the SAP which relate directly to their ministries.

C. Disbursement Procedures: Dollars and Local Currency

This section details the Program's dollar and local currency disbursement procedures. These procedures are based on existing GOR-USAID procedures which have been expanded with the full participation of the relevant GOR implementing ministries and agencies.

1. Dollar Release, Disbursement and Reporting Procedures

a. Release to Special Account. Once the Program Grant Agreement has been signed, the GOR, under the lead of the Ministry of Planning (MiniPlan), can request that the first tranche be disbursed. The GOR request will provide evidence detailing how the relevant conditions precedent have been fulfilled. USAID, with the concurrence of the REDSO/ESA legal advisor, will make the determination as to whether the conditions have been fulfilled.

When the GOR request has been approved, USAID will issue Program Implementation Letters (PILs) informing the GOR that the relevant conditions precedent to disbursement of the first tranche have been met and that the funds will be released. At the same time, USAID will notify the AID/W Controller to authorize the U.S. Treasury to deposit the dollar funds into the special separate account for this program at Citibank, Rwanda's correspondent bank in the USA. The BNR understands the A.I.D. requirement for a separate account and has already opened it. The account information is:

Account Title:	USAID-ISPA-Rwanda
Account Number:	36077077
U.S. Bank:	Citibank, New York

b. Disbursement from Special Account. The Bank Nationale du Rwanda (BNR) and the Ministry of Commerce and Consumption (MINICOM) will allocate the USAID-provided dollars among Rwandans who have met the eligibility requirements for obtaining access to foreign exchange under the interim foreign exchange allocation system. The allocation procedures, detailed in Section V.B and V.D, apply to all donor and government-provided funds for the interim foreign exchange allocation system. The eligibility requirements are the same for all Rwandans. State-owned enterprises (parastatals) will not receive any preferential allocation under the program or for any U.S.-provided foreign exchange. Rwandans receiving access to U.S.-provided foreign exchange will use one of Rwanda's three commercial banks or the BNR to handle the financial aspects of the import (e.g., open letters of credit and so forth).

c. Reporting on Use of Dollars. The BNR will provide to USAID details on disbursements from the special dollar account at Citibank. The information will be provided on a monthly basis until all the funds have been disbursed, or until mutually agreed in writing between USAID and the GOR to do otherwise. In particular, the GOR will provide information on:

(i) the purchaser
(ii) good(s) purchased,
(iii) the dollar value of good(s) purchased, and
(iv) source of the good(s).

This information will permit USAID and the GOR to track the use of the goods in Rwanda to determine their development impact.

Every six months, the BNR will provide USAID with a detailed bank account reconciliation on disbursements from the special account, amounts actually spent, amounts redeposited (and available for reprogramming, interest earned on the remaining balance (and available for programming). This information will permit USAID to determine that proper financial procedures were observed by the

GOR, Rwandan commercial banks, and importers, and that no ineligible goods were financed.

d. Eligible Goods. The goods purchased will conform to guidelines set forth in writing in the Program Grant Agreement. Ineligible items, in accordance with A.I.D. policy and U.S. law, are be excluded. The goods will be purchased from 935-only countries. Procurement from the U.S. shall be given first priority.

e. The Second Tranche. The GOR can request the disbursement of the second tranche when the GOR can provide evidence indicating that the relevant conditions precedent have been fulfilled. USAID will follow the same procedures for notifying the GOR when the determination has been made. The GOR will follow the same disbursement and reporting procedures as outlined above.

2. Local Currency Generation, Disbursement, and Reporting Procedures

a. Generation of Rwandan Francs. Upon receiving notification that the dollar funds have been transferred into the separate special account at Citibank, the GOR (BNR) will immediately deposit an equivalent amount of local currency into a separate counterpart fund account especially established for this Program at the central bank. The applicable exchange US$-Rwf rate is the rate at the time when the dollar funds are transferred into the GOR account. The rate of exchange will be the highest rate of exchange, which at the time of conversion is made, is not unlawful in Rwanda.

b. Disbursement Procedures. The Ministry of Finance, in conjunction with the BNR, will begin to reduce GOR Rwandan Franc (Rwf) arrears to private domestic suppliers. For this Program, "arrears" are defined as those GOR obligations incurred but not cleared as of November 13, 1990, which is the date the GOR launched its SAP. "Private suppliers" are defined to include firms where the government has no shareholder interest or is only a minority shareholder.

First priority for clearing outstanding Rwf arrears will be given to suppliers of goods and services, including financial services, where the GOR has less than a twenty-five percent controlling interest. After all arrears to this category has been cleared, this program's local currency can then be used to clear arrears to firms which have a higher GOR participation. Local currencies generated by this Program Grant Agreement will not be used to clear GOR arrears to state-owned enterprises.

c. Reporting on Use of Rwandan Francs. The BNR will provide to USAID details on disbursements from the special local currency account at BNR. The information will be provided on a monthly basis until all the funds have been disbursed, or until mutually agreed in writing between USAID and the GOR to do otherwise. In particular, the GOR will provide information on:

(i) the firm,
(ii) percentage of GOR participation,
(iii) Rwf amount of arrears to GOR
(iv) Rwf amount of arrears reduced, and
(v) list of companies with which the GOR has outstanding arrears.

This information will permit USAID and the GOR to determine how much arrears have been reduced, how much remains, and the development impact of having reduced outstanding arrears to Rwanda suppliers. The same generation, disbursement, and reporting procedure will followed when the Program's second tranche of dollar funds has been deposited into the GOR's special account at Citibank.

This procedure for generating and utilizing local currencies applies to this Program Agreement's FY 1991 funds only.

D. Monitoring and Evaluation Plan

1. Monitoring and Reporting.

The Ministry of Plan will be responsible for review and periodic reports on the progress of the PMPR and the use of the local currency as specified in the Program Grant Agreement. USAID staff will oversee the general monitoring of the PMPR, including its timely implementation and ensuring that the policy dialogue between USAID and the GOR is maintained and needed studies and other activities are funded on a timely basis. The Ministry of Finance and the central bank will maintain records on the use of the local currency and the use of A.I.D. dollars, respectively, and will permit USAID to inspect these records, as required. More specific reporting will be outlined in the Program Grant Agreement or in Project Implementation Letters, as necessary.

2. A.I.D. Evaluation Plan

Two USAID evaluations are planned. The first will be an interim A.I.D. implementation review to assess program progress and program impact to date. The second will be more comprehensive and focus on assessing program impact. It has been scheduled for August 1993. To the extent possible, the evaluation will identify and measure the effects of policy changes on production and employment generation in the manufacturing and commerce sectors as discussed in Section V.G. "End of Program Status." It will also assess the contribution of the PMPR to the program goal. Depending on the stage of PMPR and SAP implementation, the Mission may decide to request an AID/W impact evaluation.

These evaluations are expected to draw heavily from the work of the Monitoring Unit. The evaluations are to be funded under the planned project supporting the Monitoring Unit, which is projected to be signed in the third quarter of FY 1992.

IX. SUPPORTING ASSESSMENTS

This section summarizes Mission and consultant assessments of (a) the GOR's institutional capacity to implement and manage the USAID-funded program, (b) the commitment of GOR and people regarding reform, (c) the Mission's capabilities, and (d) environmental considerations.

A. Assessment of GOR Institutional Capacity to Implement and Manage USAID Program

1. Policy Reform Aspects.

The Ministry of Plan recognizes the GOR's need to strengthen its capabilities to monitor and assess on an on-going basis the impact of its Structural Adjustment Program and the PMPR. It is a need widely recognized by those both in and outside of government and firmly confirmed by USAID during its assessment of the GOR overall reform program. Consequently, USAID made the institutional strengthening component a key element of the PMPR. Section VI details Mission-GOR plans for enhancing the GOR's abilities in this area. As noted earlier, this program component is currently being funded from an on-going USAID project: PRIME (696-0127). Funding for this activity will continue under a new project next year. Some complementary training and studies may be funded by HRDA (698-0463.96) and ASPAP (696-0126), respectively.

2. Financial Control Aspects.

The financial aspects of the PMPR will be managed by the Ministry of Finance and BNR. USAID foresees no significant financial control and accountability problems. The Mission's General Assessment of Accountability (submitted to Mark Edelman, Chairperson, Management Control Review Committee, dated March 26, 1991) concluded that a GOR strength is "good internal control" over budgeting and disbursements. The process is closely managed by the Ministry of Finance. In turn, the Ministry's work closely reviewed by several other GOR bodies, including a committee comprised of all the GOR ministers.

B. Assessment of the Commitment of the GOR and People

1. Commitment of the GOR.

As stated in the PAIP document (page 21, April 1991), the Mission had become increasingly confident that the GOR would begin implementation of the PMPR's policy reforms. During the review of the PAIP in AID/W, the GOR did officially begin implementing several of the policy reforms being supported by the PMPR, in particular, the interim foreign exchange allocation system. The GOR had already begun implementation of other parts of Rwanda's broader structural adjustment program, as outlined in the World Bank's Policy Framework Paper (PFP) and recently approved by the boards of the World Bank and IMF.

World Bank and IMF involvement in developing the GOR's SAP over the past three years further increases the probability, in USAID's assessment, that the A.I.D.-supported reform measures will continue to be implemented. GOR consultations with the IBRD and IMF are continuing. For example, an IMF mission to review monetary and fiscal targets has been scheduled for August and a World Bank mission to review other SAP targets has been scheduled for September.

The commitment of the country's leadership and senior technocrats to the reform process appears to USAID to be firmer, on balance, than the commitment of mid- and lower-level government employees. This perception has also been noted by several other donors supporting the GOR's reform program. The difference within the GOR may stem in part from how the program is perceived to affect their future and jobs. To help bring along public employees responsible for implementing aspects of the USAID-funded reform program, the PMPR has included the institutional strengthening component to enhance their abilities to do new job-related demands. It is also hoped that the on-the-job training, formal training, and technical assistance will encourage Rwandans in making policy adjustments that are in the spirit of liberalization.

2. Commitment of the People.

USAID staff and consultants have found that many segments of the population do not feel like they were sufficiently consulted on the Government's structural adjustment program. The GOR did make an attempt to consult the general public by sending the Minister of Plan to all of Rwanda's 10 prefectures in February 1990. The attempt, however, suffered from being top-down and dirigist.

Nevertheless, the population generally seems to believe the proposed economic reforms are necessary and will benefit the economy -- if they are implemented as announced. This again reflects the general suspicion surrounding government actions, whether on the economic or political front (See Section II.C).

The PMPR has sought to build upon the general populace's cautious acceptance of the reform by making the sustained transparent and accountable operation of the new foreign exchange and import system a part of the Conditions Precedent for the disbursement of both tranches. If the economic reforms are implemented in an open manner, as agreed with the GOR, the populace's confidence in the GOR and the economic reform process will undoubtedly increase. A successful PMPR could be expected to have positive spill-over effects regarding populace's assessment of the GOR's structural adjustment program, as well as its democratization effort.

C. Assessment of Mission Capabilities

This section details the Mission's capabilities to continue the on-going policy dialogue process, monitor the agreed upon GOR implementation actions and assess program impact. The Mission's established strengths are in its ability to continue the policy dialogue process and to monitor agreed upon implementation actions. In particular, USAID has begun by carefully reviewing the foreign exchange allocation system. This monthly review will continue through the program. To assess program impact, the Mission and the GOR have already initiated joint actions to put in-place a monitoring and assessment system, as detailed in Section VI. The Mission has also reorganized itself to prepare for the increased workload. The Mission will re-assess the workload and present its recommendations as part of the CPSP process. The CPSP is to be presented to AID/W in the second quarter of FY 1992.

1. Continuing the On Going Policy Dialogue.

The Mission does not foresee any difficulties in continuing the on-going policy dialogue. There have been no difficulties concerning Mission access to GOR officials. The Mission Director is accorded a rank equivalent to a government minister. Consequently, he has immediate access to the Minister of Planning, who is responsible for the GOR's overall Structural Adjustment Program (SAP) and for this PMPR. The Minister is also a former employee of USAID's on-going PMPR program, PRIME.

The Program Officer is responsible for the PMPR. The Program Officer deals on a regular basis with the Minister's chief technocrat responsible for carrying the Minister's decisions, and the Minister, as necessary. He and his staff members have served as de facto members of the PAAD design team and attended all meetings with other GOR agencies and ministries to communicate GOR policy and resolve internal differences. He is also the person responsible for ensuring that the overall SAP and the PMPR is closely monitored. The Mission's FSN Program Economist, FSN Program Assistant, and the lead consultant from PRIME, who serves on several of the Ministry of Plan's sector committees, all have long-established relations with many GOR officials, not only in the Ministries of Plan, Finance, and Commerce, or BNR.

In addition, the Mission Director and Program Office staff liaise formally (i.e., monthly donor coordination meetings) and on an as-needed basis with other donor representatives providing support to the GOR's reform program.

2. Monitoring GOR Implementation Actions.

The Program Office is responsible for monitoring GOR implementation actions required pursuant to policy reform conditions, covenants and implementation actions. Given the Office's established relationships with all relevant Ministries (i.e., Foreign Affairs, Plan, Finance, and Commerce and Consumption) and the National Bank of Rwanda, the central bank, no difficulties are expected. As agreed with the GOR, the Ministry of Plan will assume the lead role in ensuring the necessary information.

The Controller Office will continue to work with the Program Office to ensure that the conditions, covenants, and implementation actions concerning the resource transfers and allocations are implemented as agreed. The Mission foresees no difficulties in this area. The foreign exchange and local currency procedures and reporting requirements have already been agreed to in detail with the relevant GOR bodies. The responsible FSN in the Controller's Office was a member of the PAAD team and has had over sixteen years experience working with the GOR's financial systems as an employee of the central bank.

3. Assessing Program Impact.

The Program Office is responsible for coordinating effort to assess program impact. The Program Officer will oversee the efforts of the Office's FSN staff working on USAID two AEPRPs. A third of the Program Officer's time is budgeted for the AEPRPs. The FSN Program Economist and Program Assistant will be working on a on a full-time and on a half-time basis, respectively, with the GOR and USAID-funded contractors. The Mission's new USDH Assistant Program Officer will absorb some of the regular program officer duties performed by the FSN Program Assistant. This will allow the Mission to capitalize on the FSN's contacts in government. As part of the Country Program Strategic Plan (CPSP) exercise planned for the first and second quarters of FY 1992, the Mission will assess the actual workload and determine if additional contractor, FSN, or USDH staff would be required to minimize Mission vulnerabilities. The Mission Projects Office will provide additional support as required. For example, the Project Office has the Mission expertise on gender issues and thus will be involved in ensuring those elements of the monitoring and assessment plan are implemented properly.

D. Environmental Considerations

Given the nature of this Program Grant, a Categorical Exclusion has been approved by AID/W. The PMPR met two criteria for exclusion:

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

2. 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 approved Initial Environmental Examination (IEE) for Categorical Exclusion is found in Annex C.

ANNEXES

STATISTICAL APPENDIX

RWANDA - SELECTED ECONOMIC AND FINANCIAL INDICATORS, 1987-93

	1987	1988	1989	1990	1991	1992	1993
				Est.	Projected		
	(Annual percentage changes, unless otherwise indicated)						
National income and prices							
GDP at constant prices	-0.3	0.3	-5.7	-2.0	1.0	3.7	3.8
GDP deflator	1.3	3.2	3.8	3.2	24.0	12.0	5.0
Consumer prices 1/	6.0	2.6	4.6	8.7	28.0	12.0	5.0
External sector							
Exports, f.o.b. (in SDRs)	-40.0	-6.9	-7.0	-1.5	-3.7	7.8	11.5
Imports, c.i.f. (in SDRs)	-7.9	0.3	-5.6	-9.8	11.3	--	6.8
Export volume	1.5	-21.5	2.7	35.6	-8.3	4.5	4.5
Import volume	-7.1	-0.1	-6.0	-11.1	12.8	-1.9	3.5
Terms of trade (deterioration -)	-37.0	16.4	-11.8	-27.5	6.4	1.1	3.4
Nominal effective exchange rate (depreciation -) 2/	-1.4	2.0	2.9	-6.6	...	...	...
Real effective exchange rate (depreciation -) 2/	-0.2	1.4	-0.8	-8.2	...	...	...
Government finance							
Revenue and grants	-2.8	8.3	1.2	-7.4	33.7	11.2	8.4
Revenue	-1.8	0.8	3.2	-9.1	32.6	11.4	12.8
Total expenditure and let lending	13.7	-5.5	-5.1	15.5	16.4	-0.7	3.8
	(In percent)						
Money and credit							
Domestic credit 3/	15.2	17.4	13.5	19.8	6.8	7.1	5.1
Government 3/	15.3	5.8	6.6	23.1	-2.7	-0.6	-1.8
Economy 3/	-0.1	11.6	6.8	-3.3	9.5	7.8	6.9
Money and quasi-money (M2)	10.3	7.4	-4.2	5.4	21.9	13.3	7.9
Volocity (ratio of GDP to M2)	5.9	5.7	5.8	5.6	5.7	5.9	5.9
Interest rate (one-year savings deposits)	4.5-5.0	4.5-5.0	4.5-5.0	12.0	...	...	...
	(In percent of GDP)						
Total revenue and grants	15.8	16.6	17.1	15.7	16.8	16.1	16.0
Total revenue	13.5	13.1	13.8	12.4	13.2	12.6	13.1
Total Total expenditure and net lending 4/	23.9	21.8	21.1	24.1	22.4	19.2	18.3
Consolidated fiscal deficit (including grants) 4/	-8.2	-5.2	-4.0	-8.4	-5.7	-3.1	-2.3
Consolidated fiscal deficit (excluding grants) 4/	-10.4	-8.7	-7.3	-11.7	-9.3	-6.6	-5.2
Domestic bank financing	2.6	0.8	1.5	3.2	-0.4	-0.1	-0.3
Foreign financing (net)	4.6	2.8	2.4	1.5	2.1	2.3	2.6

	1987	1988	1989	1990	1991	1992	1993
				Est.	Projected		
External current account (deficit -)							
Excluding official transfers	-11.7	-11.3	-10.7	-10.5	-15.2	-12.4	-11.4
Including official transfers	-6.2	-5.3	-4.8	-4.7	-8.6	-6.1	-5.9
External debt (outsdanding at end of period)	25.8	26.7	28.0	28.8	28.2	27.1	27.9
Debt service ratio 5/	16.5	17.1	18.3	17.7	20.9	20.8	18.6
Internal payments 5/	4.4	5.8	5.2	6.3	7.4	6.8	5.9
Gross domestic savings	6.3	6.4	6.3	3.8	3.0	5.3	6.2
			(In millions of SDRs)				
Overall balance of payments (deficit -)	-14.3	-29.0	-29.9	-47.6	-29	7.3	8.4
Gross official reserves	116.5	88.1	53.0	31.3	55.7	69.8	85.0
(In months of imports, c.i.f.)	(5.1)	(3.8)	(2.4)	(2.4)	(2.6)	(3.4)	(3.9)

Sources: The Government of Rwanda and IMF.

1/ The deflator of private consumption, as measured in the National Accounts.
2/ Annual average change in effective exchange rate index.
3/ Expressed in percent of beginning-period money stock.
4/ On a commitment basis.
5/ In percent of exports of goods and nonfactor services.

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RWANDA: BALANCE OF PAYMENTS, 1986-1993.

	1986	1987	1988	1989	1990	1991	1992	1993
					Est.	Projections		
	(In millions of SDRs)							
Export, f.o.b.	157.1	94.2	87.7	81.6	80.3	77.3	83.3	92.9
Of which: coffee, f.o.b.	(121.0)	(70.9)	(63.0)	(45.6)	(48.6)	(44.0)	(47.4)	(53.4)
Import, f.o.b.	221.2	207.1	207.3	197.9	172.0	192.6	192.7	205.4
Trade balance	-64.1	-112.9	-119.6	-116.3	91.7	-115.3	-109.3	-112.4
Services (net)	-100.8	-89.1	-84.2	-71.2	-76.8	-85.5	-82.5	-81.5
Of which: interest of debt	-4.6	-5.7	-7.0	-6.0	-7.1	-7.9	-7.7	-7.6
Private transfers (net)	6.0	5.8	7.9	6.4	4.8	5.3	6.6	8.3
Current account balance:								
(excluding official tranfers)	-158.9	-196.2	-195.9	-181.1	-163.7	-195.5	-185.3	-185.6
Official transfers	99.8	92.0	103.7	99.3	90.4	85.0	94.4	89.3
Current account balance								
(excluding official tranfers)	-59.1	-104.2	-92.2	-81.8	-73.3	-110.5	-90.9	-96.3
Long-term capital inflow	71.0	83.9	63.1	47.1	25.0	139.5	98.2	104.7
Direct investiment	15.0	13.6	15.7	12.1	4.1	3.9	7.0	7.9
Net long-term loans	56.0	70.3	47.4	35.0	20.9	59.0	65.3	72.5
Disbursements 1/	68.0	86.0	60.9	50.0	33.8	73.2	81.1	88.9
Repayments	11.9	15.7	13.5	15.0	13.0	14.2	15.8	16.4
SPA 2/	-	-	-	-	-	76.6	25.9	24.3
Other items (net)								
(including errors & omissions)	12.9	6.0	0.1	4.8	0.7	-	-	-
Overall balance	24.9	-14.3	-29.0	-29.9	-47.6	29.0	7.3	8.4
Financing:	-24.9	14.3	29.0	29.9	47.6	-29.0	-7.3	-8.4
Purchase of IMF resources	-	-	-	-	-	8.8	13.1	8.8
Official reserve change								
(- indicates increase)	-24.9	14.3	29.0	29.9	42.9	-33.1	-20.4	-17.2
Change in arrears	-	-	-	-	4.6	-4.6	-	-
	(In units indicated)							
Memorandum items:								
Current account balance								
excluding grants (percent of GDP)	-9.6	-11.7	-11.3	-10.7	-10.5	-15.2	-12.4	-11.4
Current account balance								
Including grants (percent of GDP)	-3.6	-6.2	-5.3	-4.8	-4.7	-8.6	-6.1	-5.9
Rwanda francs per SDR	102.71	102.71	102.71	102.71	112.41	171.18	171.18	171.18
Coffee export price (cents/lb)	169.2	103.2	127.0	103.1	73.3	77.9	81.1	88.8
Export volume growth (percent)	17.7	1.5	-21.5	2.7	35.6	-8.3	4.5	4.5
Import volume growth (percent)	8.0	-7.1	-0.1	-6.0	-11.1	12.8	-1.8	3.5
Dept service ratio	8.5	16.5	17.1	18.3	17.7	20.9	20.8	18.6
Net foreign reserves (months of								
imports, c.i.f.)	5.0	4.6	3.2	1.9	-0.1	1.5	2.5	3.1
Real GDP growth	5.5	-0.3	0.3	-5.7	-2.0	-1.0	3.7	3.8

Sources: The Government of Rwanda and IMF.

1/ Includes World Bank structural adjustment credits (US$45 million per year), as from 1991.

2/ New external resources from the Special Program of Assistance for Sub-Saharan Africa (SPA), largely in

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RWANDA: GOVERNMENT FINANCIAL OPERATIONS, 1987-93

	1987	1988	1989	1990	1991	1992	1993
				Est.	Projected		
	(In billions of Rwandan francs)						
Revenue and grants:	27.23	29.50	29.87	27.67	37.00	41.15	44.63
Total revenue	23.13	23.32	24.07	21.88	29.02	32.34	36.49
Tax revenue	20.18	20.00	20.89	18.58	25.97	29.49	32.02
On income and profit	4.64	5.19	5.24	4.89	5.28	6.16	7.54
On goods and services	6.26	6.55	7.46	6.55	8.13	10.03	11.43
On international trade	8.83	7.72	7.61	6.57	11.93	11.58	12.26
Of which: import duties	(6.12)	(6.12)	(5.93)	(4.83)	(10.43)	(10.0[illegible])	(10.66)
coffee export tax	(2.45)	(1.27)	(1.38)	(1.47)	(1.37)	(1.39)	(1.44)
Other tax revenue	0.45	0.54	0.59	0.57	0.62	0.73	0.80
Nontax revenue	2.95	3.32	3.19	3.30	3.05	3.84	4.47
Grants	4.10	6.18	5.79	5.79	7.98	8.81	8.14
Total expenditure (commitment basis)	40.79	38.53	36.65	42.34	49.23	48.96	50.79
Current expenditure	23.95	23.83	23.92	31.03	31.61	28.50	29.19
Wages and salaries	10.11	10.71	11.00	11.80	12.91	12.88	13.33
Goods and services	5.79	6.06	5.57	9.77	11.00	7.16	7.81
Interest payments	1.81	2.04	2.03	2.20	4.50	5.41	4.73
On domestic debt	1.23	1.35	1.29	1.50	3.17	4.05	3.38
On external debt	0.58	0.69	0.74	0.69	1.32	1.36	1.35
Transfers 1/	6.24	5.02	5.32	7.26	3.20	3.05	3.32
Of which: coffee sector	(3.19)	(1.61)	(2.07)	(4.03)	(--)	(--)	(--)
Capital expenditure	16.84	14.70	12.73	11.31	17.62	20.46	21.60
Development budget	3.97	4.28	3.40	3.56	3.00	3.36	3.53
Foreign-financed	12.87	10.42	9.33	7.76	14.62	17.10	18.07
Grants	4.10	4.22	4.15	3.96	7.46	8.55	8.14
Loans	8.77	6.20	5.18	3.80	7.16	8.55	9.94
Lending minus repayment	0.23	0.25	0.16	0.18	0.27	0.18	0.18
Deficit (commitment basis)							
Excluding grants	-17.89	-15.46	-12.73	-20.64	-20.48	-16.80	-14.48
Including grants	-13.79	-9.28	-6.94	-14.85	-12.49	-7.99	6.35
Change in arrears (reduction -)	0.92	0.99	-2.21	5.34	-5.34	--	--
Deficit (cash basis)	-12.87	-8.29	-9.15	-9.52	-17.83	-7.99	-6.35
Discrepancy (financing minus deficit)	--	0.53	0.60	--	--	--	--
Financing:	12.87	7.76	8.55	9.52	17.83	7.99	6.35
Foreign (net)	7.84	5.05	4.10	2.62	4.69	5.85	7.13
Drawings	8.77	6.20	5.18	3.80	7.16	8.55	9.94
Amortization	-0.93	-1.15	-1.08	-1.18	-2.47	-2.70	-2.81
Domestic (net)	5.03	2.72	4.45	6.90	0.30	2.14	-0.73
Banking system	4.45	1.36	2.65	5.62	-0.84	-0.25	-0.73
Other	0.58	1.36	1.80	1.28	0.87	2.39	--
SPA 2/	--	--	--	--	13.11	--	--

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	1987	1988	1989	1990	1991	1992	1993
				Est.	Projected		
			(In percent of GDP)				
Memorandum items:							
Revenues and grants	15.8	16.6	17.1	15.7	16.8	16.1	16.0
Revenue	13.5	13.1	13.8	12.4	13.2	12.6	13.1
Total expenditure and net lending	23.9	21.8	21.1	24.1	22.4	19.2	18.3
Total expenditure	23.7	21.7	21.0	24.0	22.3	19.1	18.2
Current expenditure	13.9	13.4	13.7	17.6	14.3	11.1	10.5
Capital expenditure	9.8	8.3	7.3	6.4	8.0	8.0	7.7
Overall deficit (commitment basis)							
Including grants	-8.0	-5.2	-4.0	-8.4	-5.7	-3.1	-2.3
Excluding grants	-10.4	-8.7	-7.3	-11.7	-9.3	-6.6	-5.2

Sources: The Government of Rwanda and IMF.

1/ Including unclassified expenditures.
2/ The amount for 1991 is the counterpart of the US$110 million raised in the context of the special Program of Assistance for Sub-Saharan Africa (SPA).

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ANNEX B

Logical Framework

ANNEX B. LOGICAL FRAMEWORK FOR RWANDA's PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM

Narrative Summary	Verifiable Indicators		Means of Verification	Important Assumptions
GOAL				
- contribute to growth in employment and production in the medium term	- employment and income in manufacturing and related sectors increased		- company employment and cost records	- peace and security are maintained
	- quantity and variety of goods increased		- GOR reports and market surveys	- no further serious disrupti in external transport route
				- no major decline in international coffee prices
				- no serious drought
PURPOSE	END OF PROJECT STATUS			
- increase competition in the short run, and subsequently production and employment, in manufacturing and related sectors	- GOR SAP still being implemented in spirit of liberalization		- World Bank, IMF, and USAID analyses of SAP progress	- GOR implements SAP as agree with Bretton Woods institutions
	Intermediate Impact	People-level Impact		
	- - - ON EFFICIENT MANUFACTURERS - - -		- Firms identified by DRC analysis by GOR and USAID projects (PRIME and ASPAP)	- Importers are able to identify and import commodities demanded by Rwandan firms and consumers
	- more employment by firms	- increased income for those hired	- firm employment records, sample survey of employees to determine prior status	- Rwanda's manufacturers adapt to changing incentive structure
	- more output - more diversified product lines	{ improved supply and { variety of consumer { goods	- regular market survey by GOR	- capacity for improving manufacturing sector linkage with rest of economy exists
	- more investment	- more employment	{ analysis of efficient { businesses cost data and	- export opportunities will be identified and access to external markets is favorabl
	- more purchases from other domestic suppliers	- more employment and income results from secondary effect of policy reforms	{ sample survey follow-up on { linkages	- need for safety-net programs not pressing
	- - - ON FINAL GOOD IMPORTERS - - - - AND OTHER COMMERCE SECTOR FIRMS -		- Firms identified by NBR records	- GOR budget deficit in SAP's out-years will not seriously exceed current IMF estimates
	- more goods at lower prices - greater diversity of imported goods	{ improved supply and { variety of consumer { goods at lower real { prices provides { households with an { income effect and a { stimulus (reason) to	- regular market survey by GOR	- manufacturing sector has sufficient local currency to purchase FX offered under program

ANNEX B. LOGICAL FRAMEWORK FOR RWANDA's PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM

Narrative Summary	Verifiable Indicators		Means of Verification	Important Assumptions
		{ produce/earn more		
	- more business volume for traders, transporters and others who market goods for export	{ increased income { for owner-operators	- firm records and sample interviews of employees to determine prior status	
	- more employment	{ increased income { for those hired	- firm records and sample interviews of employees to determine prior status	
	- - - ON INEFFICIENT MANUFACTURERS - - - [the net effect depends on whether and how firms adapt to changed structure of incentives]		- Firms identified by DRC analysis by GOR and USAID	
	- same or less employment	- employment and income effect is indeterminant a priori	- firm employment records	
	- less or changed composition of output	- effect on supply of consumer goods is indeterminant a priori	{ analysis of business { production and cost data { followed up with sample survey { { reports from Chamber of { Commerce and other business { groups	
	- little new, some dis-investment, and divestment	- effect is indeterminant a priori		
	- - - ON EXPORTERS IN MANUFACTURING AND COMMERCE SECTORS - - - - - - - - - - -		- Ministry of Commerce (MinCom) and National Bank of Rwanda (NBR)	
	- more business volume for traders, transporters and others who market goods for export	{ increased income { for owner-operators	- firm records and sample interviews of employees to determine prior status	
	- more employment	{ increased income { for those hired	- firm records and sample interviews of employees to determine prior status	
	- more investment	- increased output and employment	- analysis of business records and market survey	
	- more purchases from	- more employment and	- analysis of business records	

ANNEX B. LOGICAL FRAMEWORK FOR RWANDA's PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM

Narrative Summary	Verifiable Indicators		Means of Verification	Important Assumptions
	other domestic suppliers	income results from secondary effect of policy reform	with sample survey to follow-up on linkages	
	- more FX earnings	- increased FX earnings, which can stimulate further effects, possibly including more employment, income, and consumer goods at lower real prices	- NBR and MinCom records	
OUTPUTS	MAGNITUDE OF OUTPUTS			
- new market-driven foreign exchange (FX) allocation system - reduced barriers to entry and expansion in production and marketing (i.e., manufacturing and commerce) activities, both for domestic and export markets, particularly with Rwanda's neighbors - improved production and marketing linkages between manufacturing and commerce, and with agriculture	- replaced existing programmed FX allocation and controlled import licensing system with a market-driven allocation system and liberial import licensing system		- transparent and non-discriminatory implementation the new import/FX allocation system	- GOR sustains implementation and makes subsequent modifications that are in the spirit of liberialization - GOR places high priority on on-going and timely monitoring, evaluation, and assessment of SAP's impact during implementation
	- review export promotion policies and test export promotion schemes		- undertake studies and commencement of several pilot promotion schemes (i.e., one-window export, partial FX retention by exporters)	
	- continued steps to transform new FX allocation and liberial import license system to an Open General Licensing (OLG) implemented by commerical banks		- undertake the necessary analyses and pilot programs to implement OGL	
	- eliminated all controls on profit margins, except for monopolies		- repeal of price control law	
	- abolished fixed prices for ALL goods and services, except several essential goods		- Cabinet decision and public announcement	
	- reduced GOR arrears to domestic creditors		- AEPRP LC used as generated to reduce arrears	
	- reduced number and range of tarrifs		- implement revised tarrif scheme, and fund study to further rationalize rates	

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ANNEX B. LOGICAL FRAMEWORK FOR RWANDA's PRODUCTION AND MARKETING POLICY REFORM (PMPR) PROGRAM

Narrative Summary	Verifiable Indicators	Means of Verification	Important Assumptions
INPUTS	MAGNITUDE OF INPUTS		
- Non-project assistance	- US$ 25 million from DFA	- review of A.I.D. financial reports and National Bank of Rwanda reports	- GOR fulfills conditionality - A.I.D. assistance is disbursed and tracked
- From On-going A.I.D. Project:	- PRIME project (696-0127)	- Project records, studies produced, seminars held	- counterpart funds made available
* long and short-term technical assistance	* $ 493,000		
* counterpart funds	* the equivalent of $90,000		
- From Planned Follow-on Project with Monitoring Unit:		- PID and PP developed - ProAG signed by 3Q FY 1992	
* long and short-term technical assistance, commodities, and training	* $ 3.6 million		
* counterpart funds	* the equivalent of $566,000		

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ANNEX C.

RWANDA POLICY FRAMEWORK MATRIX

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Rwanda: Timetable of Policy Actions

Sector	Objectives and Targets	Strategies and Measures	Timing
1. External sector			
a. Exchange rate	Attain an exchange rate that balances supply and demand for foreign currency.	An initial devaluation. The exchange rate policy will be kept under regular review, and the rate will be adjusted if necessary.	Initial devaluation on November 9, 1990.
b. Import regime	Progressively liberalize imports.	Implement an open general licensing system, the formalities of which will have been agreed between the Rwandese Government and the Bretton Woods institutions. This system will cover all imported products, except for a restricted list of products requiring special licenses for security or health reasons.	Before end-June 1992.
		In the meantime, replace the existing import programming system by a more liberal import licensing and foreign exchange allocation system. This system will ensure the regular supply of essential goods for which a restricted list, not exceeding 30 percent of the value of total imports, has been established. This list will be abolished once sufficient resources become available.	Announced on November 9, 1990, to be applied before end-April 1991.
		Replace quantitative restrictions protecting local industries by customs duties or import surcharges.	Before end-April 1991.
c. Customs legislation and import duties	Rationalize the tariff structure and revise customs legislation.	Increase the minimum tariff to 10 percent.	Implemented (law of December 14, 1990).
		No new exemptions to be introduced.	Throughout the program.
		Gradually reduce import duty exemptions.	Implemented (law of December 14, 1990).
		Convert all specific taxes to ad valorem taxes for all products except petroleum products, beverages, and cigarettes.	Implemented (law of December 14, 1990).
		Set a maximum import duty and reduce the number of rates.	Before end-April 1991.
		Reduce the maximum import duty.	January 1992 and January 1993.
d. Services	Eliminate restrictions on payments for services.	Eliminate delays on transfers of profits and income of foreign investors.	As from June 1991.
		Gradually reduce restrictions on payments for services.	Throughout the program.

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Sector	Objectives and Targets	Strategies and Measures	Timing
e. Exports	Expand and diversify exports.	Review export promotion policies.	Before June 1991.
		Elimination of taxes on non-coffee exports.	Implemented (law of December 14, 1991).
2. Fiscal policy	Reduce the consolidated deficit of the Government.	Policy of budgetary austerity.	Throughout the program.
		Reduce government net indebtedness to domestic banks and nonbanks.	Throughout the program.
		Elimination of all existing domestic arrears.	December 1991.
		Elimination of all existing external arrears.	December 1991.
		No new domestic or external arrears.	Throughout the program.
		Gradual removal of indirect subsidies to public enterprises.	As from January 1991.
		Elimination of budgetary transfers to the coffee sector.	As from 1991.
	Improve the efficiency and administration of the taxation system, increase the share of income and consumption taxes in government revenue, and encourage private sector investment.	Review entire taxation system and its administration, and gradually introduce measures to be agreed within the framework of IMF technical assistance.	1991, 1992, and 1993 budgets.
		Increase sales tax: - from 2 percent to 5 percent for essential goods; - from 1 percent to 10 percent for services and entertainment; - from 6 percent to 10 percent for other goods.	Implemented (law of December 14, 1991).
		Increase specific import taxes on petroleum products in line with adjustment of the exchange rate.	Implemented (law of December 14, 1991), and throughout the program.
	Full cost recovery for commercial activities of the Government.	Periodic review of charges, to allow reasonable profits.	As from January 1991 and throughout the program.
	Increase cost recovery for noncommercial public services.	Periodic review of user charges.	Throughout the program.
	Reduce tax exemptions.	Moratorium on new tax exemptions accorded under the 1987 Investment Code.	November 1990.

Sector	Objectives and Targets	Strategies and Measures	Timing
		Review tax exemptions accorded under Investment Code.	Before June 1991.
	Civil service reform.	Review all relevant policies.	Recommendations to be implemented beginning January 1992.
	Improve planning and management of operating and investment expenditures, while ensuring adequate protection for social sector programs.	Preparation of a rolling three-year public investment program (PIP).	Finalize the 1991-93 PIP before March 1, 1991, for incorporation of the first year in the 1991 Budget, and repeat the exercise each year.
		Preparation of annual public expenditure programs for specific sectors.	September 1991 for agriculture, health, education, public works, and transport (for inclusion in the 1992 budget). September 1992 for other sectors (for inclusion in the 1993 budget).
3. Public enterprises	Rehabilitation and restructuring of public enterprises.	Adoption by the Government of a general privatization strategy.	Before September 1991.
		Presentation of public enterprise legislation to Parliament.	Before December 1991.
		Phased execution of public enterprise rehabilitation, privatization, and liquidation programs, according to the timetable for the IDA-supported program for reforming public enterprises.	As from June 1991.
4. Money, credit, and interest rates	Tight credit policies designed to contain inflation and ease pressures on the balance of payments.	Quarterly ceilings for net domestic assets and net credit to the Government.	Throughout the program.
		Gradual adoption of indirect instruments for controlling and allocating domestic credit.	1993 or sooner if conditions permit.
	Improve mobilization and allocation of financial resources, by maintaining positive real interest rates.	Implement a flexible interest rate policy and simplify the interest rate structure.	Throughout the program.
		Increase and impose a single rediscount rate.	November 12, 1990.
		Increase the minimum deposit rate.	November 12, 1990.
		Increase the maximum lending rate.	November 12, 1990.
		Abolish all preferential rates.	November 12, 1990.
		Abolish control of interest rates after elimination of direct credit control.	During the last year of the program or sooner.

Rwanda: Timetable of Policy Actions (continued)

Sector	Objectives and Targets	Strategies and Measures	Timing
5. Pricing policy	Avoid distortions in price formation.	Eliminate all controls on profit margins, except for monopolies.	Announced November 1990. Repeal of Law before end-April 1991.
		Abolish fixed prices for all products except for a small number of goods and services.	Announced November 1990. Cabinet decision before end-March 1991.
		For those goods and services whose prices remain fixed, the full impact of the exchange rate adjustment will be passed through to these prices.	November 1990 to April 1991.
6. Agriculture and food security	Institutional strengthening of the Ministry of Agriculture.	Strengthen the planning unit in the Ministry of Agriculture in order to make it fully operational.	Beginning in 1991.
	Boost agricultural production by increasing yields, improving soil fertility, and expanding cultivable land.	Development of natural resources for use in the production of mineral fertilizer.	Throughout the program.
		Increased and more efficient use of inputs.	Throughout the program.
		Strengthening of the land rehabilitation program.	Throughout the program.
		Effect reclamation of certain swamps and underutilized mountainous lands for farming.	Throughout the program.
	Improve processing and marketing of agricultural products, services to stockbreeders, and encourage the development of private marketing of agricultural inputs.	Disseminate information on prices.	Throughout the program.
		Define a national policy for agricultural services that is applicable uniformly for all projects.	Throughout the program.
		Reorganize agricultural extension services through the integration of projects into a national structure.	Throughout the program.
	Promote bank financing of the agricultural sector.	Assist farmers to identify projects and obtain bank credit.	Throughout the program.
	Ensure food security for the population.	Finalize a food security action plan geared toward: - setting up an early warning system to prevent food shortages; - achieving optimal organization of emergency food aid; - increasing the role of NGOs in food security programs; - studying ways and means of establishing a minimum food security stock.	June 1991.

Sector	Objectives and Targets	Strategies and Measures	Timing
	Prevent revenue losses resulting from the reduction in quality of coffee exports.	Improve the quality and increase the yields of Rwandese coffee.	Beginning in the 1991/92 season.
		Avoid limiting the number of coffee-buying traders.	Beginning in the 1991/92 season.
		Eliminate any export restrictions.	Beginning in the 1991/92 season.
	Reinvigorate the coffee sector.	Complete the sector strategy study that is in progress.	September 1991.
		Define an action plan based on the findings of the study.	December 1991.
		Implement the recommendations and the action plan adopted following the strategy study.	Beginning in the 1992/93 season.
	Improve the return on investments in the tea sector.	Improve yields, particularly by ensuring increased and more efficient use of inputs.	Throughout the program.
		Increase efficiency of tea factories, particularly by reducing costs and improving factory management and product quality.	Throughout the program.
	Maximize the tea sector's contribution to the national economy.	Undertake a study on the long-term development of the tea sector.	March 1992.
7. Industry	Improve the efficiency of the industrial sector and promote the private sector.	Simplify administrative procedures.	Throughout the program.
		Review the 1987 Investment Code.	Before June 1991.
		Promote small enterprises.	Throughout the program.
		Liberalize recruitment of personnel in the private sector.	June 1991.
		Prepare an action plan to review labor legislation.	June 1992.
		Facilitate access for small and medium-size enterprises to public contracts.	1992.
	Rehabilitate the mining sector.	Evaluate the performance of the new mining units (COOPIMAR and REDEMI).	June 1991.
		Establish a five-year work plan for REDEMI.	Mid-1991.
	Diversify the exploitation of mineral resources.	Develop the use of lime as an agricultural fertiliser.	Throughout the program.
		Encourage the use of mineral substances in industry and construction.	Throughout the program.

Sector	Objectives and Targets	Strategies and Measures	Timing
10. Social development and environment			
a. Population and women in development	Lessen demographic pressure by reducing the number of children per woman.	Pursue the national population policy and implement the action plan adopted in July 1990 by Parliament and the Government, with particular emphasis on:	Throughout the program.
		- integration of population policies in the formulation of sectoral strategies;	Throughout the program.
		- making the entire population aware of the need to introduce family planning;	Throughout the program.
		- extending family planning services to all health centers;	End-1992.
		- the development of decentralized family planning programs to reach all strata of society;	Throughout the program.
	Promote the role of women in socioeconomic development.	Improving dissemination of the most appropriate technologies to lighten women's workloads.	Throughout the program.
		Improving access of women to education.	Throughout the program.
		Improving access of women to credit.	Throughout the program.
		Increase the number of female counselors in agriculture.	Throughout the program.
		Encourage greater female participation in training sessions of CCDPT.	Throughout the program.
		Extending family planning and primary health care toward women and children.	Throughout the program.
		Provision of assistance to women's associations involved in production and marketing.	Throughout the program.
b. Education	Improve quality of education by using available financial resources as efficiently as possible.	Allocate additional resources for primary education with a view to increasing the enrollment rate and improving the quality of education.	Throughout the program.
		Reduce the duration of primary education from 8 to 6 years.	For the beginning of the 1992/93 school year.

Sector	Objectives and Targets	Strategies and Measures	Timing
		Finalize sectoral strategies for secondary and higher education in order to: - continue the day-school policy, in order to increase the student/teacher ratio; - gradually reduce students' scholarships, so that in the longer term only scholarships for excellence are maintained; - devise and implement financial arrangements allowing students to gradually provide for their minimum needs; - provide incentives to increase local private investment in education; - increase the number of privately supported students in higher education.	December 1992.
c. Health	Improve quality and efficiency of health services.	Finalize the financing strategy of the health sector, focusing on the supply of essential medicines, cost recovery, and the development of a medical insurance system.	December 1991.
		Implement the above financing strategy.	Throughout the program.
		Improve the quality and quantity of health service personnel.	Throughout the program.
d. Social dimensions of adjustment and development	Protect vulnerable population groups.	Prepare a social action plan targeted at vulnerable population groups, ensuring particularly that: - poor people retain access to basic services during the stabilization period; - the necessary resources will be made available to deal with the principal causes of death (AIDS, malnutrition, local endemic diseases); - programs for promoting gainful employment in rural areas are strengthened.	June 1991.

Rwanda: Timetable of Policy Actions (concluded)

Sector	Objectives and Targets	Strategies and Measures	Timing
e. Environment	Ensure a balance between the environment and rational exploitation of resources.	Finalize the national environmental action plan in order to:	
		- undertake information and training programs to make all levels of the population aware of the necessity to protect the environment;	Throughout the program.
		- organize a legal and institutional framework to ensure the coherence of actions protecting the environment and the follow-up of announced environmental policies;	1991.
		- devise a land-use program;	December 1992.
		- improve soil conservation and strengthen reforestation;	Throughout the program.
		- allow efficient use of natural resources;	Throughout the program.
		- implement pollution control programs.	Throughout the program.
		Adopt measures to ensure the appropriate disposal of waste.	Throughout the program.
		Introduce environmental protection procedures and objectives in all projects.	1992.
		Create an appropriate information system that would coor--dinate the dissemination of knowledge of the environment in Rwanda.	1991.

Annex D

INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

Country: Rwanda

Title of Activity: Manufacturing Sector Adjustment Program (MSAP)

Funding: FY 1991

IEE Prepared by: Henderson M. Patrick, USAID/Rwanda

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. The entire $20 million will be used to support the GOR's policy reforms related to liberalizing its import system and the deregulation of its price control and quota system. The use of grant funds is not tied to either financing specific commodities or to 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 criteria 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: ______________________
USAID/Rwanda, Mission Director, James Graham

Bureau Environmental Officer's Decision:

APPROVED: ✓

DISAPPROVED: ______________

DATE: 5/31/91

Clearance GC/AFR: M.A.Kleinman

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ANNEX E

REPUBLIQUE RWANDAISE
Ministère du Plan

Kigali, le 03/04/1991

N° 739 /91/10.00.1

INFO COPY

Monsieur l'Attaché pour la Coopération
de l'USAID
KIGALI

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

Objet :
Appui américain au Programme d'Ajustement Structurel

DATE RECD
4-10-91
REPLY DUE
4-18-91
BN

Monsieur l'Attaché pour la Coopération,

Au nom du Gouvernement Rwandais, je tiens à transmettre au Gouvernement Américain les chaleureux remerciements pour l'engagement pris à l'occasion de la réunion des bailleurs de fonds de Paris en date du 20 mars 1991 en mettant à la disposition du Rwanda une enveloppe de 20 millions de dollars US à utiliser en 1991 dans le cadre de l'appui à la balance des paiements.

Par la même occasion, je vous saurais gré de bien vouloir mettre à notre disposition l'équipe de l'USAID qui préparera le protocole d'utilisation de ces fonds.

Veuillez agréer, Monsieur l'Attaché pour la Coopération, l'assurance de ma considération distinguée.

Copie pour information :

- Son Excellence Monsieur le Président de la République Rwandaise
KIGALI
- Monsieur le Ministre des Affaires Etrangères et de la Coopération Internationale
KIGALI
- Monsieur le Ministre des Finances
KIGALI
- Monsieur le Ministre du Commerce et de la Consommation
KIGALI
- Monsieur le Gouverneur de la Banque Nationale du Rwanda
KIGALI

La Ministre du Plan
NGIRABATWARE Augustin

Le Secrétaire Général
BAHIGIKI Emmanuel

REPUBLIQUE RWANDAISE
MINISTERE DU PLAN

ACTION COPY

Action taken ....

....

No action necessary

.... (Initials) .... (DATE)

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ANNEX F.

THE SOCIO-ECONOMIC IMPACT OF THE STRUCTURAL ADJUSTMENT PROGRAM

I. OVERVIEW AND OTHER COUNTRY EXPERIENCE

Introduction

Before assessing the socio-economic impact of structural adjustment in Rwanda it is first necessary to review in an objective way the experience of other countries undergoing structural adjustment, particularly African countries. Without first looking at objective information it would be difficult to make an informed judgment about the likely "winners and "losers" from structural adjustment in Rwanda.

The experience from other countries sheds some interesting light on this subject. It demonstrates that the most vulnerable and poorest groups have generally not been adversely affected by structural adjustment, contrary to some common thinking. The groups which have been most hurt by structural adjustment are usually urban formal sector employees usually employed by the civil servants, parastatals, or protected manufacturing or commercial firms. These groups are not the poorest or the most vulnerable group in these countries.

The Process of Structural Adjustment

The objective of structural adjustment experience is to restore sustainable economic growth and to make lasting progress in alleviating poverty. The process is lengthy, however, often faced with complex challenges in controlling inflation, achieving a sustainable balance of payments situation, changing the incentive structures, strengthening institutions, mobilizing savings and increasing investment.[1] Control of inflation and reduction of the external deficit are often attempted at the beginning of the program to lay the foundation for sustainable economic growth.

When enough progress has been achieved with the inflation and balance of payments problems, structural reforms to improve resource allocation and to lift other impediments to growth are initiated. **Thus an analysis of performance indicators on or two years after the initiation of an adjustment effort reveals little**

[1]See World Bank-Supported Adjustment Programs Country Performance and Effectiveness, Vittorio Corbo and Patricio Rojas, The World Bank, 1991.

about the effectiveness of an adjustment program. Rather, it will more likely pick up the short-term adjustment costs instead of the medium- and long-term benefits.

Cross-country research where enough time has been passed since the initiation of the adjustment process would permit a more complete evaluation of the effects of structural adjustment programs.

Cross-Country Research on the Economic Impact of Structural Adjustment

Several studies have been undertaken to compare economic performance of countries which have undertaken structural adjustment programs vs. the performance of countries which have not undertaken adjustment programs.

The results of the studies have been quite consistent; that adjusting countries have outperformed non-adjusting countries standard indicators of economic performance such as GDP growth, export growth, and saving rates. For example a World Bank review[2] of adjustment programs worldwide indicated that adjusting countries averaged 2% per year higher annual GDP growth rates, 4% higher rates of domestic saving, and 5% higher exports to GDP ratios.

A separate study by USAID[3] examined the difference in performance between 27 adjusting and non-adjusting countries in Africa over the 1980-1987 time period. This report (see Table 1 below) found that reformers had higher rates of GDP growth (2.9% to 1%), agricultural sector growth (4.07% to 1.38%) export growth (2.39% to -5.35%), and lower rates of inflation (20% to 25%).

Other studies have confirmed that adjusters had stronger economic performance, even when adjusting for eternal shocks and non-program variables (e.g. drought, wars, terms of trade differences). For example after adjusting for these variables, a World Bank study[4] found that adjusters had higher GDP growth rates, higher exports to GDP ratios, and higher saving to GDP ratios.

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[2] See Report on Adjustment Lending II: Policies for the Recovery of Growth, the World Bank, 1990, pp.22-25.

[3] See "Fresh Start in Africa: AID and Structural Adjustment in Africa" by Jerome Wolgin, August 1990.

[4] See Corbo and Rojas, op. cit., pp. 21-22.

Table 1: African Economic Performance
Adjusters vs. Non-Adjusters

(annual average, 1980-1987)

	Adjusters	Non-Adjusters
Growth of GDP (%)	2.90	1.00
Agricultural Growth (%)	4.07	1.38
Resource Balance (% of GDP)	6.79	9.69
Terms of Trade (% change)	-1.76	-2.88
Fiscal Deficit (% of GDP)	-5.76	-7.39
Credit Expansion (%)	16.26	25.85
Nominal Exchange Rate (1980 =100)	45.88	79.42
Inflation Rate (%)	20.04	25.56
Growth of Imports (%)	2.39	-5.35
Growth of Exports (%)	4.08	-1.11

Source: "Fresh Start in Africa: AID and Structural Adjustment in Africa," by Jerome Wolgin, August 1990

Cross-Country Research on the Social Impact of Structural Adjustment

There are few subjects in the field of international development which have generated as much interest and controversy in recent years than the question of whether structural adjustment has reduced the welfare of the poor. Groups such as the U.N. Commission for Africa (ECA) and several African government officials have stated that the human and social costs of structural adjustment programs in Africa have often exceeded the real or intended benefits.

It has been argued that the most vulnerable population groups, in particular the poorest segments, women, children, disabled, and the aged are being severely affected by such measures as limits on civil services wages to below the inflation rate, retrenchments of civil servants and parastatal employees, the cutting of food subsidies, and the reduction in expenditures on health and education.

However when the cross-country research is used to examine in a factual way the impact of structural impact, some interesting results emerge. First, the groups normally thought to be the most vulnerable (the poor) are generally not adversely affected by structural adjustment program. Second, the groups which are the most adversely affected are formal sector employees of the civil service, parastatals, and protected manufacturing firms.

We will now examine what some of the research findings are regarding the social impact of adjustment on the most vulnerable groups, then we will turn to the what the socio-economic impact of the program is likely to be in Rwanda for both the overall structural adjustment program and for the USAID-supported component of the program.

Identification of the poorest and most vulnerable groups. In any country concerned with the social impact of structural adjustment one must begin with an identification of the who are the poorest and most vulnerable groups in the population. Studies from a number of countries (Cote d'Ivoire[5], Madagascar[6], and Cameroon[7]) indicate that in most African countries the poorest are rural, rather than urban, and self-employed rather than wage laborers. In some countries larger proportions of the poor are concentrated in one geographic region, while in others they are spread more evenly throughout the country.

In Cote d'Ivoire, a relatively urbanized country for Africa (41%), 85% of the poor (defined here as poorest 30% of the population) live in rural areas. In that country over 70% of the poor population receive some of their income from export crops (cocoa, coffee, oil palm, or cotton). In Madagascar 19 of percent of the population are urban. In that country 88% of the poor (bottom third of population below the poverty line) are rural. In Cameroon over 90% of the poor live in rural areas and 80% of the poor have no education.

Agricultural price changes. From the above information we can see that in many African countries poverty is a largely a rural phenomenon. In the vast majority of cases the primary source of income is from agriculture, and in many cases the primary source of cash income is from export crops. The incomes of those farmers have usually risen as a first round set of effects to adjustment through both exchange rate adjustment agricultural price reform.

Small farmers are usually <u>net beneficiaries under downward exchange rate adjustment because they export 100 percent of their outputs but typically use very little imported inputs</u> such as fertilizers.

Food prices. The price and availability of food under structural adjustment programs is another concern raised by many observers. One the major criticisms of adjustment programs has been the belief that through devaluation, eliminations of food subsidies and the liberalizations of agricultural markets that food

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[5] See "The Distribution of Welfare in the Republic of Cote d'Ivoire in 1985, World Bank LSMS Working Paper Number 29, 1987.

[6] See Wolgin, <u>op. cit.</u> p.19

[7] See Jerome Wolgin, <u>op. cit.</u> p.18

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prices would increase markedly, thus having negative impacts on food security for the poor.

The evidence from a group of 11 countries for which data[8] are available suggests that more often food prices have fallen in real terms after adjustment. For Ghana, Malawi, Mali, Senegal, Niger, Somalia, the Gambia, and Tanzania, real food prices fell or stayed the same during adjustment. In Madagascar, Kenya, and Zambia real food prices rose. The reason food prices tended to decline in those countries is partly associated with exogenous factors such as the price of cereals on the world market or weather conditions in their own country. In addition marketing liberalization and increased foreign exchange access led to increased imports of food which put downward pressure on food prices.

Income effects. Overall, the incomes of the poorest (primarily rural) groups have held up well under African adjustment programs for the reasons indicated above. Agricultural export crop prices have risen while food prices have usually stayed the same or declined. In the formal sector, real wages have often declined, particularly among civil servants. This contraction has had little impact on the poor hoover because less than 5% of the poor are employed in the formal sector in most African economies. Thus the poorest groups are unlikely to be directly affected by contractions in civil service or formal sector employment.

Social Spending. Another criticism of structural adjustment has been that expenditures health and education contract drastically during adjustment. First of all it is important to establish what level of government services the poor are already receiving (before adjustment), and second generally examine how expenditures in the social sectors are affected by adjustment.

In many African countries the poor receive disproportionately fewer benefits from government social expenditures, with or without structural adjustment. For example in Cote d'Ivoire only 12% of the household members in poor families attend primary school, while for the non-poor, 20% do. Similarly , only 5% of the poor who were sick visited a doctor while 21% of the non-poor did.[9] Consequently it is not clear that a reduction in government services would have a negative impact on the poor because in most cases they were not the main beneficiaries of those services in the first place.

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[8] See David Sahn, "Fiscal and Exchange Rate Reforms in Africa: Considering the Impact on the Poor," (unpublished manuscript, 1989), pp. 93-105

[9] See Paul Gleuwe and Dennis de Tray, "The Poor During Adjustment: A Case Study of Cote d'Ivoire, World Bank LMLS Working paper Number 47, 1988 pp.27-28.

Turning to the second question of how social expenditures were affected by adjustment we look at 13 countries undertaking adjustment programs for which such data are available.[10] From the available evidence, it appears that no systematic pattern exists; i.e. countries are just about as likely to increase social expenditures during adjustment as to reduce them:

- health expenditures as a percentage of total discretionary government expenditure (i.e., government expenditures net of interest payments) increased in 6 countries and decreased in 7;
- real health expenditures increased in 6 and decreased in 7;
- education expenditures as a percentage of total discretionary government expenditure increased in 6 countries, decreased in 6 and remained constant in 1;
- real education expenditures increased in 6 countries and decreased in seven others.

Summary of Social Effects. There is no clear evidence that structural adjustments in Africa have had overall a negative impact on the poor. Being largely rural, they been net beneficiaries of the programs as agricultural export prices have improved. In most countries for which we have data food prices stayed the same or fell. While there has probably been a reduction in real wages in the formal economy, especially in the civil service, this has had little direct impact on the poor since they rarely participate in the formal economy. There is no systematic evidence that adjustment has led to reductions in heath expenditures; countries undergoing adjustment are about as likely to increase these expenditures as reduce them.

[10] See Sahn, op. cit. pp 58-59.

II. IMPLICATIONS FOR RWANDAN STRUCTURAL ADJUSTMENT PROGRAM

Introduction

In this section we will rely on the previously cited cross-country research, combined with specific information about Rwanda and its structural adjustment program to estimate what the socio-economic effects of the structural adjustment program will be in Rwanda.

First the likely impact of the overall program is discussed below identifying the likely "winners" and "losers". Second an assessment of the USAID program impact is made.

In section III, case studies are provided demonstrating a sample of Rwandan attitudes about the initial impact of structural adjustment. The case studies include formal and informal manufacturers, traders, exporters and consumers.

Overall Program Impact

In determining what the socio-economic impact of .the overall structural adjustment program in Rwanda will be, first we must examine look at what the main policy reforms measures are and then determine what their effects are likely to be.

In describing the overall program impact we are looking at the sum of all the policy measures agreed upon by the government, the World Bank the IMF and the various bilateral donors. The total number and depth of structural reforms committed to by the government is quite ambitious compared with programs in other African countries. For Rwanda it marks its first time that it has ever been a participant in a World Bank funded structural adjustment program.

The principal structural adjustment reforms undertaken or to be undertaken in Rwanda are:

- exchange rate adjustment
- liberalized foreign exchange allocation and import licensing system[11]
- international tariff reform
- price and profit margin decontrol
- interest rate decontrol
- privatization of state-owned-enterprises

Overall it is expected that the reforms will lead to higher economic growth, higher exports, increased imports higher agricultural production, and higher levels of domestic saving. These results projected based on the economic results of other countries discussed in Section I above.

For each one of the structural adjustment reforms in Rwanda, the likely impact can be estimated individually *ceteris paribus*, followed by a net impact assessment of all the reforms taken together. This net assessment provides an estimate of which groups are likely to benefit from, and which groups are likely to adversely affected by the main reforms.

Holding other variables constant, the *exchange rate devaluation* of October 1990 is likely to make export industries more competitive and profitable, and is likely to have potentially harmful affects on industries dependant on import inputs which sell exclusively for the local market, unless they can pass on their higher costs to consumers. This passing on of costs is possible for beer and certain other products for which the demand is relatively inelastic with respect to price.

In the short run the exchange rate adjustment will also lead to higher imported prices in local currency terms and initial increases in inflationary pressures.

The new *foreign exchange allocation system* combined with the new inflows of donor assistance, should increase the availability of imported raw materials, intermediate goods, and final consumer

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[11] While USAID has been generally supportive of all the reforms (see below), it has only directly involved in the with the planning and implementation of this reform.

goods. Rwandan consumers should benefit by having a greater supply and variety of goods to purchase. The higher inflows of imports _ceteris paribus_ should help contain overall inflationary pressures.

International tariff rationalization and reductions will help reduce the price of imported intermediate and final goods. The net effect of this reform will be to benefit consumers with cheaper prices for final goods while putting more competitive pressure on protected domestic industries.

Price decontrol and profit decontrol will _ceteris paribus_ initially lead to higher prices and profits in industries and products where _de jure_ controls also meant _de facto_ controls. At the current time (see case studies to follow), it appears that comumers' limited purchasing power will be the limiting factor in determining what prices businesses will be able to charge customers.

Interest rate decontrol on deposit rates, holding other factors constant, should increase the amount of domestic saving which is available for investment. Raising the ceiling interest rate charged on borrowing should have the effect of curtailing credit expansion, unless inflation remains higher than 19% (the ceiling on nominal rates), thereby making borrowing rates negative in real terms.

Taking into account the net effect of the structural adjustment reforms and the experience learned from other countries the overall impact of the reforms is likely to be the following in Rwanda:

	Positively Affected Groups	Main Reforms Helping Group
1.	Agricultural exporters (Smallholder coffee, tea growers and growers of non-traditional crops)	1. Exchange rate adjustment
2.	Consumers	2. Liberalization of foreign exchange allocation and importing procedures, reductions on tariffs on intermediate and final goods
3.	Efficient manufacturing firms	3. Liberalization of foreign exchange allocation and importing procedures
4.	Smaller and newer retail firms	4. Liberalization of foreign exchange allocation and importing procedures
5.	Local suppliers to the manufacturing sector	5. Exchange rate adjustment (increasing incentives to procure raw materials and intermediate goods locally)
6.	Small and informal sector firms	6. Liberalization of foreign exchange and importing procedures

	Negatively Affected Groups	Reforms Hurting Group
1.	Inefficient manufacturing firms	1. Exchange rate adjustment, reduced import tariffs, liberalized import procedures
2.	Monopolistic import traders/retailers	2. Exchange rate adjustment, liberalized import procedures
3.	Retrenched civil servants, redundant parastatal employees	3. Civil service retrenchment, parastatal privatization

Social Impact Assistance Program

In order to mitigate against the possible negative effects of the program the GOR, the World Bank, and the World Food Program are planning a multi-donor Social Impact Assistance Project of $80 million to accompany the Structural Adjustment Project.

The objectives of the project are to: (i) accomplish a qualitative and qualitative increase in government spending in health and education sectors throughout the structural adjustment program; (ii) develop a food security assistance program with the assistance from the WFP; (iii) organize labor-intensive works for rural road construction; (iv) launch a micro-enterprise support program; (v) establishing a re-deployment fund for laid-off civil servants; and (vi) the establishment of a social impact monitoring program.

The latter will: (i) examine the 1983-86 household survey to establish a baseline set of poverty and social indicators; (ii) provide annual surveys to update social and poverty indicators (iii) maintain and monitor a key set of social indicators (social tableau de bord); and (iv) provide an in-depth household survey to assess the effects of adjustment on the poor in Rwanda.

Impact of AID Funded Program

As the previous discussion indicated the only major reform with which AID has been directly involved is the liberalization of foreign exchange allocation and import licensing procedures. From the list of "winners" and "losers" above it is clear that the main beneficiaries to the AID program component are:

1. Consumers
2. Efficient manufacturers
3. New and small importers/retailers
4. Small and informal sector firms

All of those groups will benefit by having more direct access to foreign exchange and import goods.

Consumers will benefit by having a wider supply and variety of goods, many of which will be imported.

Efficient manufacturers will benefit by having direct, non-discriminatory access to foreign exchange to import raw materials, intermediate goods and vital spare parts. Also included in this group are companies who will either expand exports or begin new export development under the program.

These efficient manufacturers are also companies which will directly benefit by having their arrears from the government paid off as the local counterpart utilization of the AID foreign exchange program contribution.

New and small importers/retailers will benefit by having new access to imports that were previously off limits to them because of restricted non-transparent import licensing and/or limited foreign exchange availability

Small and informal sector enterprises, even though they may be too small to participate in the new program will still be able to benefit by buying increased amounts of raw materials or intermediate goods through retail importers.

There are two main groups that might be worse off because of the AID supported program:

1. Inefficient manufacturing firms

2. Monopolistic traders/retailers

Protected, inefficient manufacturing firms might on balance be harmed by the foreign exchange and import liberalization program. In the past these firms may enjoyed have enjoyed de facto monopolies because of restrictions on imports of either final products, or on raw materials and intermediate goods needed to produce the final product.

First, the increased access to foreign exchange and imports could provide competition to inefficient firms in the form of increased final goods imports which are more competitive in terms of price and/or quality.

Second, increased access to import licenses for the imports of raw materials and intermediate firms may bring also more competition to previously protected firms.

How these firms will respond to the reforms is indeterminate at this stage. Some of these inefficient firms will be forced to reduce their employment levels while others may even be forced to close down. On the other hand some firms may adjust to the new set of opportunities by becoming more efficient at what they do, changing product mixes, or changing product lines all together. These kinds of changes will be tracked throughout the monitoring component of the project.

Similar to protected manufacturers, previously protected traders/retailers could be harmed by the new competition generated by the new import liberalization.

In the past when foreign exchange and import licenses were in short supply, well connected importers were given privileged access to scarce foreign exchange. Since effective demand for foreign exchange exceeded supply at the going price, traders with access to foreign exchange could extract scarcity rents through their selling prices for imported items.

Under the new more transparent system all buyers will have equal, non-discriminatory access to foreign exchange. New entrants may begin importing and selling goods for which traders/retailers previously enjoyed monopolistic positions. Under the rules of the game, the previously protected importers will be forced to compete on a level playing field with everyone paying the market clearing rate on foreign exchange.

CASE STUDIES

Introduction

In the section which follows 8 case studies are provided to demonstrate the impact of recent reforms on different private sector entrepreneurs. The entrepreneurs include: formal and informal sector manufacturers, importers/traders, and exporters. These case studies will help contribute to the baseline of information which will be tracked by the project's monitoring and evaluation component throughout the life of the project.

The information in the case studies was obtained through personal interviews which took place in Kigali, Rwanda between July 22 and August 7 1991. For consistency one survey instrument was used to gather information during all the interviews. A copy of the survey instrument used is attached after the case studies.

The interviews provide baseline information about key indicators about the company at the start of the adjustment program. These key indicators relate to employment levels, evolution of sales revenue, capacity utilization levels, capital investment trends, use of local vs. imported inputs, value added etc.

The case studies also provide useful information about Rwandan entrepreneurs attitudes about the business environment, policy constraints, and about the impact of structural reforms on their businesses.

From the interviews it was clear that for most businesses the current business environment is not very favorable. The current high security situation associated with the combined with recession have led to bad situations in both the manufacturing and commercial sectors. In both sectors most of the business indicators including sales volume, number of employees, capacity utilization, etc. show an extremely depressed levels for 1990-1991 -- the baseline period for the start of the program. There is cautious optimism that the situation will get better by 1992.

KEY INDICATORS

Company name:

SOPAB
Societe de Production
d'Aliments Pour Betails

Name of Interviewee:

Mr. Servilien MUKARAGE
Director General

Main Products:

Feedgrains mixes for poultry, cattle and other livestock

Number of Employees:

70

Wage Bill '90:

7.2 m. Frw

Capacity Utilization '91:

30%

Output Price Trends '89-'91:

7% annual increase

Sales, '89: '90:

85 m. Frw 100 m.Frw

Local Sourcing of Raw Materials:

90 % -- Sorghum, maize and crop residues

Firm's Value Added '91:

30%

Biggest Constraints:

1. Low level of purchasing power in local market.
2. Lack of management expertise of staff.

Main Points of Interview

SOPAB was established in 1988 by a group of Rwandan individuals and institutional investors. The company's main products are animal feeds mixes for poultry and cattle. SOPAB purchases local grains such as maize and sorghum as well as crop residues, and mixes them with imported vitamins and minerals to produce animal feed mixes. The company has a total of 70 permanent employees of which 4 are women.

From 1988 to 1990 SOPAB's sales increased by over 300 percent, rising from 30 million Frw in 1988 to 100 million Frw in 1990. Sales are projected to remain flat in 1991 at 100 Frw million due to the war disruptions and the weakness in domestic demand due to the current recession.

According to the Director General, SOPAB may not have been as badly affected by the current recession as many other Rwandan companies. This is due in part to the fact that so far SOPAB enjoys de facto (but not de jure) monopoly in Rwanda. In addition, SOPAB, as a producer of a bulky, fairly low value commodities enjoys a degree of natural protection from imports. The relatively high unit costs of transporting imported feedgrains from neighboring countries such as Zaire, Burundi, and Uganda allow SOPAB's products to be competitive in the local market.
SOPAB is not provided with any trade protection through import tariffs, quotas, or prohibitions, however.

The factors which have been the most constraining to SOPAB's ability to procure raw materials and other inputs include: (i) previous exchange controls and import licensing procedures; (ii) high costs of transport; (iii) periodic shortages of local feedgrain supply.

Of the above constraints, the first constraint is currently not a problem. However up until June 1991 SOPAB continuously had problems obtaining import licenses. As the supply of foreign exchange was limited, the Ministry of Commerce restricted the number of import licenses and the amount foreign exchange allocated to SOPAB. However in the June 1991 allocation, SOPAB was provided with all the foreign exchange it requested as the supply of foreign has increased and licenses has been widely granted.

Commenting on the recent structural adjustment reforms, the Director General feels that the devaluation of the Rwandan franc, combined with a salary freeze in the civil service, has led to a reduction in the Rwandan consumers' purchasing power. Mr. MUKARAGE feels this has had a direct negative impact on his company's sales performance. Regarding the liberalization of import procedures, the Director General is of the opinion that his company is better off under the new policy of open, wider access to foreign exchange and import licenses.

As far as the impact of price decontrol on his company is concerned, he feels that there is no effect, as his prices were not in reality controlled previously. Similarly the actual and proposed reductions in import protection should not have any effect on his company, as they were not previously insulated by any import protection measures.

Finally, the proposed reduction in fiscal incentives offered by the investment code will have a negative impact on his company's profitably. However Mr. MUKARAGE also recognizes that the previous incentives may have been too generous, and that it is probably sensible to ask companies to contribute more to the treasury.

SOPAB is only currently working at about at about 30 percent of its capacity. If local demand picked up the company could significantly increase production and profitability.

The company is interested in becoming more vertically integrated by entering into broiler production. The company has already experimented with broiler production on a small scale but would like to expand into larger scale production. The Director General believes that a feasibility study would be advisable to guide them in this new activity. Mr. MUKARAGE inquired as to whether USAID or another foreign aid organization might be able to assist him in this area.

The Director General also asked whether USAID or another agency might be able to provide management training to some of his staff. He would be willing to pay part of the cost of training.

KEY INDICATORS

Company name:	**Name of Interviewee:**
SORWATOM S.A.R.L.	Mr. Paul NGENZI Director, Technical Services Mr. Craver GASIRABU Director Financial Services
Main Products:	**Number of Employees:**
Tomato concentrate	'90: 88 '91: 5
Wage Bill '90:	**Capacity Utilization '91:**
8.5 m. Frw	10%
Output Price Trends '89-'91:	**Sales, '89: '90:**
4% annual increase	105 m. Frw 80 m. Frw
Local Sourcing of Raw Materials:	**Value Added '91:**
52% -- tomatoes and cardboard	33%

Biggest Constraints:

1. The war and related border and road patrols have seriously constrained transport and marketing of their products.

2. The low level of Rwandan consumers' purchasing power has also sharply limited SORWATOM's sales levels.

Main Points of Interview

SORWATOM was created in 1986 by a group of individual Rwandan investors. Of the original capital investment, 45% was equity capital and 55% loan financing. The company has only one product : canned tomato concentrate. SORWATOM imports tin cans from Italy and processes local tomatoes into tomato concentrate at their factory.

The company registered strong growth in sales between 1986 and 1990 with annual growth averaging 63 percent per year. Although SORWATOM did not directly export any of its product about 35% of its product was indirectly exported to neighboring countries such as Zaire, Burundi and Uganda. With the recent war situation in 1990 and 1991 all of those export opportunities have been lost. Although the company received some orders last year for their product in Uganda, SORWATOM was unable to fill them because of the war situation and the closing of the border.

In 1990 SORWATOM misread the market, as extremely strong sales of its product were recorded in the months just before the October 1990 devaluation. SORWATOM thought that the strong sales represented new interest in their product by consumers. In response to the apparently sharp increase in demand, the company stepped up production and ordered more raw materials.

It turned out, however, that most of the increased orders stemmed from anticipation of the October 1990 devaluation, which was anticipated would make most Rwandan consumer products more expensive. After October 1990, demand for their product dropped by about 33 percent leaving SORWATOM with excessively large stocks. Consequently the company has temporarily ceased production until they run down their level of inventory.

SORWATOM, similar to many other manufacturing firms in Rwanda, has a degree of local protection, with import duties of 60 percent on the final product (nominal rate of protection of about 60 percent[1]) and import duties on inputs now averaging 20 percent (indicating a very high effective rate of protection). At current domestic price levels the company's value added (output price-price of inputs) is 33%.

[1]Assuming actual prices are 60 percent of above border prices as a result of the import tariff. Because of this assumption the nominal rate of protection calculation should be interpreted with caution. Further information on border reference prices is needed to determine how local prices compare with world prices. In some cases despite high import tariffs local prices may not differ from border prices by as much as the tariff because of local competition or limited willingness to pay. This situation is called "water under the tariff."

The biggest constraints affecting SORWATOM's ability to procure raw materials include import licensing procedures and exchange control. Overall, the most binding constraints to the company's performance are the war and the limited purchasing power of the Rwandan consumer associated with the government salary freezes, which are also being followed by many private sector firms.

Commenting on the impact of the recent structural adjustment policy reforms, the interviewees felt that the exchange rate devaluation should have a slightly positive overall impact on their company as it would make their product more competitive in the neighboring markets. Overall the 67% devaluation led to about a 10 percent increase in SORWATOM's costs. However these costs could be more than offset by potential gains from strong export sales at the current exchange rate.

The company representatives also felt that the recent liberalization of import procedures was likely to have an overall negative effect on the company as it is it could lead to increased imports of food products which would be competing with their products. Regarding the decontrol of prices, the interviewees felt these policies will not significantly affect SORWATOM as they were not *de facto* restricted under previous price controls.

According to the interviewees their company would be negatively affected by the proposed reduction in import duties on final products through increased competition. The new import tariff structure was expected to be announced by the government during the first week in August. Regarding the likely reduction in fiscal incentives through the investment code, the company representatives felt this would have a negative impact on their company as well.

Overall the interviewees are cautiously optimistic about the future prospects, but they felt the biggest variable was the war situation. They have no way of predicting how long that will last. Until demand for their product picks up, the company will only be able to employ a very small percentage of its previous work force.

KEY INDICATORS

Company name:

Hatton and Cookson

Name of Interviewee:

Mr. Medard NDUWAMUNGU
Commercial Director

Main Products:

Clothing,
construction materials,
food and beverages

Number of Employees:

40

Wage Bill '90:

22.8 m. Frw

Capacity Utilization '91:

25%

Output Price Trends '89-'91:

45% annual increase

Sales, '89: 831 m. Frw **'90:** 600 m. Frw

Local Sourcing of Products

20% -- clothing

Value Added '91:

15%

Biggest Constraints:

1. Weakened consumer demand.
2. High cost of transporting imported commodities.
3. Restricted access to import licenses and foreign exchange.

Main Points of Interview

Hatton and Cookson was established in Rwanda in 1964. It is one of Rwanda's oldest and largest retail establishments. The company is 100 percent owned by the foreign company Unilever. Hatton and Cookson's main product categories have traditionally followed the following pattern: clothing (35%), construction materials (35%), food and beverages (15%), and electrical appliances (15%). Recently, however, Hatton and Cookson has carried much less of the construction products (down to 10% of its products) and increased the clothing products to about 70% of its merchandise, due to the slowdown in the Rwandan construction industry.

The steady downward trend in Hatton and Cookson's sales figures provide a good overall indication of the company's situation with respect to Rwanda. In 1987 gross sales revenue was Frw 1.05 billion. By 1989 sales had dropped by 20 percent to Frw 831 million. The sales forecast for 1991 is Frw 600 million, down 43 percent on 1989 figures. The company's inventory levels have been lowered in proportion to the decrease in its level of sales. Mr. NDUWAMUNGU estimates that his company is currently operating at only about 25% of installed capacity.

The number of employees employed by Hatton and Cookson has diminished from 72 in 1986 to 40 in 1991. Seven percent of the current work force are women. The company's annual wage bill is currently Frw 22.8 million.

The majority of Hatton and Cookson's products are imported, with about 75 percent of its imports coming from Europe, 15% from other African countries such as Kenya and Zimbabwe, and 15 % from Asia. About 25 percent of the company's clothing products are locally made by UTEXRWA, the local textile company. Hatton and Cookson's overall value added is 15%.

The problems Hatton and Cookson have encountered in accessing its products have been: (i) restrictive import licensing procedures; (ii) high cost of transport in getting products from the port of Mombassa, Kenya to Kigali, Rwanda; and (iii) occasional shortages of clothing products available from their local supplier.

The first problem of restrictive licensing procedures has been a major constraint in the past. During the month of June 1991, however, Hatton and Cookson was able to receive an import license and obtain all of the foreign exchange requested ($US 461,000). The current Central Bank procedure of charging a 5% fee on all foreign exchange requested is viewed as excessive by Mr. NDUWAMUNGU.

Regarding the recent policy reforms taken by the government, Mr. NDUWAMUNGU is of the opinion that the exchange rate adjustment had a negative impact on his company's performance. Combined with salary freezes in the civil service, the exchange rate adjustment has had the impact of reducing the purchasing power of Rwandan consumers according to the Commercial Director. He also feels that the recent liberalization of importing procedures have had a clearly positive impact on his company's ability to procure products.

Mr. NDUWAMUNGU is also of the opinion that the relaxation of prices controls has had a positive impact on his company's profitability. Previously prices and margins in the commercial sector were tightly controlled. He also considered that the reductions in import duties on final imported goods will be beneficial to his firm. The reduction in fiscal incentives will not have an impact on his company he stated, because as a commercial sector firm they were not eligible for these fiscal incentives.

Mr. NDUWAMUNGU is not very optimistic about business prospects in his sector. His company has not invested any additional capital in its Rwanda operations over the past two years and has no investment plan for the upcoming years.

KEY INDICATORS

Company name:	**Name of Interviewee:**
BRALIRWA SA	Mr. Max Borell General Manager
Main Products:	**Number of Employees:**
Beer, soft drinks	830
Wage Bill '90:	**Capacity Utilization '91:**
585 m. Frw	Beer - 100%, Soft drinks - 30%
Output Price Trends '89-'91:	**Sales, '89: '90:**
Pre-tax increase of 30% annually	7.8 b. Frw 7.5 b. Frw
Local Sourcing of Raw Materials:	**Value Added '91:**
20%: Sorghum and Sugar	23%

Biggest Constraints:

1. Uncertainty about the political situation in Rwanda.
2. Weak purchasing power in the economy.

Main Points of Interview

BRALIRWA was established in 1958 in Rwanda. The company's main products are beer and soft drinks. Beer represents 88% of the company's sales. The ownership structure is as follows: private Rwandan individuals (53%) the Government of Rwanda (30%), and a foreign partner - Heineken (17%). The three beer products produced by the company are produced under a licensing agreement with the Heineken Company. The soft drinks (coca-cola, fanta, sprite, tonic water) are manufactured under a licensing agreement with Coca-Cola.

BRALIRWA is the largest majority private owned company in Rwanda. It employs 830 permanent workers with an annual wage bill of Frw 585 million (U.S. $4.6 million). The company's net fixed assets are Frw 3 billion. Over the last five years BRALIRWA has contributed between 20-25% of the government's revenue (before grants) in the form of corporate income tax, dividends from profits, and excise taxes on beer and soft drinks.

BRALIRWA currently enjoys a de facto monopoly on beer production. However there are thousands of producers of local banana beer in Rwanda. Currently the company is using two shifts to produce beer, operating at 100% of its installed capacity for that product. For soft drinks the company is working at 30% of its capacity. BRALIRWA does not have a monopoly on soft drink manufacturing in Rwanda.

BRALIRWA's volume of sales has fluctuated sharply over the past few years, closely related to changes in government taxation policy. In 1990 the government increased the excise taxes on beer from 195% to 245%. During the same year, the exchange rate was devalued by 67%. The volume of beer sales dropped by 16%, falling from 709 hectoliters in 1989 to 597 hectoliters in 1990. As a result, the company, which is normally quite profitable, had a financial loss for the 1990 year.

Beer is considered to be such an important "staple good" in Rwanda that when retail prices were raised by 27% in 1990 as a result of the increase in excise taxes there was a strong protest by voiced by consumers. Consequently in 1991 the government lowered the excise tax from 245% to 125%. The net effect to consumers was a 5% reduction in the price of beer. Consequently beer sales are expected to rise sharply in 1991 to 850 hectoliters, a record level for BRALIRWA.

BRALIRWA's soft drink sales have not been nearly as successful as beer. BRALIRWA's soft drink sales have been steadily declining over the past five years. There are several factors influencing this decline. First, in the soft drink business BRALIRWA faces competition from a local producer which manufactures Pepsicola products under license. Second, there was a sharp increase in excise taxes on soft drinks in 1990. This increase was not met with the same level of consumer resistance as the increase on beer excise taxes in that year. As a result the high excise taxes have been kept on soft drinks. A third reason for the recent decline in soft drink sales is that there are many substitutes available for soft drinks such as tea, coffee, milk, fruit juices. Therefore when prices have risen (1990) consumers have switched to cheaper alternatives. This suggest that the demand for soft drinks is relatively elastic with respect to price in Rwanda.

BRALIRWA relies mainly on imported raw materials for its inputs. About 20 percent of the company's raw materials are from the local market, however. These are mainly sorghum (ingredient for beer) and sugar (ingredient for soft drinks). The company's value added at domestic prices is 23%.

There currently is a high specific tax on imported beer of 500 Frw per liter. This amounts to about a 400 percent ad valorem equivalent rate. The government is proposing reducing this tariff to about a 50% ad valorem equivalent. BRALIRWA is looking forward to the reduced tariff because it would be interested in importing beer products from one of its sister companies in neighboring Zaire and Burundi.

BRALIRWA is also interested in exporting to neighboring countries, but they have been constrained from doing so in the past. One of the constraints has been that potential importers have had difficulties in obtaining importing licenses from their governments. Beer is considered to be a "strategic industry" in these countries and the governments generally do not want imported beers competing with their domestic producers.

Despite the high current import tariff on beer in Rwanda, there is strong evidence that BRALIRWA is an efficient producer, not requiring import protection. Studies conducted by the USAID PRIME project[2] have shown that the company is efficient by world price standards with a nominal rate of protection of -94% and a domestic resource cost of less than 1.

The negative nominal rate of protection means that the net effect of tariffs, taxes (excise in this case) and price controls in Rwanda are keeping domestic prices below imported c.i.f. prices. The domestic resources cost (DRC) of less than one suggests that the country saves foreign exchange by producing the product as compared with importing it.

Regarding the effects of recent policy changes on BRALIRWA, the General Manager felt that the exchange rate adjustment had a negative impact on the company's performance since they import 80

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[2]See A. NGIRABATWARE, MUREMBYA, and Meade "Medium and Large Private Manufacturing Firms in Rwanda: Diagnostic Study of Current Situation and Policy Impact", p.43

percent of their raw materials and are not a significant exporter. According to Mr. Boreel the recent liberalization of importing procedures and the increased availability of foreign exchange have had a clearly positive impact on his company's ability to procure raw materials and on their overall performance.

The decontrol of prices has had a somewhat positive impact on soft drink profitability, however, beer -- which is considered to be strategic commodity -- is likely to be subject to further price control. The General Manager also felt the reduction in tariff levels on final products will have a positive impact on his company as they hope to import beer and sell it in Rwanda. Regarding the impact of the reduction in fiscal advantages he felt it would not have an important impact on his company.

The General Manager stated that his company was cautiously optimistic about future prospects for their company in Rwanda. The company has invested Frw 2 billion ($US 15 million) in modernizing and expanding their plant over the last two years. Over the next five years they have an investment plan which averages Frw 500 million per year, which is still well above their rate of depreciation.

BRALIRWA is projecting only very moderate growth in future beer sales and a steady decline in soft drink sales. The biggest problems the company is facing relate to the unstable political situation and its impact on the business environment.

KEY INDICATORS

Company name:

RWANDA FOAM

Name of Interviewee:

Mr. Berlin MAKUZA

Main Products:

Foam rubber mattresses
and seat cushions

Number of Employees:

48

Wage Bill '90:

14 m. Frw.

Capacity Utilization '91:

20%

Output Price Trends '89-'91:

20% annual increase

Sales, '89: '90:

246 m. Frw. 215 Frw.

Local Sourcing of Raw Materials:

15%: polyester covers

Value Added '91:

32%

Biggest Constraints:

1. Access to foreign exchange.
2. High costs of transport and importing products.
3. Poor purchasing power of Rwandan consumers.

Main Points of Interview

RWANDA FOAM was formed in 1983. The ownership structure is comprised of Rwandan individuals and institutions (98% of share capital) and one foreign shareholder (2% of the share capital). The company manufactures mattresses and cushions for the local market. The Director General estimates that a sizable portion of RWANDA FOAM's sales are indirectly exported to Zaire. RWANDA FOAM sells to retail sales companies, hotels, schools and other institutions.

The foam rubber mattresses are manufactured at the factory by mixing together about 5 liquid chemicals along with water in a mold. When the chemicals interact a solid foam rubber is formed. It is then cut into mattress or cushion size, and covered with a polyester cover.

All of the company's chemical inputs are imported. Imported inputs represent about 55 of the sale price of their product. The only domestically produced input is polyester which is used to cover the mattresses and the cushions. The value added on their product is about 32 percent.

RWANDA FOAM currently employs 48 people of which 50% are women. In 1989 it employed 84 permanent staff. The reduction in staff is proportionate to the slowdown in RWANDA FOAM's sales. In 1989 their sales were Frw 246 million, then dropping to Frw 215 million in 1990. The projected sales level for 1991 is Frw 180 million. Current capacity utilization is 20%, down from 60% in 1989.

Currently there is a 60 percent tariff on final imported mattresses and a 20 percent tariff on imported inputs. These differential tariffs could potentially lead to a high rate of effective protection. However previous research has indicated that prices charged by the company have stayed very close to the import parity levels. For example a report prepared under the USAID PRIME project[3] found that the effective rate of protection for the company's product was 36%, smaller that the majority of manufacturing products in Rwanda. In addition the same study found that the product's DRC (domestic resource cost) was less than 1 (.68). DRCs less than 1 indicate that foreign exchange is saved by producing the product compared with importing it.

One of the key factors explaining the relative efficiency of manufacturing mattresses in Rwanda is that in its final product form it is a bulky-low-value product. This factor makes it uneconomic to transport a long distance in its final product

[3] See NGIRABATWARE et al op cit

form. However all the chemical ingredients to make foam rubber can be transported in concentrated form which is more cost effective. The net result is that Rwanda some degree of a natural cost advantage in transforming the product in Rwanda.

The General Director explained that the recession and the war are the biggest problems constraining his company's performance. The cost of transporting imported inputs is also a handicap. Currently with the border with Uganda closed, trucks must transport imported inputs through Tanzania to Rwanda. The road system in Tanzania is reportedly quite poor.

Commenting on the impact of recent policy changes, Mr. MAKUZA commented that the exchange rate adjustment had a negative impact on his operations by raising the cost of imported materials. Combined with the freeze in government salaries he observed a net loss in consumers' purchasing power.

The General Director felt that the liberalization of import procedures would help his company. Until recently his company was not able to receive the foreign exchange requested to the Central Bank. In June 1991, however, his company was able to receive all the foreign exchange requested. The General Director commented that the reduction in import duties would have a positive impact on his company because it will help to reduce the costs of consumer goods, increasing consumers ability to buy his company's products. He is not worried about the threat of competition from imported mattresses. Finally, he felt that the proposed reduction in fiscal incentives would have a negative impact on his company.

FOAM RWANDA has not invested in its operations over the past two years and has no plan to do so in the next two years. It currently has excess capacity and is waiting for improvements in the business environment to help bring it company back to its previous level of activity.

KEY INDICATORS

Company name:

SORWACI

Name of Interviewee:

Mr. Justin MUGENZI

Main Products:

Plastic piping for plumbing and electricity

Number of Employees:

early '91 = 90

Wage Bill '90:

12 million Frw

Capacity Utilization '91:

0% --

(currently closed down)

Output Price Trends '89-'91:

5% annually

Sales, '89: '90:

160 m. Frw 130 m. Frw

Local Sourcing of Raw Materials:

20 %

Firm's Value Added '91:

25%

Biggest Constraints:

1. High costs of imported raw materials.
2. Expensive rates charged by Government transport monopoly (SNIM).
3. Current border and road patrols make it difficult to move products.
4. The war situation combined with a recession have totally depressed the construction industry in Rwanda.

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Main points of Interview

SORWACI was established in 1988. The company was created by a group of Rwandan investors. The company was financed with 30 percent equity and 70 percent loan financing. SORWACI produces plastic piping for plumbing and electrical uses. The company's products are used almost exclusively by the construction industry.

SORWACI's sales volume increased from Frw 90 million in 1988 to Frw 160 million in 1989. In 1990 sales revenue dropped to Frw 130 million due to the war and the recession in the Rwandan construction industry. During the first 6 months of 1991 sales revenue dropped to Frw 50 million; the company was forced to cease operations in mid-1991.

In 1990 the company employed 90 full-time staff, including 5 women. The annual wage bill in 1990 was Frw 12 million. In 1990 30 percent of the company's sales were exported to countries in the region, mainly to Zaire and Uganda.

When the company was in operation, their biggest constraints to accessing raw materials included: (i) the high costs associated with transporting goods through Kenya and Uganda; (ii) the high cost and low quality of service by the state owned transport company (STIR); (iii) limited availability of import credits from local banks; (iv) the heavy government control of roads and borders (especially 1990-91); and (iv) the limited purchasing power of Rwandan consumers and high costs of imports associated with the October 1990 devaluation.

Commenting on the recent structural adjustment reforms, the Director General commented that overall the reforms are having a negative impact on his company. Regarding the 1990 devaluation, Mr. MUGENZI felt that it had a negative impact on his company. He was of the opinion that the exchange rate adjustment dampened purchasing power of Rwandan consumers, and made the cost of importing raw materials more expensive. While the Director General did recognize that the exchange rate adjustment did make SORWACI's exports more competitive, he still felt that the overall impact on his company was negative since the majority of their sales were in the local market. He explained that his company was affected by the increase in imported costs while they were not able to pass on any of the cost increase to the Rwandan consumers.

Mr. MUGENZI felt that the recent liberalization in import procedures had no significant impact on his enterprise. Regarding the proposed reduction in import protection, he was of the opinion that these measures would have a negative impact on his company as they are currently provided protection through the tariff on the final imported products. Regarding the reduction in fiscal incentives provided through the investment code, these too would have a negative impact on his firm as they were currently offered tax holidays on corporate income taxes and exonerations on import duties on raw materials and intermediate goods.

Mr. MUGENZI is not very optimistic about the business prospects for SORWACI. He feels that the combined effects of the war and the recession have had a debilitating impact on the construction industry -- which is by far the biggest buyer of his company's products. He will not resume production at his company unless there is a substantial recovery in the construction sector.

Mr. MUGENZI is also the President of the newly formed Rwandan Manufacturers' Association. This association was created in 1990 by private manufacturers to broadly represent their sector on policy matters relating to their sector and to generally promote the development of the manufacturing sector in Rwanda. The association is currently funded solely by members' dues. Mr. MUGENZI said the association would be interested in receiving assistance from USAID or another donor in the areas of policy analysis, promotional assistance, and other potential areas of cooperation.

KEY INDICATORS

Company name:	**Name of Interviewee:**
ETABLISSEMENTS KARAMIRA	Mr. Froduald KARAMIRA
Main Products:	**Number of Employees:**
Electrical supplies, construction equipment, hardware	4
Wage Bill '90:	**Capacity Utilization '91:**
6 m. Frw	20%
Output Price Trends '89-'91:	**Sales, '89: '90:**
40 percent annual increase	100 m. Frw. 70 m. Frw.
Local Sourcing of Raw Materials:	**Value Added '91:**
10%	10

Biggest Constraints:

1. Reduced purchasing power in the Rwandan economy and the related decline in investment and construction.
2. Heavy bureaucratic procedures which require too much time and attention from business people.

Main Points of Interview

ETABLISSEMENTS KARAMIRA was established in 1976. The company is a retail company selling electrical equipment, construction materials and plumbing equipment. All of the company's original capital was provided by Mr. KARAMIRA, the owner and General Manager. All of ETABLISSEMENTS KARAMIRA's products are imported from either Europe (60%), Asia (30%) or other African countries (10%). The estimated value added on its products is 10%.

The company is currently employing only four employees. In 1990 it employed 11. The company's annual wage bill has dropped from 6 million in 1990 to 2 million in 1991. Sales have been steadily declining over the past 5 years. In 1987 the company's sales were at Frw 160 million; by 1990 they were down 56% on the 1987 figure. All of the firm's sales are for the local market. Some of the equipment is sold to people from Zaire buying in Rwanda, however.

One of the main reasons given for the company's decline in sales is that they have not received an import license for the past three years. The General Director explained he was not provided a import license because the government officials had some differences with him over his efforts to bring in a new foreign owned bank which would be competing with banks in which government officials had an interest.

ETABLISSEMENTS KARAMIRA's biggest constraints have been connected with its difficulties in receiving import licenses. Even if he had an import license, the General Manager feels that the bureaucratic formalities relating license approval are excessive. When he did receive an import license in the past, he says that on average he needed to contact the authorities about 25 times either by telephone or in person just to get his one import license approved. He does not know whether the new procedures have streamlined this process or not.

In addition to the heavy bureaucratic procedures related to import licensing, the General Manager also believes that the transaction charges applied to foreign exchange purchases. Acceding to him, for each official purchase of foreign exchange the Central Bank charges a 5% commission. In addition he stated that commercial banks then charge a fee of 10% for an import letter of credit. An alternative for an importer is to purchase foreign exchange on the parallel and then negotiate a cash payment to an overseas supplier. The overseas supplier would usually offer a 10% discount for cash. The net cost of using the parallel market would be about 5 to 10 percent more expensive than the official market, but significantly easier and more efficient to use.

Commenting on the recent macroeconomic policy reforms, the

General Manager stated that the devaluation had a negative consequence on his operations. However he elaborated that the exchange rate adjustment was also inevitable given the macroeconomic position the country was in at the time.

The General Director felt that all the other policy reforms taken will have a positive impact on his operations including: (i) liberalization of import procedures; (ii) decontrol of prices; (iii) the lowering in import duties; and (iv) the reduction in fiscal holidays. Overall he is in favor of all liberalization measures and any policies aimed at encouraging competitive, freer markets.

Over the past four years the company has reinvested about Frw 5 million per year in ETABLISSEMENTS KARAMIRA. This level of investment is more than the Frw 3 million per year or so needed to offset the depreciation in the capital stock. For the next two years the company has no investment plan because of the current weak level of demand, especially in the construction sector.

KEY INDICATORS

Company name:	**Name of Interviewee:**
Food Technology and Plants	Dr. Andre MUHIRE
Main Products:	**Number of Employees:**
Banana and pineapple wines, vinegar, pineapple juice liqueur, ketchup	12
Wage Bill '90:	**Capacity Utilization '91:**
1.44 m. Frw	50%
Output Price Trends '89-'91:	**Sales, '89: '90:**
No increase Frw.	1.5 m. Frw 2.5 m.
Local Sourcing of Raw Materials:	**Value Added '91:**
100% - bananas, pineapples, tomatoes	50%

Biggest Constraints:

1. Depressed local market.
2. Road controls make buying raw materials more difficult.
3. Difficulty finding enough bottles.
4. Company is short of management, accounting skills.

Main Points of Interview

Food Technology and Plants was established in 1988 as a food processing consulting firm. By 1989 its owner and Director, who has a Ph.D. in Food Science, decided that it would be more profitable to start production in the technologies in which he had previously been advising other companies.

Food Technology and Plants produces about five different food and beverage products. All of their products are made from local raw materials. The company's value added is estimated at 40%. Food and Technology takes local food products and transforms them into juices, wines and other products. Food and Technologies equipment allow them to pasteurize, ferment, and bottle their products.

Food and Technology currently employs 12 people of which 9 are women. The company's sales revenue has grown from Frw 1.5 million in 1989 to an estimated Frw 4 million in 1991. All of products are sold in the local market although there is interest in the company's vinegar in both Kenya and Burundi. The company is currently operating at 50% of its installed capacity.

The company's product mix has shifted significantly over the past two years. Two years ago vinegar was the company's most important product, representing 40% of its sales in 1989. During the same year, wine represented 30 percent of its total sales. Currently Food Technology and Plants' product mix is as follows: banana and pineapple wine (60%); pineapple juice (30%); vinegar (5%); and liqueur (5%).

The reasons provided by Dr. MUHIRE for the shift in popularity of his products are related to the current recession and war situation. The Director explained that vinegar is a relatively luxurious food item in Rwanda, used for salad dressing and also as an ingredient for mayonnaise. Pineapple and banana wine consumption have gone up, he explains, because of the evening curfew in Kigali whereby more people stay around their houses in the evenings and need something alcoholic to drink.

The company's biggest constraints include (i) the current slowdown in consumer demand; (ii) the road controls and laissez-passer requirements which inhibit raw material purchasing; (iii) shortage of management skills within his company; and (iv) difficulties obtaining bank loans because of inability to meet banks' security requirements.

Regarding the recent policy reforms' impact on his company Dr. MUHIRE commented that in general he is in favor of all market-related reforms. Commenting the impact of specific reform measures on his company, the Director thinks that the exchange rate adjustment will assist his company. The reason he gave was that his main competitors' (such as BRALIRWA) costs have risen because they are dependant on imported inputs, while his company's prices and costs have not risen due to their reliance on local materials.

Dr. MUHIRE feels that the recent import liberalization procedures will benefit his company in that he thought the previous system allowed discretionary approval of import licenses. In the past system he said that import license applications were often rejected if an existing manufacturer did not want you to compete with him.

The Director considered that price decontrol should be generally beneficial to his firm. Regarding the proposed reduction in tariff protection, he thought it would help his firm because imported products could be cheaper. Finally he felt that the proposed reduction in fiscal incentives would not have an important impact on his firm in that his company did not benefit from fiscal incentives.

Dr. MUHIRE is optimistic about his firm's prospects for future growth. He is forecasting a doubling of sales revenue in 1992 assuming the end of the war situation and increased security measures. The Director is currently testing out a new product -- champagne from bananas. He would also like to test out canning pineapples, vegetables and meat. The Director also believes prospects for exporting vinegar to Kenya and Burundi are very good, but the border and road controls would have to loosen up before he tries it.

ACTION: AID INFO: AMB DCM

ANNEX H

VZCZCKK556
PP RUEHLGB
DE RUEHC #0761/01 1780122
ZNR UUUUU ZZH
P 270058Z JUN 91
FM SECSTATE WASHDC
TO RUEHLGB/AMEMBASSY KIGALI PRIORITY 5886
INFO RUEHNR/AMEMBASSY NAIROBI PRIORITY 4243
BT
UNCLAS SECTION 01 OF 03 STATE 210761

LOC: 079 168
27 JUN 91 0606
CN: 20142
CHRG: AID
DIST: AID

INFO COPY

AIDAC NAIROBI FOR REDSO/ESA RLA

E.O. 12356: N/A
TAGS:
SUBJECT: ECPR GUIDANCE CABLE FOR RWANDA PRODUCTION AND MARKETING REFORM PROGRAM (PMRP) AEPRP PROPOSAL (PAIP) - 696-0135

DATE REC'D 6-27-91
REPLY DUE 7-5-91
ACTION TO ~~CC~~ JAG
RF ✓
CHRON ✓

1. SUMMARY. THE ECPR FOR THE SUBJECT PROJECT MET ON MAY 31, CHAIRED BY DAA/AFR AND WAS ATTENDED BY REPRESENTATIVES OF AFR/PD, AFR/EA, AFR/DP, AFR/MDI, AFR/TR/ANR, APRE/AMI E, PPC/PB AND GC/AFR. THE COMMITTEE COMMENDED THE USAID/RWANDA STAFF AND THE AID/W DESIGN TEAM MEMBERS FOR A COMPREHENSIVE AND WELL-WRITTEN DOCUMENT. THE ECPR APPROVED THE PAIP AT A LEVEL OF DOLS 20 MILLION WITH A NUMBER OF RECOMMENDATIONS FOR THE PAAD DESIGN AS DESCRIBED BELOW. THE PAAD WILL BE REVIEWED IN AID/W BEFORE AUTHORIZATION IN THE FIELD. ALTHOUGH WE ORIGINALLY ENVISIONED A ONE YEAR EFFORT, YOUR INITIAL ANALYSES HAVE CONVINCED US THAT A MULTI-YEAR PROGRAM MAY BE DESIRABLE. OUR GUIDANCE THEREFORE IS COUCHED IN TERMS OF ASSISTING YOU WITH DEVELOPMENT OF A PAAD THAT LENDS ITSELF TO MULTI-YEAR FUNDING.

2. EMPHASIZING EMPLOYMENT GENERATION: THE PRINCIPAL CONCERN DISCUSSED BY THE ECPR WAS THE NEED TO PLACE MORE EMPHASIS ON EMPLOYMENT GENERATION IN MANUFACTURING, COMMERCE AND SERVICES. GIVEN WHAT HAS HAPPENED IN OTHER COUNTRIES, INCREASED EMPLOYMENT, PARTICULARLY IN THE INFORMAL SECTOR, WOULD BE EXPECTED OVER THE MEDIUM TERM. THIS CONCERN ALSO STEMS FROM OUR JOINT INTERES IN TRACKING THE EFFECTS OF THESE POLICY CHANGES DIRECTLY TO THE PEOPLE/FAMILY LEVEL. DISCUSSIONS AMONG AFR/EA, GC/AFR, AFR/DP, AND AFR/PD HAVE RESULTED IN REVISED FORMULATIONS FOR THE PROGRAM GOAL AND PURPOSE. THE GOAL WOULD BE AMENDED TO READ AS FOLLOWS: QUOTE CONTRIBUTE TO GROWTH IN EMPLOYMENT AND PRODUCTION IN THE MEDIUM TERM UNQUOTE. THE REVISED PURPOSE WOULD BE: QUOTE INCREASE COMPETITION IN THE SHORT-RUN, AND SUBSEQUENTLY PRODUCTION AND EMPLOYMENT, IN MANUFACTURING AND RELATED SECTORS UNQUOTE. THE PAAD SHOULD CONTAIN A CLEAR, SIMPLE AND BRIEF STATEMENT DISCUSSING EMPLOYMENT PROBLEMS IN RWANDA AND HOW THIS PROGRAM, BY CHANGING ECONOMIC RELATIONSHIPS, WILL LEAD OVER TIME TO INCREASED EMPLOYMENT FOR THE POORER RURAL AND URBAN POPULATIONS. 'THE PAAD SHOULD CLEARLY

ACTION COPY
Action taken: ....
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No action necessary
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(Initials) (DATE)

DEFINE THE PROGRAM'S CHOSEN SECTOR, WHICH MAY ENCOMPASS WHAT IS TYPICALLY CONSIDERED AS SEVERAL SECTORS, (PER ABOVE STATED PURPOSE) AND THE CONSTRAINTS ANALYSIS SHOULD RANK ORDER THE CONSTRAINTS FOR THE CHOSEN SECTOR. THE CONSTRAINTS ANALYSIS SHOULD ALSO INCLUDE A SUMMARY DISCUSSION OF CONSTRAINTS TO THE INFORMAL SECTOR. WE UNDERSTAND THIS MATERIAL IS AVAILABLE FROM EXISTING STUDIES.

WE UNDERSTAND THAT THE PRINCIPAL POLICY REFORMS UNDER THE PROPOSED ONE-YEAR PROGRAM MAY BENEFIT THE FORMAL AND INFORMAL MANUFACTURING SECTOR MOST DIRECTLY AND IMMEDIATELY. BUT THE PAAD SHOULD CONTAIN A BRIEF, CLEAR STATEMENT UP FRONT ON THE BROADER BENEFITS THAT WILL ACCRUE OVER TIME TO THE INFORMAL SECTOR AND TO POORER POPULATION GROUPS. THESE BENEFITS WOULD PRESUMABLY RANGE FROM EXPANDED EMPLOYMENT TO WIDER AVAILABILITY AND LOWER PRICES FOR BASIC CONSUMER GOODS, AGRICULTURAL TOOLS, AND TRANSPORT SERVICES. IN AN APPROPRIATE ANNEX, SUCH AS THE SOCIAL ANALYSIS, THE PAAD SHOULD INCLUDE REPRESENTATIVE CASE STUDIES ON HOW PRIVATE RWANDAN BUSINESSES WILL BENEFIT FROM THE REFORMS, WHAT BACKWARD AND FORWARD LINKAGES CAN BE EXPECTED, AND HOW SMALLER-SCALE PRODUCERS, SUPPLIERS, SUBCONTRACTORS, CONSUMERS AND OTHER GROUPS IN URBAN AND RURAL AREAS WILL BENEFIT. THESE CASE STUDIES SHOULD BE SUMMARIZED IN THE PAAD BODY.

THE MATERIAL REQUESTED HERE SHOULD BE CAPSULIZED IN THE CN TO BE SUBMITTED, WHICH, LIKE CNS FOR ALL PRIVATE SECTOR DEVELOPMENT PROGRAMS, WILL BE SCRUTINIZED FOR BROADER IMPACT AND EQUITY CONCERNS.

3. DEVELOPING A STRONG MONITORING AND EVALUATION (M&E) SYSTEM FOCUSED ON BROADER PROGRAM IMPACTS: BUILDING ON YOUR GOOD WORK TO DATE, THE PAAD SHOULD CLEARLY DEFINE A MONITORING AND EVALUATION (M&E) SYSTEM THAT WILL TRACK MAJOR ECONOMIC AND SOCIAL EFFECTS OF THIS PROGRAM ON POORER POPULATION GROUPS AS WELL AS ON BUSINESSES, OVER TIME AND BEYOND THE NPA DISBURSEMENT PERIOD OF THE PROGRAM. IN ADDITION TO INDICATORS IN THE MANUFACTURING SECTOR, THE M&E SYSTEM CONCEPTUALIZED IN THE PAAD SHOULD ALSO INCLUDE A LIMITED NUMBER OF KEY INDICATORS IN THE BROADER NON-FARM SECTOR TO BE TRACKED. SOME OF THESE INDICATORS SHOULD BE DIRECT MEASURES OF HOW THE POORER POPULATION (AND THE INFORMAL SECTOR) WILL BE AFFECTED.

ALTHOUGH THE PROGRAM INTENDS TO BRING ABOUT URGENTLY

NEEDED REFORMS IN THE MANUFACTURING SECTOR (AS DEFINED IN THE STANDARD NATIONAL INCOME ACCOUNT), THE EFFECTS OF THE REFORMS ARE LIKELY TO BE FELT IN OTHER SECTORS AS WELL AS THROUGH BACKWARD AND FORWARD LINKAGES. THE REFORMS ARE LIKELY TO AFFECT THE AGRICULTURAL, SERVICES, AND INFORMAL SECTORS, WHICH ARE CLOSELY LINKED TO A LARGE PART OF THE MANUFACTURING SECTOR IN THE CASE OF RWANDA. THE TYPES OF IMPACT THE MONITORING AND REPORTING SYSTEM SHOULD FOCUS ON WOULD GO BEYOND THE EFFICIENCY MEASUREMENT IN THE MANUFACTURING SECTOR TO INCLUDE EFFECTS OF THE REFORMS ON PRODUCTION; EXTENT OF INCREASED VALUE ADDADHFOM DOMESTIC RESOURCES(EMPLOYMWNT; PRICES; AND WIDER AVAILABILITY OF PRODUCTS AND SERVICES AT LOWER PRICES.

4. BENEFITS TO STATE-OWNED ENTERPRISES (SOES): THE ECPR DISCUSSED TO WHAT DEGREE SOES WOULD BENEFIT FROM THE NEW FOREIGN EXCHANGE ALLOCATION SYSTEM AND REIMBURSEMENT OF GOVERNMENT ARREARS. ON FOREIGN EXCHANGE ALLOCATION, THE PAAD SHOULD INDICATE HOW THE NEW SYSTEM WILL ENSURE THAT SOES DO NOT OBTAIN PREFERENTIAL ALLOCATIONS OF FOREIGN EXCHANGE.

AID/W MEMBERS OF THE PAIP DESIGN TEAM STATED THAT IT WAS THE MISSION'S INTENTION THAT LOCAL CURRENCIES FROM THIS PROGRAM WOULD GO ONLY TO PAY GOR ARREARS TO PJIVATE BUSINESSES AND NOT TO SOES.

5. GOR MANAGEMENT CAPACITY AND COMMITMENT TO THE MSAP PROGRAM: GIVEN THE BREADTH AND DIFFICULTY OF THE OVERALL ECONOMIC AND STRUCTURAL REFORMS TO WHICH THE GOR IS COMMITTED, THE ECPR DISCUSSED WHETHER THE MANAGEMENT CAPACITY AND THE POLITICAL WILL EXIST IN THE GOR TO

UNDERTAKE AND SUSTAIN THE REFORMS PROPOSED UNDER THE PROGRAM. SPECIFICALLY, LOSERS UNDER THE LIBERALIZED IMPORT, FOREIGN EXCHANGE, AND PRICE REGIMES WILL LIKELY BE MORE VOCAL AND VISIBLE THAN WINNERS. AN EFFECTIVE MONITORING AND EVALUATION SYSTEM THAT CAN IDENTIFY THE BROADER ECONOMIC AND SOCIAL BENEFITS OF A MORE LIBERAL ECONOMIC SYSTEM OVER TIME IS THEREFORE EVEN MORE IMPORTANT. IT SHOULD BE IN THE GOR'S INTEREST TO ESTABLISH AND MAINTAIN THIS KIND OF INFORMATION SYSTEM EARLY ON AS IT WOULD ENABLE THEM TO ADDRESS THE POLITICAL FALLOUT OF CHANGE AND THEREBY HELP SUSTAIN THE OVERALL REFORM EFFORT.

DURING THE PAAD DESIGN AND NEGOTIATION PROCESS, THE USAID SHOULD MAKE CLEAR TO THE GOR THAT A.I.D. EXPECTS SUSTAINED PERFORMANCE IN THE POLICY AREAS TARGETED UNDER THE MSAP PROGRAM BEYOND THE RELATIVELY BRIEF PERIOD IN WHICH DISBURSEMENTS ARE TO BE MADE. OTHERWISE, IT WILL BE DIFFICULT TO CONSIDER FUTURE SUPPORT TO PRIVATE SECTOR DEVELOPMENT. THE M&E SYSTEM SHOULD MONITOR CONTINUED GOR COMMITMENT TO AND IMPLEMENTATION OF THE REFORMS DURING AND FOLLOWING THE DISBURSEMENT PERIOD OF THE PROGRAM.

THE PAAD SHOULD INCLUDE DETAILED BUDGETING IN DOLLARS AND LOCAL CURRENCIES FOR THE TECHNICAL ASSISTANCE, COMMODITIES, AND TRAINING NEEDED BY THE GOR TO (1) MANAGE

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THE REFORMS PROPOSED AND (2) ESTABLISH AND MAINTAIN THE IMPACT MONITORING SYSTEM NECESSARY TO TRACK THE BENEFITS OF A LIBERALIZED ECONOMIC SYSTEM AND SPECIFICALLY, ACCELERATED PRIVATE SECTOR DEVELOPMENT. IT SHOULD BE CLEAR THAT SUFFICIENT RESOURCES FOR THE M&E SYSTEM ARE AVAILABLE UNDER OTHER PROGRAMS, AS DISCUSSED IN THE PAIP.

6. CONDITIONALITY: THE ECPR DISCUSSED WHETHER THE REQUIRED GOR ACTIONS UNDER THE SECOND TRANCHE -- INITIATING AN EXPORT PROMOTION STUDY AND REDUCING DOMESTIC ARREARS WITH LOCAL CURRENCY GENERATIONS -- WERE SUFFICIENT TO JUSTIFY RELEASE OF THE REMAINING $5 MILLION. FOR THE SECOND TRANCHE, THE ECPR RECOMMENDED THAT THE PROGRAM AGREEMENT ALSO REQUIRE EITHER (A) CONTINUATION OF THE REFORMS REQUIRED UNDER THE FIRST TRANCHE OR, (B) ADDITIONAL IMPLEMENTING STEPS FOR THOSE REFORMS. IF OPTION (A) IS FOLLOWED, THE PAAD SHOULD EXPLAIN THE REAL NEED FOR SUPPORT TO PREVENT BACKSLIDING. THE ECPR ALSO RECOMMENDS THAT THE PROGRAM AGREEMENT INCLUDE A COVENANT UNDER WHICH THE GOR EXPLICITLY AGREES TO ESTABLISH AND MAINTAIN, WITH USAID ASSISTANCE, AN EFFECTIVE M&E SYSTEM WITH EMPHASIS ON MEASURING BROADER IMPACTS OF THE PROGRAM ON THE POORER POPULATION AND THE INFORMAL SECTOR.

IF A MULTI-YEAR PAAD IS PREPARED, THE PAAD ANALYSIS MUST COVER AND BE VALID FOR THE LOP AND MUST EITHER (A) DEFINE CONDITIONALITY FOR SUBSEQUENT YEARS OR (B) DEFINE SECTOR AND CONDITIONALITY ENDPOINTS AND A ROADMAP FOR HOW THE GOR WILL ARRIVE AT THESE ENDPOINTS.

7. PAAD APPROVAL AND AUTHORIZATION. BECAUSE OF THE INTEREST CONGRESS IS LIKELY TO HAVE IN THIS PROGRAM AND BECAUSE OF CURRENT MULTI-YEAR THINKING IN AID/W, THE ECPR

RECOMMENDED THAT THE PAAD BE REVIEWED IN AID/W. THE PRESUMPTION WOULD BE THAT AFTER THE PAAD REVIEW AND FORWARDING OF THE CN TO CONGRESS, AID/W WOULD DELEGATE AUTHORITY TO THE MISSION TO AUTHORIZE THE PAAD. ONE OF THE MOST IMPORTANT CONCERNS FOR AID/W IS THAT THE PAAD INCLUDE A CREATIVE, JOINT GOR/USAID PLAN FOR IDENTIFYING, OVER TIME, THE BROAD-BASED IMPACT OF THIS PROGRAM AND POSSIBLE FUTURE ASSISTANCE IN THE SAME SECTOR. FURTHER, IT IS IMPORTANT FOR RWANDANS TO BUILD AN INFORMATION SYSTEM TO SHOW THE BROADER BENEFITS TO THEIR ECONOMY AND THEIR POPULATION OF A LIBERALIZED ECONOMIC BASE. BECAUSE A.I.D. DOES NOT YET HAVE ENOUGH SOLID EVIDENCE ON HOW PRIVATE SECTOR DEVELOPMENT PROGRAMS IN AFRICA PROVIDE SUBSTANTIAL BENEFITS TO POOR POPULATIONS, WE NEED TO APPLY MORE ENERGY AND RESOURCES TO DEVELOP THIS EVIDENCE.

8. CONCERNS: A NUMBER OF CONCERNS DISCUSSED AND RESOLVED AT THE ISSUES MEETING AND THE ECPR ARE NOTED BELOW:

A. IEE: AID/W IS CURRENTLY REVIEWING THE IEE AND WILL ADVISE SEPTEL.

B. DOLLAR TRACKING: ASSUMING THAT DOLLARS WILL BE TRACKED, THE PAAD NEEDS TO DESCRIBE THE MECHANISMS FOR TRACKING, AS WELL AS THE BASIS FOR THE MISSION'S CONCLUSION REGARDING THE CAPABILITY OF THE GOR AGENCY TO EFFECTIVELY MANAGE THE DOLLAR SEPARATE ACCOUNT. PER PARA 5(A) OF 92 STATE 194322 QUOTE, THIS CONCLUSION WILL BE BASED ON EITHER A FORMAL FINANCIAL ASSESSMENT OF THE AGENCY OR THE MISSION'S PAST EXPERIENCE WITH THE AGENCY'S PERFORMANCE UNQUOTE.

C. SINCE DFA FUNDS MUST BE USED FOR SECTOR, RATHER THAN FOR MACRO OR OVERALL "STRUCTURAL ADJUSTMENT", THE PAAD NEEDS TO BE CAREFUL TO EXPLAIN SEVERAL POINTS IN TERMS OF THE SPECIFIC SECTOR PROGRAM THAT THE PAIP DISCUSSED IN TERMS OF THE OVERALL SAP. THESE ITEMS INCLUDE (1) POTENTIAL MEASURES TO MITIGATE THE PROGRAM'S NEGATIVE EFFECTS ON VULNERABLE GROUPS (SEE BELOW ALSO) (2) THE PROGRAM'S RISKS, (3) OTHER DONOR ASSISTANCE, AND (4) JUSTIFICATION FOR THE RESOURCE TRANSFER. THE REVISED PROGRAM PURPOSE INDICATED ABOVE RESOLVES THIS ISSUE IN THAT CONTEXT. THE PAAD TEAM SHOULD PAY PARTICULAR ATTENTION TO THIS POINT THROUGHOUT ITS DRAFTING OF THE PAAD.

D. THE NEW DFA STATUTE CONTAINS SEVERAL NEW MANDATORY REQUIREMENTS FOR NFA ACTIVITIES. WHICH THE PAAD MUST SATISFY. THESE ARE:

(1) THE PROGRAM MUST CONTAIN MEASURES TO PROTECT VULNERABLE GROUPS (ESPECIALLY POOR, ISOLATED, AND FEMALE FARMERS, THE URBAN POOR, AND CHILDREN) FROM POSSIBLE NEGATIVE CONSEQUENCES OF THE REFORMS. IT IS NOT SUFFICIENT TO STATE THAT SUCH MEASURES WILL BE STUDIED DURING THE PROGRAM; SPECIFIC PROTECTIVE MEASURES MUST ACTUALLY BE INCORPORATED. IT IS ALSO INSUFFICIENT TO STATE THAT ANOTHER DONOR IS ADDRESSING THE ISSUE. IF THE NEGATIVE CONSEQUENCES OF THE PROGRAM'S REFORMS WILL FALL

ONLY ON NON-VULNERABLE GROUPS, SUCH AS NON-POOR BUT INEFFICIENT MANUFACTURERS, THE PAAD SHOULD MAKE THIS EXPLICIT.

(2) THE STATUTE ALSO PROVIDES THAT A.I.D SHALL ENSURE THAT DFA-FUNDED ACTIVITIES INCORPORATE A SIGNIFICANT EXPANSION OF THE PARTICIPATION AND INTEGRATION OF WOMEN IN THE SECTOR.

(3) PARTICIPATION OF AFRICAN WOMEN AND THE LOCAL POPULATION: PURSUANT TO NEW DFA LEGISLATION, THE PAAD MUST INDICATE HOW THE LOCAL-LEVEL PERSPECTIVES OF THE RURAL AND URBAN POOR, INCLUDING WOMEN, HAVE BEEN TAKEN INTO ACCOUNT IN THE DESIGN PROCESS AND HOW LOCAL PEOPLE WILL BE CONSULTED AND INVOLVED IN IMPLEMENTATION.

9. IN CLOSING, WE FEEL YOU HAVE IDENTIFIED AN EXCITING AND IMPORTANT AREA FOR DEVELOPMENT AND LOOK FORWARD TO THE PAAD. BAKER

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5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly

N/A

affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? N/A

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance? N/A

c. **Government Policy** (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production N/A or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable

No

restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. Mob Action (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

6. OPIC Investment Guaranty (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC? — No

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — N/A

8. Loan Default (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds? — No

9. Military Equipment (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? — N/A

(Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Rwanda's U.N. obligation payment status has been taken into consideration by AID Administrato in determining the FY 91 OYB for Rwanda.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

No

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. Discrimination (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

14. Nuclear Technology (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

N/A

15. Algiers Meeting (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Rwanda's position was taken into account by the AID Administrator in determining Rwanda's FY 91 OYB.

16. Military Coup (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No

17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No, recent human rights questions were resolved when GOR released prisoners who had not been charged.

2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on 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 program is to increase competition in the short-run and subsequents employment and production ih Rwanda. It will do so by supporting a service of policy reforms that will support objectives (a) - (e) of FAA 601a. The program is not expected to have any direct impact on labor unions.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions 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).

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

N/A

b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?

Yes

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes

(b) Yes

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq.*)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (*e.g.*, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects 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.

Same as A.1.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project 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).

Same as A.2.

11. Local Currencies

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): 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 U.S. are utilized in lieu of dollars.

N/A

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(1) (a) Yes
(1) (b) Yes
(1) (c) Yes

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): 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, similar or competing commodity? No

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? N/A

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? N/A

14. **Sahel Accounting** (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

It will be sent within 60 days after signing.

17. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the

extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? — Yes

18. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased? — Yes

19. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs. — No

20. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525): — N/A

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?

21. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? — No

22. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

N/A

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

Same as 11.b.

23. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

N/A

b. **U.S. procurement** (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Yes

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible

N/A

under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? — N/A

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Yes

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

i. **Termination for convenience of U.S. Government** (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Same as 17.

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

24. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

25. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

26. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES

27. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? N/A

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? N/A

28. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? N/A

29. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? N/A

30. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? N/A

31. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? N/A

32. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? N/A

33. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? N/A

34. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? N/A

35. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? N/A

36. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? N/A

37. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? N/A

38. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? N/A

39. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

No

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the 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.

This program supports indigenous needs and resources i that the policy reform programs will enable Rwandans, particular in the private sector, to engage in income generating activities.

5. **Economic Development** (FAA Sec. 101(a)): 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

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

The program's policy reforms are specifically designed to foster the development of medium, small and micro enterprises throughout Rwanda. It will thereby help extend access to the economy at the local level, increase labor intensive production and use of appropriate technologies, and disperse investment to rural areas. By stressing the private sector, the program supports self-help.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

No

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? N/A

11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? N/A

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? N/A

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Yes

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent N/A feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? N/A

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment? N/A

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?	Yes
15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies contained in FAA section 102; (d) being provided in close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks,	(a) Yes (b) Yes (c) Yes (d) N/A (e) Yes (f) N/A

to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

16. **Debt-for-Nature Exchange (FAA Sec. 463):** If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. N/A

17. **Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515):** If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? N/A

18. **Loans**

a. **Repayment capacity (FAA Sec. 122(b)):** Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

See B.6 above

mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

22. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities. N/A

23. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is: N/A

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

24. **Sahel Development** (FAA Secs. 120-21). If assistance is being made available for the Sahelian region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom). N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? N/A

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? N/A

5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A

b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

N/A

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

N/A

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

N/A

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