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# MAPS: RWANDA Private Sector Strategy Assessment: Phase V

DRAFT REPORT
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# PRIVATE SECTOR STRATEGY ASSESSMENT

This document presents the major findings of the Private Sector Strategy Assessment, Phase V of MAPS/Rwanda. The work was undertaken by SRI International and J.E. Austin Associates under the Private Enterprise Development Support (PEDS) project. This summary is based on work from the first four phases of MAPS/Rwanda: 1) Articulation of Current USAID Strategy; 2) Description of the Rwandan Private Sector; 3) Diagnostic Survey of the Rwandan Private Sector; and 4) Summary of Dialogue with Private Sector Leaders and Public Sector Officials.

## I. OBJECTIVES OF THE PRIVATE SECTOR STRATEGY ASSESSMENT

The purpose of the Private Sector Strategy Assessment is to review current USAID/Rwanda private sector strategy and make recommendations on actions for future private sector initiatives.

The specific objectives are as follows:

A. To offer a full range of programmatic options for private sector initiatives consistent with AID priorities;

B. To ensure that AID's strategy is consistent and mutually reinforcing; and

C. To assess the feasibility of the options given the analysis that has been conducted.

## II. STUDY METHODOLOGY

The Private Sector Strategy Assessment is based on the work of four previous phases:

A. Articulation of Current USAID Strategy: The MAPS team articulated current Mission strategy. This helped the team to tailor MAPS to meet the specific needs of the Rwanda Mission.

B. Description of the Rwandan Private Sector: A description of the private sector and its role in the economy was carried out in order to investigate key questions raised by Mission personnel. This information will serve as a useful data base for the Mission and can be continuously updated.

C. Diagnosis of Private Sector Constraints and Opportunities: A private sector survey analyzed results from a random sample



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of 260 Rwandan enterprises. The survey focussed on the business environment, resource and policy constraints to growth, investment opportunities, and potential project implementing agents such as business associations.

D. Dialogue with the Private Sector: Mission personnel and MAPS consultants conducted numerous dialogue sessions with private sector leaders, business associations, donor organizations, and public sector officials engaged in activities directly influencing the private sector. These sessions included formal focus group discussions with sectoral, scale, and gender themes, as well as informal discussions with a wide range of individuals from the private sector.

Based on the major findings of the previous four phases, a strategy formulation was developed using the logical framework methodology which is familiar to all Mission staff. The strategy formulation is presented in Section IV, following the discussion of the main findings in Section III below.

## III. STUDY FINDINGS

The following is a summary of major findings from the previous phases relevant to the design of USAID private sector strategy.

A. The current policy environment is not conducive to private sector investment and growth. The Government policy stance remains strongly control-oriented and is viewed as stifling to many of the private sector actors in Rwanda. Private investment is low, equaling 6 percent of GDP.

B. The economic situation in Rwanda has deteriorated in the past year, according to a majority of businesses sampled in the private sector survey. Sales volumes in 1989 were significantly lower than in 1988. About half of the firms surveyed were operating at less than 50 percent of capacity.

C. Exports have declined sharply over the last three years. The trade deficit amounted to about 12 percent of GDP in 1988. Coffee and tea represent over 90% of exports. Export diversification and export promotion are needed to generate new sources of foreign exchange.

D. The Rwandan economy is dominated by the private sector. The private sector contributes close to 80% of GDP -- which is a very high percentage compared with most African countries. The private sector is also responsible for 94% of total employment. The economy is dominated by the agricultural (42% of GDP), services (42%), and manufacturing (16%) sectors, which are 95%, 66%, and 67% private, respectively.



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E. The private sector is small scale. The rural and informal private sectors are dominant; it is estimated that 91 percent of the population is involved in either agriculture or informal activities. Only 9% of Rwandans are employed in the modern formal economy; the formal private sector represents 3% of total employment. Sixty-five percent of the firms surveyed employed less than 5 people.

F. Credit is not available to most firms. Rwandan enterprises rely on their own capital resources. Only large firms, mainly in the commerce sector, have any significant recourse to bank credit. Limited business lending hinders private capital formation and economic growth.

G. Business skills are lacking. Basic skills necessary to manage businesses profitably need upgrading. Finance, accounting, marketing, and general management training are priority areas for training to improve business performance. Most businesses in Rwanda place training as a low priority area for investment, leading to an underutilization of potential human resources.

H. Private sector support groups are generally not performing well, according to a majority of businesses sampled in the private sector survey. Fifty-two percent of the members of the Chamber of Commerce surveyed rated it as ineffective. Firms stated an interest in associations providing them with more information on export markets, providing training, and helping them get access to credit.

I. USAID is in a position to pioneer private sector assistance. The Mission's knowledge of and contact with the private sector has been growing over the past three years. It now has in-house data and personnel to target private sector assistance, as part of an effort to further its goal of broad-based sustainable economic development.

## IV. STRATEGY FORMULATION

In order to build a consensus on the formulation of a coherent private sector strategy, the MAPS team and the Mission participated in a Private Sector Strategy Retreat at the Hotel Horizon on January 29, 1990. The methodology used to help define the Mission's private sector strategy was broadly based on the logical framework, which is a management tool for establishing strategies, objectives, and indicators for programs and projects, familiar to Mission staff.

Because this MAPS Phase is concerned with formulating a broad private sector strategy, detailed indicators were not established at this time. However, with the strategy framework provided by



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this document, they should be easily developed during the planning of the upcoming private sector project and the preparation of the next CDSS.

In the paragraphs which follow, goals, assumptions, core problems, and types of enterprises to be targeted are presented as part of a logical framework to help build the Mission's private sector strategy. In Section V, action options are presented to overcome the core problems identified below:

A. Strategic Goals:

1. To increase productive and sustainable employment.

2. To raise economic growth.

The above two goals are considered to be national private sector objectives to which Mission program objectives will contribute.

B. Assumptions:

1. The Rwandan private sector is handicapped by a lack of commercial tradition and by a shortage of basic managerial and technical skills.

2. The lack of private sector tradition and skills notwithstanding, private entrepreneurs in Rwanda respond to commercial opportunities and incentives similarly to business people throughout the world.

C. Core Problems:

- Constraining policy environment
- Low levels of private investment
- Poor export performance
- Little access to credit for small businesses
- Ineffective private sector support associations
- Limited management and technical skills

D. Types of Enterprises to be Targeted for AID Assistance:

The MAPS team along with the Mission staff narrowed the focus of the types of firms which should be targeted for AID assistance and project interventions. The questions considered included:

1. Size concerns -- large vs. small

A consensus was reached that AID will continue to focus its assistance efforts on smaller enterprises. This was based on the following grounds:

(i) The vast majority of firms in Rwanda are small-scale (65% of the firms surveyed employed less than 5 people);
(ii) Smaller firms make greater use of local resources and therefore have a more positive net foreign exchange impact (as evidenced by research under the prime project and confirmed by the MAPS private sector survey); and
(iii) Smaller firms tend to need the most help because of their restricted financial resources and limited technical expertise.

2. Geographical concerns -- Rural vs. urban

It was determined that a majority of the private enterprises assisted by AID will be rural. Over 90% of the population in Rwanda is rural, and a majority of the small businesses are outside of the capital, therefore by definition AID will be targeting small rural businesses. However, this will not preclude small urban enterprises from benefitting from AID support.

3. Cooperatives vs. individual businesses

Because there are advantages to working with both individual businesses and cooperatives in Rwanda, it was resolved that AID will assist both types of business establishments, and training should be available to individual businesses as well as cooperatives.

It was emphasized that there are many advantages to delivering assistance through cooperatives in Rwanda. For example it is simpler to organize training for cooperatives than for individual businesses. Furthermore cooperatives can help members secure access to credit by offering loan security and established credit histories. Cooperatives also provide greater buying and selling power to their members.

On the other hand, it was also stressed that individual businesses in Rwanda appear to offer more incentives to workers than cooperatives. Separate businesses offer a more

direct and individualized profit motive which tends to encourage greater efficiency and productivity.

Finally it also came to light during the MAPS dialogue sessions that some individual businesses thought they were ineligible for USAID-sponsored training activities at IWACU because they do not belong to cooperatives.

## V. ACTION OPTIONS

A series of action options were developed as approaches to overcome the core problems outlined above. The MAPS Team considers that the following five action areas should be high priority for any USAID initiatives in the private sector in Rwanda:

A. Policy Reform

B. Export Promotion and Diversification

C. Credit and Equity Finance

D. Private Sector Associations and Support Groups

E. Business Skills Training

The issues associated with these action areas and specific strategy recommendations are presented in the paragraphs which follow.

### A. Policy Reform

USAID became one of the first donors to be closely involved in private sector policy reform in Rwanda with the introduction of the PRIME (Policy Reform Initiative in Manufacturing and Employment) in 1987. In that project USAID played a pioneer role in working with the GOR to analyze and adjust macroeconomic and sectoral policies affecting private sector development in Rwanda.

Under PRIME initiatives the Government has adjusted the investment code, rationalized tariff policy, and has begun to introduce new reform measures in the areas of administrative reform, small business set-aside program, a national investment structure and streamlining of business registration procedures.

Despite the policy initiatives begun under the PRIME, the private sector policy environment is still not favorable. Unless it is improved most initiatives in the private sector will not succeed. The GOR has resisted policy reform advice of many of the donors but recent policy dialogue with the



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Government suggests that GOR is now becoming more open to the concepts of policy reform and liberalization.

Recent AID Washington guidelines for priority countries in Africa stressed removing policy impediments to private sector growth as a critical short-term objective. An important medium-term objective is to improve the working of competitive markets. Both of these objectives are relevant to policy environment in Rwanda.

Key policy areas identified in the MAPS/Rwanda which require further USAID attention are: (1) exchange rate policy; (2) protectionism and import substitution bias; (3) price controls; (4) taxation policy; (5) hiring procedures; and (6) business registration procedures. These policy issues, followed by strategy recommendations, are discussed in turn below.

**Overall Policy Recommendation:**

**USAID should continue to support private sector policy liberalization through the end of the PRIME Project and beyond.**

(1) Exchange Rate

The Rwandan franc is currently overvalued by about 35% in real effective terms according to the IMF. The IMF's analysis is also confirmed by the current balance of payments deficits, the serious shortage of foreign exchange reserves (two months of import cover), and the existence of a black market which offers about a 37 percent premium for foreign exchange compared with the official rate.

The overvalued franc has profound implications on numerous private sector initiatives. Until it is adjusted many private enterprise activities will be thwarted. The main effects of an overvalued exchange rate are well known -- it encourages imports and reduces the competitiveness of exports. Eventually it can lead to a depletion of foreign exchange reserves, which in turn can cause severe shortages of vitally needed imports such as spare parts. A competitive exchange rate would reduce Rwanda's costs of production, encourage exports, and set the stage for a reduction in import tariffs and a liberalization of the import licensing system.

**Strategy Recommendation**

USAID is not likely to become the major donor advising the GOR on exchange rate policy. Nevertheless, given the major impact

that the overvalued currency is having on exports and the availability of foreign exchange, **it is recommended that USAID support the IMF and the World Bank in their encouragement of a currency devaluation.** PRIME Phase III tranche releases or other program support initiatives should be dependant on exchange rate action.

(2) Protectionism and Import Substitution Bias

Many of the large firms in Rwanda are heavily protected against imports by high import tariffs and restrictive import licensing policies which result in effective rates of protection up to 200 percent. The activities protected include beer manufacturing, cigarettes, matches, sugar, soap, plastics, and corrugated iron among others.

The high levels of protection were introduced as part of an "infant industry" strategy to assist local industries in the early stages of production. In principle, these levels of protection should be scaled back as the "infant grows up". In reality the levels of protection offered to industries in Rwanda have rarely been reduced. One of the factors making the removal of protection difficult has been the overvalued currency, which makes imports cheaper.

High levels of protection can encourage uncompetitive "coddled" industries, which often are voracious consumers of foreign exchange, and which force domestic consumers to pay far above world prices for their products.

**Strategy Recommendation**

**USAID should focus its private enterprise assistance efforts on efficient firms which are not heavily shielded by import protection.** Most small firms and all export oriented firms would therefore be targeted for assistance. Efforts could also be made through the PRIME project to encourage the GOR to introduce a more rationalized and reduced external tariff. The benefits to the country from the above approach include improved allocation of resources, more positive foreign exchange impact, and lower prices to consumers.

(3) Price Controls

In an effort to contain inflation and to discourage high monopolistic prices, all products in Rwanda are subject to price controls. Margins are fixed by the Ministry of Finance at 15% for producers and wholesalers, and at 25% for retailers.



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The price control policy has several flaws. First, there are no clear reasons why retailing requires a higher margin than other economic activities in Rwanda. In fact, many of the dialogue sessions with the private sector revealed that retailing is one of the easiest and least risky ventures in Rwanda; higher margins are probably not required to encourage private participation in this activity. Second, since the pricing system is "cost plus" there is no incentive to minimize costs; high unit production costs can be approved and passed on to the consumer. Therefore the system is not providing an incentive for efficient methods of production. Third, the margins permitted are probably not high enough to encourage the development of new technologies or innovation which require attractive returns to offset costs of development and research. Finally, price controls may be unfair in that administrative constraints make it difficult if not impossible for the Government to administer the controls evenly for all products and all firms across the country.

**Strategy Recommendation**

Because of the major flaws in the pricing policy which were outlined above, **it is recommended that USAID, along with donors such as the World Bank, encourage the government to liberalize prices on the vast majority of products in Rwanda.** Similar to the Ghana price liberalization program (Ghana reduced price controls from 2,000 items to five) Rwanda should be persuaded to reduce prices on all but a small list of strategic items, or goods for which the government wants to regulate monopoly pricing (e.g petroleum, electricity, telephone etc.). Unless prices are decontrolled, Rwanda will find it difficult to attract new foreign investors. Moreover incentives will not be attractive enough to encourage Rwandan entrepreneurs to invest in most activities outside of retail trade.

**AID might consider pricing reform as a condition precedent to its upcoming private sector project in Rwanda.** By pressing for government policies that do not distort prices nor stifle incentives, AID will be promoting policies that allow private markets to operate more freely.

(4) Taxation Policy

There are nine types of national taxes and six types of local taxes making the net effective business tax rate well above 50% and placing Rwanda among the highest business taxing countries in Africa. Small and micro companies in the private sector survey considered taxes to be the single most important factor having a negative effect on their business performance.



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This demonstrates how pervasive the tax system is, because many of these firms are unregistered and normally would escape the "tax net".

**Strategy Recommendation**

**USAID should support efforts by the government to simplify the tax system, encouraging lower business taxes as a stimulus to productivity.** The GOR should attempt to broaden the tax base through consumption-oriented taxes such as excise taxes and value-added taxes, as opposed to heavy business taxes which discourage production and investment. If business taxes were reduced, enterprises would have a better incentive to become registered and join the formal sector.

(5) Hiring Procedures

In order to hire skilled and semi-skilled full-time labor, employers in both the private and public sector must inform the Ministry of the Fonction Publique of any openings. The Ministry has sole authority over the hiring of personnel in both sectors and acts as a clearinghouse. The Ministry provides the employer with a list of names from which to choose the employee. The civil service has first priority in the allocation of labor, parastatals have second; the private sector has third priority. This inflexible system is biased against obtaining the most qualified people in the private sector and severely limits private sector competitiveness.

**Strategy Recommendation**

The current hiring policy needs to be reformed to give private firms control over hiring and firing decisions, consistent with national laws against discrimination because of race, ethnic group, age or sex. **Discussion of reform of the hiring law should be part of AID's ongoing policy dialogue with the government and studied under the project PRIME.**

(6) Business Registration

All businesses must gain approval from various government agencies before they begin legally operating. The initial documentation request for an "autorisation d'installation" from the Ministry of Industry is typical of the process: a detailed plan and analysis of the projected business is required including a market study, income statement and balance sheet, and an explanation of purpose, method, and technology to be used. This information is very similar to what a bank might ask of a loan applicant. A total of seven steps may be required for even the smallest projects. Such



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procedures do not accurately reflect the level of skills and the market research capacities of the country. Moreover, they act as a disincentive to investment, or at a minimum, as an incentive for many entrepreneurs to remain in the informal sector.

**Strategy Recommendation**

**USAID should press for dramatic streamlining of registration procedures through its ongoing efforts under the PRIME project.** The registration procedures should be streamlined into a quasi-automatic "one-stop" registration process. Cost-benefit analyses should be left to the entrepreneurs taking the commercial risks. Such a policy would allow more free market entry of firms and would yield more capital formation. Small firms would benefit from registration by becoming more eligible for credit, and gaining access to other formal status privileges such as import and export licenses. The government would gain by being able to collect additional tax revenue.

## B. Export Promotion and Diversification

Low prices for Rwanda's major export commodities, coffee and tea, have caused a steep decline in export earnings. Official exports accounted for only 6.5% of GDP in 1988. The merchandise trade deficit rose to 13% of GDP in 1988, twice the total export receipts for that year. Rwanda imports the equivalent of 40% of its export earnings from African countries in the region; by contrast, exports to African countries represent only one percent of official Rwandan exports. Ironically two-thirds of the firms surveyed in the private sector survey thought that the regional market in African countries offered the most profitable export market.

Clearly, obstacles are preventing Rwandan firms from penetrating potentially profitable export markets. According to Rwandan firms surveyed, the biggest constraints to exporting are lack of market information, export taxes and export procedures. Exchange rate distortions have also made it difficult to export as Rwandan producers have found their products overpriced compared to other substitutable goods.

In addition to expanding exports, Rwanda needs to strongly diversify export products. Currently Rwanda relies on coffee and tea for over 90 percent of its export earnings. When the prices of those two commodities collapse, as is currently occurring, the country is faced with a major shock. To reduce the risk of such external blows, Rwanda should encourage the export of non-traditional exports. **Possible new exports include hides and skins, blankets, high value fruits and vegetables, and agro-processed goods such as fruit juices.**



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Recently, countries such as Kenya and Ghana have undertaken successful export promotion campaigns. Countries in the Far East have also embarked on such schemes. Typically a successful export promotion campaign includes many of the following measures:

- Competitive Exchange Rate
- Reduced Export Taxes
- Targeted Export Credit
- Reduced Import Duty
- Foreign Exchange Retention Accounts
- Streamlined Exporting Procedures
- Export Market Research
- Export Promotion Agency

Several developing countries have also had success with the introduction of Export Processing Zones (EPZs) to encourage investment, exports, and employment. Mauritius, Hong Kong, the Dominican Republic, and Costa Rica are among the countries which have introduced successful EPZs. Several African countries, including Togo, Cameroon, Cape Verde, Kenya and Madagascar, have recently introduced EPZ legislation. Most of the EPZs export labor-intensive manufactured goods such as garments. The main incentives offered under an EPZ regime are:

- Import and Export Duty Reduction or Relief
- Corporate Income Tax Reduction or Holiday
- Accelerated Customs Procedures
- Foreign Exchange Accounts
- Freedom to Hire and Fire

**Strategy Recommendation**

**In its longer-term private sector strategy AID may wish to assist GOR to introduce an export promotion and diversification program with many of the components outlined above.**

If the policy environment and exchange rate were to dramatically improve in Rwanda, the feasibility of an EPZ might also be explored.

## C. Credit and Equity Finance

Most Rwandan companies, particularly small ones, receive no external financing from commercial banks, development banks, or credit unions. Over 90% of the firms surveyed received no formal credit. Most firms are financed solely from their own capital resources. Banking formalities, security requirements, and high interest rates restrict access to credit in Rwanda. For small, unregistered firms the problems are particularly onerous as their lack of land and unregistered status make access to formal credit nearly impossible.

There is little business borrowing, though banks such as the Banques Populaires have high levels of liquidity. In addition to the low levels of formal lending, very little informal business lending takes place. These findings suggest that there is a great potential for the financial sector to meet the financial needs of Rwandan firms. Higher levels of business lending should lead to greater investment, increased employment, and higher economic growth.

### Strategy Recommendation

**Efforts should be made in the upcoming private sector project to assist small businesses to gain access to credit.** Some levels of success have been achieved in Rwanda by channelling credit to small businesses through cooperatives and business associations which can offer guarantees, collateral and credit histories to fulfill banking requirements. These opportunities should be explored further.

**AID/Kigali could provide training in its upcoming private sector project to assist small-scale entrepreneurs in filling out loan applications and getting through bank formalities.**

**AID/Kigali should also consider training bank officials to better meet the needs of small businesses.** An AID project in Kenya was successful after a long gestation period in training bank officers to tailor lending procedures to meet the needs of small business. AID/Kigali may wish to consider introducing a similar scheme with the Banques Populaires.

Efforts have been initiated under the PRIME project to introduce a venture capital fund called the "Structure Nationale d'Investissement". The proposal appears to offer some potential, provided that both the management remains



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independent of Government interference and that the projects targeted for investment have high enough rates of return and quick enough payback periods so that private investors would be interested in taking up shares in the fund.

**Regarding credit guarantee schemes such as the "Fonds Special de Garantie", interventions by AID in this area are not recommended.** This fund has not been successful in Rwanda because bureaucratic procedures bogged down loan applications; banks had little incentives to supervise loans; borrowers had little incentive to work hard to pay back the 80% guaranteed loans; and repayment rates are low.

Because of limited development resources in Rwanda, AID should not directly fund lines of credit or guarantee funds in its private sector projects. Instead it should leverage it resources by providing studies and suggestions which then might be financed by other donors such the case with the "Structure Nationale d'Investissement".

## D. Private Sector Associations

Private sector associations are not meeting the needs of a majority of businesses in Rwanda. Membership in the Chamber of Commerce is mandatory; there are membership dues and additional tax liabilities associated with becoming registered with the Chamber. Consequently, 62 percent of small firms do not belong to associations, while 84 percent of large firms are members of associations mainly because they feel obliged to join.

A majority of firms sampled in the private sector survey that did not belong to private associations explained that they were not members because they believed that no organizations provided them with useful services. Firms are interested in associations supplying them with information on export markets, assisting them to gain access to credit, providing training and technical assistance, or lobbying the Government.

The Chamber of Commerce was rated as effective by only 48 percent of those members surveyed. The association receiving the highest effectiveness rating from its members was KORA, an artisanal business association (64%). During the private sector dialogue sessions, the question was raised by the MAPS team why KORA received a rating higher than the other associations. Several of the private sector leaders shared the same opinion: KORA was organized by the members themselves and was designed to meet their own needs.



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**Strategy Recommendation**

**USAID should help business associations become more effective in providing credit and market information and training to their members.** Technical assistance, in-service training, short courses, and seminars are all possible avenues of training assistance that could be channelled through associations.

Based on the lessons learned from the successful KORA formula, AID should probably not try to organize any new private sector organizations but should work with existing organizations or assist entrepreneurs who have decided to organize a new organization to represent their own interests.

**Given the poor experience the UNDP has had with the Chamber of Commerce, it would not be advisable for AID to get involved in assisting the Chamber of Commerce.** The Chamber would have to be dramatically re-organized, with a shifting of emphasis from controlling to assisting the private sector, before AID assistance could be useful to private sector members of the Chamber.

Training

Based on the results of the private sector survey and the dialogue sessions, it is clear that skills development should be a high priority for any private sector development strategy in Rwanda. Lack of skilled labor was identified as the second most important resource constraint facing large firms in Rwanda. Among the critical areas needing improvement are management, accounting, and financial analysis skills. Small firms also need help with specific tasks such as preparing loan applications, registering their firm, etc.

Despite the clearly recognized need for training of Rwandan entrepreneurs, Rwandan firms surveyed gave a relatively low preference to personnel development and training among their priorities for investment in the firm. One of the explanations for this provided during the dialogue sessions was that many Rwandan firms are reluctant to invest in an employee's training when there is no guarantee that the employee will stay with the firm. Another explanation provided was that many firms are used to getting training for free.

One of the issues raised during the dialogue session by one of the larger private firms was that they thought that their firm was ineligible for training being offered at IWACU because they were not a cooperative. Recommendations on this and other training issues are presented below.

**Strategy Recommendation**

**AID should give high priority to training in its private sector intervention strategy. Training should be provided to small businesses which generally are in most acute need of technical support.** Topics to be included in the training could include: basic management techniques, accounting, and finance. Specific enterprise problems could also be tackled in the training program such as credit applications and assistance with the registration process.

Concerning funding of the training, it would be advisable to ask the firms to pay for a percentage of the training costs, perhaps 50% for larger firms and about 25% for smaller firms. This would encourage firms to participate in training only if they felt the training is meeting their urgent personnel development needs.

Based on previous training experience in Rwanda, it is recommended that when possible, AID deliver its private sector training through existing business organizations and cooperatives. These kinds of organizations allow for easier and more cost-effective delivery by relying on their existing organizational networks. Both cooperatives and individual businesses should be eligible for training as long as it can be channeled through an existing organization or cooperative.

## VI. METHODS OF APPROACH

### A. Commitment to Ongoing Dialogue

USAID has taken the lead in initiating contact and dialogue with the local private sector. On several occasions, private sector officials remarked that this was the first time a bilateral or multilateral organization had systematically approached the organized private sector or specifically focussed on private sector needs in its strategy. USAID should commit itself to the process of review, analysis, and dialogue that was initiated under MAPS; it will help to identify private sector initiatives that USAID can support.

### B. Flexibility in Approach

Because the private sector is dominated by the rural and informal sector, the vast majority of the private sector is not meaningfully represented by associations. USAID should pursue formal and informal dialogue with the rural and microenterprise sectors as well as maintain some contact with the modern private sector and with key Government agencies, building on the contacts established during the MAPS exercise.

C. Build on Current Contacts

USAID has made some excellent contacts in its study of the private sector. These should be developed and expanded. Specifically, USAID should continue to dialogue with the following:

- KORA
- JOC (Jeune Ouvriers Catholiques)
- AFAR (Association des Femmes d'Affaires Rwandaises)
- The Development Bank
- Banques Populaires
- Center for the Promotion of Small and Medium Enterprises

D. Keep Notes on Private Sector Meetings, Attitudes and Changes

The business environment is going through a period that will lead to some important policy changes. It will be useful to keep notes of meetings to track changes in attitudes and policies. Even during the six months of the MAPS exercise some important changes in attitude were noted both in the public and private sector.

E. Update Private Sector Description and Diagnostic Survey

Now that USAID has allocated the time and resources to familiarize itself with the role of the private sector in the economy, it should periodically update its information and data base. The Mission now has access to the SPSS data base from the private sector survey and the capacity to analyze the data in response to further questions that may arise. The data base could be a useful tool for planning the upcoming private sector project or for identifying information such as priority training needs in specific sectors. The Mission should also conduct periodic sector surveys, particularly as strategy becomes more targeted.

## VII. CONCLUSION

The Mission has developed a strong understanding of the role of the private sector in the economy; it has become acquainted with the major constraints to and opportunities for growth, and it has established good contacts with private sector officials. With this knowledge, the Mission is in a position to determine how the local private sector can help USAID achieve its goal and objectives as strategy unfolds for the next five years. The Mission is also now prepared to define its role within the context of donor community activities.



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The MAPS team is of the opinion that that AID is now well equipped to implement a private sector development strategy in Rwanda, based on a solid base of information and project implementation experience in the private sector. Although there are a number of policy-related and geographic constraints facing the Rwandan private sector, there are still a variety of opportunities. Private sector initiatives will need to continue to focus on identifying policy constraints and finding ways of removing them so that private enterprise can expand. Given the large number of problems identified and the urgency of the situation, an action-oriented approach is recommended. USAID should attempt to work toward achieving tangible progress in critical areas so that its private sector interventions can have a catalytic effect.