UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

REPORT ON THE IMPLEMENTATION OF THE INVESTMENT POLICY REVIEW

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TABLES, ANNEXES AND FIGURES

ABBREVIATIONS

BIT	bilateral investment treaty
COMESA	Common Market for Eastern and Southern Africa
DGIE	Rwanda Directorate General of Immigration and Emigration
DTT	double taxation treaty
EAC	East African Community
FDI	foreign direct investment
IPPC	International Plant Protection Convention
IPR	investment policy review
LMIS	Labour Market Information System
OGMR	Rwanda Geology and Mines Authority
RDB	Rwanda Development Board
RIEPA	Rwanda Investment and Export Promotion Agency
RRA	Rwanda Revenue Authority
RURA	Rwanda Utilities Regulatory Agency
SPS	sanitary and phytosanitary standards
WDA	Workforce Development Authority
WTO	World Trade Organization

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1. INTRODUCTION

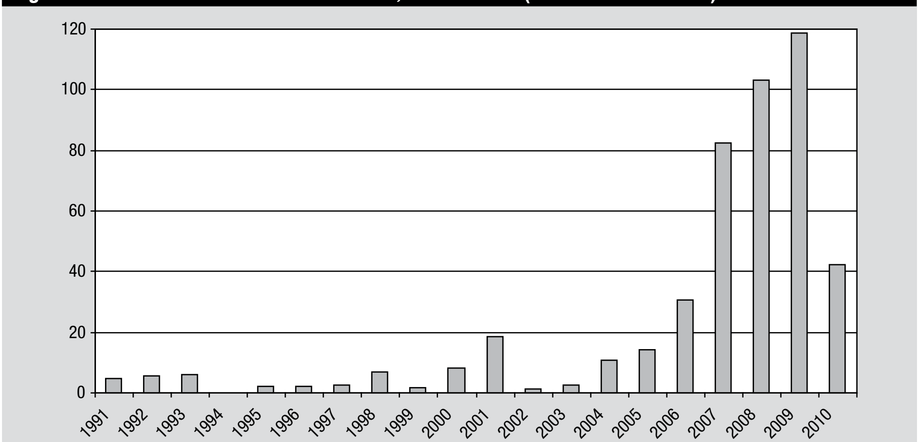
The Investment Policy Review (IPR) of Rwanda was published in 2006. The Review assessed the investment environment and sketched the building blocks of a foreign direct investment (FDI) strategy to meet the country's development objectives. On this basis, it recommended a concerted and well-targeted effort by the Government to reach the status of centre of excellence in soft infrastructure and governance by 2010. The IPR suggested designing a realistic FDI strategy recognizing the country's strengths and weaknesses, focusing on key infrastructure constraints, global market access, domestic market size, skills attraction and the development of selected strategic sectors.

In 2011, the Government requested that UNCTAD assess progress made in implementing the recommendations set out in the IPR. To this end, a mission was conducted in July 2011, the findings of which are detailed in this report.[1]

2. SUMMARY OF FINDINGS

Over the five-year period starting with the publication of the IPR (2006–2010), annual FDI inflows into Rwanda averaged $75 million, almost 8 times more than in the pre-IPR period of 2001–2005 ($10 million).[2] The global economic crisis had a significant impact on Africa, and FDI inflows to Rwanda declined to $42 million in 2010, a performance still well above that of the 1990s and early 2000s (figure 1). The rise in FDI inflows is also higher in Rwanda than in neighbouring countries over the recent period. In the past decade, financial services, telecommunications, tourism and petroleum processing and distribution have been the main sources of FDI inflows. Some of the most recent important foreign investors in Rwanda originate in other developing countries such as China, Kenya, the Republic of Korea, Tunisia and the United Arab Emirates.

Figure 1: Annual FDI inflows to Rwanda, 1991–2010 (Millions of dollars)



Source: UNCTAD, FDI/TNC database.

The rise in FDI reflects the major improvements in the investment environment initiated by the Government throughout the period, the country's openness towards FDI and enhanced regional integration. These improvements have also altered Rwanda's international rankings. For example, in the World Bank Doing Business, Rwanda had moved up to the 45th position (and 8th position in terms of starting business) by 2012,[3] compared to 139th position in 2006. It also ranked 66th in Transparency International's corruption perception index[4] (and the cleanest in the East African Community (EAC)),[5] up from 121st position in 2006.

The Government of Rwanda took full ownership of the strategic thrust proposed in the IPR, and many specific actions undertaken are directly in line with the recommendations of the Review. Out of the 32 recommendations monitored in this report, 15 have been fully or largely implemented, and in 10 of these, implementation actually exceeded expectations (tables AI–AIII (in annex)). It is also worth stressing that full membership to the EAC was attained in 2007, well ahead of the 2010 target referred to in the IPR. Since then, the country has become a very active EAC member, pushing for the harmonization of policy and undertaking measures with partners in various areas.

The assessment of reforms, as presented in this report, follows the three pillars elaborated upon in the IPR of Rwanda. The key main results show that:

- There has been excellent progress in **turning Rwanda into a centre of excellence in soft infrastructure and governance**. Reforms in investment-related regulations have been extensive and carried out at a rapid pace, leading to a sharp improvement in the business climate. Public administration has increasingly adopted a service-oriented and partnership attitude with the private sector, including through the generalization of client charters. The Rwanda Development Board (RDB) has become a strong agency in investment promotion in Africa.
- The implementation of the **skills attraction and dissemination programme** is a major achievement and has the potential to bring about significant development gains over the coming decades.
- **Strategic initiatives** have been undertaken to boost investor interest in a number of sectors. These initiatives have progressed at varying degrees with results being particularly good in sectors such as tourism and mining.

Following the publication of the IPR in 2006, UNCTAD has played an active role to support the Government with the implementation of the recommendations through various technical assistance activities. Benefiting from the synergies of the One-UN initiative and an effective channelling of available funding, UNCTAD has worked with other UN agencies and development partners in the country to deliver its assistance. The key interventions included the development of strategies for: elaboration of the skills attraction and dissemination programme; exploitation of mineral resources; protection of intellectual property; and elaboration of a competition policy. UNCTAD has also provided support for business facilitation through the installation of the eRegulations programme and trained government officials on FDI statistics.

3. CENTRE OF EXCELLENCE IN SOFT INFRASTRUCTURE AND GOVERNANCE

Following an assessment of Rwanda's main strengths, weaknesses and deep-rooted constraints linked to geography, physical infrastructure, size and economic structure, the IPR had put a strong emphasis on soft-infrastructure issues that could be addressed in the near term and over which the Government has significant control. It also stressed the importance of the regional dimension, both to enhance market size and to attract regional investors. Infrastructure constraints (e.g. international transport, electricity, network of domestic suppliers) were clearly identified, and it was highlighted that addressing them would be a long-term effort.

As a result, the IPR recommended building on Rwanda's emerging strengths in public policy making and to turn the country into a centre of excellence in soft infrastructure and governance in Africa. This was suggested as a way to distinguish Rwanda from other countries where policy reform has progressed more slowly and compensate for structural weaknesses that require more time and capital to be addressed adequately. The concept of centre of excellence in soft infrastructure entailed not only the establishment of a seamless, supportive and well-structured regulatory environment, but also a build-up of institutional capacity in key agencies and a reinforced ability to protect the national interest.

Rwanda endorsed and took full ownership of the idea of building excellence in soft infrastructure and governance, and has made it a key element of its development strategy over the past five years. The Government has undertaken reform in a systematic way, with annual performance reviews undertaken at the highest political level (Presidency and Cabinet Ministers). The faster than expected integration into the EAC also gave further impetus to regulatory reforms. In addition, Rwanda has not spared its efforts to build institutional capacity in key regulatory agencies, including the Rwanda Development Board (RDB), the Rwanda Revenue Authority (RRA, which includes Customs), the Rwanda Utilities Regulatory Agency (RURA), the Directorate General of Immigration and Emigration (DGIE) and the Rwanda Geology and Mines Authority (OGMR).

Rwanda's impressive progress in regulatory reforms can be gauged by the fast improvement in the country's rankings on the World Bank's Doing Business indicators (table 1). Progress has been constant, with a major leap forward in 2009 (reflected in the 2010 rankings). Major progress has been achieved in the areas of starting a business, protecting investors, and getting credit (where Rwanda has become a global leader). The Company Law of 2009 (see below) was credited for establishing simplified business start-up (two procedures, two days), strengthening minority shareholder protections, and putting in place stricter control over related-party transactions. Rwanda also adopted a new secured transactions act facilitating secured lending, and a new insolvency law streamlining reorganization procedures; hence the improvements in the rankings in access to credit.

In terms of governance, Rwanda's score on Transparency International's Corruption Perceptions Index improved from 2.5 to 4.0,[6] moving away from high to medium corruption, as a result of the fight against corruption and policy reforms that have reduced the scope for such practices. Rwanda also has a long-term foreign currency rating of B from the agency Fitch (upgraded from B- in August 2010). This is still below "investment grade" (BBB), nevertheless Rwanda is among the small number of African countries (17; out of the total of 54) that possess a credit rating.[7]

Table 1: Rwanda's selected international rankings, 2007–2012

Item	2007	2008	2009	2010	2011	2012
World Bank's Doing Business (183 countries ranked)						
Ease of doing business (overall rank)	158	150	139	67	50	45
Starting a business (rank)	58	63	60	11	9	8
Employing workers (rank)	106	95	93	30	..	..
Getting credit (rank)	159	158	145	61	37	8
Protecting investors (rank)	162	165	170	27	28	29
Paying taxes (rank)	83	50	56	60	33	19
Trading across borders (rank)	175	166	168	170	159	155
Enforcing contracts (rank)	69	44	48	40	39	39
Transparency International's Corruption Perceptions Index (178 countries ranked)						
CPI (rank)	111	102	89	66	..	..
Fitch credit rating	B-	B-	B-	B	B	..

Source: World Bank, Doing Business annual reports; Transparency International, Corruption Perceptions Index annual reports; Fitch Ratings, Sovereign Ratings History.

The subsequent sections provide a general overview of progress in specific areas.

3.1. Making good governance systematic

Several elements were highlighted in the IPR as essential to achieving excellence in governance, including the reinforcement of technical capacity in key agencies dealing with investors and the development of a service-oriented culture in public administration. The RDB, RRA, RURA, DGIE, OGMR and National Bank of Rwanda were identified as key institutions. Capacity and efficiency have indeed improved tremendously in these agencies over the past few years, and a service mentality has progressed, including through the preparation and adoption of client charters.

The IPR recommended the strengthening of the investment promotion agency, at the time called the Rwanda Investment and Export Promotion Agency (RIEPA). The objective was to reinforce the functions related to policy advocacy, aftercare services and executive visits.

In line with this recommendation, the Government of Rwanda merged six institutions which had a mandate to deal with business and transformed RIEPA into the RDB in 2008.[8]

Since then, the RDB has assumed most of the roles assigned to its predecessors and has become a strong organization providing one-stop-shop services to investors. Today, most of the administrative procedures related to migration and work permit can be done at the RDB. The eRegulations programme established with the assistance of UNCTAD is an additional tool to ensure efficiency and transparency. The RDB has also strengthened its policy advocacy function as exemplified by its role in supporting the implementation of the skills attraction programme carried out by the DGIE.

While the efforts undertaken by the RDB to improve its targeting of investors, following up investment leads, looking after the investors during the investment process and offering aftercare services are acknowledged by our interviews with business, it is an area where further progress can be made. For example, the RDB could establish a more systematic service to follow up investors, with regular interviews carried out with them.

The RDB participates, in cooperation with high-level Government officials, in image-building campaigns. The Government in general has indeed deployed serious efforts to fill the image gap of the country and put in place a communication strategy that has systematically improved since 2006. The strategy is in line with the objective of informing the world about Rwanda's new reality and the progress made to improve the business environment. Against this background, the RDB has undertaken a major investment and export promotion effort, including within the subregion.[9]

Benchmarking and monitoring performance in investment promotion – another recommendation of the IPR – is undertaken mostly by the RDB. Indeed, the Doing Business unit monitors all relevant international benchmarks as well as domestic indicators of progress. In this area, the eRegulations programme is yet again a valuable tool, allowing for domestic evaluations and international comparisons with other countries that have implemented similar eRegulations programmes.[10]

Tremendous progress has also been achieved in other key regulatory agencies affecting investors. The RRA has become a model in the region. It has been given a mandate not only to raise revenue and ensure compliance with tax obligations, but also to facilitate business operations, including through its responsibility for customs and trade-facilitation functions. The RRA clearly perceives its twin functions and has demonstrated a clear commitment to fight corruption within its own ranks.[11]

The RRA, which is funded mainly by a 3.5 per cent retention of revenue collected, has received significant support from the donor community to improve capacity over the past few years.[12] It has enabled it not only to boost staff capacity, but also make structural improvements in its tax collection and compliance systems, including through the generalization of IT-based procedures. As far as customs is concerned, the RRA indicates that it improved the time to clear consignments from 3 days and 11 hours in 2007 to 1 day and 2 hours by 2010.

Extended working hours at border posts and the establishment of one-stop points with neighbouring countries have also improved matters.

The improvement in the RRA's capacity has been so significant over the past few years that it provided major support in the establishment of the Revenue Authority of Burundi. Support was provided in drafting the business plan and legislation and RRA staff was engaged in capacity building in Bujumbura.

Major efforts to build capacity at the RURA have also been undertaken over the past few years. The agency is very active in shaping and enforcing the regulatory framework in ICT, transport, energy, water and sanitation. It plays an important role in promoting sustainability in these regulated sectors, as recommended in the IPR, and has been given a clear mandate to protect consumers. From an embryonic organization with limited capacity in 2005, the RURA has become a solid institution with a staff of 170 people in June 2010, 92 per cent of which have university-level qualifications, mostly in applied sciences, engineering, management, law and economics.

Similar capacity-building efforts have been undertaken at the DGIE, which has been driving the implementation of the skills attraction and dissemination programme (section 4). Staff at the DGIE have received training from foreign immigration experts, most of whom come from Australia, and have also benefited from study tours in countries with a long history of attracting foreign skills, including in particular Australia and Singapore. Processes have greatly improved at the DGIE, including through increased reliance on IT tools. As a reflection of their innovative approach to immigration and the quality of its services, the DGIE received the award for innovative management from the African Association for Public Administration and Management in 2009. The OGMR has also built its capacity over the past few years, but progress has been less impressive than at the RRA, RURA and DGIE.

As part of deep-rooted efforts to improve capacity, increase client-orientation, and enhance transparency and accountability, almost all administrative services dealing with investors have, since 2006, adopted client charters, including the RDB, RRA, DGIE, and OGMR. The success of client charters in these services, put in place with technical assistance from UNCTAD, has prompted other units of public administration such as the RURA to consider introducing them soon. Business executives typically praise the service-oriented culture of public services, and of the RDB, in particular.

The IPR highlighted that good governance in investment policy required further improvements in commercial justice, which was perceived at the time as fair but slow. To address this issue, the Government established in 2007 the principles for the organization, functioning and jurisdiction of commercial courts. A law establishing commercial courts was adopted in 2008, creating the legal base for speedier actions. According to the principles, the education requirements are stricter and only law graduates can be appointed as judges. Furthermore, 16 new judges have been trained to adjudicate commercial cases.

The Government also improved other laws affecting the administration of commercial justice, including the Companies Act in 2009 and the Law on Arbitration and Conciliation in Commercial Matters in 2007 (further amended in 2009). The amended arbitration law aims to make the arbitration system more efficient and useful. Arbitral rewards are now treated with very few exceptions as final and binding. The procedure for arbitration has been reviewed and the amended law applies to both domestic and international commercial arbitration and conciliation.

While progress has also been made towards a strict equivalence of all three-language (Kinyarwanda, English and French) versions of laws, most laws are still originally drafted in English. It is therefore preferable to consult the English version in case of doubt.

3.2. Filling the gaps in general business regulation and taxation

The IPR acknowledged progress already achieved in legal reforms by 2005, but stressed that a number of key regulatory gaps and weaknesses needed to be addressed in order to achieve the objective of becoming a centre of excellence in soft infrastructure and promote sustainable investment. Key among those were issues related to the investment law, corporate taxation, competition, labour and some regulations in the utilities sectors.

As indicated above, Rwanda has pursued major reforms in its legal framework for investment over the past few years, which have generated widely acknowledged improvements in the business climate. As far as the investment law, corporate taxation, competition and selected sectoral regulations are concerned, progress has been achieved to varying degrees as either policy discussions are still under way, or draft laws are awaiting approval by parliament.

Reforms to corporate taxation and the investment law are linked intricately as, under the current setting, the investment certificate delivered by the RDB serves as the gateway to most tax incentives. Rwanda is currently considering a fundamental reform of its tax system to encompass not only corporate income taxation, but also the entire range of investment incentives, and capital and labour income taxes.

The Ministry of Finance and Economic Planning recently prepared a position paper on a “flat tax” for Rwanda. The position paper was approved by Cabinet in the fall of 2011, but is not publicly available. A number of options for tax reforms are still being considered, and the extent to which a full “flat tax” may be adopted in Rwanda remains uncertain.[13] What is clear is that the authorities wish to move towards a simplification of the tax regime and a full review of the system of incentives for investment. The purpose is to ensure that Rwanda offers an attractive tax regime to promote investment and avoid distortionary effects. Rwanda is also fully aware of the absolute necessity to ensure a growing and predictable fiscal revenue stream to finance public services and promote long-term development.

The details about how this balancing act will be achieved are unclear at this stage, but the “flat tax” option is clearly on the table, and a single rate of 15 per cent has been discussed.

This would entail a sharp reduction from the current corporate income tax rate of 30 per cent, but it would be implemented in parallel with the elimination of all incentives, exemptions and excess deductions currently offered to investors.

Discussions about reforming the law on investment have taken place in parallel with the debate on reshaping tax policy. The two should indeed go hand-in-hand, as the elimination of targeted incentives and deductions would need to be reflected in the law on investment. It is unclear at this stage how the new investment law will be shaped, but it will need to be fully aligned with the incentives policy adopted under the forthcoming tax structure. It should also be an opportunity for Rwanda to ensure compliance with all its commitments under the EAC and consistency with measures recently adopted under the Company Law. The RDB recently requested UNCTAD to provide technical assistance in drafting a new law on investment.

Adopting the proposed reforms in these two key regulatory areas would go a long way towards further improving the investment framework and achieving the objective of becoming a centre of excellence in soft infrastructure. As already recommended in the IPR in 2006, these two reforms should be high on the agenda for the near future. Updating the tax and investment laws rapidly would also ensure that uncertainty in the business community is minimized.

The IPR stressed the importance of competition in a small economy like Rwanda, and that the absence of well-developed competition rules and enforcement institutions was an important weakness to be remedied. UNCTAD assisted the Government to prepare a draft law on competition and consumer protection, which was adopted by Parliament in late November 2011.

The new law should enable Rwanda to achieve the main goals as set out in its competition policy of 2010, in particular: (1) promote economic efficiency and encourage the development of the country; (2) ensure consumer access to products at competitive prices and high quality; (3) ensure that small and medium-size companies can effectively participate in the economy; (4) expose local firms to competition and enhance their global competitiveness; and (5) create a conducive environment for FDI. The establishment of Rwanda's competition framework will complement that established at the EAC level, which is applicable (with exclusive competence) to community-wide competition issues.

The competition rules defined in the new law will apply to all sectors of the economy, including utilities that are regulated by RURA. A Ministerial decree should soon establish a competition authority and define its structure and regulatory powers. The competition policy of 2010 states that the authority will be responsible for advocacy, investigation and monitoring of business practices, and enforcement. It also explicitly recognizes that the work of the future competition authority will have to be coordinated closely with that of RURA in its sectors of oversight.

Investors have indicated that a full competition regime could also enhance fair competition with publicly-owned companies, which under the current setting enjoy a more favourable position. With respect to RURA, the adoption of sectoral laws (gas, water and transport) should further improve its monitoring and regulatory powers responsibilities.

Since 2006, the regulatory framework for utilities has undergone some changes, as recommended in the IPR. A new Electricity Law was adopted in July 2011, making it the second sector after telecommunications where the regulatory framework has been strengthened. In turn, the draft Gas, Transport and Water Laws still have to be adopted by parliament.

The IPR recommended that a small additional dose of labour market flexibility be introduced in order to promote formal employment and encourage informal sector activities to integrate the formal economy, without compromising legitimate worker protection. The revision of the Labour Law in 2009 simplified the hiring and separation process, and added more flexibility to working hours.

In addition, Rwanda set up the Labour Market Information System (LMIS) in 2008 with the view to facilitate the collection and exchange of information between actors on the labour market, including job-seekers, employers, recruiters, education institutions and Government. The LMIS, which was put under the responsibility of the RDB in 2010, provides listings of vacancies, enables job-seekers to register their profile and make it available to employers, informs workers about their rights and even offers career advisory services. It also aims to collect and release data on skills available nationally.

Rwanda established the Workforce Development Authority (WDA) in 2008 in parallel with the LMIS. The WDA's purpose is to "provide a strategic response to the skills development challenge". Its activities focus on support for vocational training, business incubation, industry standards and regulation and accreditation of education institutions. One of its core goals is to ensure that the skills developed in Rwanda match the needs of the economy.

The IPR indicated that issues related to intellectual property were not a priority at the time as far as the investment climate was concerned. Since then, however, Rwanda has adopted a national policy on intellectual property, prepared with technical assistance from UNCTAD. The policy aims to achieve various economic goals typical for a least developed country such as protection and regulation of traditional knowledge, contribution to industrial policy, facilitation of technology transfer and investment promotion. In the area of investment promotion, the full application of this policy could contribute to the attraction of higher value added projects to the country.

3.3. Advancing regional integration

The IPR underscored the challenges linked to Rwanda's geographic location, small market size and hard infrastructure constraints. It stressed the importance of achieving a high degree of regional integration in order to help overcome some of these challenges and encouraged Rwanda to actively pursue its application to the Eastern African Community and play a proactive role in promoting strong integration within the region.

Rwanda gained full membership in the EAC in 2007 at the same time as Burundi, thereby creating a five-country block with the founding countries Kenya, Uganda and the United Republic of Tanzania. The EAC is among the most closely integrated and ambitious regional blocks in Africa. Following a five-year transitional period during which import duties of goods from Kenya, the EAC's most advanced country, were phased down, a full customs union was established in 2010, allowing for the free circulation of goods within the Community. A number of issues related to non-tariff barriers still need to be addressed, however, in order to ensure the smooth circulation of goods.

In addition, the regional integration objectives pursued by the EAC go well beyond a customs union and as far as monetary union and a political federation. The protocol on the establishment of the EAC common market (and all its annexes) was signed in November 2009 and came into force in July 2010 after ratification by all member States. It reaffirms the free movement of goods as already provided for under the customs union and establishes the free movement of persons and labour, the rights of establishment and residence, the free movement of services and the free movement of capital. It also provides for cooperation in a large number of areas, from the protection of cross-border investments to consumer, industrial development, public procurement and the harmonization of tax policies and laws.

The full implementation of the EAC common market will take years to accomplish, and a number of provisions require phase-in periods, including those in trade in services and movement of persons and labour. Rwanda has taken some unilateral steps to advance faster than its partners, however, by allowing the free movement of workers with immediate effect. In addition, it has been playing a very proactive role with the view to deepening and accelerating regional integration, including through the establishment in 2008 of a strong Ministry of EAC, as all member States were committed to do that year.

As far as Rwanda's network of bilateral investment treaties (BITs) is concerned, relatively little has taken place since the publication of the IPR. BITs have been signed with Belgium and Luxemburg and the United States, but have not come into force yet. As far as the neighbouring countries are concerned, the protection of investment flows should be ensured under the common market protocol.

4. A SKILLS ATTRACTION AND DISSEMINATION PROGRAMME

The IPR underlined that the rapid acquisition and dissemination of skills was an imperative to achieve Rwanda's development objectives. It commended the country's efforts to boost education at all levels and acknowledged the central role of education for the long-term objective of building a knowledge-based economy. It also suggested, however, that a carefully-crafted skills attraction and dissemination programme could complement the efforts on the education front, fill temporary skills gaps and accelerate the skills development process.

As a result, the IPR proposed an ambitious scheme to attract skills from abroad on a targeted basis and based on Rwanda's current and prospective needs. It was proposed to facilitate the entry of foreigners on two main tracks: (1) workers who could demonstrate that they possess skills identified as being in short supply in Rwanda; and (2) investors (entrepreneurs) with viable business projects.

Following the initial proposal made in the IPR, Rwanda requested further technical assistance from UNCTAD to flesh out a detailed policy and action plan to put in place a full-fledged skills attraction programme. The action plan was presented to Government, including ministers, deputies and senators, and endorsed at the end of 2007. It provided further details on the policy itself, together with a full list of steps necessary to implement the proposal.

The Directorate General of Immigration and Emigration (DGIE) has led the implementation of the programme since 2007, as Rwanda took full ownership of the proposals. Other agencies have been brought on board, including the RDB, the Ministry of Labour and the WDA. The entire thrust of UNCTAD's recommendations has been adopted. Adaptations have been made where needed in order to suit specific needs and circumstances, including the ratification of the EAC common market, which brought about new issues in terms of movement of persons and labour with the Community.

A new law on immigration and emigration in Rwanda (Law 04/2011) was adopted in March 2011, followed by its implementation decree in May 2011. Additional rules and procedures have been put in place by the DGIE in order to establish the regulatory framework for the skills attraction and dissemination programme, which is now fully in place. A number of visa classes for skilled workers and investors (entrepreneurs) have been created as recommended in the IPR. A list of skills in short supply and in demand in Rwanda (occupations on demand list) has been prepared and should be regularly updated.

As recommended in the IPR, the process to obtain work and residence permits has been streamlined. The two permits have been unified and are granted for periods of two or three years, depending on the type of visa. In addition, visa fees have been reduced. Furthermore, Rwanda also opened a path to permanent residence and/or citizenship in order to promote long-term integration of immigrants into the economy and social fabric.

The DGIE sought and received additional technical assistance from UNCTAD in the implementation of the programme. A former high-level official from the Department of Immigration and Citizenship of Australia has been assisting the DGIE over the past few years and spent much time in residence in Kigali to assist on implementation issues. A number of training activities have also been undertaken for the staff of the DGIE.

Like other government agencies, the DGIE prepared a client charter with technical assistance from UNCTAD. It has contributed to the development of a service and client-oriented mentality at the DGIE, a phenomenon that is noticeable throughout government institutions in Rwanda.

The adoption of the regulatory framework and institutional efforts at the DGIE mean that the skills attraction and development programme is now fully in place and ready to operate. Significant work still needs to be done, however, to ensure that the programme generates the full impact that it has been designed to deliver in terms of skills and economic development. The DGIE needs to further reinforce its technical capacity, and the national skills audit needs to be regularly reviewed in order to ensure that the occupation on demand list is accurate. It is also crucial that the programme and the opportunities it offers for entrepreneurs and skilled workers abroad be widely advertised, as recommended in the IPR. This promotional work ought to be coordinated with the RDB and the Ministry of Foreign Affairs, among others.

5. FOCUSED STRATEGIC INITIATIVES

Actions undertaken with the aim of creating a centre of excellence in soft infrastructure and establishing a skills attraction programme have been complemented and reinforced by reforms in selected strategic economic sectors, as recommended in the IPR. Small-scale manufacturing, tourism, finance, coffee and tea, horticulture and mining play a key role in economic development, or have the potential of becoming engines of future growth. Sectoral reforms in these areas have progressed since 2006, with the most important advances recorded in tourism and mining (annex table III).

5.1. Manufacturing

Manufacturing remains underdeveloped. The performance of this sector is hindered by a number of factors, including the small size of the economy, landlocked location, weaknesses in transportation, and relatively high production costs. Because of these disadvantages, it is still difficult to attract major FDI projects in this sector. Nevertheless, the Government has undertaken some efforts towards the modernization of the policy environment. For example, the management of the Kigali Industrial Park has been modernized, in partnership with the private sector. There are also plans to combine it with the free trade zone outside the capital city into a single special economic zone. If this plan is realized, the emphasis of incentives would be on the provision of infrastructure, utilities, financial services, and availability of labour, and less on fiscal incentives. If it becomes operational, it will be close to the concept of multi-facility industrial park, recommended by the IPR.

5.2. Tourism

Rwanda adopted a new tourism policy in 2009. Its main aim is to give impetus to quality (high-end) tourism, in line with the IPR recommendation. Some large investors in that segment, such as Serena Hotels (Kenya), and Abercrombie & Kent (the United Kingdom), expanded their activities in Rwanda, taking advantage of the new policy of support to high-end tourism. Advances in this area are to be consolidated in a tourism law currently tabled to parliament. The challenge of the current policy of focusing on high-end tourism is to make sure that services provided to guests are in line with the expectations of this type of tourism.

In line with the recommendations of the IPR, a classification of hotels was adopted in 2010. It will be further fine tuned according to uniform EAC criteria, in order to promote regional cooperation in tourism. Eco-tourism is also given consideration, now in the framework of responsible tourism and related to the efforts of Government on the conservation of nature and habitat. There have also been some efforts in the area of attracting FDI in related areas; however it has not yet been systematic.

Within the framework of EAC cooperation, the country is targeting service providers and tour operators present in other EAC countries, and Kenya and Rwanda are developing together joint tourist packages. Tour operators' cooperation in the region is well developed. Regional tourism is also promoted through the issuing of regional tourist visas.

5.3. Finance

A new Banking Act was adopted in 2008, strengthening and modernizing the supervision of banks. Basic research has also been done (a study in 2010 by the Ministry of Finance and Economic Planning on Rwanda as a potential regional financial hub) on the business case for an offshore financial services centre. However, given changing international attitudes towards offshore finance, the idea needs to be given further thought and requires more analysis before implementation.

5.4. Coffee and tea

Coffee and tea are still the major export earners of the country. However, the world market for these products is highly competitive, and it is difficult, especially for small countries, to gain market share and attract foreign investors. The Government's efforts to transform Rwanda's coffee sector and shift incentives towards higher quality and quantity produced have nevertheless brought impact. Rwanda is increasingly recognized as a producer of specialty coffee. In line with the IPR recommendations, a conducive policy environment has stimulated entrepreneurship with local investors building 180 washing stations in recent years which created thousands of jobs. As a result, the crop fully washed locally has risen from 3 per cent in 2006 to 20 per cent in 2010, well below the Government's objective of 63 per cent as referred to in the IPR.

Recognizing the ongoing challenges of this sector, including the attraction of foreign investors, the Government of Rwanda has adopted a revised National Coffee Strategy in 2009. The new policy focuses on five targets: improving farming techniques, helping washing stations to become profitable, support private exporters to market and sell their products, conduct a census of coffee growing areas, and develop a partnership to build a factory to roast and package coffee in the country. The effective implementation of the new strategy is expected to bring about more benefits from this sector and, in particular, better address the challenges of the millions of poor smallholder farmers.

5.5. Horticulture

The country has made some efforts to diversify to other agricultural activities such as horticulture. In line with the IPR recommendations, foreign investors have been attracted to the country, mainly from neighbouring Kenya. In terms of modernizing the policy framework, the country has made major progress by adopting the international sanitary and phytosanitary standards (SPS), as well as other related standards of the International Plant Protection Convention (IPPC) and the World Trade Organization (WTO). It has also assured a faster customs clearance of horticultural products, and some warehousing capacities have been established. Moreover, some inputs have been exempted from import tariff, in order to facilitate the growth of the sector. The main bottleneck now is the country's limited supplier capacities, hindering the full use of existing services. The main challenge in horticulture is hence to increase local capacities in order to take full advantage of the warehousing facilities put in place by the Government.

5.6. Mining

A new mining and quarrying law was adopted in 2009, with its implementation decrees published in 2010. The Government also published its mining policy in 2010. The new law clarifies the situation of licences, the ownership of concessions and its transfer, the rights of landowners, and security and safety. The mining and quarrying law of 2009 follows several of the recommendations of the IPR, including the non-exclusivity of prospecting licences, the improvement of exploration licences, the transfer of research licences and mining concessions.

With respect to the fiscal regime of mining, a draft Mining Taxation Law and a draft law on royalties have been prepared. It is recommended to adopt them as soon as possible. There have also been some efforts to prepare promotional material for investors; they need to be strengthened through cooperation between the Ministry of Natural Resources and RDB. The country could also use more often in the future the draft model contract that was developed with the support of UNCTAD. It could also use more actively the strategy for the promotion of the industrial mining sector in Rwanda, developed by UNCTAD in 2006. The latter has not been fully implemented, although it has influenced major developments in the area, including the national mining policy and the Mining and Quarrying Law.

6. CONCLUSIONS AND RECOMMENDATIONS

Rwanda has made immense progress in improving its investment framework since the publication of the IPR in 2006. This has materialized in sharply rising FDI flows over the past few years, in spite of the recent global economic and financial crisis. Rwanda significantly surpassed UNCTAD's optimistic scenario for FDI attraction, which had been released in the IPR to indicate the realm of possibilities given a strong reform drive.

The three strategic components of the IPR have become part and parcel of Rwanda's development strategy, i.e. the centre of excellence in soft infrastructure and governance, the skills attraction and dissemination programme, and strategic sectoral initiatives. In addition, Rwanda has intricately linked its development to that of the region, which was also suggested as an important strategic decision to make in the IPR.

In addition to adopting the strategic thrust of the IPR, implementation of reforms has been comprehensive, sustained and rapid. Although excellence is a constantly evolving target, it can be claimed that Rwanda has achieved regional excellence in many areas, and that it has set its sights beyond regional excellence in some others. Progress in building institutional capacity has been sustained as well, even though much work still needs to be done.

In spite of the significant progress achieved and higher FDI inflows since 2006, the Government of Rwanda is not fully satisfied with the outcome as FDI inflows per capita or as a share of GDP remain below the average for Africa and LDCs. It feels that improvements in the business climate have not translated into higher FDI inflows quickly enough, in spite of the sharp increase over recent years. It would also like to ensure that a higher proportion of investment leads and intentions turn into concrete projects, as significant resources are devoted to generate such leads. The Government has therefore requested UNCTAD to provide additional recommendations on what the country could do to further boost FDI inflows and ensure that investment leads and intentions are translated into actual investment inflows. The study will, among others, survey companies that have expressed an interest to invest in the country in the past, but have not done so.

In this regard, a number of remaining bottlenecks can already be identified. The main suggestions listed below also include a more active use of FDI data in policy analysis and policy making.

- ***Complete the reform of the investment and tax codes:*** Significant tax reforms, including corporate taxation and financial incentives for investment, are under consideration. These reforms should go hand in hand with a revision of the investment code, which is also being considered to better reflect the improvements in other investment-related legislation over the past few years. It is important that tax reforms enable Rwanda to achieve a competitive and efficient fiscal regime, as recommended in the IPR, but without compromising the country’s ability to collect the level of revenue needed for its long-term development and a reduction in its reliance on budget support from donors.

- ***Promote fair and effective competition and establish a strong and competent competition authority:*** It will be important to ensure a prompt and effective enforcement of the recently adopted law on competition and consumer protection. This will require the establishment of a strong and competent competition agency. The future agency should receive as much support as RURA or the RRA have in the past few years and become a key element in Rwanda’s regulatory landscape in the near future. It will also be crucial to establish clear coordination and collaboration mechanisms between the future competition authority and RURA to ensure competition in the regulated sectors.

- ***Continuously benchmark excellence in soft infrastructure and governance:*** Excellence is a moving target and a continuous process. Rwanda should continuously strive to achieve excellence and should now set its sights beyond the region to take inspiration from global regulatory best practices.

- ***Adopt sectoral laws in gas, water and transport:*** The adoption of the remaining laws on natural monopolies is overdue. Such legislation would strengthen RURA's regulatory power for the benefit of consumers.
- ***Further develop capacity at the Directorate General of Immigration and Emigration:*** Building on the excellent results achieved so far in this area, capacity should be further strengthened at the DGIE in order to effectively promote, implement and administer the skills attraction and dissemination programme.
- ***Further advance regional integration:*** Rwanda's development cannot be dissociated from that of its partners in the EAC, and its own attractiveness to foreign investors partly depends on regional trends. The establishment of the EAC common market in 2010 was a huge step forward and a major economic opportunity for all members. It will need to be followed with effective implementation of the commitments under the protocol and its annexes. Rwanda should continue to act as proactive player in regional integration.
- ***Further build capacity at the RDB in areas such as investor targeting and aftercare services:*** FDI inflows have increased significantly in recent years. In order to increase these flows, the RDB would need to further strengthen its targeting of potential investors, should follow them up and accompany them during the investment process more actively, and should offer them world-class aftercare services.
- ***Continue to pursue focused strategic initiatives:*** Further efforts should be made to define and implement development strategies and policies in key sectors for Rwanda's long-term development.
- ***More active use of FDI data in economic analysis:*** Rwanda should use its improved ability to collect data on FDI more actively to analyze the impact of FDI and articulate investment strategy and policy.

UNCTAD can remain an active stakeholder in this process through both specific technical assistance programmes and through maintaining a partnership with RDB for capacity building and FDI policy design.

NOTES

1. This report was prepared by Quentin Dupriez and Kalman Kalotay under the direction of Chantal Dupasquier and the supervision of James Zhan. Substantive contributions and support were provided by Alexandre de Crombrugghe. Comments by Nazha Benabbes-Taarji and Ian Richards are also acknowledged.
2. Under the so-called “high-end” scenario presented in the IPR, an ambitious goal was set for FDI inflows up to 2020. For the period 2006–2010, the inflows attracted exceeded significantly what was projected under this scenario (see IPR Rwanda, page 75).
3. The Doing Business 2012 Report ranks 183 countries; Rwanda is in the upper 25 per cent.
4. The index is calculated for 178 countries; Rwanda is in the upper 40 per cent.
5. Between 2006 and 2010, the ranking of the other EAC countries deteriorated.
6. A score of 0 means maximum corruption, and of 10 full transparency.
7. In Africa, only South Africa has an investment grade (BBB+). In the EAC, Burundi and the United Republic of Tanzania have no rating, Uganda has the same rating as Rwanda (B), and Kenya is one notch above (B+).
8. The “Organic Law N° 53/2008 of 02/09/2008 Establishing Rwanda Development Board (RDB) and Determining its Responsibilities, Organisation and Functioning” merged RIEPA, the Rwanda Information and Communication Technology Authority, the Rwanda Office of Tourism and National Parks, the Rwanda Commercial Registration of Services Agency, the Human Resource and Institutional Capacity Development Agency and the Privatization Secretariat into a single agency.
9. This can explain the growing presence of Kenyan investors in various sectors, including horticulture, retail and hydrocarbons.
10. For further details on this programme see www.eRegulations.org.
11. In 2009/2010, the RRA conducted 56 investigations involving corrupt practices. Among the concluded cases, 10 employees were dismissed, 19 acquitted and 18 received administrative sanctions (see Rwanda Revenue Authority, Annual Activity Report for 2009/2010, September 2010, pages 27–28).
12. This includes support from the Investment Climate Facility, DFID and JICA.
13. Under a full “flat tax” regime, a single rate would apply to all forms of income (wages, capital and others). Corporate income would be taxed at the same rate as personal income, and deductions, exemptions and other special regimes would be eliminated. In certain cases, some exemptions may be preserved and some degree of progressivity can be introduced in personal income taxation by taxing wage income only above a certain threshold. While a major intended benefit of the “flat tax” is simplicity, complexities still inevitably arise, and “flat tax” regimes adopted around the world differ in many of their characteristics.

ANNEX: SUMMARY OF IMPLEMENTATION ACHIEVEMENTS

TABLE AI: CENTRE OF EXCELLENCE IN SOFT INFRASTRUCTURE AND GOVERNANCE

AREA	IPR RECOMMENDATION	RESULT	COMMENT
Centre of excellence in soft infrastructure and governance (overall progress)	Turn Rwanda into a centre of excellence in soft infrastructure and governance	★★★	The Government has fully embraced the idea of regulatory excellence, and has made impressive progress
Make good governance systematic	Support a rapid build-up of technical expertise in key regulatory agencies	★★★	The RRA, RURA, DGIE and other key regulatory agencies have been strengthened and changed almost beyond recognition since 2005. Although capacity still needs further strengthening, the improvement goes beyond what was expected and is also more generalized.
Make good governance systematic	Strengthen the role of the investment promotion agency in advocacy, skills attraction, aftercare and executive visits	★★	RDB has become a strong agency in promotion and advocacy; the eRegulations programme, established with the support of UNCTAD, has become a major tool to ensure transparency and efficiency in RDB's one-stop-shop services; RDB still needs to further improve its investor targeting activities, its follow-up of investment leads and aftercare functions
Make good governance systematic	Each administrative service dealing with investors should have a publicly available "client charter»	★★	All services, including RDB, RRA, Rwanda DGIE, OGRM etc. have client charters; other institutions such as RURA consider adopting one.
Make good governance systematic	Promote a service-oriented mentality in public administration	★★★	Restructuring of institutions, the creation of RDB, and the adoption of client charters have led to improvements; the eRegulations programme has become a catalyst of change in attitudes

AREA	IPR RECOMMENDATION	RESULT	COMMENT
Make good governance systematic	Use benchmarking and monitoring in investment promotion	★★	RDB undertakes most of these functions, benchmarking results against those of other countries through its investment climate unit which deals with international rankings and comparisons
Make good governance systematic	Bring international perceptions in line with the realities of the country	★★★	There have been various initiatives undertaken; the communication of the Government has improved (e.g. through the RDB website), and significant efforts have been made to improve the country's international rankings (e.g. World Bank's Doing Business, Transparency International, credit ratings)
Make good governance systematic	Modernize / elaborate laws related to, and increase efficiency of, commercial justice	★★	New Companies Act adopted in 2009; a law establishing commercial courts adopted in 2008; a Law on Arbitration and Conciliation in Commercial Matters adopted in 2007 (amended in 2009), commercial justice has improved; only new bankruptcy or contract laws are pending
Fill the gaps in business regulation and taxation	Modernize corporate taxation, review the investment incentives scheme and modernize the law on investment	★	A comprehensive overhaul of taxation and investment incentives is under review, which may entail one form or another of a flat-tax regime. Modifications to the law on investment are being considered in parallel with tax reforms
Fill the gaps in business regulation and taxation	Streamline and modernize the administration of incentives	★	Incentives are slightly better administered thanks to RDB; however the incentives system has not yet been modernized
Fill the gaps in business regulation and taxation	Implement a competition regime	★★	The law on competition and consumer protection was adopted by Parliament in late November 2011. The competition authority remains to be established
Fill the gaps in business regulation and taxation	Bring regulatory framework of electricity, gas, transport and water up to the level of telecommunications	★	Electricity Law was adopted in 2011; the draft gas, transport and water laws still need to be adopted

AREA	IPR RECOMMENDATION	RESULT	COMMENT
Fill the gaps in business regulation and taxation	Within international norms of labour protection, increase labour market flexibility	★★	A new Labour Law was adopted in 2009; a new Labour Market Information System (LMIS) increases transparency in the labour market, WDA links vocational training with labour market needs
Regional integration	Join the EAC as a matter of priority	★★	Rwanda joined the EAC in 2007, together with Burundi
Regional integration	Place regional integration at the centre of the economic development and FDI attraction strategy	★★★	Rwanda has been extremely proactive in promoting regional integration within the EAC. The EAC common market was established in 2010 and Rwanda took some unilateral commitments to free the movement of persons and workers ahead of schedule

Key to table:

★★★ surpassed expectations

★★ fully or largely accomplished

★ partially accomplished

TABLE AII: SKILLS ATTRACTION AND DISSEMINATION PROGRAMME

AREA	IPR RECOMMENDATION	RESULT	COMMENT
Skills attraction and dissemination programme (overall progress)	Implement a skills attraction and dissemination programme in the service of Rwanda’s economic development	★★★	The successful skills attraction and dissemination programme has become an integral part of Rwanda’s development strategy
Skills attraction programme	Creation of visas for foreign workers with skills in demand and short supply locally, and creation of visas for entrepreneurs with valid business projects	★★★	All classes of visas have been established
Skills attraction programme	Opening a path to permanent residence and/or citizenship for skilled workers and entrepreneurs	★★★	The new immigration law opens a path for both
Skills dissemination and expatriate employee scheme	Identification of missing skills and preparation of an occupation on demand list	★★★	A skills audit was undertaken in 2009 and served as the basis for the list
Skills dissemination and expatriate employee scheme	Screen sponsors based on their track record of good practice in employing foreign workers	★★	It is part of the practice of the DGIE
Skills dissemination and expatriate employee scheme	Unify work and residence permits for skilled workers and lengthen the period of issuance and validity of permit	★★	This is done in the new Immigration and Emigration Law and its Ministerial Order
Full-fledged business talent scheme	Create investor permits and provide certainty for business talent	★★★	The country has created a double scheme: “entrepreneurs” (smaller investors) and “investors” (larger firms), with 3-year residence permits in several cases

AREA	IPR RECOMMENDATION	RESULT	COMMENT
Full-fledged business talent scheme	Special incentives to individuals	★	Some progress with the imports of personal belongings upon installation
Full-fledged business talent scheme	Actively promote Rwanda as a destination for skilled individuals: target people	★★	Skills attraction is one of the considerations in RDB's investment promotion strategy; it complements RDB's role in skills development
Full-fledged business talent scheme	Attract development-minded retired business executives willing to invest in Rwandan companies and contribute with their expertise on a part-time basis	★	Diaspora is actively targeted for reverse brain drain, although it is not a full-fledged programme yet

TABLE AIII: FOCUSED STRATEGIC INITIATIVES

AREA	IPR RECOMMENDATION	RESULT	COMMENT
Focused strategic initiatives (overall progress)	Advance competitiveness and FDI attraction in selected sectors	★★	Sectoral reforms have progressed since 2006, with the most important advances recorded in tourism and mining
Manufacturing	Increase inward FDI in manufacturing through better institutional arrangements such as the establishment of multi-facility industrial parks; a freeport-style fiscal regime aimed at promoting Rwanda›s potential role as a logistics and dispatch centre for the Great Lakes region	★	Manufacturing still plays a marginal role in FDI. The Kigali Industrial Park has improved but it is not yet a multi-facility park. A freeport-system exists in terms of regulation and logistics centres have been established; however local business is still too weak to derive major benefits

AREA	IPR RECOMMENDATION	RESULT	COMMENT
Tourism	Various initiatives including the targeting of high-end tourism, the classification and monitoring of hotels, an «eco-tourism» label, and the promotion of FDI in ancillary services (restaurant, entertainment, etc.), and targeting tour operators for EAC countries	★★	Government is promoting high-end tourism, improving classification of hotels and monitoring, and targeting tour operators from EAC and developing joint EAC tourism products. Regional cooperation has also started in the area of a common classification of hotels
Finance	Analyze if there is a case for developing an offshore financial services centre; if yes undertake follow-up actions	★	Basic research has been done but no follow up yet; the global environment has changed with regards to offshore financial centres
Coffee and tea	Investment promotion in washing stations in tea, attraction of one major brand with expertise in western markets and branding in coffee	★★	Coffee and tea are still a major export sector. A revised strategy was adopted by the Government in 2009 to better address the sector›s challenges
Horticulture	Promote foreign investment in horticulture; adopt the strict SPS set by international markets into Rwandan law; set up procedures to fast track customs and SPS clearances of perishable products	★★	Horticulture is at the centre of agricultural strategy. SPS and other measures are adopted; fast track assured. The main bottleneck is limited supplier capacities. It is also difficult to attract foreign investors
Mining	Adopt a new mining strategy; create a new mining regime based on a new mining law, including novelties such as non-exclusive prospecting licenses, exploration licenses over larger areas but with relinquishment obligations etc.	★★	A new mining strategy was developed through assistance provided by UNCTAD; the new Mining and Quarrying Law meets most requirements; additional laws (on royalties, on mining taxation) are yet to be adopted; a draft model contract was developed but it is not used yet