

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

INVESTMENT POLICY REVIEW

RWANDA



UNITED NATIONS

United Nations Conference on Trade and Development

Investment Policy Review
Rwanda



UNITED NATIONS
New York and Geneva, 2006

NOTE

UNCTAD serves as the focal point within the United Nations Secretariat for all matters related to foreign direct investment. This function was formerly carried out by the United Nations Centre on Transnational Corporations (1975-1992). UNCTAD's work is carried out through intergovernmental deliberations, research and analysis, technical assistance activities, seminars, workshops and conferences.

The term "country" as used in this study also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

The following symbols have been used in the tables:

Two dots (..) indicate that data are not available or not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row.

A dash (-) indicates that the item is equal to zero or its value is negligible.

A blank in a table indicates that the item is not applicable.

A slash (/) between dates representing years – for example, 2004/05, indicates a financial year.

Use of a dash (–) between dates representing years – for example 2004–2005 signifies the full period involved, including the beginning and end years.

Reference to the "dollars" (\$) means United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals because of rounding.

The material contained in this study may be freely quoted with appropriate acknowledgement.

UNCTAD/ITE/IPC/2006/11

UNITED NATIONS PUBLICATION

Sales E.06.II.D.15

ISBN-13: 978-92-1-112709-6

Copyright © United Nations, 2006

All rights reserved

Manufactured in Switzerland

PREFACE

The UNCTAD Investment Policy Reviews are intended to help countries improve their investment policies and to familiarize Governments and the international private sector with an individual country's investment environment. The reviews are considered by the UNCTAD Commission on Investment, Technology and Related Financial Issues.

The Investment Policy Review of Rwanda, initiated at the request of the Government, was carried out through a fact-finding mission in June-July 2005 and is based on information current at that date. The mission received the full cooperation of the relevant ministries and agencies, in particular the Ministry of Commerce, Industry, Investment Promotion, Tourism and Cooperatives and the Rwanda Investment and Export Promotion Agency (RIEPA). The mission also had the benefit of the views of the private sector, foreign and domestic, civil society and the resident international community, particularly bilateral donors and development agencies. A preliminary version of this report was discussed with stakeholders at a national workshop in Kigali on 20 June 2006. The report was also presented to members of the Economic and Trade Committee of the Chamber of Deputies and of the Committee on Economy and Finance of the Senate.

This report was prepared by Rory Allan and Quentin Dupriez with guidance from Fiorina Mugione and under the overall supervision of Khalil Hamdani. It was funded by the Government of Germany (BMZ), which also provided financing for follow-up activities currently underway.

It is hoped that the analysis and recommendations of this Review will help Rwanda achieve its development goals, contribute to improved policies, promote dialogue among stakeholders and catalyse investment.

Geneva, July 2006

CONTENTS

PREFACE	III
CONTENTS	V
ABBREVIATIONS	IX
RWANDA - STATISTICAL OVERVIEW	X
INTRODUCTION	I
I. ECONOMIC STRUCTURE AND FDI IMPACT	3
A. Economic structure and the role of FDI	3
1. Output structure and FDI	3
2. 1994 and structural reforms	6
3. External sector	11
4. Human resources and demographic structure	13
a. <i>Demographic structure</i>	13
b. <i>Education and skills</i>	15
B. FDI trends	17
1. FDI size and growth	17
2. Distribution by sector and industry	24
3. Types of FDI and countries of origin	25
C. Assessment	27
II. THE INVESTMENT FRAMEWORK	29
A. Introduction	29
B. Constitutional set-up	29
C. Entry, treatment and protection of FDI	31
1. Entry and establishment of FDI	31
2. Treatment and protection of FDI	33
D. General measures for regulating business	34
1. Taxation	34
a. <i>VAT</i>	34
b. <i>Corporate and personal income tax</i>	35
c. <i>Export processing zones</i>	40
d. <i>Customs duties and inspection</i>	41
2. Foreign exchange arrangements	42
3. Labour regulation	43
4. Employment of foreigners	45
a. <i>Identify skills and competences needs</i>	46
b. <i>Redesign immigration policy</i>	47
c. <i>Set up training and transfer of skills requirements</i>	49
d. <i>Provide special incentives to individuals</i>	49
e. <i>Actively promote Rwanda and target people</i>	49
5. Land	50
6. Environmental regulations	52
7. Governance and judiciary system	52
8. Competition regulation	53

9. Intellectual property law	54
10. Corporate governance and accounting standards	54
11. Selected sectoral regulations	55
a. Telecommunications	55
b. Electricity	57
c. Banking system	59
d. Mining	61
12. Privatization	62
13. Trade agreements	64
E. Assessment and recommendations	65
1. A competitive and efficient fiscal regime	66
2. Skills attraction and dissemination programme	67
a. Identify skills and competences needs	67
b. Redesign immigration policy	67
c. Set up training and transfer of skills requirements	68
d. Provide special incentives to individuals	68
e. Actively promote Rwanda and target people	68
3. Centre of excellence in regulation and soft Infrastructure	69
a. Next generation RIEPA certificates	69
b. Sectoral regulations and regulatory oversight	70
c. Competition framework for development	70
III. FDI STRATEGY	71
A. Introduction	71
B. FDI in the national development goals	71
C. Conceptualizing an FDI strategy for Rwanda	76
Factor 1: investment constraints for the long term	76
a. International land transport	76
b. Market size and economic structure	78
Factor 2: the world is a village, but Rwanda's export potential is mostly regional	79
Factor 3: fundamentals for manufacturing and services must attain at least regional standards	79
Factor 4: soft infrastructure constraints are a challenge and an opportunity	82
Factor 5: care for the quality of investors and investment	83
Factor 6: the genocide and recent history create special challenges	83
D. Cross-cutting elements of the FDI strategy	84
1. Beneficiation and market forces	85
2. Skills attraction and dissemination programme and business mentoring scheme	85
3. Building a centre of excellence in soft infrastructure and governance	85
4. Market enhancing measures and bilateral treaties	87
5. Bridging the image gap	87
E. Focused strategic initiatives	88
1. Manufacturing: focus on the basics, produce locally	88
a. Establish multi-facility industrial parks	89
b. Ensure optimal regional market access	90
2. General services: focus on the essentials	91
3. Tourism: widen the focus	92
4. ICT: think local and regional	95
5. Banking and finance: go offshore	97

a. Regulatory issues for offshore financial services.....	99
b. Taxation issues for offshore financial services.....	99
c. Market enhancing measures for offshore financial services.....	100
6. Coffee, tea and agriculture: pursue diversification.....	100
a. Coffee and tea.....	100
b. Diversification in agriculture.....	101
7. Mining: promote and develop industrial mining investment.....	104
F. Strengthening peace and stability through investment.....	108
G. Priorities, timelines and implications for RIEPA.....	109
1. Priorities and timelines.....	109
2. Potential paradigm shifts.....	110
3. Implications for RIEPA.....	110
IV. MAIN CONCLUSIONS AND RECOMMENDATIONS.....	111
A. A centre of excellence in soft infrastructure and governance.....	111
1. Make good governance systematic.....	112
2. Fill the gaps in general business regulation and taxation.....	112
3. Inform the world.....	113
B. A skills attraction and dissemination programme.....	113
1. Skills dissemination and expatriate employee scheme.....	114
2. Full-fledged business talent scheme.....	114
3. Business mentoring scheme.....	115
C. Focused strategic initiatives.....	115
D. Action plan timeline.....	118
ANNEX : METHODOLOGY OF INTERNATIONAL TAX COMPARISONS.....	119
REFERENCES.....	120
TABLES	
Table I.1. Main targets of vision 2020 and the Millenium Development Goals.....	8
Table I.2. Structure of ODA disbursement commitments.....	10
Table I.3. Structure of trade, 1993-2004.....	12
Table I.4. Imported freight services, 1994-2003.....	13
Table I.5. Demographic indicators, 1993-2003.....	14
Table I.6. Education indicators, 1993-2002.....	16
Table I.7. Higher education indicators, 1980-2000.....	16
Table I.8. Privatization programme, 1996-2005.....	22
Table I.9. Comparative FDI flows with selected countries, 1986-2004.....	23
Table II.1. RIEPA certificates, eligibility conditions and benefits.....	32
Table II.2. RRA, structure of revenue collection.....	35
Table II.3. Corporate taxation, 1997 and 2005 laws.....	37
Table II.4. Labour market rigidity index, 2005.....	44
Table II.5. Land indicators (2002, unless indicated).....	51
Table II.6. Telecommunications indicators.....	56
Table II.7. Cost of mobile telecommunications, 2005.....	57
Table II.8. Banking system.....	60

Table II.9. Banking sector indicators.....	61
Table II.10. Exports to the United States and the European Union.....	65
Table III.1. Indicators of relative FDI inflows, 1994-2004 average.....	74
Table III.2. Regional competitiveness benchmarks, 2005.....	80
Table III.3. Timetable for government action.....	109

FIGURES

Figure I.1. Sectoral composition of GDP.....	6
Figure I.2. Coffee and tea production, 1977-2005.....	6
Figure I.3. Real GDB by sector, 1990-2004.....	6
Figure I.4. Trade and current account balances, 1980-2004.....	11
Figure I.5. Age pyramid, 2002.....	14
Figure I.6. Net FDI inflows to Rwanda and real GDP growth, 1970-2004.....	17
Figure I.7. Net FDI inflows to Rwanda, Cambodia, Mozambique and Uganda 1980-2004.....	19
Figure I.8. Sectoral distribution of RIEPA-registered FDI projects, 2000-2005.....	24
Figure I.9. Sectoral distribution of foreign purchases of privatized companies, 1997-2005.....	25
Figure I.10. Country distribution of RIEPA-registered FDI projects, 2000-2005.....	27
Figure II.1. Comparative taxation of investment.....	38
Figure II.2. Skills attraction and dissemination programme.....	47
Figure II.3. Electricity supply, demand and shortage.....	58
Figure III.1. FDI per capita and national investment as a percentage of GDP.....	74
Figure III.2. Potential net FDI inflows, 2006-2020 and comparator LDC countries.....	75
Figure III.3. Imported freight costs (percentage of imports, FOB) and merchandise exports.....	78
Figure III.4. Investors and market focus timeline, manufacturing.....	89
Figure III.5. Investors and market focus timeline, services.....	91
Figure III.6. Travel receipts and visits to national parks, 1980-2004.....	93
Figure III.7. Investors and market focus timeline, tourism.....	95
Figure III.8. Investors and market focus timeline, ICT.....	97
Figure III.9. Investors and market focus timeline, mining.....	106
Figure IV.1. Action plan timeline.....	118

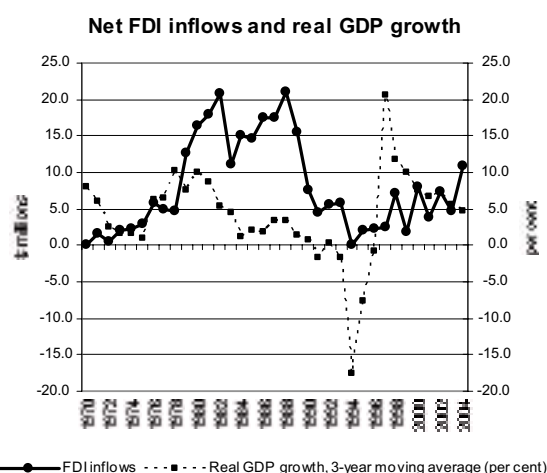
BOXES

Box I.1. Rwanda Flora.....	5
Box I.2. Vision 2020 and the role of FDI.....	9
Box I.3. FDI by small and medium-sized enterprises.....	26
Box II.1. Gacaca courts: justice and reconciliation.....	30
Box II.2. Suggested changes to the draft mining law.....	63
Box III.1. The role of FDI in Rwanda's development and investment strategies.....	72
Box III.2. e-Tools in Rwanda.....	98
Box III.3. FDI and horticulture and floriculture in Kenya.....	102
Box III.4. Indian FDI in herbals products.....	103
Box III.5. Pyramides (s.a.r.l.): new directions in Rwandan mining.....	105
Box III.6. Rwanda mining: between a rock and a hard place.....	107

ABBREVIATIONS

AGOA	African Growth and Opportunity Act
ASEAN	Association of South East Asian Nations
BIT	bilateral investment treaty
BNR	Banque Nationale du Rwanda
BPO	business process outsourcing
CEPGL	Communauté Economique des Pays des Grands Lacs
CIF	cost insurance and freight
COMESA	Common Market for Eastern and Southern Africa
DFID	Department for International Development
DTT	double taxation treaty
EAC	East African Community
EIA	environmental impact assessment
EBA	Everything But Arms
EPZ	export processing zone
EU	European Union
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FOB	free on board
FPR	Front Patriotique Rwandais
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences
HIPC	heavily indebted poor countries
ICSID	International Centre for Settlement of Investment Disputes
IPP	independent power producer
ISP	internet service provider
IT	information technologies
ITES	internet-enabled services
LDC	Least Developed Country
M&A	mergers and acquisitions
MaGeRwa	Magasins Généraux du Rwanda
MDGs	Millennium Development Goals
MFN	most favoured nation
NGO	non-governmental organization
NIS	national investment strategy
NPLs	non-performing loans
OBU	offshore banking unit
OFSC	offshore financial services centre
PPA	power purchase agreement
PPP	purchasing power parity
PRGF	poverty reduction and growth facility
PRSP	poverty reduction strategy paper
Redemi	Régie d'Exploitation et de Développement des Mines
REMA	Rwanda Environmental Management Authority
RIPA	Rwanda Investment Promotion Agency
RIEPA	Rwanda Investment and Export Promotion Agency
RRA	Rwanda Revenue Authority
RURA	Rwanda Utilities Regulatory Agency
SADC	Southern African Development Community
SMEs	small- and medium-sized enterprises
SMIG	salaire minimum interprofessionnel garanti
SPS	sanitary and phytosanitary standards
TNCs	transnational corporations
UNCTAD	United Nations Conference on Trade and Development
VAT	value added tax
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

RWANDA - STATISTICAL OVERVIEW



MAIN ECONOMIC AND SOCIAL INDICATORS

Indicator	1980-85 average	1985-90 average	1990-95 average	1995-2000 average	2001	2002	2003	2004
Population (million)	5.6	6.5	6.7	6.8	7.9	8.2	8.4	8.4
GDP at market prices (\$ billions)	1.5	2.2	1.8	1.7	1.7	1.7	1.7	1.8
GDP per capita (dollars)	259.4	337.5	263.4	250.4	214.6	212.2	200.6	219.3
Real GDP growth (per cent)	3.7	2.0	-3.7	14.0	6.7	9.4	1.0	3.7
Poverty rate (percentage living with under \$1/day)	35.7	..	..	51.7	..	..	..	..
GDP by sector (per cent):								
Agriculture	41.2	38.2	37.6	44.3	40.5	41.9	41.6	..
Industry	22.3	20.5	20.0	18.5	21.6	21.6	21.9	..
Services	36.4	41.3	42.5	37.1	37.9	36.6	36.5	..
Trade (\$ millions):								
Merchandise exports	107.0	123.3	71.7	62.3	85.0	56.0	58.0	80.0
Services exports	33.6	42.9	28.0	41.5	65.9	65.2	..	..
Merchandise imports	277.8	331.7	281.0	256.7	250.0	248.0	245.0	250.0
Services imports	120.3	132.0	136.3	181.0	189.2	201.5	..	..
Capital flows (\$ millions):								
Net FDI flows	16.0	15.7	4.3	3.9	3.8	7.4	4.7	10.9
Net flows from private creditors	0.5	-2.4	-0.6	0.0	0.0	0.0	0.0	0.0
Net flows from official creditors	36.9	70.2	53.0	55.6	54.2	76.6	19.7	82.6
Grants	69.6	93.7	313.5	276.8	154.0	185.0	201.0	..
Life expectancy at birth (years)	46.3	44.2	37.5	40.2	..	39.8	39.8	..
Infant mortality rate (per thousand)	130.0	103.0	113.5	121.0	..	..	118.0	..
Literacy rate, adult (per cent)	..	..	..	64.0	..	..	..	..
Literacy rate, youth (per cent)	..	..	..	76.5	..	..	..	..

Sources: UNCTAD, FDI/TNC Database; World Bank; World Development Indicators; UNDP, Human Development Report 2002, 2003 and 2004.

INTRODUCTION

Rwanda is among the world's poorest nations and it faces particular challenges in leveraging FDI for development as a result of its economic structure, the low level of development of human capital, its landlocked position and its small size. It suffered tremendous hardship as a consequence of the genocide in 1994 which, in addition to the human horror, led to the collapse of the economy and left much of the infrastructure dilapidated or destroyed.

Despite the instability in the Great Lakes region, political stability and personal safety have been restored in Rwanda for a number of years. The Government has proved its resolute commitment to further entrenching peace and stability and fostering a private sector-led process of socio-economic development and transformation. The challenge is to sustain the recovery of the past few years, accelerate the process of economic transformation and correct the image of the country in the world. While it wants FDI to play a significant role in achieving national development goals, the Government has so far not developed a comprehensive FDI strategy. This Review seeks to fill this gap.

Chapter I provides an overview of the economic structure and the impact of FDI. Rwanda's economy is small and dominated by agriculture, with around 90 per cent of the population living in rural areas. The secondary and tertiary sectors are under-developed and provide little formal employment. The level of formal skills and human capital is low in spite of recent successes in boosting primary education, the quality of infrastructure is generally poor, and the country does not have significant natural resources. This means that Rwanda lacks the main drivers of foreign investment by large transnational corporations in search of resources, markets or competitive centres of production. As a result, it has to date attracted little FDI and the impact on the economy has been limited. High operating costs, the small size of the domestic market and the lack of development of the industrial and services sectors imply that it is illusory to attract FDI from the major TNCs at the moment. Instead, Rwanda is much more likely to attract interest from small- and medium-scale enterprises (SMEs) and from individual investors, particularly from within the region.

Chapter II examines the investment framework. Rwanda has an open regime to FDI, and the Government has embarked upon an ambitious programme to modernize the investment framework. The aim is to provide a framework that both promotes investment and protects the national interest. Although the progress realized so far is impressive given the situation inherited in 1994, much remains to be done to upgrade the entire framework. A number of recommendations are offered to transform Rwanda into a centre of excellence in soft infrastructure and governance and to set up a skills attraction and dissemination programme. These two elements would be central to the strategy of turning Rwanda into an attractive business location and for correcting the image of the country abroad.

Chapter III proposes a strategy to enhance the role of FDI in achieving national development goals. Medium- and long-term constraints to FDI attraction are highlighted and likely foreign investors are identified, together with their probable market focus. The strategy proposes to mitigate the impact of hard infrastructure constraints by turning the country into a centre of excellence in soft infrastructure and governance in Africa by 2010. It also highlights that Rwanda is likely to benefit most from attracting skilled individual foreign investors to bridge the skills gap and ensure a transfer a competence, and proposes to establish a business talent scheme. In addition to "horizontal" measures to promote business development, the strategy suggests a number of policy packages to improve investment conditions and advance the process of economic transformation and wealth creation.

Chapter IV highlights the main findings and recommendations of the Review.

