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AGRIBUSINESS POLICY PROFILE

By

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PREFACE

The Agricultural Analyses and Design (AAD) activity is an eight-month design activity undertaken by the Chemonics International RAISE Consortium through funding supplied by USAID/Rwanda. USAID/Rwanda is using this study and design effort to support its Strategic Objective Number Three (SO3) *to increase the ability of rural families in targeted communities to improve household food security*. Specifically, USAID seeks to obtain information and proposed intervention strategies, approaches and activities suitable for USAID/Rwanda's support in achieving the second Intermediate Results under SO3 (IR3.2) of *creating and enhancing internal production / marketing chains that promote broad-based economic growth*. The purpose of AAD, therefore, is to provide USAID/Rwanda directions and information for their use in future development and eventual funding of a project that seeks to revitalize agribusiness in Rwanda and recreate links between the rural sector and private sector traders and processors. This USAID project will achieve its objective by addressing identified constraints and opportunities within the commodity chain for increasing economic growth via agricultural production and agribusiness. The principal task of AAD is to identify these constraints and opportunities.

The Agricultural Analyses and Design activity is divided into three phases. The first phase (two months) is to identify and recommend for in-depth study to USAID/Rwanda those commodity chains and interventions that have the most potential for creating increased economic growth, internal and external trade, opportunities for employment and increased income. The second phase (four months) will consist of a number of in-depth studies. Some studies will look at crosscutting issues such as transportation, finance and human capital development. An additional study will look at the creation of Agribusiness Support Centers. The remaining studies will be in-depth analysis of interventions related to commodity chains identified in phase one and selected for study by USAID/Rwanda. The results of these studies will provide the basis for phase three of the activity, the synthesis of the studies done in phase two and development of a technical proposal and supportive design components for USAID/Rwanda's use in developing a request for proposal (RFP) for a project to support IR3.2.

Martin Webber of J.E. Austin Associates, Inc., Agribusiness Policy Specialist, carried out a mission in Rwanda from 29 November to 15 December 1999 within the Agricultural Analyses and Design Project. This mission coincided with the missions of the Agribusiness Centers and Transport Sector Specialists, with whom there was a great deal of interaction and collaboration. Mr. Webber also worked closely with the Chief of Party, Dr. Don Brown.

This report presents the major issues examined, findings and recommendations.

EXECUTIVE SUMMARY

Rwanda's policy-related enabling environment for agribusiness investment and business operation has been very weak. Its policy environment for business ranks very low when compared to countries worldwide and elsewhere in East Africa and Africa. Ongoing programs of privatization, legislative improvement and market liberalization are very encouraging, however – but they are much delayed in implementation. Much greater national commitment to concerted implementation of change is needed.

This report examines the policy environment for agribusiness and for investment in the agribusiness sector, and suggests areas for further action by the USAID project. The report is intended to serve primarily as the basis for follow on analyses and design work, planned to start in January 2000. It will also serve as a freestanding document – a summary of policies and remaining policy issues and impacts.

Specific policy-related issues are discussed in a number of areas. The following is a brief summary of each area:

Taxes, Duties and Other Levies

The export tax on coffee still exists. Personal and corporate taxes are high. Coffee export and sales tax must be prepaid then adjusted later after an extended time. Duty drawbacks are still not in place but are planned. Imported capital equipment pays duty, sales taxes and a tariff surcharge. In addition, there are other taxes. Tax and customs administration is antiquated and occasionally inequitable. On a positive side, the sales tax is to be replaced by a VAT. A relatively autonomous Revenue Authority has been established.

Finance and Credit

Long-term credit is difficult to find. Most banks have extremely conservative lending policies. Few loans go to agricultural or rural sector. Some micro-credit exists primarily through NGOs.

Impact of Low Prices to Producers/Lack of Price Incentive

Producers, particularly tea and coffee, generally receive lower prices than their counterparts in neighboring countries do. This is due in part to high transportation costs and monopsonistic purchasing practices. Lower producer prices results in lower production quality and quantity.

Land Ownership.

Land ownership is a difficult issue in Rwanda. The situation of the “marais” marshland is the most critical. A draft Land Tenure law has been in preparation for some time and but is not yet in effect.

International Trade

Rwandan exports are at a low level. The country is at a disadvantage due to high logistic and services costs to send goods out of the country. While government statements encourage regional trade, there are strong protectionist sentiment within industry and parts of government as reflected in the proposed “New Industrial Policy.” Key policy issues related to trade are high tariff rates, formal and informal barriers to movement of goods, a sizable smuggling trade and lack of duty drawback arrangements. Greater understanding by Rwanda’s business community and other stakeholders of the impact of the WTO is needed. An export promotion function does not now exist but is planned to be implemented.

Openness to Foreign Investment

Foreign Direct Investment in Rwanda has been low. Government policy encourages foreign investment and a new Investment Code works to this end. Part of the Code is to establish a *Guichet Unique* to facilitate service to investors. Policy related barriers to increased foreign investment include difficulty to transfer of foreign exchange, high tax rates, poor and expensive services, utilities, and few, if any, export incentives.

Role of Secondary Cities

Prior to 1994, secondary and tertiary urban centers played a strong role within the marketing chain. Much of this activity still needs to be rebuilt.

Procedural Barriers to Business Formation

Procedures to legally form a business are overly complicated. The full set of steps and costs to achieve actual operation appear to be much more cumbersome, however. An Investors Roadmap exercise should be carried out to identify the full set of costs and requirements.

Labor-related Restrictions

A revised Labor Code is badly needed and one has been pending for more that a year. When enacted, the new code would deal with many constraints and inflexibilities of the present labor market. Even if passed, however, some areas of the code should be revisited to make it more business friendly.

Lack of Infrastructure/ Related Services in Rural Areas.

The relative absence and high cost of effective, service oriented infrastructure and services in Rwanda is well known and documented. A pervasive policy-related issue is the absence of competition and market-based services and prices in the service sector. Privatization of power, water and telecommunications sectors should help.

Lack of Market Information

The incentives and empowerment that derives from effective price signals in the market is a key missing element in most marketing chains in Rwanda. Market-related information on processing, marketing and consumer taste and preferences is also lacking in many cases.

Impact of Privatization in Rural Areas

Large segments of rural production and agribusiness are the fiefdoms of monopolistic parastatal organizations. Privatization process is well underway but with little impact to date in rural areas. It will be hoped that the formulae adopted for these privatization will provide opportunity for market-based operation, production and producer incentive and market knowledge.

Entrepreneur/ Farmer Skills and Education.

It is widely agreed that producers, agribusinesses and service companies, and public sector organizations lack crucial knowledge and skills related to business planning and management, markets and related fields. A number of programs are addressing this problem. Basic education is deficient and lacks basic skill training for farm-based or agribusiness activities.

Extension Activities

The government extension service is basically non-performing. Association-based NGOs provide the most extension service in the country. There is some private out-grower extension activity.

Lack of Standards, Norms, Grading and Certifications

There is no official center in Rwanda for quality test and control of grades and standards. This hinders some exports due to lack of ready quality certification. UNIDO through MINICOM has a “focal point” for standards. FAO is looking at the creation of a standards office.

Subsidized Fertilizer and Other Inputs.

Rwanda has a long history of subsidized agricultural inputs. Commercial marketing and distribution chains are usually by-passed or skewed by these subsidized fertilizer programs. MSU and FAO are looking at price-based fertilizer recommendations

Agricultural Research

Agricultural research activities were severely damaged during the 1994 strife and have yet to recover to any appreciable degree. Much of the recovery work done to date is neither demand driven nor client-focused. If this should continue, it is unlikely that agricultural research will produce useful results.

Business and Sectoral Institutions

Most legal and informal barriers to association and cooperative formation have been removed. A number of organizations have been created. Nevertheless, cooperative laws need to be updated and the juridical status of associations reviewed. In the business sector, there are many associations but most are very weak. Of note is the replacement of the state-established Chambre de Commerce with a private sector-based Federation of Associations.

The Legislative Agenda

A large number of enabling legislation has been pending in the country since 1998. Progress in approving these laws has been very slow. Without this legislation, there are significant barriers to increased agribusiness activities in the country.

Particular Situation of the Coffee Industry

Coffee is one of the most important sectors in the economy. The sector was badly hurt by the 1994 strife. Some efforts have been made by government to revive the sector, but major issues remain. Among these issues are low producer's prices, the de facto oligopolistic structure of coffee exporters, and although it has been greatly reduced, a coffee export tax still exists. A number of suggestions are being discussed to privatize and restructure the coffee industry. These need to be closely watched and monitored.

Particular Situation of the Tea Industry

Following coffee, tea is the second most important agriculture sector in the economy. There are a number of key issues facing the sector. These include low yield of production by international standards, limit capacity of government owned factories, poor producer revenue and profits, fixed producers prices and labor shortages. The government plans to privatize its assets in the tea sector but it is uncertain when this will take place. From a policy-related point of view, several critical themes are important to consider as the sector is restructured. Among these points of view is the need to maximize competitiveness and private business participation in the sector. There is particular scope for competitive strategies focused on higher-quality teas, specialized markets and niches branding. Cluster development and competitive strategy development should be encouraged.

The most common and urgent policy actions that emerge from examining these 21 policy issue areas are the need for effective market signals that are based on competition and responsiveness to client needs, devolution of responsibility, and the need to ensure common, widespread access to factors of production.

The policy environment restricts access to several crucial factors of production, amongst them: access to enterprise ownership, access to electricity, access to land and adequate premises, access to productive labor, access to finance and financial services, access to raw materials/inputs,

access to Information, access to transport, access to skills and knowledge. Without access to these factors production, productivity and growth are hampered.

Policy interventions are discussed for each category, and recommendations made for possible action when appropriate for the USAID project. The proposed project interventions act at three levels: the grass roots and micro (firm) level, the local level (cluster, commune, prefecture) and the national level, and project partners are suggested at all three levels.

There is no denying that the policy environment for business has severe problems and poses important constraints to investment and business operation.

The policy “picture” that is discussed in this report is just that – a “snapshot” of the current situation. Snapshots taken at the early stages of growth in many other countries would have presented very similar collections of constraints and barriers. A review of policies related to agribusiness in Rwanda 2 or 3 years ago would have been far more negative than the current review.

Undeniable progress has been made in Rwanda in terms of improving the business and investment environment. Moreover, many public and private leaders know which changes are needed in the policy framework, and are openly expressing and pursuing them.

The challenge will be threefold:

- To increase the speed of improvement in the policy environment;
- To rapidly tie the policy changes to broad and deep on-the-ground implementation;
- To broaden a shared vision amongst all Rwandan stakeholders of a country in which entrepreneurs can realize ambitions within a supportive, market based business environment.

LE SOMMAIRE EXECUTIF

Au Rwanda, l'environnement réglementaire est peu propice aux investissements dans le secteur agro-industriel et aux activités économiques. Il est médiocre comparé aux autres pays dans le monde et ailleurs en Afrique de l'Est, ou en Afrique en général. Cependant, les programmes de privatisation en cours, l'amélioration de l'environnement législatif et la libéralisation du marché sont très encourageants, mais l'application en est très lente. L'ensemble du pays doit faire preuve de plus de volonté pour apporter les changements.

Le présent rapport étudie les dispositions mises en place pour les agro-industries et l'investissement dans le secteur agro-industriel, et propose au projet USAID des actions à entreprendre. Il sert tout d'abord de base à d'autres analyses et études, prévues en janvier 2000 et servira également de document de référence proposant un résumé des mesures existantes, des problèmes qui se posent et des résultats obtenus.

Certains problèmes spécifiques sont traités dans des domaines présentés brièvement ci-dessous.

Taxes, droits de douane et autres prélèvements

La taxe d'exportation sur le café est encore en vigueur. Les taxes appliquées aux particuliers ou aux entreprises sont élevées. Les taxes d'exportation et de vente du café sont versées à l'avance puis réajustées après une certaine période de temps. Le remboursement des droits de douane n'est pas encore appliqué mais il est prévu. Les biens d'investissement importés sont soumis à des droits de douane, à des taxes sur la vente, à une surcharge tarifaire, etc. Le département des douanes et des impôts est obsolète et manque parfois d'équité. Du côté des aspects positifs, la taxe sur la vente doit être remplacée par la TVA ; un département des impôts relativement autonome a été créé.

Financement et crédit

Il est difficile de trouver des crédits à long terme. La plupart des banques pratiquent des politiques de prêt très conservatrices. Peu de prêts sont accordés au secteur agricole ou rural. Les micro-crédits sont principalement accordés par les ONG.

Conséquences de prix faibles accordés aux producteurs et de l'absence de primes

Les producteurs, en particulier ceux de thé et de café, sont en général assujettis à des cours moins intéressants que ceux de leurs équivalents dans les pays voisins. Ceci est en partie dû aux coûts élevés du transport et aux pratiques d'achat monopolistiques. En raison de la faiblesse de ces prix aux producteurs, la production n'atteint pas le niveau requis en quantité et en qualité.

Propriété foncière

La propriété foncière est une question difficile au Rwanda. La situation des marais se pose avec le plus d'acuité. Un projet concernant le régime foncier est à l'étude depuis un certain temps mais n'est pas encore entré en vigueur.

Commerce international

Les exportations rwandaises sont plutôt faibles. Le pays est pénalisé en raison des coûts de logistique et de services élevés pour l'envoi des marchandises hors du pays. Si les déclarations officielles sont en faveur du commerce régional, le sentiment protectionniste est très marqué dans le secteur économique et parmi certains membres du gouvernement, comme le prouve le projet de la « Nouvelle politique industrielle ». Les principaux problèmes sont les taxes élevées, les barrières protectionnistes formelles ou informelles, l'importance de la contrebande et l'absence de dispositions de remboursements des droits de douane. Il faudrait que le milieu des affaires rwandaise et les autres parties intéressées prennent mieux en compte l'importance de l'OMC. Il n'existe pas pour l'instant de département de promotion des exportations mais il est prévu.

Ouverture à l'investissement étranger

L'investissement étranger direct au Rwanda est peu important. La politique gouvernementale encourage l'investissement étranger et un Nouveau code d'investissement va dans ce sens. Le code prévoit de créer un Guichet unique afin de faciliter la tâche aux investisseurs. Parmi les mesures protectionnistes entravant l'augmentation de l'investissement étranger, on peut citer la difficulté de transférer des devises, les taux d'imposition élevés, les services coûteux et de qualité médiocre, les services publics, et peu, si ce n'est aucune, prime à l'exportation.

Rôle des villes secondaires

Avant 1994, les centres urbains secondaires et tertiaires jouaient un grand rôle dans la chaîne de commercialisation et ce rôle doit être rétabli.

Les obstacles procéduriers à la création d'entreprises

Les procédures permettant de créer juridiquement une entreprise sont exagérément compliquées. Cependant, il est encore plus difficile de franchir l'ensemble des étapes et de réunir les fonds nécessaires au fonctionnement effectif d'une structure. Il serait bon d'établir une carte routière des investisseurs afin d'identifier la totalité des frais et des exigences.

Problèmes liés à la main d'œuvre

Il est indispensable d'avoir un code du travail révisé ; il est à l'étude depuis plus d'un an. Quand il entrera en vigueur, ce nouveau code devra résoudre de nombreuses restrictions et rigidités de l'actuel marché du travail. Ce code, même approuvé, devra encore faire l'objet de nombreuses révisions afin de le rendre plus intéressant pour les investisseurs.

Absence d'infrastructures ou de services connexes dans les zones rurales

Il est bien connu que les services efficaces au Rwanda sont rares et onéreux. Un problème récurrent est l'absence de concurrence, de services orientés vers le marché et de tarifs dans le secteur des services. La privatisation de l'électricité, de l'eau et des télécommunications devrait être un atout.

Absence d'informations sur le marché

Au Rwanda, la stimulation et la connaissance que donnent des indices de prix réels sont des éléments importants absents de la plupart des chaînes de commercialisation. Les informations relatives à la transformation, à la commercialisation et aux goûts des consommateurs font également souvent défaut.

Impact de la privatisation dans les zones rurales

De larges pans de la production rurale et de l'agro-industrie sont des domaines réservés d'organisation parapubliques monopolistiques. La privatisation est bien engagée mais a pour l'instant peu d'impact dans les zones rurales. Il est à espérer que les formules adoptées pour ces privatisations fourniront des informations sur les marchés et des opportunités de commercialisation, favoriseront la production, et stimuleront les producteurs.

Education et formation des paysans et des entrepreneurs

Il est généralement reconnu que les producteurs, les sociétés de service et d'agro-industries et les organisations du secteur public manquent cruellement de connaissances et de compétences en matière de planification et de gestion, des comportements des marchés et autres sujets connexes. Un certain nombre de programmes s'attaquent à ces problèmes. L'éducation de base est de qualité médiocre et ne prévoit pas la formation de base pour les activités agricoles ou liées aux agro-industries.

Activités d'extension

Le service public d'extension ne fonctionne pratiquement pas. Ce sont les ONG qui fournissent la plupart des services d'extension dans le pays. Il existe quelques activités d'extension privées.

Absence de normes et de certification

Il n'existe pas au Rwanda de centre officiel pour le contrôle de la qualité et des normes. Ceci constitue une entrave à certaines exportations en raison de l'absence de certificat de qualité prêts à l'usage. L'ONUDI, par l'intermédiaire du MINICOM, dispose d'un « point focal » pour les normes. La FAO envisage la création d'un bureau de normalisation.

Engrais et autres intrants subventionnés

Le Rwanda subventionne depuis longtemps les entrants agricoles. Les chaînes de commercialisation et de distribution sont en général contournées par ces programmes de subventions d'engrais. Le Michigan State University (MSU) et la FAO envisagent de recommander l'achat des engrais.

Recherche agricole

La recherche agricole a été durement touchée par les événements de 1994 et n'a pas encore retrouvé l'ampleur qu'elle avait. Les plupart des activités de recherche menées actuellement ne sont pas liées à la demande ni orientées vers le client. Si cette tendance persiste, les fruits de cette recherche risquent de ne pas être utiles.

Activité économique et institutions sectorielles

La plupart des obstacles juridiques et informels à la création d'association et de coopératives ont été supprimés. Un certain nombre d'organisations ont été créées. Néanmoins, les lois régissant les coopératives doivent être mises à jour et le statut juridique des associations revu. Dans le milieu des affaires, il existe de nombreuses associations mais beaucoup n'ont pas de pouvoir réel. Il faut signaler le remplacement de la Chambre de commerce, organisme d'Etat, par une Fédération des associations dépendant du secteur privé.

Programme de lois

Un certain nombre de lois favorables au milieu des affaires sont à l'étude depuis 1998. Mais le processus est très lent. En l'absence de ces lois, l'accroissement des activités agro-industrielles dans le pays continuera à enregistrer de grands retards.

Situation particulière du secteur du café

Le café est l'un des secteurs les plus importants de l'économie. Il a été durement touché par les événements de 1994. Certaines actions ont été entreprises par le gouvernement pour redynamiser le secteur, mais quelques grands problèmes demeurent, dont : les faibles prix aux producteurs, la structure oligopolistique de fait des exportateurs de café, et même si elle a été considérablement réduite, la persistance de la taxe à l'exportation du café. Un certain nombre de propositions sont à l'étude pour privatiser et restructurer le secteur du café ; ce processus devra être suivi avec attention.

Situation particulière du secteur du thé

Après le café, le thé est le second secteur le plus important de l'économie. Les problèmes enregistrés sont la faible production par rapport aux normes internationales, la limite des capacités des usines d'Etat, les faibles revenus et profits des producteurs, les prix fixes aux producteurs et l'insuffisance de la main d'œuvre. Le gouvernement a l'intention de privatiser ses

parts mais la date n'a pas encore été fixée. Pour ce qui est des mesures, il faut prendre en compte plusieurs points dans la restructuration du secteur. Parmi eux, la nécessité d'optimiser la concurrence et la participation du secteur privé. Il y a de l'espace pour des politiques de concurrence ciblant des thés de meilleur qualité, des marchés spécialisés et des niches de marques. La création de groupes et la mise en place de stratégies concurrentielles devraient être encouragées.

Après l'étude des ces 21 points, il se dégage la conclusion suivantes : il est impératif d'établir des indices de marché basés sur la concurrence, de répondre aux besoins du client, de déléguer des responsabilités et de garantir un accès généralisé aux facteurs de production.

La politique actuelle limite l'accès à plusieurs facteurs de production importants, dont la privatisation des entreprises, l'électricité, la terre, des locaux adéquats, la main d'oeuvre, les financements et les services financiers, les matières premières et les intrants, l'information, le transport, la formation et la connaissance. Sans ces facteurs de production, la productivité et la croissance se heurteront à de nombreux obstacles.

Des mesures sont à l'étude pour chaque catégorie et des recommandations sont faites pour des actions possibles lorsqu'elles sont adaptées au projet USAID. Les interventions proposées se situent à trois niveaux : à la base et au micro-niveau, au niveau local (collectivité, commune, préfecture) et au niveau national. Des partenaires de projet sont proposés à chaque niveau.

Il est incontestable que le milieu règlementaire connaît des sérieux problèmes et pose des obstacles importants à l'investissement et à l'activité économique.

Le présent rapport n'offre qu'un aperçu de la situation actuelle. Un début de croissance est toujours difficile et une étude effectuée à ce moment dans nombre de pays présenterait les mêmes obstacles et les mêmes problèmes. Une étude des mesures relatives aux agro-industries au Rwanda faite il y a deux ou trois ans aurait été beaucoup plus négative que le présent rapport.

Il est clair que des progrès ont été accomplis en ce qui concerne l'amélioration du climat des investissements et des activités économiques. Par ailleurs, nombre de responsables publics et privés se rendent compte qu'il est impératif d'apporter des changements ; ils s'expriment clairement à ce sujet et poursuivent cet objectif ouvertement.

L'enjeu est triple :

- accélérer les améliorations en matière de mesures;
- appliquer rapidement et de manière générale et intelligente les changements;
- faire partager à toutes les parties rwandaises la vision d'un pays où tous les entrepreneurs peuvent réaliser leurs ambitions dans un environnement favorable.

SECTION I. INTRODUCTION

A. Focus of the Mission

The primary focus of the Agribusiness Policy Analysis mission was to contribute to the ongoing design process for an agriculture/agribusiness sector project for Rwanda. Focused on achievement of IR3.2, the work is primarily concerned with achieving food security by increasing income - through increases in investment in agribusiness, and particularly in the rural and agriculture sector. The Agribusiness Policy mission provides input into the ongoing design process, and also to suggest specific interventions. The report can also serve as a freestanding document – a summary of policies and remaining policy issues and impacts.

B. What do we Mean by “Policy”?

Paraphrasing Timmer, Falcon and Pearson¹, agribusiness policy can be described as encompassing the cumulative efforts of governments and other political stakeholders to influence the decision-making environment of agribusinesses and the providers of inputs and services to agribusinesses in order to further social objectives.

For the purposes of this component of the design work, we have interpreted “policy” rather broadly. As policy, we have considered specifically stated as well as implicit or unstated policies. We have considered business-focused policy as well as business-related policies directly concerning the agriculture sector. Policies concerning other sectors have also been considered in the sense that they impact agribusiness operation and investment. As stated policy is often not explicit in terms of attached strategy or implementation, we also examined some key implementation aspects. The impact of macro policy on micro (investor-level or firm-level) strategy and decisions is paramount.

The macro policy environment – a vital component of the “platform” on which business decisions and actions take place, is of paramount importance. This constitutes a significant part of the “enabling environment” – which includes, in addition to infrastructure, issues such as political commitment, legal, regulatory and administrative issues, property rights, the investment regime and incentives, government-provided services, SoEs (state-owned enterprises), institutional structures, and more.

¹ C. Peter Timmer, Walter P. Falcon and Scott R. Pearson, “*Food Policy Analysis*”, The World Bank.

C. General Policy Situation

The policy environment in Rwanda, as it relates to agribusiness and investment in the agricultural sector, suffers from a complex mixture of poor historical policies, ad hoc approaches subsequent to the events of 1994, extremely weak public sector capacities, thin business skills and extreme risk-aversion, the ever-present concern for food security, unclear messages in terms of government's role in the economy, security issues, financial constraints, lack of empirical data, the international context of globalization, and numerous other factors. Nevertheless, Government's statements are clear in proclaiming that Rwanda's policy is to base its recovery and growth on private sector growth, and that agriculture and agribusiness will be liberalized, market-based and private sector in nature.

Despite these clear statements, and notable achievements in the policy sphere, the policy environment is still lacking. Business formation is very slow, and investors and lenders remain risk averse. The rural market economy is severely deficient in terms of cash-based demand, market-based competition, market knowledge and commodity chain linkages.

The Consultant examined two international indices of "economic freedom", published by the Fraser Institute (Vancouver, Canada) and the Heritage Foundation (Washington, DC). Both of these annual indices examine the policy environment of countries to rate and rank the friendliness to private investment, business formation and business operation.² The reader should note that the indices include measures that are in some cases dated. Nonetheless, they are instructive, and perhaps indicative of the reason investment and business formation have remained slow.

The Fraser Institute ("*Economic Freedom of the World: 1998/1999 Interim Report presenting the 1997 Index*") conducted surveys in 119 countries, worldwide. Rwanda is ranked 116th. The Heritage Institute ("*Index of Economic Freedom, 1999 Publication presenting 1998 scores and rankings*") surveyed 160 countries – Rwanda was 143rd. Of the 37 sub-Saharan African countries examined by the Heritage Institute, Rwanda's score was the least favorable. The Heritage Institute measures 10 groups of factors, rating countries' performance from 1 (free) to 5 (repressed). On 6 of these factor groups – Trade, Taxation, Banking, Property Rights, Regulation, Black Market) Rwanda's score was "5"; Rwanda scored "4" for Government Intervention and Foreign Investment. (Fraser and Heritage results are presented in Annex 1). Uganda's scores, by comparison, were 54th of 160 in the Heritage Index (and 4th best in Africa), and 61st of 119 in the Fraser Index.

77% of Rwanda's industry is agroindustry. 79% of Industry is located in Kigali. Only 6% of GNP is exported – this figure has not been greater than 8% since 1990. Rwanda's exports are heavily coffee and tea – these two products accounted for 76% of export receipts in 1998, which was less than pre-1994 levels.³

² The reader should note that these indices are unabashed in looking at the policy and related environment through the perspective of businesses freedom to operate effectively.

³ Performance Management Consulting, "*Nouvelle Politique Industrielle, Rapport Preliminaire*", October 1999.

Rwanda's long-term Agricultural Development Strategy includes the goal of moving 15% of people from agricultural production by 2012.

There is very little market integration within Rwanda, and very little farm-to-market commercialization. Prior to 1994, farm-market connections were reportedly much more robust.

In terms of its natural endowments, Rwanda has the potential to develop nontraditional (i.e. other than coffee or tea) agricultural and agroindustrial exports of higher value. With access to technical inputs and knowledge of markets and market requirements, Rwandan producers should be able to develop new types of production.

D. Basic Principles

The basic "filter" for the policy assessment has been to seek market-based systems and demand-driven solutions wherever possible. Top-down approaches are avoided. Self-sustainability is desirable.

In Jim Austin's recent presentation to the InterAmerican Development Bank, "*Meeting the Agribusiness Challenges of the 21st Century*"⁴, he suggests the existence of 6 fundamental global trends:

1. Market integration and product transformation.
2. Shifting Consumer Preferences.
3. Concentration and Integration, Association.
4. Biotechnology.
5. Ecology.
6. Changing Government roles.

In order to take advantage and to avoid being overwhelmed by these trends, Dr. Austin suggests that entrepreneurs, business and public sector leaders need to develop several critical competencies:

1. Think Systematically.
2. Production Chain Linkages.
3. Macro-micro linkages.
4. International Linkages.
5. Institutional Linkages.
6. Be Customer Focused.
7. Create and Capture Value Added.
8. Internationalize.
9. Improve Productivity.
10. Get "Greener".

⁴ James E. Austin, Chapman Professor of Business Administration, Harvard University Graduate School of Business

An object of effective macro and micro policy should be to take advantage of these trends and achieve these competencies – and not to shut Rwanda off from them.

E. Common Policy Themes

Several themes are recurrent in the following policy examination. The importance of market-based competition and price incentives is important. Devolution of responsibility is also vital.

The analysis and recommendations emphasize the need to facilitate popular access to means of production. 10 means of production can be noted⁵

1. Access to enterprise ownership.
2. Access to electricity.
3. Access to land and adequate premises.
4. Access to productive labor.
5. Access to finance and financial services.
6. Access to raw materials.
7. Access to Information.
8. Access to transport.
9. Access to education.
10. Access to health.

F. Lack of Empirical Data

As with any analysis, it is desirable to base an assessment of policy performance on a strong resource of empirical data that clearly demonstrates linkages and impacts. Unfortunately, such data is severely lacking in Rwanda. The Consultant has cited data where it has been readily available. However, much of the information and assessment is based on observations, opinions and anecdotes expressed in interviews and previous reports.

G. Reasons for Optimism

There is no denying that the policy environment for business has severe problems and poses important constraints to investment and business operation. This will be apparent to the reader of the remainder of this report. However, the opportunity is not bleak.

⁵ Kevin X Murphy, President, J.E. Austin Associates, Inc., “*Economic Growth and Poverty Alleviation – Facilitating Access to the Means of Production*”.

The policy “picture” that is discussed in this report is just that – a “snapshot” of the current situation. Snapshots taken at the early stages of growth in many other countries would have presented very similar collections of constraints and barriers. A snapshot taken of Uganda’s policy environment in the late 1980’s would not have been particularly dissimilar. A review of policies related to agribusiness in Rwanda 2 or 3 years ago would have been far more negative than the current review.

Undeniable progress has been made in Rwanda in terms of improving the business and investment environment. Moreover, many public and private leaders know which changes are needed in the policy framework, and are openly expressing and pursuing them.

The challenge will be threefold:

- To increase the speed of improvement in the policy environment;
- To rapidly tie the policy changes to broad and deep on-the-ground implementation;
- To broaden a shared vision amongst all Rwandan stakeholders of a country in which entrepreneurs can realize ambitions within a supportive, market based business environment.

This has been achieved in other countries, and Rwanda can certainly do it to. The country has taken many of the right steps already.

E. Organization of this Report

The remainder of this report discusses various areas of policy concern. These are:

1. Taxes, Duties and Other Levies
2. Finance and Credit
3. Impact of Low Prices to Producers/Lack of Price Incentive
4. Land Ownership
5. International Trade
6. Openness to Foreign Investment
7. Role of Secondary Cities
8. Procedural Barriers to Business Formation
9. Labor-related Restrictions
10. Lack of Infrastructure/ Related Services in Rural Areas
11. Lack of Market Information

12. Impact of Privatization in Rural Areas
13. Entrepreneur/ Farmer Skills and Education
14. Extension Activities
15. Lack of Standards, Norms, Gradings and Certifications
16. Subsidized Fertilizer and Other Inputs
17. Agricultural Research
18. Business and Sectoral Institutions
19. The Legislative Agenda
20. Particular Situation of the Coffee Industry
21. Particular Situation of the Tea Industry

SECTION II. DISCUSSION OF POLICY ISSUES

A. Taxes, Duties and Other Levies

Rwanda's tax regime includes a number of elements that are detrimental to investment and business formation.

Export Tax on Coffee

Despite continued criticism from the industry and from international sources, the country still maintains an export tax on coffee. One impact of this tax is to reduce the prices paid to growers. The tax was introduced after 1994, and has been reduced from 16% in April 1998 to 2% currently. Originally proposed to be eliminated during 1999, the Export Tax may be scrapped in the Year 2000.

Personal and Corporate Taxes

Personal and Corporate Tax rates are high. Corporate profits are taxed at 40%, and individual income over F1 million is also taxed at 40%.

Advances on Taxes

Coffee exporters are required to pay taxes in advance; at the time the goods leave Rwanda. Any overpayment (e.g., due to lower-than-expected sales price) needs to be reclaimed, and recovery of the overpayment from the government can take considerable time (and effort). Similarly, importers must currently pay 15% sales tax (ICHA) on imported goods. For goods that are subsequently resold, a tax adjustment may be required. The adjustment, if the sales price is less than estimated, is considered an advance against future tax payment (and is therefore an interest free loan to the State), or may take a long time to recover.

If the VAT is implemented (see below), the issue of tax payment being due on imported items should be obviated.

Duty Drawbacks

Duty drawbacks are currently still in place. The draft Budget 2000 proposes to introduce a system of duty drawbacks.

External Tariffs; Sales tax payable on imported Capital Assets

Import tariffs were, until recently, still at maximum 40%, including 4 rate bands. These rates have been reduced somewhat during 1999, with maximum 25%, and bands at 15%, 5% and 0%. Capital equipment is still in many cases taxed at 15%, clearly a disincentive to investment.

As mentioned, 15% sales tax is also payable on all imported items. This levies an extra 15% charge on capital investment.

Tariff Surcharge

In addition to the import tariff, a surcharge was imposed in 1999. The current surcharge is 10 to 15% on most capital imports. The draft Budget 2000 proposes to reduce and then eliminate these surcharges during FY2000.

Various Other Taxes

Many other taxes and charges are levied, each with their specific financial and procedural costs. Examples include:

- Prefectural taxes;
- Property taxes;
- Personnel taxes;
- Taxes on dividends and interest;
- Head tax (rarely applied);
- Customs charges (4%); and
- Taxes and charges related to business formation (for industrial investments, the “Droit de Patente” is FRw 180000 a sizable sum).

Tax and Customs Administration

Many reports and persons interviewed complain of antiquated, bureaucratic and occasionally inequitable procedures. The tax base is extremely narrow. There are complaints that the impact of changes in the tax regime is imposed suddenly, and without adequate consideration or mitigation of negative impacts.

Smuggling is rampant, and some estimate that the Government does not receive even half of the amounts due under the law.⁶

Customs procedures are reported to be bureaucratic and lengthy, and occasionally subject to suspect decisions. One report⁷ cited clearance delays of 4 to 10 days.

⁶ E.g. Performance Management Consulting, “*Nouvelle Politique Industrielle, Rapport Preliminaire*”, October 1999.

⁷ “*Commodity Export Identification and Logistics Study (Draft)*”, for MINICOM, by Carlos F. De Castro (consultant), January 8, 1998.

Recent Positive Developments

The Budget 2000 proposes to replace the sales tax with a VAT (percentage not yet determined, but mooted to be 17.5%) during 2000. The VAT is expected to be more organized, systematic and equitable.

Business contribution to the (Government-sponsored) Chamber of Commerce is no longer mandatory.

A relatively autonomous Rwanda Revenue Authority was established in 1997.

A major project to improve the operations, systems and procedures of the Rwanda Revenue Authority, including customs operations, has just commenced, assisted by DIFID (British Aid). The expectation that the improvements planned for the next two years will greatly improve the effectiveness of the Revenue Authority, and render it much more user-friendly. The Automated Systems for Customs Data (ASYCUDA) is being implemented.

B. Finance and Credit

1. Long-term Credit

The difficulties faced by formal investors and entrepreneurs in accessing credit are repeatedly at the forefront of the constraints cited by business. The early Agricultural Analyses and Design Project work on this topic by Harry Shutt confirms the conservative approach used by the country's banks. Some short-term credit is available, for example for the coffee industry. But generally, banks are extremely reluctant to lend to agribusinesses. Even the Rwanda Development Bank – constitutionally not a commercial bank, is very conservative in its consideration of loans to agribusiness.

Long-term credit is difficult to find. Most bank loans are short term in nature. There are no instruments to mobilize long-term equity funds.

The Case of BRD: The Banque Rwandais de Developpement, a development bank rather than a commercial bank, might be expected to be more active in lending to agribusinesses. Government owns 55% of the Bank's shares (and through BRD owns majority shares in many large SoEs); hence the BRD could perhaps be a tool for implementation of Government policy, which is heavily focussed on agricultural and rural enterprise development.⁸ Prior to 1994, BRD had a portfolio that included a considerable agroenterprise investment, for example in livestock and livestock breeding, swamp reclamation, SORWATOM, and others. Many of these loans were rendered non-performing as the result of the events of 1994 – BRD states that perhaps 50% of its outstanding loans are non-performing.

⁸ It appears also that the BRD is occasionally pressured by key political figures to provide specific loans.

The BRD has received indirect subsidies in the past (e.g. the BRD has been tax exempt, and the Government currently guarantees exchange risk). These subsidies are being removed, and the BRD is being “forced” to operate essentially as a commercial bank. Some important changes are that the WB has not put up lines of credit, funds from bilaterals are less accessible, and the BRD expects not to be tax exempt next year. With these pressures, the Board of the BRD has presented a new strategy that aims to place BRD at the forefront on investment financing, with accent on commercial activity, merchant banking activity (including leasing and venture capital) and making the BRD competitive and profitable. At the strategy is ambitious and will require enormous investment in know-how, tools and resources.

The Case of the Banques Populaires: The strength of the Banques Populaires should be their very extensive branch network, which puts a banking facility within reach of much of the population. However, the B.P. system has been referred to by many as non-functioning. Reasons cited include lack of trained personnel, inability of personnel to assess agribusiness applications, poor administrative and accounting systems, decapitalization, etc.⁹ The B.P. are not an effective source of agricultural or business loans.

A number of reasons are cited for the non-availability of long-term credit to agribusiness:

- Poor borrowing/repayment culture, which has been undermined by past forgiveness of debts and free distribution of inputs.
- Inability of many business promoters to present well-considered, well-presented business plans.
- Lack of collateral.
- Lack of insurance against catastrophes.
- Risk aversion on part of the commercial banks and BRD; perception of high riskiness of agribusiness ventures. Fear of market price fluctuations.
- Reduced numbers of competent, trained bank staff. Inability of bank staff to properly evaluate loan applications, particularly from agribusinesses.

Several measures were posited to encourage (re-establish) lending and provision of finance to agribusiness:

- Increase leasing operations.
- Farm insurance (covering catastrophes).

⁹ Please refer to Mr. Shutt’s report for more data.

- Provide support to the Banques Populaires: training, better management and management structures.
- Entirely restructure the Banques Populaires (possibly along the lines of the restructuring of the Uganda Commercial Bank).
- Fonds de Garantie. (BRD notes that Fonds de Garantie were not repaid in the past, but they are again being discussed by Government leadership. Opinion was expressed that guarantee funds should only be to cover catastrophes, not to cover normal repayments.)
- Greater technology and market orientation on the part of agriculture and agribusiness – less focus on traditional agriculture.
- Ability to use land as collateral. BRD notes that commercial land may be able to be effectively used as collateral. There are significant informal, social barriers to enforcement if individuals were to use land as collateral, even if legally permitted.

The BRD indicated that any future agribusiness lending would require, in addition to a very strong business plan on the part of the client:

- Technology orientation.
- Market orientation.
- Resolution of the conflicting role of MINAGRI – i.e. promotion of economic growth versus food security.
- Good system of training (encadrement) – perhaps including cooperatives.
- The client would need to be part of the “elite” – the 5% or less that can believably start and implement a sound business.
- Export focus.
- Strong financial participation from owners (note examples of Emaballage Rwanda and SORWATOM)

2. Microcredit

Microcredit resources are not yet numerous in Rwanda. However, NGOs are very active in facilitating the growth of associations, and some (e.g. CRS and World Vision) have started up microcredit schemes. There is large scope for microcredit growth. Many of the basic issues already discussed will equally apply to micro-lending.

3. Possible Interventions

Establishment of Credit Ratings

An alternative method to reduce credit risk would be to maintain a rating system, whereby an individual or businesses' repayment performance is accessible to all potential lenders. Such a system was very successfully established on a commercial basis in Uruguay. Potential borrowers in Uruguay now want to be included in the ratings, since financial institutions habitually refer to them in their loan analysis. Rwandan banks already have their internal ratings of their clients.

Channeling funds from the Caisse Sociale

A large amount of money is held in the Rwandan social security funds. These funds are not invested in agribusinesses – buildings are cited as the main investment. A mechanism could be explored for channeling some of these funds into productive agribusiness investment.

World Bank Market Program

The World Bank is starting up a project to intensify the use of agricultural inputs. Lines of credit will be provided to traders through commercial banks. Note that the traders often already have relationships with the banks. Farmers will pay in cash or in kind for the inputs, and will have the freedom to sell produce on the market.

C. Impact of Low Prices to Producers/Lack of Price Incentive

Several instances have been noted in reports and interviews of surprisingly low prices being offered to producers. This has been a complaint in the tea and coffee sectors. It has also been the case more generally in the rural markets. Low prices have a dampening effect on production and productivity, and on the willingness of producers to invest on production and productivity. Absence of a differentiating, price-based market mechanism also affects the willingness of producers to increase their production quality.

Some basic factors will tend to reduce prices that can be offered to producers. Notably, poor transport infrastructure will raise the cost of transport. For exported products, the long transport distances to ports and infrequent (hence lack of competition in) air transport will tend to increase intermediary costs and hence reduce producer prices.¹⁰

¹⁰ For more information, please refer to the Transport Sector Analysis prepared by Harold Kurzman, the J.E. Austin Associates Transport Sector Specialist for the Agricultural Analyses and Design Project.

Where monopolies exist, producers have little or no bargaining power. Lack of knowledge of market prices and of prices in the commodity chain also reduces producers bargaining power.¹¹ Monopoly situations certainly exist in the tea industry; monopolistic situations exist in the coffee industry (see below, sections I. 20 and I.21). Some people interviewed reported “defacto monopolies” in some remote areas, where little transport exists to collect produce for more-distant centers.

As a general rule, policy changes that open sectors and geographic areas to competition will tend to increase the ability of producers to demand higher prices. A “Strategic Audit” of Rwanda’s agribusiness systems should indicate where competition could be introduced into commodity systems.

Possible Action: Restructuring of the Coffee and Tea Sectors. (See sections I. 20 and I. 21)

Possible Action: Increase bargaining power of producer by providing market price information and information about the prices throughout the market chain.

Possible Actions: **Outgrower Operations:** Rwanda has a history of some excellent outgrower-style operations. Many of these have included quality enhancement, credit for inputs and extension operations. Such operations can be excellent mechanisms for increasing productivity as well as increasing production levels. They use the pricing mechanisms (often a negotiated fixed price) to interest producers. While prices may or may not be at market level, perhaps the major incentive is the relatively low risk that a producer will perceive.

D. Land Ownership

Land ownership is, as in many countries, a difficult issue in Rwanda.

Currently, land is not owned by individuals, but by the State. There is no legal title to land. Insecurity with respect to land tenure probably reduces the interest of landholders investing in improving production and productivity. It also means that land cannot be used as collateral when seeking loans; reducing the availability of bank financing.

The situation of the “marshlands” (“marais”) is perhaps the most uncertain for individuals. These lands have not been traditionally occupied, and hence local authorities can allow producers to use the land, but they are also not traditionally owned by the user. As these lands are owned by the State, long-term leases are available to commercial enterprises. Formally, the Ministry of Agriculture needs to approve the agricultural project, after which the Ministry of Lands grants the lease. Lease payments are made to the central government.

¹¹ Market prices for raw products in various markets are made available to stakeholders through regular radio programming.

Burgermeister approval is not formally needed for MINAGRI and the Ministry of Lands approval, but they generally take his opinion into account. As commercial use of the land would reduce the local government revenues and possibly displace individual users, the Burgermeister has little incentive to view such transactions favorably.

It should be noted also that the commune has the right to act as an individual, and to lease the land.

A draft Land tenure law has been in preparation/Cabinet for some time. It is expected that the law will reflect a land policy that guarantees secure land tenure and encourages efficient use of land. The land law is expected to confirm that women have inheritance and ownership rights.

Changes (and clarifications) to the land tenure situation are difficult, and inevitably must deal with traditional systems, conflicting claims, and vested interests.

Needed Action: Clarification of land tenure issues through finalization of the Land Law **and its subsequent enforcement** is particularly important to encourage investment, business formation and increases in production. An intervention to assist the quick adjudication of land claims and clarification of tenure would be useful. A model along the lines of the work of Hernan de Soto in Peru and Haiti could be appropriate.

E. International Trade

Rwandan exports are at a remarkably low level. Only 6% of GDB is exported (Exports have never been greater than 8% since 1990).¹² Rwanda is clearly at a cost and logistical disadvantage for the export or import of products by land. Because of infrequent air service, Rwanda also suffers logistic and possibly cost disadvantages with respect to the import or export of high value and time sensitive products. The low level of exports presumably also reflects the lack of competitiveness of Rwanda's current output and business strategies, and is hampered by a number of formal and informal barriers.

Rwanda's government has made a clear statement that it wishes the country to be well integrated into the global economy, and to participate fully in the regional trade associations such as COMESA. However, there is still feeling that some Rwandan industry should be protected in the short term. There is also a loud dissident voice that seeks more protection from lower-cost imports. This dissident voice is partially expressed in a "New Industrial Policy" that was recommended recently by a UNIDO consultant.¹³

¹² Performance Management Consulting, "*Nouvelle Politique Industrielle, Rapport Preliminaire*", October 1999.

¹³ We reviewed the draft document that proposed the new strategy. While the analysis makes wonderful use of a number of excellent tools, we believe that the conclusions and suggestions require further debate and consideration.

Reflecting the stated Government policy, the Consultant believes that Rwanda should be as open as possible to international trade. In addition to allowing Rwandan producers to find international markets, the requirement to be competitive will be an impetus to improving productivity. In the short term, there is undoubtedly some pain to be incurred as some poorly-competitive existing industries adjust to competition. But Rwanda has little to lose – it will have more to lose if it waits several years behind partially protective defenses.

The current situation imposes numerous barriers to international trade. Some, such as poor road infrastructure and poor air connections, are well-known and are not directly related to policy issues (and are therefore discussed in other reports). Some of the key, specific policy-related constraints include:

- High tariff rates, and slowness to adjust rates downward.
- Formal and informal barriers to movements of goods¹⁴:
 - Procedures linking documentary transactions are “less-than-effective and lengthy”. (cost of up to 3% of final product cost) Procedures are not standard and streamlined between Rwanda and the East African countries.
 - Lengthy immobilizations in transit, including immobilizations at Rwanda border for documentation formalities. (Adds 3 to 4 days to land transit.)
 - Lengthy immobilizations at MAGERWA for customs clearance and payment of import duties. (Adds 4 to 10 days)
 - High costs of MAGERWA storage costs.
 - Monopolistic rates structure and procedural complexity of MAGERWA.
 - Inefficient customs and transit procedures in Mombassa in particular, but in general in Uganda, Kenya and Tanzania.
 - Fraudulent declarations and poor professional capacity of customs brokers.
 - Non-competitive domestic insurance coverage of transport.
 - Burdensome liability pursuant to Rwanda’s transport insurance law, whereby the goods are insured at owners risk.
- Sizable smuggling trade.

¹⁴ Most of these factors have been mentioned by many sources. Many are also summarized in the Commodity Export Identification and Logistics Study (Draft), for MINICOM, by Carlos F. De Castro (consultant), January 8, 1998.

- Lack of a duty drawback arrangement. The Draft Year 2000 budget suggests that a duty drawback scheme will be put in place.

Rwanda clearly needs to do its utmost to reduce these formal and informal barriers, to streamline as much as possible the process of trade, and to reduce the costs of trade to the minimum.

Possible Action: The Government is certainly conscious of the disincentives created by the high tariff rates. The Project could assist exporters and importers to make clear cases for changes in the current regimes.

Possible Action: The Rwanda Revenue Authority, assisted by a DIFID-financed team, is improving the systems and operations of the customs operations. A thorough review should be carried out of remaining priorities for improvement in customs and transit activities, and assistance provided to implement these improvements. Stakeholders should be thoroughly involved in this process. Where necessary, assistance can also be provided to streamline cross border and international transit procedures.

Possible Action: MAGERWA, which is 68% owned by the BRD, is a monopoly for formal import and export traffic. Privatization is planned. An intervention to assist in planning the privatization could be useful – in particular to foster a competitive situation that minimizes cost and processing time, and maximizes efficiency.

Possible Action: In the consultant's opinion, the proposed New Industrial Policy could lead Rwanda to adopt anti-competitive, protective and top-down interventions. The conclusions of this policy should be reviewed, and a well-considered response be prepared.

F. World Trade Organization

Rwanda has done little to understand the impact on its trade and business of the World Trade Organization. Some opinion was expressed at a recent conference (covering the New Industrial Policy) that Rwanda need not be concerned with the WTO.

It will be dangerous if Rwanda's businesses, investors and government do not fully understand the implications (negative and positive) of the WTO. On the other hand, Rwanda and its businesses must do their utmost to understand the impacts and opportunities of the regional trade agreements involving COMESA and EAC.

Possible Action: Offer a program to educate stakeholders on the implications of WTO and other trade agreements, and a program of assistance to help stakeholders prepare negotiating positions.

G. Export promotion

Rwanda does not have a functioning export promotion activity. An Export Promotion function is planned to be implemented, provided for by the new Investment Code.

Possible Action: It is likely that an upcoming World Bank assisted program will provide assistance to the export promotion effort. There may be useful inputs to be offered to ensure a high degree of private leadership and participation in export promotion activities.

H. Openness to Foreign Investment

Foreign Direct Investment (FDI) in Rwanda has been low.¹⁵

Government policy is to encourage foreign investment, and the new Investment Code is a significant indication of its commitment to such investment. Rwanda has also joined MIGA (Multilateral Investment Guarantee Agency).¹⁶ FDI can serve as a source of capital, market knowledge, technology and skills enhancement. In many other countries, significant increases in FDI (which typically need not exceed perhaps 10% of total private investment) also signal a jump-start in Domestic Private Investment.

The Investment Code and related changes to the Tax Code provide for significant accelerated depreciation of investment costs. Rwanda has chosen this option instead of cumbersome incentives and tax holidays. (This mechanism is generally a preferred option. Uganda recently switched from investment incentives to an aggressive depreciation arrangement.)

The Investment Code created an *Office des Investissements* – a Rwanda Investment Authority. The Investment Authority has been delayed in its implementation, but it appears that a Director General will soon be appointed. The *Office des Investissements* combines roles of investment promotion, export promotion, and *Guichet Unique* to establish new businesses and investments. Reasons given for combining these activities within one organization include the fact that the three activities concern similar clients, and the need to avoid proliferation of organizations in an environment that has scarce human capital. (The Consultant questions whether there is sufficient synergy and client focus to include export promotion with investment promotion.) The *Guichet Unique* is intended to be a facilitative service offered to all investors in Rwanda, large or small, foreign or Rwandan. The system will need impulse – in some countries the various ministries and public offices with requirements with respect to business registration, establishment and servicing have not actively collaborated with the *Guichet Unique*, to facilitate service to investors.

¹⁵ Performance Management Consulting, “*Nouvelle Politique Industrielle, Rapport Preliminaire*”, October 1999.

¹⁶ A contrary note is the pessimism of the suggested New Industrial Policy.

Some of the areas of possible activity that the Investment Law provides for the *Office des Investissements* should only be undertaken with care. The law includes provision of assistance to local investors for domestic investment activity, in the form of training and other action. In the Consultant's opinion, such action could be unwise for two reasons:

- This type of assistance should normally be provided through the private sector, through associations, Chambers of Commerce, and other such organizations; and
- Such actions will confuse the investment role of the *Office des Investissements*, which should be focussed on attracting foreign investment to Rwanda (and working with Rwandan business to establish domestic, particularly export-oriented investment).

Also, the law that establishes the *Office des Investissements* provides for only 4 members (out of 11 total) of the *Conseil d'Administration* to come from the private sector. This is an insufficient balance for an organization that is created largely to facilitate and promote business.¹⁷ Consideration should be given to eventually altering this balance. In the meantime, the public sector institutions that have representation on the *Conseil* may consider appointing persons from the private sector as their representation.

Unclear and complex procedures for establishing a business and realizing an investment must certainly be a deterrent for foreign (as well as domestic) investors. Other policy-related barriers include:

- Inefficient mechanisms to transfer FX between nations;
- Trade barriers;
- High Tax rates;
- Poor and expensive services and utilities; and
- No (or few) export incentives.

Possible Action: Programs to sensitize local entrepreneurs and producers, and public officials, to the value of FDI. The programs should equally sensitize these stakeholders to the needs of foreign investors, and ways to develop business linkages with them.

Possible Action: Conduct a "strategic audit" of government legislation, policy and strategy implementation, to ensure that wherever possible these elements are consistent in serving the needs of investors, particularly foreign investors. Once deviations are identified, assist in designing and implementing needed changes and improvements.

Possible Action: Ensure that legislation and enforcement exists to protect intellectual property.

¹⁷ A common argument for heavy public sector representation is that the government ministries are often the organizations with which investors and the Guichet Unique must interact.

Possible Action: Conduct an Investors' Roadmap exercise. This exercise can identify specific constraints, complexities and costs that an investor faces in establishing a business operation. (Note that the Consultant also made this suggestion in a meeting with a World Bank mission, and the World Bank expressed interest in including such an exercise in an upcoming Private Sector Development project.)

I. Role of Secondary Cities

Prior to 1994, in a commodity chain system that is reported to have been strong, secondary and tertiary urban centers played important roles as economic centers. Considerable work has been done worldwide that demonstrates the lynchpin role played by secondary cities in decentralized economic growth. Notably, growth of economies linked to secondary and tertiary centers also generates employment, which in turns increases decentralized purchasing power.

Interviewees were uniform in emphasizing the support that local administration (Prefets, etc.) will provide to increasing the role of urban centers. Urban economies will not grow automatically, however, and particularly in the current situation of low producer productivity and ineffective farm-market linkages.

Possible Action: In addition to dealing with the related constraints discussed elsewhere in this report and in other reports, the Consultant suggest that a local visioning and partnership process be conducted in the framework of developing a geographic business cluster.

The suggested process would bring together local stakeholders, public, private and NGO, to participate in a facilitated process in which the central focus of business and investment facilitation would be emphasized. The role of each stakeholder would be expressed, and a joint action plan developed. Effective public-private decision-making structures would be fostered, to make joint decisions on issues such as marketplace development.

The ongoing policy of villagization has been much-discussed. Consideration of this policy is beyond the scope of this analysis. However, it is interesting to note that considerable demand-driven "villagization" has taken place, as the extensive commercial and residential development along main roads attests. To the extent that it is demand-driven, the concept of villagization is consonant with the idea of emphasizing the growth of urban economic centers.

J. Procedural Barriers to Business Formation

The requirements and procedures for starting a business should be examined in detail and streamlined to the maximum. An Investors Roadmap exercise is recommended.

Businesspeople interviewed have said that the actual process of forming a business is not overly complicated – involving registration at Tribunal at any Prefecture. A notary can prepare articles of incorporation and register a company within a few days. However, permits related to land use and investment can be very complex and take considerable time. Utilities are not readily obtained. The planned Guichet Unique may be of assistance with respect to these issues.

K. Labor-related Restrictions

A revised Labor Code has been pending for more than a year, and it is surprising that it has not yet been finalized. While not providing full flexibility, the proposed new code does remove many constraints and inflexibilities that stand in the way of efficient business operation and creation of a thriving labor market. There are numerous anecdotes of companies being restricted in their ability to lay off staff and streamline operations – in some cases because of reported political pressure. There is relatively more freedom to manage employment and labor conditions in rural areas.

The anticipated new Labor Code incorporates many of the recommendations made by the World Bank. Employers are free to lay off employees without undue procedure or cost. It enhances mobility, eliminates most wage controls, reduces labor costs, reduce/eliminate admin measures that constrain the movement of goods and services. Aspects of continued concern include:

- The draft law still provides for minimum wages for professional categories of employees. One reason in favor of this approach would be to set remuneration at levels that are high enough to prevent, or perhaps even reverse, “brain drain”. This would be an expensive approach, however, and will be likely to create distortions. The market should be allowed to determine the appropriate levels of remuneration.
- The draft law continues to impose numerous costs on employers - e.g. insurance, paid maternity leave, 18 days of annual vacation, etc. While such benefits may be equivalent to or less than those offered in certain countries, it is nevertheless questionable whether legislation should be requiring more than a minimum level of benefits, hence increasing costs to business, and thus increasing barriers to new investment. It would be wiser to allow (within lower limitations) the market to determine the magnitude of the benefits to be provided by business.

Possible Action: As written, the draft labor code offers many improvements on existing legislation. Public-private-employee dialogue should continue, even after new legislation is finalized. This continued dialogue should achieve consensus on additional measures to be taken to encourage labor market flexibility and “business-friendliness”, while providing reasonable minimum protections for employees.

L. Lack of Infrastructure/ Related Services in Rural Areas

The relative absence and high cost of effective, service oriented infrastructure and services (e.g. roads, transport, power, water, telecommunications) is well-known and documented. Several actions are being taken to re-establish infrastructure and services. The transport-related issues are a topic covered in another cross-cutting study.¹⁸

A pervasive policy-related issue is the absence of competition and market-based services and prices in service provision. State-owned monopolies exist for power, water and telecommunications. Private investment in these sectors is not currently permitted.

Legislation and privatization plans are being prepared for power, water supply and telecommunications.

A related policy issue is the possibility for involving local clients in decisions on infrastructure and service provision. If privatization encourages competitive private provision of services, greater service-orientation can be expected. However, through mechanisms such as local stakeholder investment boards, or local stakeholder advisory boards, service provision and rate-setting can still be rendered more transparent and subject to market requirements. Local public and private stakeholders will need to be involved in such arrangements.

As already discussed, joint public-private decision-making structures should also be encouraged to guide investment decisions.

Market infrastructure tends to be unsanitary and poorly managed. Private operation, and perhaps ownership, of market infrastructure could be encouraged. MINAG has plans to work with local leaders to improve market infrastructure and, wholesale facilities

M. Lack of Market Information

Without good and current understanding of market prices – throughout the commodity chains – the producer can be in a weak negotiating position in the marketplace. Lack of price competition, and being relegated to a situation of “price taker”, the local producer can be stripped of incentive to invest and increase productivity. This can equally apply to local middleman and intermediate agribusiness operations who are unaware of market chain pricing and composition. This is the situation for many commodity chains throughout Rwanda.

As already discussed (in section I.3 above), the incentives and empowerment that derives from effective price signals appears to be a key missing element in the commodity chains. However, another important market-related issue is the lack of knowledge of the processing and marketing operations further down the chain, and the lack of understanding of consumer requirement in

¹⁸ For more information, please refer to the Transport Sector Analysis prepared by Harold Kurzman, the J.E. Austin Associates Transport Sector Specialist for the Agricultural Analyses and Design Project.

terms of factors such as quality, timing, presentation, packaging, use, etc. This information is certainly lacking at the level of the original producer; it is also lacking at many intermediate points in the chain. The information flows throughout the market chains are rarely set up to provide such information and feedback to the various economic stakeholders. The lack of market-based pricing reinforces this information vacuum.

The details of this situation perhaps stray from a strict policy issue. The basic related policy issues are:

- Ensuring that competitive market signals permeate the commodity chains; and
- Related to this, ensuring that the privatization of agribusiness SoEs and related subsectoral restructurings are carried out in a manner that emphasizes market signals and production and productivity incentives to all stakeholders.

N. Impact of Privatization in Rural Areas

Large segments of rural production and agribusiness are the fiefdoms of monopolistic parastatal organizations. These companies have been inefficient, starved of entrepreneurship, investment and dynamic impulse, and restrictive of market-based activity. This soporific stranglehold has extended to service sectors such as import-export (MAGERWA) and finance, and has been reinforced by the legislative and administrative environment.

The message that they are price-takers and devoid of market-takers has surely not been lost on producers and intermediary agribusiness. Perhaps the surprising fact is that, in this environment, there are nevertheless so many anecdotes of dynamic efforts at developing small-scale entrepreneurial initiatives.

Related to this situation amongst agribusinesses, the State-owned, monopolistic nature of service providers, such as power, transport and telecommunications, has starved the rural economy of effective, service-oriented, reasonably-priced utilities and services. This has added costs for investors, created barriers to investment and business formation, and restricted business' ability to understand and respond to the market.

A privatization process is well-underway, assisted by the World Bank. Final arrangements have not been announced for certain crucial privatizations, such as the tea estates, Rwandex, MAGERWA, ELECTROGAZ, RWANDATEL and other State-owned companies. It will be hoped that the formulae adopted for these privatizations will provide opportunity for market-based operation, production and producer incentives, business formation, market knowledge, etc.

Possible Actions: It is beyond the scope of this project to take a direct hand in the privatizations. However, several supportive actions can be suggested:

- Assist business and producers associations and other stakeholders to advocate for structures that generate incentives and open markets.

- Work with the stakeholders of privatized industries to implement thriving structures and linkages. Examples could be the implementation of effective ownership and outgrower arrangements for the pyrethrum sector, and similar arrangements for the tea and coffee sectors.

O. Entrepreneur/ Farmer Skills and Education

Reports, businesspeople, financiers and other stakeholders are unanimous in their opinion that producers, agribusinesses and service companies (as well as public sector organizations) lack crucial knowledge and skills. The missing skills relate to business planning and management, technical information, market requirements and more. Also, basic literacy and education are also severely lacking.

These weaknesses are well-known. Many programs, often supported by international agencies and NGOs, have been and are continuing to be put in place to address aspects of the problem.

Basic education is clearly deficient. There is an absolute lack of teachers, and teachers are reportedly to be poorly trained. Literacy in 1996 was 56.4% for men and 49.5% for women. Only 60% of children attend primary school; only 6% go to secondary school. Few girls complete primary school.¹⁹ The curriculum is not focussed on providing skills that are of immediate relevance to farm-based activity or agribusiness employment. Technical, vocational and adult education are all reported to be weak.

Again, it is beyond the scope of this report to examine the full detail of education policy and its implementation. Nonetheless, several suggestions can be made that relate specifically to agriculture and agribusiness:

- Curriculum at the primary and secondary level should be focussed as much as possible on preparing students for work in the agriculture and agribusiness sector. The curriculum should include technical as well as business elements. Local stakeholder participation should be invited in preparing the curricula, and in overseeing the education. A strong private sector focus is needed.
- A key measure of a successful educational system is that students are subsequently able to find employment. Businesses should be involved in the curriculum design. Employment rates should be tracked.
- Students will become effective participants in the local economy at a very early age. They will become productive on the farm well before the age of 15, and can also be employed in agribusinesses at an early age. Investment in education, training and skills

¹⁹ UNIDO Program Document, Integrated Program for Capacity Building to Enhance Industrial Recovery, Competitiveness and Sustainability.

development can thus bear fruit quite quickly. Moreover, students can bring information and perspective home to their families, even at a very young age.

- Adult training and skills development is becoming increasingly available through the work of NGOs and associations. This resource should be expanded and supported.

There is scope within the planned project to support each of these themes.

P. Extension Activities

Government, local authorities, agribusiness and producers all seem to be well-aware of the weakness (ineffectiveness) of Rwanda's government-operated extension activities. Despite large numbers of extension service staff having been laid off recently, the service is still considered by many of the people interviewed, to be non-performing. Aside from criticisms of the knowledge and motivation of the extension staff, the extension service is also criticized for lack of transport, materials and other resources needed to provide service.

A basic policy question is, in a situation where there is a non-operative, public sector extension service, should effort and budget be focussed on trying to establish a functioning State-operated service – or should private options be considered. Indeed, there are few models in Africa of sustained effective, publicly-provided extension activity.

The extension service is not supported by an effective agricultural research operation (see below, section I.17).

In this void, association-based NGO activity has become extremely important. There are also a few cases of private, outgrower-type extension. Several examples of effective outgrower-type extension exist in Africa.

The FAO has been examining a possible approach to extension that concentrates on preparing development agents that specialize in specific activities, and who focus only on commodities that are market based, with paying clientele. Per FAO, the “bulk of extension is charity” at the moment.

The FAO concept would start in only some areas, not all communes at once. It would get young people on board early as extension staff – people who are interested in market orientation, and who are trained to understand market chains and industrial production. The FAO approach would also incorporate local pilot schemes, models and reference sites operated by associations.

The Ministry of Agriculture (Director of Planning) has talked of a system with many similar elements to the FAO concept: greater focus on providing information and linking producers with models and demonstrations, increasing accessibility of information, fewer personnel with more resources.

Possible Action: It is probably beyond the scope of this project to take the lead in establishing effective extension activities. The project can, however, play

a very effective role in advocating and supporting initiatives that are based on sound principles. Examples can include:

- Outgrower schemes;
- Market-based, privately provided skills development and technology transfer;
- Demonstration and pilot activities;
- Cooperative- and association-based initiatives; and
- Initiatives that are closely linked to local planning and stakeholder involvement.

The possibility of more drastically privatizing the extension service could also be considered. One model would be to concession a discrete bundle of extension services to private providers in, initially, a limited number of prefectures or communes. (Initially direct payment by producers for extension services would not be viable.) The concession should be competed, and initially, no private provider would be allowed to win concessions in more than one or two locations. The public sector role (or perhaps even a private membership Extension Board) would retain a planning, tendering and performance monitoring function. A firm that does not achieve measurable result over the life of its concession would not be permitted to retender; a firm that does produce results would be permitted to operate an additional concession.

Q. Lack of Standards, Norms, Grades and Certifications

There is no operating institute or other legally recognized structure in Rwanda that can carry out quality tests, certify quality, measure standards, or carry out related operations. There is no functioning quality laboratory. This vacuum hinders exports, as exports cannot be readily certified to be of quality required by the foreign markets. It also affects quality standards on the internal market, and imported goods similarly cannot be effectively tested. With the exception of tea and perhaps coffee, agribusiness are unable to properly grade product standards.

Currently, a laboratory in Nairobi must be brought in if there are measurement or certification requirements.

UNIDO has opened a “focal point” for Quality, Standards and Measurement, under the umbrella of MINICOM. The activities of this focal point are to provide information, to subscribe to ISO, to study possibilities for certification operations, and with UNIDO support, to finalize the Standards legislation. Three people are being sent for training, and are expected to become part of a national institute for standards. An office is being set up in Kichikiro.

Per a UNIDO consultant, the current draft needs to be modified before presentation, in particular so that quality and standards governance is largely the responsibility of the private sector, and so that it is facilitative (rather than protective).

FAO has also been sponsoring work to support the creation of a Standards office:

- Collaborating with UNIDO is establishing the “focal point”; and
- Setting up laboratory equipment. A prewar shipment of laboratory equipment was discovered unopened. However, the building in which the equipment is being set up is not proper for a laboratory, and laboratory supplies and expendables are still needed. Trained personnel are also required.

ISO 9000 certification is not unknown in Rwanda. SulfoRwanda, for example, is currently working on ISO9000.

Possible Actions: Efforts appear to be well-underway to establish a standards and quality operation. The USAID project should certainly be supportive of these efforts. More specifically, the project should work with agroindustries and agribusinesses, and their associations, to establish grades and standards where such certifications will be supportive of focussed marketing, branding, consistent standards and quality.²⁰

USAID should also support its stakeholders in ensuring that the finalized legislation reflects the opportunities and requirements of market needs, globalization, flexibility and health – and that it is facilitative, rather than control oriented.

R. Subsidized Fertilizer and Other Inputs

Rwanda has a repeated history of fertilizer and occasionally other inputs being provided by the Government or parastatals, or by international organizations. While empirical data is not available, many reports and interviewees believe that the distribution of these inputs has rarely been handled in a manner that maintains a strong business and financial (i.e. credit repayment, respect for contract) ethic amongst producers. Commercial marketing and distribution chains have at times been by-passed and at other times been skewed by the distribution of fertilizer. The poor and inappropriate handling of these inputs, it is felt by many, have prevented the establishment of effective market-based linkages within the industry, and have diminished the import of their use amongst many producers. Improper fertilizers and other inputs have at times been provided for the crops, timing has at times been inappropriate, distribution has been patchy, and supporting training and extension have often not been provided.

Considerable work is ongoing with respect to assessing the appropriate and profitable use of fertilizers (e.g. ongoing work by MSU and FAO). If proper use of fertilizer can be demonstrated to be profitable without substantially increasing risk, producers can be expected to seek its use. In a liberalized, market-based economy, private entrepreneurs should be responsible for purchasing and distributing the inputs. This type of commercial system should be allowed to develop and, indeed should be facilitated. Associations, cooperatives and outgrowers all have

²⁰ It should be noted that low-quality gradings may in fact also be an excellent marketing approach for cost-conscious consumers in Rwanda and the region.

roles to play in this system, as do providers of extension services and training. The object is to establish a system that encourages market-responsive suppliers to provide the inputs on a timely manner, at as reasonable a cost as possible. It is to develop and implement a market-based distribution system for fertilizers, high-yielding seed varieties and other inputs, with very limited, targeted and time-bound subsidies.

Many of the policy and other constraints referred to in this and other reports will need to be addressed of course, and so instant country-wide results cannot be expected. Financial and credit constraints will need to be addressed. A World Bank project to intensify the use of inputs should contribute to these efforts – it will provide lines of credit to traders through commercial banks. Traders already have relationships with the banks. Farmers pay cash or in kind.

Possible Action: Effective, market-based, private distribution of inputs is central to the purpose of the anticipated project, and should receive project support. As agribusinesses, distributors will be the focus of specific assistance and facilitation from the business centers. The commodity chain linkages will also be priority. Such services are discussed briefly in another report²¹, and will be the focus of specific attention in the follow-on design work.

The project can be supportive on a policy level as well. The project can collaborate with MSU and others to explain the impacts of subsidized and poorly-organized supply and distribution. The project can also be supportive in establishing credit arrangements (credit to importers and distributors, credit to producers) to lubricate effective market-based activity.

Fertilizer and other inputs are expensive in Rwanda. Geographic constraints undoubtedly contribute to the cost. Lack of competition in the markets may also be contributing. The project could sponsor a study of price/cost composition of inputs in countries in the East Africa Region – to identify sources of cost disadvantage and to make the case for competitive markets.

S. Agricultural Research

Agricultural research activity was severely damaged during the 1994 strife. It has not yet recovered to any appreciable degree.

Interviewees have criticized the current situation with respect to Agricultural Research as follows:

It is not demand-driven nor market-oriented nor client-focussed.

It is not prioritized. (ISAR currently is conducting research on 22 different crops, and is trying to reestablish approximately ten research centers.) The budget is spread too thinly. Two interviewees believed that research was being conducted because of pressure from vested interests.

²¹ Please refer to the report on Agribusiness Assistance Centers prepared by Ken Weiss under the Agricultural Analyses and Design Project.

ISAR is poorly staffed – with underqualified and underskilled staff. There are very few qualified and experienced staff.

Underpaid staff are reportedly moonlighting for private clients.

If this situation is correct and allowed to continue, it is unlikely that agricultural research will produce useful results. The situation needs improvement. (USAID, it should be noted, is supporting a program of assistance to ISAR.)

The Consultant suggests that significant research results will only be achieved if ISAR focuses its agricultural research budget and other resources on a small number of commodities which, because of market demand and a ready client base, will be able to rapidly translate into on-the-ground implementation. The Consultant also suggests that these priorities would, in the medium term, best be ones in which agribusiness will be interested, and thus can draw into the market chain. The research program should be defined with input from the clients who will make use of the research results.

It should be noted that the Conseil d'Administration of ISAR is entirely (or nearly so) composed of public sector representatives. The Conseil d'Administration is responsible, amongst other activities, for approving ISAR strategy, research plans and budget. The Consultant believes that without a strong private sector (businesses, producer associations) impulse to ISAR – hence presence on the ISAR Board – market priorities are unlikely to be reflected in ISAR's strategies, plans and budgets. While public participation should not be ignored, exclusively public sector representatives have few obvious advantages – and several potential disadvantages, in leading and overseeing agricultural research activities.

Possible Actions: Because of USAID's involvement in the research sector, there is considerable opportunity for collaboration with this planned project.

The planned project will not be a research project. However, since research outputs can be useful to agribusiness and to the commodity chains, the project should take a practical interest in the research agenda and implementation.

The project should assist stakeholders to advocate for changes in the Conseil d'Administration of ISAR, so that private interests are heavily represented. The project should also assist stakeholders to advocate for a research program that is directly focused on outputs that can be used by agribusiness and by the priority commodity chain. A stakeholder review (or oversight) council for research could be a useful initiative.

The project should work with providers of extension services to translate research results into products, packages and approaches that will be readily adopted by stakeholders.

T. Business and Sectoral Institutions

1. Producer Associations, Microenterprise Associations, Cooperatives and NGOs

Most legal and informal barriers to association and cooperative formation have been removed. Indeed, many associations, cooperatives, NGOs, intergroupements and other organizations have been created in recent years. These organizations vary greatly in scope, size, type of membership and purpose. Many are very dynamic. Many exist primarily to receive funds available from international NGOs and other internationally sources.

This burgeoning resource of associations and solidarity provide a wonderful basis to reach stakeholders, and are potential partners for the planned project. Many lack skills and financial resources – but those are perhaps target areas for improvement.

Some policy issues remain to be tackled:

- The cooperatives law is out of date, and needs revision. Rwanda has a long history of cooperative formation, and cooperatives at one time represented a very sizable percentage of Rwandans. Their reputation has suffered in recent years, because of reasons such as weak management, poor results, perceived forced membership in the past, and perceived “coopting” of organizations by special interests and local power structures.
- While most associations are registered within their commune, they do not have juridical status. Because they are not legally registered, they are limited in certain actions – for example, they may be unable to enter into contracts, and hence cannot receive credit from banks.
- Some interviewees have reported anecdotes of prefectural or communal resistance to association formation and autonomy. (This needs to be tested.)
- There is public ambivalence to NGOs, and there is some sentiment that the State needs more control over NGOs. Many associations are seen as “creations” of NGOs. There are approximately 150 foreign NGOs operating in Rwanda, and many more domestic NGOs.

MSU is about to undertake a survey of associations, and will examine the constraints faced by the associations.

Possible Actions: Representative, soundly conceived and managed associations, cooperatives and NGOs should be primary partners of the project – in particular those cooperatives and associations which are agribusiness (rather than primary producer) in nature. The institutions will provide useful vehicles for delivery of services provided by the project. These institutions should thus also participate in the conceptualizing and design of the services.

The project can provide assistance directly to these institutions. These could include assistance in service design and delivery, assistance in governance and management, etc.

The project can help these institutions to carry out certain services, such as policy advocacy.

2. Business Associations

The rapid establishment of associations is taking place within the business community as well. Many industry associations, sectoral associations, and cross-sectoral associations (e.g. exporters) are being established at the national and local levels. These are also primary partners for the project. They should be targeted vehicles for delivery of services to their membership, and also should receive assistance from the project.

Most of these associations are extremely weak, with few resources or skills. The project should target associations that are truly representative of a committed membership, that have clear objectives, that have strong and committed leadership, and that have established effective and democratic governance structures and procedures. The project can provide assistance in association management.

At the APEX level, legislation is being passed that will replace the existing Chambres de Commerce (which are State-established vehicles with limited credibility and success at representing private business interests) with a truly private sector federation of associations. (While expected for more than a year, the transition has not yet taken place, as the relevant legislation has not yet been finalized.) Many associations have been actively involved in the establishment of the federation, and the Federation benefits from a core of very committed and dynamic business leaders. The Federation is meeting on December 22, 1999 to select its managing committee.

A special facet of the Federation is that its establishment has been carried out almost entirely by private sector initiative (albeit with tacit government blessing and with international agency support). In this respect it has followed a model used in the creation of the Public Sector Foundation in Uganda (and the PSF has provided advice).

While the Consultant believes the establishment of the Federation to be very desirable, a note of caution needs to be sounded. It is in danger of being swamped with donor-funded programs that international agencies want to be implemented by the private sector. The World Bank and UNIDO are both planning to use the federation as the location for projects. The Federation is untried, and will have limited management capacity. Its ability to effectively represent its constituents and carry out its mandate could be threatened if it is expected also to be the home for too many development projects. There is also some concern that it will not be able to effectively handle and not be “spoiled by” all the expenditure that it will be responsible for overseeing.

U. The Legislative Agenda

The poor quality of the enabling environment for business was highlighted towards the beginning of this report, and has been discussed throughout. In late 1998 and earlier, a considerable legislative agenda was planned by Government to consolidate the country's commitment to business-led growth, and to ensure that a business-friendly legal platform was put in place to encourage investment and business activity.

Progress on approving these laws has been surprisingly slow. Figure 3 presents the status of these expected laws. In addition, revisions are needed to the Bankruptcy Law; the law governing Cooperatives; the laws governing international trade; and the Competition Law.

The project should assist its stakeholders to press for action of this legislative agenda. It should help business associations to review draft legislation and to propose effective provisions. The project should also encourage rapid implementation and diligent (and fair) enforcement of the new legislation once it is in place.

No action has yet been taken to implement the much-needed Tribunal de Commerce. The Tribunal is needed to provide rapid adjudication of commercial disputes and contract enforcement. A Centre d'Arbitrage is being put in place at the Chamber of commerce, and will move to the Federation once it formally replaces the Chamber.

V. Particular Situation of the Coffee Industry

The importance of Coffee to the Rwanda economy, in terms of numbers of people wholly or partially employed in the industry, and its large representation in Rwanda's exports, is special. A large number of analyses, strategies, restructuring plans and other documents have been prepared in recent years to explain the problems faced by Rwanda's coffee industry and to propose restructuring objectives and programs. The reader is referred to these sources (several are listed in Annex 5, Bibliography) for more detailed discussions and considerations.

During the strife of 1994, many coffee-producing farms were abandoned. 60% of plantations were neglected. In 1997 it was estimated that 25% of plantations were neglected. Production fell from 43, 000 tons in 1987 to 15, 000 tons in 1997. Worldwide, coffee prices have suffered a real long-term decline.²²

The industry was liberalized considerably in 1995. OCIR-Café withdrew from commercial activities. Prices were left to be determined by the market. Exporting firms – in a sense the apex of the coffee industry in Rwanda – were allowed “free” entry into the market. Some warehouses and washing stations were privatized. (Most had been damaged or destroyed in the fighting.)

²² *Revitalising the Coffee and Tea Sectors.*

Additional Government policies with respect to the coffee industry were expressed in “*Development Policy for the Coffee Sector in Rwanda*” (MINAGRI and OCIR-CAFÉ, 1998). The policies include:

- Increase communications with farmers;
- Create coffee growers’ associations;
- Improve extension services;
- Expand distribution of HYV seedlings through privately managed nurseries; and
- Distributing fertilizer under new fertilizer policies.

Even if effectively implemented, these measures would be unlikely to revive the industry. Some key issues and constraints include (per reports and interviews):

- Coffee production has suffered from low productivity, declining quality, and lack of maintenance of bushes and other investment. Bushes were ripped out in favor of alternate crops during periods of low prices.
- Producer prices are low by international standards, and are too low to provide producers with incentive for investment (labor or other inputs) in production or quality.
- Although entry to exporters was liberalized, a severe oligopolistic – perhaps monopolistic – situation remains. Only 2 exporters have thrived. The largely Government-owned Rwandex had about 75% of the market in 1998, and there was a perception (anecdotal) that the Government favored Rwandex through informal measures. Rwacof, which is also rumored to be favored and to use “strong-arm” tactics, had about 20% of the market. Coffex had less than 5% of the market.²³
- A Coffee Export Tax was introduced after the war. It was a 16% in April 1998, but was reduced during 1999 to 2%. It is expected that the tax will be removed during FY2000. One impact of the tax was to raise the export cost of coffee, and this cost increase had to be compensated for by reduction in the prices available to producers.

Analysis of the situation in the coffee industry is complex, and solutions are not necessarily evident. Rwanda’s location certainly imposes a cost penalty on the industry, restricting to some extent the prices that could be paid to producers under any scenario. From a policy perspective, however, some points are crucial. From the perspective of maximizing competitiveness and private business participation, however, several themes that need to be taken into account in this restructuring merit highlighting:

- Incentives must exist to encourage improved production, productivity and quality. The market structure should encourage new investment. Therefore market forces should encourage higher prices;

²³ *Revitalising the Coffee and Tea Sectors.*

- Rwandex should be fully privatized. (This is planned under the privatization program.) Privatization should be carried out in a way that reduces the monopolistic situation in exporting – perhaps by breaking Rwandex into several companies. A competitive market needs to be established throughout the coffee commodity chain.
- The status of OCIR Café should be quickly resolved. OCIR Café offers services of dubious utility and quality, drawing payment (reported to be overly expensive by international standards) from the industry, and hence further reducing payment available to producers.

OCIR Café believes that it has a role to play, and indeed, has proposed new services. The Consultant believes that OCIR Café is not responsive to stakeholders, and that its responsibilities should be moved, probably on a step-by step basis, from to the market. This will enable businesses, appropriately supported as described above, to assume these responsibilities.

The Government has agreed that responsibility for inputs and marketing of OCIR Café (and OCIR Thé) should be moved to the private sector. Inputs will need to be commercialized, rather than distributed at no cost. Industry bodies are needed to provide advocacy, and to provide the framework for negotiations within the industry. Issues and programs of research, standards, quality protection and regulation should remain as much as possible in the private sector. (OCIR Café and OCIR Thé) should probably be disbanded as public sector bodies, and become (or be replaced by) stakeholder-managed bodies.

- Consideration should be given to establishing a coffee auction, and whether it would be feasible to have an auction that is parallel to individual market agreements (current situation).
- Sectoral management and overview should include strong participation from private stakeholders of various types;
- Changes should be considered and supported by a strong program of public awareness and dialogue.
- A cluster approach (competitive strategy) would be very applicable to Rwanda’s coffee industry. The cluster approach would examine the international competitiveness of the (eventual) industry, and develop strategies to bridge strategic gaps, upgrade quality and value added, and increase the ability of Rwanda’s coffee industry to adopt market-responsive approaches. (A similar approach is being considered by the coffee industry in Uganda.)
- An industry-based organization is needed, to handle responsibilities such as: a forum for stakeholders, for the design and monitoring of projects, (possibly) to issue licenses to coffee exporters, to coordinate research efforts, for market monitoring and announcement

of indicator prices, to represent Rwanda in international coffee organizations, to ensure quality control (and standards?), to issue quality certificates for export, etc.²⁴

- Farmers Associations can be facilitated to: represent interests, process and market coffee – including building, operating and managing washing stations and nurseries, importing and distributing inputs (purchasing coop), providing credit (credit coop), diffusing new technologies (extension).²⁴

Several of these are appropriate areas for project action.

W. Particular Situation of the Tea Industry

Rwanda's tea industry is also of special employment and export importance. 1997 tea production was near historic highs.²⁴ Rwanda's tea is reputed to be of particularly high quality.

Tea is processed on 10 factories. The estates have both factory-owned and smallholder production.

Some key issues pertaining to the tea industry include:

- Tea production provides low yields by international standards. Within Rwanda, the government-owned OCIR Thé plantations yielded (1997) 1090kg/ha versus 3523 (Sorwathe).²⁴ A large part of the difference is reported to be due to the different application of fertilizer. The difference is in large part fertilizer application. OCIR Thé minimizes fertilizer application because it finds its factory capacity to be limited. (Yet OCIR Thé producer prices are theoretically supposed to include the cost of fertilizer provided. The fertilizer is reported to often be incompletely delivered and at the wrong times.)
- OCIR Thé states that its factory capacity is insufficient to process all the tea that it could purchase. This may or may not be the case – the operational efficiency of the OCIR Thé factories should be the focus of study.
- Nonetheless, the implication of a situation of undercapacity in processing and low producer yields is that poor producer revenues and profits are averaged over a larger number of producers than need be. If only a limited amount of production can be handled, it would be more productive to maximize the returns from a smaller number of producers, and to allow other producers to produce other crops.
- Prices provide minimal incentive to produce and invest. They also provide no price signal for the producer to invest in producing higher quality teas. Minimum producer prices are fixed by government; only Sorwathe pays a bonus.

²⁴ *Revitalising the Coffee and Tea Sectors.*

- Low producer prices and wages have resulted in labor shortage on tea plantations.
- Producers have no alternative markets for their tea. Because of the excess supply, neighboring factories have no incentive to purchase additional tea. Also, road linkages between estates are reported to be particularly poor.
- The Government has announced plans to privatize its assets in the tea sector. Movement on this has taken a considerable time, and the restructuring plans are still uncertain.

As with coffee, analysis of the situation in the tea industry is complex, and solutions are not necessarily evident. Rwanda's location also imposes a cost penalty on regular shipments by the industry. Some policy-related points are crucial, however, and from the perspective of maximizing competitiveness and private business participation, however, several themes that need to be taken into account in this restructuring merit highlighting:

- As with coffee, incentives must exist to encourage improved production, productivity and quality. Therefore market forces should encourage higher prices. Market forces should also facilitate price incentives for higher quality teas.
- Also as with coffee, responsibilities should be moved from OCIR Thé to the market. This will enable businesses, appropriately supported as described above, to assume these responsibilities.

The Government has agreed that responsibility for inputs and marketing of OCIR Thé should be moved to the private sector. Inputs will need to be commercialized, rather than distributed at no cost. Industry bodies are needed to provide advocacy, and to provide the framework for negotiations within the industry. Issues and programs of research, standards, quality protection and regulation should remain as much as possible in the private sector. OCIR Thé should probably be disbanded as a public sector body, and become (or be replaced by) stakeholder-managed bodies.

- The market structure should encourage new investment, particularly in the expansion of tea factories (or new facilities), but also in small businesses, market intermediaries, and upgrading of assets. New private owners should be selected in part on the basis of their readiness to expand processing capacity.
- Sectoral management and overview should include strong participation from private stakeholders of various types.
- Changes should be considered and supported by a strong program of public awareness and dialogue.
- In the tea industry, there is particular scope for competitive strategies focused on higher-quality teas, specialized markets and niches branding, and similar themes. Cluster

development and competitive strategy development and implementation should be facilitated. (The Sri Lanka tea industry is currently implementing this approach.)

- There are several possible structures for ownership of the tea factories, and it may be that several can be adopted (i.e. allow investors to determine). For example, factories can be operated as independent (from production) businesses; producers or producer cooperatives could assume ownership (if they can raise the funds for investment); or they may be given minority ownership. Mechanisms can be applied to allow producers to participate in profit sharing (as in Uganda and Kenya) and some decisions.
- With privatization, a possibly ideal situation in terms of increasing the international competitiveness of Rwanda's tea industry would be to involve one or more large, international players (e.g. Unilever) in the tea industry. Their investment in the Rwandan tea industry would provide a boost to investment, quality, production and market knowledge. They would provide powerful linkages with the global markets, and would help to raise the international profile of Rwanda. The Rwanda Investment Authority, Privatization Agency, Government and industry should unite in trying to attract this world-caliber category of investor/marketer.

Similar actions could potentially be used for the coffee industry and for other commodities.

- Road linkages between estates can be upgraded, to facilitate competition at the farmgate level.

Several of these are appropriate areas for project action.

ANNEX A: SUMMARY OF CONSTRAINTS, IMPACTS AND POTENTIAL PROJECT ACTIONS

Main Policy Category	Policy Issue	Impact	Possible Intervention ²⁵	Likely Outcome	ST/MT/LT Impact of Intervention
1. Taxes, Duties and Other Levies					
	Export Tax on Coffee	<ul style="list-style-type: none"> • Reduces price available to producer. • Reduces incentive for producer to invest. 			
	High personal and corporate tax	Multiple taxes and charges cause inefficiencies and opportunities for fraud. High taxes and charges are disincentive for investment and business formation. Procedural inefficiencies impose costs and	Assist stakeholders to advocate for a rationalized, streamlined tax system and customs operation	Reduces costs of compliance and opportunities for fraud and illegal behavior.	MT
	Advances on Taxes				
	Duty Drawbacks				
	Sales Tax Payable on all imported items				
	High External Tariffs				
	Tariff Surcharge				
	Numerous other taxes and levies				

²⁵ Where blank, no Project intervention is recommended.

Main Policy Category	Policy Issue	Impact	Possible Intervention²⁵	Likely Outcome	ST/MT/LT Impact of Intervention
	Tax and Customs Administration	barriers to investment.			

2. Finance and Credit					
Lack of Access to Bank Lending	Lack of Long-term Credit	Long-term credit is difficult for agribusiness to access from financial institutions.	Work with financial institutions to facilitate understanding of agribusiness opportunities and to find mechanisms to reduce risk/risk perception increase credit viability	Increased lending to agribusinesses.	ST
	Banks reluctant to lend to agribusinesses				
	Poor borrowing/repayment culture				
	Inability of business to present well-considered business plans		Improve ability of loan-seekers to present sound business plans	Increased lending to agribusinesses.	ST
	Lack of collateral.				
	Lack of insurance against catastrophes.				
	Risk aversion on part of the commercial banks and BRD				
	Lack of competent, trained bank staff				

	Farmers do not know how to get credit from a bank		Training and TA	Increased lending to agribusinesses.	ST
	Banques Populaires are not ineffective and non-functioning				
Microcredit	Microcredit resources are not yet numerous	Lack of resources for investment and business formation.			
3. Impact of Low Prices to Producers/Lack of Price Incentive					
	Producers lack bargaining power – lack of price information	Low prices dampen production and productivity, and on the willingness of producers to invest in production and productivity	<ul style="list-style-type: none"> Restructuring of the Coffee and Tea Sectors (See below) Provide market price information and information about the prices throughout the market chain Support Outgrower Operations 	<ul style="list-style-type: none"> Higher prices for producers and some chain intermediaries. Greater incentive for producers to invest. Greater producer-agribusiness interaction. Greater incentive for production and productivity. Greater producer-agribusiness interaction. 	ST MT

	Producers lack bargaining power – monopolistic structures in commodity chains	Low prices dampen production and productivity, and on the willingness of producers to invest on production and productivity	<ul style="list-style-type: none"> Restructuring of the Coffee and Tea Sectors (See later discussion) “Strategic Audit” of to indicate where competition can be introduced into commodity systems 	<ul style="list-style-type: none"> Identify actions to improve competitive markets and mechanisms 	MT
	Prices do not differentiate quality	<ul style="list-style-type: none"> Undifferentiated prices will encourage production only of quality that requires lower investment 	<ul style="list-style-type: none"> Restructure of the Coffee and Tea Sectors (See later discussion) Provide market price information and information about the prices throughout the market chain Support Outgrower Operations 	<ul style="list-style-type: none"> Greater producer incentive for productivity and quality. More effective and productive linkages in the commodity chains. Greater incentive for production and productivity. Greater producer-agribusiness interaction. 	ST/MT MT
4. Land Ownership					
	No legal title to land	<ul style="list-style-type: none"> Reduces the interest of 	<ul style="list-style-type: none"> Support finalization of an appropriate Land 	<ul style="list-style-type: none"> Increased investment by producers and 	MT/LT MT/LT

	<p>Marais: Local authorities have little incentive in allowing Government to give long term, leases to commercial interests.</p> <p>A new Land Tenure law has been long delayed.</p> <p>Pending the new law, women have no legal land inheritance and ownership rights.</p>	<p>interest of landholders to invest in improving production and productivity.</p> <ul style="list-style-type: none"> Land cannot be used as collateral when seeking loans; reducing the availability of bank financing. 	<p>an appropriate Land Tenure Law, and its implementation.</p> <ul style="list-style-type: none"> Support quick adjudication of land claims and clarification of tenure. 	<p>by producers and agribusinesses, accompanied by stronger ties with agribusiness.</p> <ul style="list-style-type: none"> Increased credit availability. 	MT/LT
5. International Trade	<ul style="list-style-type: none"> An Industrial Policy suggested by a UNIDO consultant appears to have non-liberal tendencies. 	<p>Concern that policies will veer towards protectionism, top-down approaches, restricted market systems.</p>	<p>Review conclusions of the new Industrial Policy presented by the UNIDO consultant; policy should not lead to anti-competitive, protective or top-down interventions.</p>	<p>A sound and aggressive approach to international trade, active globalization and search for competitiveness.</p>	MT/LT
	<ul style="list-style-type: none"> High tariff rates, and slowness to adjust rates downward. 	<p>Restricted international trade and investment.</p>	<p>Assist exporters and importers to make clear cases for changes in the tariff regime.</p>	<p>Active international trade.</p>	MT

	<ul style="list-style-type: none"> • Sizable smuggling trade 	Damage to domestic industry; reduced Government receipts, neglect of legal behavior.			
	<ul style="list-style-type: none"> • Lack of a duty drawback arrangement. 	Restricted international trade and investment.			

<p>Formal and informal barriers to movements of goods</p>	<ul style="list-style-type: none"> • Costly, cumbersome documentary procedures • Lengthy immobilizations in transit, and at MAGERWA (customs clearance, payment of import duties). • High costs of MAGERWA storage. • MAGERWA: Monopolistic rates and procedural complexity • Inefficient customs, transit procedures in transit countries. • Fraudulent declarations; poor professional capacity of customs brokers. • Non-competitive domestic 	<p>Reduced incentives for international trade, increased cost of goods on domestic market, increased cost of Rwanda" export goods, lack of responsiveness to market's time-related needs.</p>	<ul style="list-style-type: none"> • Review remaining priorities for improvement in customs and transit activities, and provide assistance to implement improvements. • Provide assistance to streamline cross-border and international transit procedures. • Assist planning of MAGERWA privatization. 	<p>Increased international trade, increased cost-competitiveness, greater ability to respond to the market's service needs.</p>	<p>MT</p>
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WTO and other trade agreements	WTO impact not understood.	Potential damaging impact on Rwanda's trade and investment; possible missed opportunities.	<ul style="list-style-type: none"> • Program to educate stakeholders on the implications of WTO and other trade agreements. • Program to help stakeholders prepare negotiating positions. 	<ul style="list-style-type: none"> • Fully prepared negotiation positions. • Greater likelihood of favorable investment and trade performance. 	LT
Export Promotion	Absence of export promotion activity.	<ul style="list-style-type: none"> • Continued lack of knowledge of Rwanda's products in international markets. • Continued unfavorable associations with Rwanda's name. 	Facilitate high degree of private leadership and participation in export promotion activities	Improved export performance, including contributing to higher value niche exports.	MT/LT

6. Openness to Foreign Investment	Limited public and public sector awareness of the importance, needs and opportunities for FDI.	Constrained enabling environment for FDI, hence limitations on FDI.	Programs to sensitize Rwandans to the value of FDI, the needs of foreign investors, and ways to develop business linkages with them	Greater public support and improved enabling environment for domestic investment and FDI, hence greater investment.	MT
	Some remaining issues with the new Investment Code.	Investment Promotion, investment environment are not optimum.	<ul style="list-style-type: none"> • Conduct “strategic audit” of legislation, policy and strategy implementation, to ensure consistency in serving needs of investors. • Assist in designing and implementing needed changes and improvements. • Ensure that legislation and enforcement exists to protect intellectual property. • Conduct an Investors’ Roadmap exercise. 	<p>Improved enabling environment for investment, hence greater domestic investment and FDI.</p> <p>Numerous procedural and cost restrictions to investment are removed.</p>	<p>MT/LT</p> <p>MT</p>

	Inefficient mechanisms to transfer FX between nations	Investment Promotion, investment environment are not optimum.			
	Trade barriers				
	High Tax rates				
	Poor and expensive services and utilities				
	No (or few) export incentives				
7. Role of Secondary Cities	Secondary (and tertiary) urban centers play only a limited role in the decentralized economy.	Missed opportunity for productive linkages and geographic cluster relationships, which could lead to greater production and productivity.	Conduct local visioning and partnership process in the framework of developing a geographic business cluster.	Development of geographic cluster relationships that strengthen commodity chains and improve production and productivity.	MT/LT
8. Procedural Barriers to Business Formation					
	<ul style="list-style-type: none"> • Time and cost involved • Knowledge of Procedures 	Constrained enabling environment for investment, hence limitations on investment.	Conduct an Investors Roadmap exercise.	Numerous procedural and cost restrictions to investment are removed.	MT
9. Labor-related Restrictions					

	Delayed finalization of revised Labor Code	Continued uncertainties and constraints to business operations, higher business operating costs.			
	Some continued weaknesses in draft Labor Law.	Continued uncertainties and constraints to business operations, higher business operating costs.	Assist continued dialogue to achieve consensus on additional measures to be taken to encourage labor market flexibility and “business-friendliness”, while providing reasonable minimum protections for employees	More freedom for business to operate, lower costs, more flexible labor market.	LT
10. Lack of Infrastructure/ Related Services in Rural Areas					
	Absence of competition and market-based services and prices.	High cost, limited availability, limited service orientation or quality.	<ul style="list-style-type: none"> • Support privatization process. • Encourage private provision of infrastructure and services. 	More competitive market for infrastructure, lower costs, better service, availability and quality. Improved platform for business operations.	MT/LT

	<p>Local clients not involved in decisions on infrastructure and service provision</p>	<p>Investment budget for infrastructure and services is not spent optimally; reduced stakeholder “ownership”.</p>	<ul style="list-style-type: none"> • Assist in establishing local stakeholder investment boards, or local stakeholder advisory boards • Encourage joint public-private decision-making to guide investment decisions 	<p>Lower costs, better service, availability and quality. Improved platform for business operations. Greater “ownership”, hence better maintenance.</p>	<p>MT</p>
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11. Lack of Market Information					
	Lack of understanding of prices in the marketing (commodity) chain	Poor negotiating capability, reduced prices to producers and agribusinesses, reduced investment incentive	<ul style="list-style-type: none"> • Help to ensure that competitive market signals permeate the commodity chains • Help to ensure that privatizations and sectoral restructurings carried out in a manner that emphasizes market signals and production and productivity incentives to all stakeholders. 	<p>Market signals reach further down the commodity chain, resulting to higher producer and agribusiness prices, better responsiveness to quality and service requirements, improved linkages in the chain.</p> <p>More competitive market for infrastructure and other production factors, lower costs, better service, availability and quality. Improved platform for business operations.</p>	<p>ST/MT</p> <p>MT/LT</p>

	<p>Lack of incentives and empowerment because of missing price signals.</p>	<p>Reduced incentive to invest in production and productivity, production and services are not oriented to the needs of the market.</p>	<ul style="list-style-type: none"> • Help to ensure that competitive market signals permeate the commodity chains • Help to ensure that privatizations and sectoral restructurings carried out in a manner that emphasizes market signals and production and productivity incentives to all stakeholders. 	<p>Market signals reach further down the commodity chain, resulting to higher producer and agribusiness prices, better responsiveness to quality and service requirements, improved linkages in the chain.</p> <p>More competitive market for infrastructure and other production factors, lower costs, better service, availability and quality. Improved platform for business operations.</p>	<p>ST/MT</p> <p>MT/LT</p>
	<p>Lack of knowledge of the processing and marketing operations further down the chain; lack of understanding of consumer requirements</p>	<p>Production and services are not oriented to the needs of the market, reduced value added.</p>	<p>Help stakeholders in the market chain to understand the market requirements and dynamics, and commodity chain linkages.</p>	<p>Farmers and agribusinesses are better able to produce to market specifications and needs, and hence are able to increase sales, add value, and compete more effectively.</p>	<p>MT</p>

12. Impact of Privatization in Rural Areas					
	<p>Large segments of rural production and agribusiness, and many services, are in the hands of monopolistic parastatal organizations.</p>	<ul style="list-style-type: none"> • Restriction of entrepreneurship, investment and dynamism; restriction of market-based activity. • Lack of effective, service-oriented, reasonably-priced utilities and services. • Increased costs for investors, barriers to investment and business formation, and restricted business' ability to understand and respond to the market. • Reduced producer prices. 	<ul style="list-style-type: none"> • Assist business and producers associations and other stakeholders to advocate for structures that generate incentives and open markets. • Work with stakeholders of privatized industries to implement thriving structures and linkages. 	<p>Improved producer prices, greater incentive for investment, greater awareness of and responsiveness to market needs, greater value added, improved market linkages, improved business platform.</p>	<p>MT/LT</p> <p>MT/LT</p>

13. Entrepreneur/ Farmer Skills and Education					

	<ul style="list-style-type: none"> • Producers, agribusinesses and service companies lack crucial knowledge and skills, including business planning and management, technical information, market requirements, and basic literacy and education. • Curriculum is not focussed on providing skills that are of immediate relevance to farm-based activity or agribusiness employment. • Technical, vocational and adult education are weak. 	<p>Lack of productivity, production, ability to recognize market opportunity, engage in formal business relationships</p>	<ul style="list-style-type: none"> • Facilitate curriculum focus on preparing students for work in the agriculture and agribusiness sector. • Facilitate local stakeholder participation in preparing the curricula, and in overseeing the education. • Curriculum should have strong private sector focus. • Involve businesses in the curriculum design. • Expand and support adult training and skills development 	<p>Improved production, productivity, market-responsiveness, market linkages, investment activity, value added.</p>	<p>MT/LT</p>
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14. Extension Activities					
	Ineffective extension service	Lack of technological innovation, lack of improvements in producer systems, reduced production and productivity.	<ul style="list-style-type: none"> • Support outgrower schemes • Support Market-based, privately provided skills development and technology transfer • Support Demonstration and pilot activities • Support Cooperative- and association-based initiatives. • Support Initiatives that are closely linked to local planning and stakeholder involvement 	Improved production and productivity, improved commodity chain linkages.	MT/LT
	Should effort and budget be focussed on trying to establish a functioning State-operated service?	Possible way to render extension activity more effective and market-oriented.	Consider private sector alternatives.		ST

15. Lack of Standards, Norms, Grades and Certifications					
	<ul style="list-style-type: none"> • No operating institute or other legally recognized structure that can carry out quality tests, certify quality, measure standards, or carry out related operations. • There is no functioning quality laboratory. 	<ul style="list-style-type: none"> • Hinders exports, as exports cannot be ready certified. • Affects quality standards on the internal market, and imported goods similarly cannot be effectively tested. • Most agribusiness are unable to properly grade product standards. 	<ul style="list-style-type: none"> • Support efforts to establish a standards and quality operation. • Work with agribusinesses and their associations, to establish grades and standards where supportive of focussed marketing, branding, consistent standards and quality. • Support its stakeholders in ensuring the that the finalized legislation reflects the opportunities and requirements of market needs, globalization, flexibility and health 	<p>Lower costs of imports and export, increased reputation for Rwandan products, increased market responsiveness, increased ability to grade and brand.</p>	<p>MT/LT</p>

16. Subsidized Fertilizer and Other Inputs					
	<ul style="list-style-type: none"> • Distribution by Government or parastatals inputs has rarely been handled in a manner that maintains a strong business and financial (i.e. credit repayment, respect for contract) ethic amongst producers 	<ul style="list-style-type: none"> • Damages business and financial ethic. • Prevented establishment of effective market-based linkages within the industry. • Diminished the import of inputs use amongst many producers. • Occasional provision of improper fertilizers and other inputs. • Timing has at times been inappropriate, distribution has been patchy, and supporting training and extension have often not been provided. 	<ul style="list-style-type: none"> • Support effective, market-based, private distribution of inputs. • Collaborate with MSU and others to explain the impacts of subsidized and poorly-organized supply and distribution. • Support establishing credit arrangements to lubricate effective market-based activity. • Sponsor a study of price/cost composition of inputs in countries in the Easy Africa Region. 	<p>Deepening of decentralized economy, improvement in commodity chain linkages, improved provision of inputs, improved production and productivity.</p>	<p>ST/MT</p>

17. Agricultural Research					
	<ul style="list-style-type: none"> • Agricultural research is not yet operating effectively 	Lack of production and productivity improvements	<ul style="list-style-type: none"> • Collaborate with USAID Agricultural Research project. 	Improved production and productivity.	MT/LT
	<p>Agricultural research is not:</p> <ul style="list-style-type: none"> • Demand-driven nor market-oriented nor client-focussed. • Prioritized. 	Inability to develop improvements that best need market needs, and thus which are best able to generate income returns to producers and agribusinesses.	<ul style="list-style-type: none"> • Assist stakeholders to advocate for a research program that is directly focused on outputs that can be used by agribusiness and by the priority commodity chain. • Work with providers of extension services to translate research results into products, packages and approaches that will be readily adopted by stakeholders. 	Improved production and productivity in commodities which best respond to market needs, hence greater income throughout the commodity chain.	MT/LT
	<ul style="list-style-type: none"> • ISAR staff is underqualified and underskilled. • Underpaid staff reportedly moonlighting for private clients. 	Lack of production and productivity improvements			

	<ul style="list-style-type: none"> • ISAR Conseil d'Administration has little or no private representation. 	Inability to develop improvements that best need market needs, and thus which are best able to generate income returns to producers and agribusinesses.	Assist stakeholders to advocate for changes in the Conseil d'Administration of ISAR, so that private interests are heavily represented.	Improved production and productivity in commodities which best respond to market needs, hence greater income throughout the commodity chain.	MT/LT
18. Business and Sectoral Institutions	Associations, cooperatives and other organizations lack resources, capabilities and skills.	Restriction on their effectiveness in supporting agribusinesses and producers.	<ul style="list-style-type: none"> • Representative, soundly conceived and managed associations, cooperatives and NGOs should be primary partners of the project – they will provide vehicles for delivery of project services. They should also participate in the conceptualizing and design of the services. • Similarly, many industry associations, sectoral associations, and cross-sectoral associations are also primary partners for the project, should participate fully, and should receive assistance from the project. 	Improved producer and agribusiness performance, improved commodity chain linkages and performance, improved public-private dialogue leading to improved policies and enabling environment.	MT/LT

	Many associations and other organizations have operational weaknesses.	Restricts their contributions to their clients.	Provide assistance directly to these institutions – e.g. in service design and delivery, in governance and management, etc	Improved operations and service delivery.	MT
	The cooperatives law is out of date, and needs revision.	Restricts the effective functioning of cooperatives.	Support stakeholders in efforts to prepare a revised law.	Revive reputation of cooperatives	MT/LT
	Associations do not have juridical status.	Because not legally registered, they are limited in actions such as entering into contracts, and receiving credit from banks.	Support stakeholders in efforts to prepare a revised law.	Improved credit flow and cluster linkages.	MT/LT
	Anecdotes of prefectural or communal resistance to association formation and autonomy.	Possible restricted contribution of associations.	Test this.	Provides guidance to project action plan.	ST
	Some public sector ambivalence to NGOs, and some sentiment that the State needs more control over NGOs.	Uncertain. Possibly constrains NGO operations and support to agriculture and agribusiness.			

19. The Legislative Agenda					
	Poor legislative environment for business – delay in finalizing large amount of new legislation	Restrictions on business activity and investment.	<ul style="list-style-type: none"> • Assist stakeholders to press for action on the legislative agenda. • Encourage rapid implementation and diligent (and fair) enforcement of the new legislation once it is in place. 	Improved enabling environment leading to increased business activity, investment and profitability.	ST/MT
	No action has yet been taken to implement the much needed Tribunal de Commerce.	Restrictions on business activity and investment.			

<p>20. Particular Situation of the Coffee Industry</p>	<ul style="list-style-type: none"> • Producer prices are low by international standards, and are too low to provide producers with incentive for investment in production or quality. • A severe oligopolistic – perhaps monopolistic – exporter situation. 	<p>A. Low productivity, declining quality, and lack of maintenance of bushes and other investment.</p>	<p>Support privatizations and sectoral restructurings that provide market-based competition and clear price signals. If coffee is a profitable industry for producers, prices should be sufficient to justify their investments in production and productivity.</p>	<p>Increased investment, improved production and productivity, improved quality, improved cluster linkages and strategies.</p>	<p>ST/MT</p>
	<p>Rwandex is largely Government-owned.</p>	<p>Restricts industry competitiveness, market competition, producer prices hence production and farmer/middleman investment.</p>	<p>Fully privatize Rwandex in a manner that provides market-based competition and unrestricted market entry.</p>		

	Coffee Export Tax	Raise the export cost of coffee, and reduces in the prices available to producers.		Improved producer prices, hence improved investment, production and productivity. Reduced cost and administrative burden on the industry.	
	OCIR Café offers services of dubious utility and	<ul style="list-style-type: none"> • Ineffective services offered on a monopoly basis. • Imposes costs on the industry, further reducing the payment available for producers. 	Support the privatization of OCIR- Café.	Improved service to the industry, reduced costs and burdensome procedures.	ST/MT

		<ul style="list-style-type: none"> • Support strong participation from private stakeholders in sectoral management and overview. • Support changes in industry structure and opportunities with a strong program of public awareness and dialogue. • Support cluster development within the coffee industry. • Support the emergence of an industry-based organization. • Facilitate farmers' associations. 	Improved commodity chain linkages, development of cluster relationships and improved industry strategy, increased investment.	STR/MT
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21. Particular Situation of the Tea Industry					
	<ul style="list-style-type: none"> • Tea production provides low yields by international standards. • Prices provide minimal incentive to produce and invest. • Prices provide no price signal for the producer to invest in producing higher quality teas. 	<ul style="list-style-type: none"> • Low prices cause labor shortage on tea plantations 	<p>Support privatizations and sectoral restructurings that provide market-based competition and clear price signals.</p>	<p>Increased price incentives for production, productivity and quality enhancement. Expansion of capacity, hence greater production. Greater incentive for niche marketing and competitive cluster strategy.</p>	

	<ul style="list-style-type: none"> • OCIR Thé is an SoE. • OCIR Thé holds a monopoly on its estates, as does Sorwathe. • There is no competitive producer market for tea. • OCIR Thé states that its factory capacity is insufficient. 	<p>Poor producer revenues and profits are averaged over a larger number of producers than need be.</p>	<p>Support the privatization of OCIR Thé.</p>	<p>Increased price incentives for production, productivity and quality enhancement. Expansion of capacity, hence greater production. Greater incentive for niche marketing and competitive cluster strategy.</p>	<p>ST/MT</p>
			<p>With privatization, help to involve one or more large, international players (e.g. Unilever) in the tea industry.</p>		<p>MT</p>

			<ul style="list-style-type: none"> • Support strong participation from private stakeholders in sectoral management and overview. • Support changes in industry structure and opportunities with a strong program of public awareness and dialogue. • Support cluster development within the tea industry. • Support the emergence of an industry-based organization. • Facilitate farmers' associations. 	Improved commodity chain linkages, development of cluster relationships and improved industry strategy, increased investment.	ST/MT
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**ANNEX B: STATUS OF LEGISLATIVE ACTION SUPPORTIVE OF THE ENVIRONMENT FOR
PRIVATE ENTERPRISE**

(as of November 16, 1998 and December 1999)

Law	Status at November 16, 1998	Expected Next Steps at November 16, 1998	Dec. 1999 Status (per World Bank)
Land Law	A draft Land Law has been prepared		Not yet finalized.
Gender Law	A draft Gender Law has been approved by Cabinet.	Likely to be submitted to Parliament in November 1998.	Not yet finalized.
Labor Code	A draft law to revise the Labor Code was initially prepared in 1997. A recent revised draft was prepared in October 1998.	Likely to be submitted to Cabinet in November 1998.	Not yet finalized.
Abolition of the Price Control Laws	Prices have been liberalized (with exception of petrol and tea). No legislative action has yet been taken to abolish price controls.	Legislative action has been promised.	?
Elimination of the Coffee Export Tax	Draft 1999 budget proposes to eliminate the Coffee Tax by 1 January 1999.	Approval by Parliament of the 1999 Budget.	? See Short.
Elimination of the Coffee Stabilization Fund	The Stabilization Fund has not yet been abolished. MINCOM is preparing a text to abolish it.	Completion of legislative action.	Not yet finalized.

Liquidation of the present government-controlled Chamber of Commerce to allow the private sector to found an apex institution.	PSD plans to engage a Consultant in mid-November - the ToR includes preparing the statutes of and legal action for the Chamber of Commerce. A new law may not be needed – the old law may simply need to be abrogated.	Definition of required legal action and preparation of draft texts.	Not yet finalized. Underway.
Rwanda Investment Promotion Act	The Act was approved by Parliament in November 1998.	Validated by the Constitutional Court, and then Presidential approval. Expectation is to finalize by end-January 1999.	Done.
Privatization Law	The Law was passed.		Done.
Laws relating to restructuring and privatization of Rwandatel and Electrogaz. (<i>Electrogaz and Rwandatel were created by legislative action. A replacement law will be needed.</i>)	Private cellular phone system has been authorized. Studies are planned to be completed by Sept. 1999. No action has yet been taken on these.	Undertake studies.	Not yet finalized.
Loi de Désaffectation des Biens Meubles et Immeubles (Law Governing the Sale of Moveable and Immovable Assets)	Draft text is being prepared.	Cabinet approval and presentation to Parliament (by end-January 1999).	Not yet finalized.
Revised Commercial Banking Law	A draft Law was prepared in September 1997, and reviewed by various parties, including the Association des Banques. World Bank and IMF have approved the	A revised Law is to be presented to Cabinet in mid-November.	<i>Done</i>

	law. Cabinet reportedly has concerns about the proposed law.		
Revised regulatory framework for the tea sector to support liberalization of the sector and privatization of the tea factories.	The principle of an increase in the producer price has been accepted. No formal action has yet been taken on regulatory reform.	Studies are expected to begin in November 1998 and be completed by March 1999.	Not yet finalized.
Law on Internal Commerce <i>(Commerce Intérieur)</i>	A draft Law on Internal Trade is currently prepared now	Discussion, revision, legislative action.	Not yet finalized.
Revised Mining Code	ToR has been prepared and tendered for the studies and preparation of a draft text. Consultants have not yet been appointed.	Studies, followed by legislative process.	Not yet finalized.
Revised Tax Code	2 Laws revising the Tax Code were passed in June 1997. The Law establishing the Rwanda Revenue Authority was passed in November 1997.	Completed.	Not yet finalized.
Regulations Governing Exchange Procedures	New regulation has been in force since March 1995.	Completed.	Done
Standards	A preliminary draft law has been prepared and is being discussed.	Discussion, revision, legislative action.	Not yet finalized.
Insurance Law	A draft law is being prepared by PSD/MINICOM, and has not yet been circulated to the private sector comment	Discussion, revision, legislative action.	Not yet finalized.

ANNEX C: LIST OF PEOPLE INTERVIEWED

Jean-Marie Vianney, Directeur Général, **Banque Rwandaise de Developpment**

Maurits Van Der Ven, Conseiller de Direction, **Banque Rwandaise de Developpment**

Thierry Bayon, Consultant – Manager, **BS&C**

Katherine A. Zieg, Country Representative, **Catholic Relief Service**

Tom Remington, Regional Agronomist, **Catholic Relief Service**

Léopold Muhizi, **Centre des Services aux Cooperatives**

Evasé Nsengmana, **Emballage Rwanda** and President, **Association of Exporters**

Peter Vador, Représentant, **FAO**

Laurent Gashugi, Chargé du Programme, **FAO**

Madani A. Tall, Managing Director, **Gladstone & Barrington**

John Russell, **ISAR**

Fr. John Baptist Uwigaba, Parish Priest, **Kamonyi Parish (Fromageries de Kamonyi)**

Robert Bayigamba, Managing Director, **Manumetal** and **Federation of Associations**

Alfred Bill Mutebwa, Director of Planning, **MINAGRI**

Agnes Kayijire, Directrice de l'Industrie, **MINICOM**

Nsensiya Zacharie, **Ministère des Travaux Publics. Transports et Communication**

Daniel C. Clay, Professor, Institute of International Agriculture, **Michigan State University**

Jim Bingen, Institutions/Associations Specialist, Department of Resource Development, **Michigan State University**

Valerie A. Kelly, Fertilizer Specialist, Visiting Associate Professor, Department of Agricultural Economics, **Michigan State University**

Edson Mpysyi, Project Coordinator, Food Security Research Project, **Michigan State University**

Yvan Porcheron, **Consultant on Public Management and Governance**, USAID

Kana Seraphim Khonje, Chairman/CEO, **Profix Financial Strategies Ltd** (bidder for Pyrethrium privatization)

Director, Large Enterprise Unit, **Rwanda Revenue Authority**
Tesfaye Andarge Wondim, Tax Advisor to **Rwanda Revenue Authority**, PriceWaterhouseCoopers

John Short, **Consultant, Research on Economic Policy Implementation & Management**

Munana Théonase, Coordinator, Entreprise Emujeco (**SORWATOM** investment)

Ayumi Fujino, Industrial Development Officer, Private Sector Development Branch, **UNIDO**
Dr. Patrick Nugawela, **UNIDO**

Gabriele Herrmann, Consultant on Enterprise Development Programme Intégré por la Développement Industriel du Rwanda, **ONUDI/MINICOM**

Gerda Heyda, Consultante, ONUDI, Programme Intégré por la Développement Industriel du Rwanda, **ONUDI/MINICOM**

Jean Munyapenda, Expert National ONUDI, Programme Intégré por la Développement Industriel du Rwanda, **ONUDI/MINICOM**

Richard Goldman, Mission Director, **USAID**

Stephen W. Giddings, Assistant Director, **USAID**

Moussie Menwuyellet, SO3 Team Leader, **USAID**

Serge Rwamasirado, SO3 Team, **USAID**

Eugene Nyambal, **The World Bank**

Charles Schlumberger, Private Sector Development Specialist, **The World Bank**

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