ISSUES IN BRIEF

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Rwanda has made startling progress in the years since the 1994 genocide. Stable, responsible government has led to impressive economic growth and rising living standards. In 2004, feeling that inflows of foreign direct investment (FDI) were lagging far behind potential, the government asked UNCTAD for an Investment Policy Review (IPR). This study was issued in 2006, and Rwanda quickly began to implement its recommendations, a process still under way. Numerous reforms intended to attract FDI – some related to the IPR – were carried out. And indeed, foreign direct investment soared from US$16 million in 2006 to $119 million in 2009. Rwanda's ranking in the World Bank's Doing Business Indicators rose from 143 (among 183 countries) in 2009 to 67 in 2010 – a year in which the index also ranked Rwanda as the "top reformer" in the world.

Attracting vital foreign investment

For developing countries, foreign direct investment can be a very useful complement to domestic investment: it can bring much-needed capital, skills, and technology. By establishing businesses locally, foreign investors can create jobs, introduce new or improved products and services, and improve the performance of local companies by establishing business relationships with them in which valuable knowledge and technology are transferred.

But foreign firms do not invest abroad without carefully considering potential profits. They want to minimize risk and face as little delay and red tape as possible. They want laws and regulations to be clear and fair. They want the political and economic situation to be stable. They need workers with appropriate skills. They need reliable electricity and good roads. And they want a system free of corruption.

UNCTAD has now carried out 29 IPRs[1] at the request of developing countries and of "transition" economies in central and eastern Europe. IPRs analyze existing laws and investment rules, review the strengths and weaknesses of a nation's economy, and issue practical recommendations for increasing FDI flows and enhancing their positive effects. In the case of Rwanda, these recommendations included steps to make the investment process more streamlined and transparent, and to make it easier for the country to attract the skilled workers and entrepreneurs it needed. The IPR also recommended that government departments adopt "client charters" so that they became more focused on serving the public, including investors and potential investors.

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[1] In chronological order beginning in 1999, Egypt, Uzbekistan, Uganda, Peru, Mauritius, Ecuador, Ethiopia, Tanzania, Botswana, Ghana, Lesotho, Nepal, Sri Lanka, Algeria, Benin, Kenya, Colombia, Rwanda, Zambia, Morocco, Viet Nam, Dominican Republic, Nigeria, Mauritania, Burkina Faso, Belarus, Burundi, Sierra Leone, and El Salvador.

UNCTAD Investment Policy Reviews (IPRs)

Once an IPR is begun at the request of a developing country, a strategy is devised to build on that country's strengths and potentials (phase 1: strategic focus). In the case of Rwanda, the IPR focused on so-called "soft infrastructure": the country had scarce natural resources, is landlocked, and possessed a relatively unskilled workforce, but had a stable government deeply committed to development and improved living standards, and was ready to enact reforms.

In phase 2, the fact-finding and national stakeholder phase, UNCTAD economists hold extensive consultations with relevant government agencies and conduct in-depth meetings with domestic and foreign businesses, current and potential foreign investors, and such civil society groups as trade unions and organizations that focus on development. The combined input of UNCTAD specialists and domestic stakeholders results in a focused draft IPR. A national workshop is then held in which the draft is considered by the requesting government and by domestic businesspeople and investors.

In phase 3, the peer-review phase, the main findings and recommendations of the IPR are presented at a meeting at UNCTAD headquarters in Geneva. In-depth critiques of the plan are provided by four or five investment experts from countries of varying levels of development. Representatives of other nations are invited to comment -- often, similar challenges have been faced by them, and responses that have succeeded in those countries (called "best practices") are suggested. The country under review then endorses the report and the recommendations it thinks suitable.

Once the IPR is adopted, UNCTAD staff provide technical assistance in implementing the recommendations (phase 4: follow-up process). In the case of Rwanda, UNCTAD also helped arrange for a team of Rwandan immigration officials to visit Singapore to study that country's immigration system. That helped Rwanda to reform its own immigration system so that it could attract workers with skills the Rwandan economy needs. In addition, training sessions were held to develop "client charters" for Rwanda's investment promotion agency, revenue authority, and other government departments to make them more efficient and responsive.

A formal implementation report is generally written five to six years after an IPR is adopted. At that point, further actions and technical assistance are proposed as needed.