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# MAPS: RWANDA
# Phase IV: Dialogue Sessions and Focus Groups

DRAFT REPORT

[redacted]

*Bureau for Private Enterprise*
*U.S. Agency for International Development*

*Prepared for:* *USAID/Rwanda*

*Prepared by:* *SRI International*
*J.E. Austin Associates, Inc.*

*Sponsored by:* *Private Enterprise Development Support Project II*
*Project Number: 940-2028.03*
*Prime Contractor: Ernst & Young*

*February 1990*

**Ernst & Young**

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# T A B L E   O F   C O N T E N T



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# I. SUMMARY CONCLUSIONS FROM INTERVIEWS REGARDING CONSTRAINTS TO PRIVATE SECTOR GROWTH

Below are the main points made during interviews with the MAPS Team regarding constraints to business development in Rwanda. No attempt has been made to categorize them or assess the frequency with which they were mentioned. Also below are the full minutes of all the meetings attended by the MAPS Team.

- Collateral requirements to obtain credit are too stringent (especially for small and micro-enterprises).
- Scarcity of equity capital.
- Absence of venture capital.
- Long delays in sanctioning loans.
- Lack of land.
- Poor management and technical skills.
- GOR favors establishment of large-scale enterprises.
- Banks are too conservative and need more training in assessing loan applications from small businesses.
- Lack of short-term working capital for industry.
- Lack of entrepreneurial culture.
- Overcapacity of Rwandan industry.
- Lack of knowledge on international market opportunities.
- Active GOR intervention in business which sometimes makes entrepreneurs reluctant to disclose business plans.
- Large bureaucracy
- Continuance of distribution, price and margin controls that distort business decisions, cause shortages and do not reflect real scarcities.
- Quality and supply of local inputs are poor.
- Interest rates are too high
- Lack of sufficient incentive to promote exports.
- Foreign exchange
- Credit ceilings and tight money supply.
- Lack of "openness"
- Insufficiency of savings



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.. Low productivity of investment specially that of large-scale investment left idle by the demise of Regional Community Market.

.. Import tariff and licensing policies

.. High personal tax burden for executives

## II ORIENTATION MEETINGS WITH USAID

Introductory Meeting with the USAID Project Development Office
Date: September 11, 1989
Participants: Henderson Patrick (AID Project Development Officer), Bonaventure Niyibizi (Private Sector Officer), Daniel Mivumbi, R. Jantio, P. Boone, and M. Grossman

1. The mission has made considerable progress in understanding the private sector. The Action Plan and the current CDSS (1987) define the mission goal and strategies. The goal is clear: "to increase broad-based and sustainable rural per capita income". Consistent with this, the current Mission portfolio encompasses three sectors, that are represented by three boxes in the Action Plan:

1. Family Planning: reduce fertility--in line with GOR goal of reducing Rwandan population growth.

2. Private Sector: Mission emphasis on private sector economic growth in rural areas and increased productivity and employment in off-farm activities.

3. Agricultural: sustained increase in agricultural production.

The Mission is constrained by the AID-Washington view that Private Sector should at the present time be a "target of opportunity". The document submitted to Washington therefore has only two strategic boxes, i.e. reduction of the fertility rate and increased agricultural production. Washington's view is that the MAPS exercise will help determine if Private Sector should be "upgraded" to a strategic option from a target of



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opportunity. Section 2 of the Action Plan is thus going to be rewritten to reflect the chart.

The role of the Mission in the Private Sector is not clearly defined: hence the MAPS exercise and an ATI Study.

2. Mission currently has three (3) projects in Private Sector.

a. PRIME (Program of Initiative for Reform of Manufacturing and Employment).

Under ageis of African Economic Reform Program (AERP), this program addresses policy level constraints not addressed by projects--in actuality it consists of "buying policy adjustments." PRIME has budgeted $12 million for reform of fiscal policy, tax policy and simplification of registration process as well as pricing reforms. But these reforms were determined before studies were made. GOR has matched disbursement in local currency. PRIME Funds are released in 3 tranches, although $2 million has been set aside for long term technical assistance. $7 million has been released already. Almost none of the original release conditions are currently relevant. One is still valid: streamline business registration procedures. Mission needs to define conditions for release of third tranche. Mission is considering the following:

i) Small Business Set Aside: Set aside Rwandan procurement for small businesses. There is a question about the efficiency and implementation of this. Mission will have a SME expert from the USA and REDSO to determine its efficiency.

ii) Simplification of Small Business Procedures (primarily for registration)



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iii) Investment Credit Fund: Provision of credit and counseling and new ideas and assistance to entrepreneurs.

Overall, USAID-Washington has suggested tying the final tranche to the World Bank structural adjustment program. PRIME will not represent the Mission's long-term private sector strategy.

b. Private Enterprise Development Project

Project implemented by Technoserve and aimed at providing advisory services. Initially the focus was on SMEs and private entrepreneurs, although currently the focus is on cooperatives and training. Technoserve felt it was not accomplishing much in the area of SMEs although the Mission has questions as to the level of effort expended. Technoserve is shifting its efforts toward cooperatives although this has caused friction with the GOR, especially IWACU, the cooperative institute who feels it's turf is being encroached upon. GOR View: promotion of cooperatives is the method for developing private sector. Technoserve project will be evaluated in October 1989. Evaluation will help determine Mission long-term private sector strategy. Technoserve has problems with GOR, who is questioning whether the project will lead to employment generation. Technoserve assistance due to end June 1990.

c. Cooperative Training Project

Project aimed at assisting cooperatives with training and management in conjunction with CLUSA and IWACU. Funding is provided jointly by USAID and Swiss Development Agency.



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3. The private sector is small scale and USAID private sector office has extensive knowledge of it. Mission has $5 million over 3-4 years to develop Private Sector Projects. Question is whether private sector should remain a Target of Opportunity or should it be a larger strategic objective. Historically, Mission is not interested in large enterprises due to focus on employment creation. Mission feeling is there is more chance to create employment in SMEs. The Project office needs input for new projects. PID to be designed in March 1990.

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Meeting with: Ms. Barbara Howard, Acting Mission Director

1. AID concentration on SMEs.

The traditional informal sector is very large and USAID projects trying to reach this area. Mission goal: Increase rural off-farm income and employment. AID Washington told them not to put too much emphasis on private sector because of limited Mission resources. Still Mission identifies Private Sector as the mechanism and means with which it will achieve its long term goals.

2. In Rwanda the private sector should be defined as private enterprise, churches and other NGOs. Feeling that because of this definition, AID-Washington misunderstands Rwandan private sector.

Mission would like to take all private sector activity and pull it into one coherent and comprehensive Rural Enterprise Development Project.



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AID-Washington feels $8 million not enough to have large impact on Private Sector. Must complete MAPS and ATI Assessments first.

Major interest both in Mission and AID-Washington to include gender issues in projects.

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Meeting with: Ms. Joan La Rosa, AID Health and Family Planning Program Officer

1. Projects in the Family Planning Portfolio include:

a. MCH/FP

Started in 1981 due to run until 1990. $7.715 million. AID started family planning program in country. Emphasis on IEC--Information, Education and Communication. Project is in conjunction with ONAPO--semi parastatal organization under the Ministry of Health--pushing for national 4 child norm. Current fertility rate is 8.2 with population growth at 3.7-3.9%.

GOR recognizes need for Family Planning and policies are consistent with pro-Family Planning activities. Ministry of Health, through ONAPO, provides FP services free of charge to all who are interested. AID-Washington provided one million condoms to Rwanda.

There is an AIDS problem in Rwanda, especially in urban areas. GOR and USAID did a national HIV survey. Findings are alarming: 27% prevalency rate in urban areas; 3-7% in rural areas.

Two problems: poor contraceptive and information distribution in rural areas and lack of coordination between FP and AIDS initiatives.

b. MCH/FP II

$9 million with a focus more on services. Wish to meet GOR's "demographic imperative." A Columbia University team trained 17,000 people in providing family planning information. Private Sector more heavily involved in MCH/FP II. 50% of health centers around country are run by religious (falls into Rwandan definition of private sector) organizations. ONAPO is willing to work with private sector.

1990: AID will undertake a demographic and health survey.

Overall FP objective: by 1992 a 4% contraception rate.

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Meeting with: Paul Crawford, AID Agricultural Officer

Agricultural Portfolio includes no private sector activities. Currently involved in agricultural research and agricultural statistics. Also involved in Natural Resource Management which includes promotion of aquaculture with public sector extension services; and, environmental planning and conservation of forests. GOR places great emphasis on reforestation--program of Umaganda--"voluntary" public service every Saturday to replant trees. Finally USAID is working to develop an agricultural university.



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USAID view: Agricultural policies in Rwanda are not as much of a constraint on agricultural sector as in other countries. However, agricultural policy could improve in terms of investment policy.

In the coming year there will be an Agricultural Sector Assessment with efforts by the World Bank.

The greatest problem in agricultural sector is land tenure--country running out of arable land. Second greatest constraint is transport of products--1500 km to closest port.

In the area of agribusiness there are no large estates, most farms are small holders averaging less than 2 acres. There is a major tomato processor buying products from 10,000 small farmers. There is also some private capital in factories that produce milk and dairy products as well as processing fruit into juices.

Policy base needs to be developed to stimulate private sector investment in agro-processing.



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## III. MEETINGS WITH OTHERS

Meeting with: Emmanuel Braun, Informal Sector Expert of International Labor Organization.

The informal sector can be estimated at 80% of private sector. There are no statistics on the informal sector available in Rwanda now. The best statistics are available from the ILO in Geneva. Estimated 4000 informal enterprises in Kigali and 1000 in each of the other major cities (Butare, Ruhengeri, Gisenyi). According to ILO definition: SMEs have less than five employees. In Rwanda there are artisan associations that help guarantee loans from banks to SMEs. Braun feels many enterprises stay in informal sector in order to avoid taxes and hassles from government. Feeling that informal sector artisans can earn more than 500 RwF/day.

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Meeting with: Mr. Kanimba, Director-General of Statistical Service of Ministry of Planning

1. Statistical service is willing to help MAPS Team in whatever ways possible. The survey instrument must be approved by Ministry of Planning. Is aware that we are interviewing local firms to carry out survey. Pressures MAPS team to choose GENIE. Alludes to possible difficulties in approval if GENIE is not chosen. Jantio is firm. Kanimba informs MAPS Team he is shareholder in GENIE.

2. Grossman to return the following day to gather statistical information.



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3. Mr. Kanimba did a study on SOE reforms under the supervision of the current General Secretary of the Ministry of Transport.

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Meeting with: Mr. Bernard Taillefer, Director General of the Banques Populaires

1. Major problems that impede a stable growth are:

. Heavy administrative procedures that usually encourage corruption
. Lack of marketing skill
. Lack of ability to negotiate with foreign suppliers (Rwanda imports two times more than it exports). Import can be reduced if prices and conditions are better negotiated.
. Lack of management skill
. Lack of capital and credit

2. Plan of Action and Recommendations

i) Creation of a national venture capital firm (Like the Societe Nationale d'Investissement that one sees in other countries). This institution could be used to bring fresh capital to emerging business that can show potential for profits. It could also channel funds from donor agencies to the private sector. Its role should go further than addressing the lack of capital and credit, to include advisory services in management, accounting, business development, business plan, etc.



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Today the banking system is overliquid due to the credit ceiling system and a good savings collection mechanism (through the Banques Populaires). The Banques Populaires, for example, have collected considerable savings. A venture capital firm could transform the liquidity from a short-term trade finance to a longer term finance tool that could assist emerging firms in manufacturing, agriculture, etc.

ii) Better management of imports. The prices of imported goods increases day after day essentially because of the high transportation cost. It could be possible to manage the imports by centralizing purchasing. The Central Bank plays more of a policing role. A more proactive one would require the use of an organization such as the BITEC (Bureau International d'Etudes de Commercialisation), a Paris-based organization (address: 23 rue du Renaud, 75004 Paris, Tel. 42.72.53.26) that uses networks and knowledge to buy imported products for The Republic of Congo.

iii) Promotion of a productive private sector (manufacturing and industry) especially in the areas of adding value to local raw materials (wood, coffee, etc.). Agro-industry offers many opportunities to increase the national value added. Another area that could be promoted is the informal sector. Constraints facing the informal sector include lack of capital and collateral, lack of training, lack of management skills and lack of tenure to land. It is important to note that the less one directly touches the informal sector, the better and more productive it is. A good example is the experience of KORA (artisans) when the World Bank provided a lot of money and succeeded only in attracting people who were hunting for a free lunch. They should have focus only on training.

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Meeting with: Mr. Claudien Kanyarwanda, Directeur-General Adjoint Magasins Generaux du Rwanda (MAGERWA)

MAGERWA appears to function as a de facto customs agency for the GOR. Although nominally a mixed enterprise, it is closer to a government owned agency with ownership structure as follows: 78% from Central Bank, 6.7% each from Bank of Kigali, Commercial Bank of Rwanda and GOR.

MAGERWA monitors all imports and exports and taxes them for the govt. GOR receives approximately 30% of revenues from import taxes. MAGERWA also provides storage facilities.

Kanyarwanda is also Director of Association of Rwanda Employers (AER), which "defends the interests of employers." There are approximately 600 members, but the veracity of this figure is doubtful. AER recognizes registration of business as the largest constraint for employers in Rwanda. In this light, they organize seminars to instruct on registration procedures and also management skills.

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Meeting with: Ms. Collette Mukangiliye Craven, Economist and Pre-Investment Officer, Resident Mission of the World Bank

World Bank estimates that 60% of Rwandan GDP is private. Feeling that agro-processing, services, hotels, international transport, travel, insurance, car repair and commerce are all dominated by private sector. Except for rice, sugar, tea, coffee and milk, all other agro-processing is private; this includes processing of tomatoes, jam, juice and beer.



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However, GOR is the largest employer in country.

Problems in Rwanda: Overvalued currency, poor agricultural harvest, lack of FX, poor terms of trade and large budget deficit. Deficit (1988) = 4.77 billion RwF, or 3% of GDP. This percentage will increase as GOR deficit increases faster than GDP.

World Bank priorities: privatization of public agencies, attracting investment and devaluation of RwF.

1988 Direct Foreign Investment: 50,393 million RwF

No great statistics on Rwanda available. GOR has no systematic methodology for collecting data. World Bank recommendation (1986): improve methods for statistical record keeping. So far, little has been done.

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Meeting with: Mr. Tom Marten, Vice Counsel, Embassy of USA

Coffee and teas account for 90% of exports. This year coffee harvest failed because of insecticide delivery problems that led to arrest of Minister of Finance. Result was decrease in quantity as well as quality in the face of falling world prices. Embassy predicts 2 years of rockbottom international coffee prices. Over period 1985-88 GOR borrowed $100 million to subsidize coffee prices. If not subsidized farmers would not produce coffee but bananas and sorghum which can be directly consumed or sold on local markets. However, this does not jibe with GOR's foreign exchange earning needs and coffee is the largest FX earner. However, paradox is the subsidization has caused GOR to draw down FX reserves to only one month import



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coverage ($40 million). Had to take short term high interest commercial bank loans to subsidize producer prices. GOP on verge of economic collapse and will most likely seek World Bank structural adjustment help. Meeting scheduled for October 1989.

Tea has been doing better, currently accounts for 14% of exports (value).

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Meeting with: Mr. Augustin Ngirabataware, Director General of Industry, and the Director General of Planification at the Ministry of Industry

Mr. Ngirabataware understands and is knowledgeable about the private sector from his experience working on the USAID PRIME project. But he has several questions: Under what Ministry is the MAPS process contracted? the Directeur General feels that without invitation/sponsorship of technical ministry, it will be difficult to carry out process. Permission is required. In addition, would like to see Term of Reference for description. The MAPS team replies firmly that is not possible. The Director General sees the following as major constraints to private sector growth in Rwanda:

1. Administrative Formalities: this is the most difficult aspect. Decision-making and approval process is very fragmented and thus takes a long time for business registration. A solution to be studied would be the creation of a one stop-shop for business registrations. The positive attitudes of the Directeur de l'Industrie is accompanied by a very negative one toward the private sector entrepreneurs who constantly seek free lunch and tax evasion.



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2. Market Research/Information: Rwanda is a very small market which limits its attractiveness to potential investors. Attractiveness is further limited by lack of qualified personnel to conduct feasibility studies or market research. Market conditions must be known before investment decisions can be carried out. There is both lack of personnel and lack of financial resources.

3. Finance: There is very limited competition in the banking sector. Very difficult, expensive and complex procedures for gaining access to credit. Also very little credit available to SMEs.

4. Infrastructure: The government must provide proper infrastructure for industrial development. There are questions about the viability of industrial zones. GOR lacks financial resources to rehabilitate industrial zones--estimated at 2.5 billion RwF.

5. Availability of Raw Materials: Rwanda lacks almost all raw materials. Even agricultural resources are inadequate for agro-industrial applications. More than 1/3 of industrial matter must be imported. Typical example: Rwandan cigarette manufacturing company must import all its tobacco.

6. Rwanda is landlocked: Transportation costs are so high as to make Rwandan products non-competitive in neighboring countries.



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However, if you ask this question to 10 ministers you will no doubt get 10 different answers. Government needs to decide where to prioritize development. Rwanda was not developed at all by Belgium and is just now getting on the development track.

There is interest in both export and investment promotion councils. Also would like to see establishment of a "Bureau Privee." Does not see devaluation of the RwF as a way to become more competitive. Realizes monetary adjustments are necessary but need better planning before undertaking programs.

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Meeting with: Mr. Bera, Director General of Rwandex, and Mr. Michel Descamps, Directeur Financier

Rwandex is 55% public. Exporter of coffee. Also in joint venture with British firm--Rwandex-Chillington to produce and export hoes and other agricultural tools.

1. Constraints to Growth

Greatest constraint to Rwandex is access to foreign currency to import machinery and inputs, especially in times of low coffee prices.

Size of domestic and regional markets is also a great constraint. Combine this with the facts that all Central African countries produce substitutable products and the overvaluation of the RwF and it is clear why Rwanda does not export too much.

Competition (political) between Rwanda and Burundi limits inter-country trade. Rwandex-Chillington has had some recent success exporting hoes to Kenya. But to expand any more, need political action in favor of free trade, namely devaluation of RwF to make products regionally competitive. Also transport costs typically account for 30% of product price.

2. Plan of Action and Recommendations

* Step in the right direction would be to develop Chamber of Commerce so that it actually represented the interests of business, not public officials. The Chamber of Commerce could represent all the interests of Rwandan business--from SMEs to industry.

* Creation of a Clearing House for imports and exports

* Transportation: negotiation with other airlines so that they can come to Rwanda. This should increase supply and reduce the price, thus helping reduce the high transfer costs of the country. Now for example, the transport between Mombassa and Kigali by road add 30% to the cost.

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Meeting with: Mr. Thaddee Bagaragaza , Director General of Tabarwanda and President of the Societe Rwandaise d'Assurance

1. Constraints to Growth

* Rwanda is an agricultural country. Approximately 80-90% of the working population work in that sector. A major



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constraint today is that there is no more land. It is therefore necessary to seek ways to promote industries and services. But what industry?

* Overcapacity: the capacity utilization in Rwanda is about 1/3. This means that the country can produce 3-4 times more today and with the same equipment. The problem is that there is not enough demand since the market is very small. For example, last year, Tabarwanda was producing about 50,000 cigarettes/month. Today it produces only 40,000. The market is too small and the purchasing power too limited. The problem is compounded by the landlockedness of Rwanda with big consequences for raw material availability and price increases.

* While creating industries, it is also important to develop and increase the country's purchasing power.

* Need of well trained labor.

* Limited use of money.

2. Plan of Action

i) A far reaching proposition will be regional integration. Adam Smith's comparative advantage theory can be very well illustrated in a case like Rwanda and the surrounding countries. Regional integration will solve some major internal and external constraints such as the high prices that characterize a low volume firm in a typically high-volume industry. The example of Tabarwanda is illustrative of this situation.



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ii) Export Promotion

Today Rwanda imports 2 times more than it exports. The price of its cash crops is falling--diminishing the country's ability to pay what it imports. This is why promoting export is of utmost importance. It is, for instance, necessary to eliminate the consumption tax on exported products. In other countries, such a tax is reimbursed upon proof that the product has been exported. The same measure is needed for tax on raw materials that is used to manufacture product for export.

iii) Exchange Rate: in the point of view of the company it is necessary to devalue the franc.

iv) Need for donor community to develop more "Commodity Import Programs".

v) The major lesson of the last 2-5 years is that parastatals and big firms will no longer create jobs. Focus should thus be given to small and micro enterprise efficiency.

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Meeting with: H.E. Mr. Spearman, U.S. Ambassador to Rwanda, Ms. Susan Patrick, Charge d'Affaires at the Embassy and Ms. Barbara Howard, USAID Deputy Director

1. INTRODUCTION

The private sector strategy assessment being undertaken in Rwanda at the request of the USAID Mission uses the <u>Manual for Action in the Private Sector</u> (MAPS) methodology developed by J.E. Austin Associates. MAPS has been or is being utilized for



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private sector assessments in the Dominican Republic, Costa Rica, Lesotho, Swaziland, Botswana, Kenya, Ghana, etc.

The MAPS assessment team consisted of J.E. Austin Associates' consultants Michael Grossman and Roger Jantio, and SRI International's economist Peter Doone.

The MAPS process consists of seven phases:

## 2. ARTICULATION OF CURRENT MISSION PRIVATE SECTOR STRATEGY

The overall "Mission Statement" of the USAID/Rwanda can be stated as follows:

**TO INCREASE BROAD-BASED AND SUSTAINABLE RURAL PER CAPITA INCOME.**

The Mission statement includes two explicit goals and one implicit one:

Goal 1: TO REDUCE FERTILITY RATES FROM 8.6 TO 8 BY 1994

Goal 2: TO INCREASE AGRICULTURE PRODUCTION ON A SUSTAINED NATURAL RESOURCE BASE

Goal 3: TO INCREASE INVESTMENT, PRODUCTIVE OFF-FARM EMPLOYMENT ESPECIALLY IN RURAL AREAS THROUGH PRIVATE SECTOR GROWTH



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## 3. GOVERNMENT OF RWANDA ECONOMIC STRATEGY AND PRIVATE SECTOR POLICY

### 3.1 GOR Macroeconomic Situation

The following constitute the key elements of the GOR macroeconomic situation:

a. **The economic situation in Rwanda** has deteriorated substantially:

. export earnings have declined by 45 percent
. deficits of the balance of payments in 1987 and 1988
. foreign reserve levels have dropped to $US 40 million (1.9 months coverage) in September 1989.
. substantial drop in coffee prices

b. **The balance of payments problems** have also been exacerbated by an appreciation in the Rwandan franc. (Between 1980 and 1988, the trade-weighted real effective exchange rate appreciated by 35 percent).

c. **Fiscal deficits** have also been incurred in recent years: in 1988 the overall fiscal deficit was equivalent to 5 percent of GDP.

d. Faced with the large imbalances on both the internal and external accounts, the GOR has requested a series of discussions with the World Bank and the IMF on **structural adjustment.** The talks are scheduled for late October 1989.

## 3.2 GOR Stresses the Role of Private Sector in Achieving its Development Objectives.

In order to improve the macroeconomic environment, GOR has taken a number of actions to encourage private sector growth:

a. The **Investment Code** was revised in 1987 offering new incentives to non-commercial investors.

b. The GOR also began instituting **reforms** in 1987 in the areas of external tariffs, credit policy and fiscal policy.

c. In 1988 the GOR, with the assistance of the UNDP, introduced a series of **high-level meetings on private sector development** in Rwanda. A third high-level private sector meeting is scheduled for January 1990.

## 3.3 Constraints to Private Sector Growth

Although the dialogue with the private sector has improved dramatically in recent years, a multitude of constraints remain which impede private sector development:

- Policy reform is slow.
- World coffee prices have been declining.
- Hard currency policy.
- Raw materials are scarce.
- Transport costs are high.
- Business registration procedures are slow and cumbersome.
- Government involvement in private sector recruitment.
- Lack of organizations to genuinely represent private sector interests vis-a-vis government.



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- Organizational and financial management skills need improvement.

## 4. FINDINGS

### 4.1 Critical Assumptions

The following assumptions are critical to private enterprise strategy in Rwanda.

a. **High Population Growth** Means Employment Generation Must Be Central Element of Strategy.
b. **Government Controls on the Private Sector** Have Shown Signs of Easing But Continue to Restrict Growth of Private Enterprise; Therefore Policy Reform Must Remain an Important Element of Strategy.
c. Rwanda has too many people and **too few resources**; thus there is a need to increase agriculture productivity and to look into productive options outside agriculture.
d. **Access to Foreign Exchange** Imposes Limits to Growth; Hence Export Promotion and Foreign Investment Mobilization Must be a Fundamental Element of Private Enterprise Strategy.

### 4.2 MAPS Will Seek to Identify Many Different Strategy Initiatives.

Five pillars of strategy emerge as critical components of an overall private sector development strategy:

a. Promotion of an **Enabling Environment** for Private Enterprise Via Policy Dialogue
b. Focus on **Employment Generation**
c. Development of **Entrepreneurship**

d. Study the Possibility of a **Free Zone in the Service Sector**

e. Intensification of **Agricultural Production**



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## IV. INFORMAL DIALOGUE SESSIONS

Informal Dialogue Session: SORWATON

Meeting with:

- Mr. Ngenzi Paul Rwabirinda, Chef de Service Technique
- Mr. Gasirabo Claver, Chef de Service Financier et Commerce
- Mr. Murenzi Jean, President-Directeur General

### 1. Business Situation

Sorwaton's major problem is a huge unused capacity. It benefits from the advantages of the Investment Code; i.e. Sorwaton is protected from imports and dominates Rwandan tomato market. Currently, with the domestic market, Sorwaton uses only 11% its production capacity (or an equivalent of 5,000 tons of concentrated tomato per annum). One reason for this is the limited market size of Rwanda.

Sorwaton production flow starts by buying raw material from small farms (selected, trained and assisted by the company through various programs, fertilizer and tool distribution, transportation, etc.). Overall, a small farmer profit is about RwF140,000 per ha. That is why there are lot of people who want to work with the company. Sorwaton has about 900 active contracts with small farmers.

### 2. Need to Export

Sorwaton must count on exports to increase its capacity utilization. Unfortunately, there are commercial problems with neighboring countries (Burundi and Zaire) which overtax Sorwaton products. In addition, Sorwaton does not have export capacity (skills to deal with banks, foreign customs, etc).



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Another constraint is that most foreign customers want to countertrade. This is a major source of problems: transportation, storage, etc.

If Sorwaton could increase its capacity utilization by 1%, the demand for more raw material will mean more contracts with small farmers. That is why it is important that export markets be developed. At one point, GOR will have to address the exchange rate problem. It will also be useful if a donor organization could help exporters organize themselves in an association of exporters.

## V. FOCUS GROUPS

Focus Group: Small and Micro-Enterprises

### 1. Participants:

- Nshimiyimana Thomas, KORA
- Muvunyi Simsa, Representant Legal KORA
- Nkusi Jean de Dieu, Coordinator KORA
- Mbaguta, Project PRIME
- Jim Herne, Technoserve
- Henderson Patrick, USAID
- Daniel Mivumbi, USAID
- Roger Jantio and Peter Boone, Consultants

### 2. Credit Constraints

The current banking system tends to favor low risk projects, thus not assisting small and medium enterprises. It is important to coach bankers so that they could better understand the private sector. Donor organizations such as USAID could take the lead in designing a credit program for small enterprises.

Right now, there is a great need of financing at any rate in the country. This is especially true for small firms who are ready to pay a big premium to access sources of financing. Big firms however have more access to credit since they tend to have import and market protection.

3. Exchange Rate

Small enterprises are, more than any other group, hurt by the overvalued exchange rate as they lack protection and information.

4. Balance of Trade

Rwanda needs to absolutely increase its export potential, in order to have more foreign exchange. Artisans and small firms are able and ready to export. But usually their application for import licenses is turned down. For example, some members of KORA wanted an import licence for plastics to produce shoes that could be sold in both the domestic market and abroad. As they were unable to get the import licence necessary, the project was not undertaken. KORA's goal is to lobby bankers and the GOR to agree that they too need to import raw material. KORA is not against import control per se. They argue against import concentration in few hands.

5. Business Associations

MINIMART is trying to reinforce the association of artisans through the creation of a Chamber of Artisans ("Chambre de Metiers"). It has to be able to play the role that members want: give credit and guarantees, provide market information, etc.

6. Action Plan Ideas:

- Develop a seminar to train GOR technicians and mid-level officers on solutions that could solve the private sector problems.

Change the promotion system within GOR and judge technicians on the number of jobs created.

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Focus Group: The Banking and Financial Industry

1. Participants:

. Bicahaga Christophe, Banque Nationale du Rwanda
. Kamanzi Callixte, Dir. Gen. Artisanat et PMI, at MINIMART
. Patrick Nugawela, Chef Projet SERDI
. Ngirabatware Augustin, Dir. Gen. Industry, at MINIMART
. Uwensajije Sylvestre, Dir. Gen. Impots
. Henderson Patrick, USAID
. Mivumbi Daniel, USAID
. Peter Boone and Roger Jantio, Consultants

2. Majors Constraints to Growth

i) Administrative Procedures

GOR tends to impose its weight on the economy. It considers itself like a father that should protect the well-being of his off springs. Participants consider that the administration wants to control. Rwanda has both a free market and a country master plan ("economie libre et planifiee"). GOR is more and more conscious of the negative effects of administrative controls and procedures. The Head of State has many times asked that these procedures be reduced. The onus is now on the technocrats who are proceeding to study everything carefully. Hopefully these procedures will be alleviated by



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year end. GOR is considering the promotion of the concept of a one-stop shop (and not a one stop-stop) for most procedures in agriculture, industry, finance and other services. There are lots of procedures, and it will be important to decentralize responsibilities.

ii) The Chamber of Commerce

The Chamber of Commerce plays a variety of roles in the business community: organizing management training, training in accounting and finance, etc. Unfortunately, it is under attack today. The Directeur General des Impots considers that the Chamber of Commerce is a tax collector. But before criticizing GOR and the Chamber, one has to look back into its history. The former formula failed and that has led the GOR to create the new formula. Maybe now is the time to change the Chamber's status.

The private sector itself should take charge and make proposal on a new statute. Unfortunately, most members do not want to take the lead on this. Even the Head of State has told the business leaders to take the lead and elect the Chamber Secretary General or create a different association. Under current laws, this is not possible however. The current statute forbids the existence of any other association outside of the Chamber. Groups can be formed with the Chamber only and not outside of it.

In addition to the problem created by its bylaws , the Chamber of Commerce is criticized for giving too much weight to import activities. It is more a Chamber of Commerce ("Traders and speculators") than a Chamber of Commerce <u>and</u> Industry. It started timidly to consider opportunities in industry through organization and participation of trade shows. The

Chamber only reflects the preferences afforded by the price and margin controls to retailing and commerce, versus industry. The margin to the "grossiste" and industry is only 15%, whereas it is 25% for retailers. (The margin control is only on paper since there are rarely any controls. GOR does not have the necessary manpower. The fact remains that the Ministere du Commerce can penalize everybody who does not respect the margin control).

iii) Balance of Trade

A lot of business people are in the import business, which is easier than exporting. On the revenue side, the decrease in the price of coffee and tea means limited foreign exchange and thus limited capacity to import raw material.

GOR has taken steps to promote export activities. During a recent high level meeting, the following measures were studied and taken: creation of the title of "best exporter", design of subsidies and credit for exporters, authorization of foreign exchange accounts and foreign exchange retention for exporters, development of a one-stop shop for administrative procedures. These are measures that will have to be implemented.

For one participant, these measures are taken to avoid dealing directly with the exchange rate problem. It is a "paliatif". These incentive measures are prerequisites. But what are their costs and can Rwanda foot the bill today?



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iv) Exchange Rate

Changing the exchange rate is risky for Rwanda. This will certainly lead to a social disequilibrium since a lot of people have low income. The example of other neighboring countries that have devalued does not encourage Rwanda. A devaluation should be accompanied by economic measures to alleviate its effects and to increase the availability of foreign exchange (through increased in exports). Maybe Rwanda should think about developing a free trade zone. This will only be done if there is sufficient private sector support for it. Devaluation will not necessarily guarantee an increase in exports. Administrative constraints must be lifted first.

In Ghana, devaluation has reduced inflation and shortages of goods. In addition, IMF and the World Bank have intervened to reduce and alleviate the social costs of the devaluation.

A devaluation could also help tourism. Tourism in Rwanda today is very expensive. This must change and Rwanda should study the example of Cyprus which has no other resource than tourism and is taking advantage of tourist promotion.

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Focus Group: The Donor Community

1. Participants:

- Alain Lamontagne, Cooperation Canada
- Colette M. Craven, IBRD
- Clementine Wane, UNDP
- Fabien Rutazahina, UNDP

- Henderson Patrick, USAID
- Peter Boone and Roger Jantio, Consultants

## 2. Majors Constraints to Growth

### i) Importance of GOR in the economy

GOR play too big a role. More than anything else, GOR procedures and bureaucracy are the major constraints to private sector growth.

### ii) Credit

The lack of credit is a major constraint for all, and especially the small and medium enterprises. Most Rwandan enterprises are self-financed. The major reason for the lack of credit is the lack of guarantees. Bank are very reluctant in giving credit, especially to micro-projects. They doubt people ability to repay their debt. Above all this shows that the lack of credit is also related to lack of adequate management capabilities. In Rwanda, like most African countries, business people often mix business funds and the personal and family funds. This explains why bankers are very conservative in their lending.

An indirect way to solve the credit problem would be to enhance management capability. Maybe there is, in reality, no lack of credit since good projects that have good management capabilities represent triple-A projects, which each banker is eager to finance. Once the lack of management capability is addressed, the availability of credit will address itself.

Another aspect of the lack of credit is the low level of informal sources of credit. Contrary to West Africa, where tontines and susus play a significant role in financing business ventures, Rwanda has a very low level of informal sources of credit.

iii) Limited Export Potential

An overvalued currency is a major obstacle for export promotion. Rwanda does not have enough foreign exchange. It is being said that the country has only a two-week lead way. To solve the problem, Rwanda needs to respect "natural laws". First among them is IMF's advice to change the foreign exchange rate. This could reduce Rwandan relative costs (labor, hotels, etc). In addition administrative procedures for exports are very cumbersome. All these problems and constraints could easily be removed through well known "natural laws" (foreign exchange retention, export guarantees, etc.). The major question to ask oneself is what are the products that could be exported; Even if there is a devaluation, Rwanda does not seem to have products (except for coffee and tea) that are exportable. It is impossible to know what is going to be exported after there has been a devaluation. Only an effective private sector could look for business opportunities. The potential for opportunities exists. For example, an entrepreneur is developing the U.S. market for (hamecons) made in Rwanda. Considering the current situation, Rwanda has no choice but to produce cheaper and better products than its neighbors.

Success in developing an export mentality will require overcoming a lot of constraints: market development, transportation, costs, etc. The most important one is the exchange rate.



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iv) Lack of Skilled Personnel

There is a significant lack of skilled personnel. The best are recruited by the government. Through the hiring authorization procedure, the Ministere de la Fonction Publique usually leaves only the least qualified people for the private sector.

v) Foreign Assistance

Some participants see foreign aid and assistance as a constraint. Without it maybe Rwanda and Africa as a whole will wake up. For example, in Mali, the private sector is becoming more and more successful because of the increased awareness of the people.

vi) Lack of Effective Business Associations

It is important that the donor community help to create and strengthen business associations. In Rwanda, the private sector does not trust the Chamber of Commerce. Successful examples of Chamber of Commerce can be found in West Africa where Chambers offer a variety of services to their members. UNDP has already started a project to help the Chamber of Commerce. Unfortunately, the Chamber's current structure does not lead to a successful program. Apparently, GOR is very aware of the situation. In order to deal with this problem the GOR has just appointed a team of two high level civil servants to look into administrative procedures that restrain private sector growth.



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vii) Entrepreneurship Spirit

Success in business does not depend only on mastering technical skills. It depends mostly on the socio-psychological attitude of the private sector as a whole. Such an attitude requires a minimum of aggressiveness which does not seem to exist among Rwandans. It is however possible to motivate people into acquiring such risk taking attitudes.

viii) Lack of Information

Information on markets, products, technology, etc is a key component of a business success. Unfortunately, in Rwanda, no organization seems to play a role that would foster and disseminate information to the private sector. The Chamber of Commerce should be the appropriate vehicle for the distribution of information. Instead, it seems that it retains information for itself and does not give it to its members. It is important to look into a new structure for the Chamber of Commerce. Maybe one could study successful case studies such as Senegal. The Senegalese Chamber of Commerce is under the direct tutelage of the Presidency. This offers the advantage of reducing the weight of bureaucracy and ministerial involvement in the private sector organization.

ix) The Cost Competitiveness

For a variety of reasons, Rwandan products are very expensive. A participant mentioned the fact that it was cheaper to buy canned tomato in Senegal and bring it to Rwanda (2000 miles away). Again every thing seems to come down to the exchange rate situation.

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Focus Group Discussion: The Large Scale Enterprises

1. <u>Participants</u>:

- Ramahay Mandimby, Foreign Investor
- Kanyamibwa Felicien, Directeur of La Rwandaise
- Kanyarwanda Claudien, Dir. Gen. Adj. of MAGERWA
- Kamufozi Joseph, Dir. Comm. of TRAFIPRO
- Kadende J.Baptiste, Dept. Importation of RWANDEX
- Henderson Patrick, USAID
- Bonaventure NIYIBIZI, USAID
- Peter Boone and Roger Jantio, Consultants

2. Majors Constraints to Growth

. Lack of Skilled Labor. This is a major constraint for large firms. The lack of well trained Rwandans obliges private businesses to hire foreigners at a very high premium. No participant is ready to spend money for training. They want to rely on GOR and eventually on the Chamber of Commerce. IWACU Center at Kabusunzu plays a leadership role in training cooperatives. Unfortunately private firms cannot send their employees there for training. They have no alternative since no institutions address their training needs. International organizations should be more active in this area. For example, the Swiss finance training of employees of TRAFIPRO

. Chamber of Commerce. The Chamber of Commerce lacks the appropriate structure to play a major role in the training and export areas.

. Exports. Rwandan exports to other African countries is low (1% of total exports) because there is lack of market information. In addition, for most products, the domestic market is more profitable. Rwandan cost is not competitive (transportation cost, lack of volume to defray fixed costs and an overvalued currency). The lack of an entrepreneurial class is also a disadvantage. So is the cost of raw material and lack of land (for agricultural products).

. Credit. Banks are too conservative and only give credit for projects that are immediately profitable and offer good security. Participants in the discussion expect GOR to give more subsidies to private entrepreneurs. This should especially be the case for small entrepreneurs who lack security. The creation of the Fonds Special de Garantie has not solved the problem. Most participants thought that it was an aberration. The Fonds Special de Garantie (FSG) should be privatized.

3. Action Plan Ideas

i) Training. More than anything else, it is critical to promote an entrepreneurial class, people who can look for market opportunities and seize them. There are some products such as fruits (maracuja, bananas, pineapples, etc.) and vegetables that can be profitable and exported, if there were an experienced entrepreneurial class.

ii) Rwanda should negotiate market agreements with Burundi in such a way that Rwandan products that are exported to Burundi are those that have the lowest import content.

iii) Participants would like to see this discussion be broadened to include GOR and banks in a joint session.



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Focus Group Discussion: Banks and Financial Institutions

1. Participants:

- Jean-N. Gahururu, Chef de Service at BACAR
- Daniel Rwananiye, Directeur of Banque Commerciale du Rwanda
- Emmanuel Ndahimana, D.G. Banque Rwandaise de Developpement
- Louis Rugerinyange, Banque Commerciale de Kigali
- Benoit Murakazamdekwe, Chef Dept Fin. of Banques Populaires
- Jim Graham, Director of USAID
- Henderson Patrick, USAID
- Bonaventure NIYIBIZI, USAID
- Roger B. Jantio, J.E. Austin Associates, Inc.
- Peter Boone, SRI International, Inc.

2. Issues Raised During the Presentation:

i) Credit constraints for small and medium sized firms
ii) Security requirements
iii) Geographic destination of Rwandan exports showed that only 1% of exports go to other African countries versus 19% imports (equivalent of 40% of exports) come from Africa.
iv) The Chamber of Commerce

3. Trade Balance

GOR does not really encourage export activity. Bankers give more weight to the domestic market and consider exports to be an additional benefit that will be welcome. In their credit assessment, most banks do not take export opportunities into consideration.

## 4. Constraints to Credit

It appears from the Private Sector Survey that banks are considered to be the scapegoat for the lack of a formal and informal credit mechanisms in Rwanda. More that 90% of the survey respondents have never received financing from either the formal banking system (commercial banks, Banque Rwandaise de Development, Caisse d'Epargne du Rwanda, etc.) nor from the informal sector. Here are bankers responses:

* Private sector should serve its own interest better through organizing an efficient business association, training, organizing market tours in foreign countries, etc. Nobody will do these for them.

* Banks have few good customers. For example, the Banque Rwandaise de Developpement (BRD) has only 400 customers. Chances are that these same customers have accounts in other banks. Therefore the same people end up receiving credit. There is room for improvement in credit allocation. Banks should be able to give more attention to small and medium size firms. Unfortunately, small and medium size firms are very risky business for banks.

* Many private business leaders do not really understand what credit means. For a large percentage, credit is free money. They resent having the bankers look into their business.

* Credit applicants do not know how to design a bankable project.



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* Many customers and credit applicants are dishonest. The repayment rate is quite low (How much?). That is why banks need to protect themselves by asking for good security. In addition to being dishonest, banks' clients like to hide information on what is happening in their business.

5. Bankers' Responses to the Private Sector Lack of Credit

i) The Banque de Kigali and J.O.C. has designed a system to provide loans to small artisans, with the guarantee of RAFAD, a Swiss organization, who offers a last resort guarantee to the bank. Bankers think that this mechanism can be copied provides GOR or an international organization can offer support.

ii) BRD gives credits to private businesses. This represents 80% of its portfolio. The problem is the bank has limited means to monitor its client activities and performance.

6. Action Plan Ideas:

i) Guarantee Funds for small businesses. The Fonds Special de Garantie is not an efficient system because it is too complicated and suited for firms who are in the cities. The Banques Populaires is proposing instead the creation of a Caisse Populaire de Cautionnement, a mechanism that will offer guaranties to peasants and artisans.

ii) Investment Fund. The PRIME project is supporting the study of a possible "Structure Nationale d'Investissement".



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iii) Advisory Services. Banks should be able to offer advisory services to their customers. The benefits of such a service are important for the banks and their clients. BRD has such a service. In addition, the bank has just started a UNDP-financed project called SERDI, that helps advise traders. This service is costly and difficult to assume. It is very hard to obtain good and reliable information. Can banks use a local consultant for that service?

7. Utilization of MAPS study

Participants were curious to know what will USAID do with the MAPS study. There are lot of information that could be directly useful to them.



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# L I S T O F P E O P L E I N T E R V I E W E D[1]

1. Henderson Patrick, AID Project Development Officer
2. Bonaventure Niyibizi, Private Sector Officer
3 Daniel Mivumbi, Private Sector Officer
4. Ms. Barbara Howard, Program Cfficer
5. Ms. Joan La Rosa, AID Health & Family Planning Program Officer
6. Paul Crawford, AID Agricultural Officer
7. Emmanuel Braun, Informal Sector Expert of International Labor Organization.
8. Mr. Kanimba, Director-General of Statistical Service of Ministry of Planning
9. Mr. Bernard Taillefer, Director General of the Banques Populaires
10. Mr. Claudien Kanyarwanda, Directeur-General Adjoint Magasins Generaux du Rwanda (MAGERWA)
11. Ms. Collette Mukangiliye Craven, Economist and Pre-Investment Officer, Resident Mission of the World Bank
12. Mr. Tom Marten, Vice Counsel, Embassy of USA
13. Mr. Augustin Ngirabataware, Director General of Industry, and the Director General of Planification at the Ministry of Industry
14. Mr. Bera, Director General of Rwandex
15. Mr. Michel Descamps, Directeur Financier of Rwandex
16. Mr. Thaddee Bagaragaza , Director General of Tabarwanda and President of the Societe Rwandaise d'Assurance
17. H.E. Mr. Spearman, U.S. Ambassador to Rwanda
18. Ms. Susan Patrick, Charge d'Affaires at the US Embassy
19. Mr. Ngenzi Paul Rwabirinda, Chef de Service Technique

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[1] No attempt has been made to rank the interviewees. This list follows only a chronological order of when people were met by the MAPS team.



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SORWATON

20. Mr. Gasirabo Claver, Chef de Service Financier et Commerce at SORWATON
21. Mr. Murenzi Jean, President-Directeur General SORWATON
22. Nshimiyimana Thomas, KORA
23. Muvunyi Simsa, Representant Legal KORA
24. Nkusi Jean de Dieu, Coordinator KORA
25. Mbaguta, Project PRIME
26. Jim Herne, Technoserve
27. Henderson Patrick, USAID
28. Daniel Mivumbi, USAID
29. Bicahaga Christophe, Banque Nationale du Rwanda
30 Kamanzi Callixte, Dir. Gen. Artisanat et PMI, at MINIMART
31. Patrick Nugawela, Chef Projet SERDI
32. Ngirabatware Augustin, Dir. Gen. Industry, at MINIMART
33. Uwensajije Sylvestre, Dir. Gen. Impots
34. Alain Lamontagne, Cooperation Canada
35. Clementine Wane, UNDP
36. Fabien Rutazahina, UNDP
37. Ramahay Mandimby, Foreign Investor
38. Kanyamibwa Felicien, Directeur of La Rwandaise
39. Kamufozi Joseph, Dir. Comm. of TRAFIPRO
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45. Benoit Murakazamdekwe, Chef Dept Fin. of Banques Populaires
46. Jim Graham, Director of USAID



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