



SERVICES POLICY REVIEW



RWANDA





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EXECUTIVE SUMMARY

Increasingly, services production and trade is moving to the forefront of the agenda of governments the world over. Boosting services trade is seen as a way to grow economies and achieve gains in employment creation and poverty alleviation. However, poor laws, inadequate policies and inefficient institutions hamper the ability of countries to take full advantage of the benefits of services trade. The Rwanda Services Policy Review, prepared by the United Nations Conference on Trade and Development (UNCTAD), aims, inter alia, to investigate regulatory, institutional and policy gaps and make recommendations on how to address such gaps in the sectors of tourism and information and communications technology (ICT).

Over the last decade and a half, Rwanda has implemented significant economic reforms, including privatization, investment facilitation and trade liberalization, which helped achieve strong economic growth. The services sector, which now accounts for half of its gross domestic product (GDP), played a major role in the recent economic boom. International trade has been a key factor in expanding the Rwandan economy far beyond national markets, as exports of goods and services increased from \$70 million in 1995 to over \$859 million in 2011; services increased as a share of total exports from 24–46 per cent, with a peak at 64 per cent in 2009.

Nevertheless, Rwanda continues to run a large trade deficit, estimated at \$1.4 billion in 2012, in both its merchandise and services trade.¹ The deficit in goods is generally valued at over four times the value of exports. In addition, the long distances to ocean ports and regional railway networks owing to its landlocked nature elevates the cost of merchandise trade for Rwanda. These conditions heighten the importance of services exports in bringing an end to the sustained trade deficit and rising exports.

Strong political commitment at the highest level and international support for well-designed and implemented national programmes have contributed to Rwanda's impressive efforts to achieve the Millennium Development Goals (MDGs), overcoming major setbacks during the 1994 genocide. Yet progress remains to be made in a few areas such as access to improved water sources, poverty rates, maternal mortality rates, investment in energy, water, sanitation and transportation.

Rwanda has shown some strength in macroeconomic management and continues to make progress with structural reforms, joining the top reforming economies in Africa in the World Bank's Ease of Doing Business Survey. However, the country faces a number of challenges: a large informal sector, poor skills, a weak culture of entrepreneurship, weak infrastructure, limited innovation potential, bureaucratic red tape and low domestic savings.

Rwanda has gone a long way in developing sector strategies and upgrading the regulatory framework for the development of specific services. Furthermore, it has taken a liberal approach towards attracting investment and liberalizing trade in the services sector. Rwanda could complement existing strategies with the development of a national services sector policy and a trade in services strategy with a view to ensuring the overall development of services exports and a coherent approach encompassing policymaking across several areas. Continued full and permanent cooperation from government ministries and authorities involving policymaking and the implementation of policies related to services is also important.

Three cross-cutting areas could contribute to strengthening the performance of Rwanda's overall services economy:

- The development of a culture of quality in the services sector, enabling Rwandan service firms to compete effectively with their regional counterparts. In this regard, support programmes ensuring that quality standards are adopted and maintained in the services subsectors and that skills are enhanced are crucial;

- Increased cooperation with regional partners to strengthen regulatory institutions and policymaking in the area of services, particularly those that have been prioritized for liberalization in the East African Community (EAC), the Tripartite Free Trade Agreement and the Economic Partnership Agreement (EPA) to ensure that proper institutional and regulatory frameworks are in place prior to liberalization. This study finds there is need for a more systematic approach at the regional level to promote business ventures and joint projects relating to services;
- Enhanced collaboration and communication between the private and public sectors, regarding business development (i.e. improved partnerships with foreign companies for skills enhancement and technology transfer) and infrastructure development (for instance using public–private partnerships). The study finds that lack of access to finance and skills continues to hinder the proactive participation of the private sector in the development of the services economy in Rwanda. Strengthening the capacity of local services suppliers requires specific policy measures and targeted strategies: The private sector is in a privileged position to inform policymaking in this regard, providing first-hand information on obstacles to trade and business operations.

With regard to the specific sectors under review, the tourism sector is a key driver for future growth and economic diversification in Rwanda. As such, the Rwandan Government has made it a priority and has put in place several strategies, policy measures and incentives that have led to a steady growth of the sector in recent years. Nonetheless, Rwanda's success in boosting tourist arrivals has not led to a proportional increase in its total receipts from foreign travellers. This situation can be explained by the limited length of tourist stays.

A number of areas require attention to overcome this challenge and boost the contribution of the tourism services sector to the national economy. Recommendations to strengthen the sector include the following:

- Developing entertainment alternatives and strengthening linkages with recreational, cultural and sporting services;
- Strengthening partnerships with local services operators to stage awareness-raising campaigns;
- Reinforcing the institutional and regulatory framework related to tourism education and capacity-building;
- Designing a framework to monitor and continuously improve quality in services delivery;
- Improving access to finance, particularly for small- and medium-sized enterprises (SMEs);
- Developing legislation to regulate the industry;
- Governing tourism professions, particularly in the areas of accreditation, certification and licensing.

The ICT sector has been expanding rapidly in Rwanda. The Government, the private sector and international organizations have financed developments within this sector. Intensified efforts to revive the sector have improved the sector's development indicators, and remarkable progress in the use of telecommunication services can be observed. The diffusion of ICTs has been spurred by a range of innovative pro-development applications such as e-banking, e-agriculture, education, e-government and e-trade.

Nevertheless, Rwanda's ICT sector is at an early stage of development and continues to face a number of challenges. Despite the fall in the cost of broadband Internet services over the past few years, these services are still relatively more expensive in Rwanda than in other EAC countries, and they do not yet have sufficient international bandwidth. Because it is landlocked, the country is very dependent on neighbouring countries for connectivity, which greatly increases connectivity costs. Also, low access to electricity and the high cost of its use are major impediments to the spread of ICT services across Rwanda.

A number of areas require attention to overcome these challenges and maximize the benefits and development impact of the ICT services sector. Recommendations to strengthen the sector include the following:

- Pursuing ongoing efforts to improve access to different ICT services at affordable rates;
 - Identifying niche services markets and developing targeted strategies (according to the positioning of Rwanda's current skills and skills being developed through recent initiatives) in segments of the ICT value chain;
 - Reinforcing the legal environment pertaining to data privacy and intellectual property rights;
 - Developing the capacity to compile disaggregated data with respect to key indicators to assess the sector and inform policymaking and private sector development through procurement policies that provide opportunities for cluster and network development.
-

ACRONYMS AND ABBREVIATIONS

CIF	cost, insurance and freight
CARIFORUM	Caribbean Forum of African, Caribbean and Pacific States
CAPMER	Centre d'Appui aux Petites et Moyennes Entreprises
COMESA	Common Market for Eastern and Southern Africa
DESA	Department of Economic and Social Affairs (United Nations)
EAC	East African Community
EDPRS	Economic Development and Poverty Reduction Strategy (Government of Rwanda)
EPA	economic partnership agreement
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GDP	gross domestic product
HIDA	Institutional Capacity Development Agency
HIV	human immunodeficiency virus
ICT	information and communications technology
IMF	International Monetary Fund
IPAR	Institute of Policy Analysis and Research
LDC	least developed country
MDG	Millennium Development Goal
NICI	National Information and Communication Infrastructure
NISR	National Institute of Statistics of Rwanda
OECD	Organization for Economic Cooperation and Development
RF	Rwanda franc
SACCO	savings and credit cooperative
SADC	Southern African Development Community
SME	small and medium-sized enterprise
SMS	short message service
SNV	Netherlands Development Organization
TNCDB	Trade Negotiations and Commercial Diplomacy Branch (UNCTAD)
UNCTAD	United Nations Conference on Trade and Development
VoIP	Voice over Internet Protocol
WTO	World Trade Organization

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SERVICES POLICY REVIEW



1

INTRODUCTION

1. INTRODUCTION

A vast body of analytical and empirical research carried out by UNCTAD clearly demonstrates that a thriving services sector is vital for all countries. High rates of investment and economic growth associated with services can contribute to poverty alleviation and human development when the right policies are in place to overcome supply constraints and ensure economy-wide development gains from services and services trade.

New domestic services supply and services export opportunities for developing countries therefore need to be supported and facilitated by national policies and multilateral agreements relating to services trade, with an emphasis on creating an enabling environment for SMEs, which account for the bulk of developing-country firms in the services sectors.

Carefully conducted assessment studies of the services sector are a major requirement – largely unmet in most developing countries – in making a holistic evaluation of unrealized opportunities and remaining challenges in the broader services sector in general, and specific services sectors in particular. To assist interested countries in performing such an assessment, UNCTAD has developed a methodology for conducting services policy reviews. The methodology evaluates market and institutional factors that produce an impact on the development of services economies. UNCTAD has assisted Lesotho, Kyrgyzstan, Nepal and Uganda in performing such reviews.

Rwanda's economy is based primarily on agriculture, with coffee and tea as its primary exports of merchandise goods. Despite a recent surge in services exports, agricultural commodities remain an important source of export growth. However, there are serious challenges to growth fuelled by agricultural exports. Rwanda is one of the most densely populated countries in sub-Saharan Africa, with a population of almost 11 million and a population density of 407 people per square kilometre.² Its population is predominately rural – more than four in five Rwandans live in rural areas, compared with 15 per cent of women and 17 per cent of men living in urban areas.³ With 42 per cent of the population under the age of 15 and 20 per cent under the age of 6, Rwanda faces increased socioeconomic and demographic challenges.

The high degree of export concentration in a handful of agricultural and mineral commodities such as coffee, tea, hides and skins and tin, coltan and wolfram, heighten the need for structural reform. With these realities in mind, the Government aims to diversify the economy to ensure sustained growth over the long term. Given the country's limited natural resources, national growth strategies are focused on furthering the development of the services sector, which includes assistance in transforming the economy to one that is technology and knowledge based.

National growth strategies focus on high value, innovative products and services that have high demand and for which consumers in other countries will pay a premium. In addition to the Government, other stakeholders from the private sector seek to pursue opportunities to diversify the national economy by building national supply capacity in industry and services. The high volatility of commodity prices before and during the global crisis has highlighted the importance of diversified exports and emerged as an additional motivation for promoting trade in services.

Towards this goal, with technical assistance from UNCTAD, Rwanda is undertaking a services policy review to enhance national experience in developing national services export strategies through multi-stakeholder consultations, and in subsequently owning and driving these strategies with necessary Government actions. To support Rwanda's services policy review, this note aims to review Rwanda's economic starting point for services sector reform to meet the following objectives:

- To survey some of the achievements Rwanda has already made in developing specific services sectors;
- To examine what remains to be done to further enhance their development, including through regulatory, institutional and trade policy reform.

1.1. Methodology

Research for the Rwanda services policy review began with the preparation of a draft desk study by UNCTAD. The earlier version of the review was used as a basis for discussion at the National Stakeholder Workshop held in Kigali on 26 and 27 September 2011. The workshop provided a platform for discussions among national stakeholders that focused on issues and challenges currently facing

key services sectors in Rwanda and for proposals on strategic approaches, policy advances and trade liberalization reforms in specific services sectors.

Following the workshop, a team of consultants initiated a research process that involved extensive desktop research and engagement with key stakeholders. In the light of the workshop discussions, the first draft written by UNCTAD was deepened by a comprehensive body of statistics, reports, previous studies, policy documentation, and regulations. In parallel, representatives of key stakeholders, including the National Bank of Rwanda, the Rwanda Development Board (ICT, Tourism and Human Capital, and Institutional Development departments), the Rwanda Utilities Regulatory Authority, the Rwanda Revenue Authority and the Rwanda Development Bank, were interviewed for an in-depth analysis of the chosen sectors.

The consultants' research findings were presented in the Second Stakeholder Workshop, held in Kigali on 17 January 2012. During the workshop, stakeholders from various Government ministries, regulatory authorities, the private sector and other institutions examined the preliminary findings and policy conclusions and provided further feedback aimed at improving the quality of the services policy review.

1.2. Sectoral coverage

The Ministry of Trade and Industry identified two key services sectors to be covered by the UNCTAD report: tourism services and ICT services. These sectors

have been selected, as they have significant potential to stimulate economic growth and development in Rwanda.

1.3. Structure of the report

The structure of the report is as follows: Section two presents the economic panorama and an overview of services sectors in Rwanda. This is followed in sections three and four by comprehensive assessments of the tourism services and ICT services sectors, respectively.

Each section looks in depth at the economic structure of the sector in question. The sector's contribution to the national economy, employment, long-term trends, trade, investment and linkages with other sectors are also discussed. The economic overview is followed by an inventory of legislation, regulations, institutions and policy measures in the sector, regulations governing sector operators, an analysis of the participation of foreign services providers in the sector, trade liberalization commitments affecting the sector and an analysis of the existing strengths, weaknesses, opportunities and threats characterizing the sector in Rwanda.

The last section contains policy recommendations based on the findings drawn from the desktop research and consultative engagements with key stakeholders. The recommendations are broken down into a series of general recommendations applicable to the services sector as a whole and sector-specific recommendations for each of the tourism and ICT services sectors.



SERVICES POLICY REVIEW



2

ECONOMIC PANORAMA

2. ECONOMIC PANORAMA

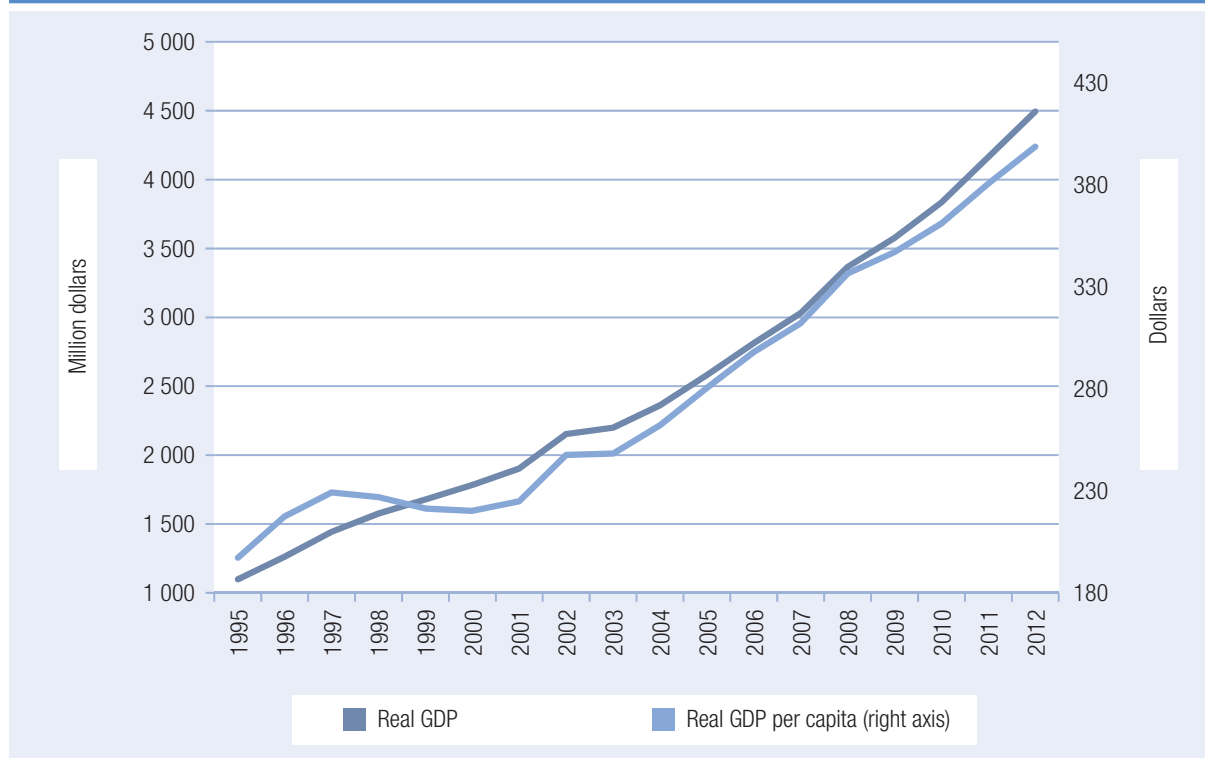
Over the last decade and a half, Rwanda has implemented significant economic reforms, including privatization, investment facilitation and trade liberalization. This has positioned Rwanda to make considerable progress in raising GDP over the past years. Growth in the agriculture and services sectors, as well as in private investments and public infrastructure spending, has driven economic growth in Rwanda. However, structural constraints are hindering a rapid transformation of the economy. Such constraints include, among others, limited human capital. For example, 68 per cent of women and 69 per cent of men have attended primary school without having gone on to post-primary/vocational or secondary school. Only 21 per cent of men have attended post-primary/vocational, secondary, or tertiary education, and about 16 per cent of women have done so; 16 per cent of women and 10 per cent of men have never attended school.⁴ Other constraints include poor skills, a weak

culture of entrepreneurship,⁵ weak infrastructure and limited innovation potential, bureaucratic red tape and low domestic savings. However, Rwanda has shown some strength in macroeconomic management and continues to make progress with structural reforms.

Rwanda's impressive growth trajectory that began in 2003 has remained steady despite the global crisis (figure 1). Between 2000 and 2012, GDP increased in real terms from \$1.7 billion to \$4.5 billion; however, high population growth led to a proportionally smaller increase in GDP per capita, from \$220 to only \$398 during the same period.⁶ With a current fertility rate of 4.6 children per woman, having fallen from 6.1 children per woman in 2005 (NISR, 2006), to 5.5 children per woman in 2007–08 (NISR, 2009), the population rose sharply from 5.4 million in 1995 to almost 11 million in 2011.⁷

As shown in figure 2, output growth had been strong from 2003 and even beyond the global crisis, in which the growth rate was close to 8 per cent in 2012. In

Figure 1. Real gross domestic product and real gross domestic product per capita in Rwanda, 1995–2012



Source: UNCTADStat.

Note: Real GDP and real GDP per capita is in dollars at constant prices (2005) and constant exchange rates (2005). Data for 2012 are estimates.

Figure 2. Growth of gross domestic product in Rwanda, 1995–2012



Source: UNCTADStat.

Note: Real GDP and real GDP per capita are expressed in dollars at constant prices (2005) and constant exchange rates (2005). Data for 2012 are estimates.

particular, the collapse in commodity prices, coupled with weak global demand, contributed to the weak economic performance. Internal factors, including a domestically generated credit crunch, also played a role in the economic slowdown (Sanya et al., 2012).

The structure of the Rwandan economy has been changing rapidly as the country's reliance on agricultural output diminished compared with services (figure 3). Between the 1990s and the 2000s, the services sector replaced agriculture as the main contributor to GDP. However, this has not been reflected in employment figures, as agriculture still remains the principal employer, accounting for over 83 per cent of the workforce.⁸

Industry, including manufacturing, mining and construction, comprised about 17 per cent of GDP in 2011. Trends in previous years are illustrated in figure 3. During the same year, manufacturing (mining and utilities) accounted for 8.5 per cent of GDP. Since 1995, the contribution of the manufacturing sector to GDP has shown a slightly downward trend whereas

the construction sector has shown a sustained upward trend. The construction sector accounted for almost 9 per cent of GDP in 2011 and has become a major source of employment and growth in Rwanda's urban areas (figure 4).

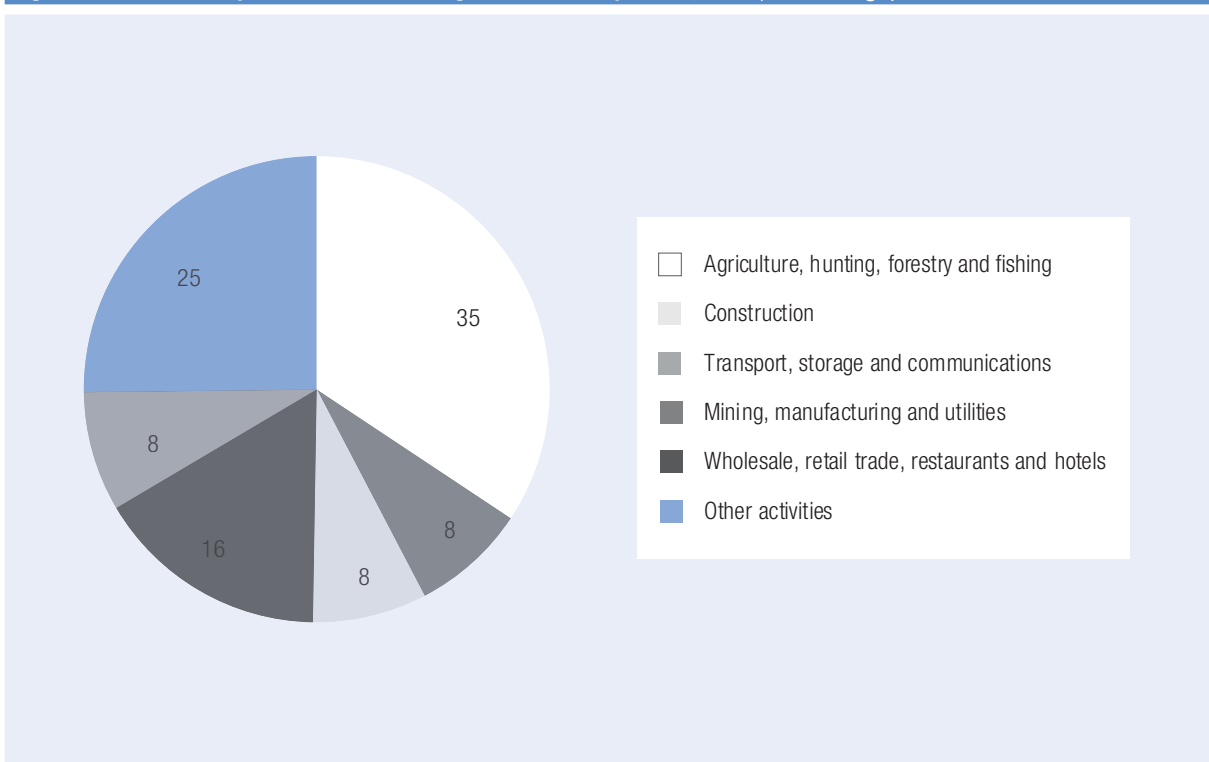
While Rwanda has been rapidly changing, the country still faces challenges in poverty reduction and formal employment. The slow pace of employment creation in the formal sector, with about 200,000 jobs in 2012 (table 1), resulted in a large informal sector accounting for nearly 41 per cent of GDP in 2005.⁹ According to the database of the International Labour Organization, Key Indicators of the Labour Market, the Rwanda labour force stood at about 5.2 million people in 2010. In this context, formal employment represented only 4.7 per cent of the labour force in 2010. Moreover, rapid economic growth has led to an improvement in incomes of urban workers who engage in the new economy. This uneven impact of growth in the services sector and in formal employment remains a major weaknesses of the Rwanda services sectors.

Figure 3. Structure of the Rwandan economy in value added, 1970–2010



Source: UNCTADStat.

Figure 4. Sectoral composition of Rwanda's gross domestic product, 2010 (Percentage)



Source: UNCTADStat.

Table 1. Formal sector employments in Rwanda

Year	Women	Men	Total
2006	68 306	179 053	247 359
2007	68 334	179 060	247 394
2008	68 309	178 796	247 105
2009	68 270	178 561	246 831
2010	68 228	178 284	246 512
2011	77 222	174 390	251 612
2012	57 036	144 028	201 064

Source: Rwanda Social Security Board.

The large informal sector remains a challenge despite the Government's efforts to increase tax collection and efficiency. Economic diversification supported by a vibrant private sector and the attraction of formal business investors in labour-intensive activities are needed to reduce poverty and unemployment.

2.1. Economic overview of Rwanda's services sector

The services sector is now the largest and most dynamic sector in the Rwandan economy. Among the subsectors, wholesale and retail trade is the largest, followed by transportation, storage and communication services (table 2). These subsectors are not only the main services subsectors but also the main contributor of services growth from 2006 to 2010.

The development of the financial sector is key to the development of the Rwandan economy, including the overall services sector. Despite the growth of the financial services sector, access to finance remains a major challenge to private sector development in Rwanda. The financial sector is relatively small, accounting for only 3 per cent of GDP and 6 per cent of the services sector in 2010. In comparison, in another EAC country, Kenya, financial services accounted for 6.3 per cent of GDP in 2009. Rwanda's exports of financial services are also negligible.

The banking sector is the backbone of the financial sector. As of September 2010, Rwanda's financial sector comprised 8 commercial banks, 4 specialized institutions, 1 microfinance bank, 416 Umurenge savings and credit cooperatives, known as SACCOs,¹⁰ 109 microfinance institutions and old SACCOs,

Table 2. Gross domestic product by services sector activity in Rwanda, at 2005 constant prices and exchange rates, 2006–2010 (Million dollars)

Subsector	2006	2007	2008	2009	2010
Wholesale and retail trade	338.1	388.0	463.1	481.8	522.2
Hotels and restaurants	70.8	73.1	77.1	72.7	78.5
Transport, storage, communication	204.8	235.5	291.6	318.4	346.0
Finance and insurance	86.2	96.4	98.0	94.0	116.1
Real estate and business services	198.8	220.1	254.1	275.0	277.7
Public administration	152.1	161.2	169.1	181.4	207.8
Education	133.7	153.3	174.8	193.2	221.8
Health	40.0	45.8	51.3	59.0	68.3
Other personal services	40.0	45.8	47.1	44.6	47.8
Total services	1 264.9	1 419.5	1 626.4	1 720.2	1 886.3

Source: Calculations of the UNCTAD secretariat based on NISR, 2011.

8 insurance companies and 40 pension funds.¹¹ Nevertheless, most of the banks and other financial institutions are concentrated in towns, leaving most of the rural areas and the poor with limited access to financial services. A large proportion of the Rwandan population, particularly in rural areas, is financially excluded, with only 14 per cent having access to formal banking products and an additional 7 per cent using other formal products such as loans from microfinance institutions or insurance products; 27 per cent uses informal products only.

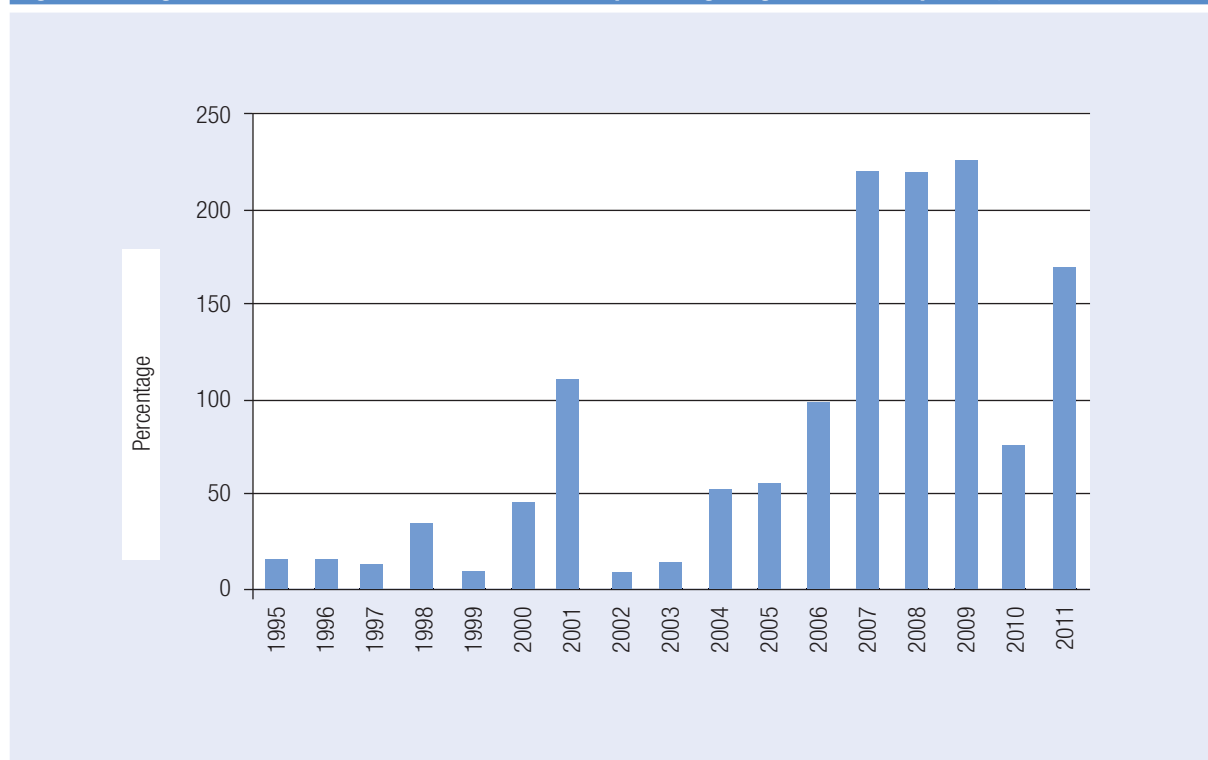
2.1.1. Services and foreign direct investment

From 2000 to 2010, Rwanda revived inflows of foreign direct investment (FDI) to the country (figure 5). As the inflows reached \$120 million, or 225 per cent of GDP in 2009, it also reached its apex before falling the next year because of the global crisis. They recovered in 2011 but remain below the pre-crisis peak. Over the last decade, tourism, construction, energy and ICT have been the main destinations of registered investment (figure 6).¹²

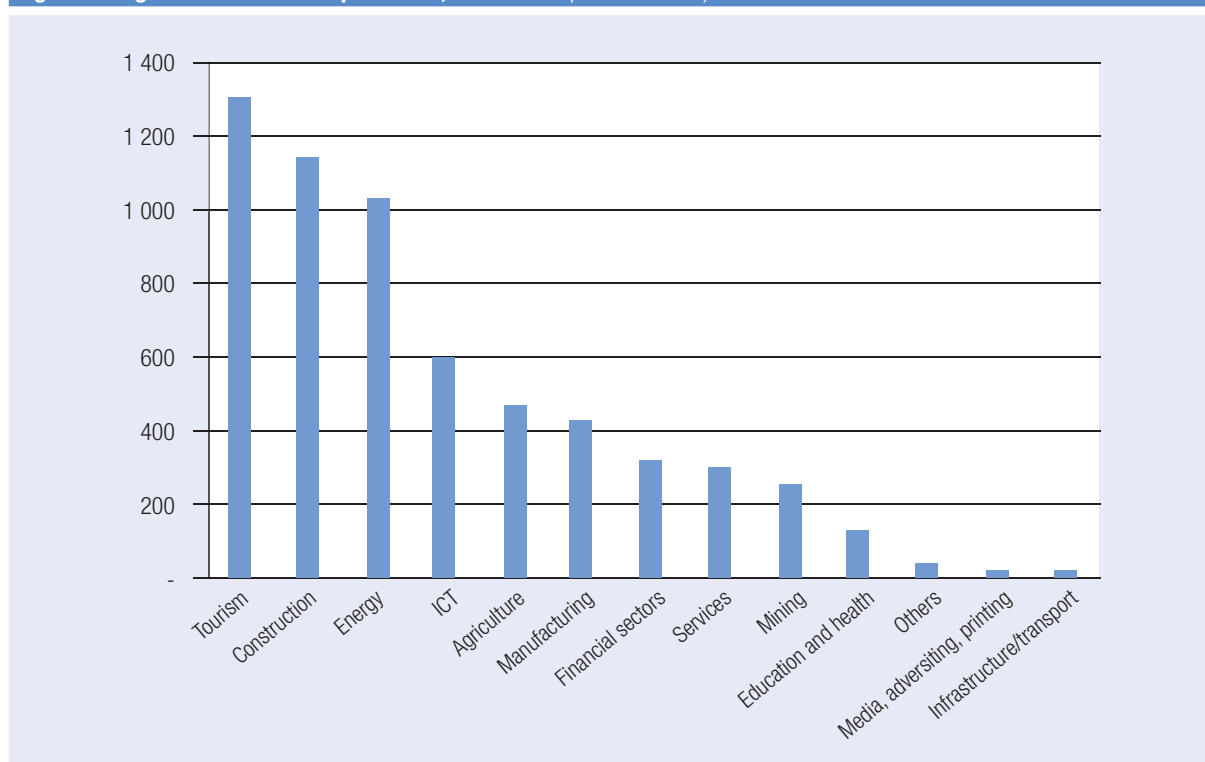
Rwanda's participation in numerous international organizations and agreements helps ensure its success in attracting foreign demand and investment to its services industries. For example, Rwanda's participation in the United Nations World Tourism Organization and the International Air Transport Association facilitate tourism; its adherence to international regulations and standards of the International Organization of Securities Commissions builds investor confidence in the financial services sector. In addition, recent steps taken at the national level to improve compliance with provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (World Trade Organization (WTO)) encourage information technology enabled services and business process outsourcing engagements.

However, Rwanda's membership in several regional trade groupings such as the EAC and the Common Market for Eastern and Southern Africa (COMESA), and its participation in preferential trading arrangements under the EPA between the African, Caribbean and Pacific States and the European Union, and the agreements under the African Growth

Figure 5. Foreign direct investment inflows to Rwanda as a percentage of gross domestic product, 1995–2011



Source: UNCTADStat.

Figure 6. Registered investment per sector, 2001–2012 (Million dollars)

Source: Rwanda Development Board, 2013.

and Opportunity Act continue to make Rwanda an increasingly attractive site for investment in production facilities by multinational firms due to the guaranteed market access.

2.1.2. International trade in services

Trade has played a primary role in expanding the Rwandan economy far beyond national markets. Exports of goods and services increased from \$128 million in 2000 to \$859 million in 2011. Between 1980 and 2010, services grew as a share of total exports from 19–51 per cent. Services export growth also outpaced growth in goods exports by a large margin over the past 16 years, although export performance of goods improved significantly in the post-crisis period (figure 7). Export goods surpassed the pre-crisis peak by a large margin while services exports caught up with the post-crisis decline in 2011.

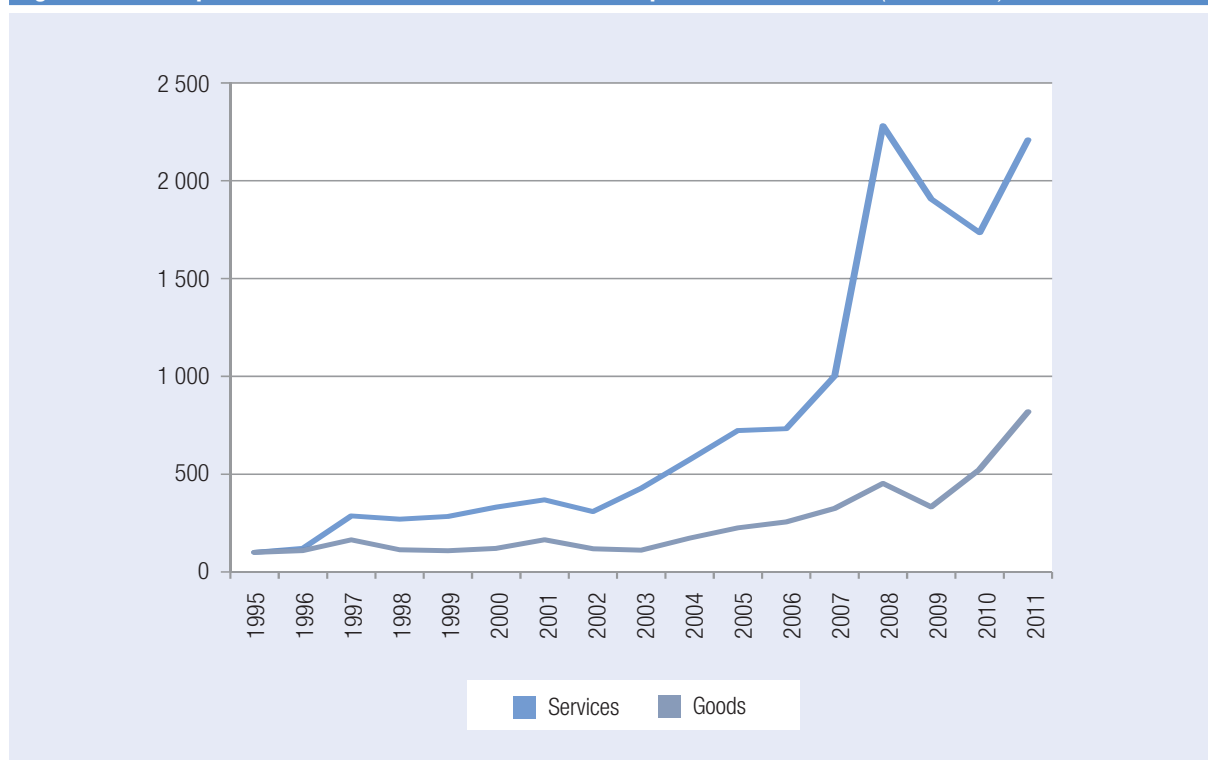
With the State increasingly effective as a promoter and facilitating agent in the country's development process, trade-led growth has begun to accelerate. Despite recent progress, however, Rwanda continues to run a large trade deficit both in goods and services

trades (table 3). In 2011, the trade deficit reached \$1,304 million, most of it brought about by trade in goods. Indeed, imports of goods are typically valued at three to four times the value of exports.

Within EAC, Rwanda is a net importer, mainly of foodstuffs from Uganda and fuel from Kenya. Rwanda's main exporting destination within the region is the Democratic Republic of the Congo, primarily cross-border trade in livestock.

Rwanda also runs a shortfall in the services account, but this gap has progressively narrowed since 1980; services imports exceeded services exports by 51 per cent in 2011, compared with 288 per cent in 1980. Travel is the main services trade item, with a 64 per cent share in Rwanda's total commercial services exports (2011).

The Government of Rwanda relies on donor support, debt and increasing FDI to invest in infrastructure and finance the trade deficit. Increasing national supply capacities to reduce and finance import requirements is thus a national objective.

Figure 7. Relative performance of services and merchandise exports value in Rwanda (1995 = 100)

Source: UNCTADStat.

Table 3. Imports and exports of goods and services (Current million dollars)

		1980	1990	2000	2005	2010	2011
Exports	Services	34.3	41.7	59.3	129.4	310.4	395.2
	Goods	144.1	101.3	68.4	127.8	297.3	464.2
	Total	178.4	142.9	127.8	257.2	607.6	859.4
Imports	Services	133.2	129.4	200.1	303.9	556.6	598.4
	Goods	211.2	224.6	223.2	355.1	1084.0	1565.4
	Total	344.4	354.0	423.3	659.0	1640.5	2163.8
Trade Balance	Services	-98.9	-87.7	-140.8	-174.6	-246.2	-203.2
	Goods	-67.1	-123.4	-154.7	-227.3	-786.7	-1101.2
	Total	-166.0	-211.1	-295.6	-401.9	-1032.9	-1304.4

Source: UNCTADStat.

The underlying difficulty faced by Rwandan exporters is that the country is land-locked, characterized by long distances from ocean ports, a factor that raises transportation costs for both exports and imports. The country lacks a link to regional railway networks, which means most trade is conducted by road. Poor road quality leads to high transportation costs and in turn inflated prices of domestically manufactured products, since raw materials used for manufacturing are imported. These natural barriers to trade hinder industrial and other forms of development.

2.2. Economic growth and development

2.2.1. Rwanda and the Millennium Development Goals

The MDGs set quantitative targets for poverty reduction and improvements in health, education, gender equality, environmental, global partnership and other aspects of human welfare. At existing rates of

progress, many countries will fall short of these goals. However, the Rwandan Government seeks to improve their policies and with increased financial resources made available, including from donors, further significant progress towards the Goals is possible.

Rwanda has made impressive efforts towards achieving several MDGs, overcoming major setbacks during the 1994 genocide. This progress was made possible by political commitment at the highest level and international support for well-designed programmes carried out nationwide. As of 2010, enrolment rates at primary schools stood at 99 per cent,¹³ largely due to the Government's decision to make primary education free and mandatory, backed by donor support and awareness raising to encourage sending children to school. The gender equality target in primary and secondary education has already been reached, together with other milestones; women's participation in Parliament is now more than 50 per cent (56 per cent in 2010), the highest in the world. Similarly high-level political leadership has led to decreasing HIV incidence rates, falling from 0.34 per cent in 2001 to 0.18 per cent in 2009.¹⁴ Malaria fatalities declined from 61 in 1990 to 11 in 2010 per 100,000 people¹⁵ by means of a deliberate strategy to ensure the universal distribution of insecticide-treated bed nets. At 65 per cent, access to improved water sources is still below the target of 82 per cent (Goal 7), and improvement in this area is needed.¹⁶

At the midpoint of the MDGs, Rwanda continues to face critical challenges. Despite high economic growth, poverty rates have not fallen proportionately, declining only by 11.4 percentage points, from 74.6 per cent in 2000 to 63.2 per cent in 2011.¹⁷ Chronic malnutrition among children between six months and five years is very high and stands at 43 per cent (2012).¹⁸ These high rates are largely due to low agricultural productivity. Despite recent progress, child mortality rates (54.1 per 1,000 in 2011) remain a challenge.¹⁹ Similarly, high maternal mortality rates (340 per 100,000 births in 2010²⁰) point to the need for greater investment in trained health staff and equipment at health facilities, with the need to encourage institutionalized births in rural areas. One of the biggest challenges facing Rwanda is the insufficient investment in infrastructure for energy, water and sanitation, and transportation. The combined pressures of agricultural production, high population, economic expansion and rising energy needs are increasing environmental stress in

Rwanda. Rwanda needs to strengthen its capacity to deliver the necessary services and attract adequate financing for scaling up.

The Government of Rwanda has made the achievement of MDGs central to its policy framework, as defined in the first and second Economic Development and Poverty Reduction Strategy (EDPRS) 2008–2012 and 2013–2018. The Government has prioritized infrastructure and agriculture, recognizing that these sectors require greater investment. In addition, the Government has launched a major effort to scale up MDG interventions through the Rwanda Vision 2020 Programme, one of three flagships of the Strategy. Donor confidence in Rwanda is high;²¹ official development assistance reached \$117 per capita in 2011,²² above the \$105 per capita promised under the Gleneagles commitments.

2.2.2. Development and economic priorities of the Government

Much of Rwanda's success in boosting output has been facilitated by a culture of progressive reforms. The World Bank's Ease of Doing Business Survey has identified Rwanda as one of the top reforming economies in Africa. The business environment and governance indicators have also improved, and Rwanda has built an efficient public administration structure. Effective policy reforms are expected to continue following the formation of a reform-minded coalition government under the ruling Rwandan Patriotic Front.

In 2000, the Government of Rwanda launched Vision 2020, which seeks to fundamentally transform Rwanda into a middle-income country by the year 2020. In May 2012, the targets initially set in the plan were revised upward in document EDPRS 2 entitled "Economic Development and Poverty Reduction Strategy 2013–2018: Shaping our Development". This will require achieving an annual per capita income of \$1,240 (in current dollars, per capita income was estimated at \$570 in 2011²³), a poverty rate of 30 per cent and an average life expectancy of 55 years. Other objectives include the following:

- To achieve an annual GDP growth rate of 11.5 per cent. (As of 2012, the growth rate was 7.9 per cent,²⁴ almost in line with the first EDPRS target of 8 per cent but away from the new target.);

- To pare the balance of payments deficit;
- To reduce the number of people working in the agricultural sector by creating 1.8 million new off-farm jobs;
- To bring down the Gini coefficient (income disparity) from 0.454 in 2000 to 0.400 in 2010 and to 0.350 in 2020;
- To expand the growth rate of the services sector from 7 per cent in 2000 to 9 per cent in 2010 and to 11 per cent in 2020. (The growth rate of the services sector has been persistently high, averaging 10 per cent between 2000 and 2011. In comparison with Rwanda Vision 2020 targets, the growth rate of the services sector has generally surpassed the 9 per cent target.);
- To increase the national long-term savings rate and access to international finance, with the objective of increasing credit to the private sector to 30 per cent of GDP by 2018;
- To boost the national investment share of GDP from 18 per cent in 2000 to 23 per cent in 2010 and 30 per cent in 2020 with the private sector taking the dominant share of investment;
- To achieve an increase of non-agricultural jobs from 200,000 in 2000 to 500,000 in 2010 and 1,400,000 in 2020.

To achieve the aforementioned objectives as well as many other objectives of Rwanda Vision 2020, trade must play a major role. The strategy identifies regional and international integration as one of its pillars. It pledges its commitment to an open, liberal trade regime, minimizing barriers to trade as well as implementing policies to encourage FDI. It further states the need to adopt policies to promote competitive enterprises, exports and entrepreneurship rather than protecting failing industries.

In addition to Vision 2020, Rwanda developed its EDPRS, which sets out the country's objectives, priorities and major policies for the 2008–2012 five-year period with a revised version for the 2013–2018 period. It provides a road map for government, development partners, the private sector and civil society and indicates where Rwanda wants to go, what it needs to do to get there, how it is going to do it, what the journey is going to cost and how it will be financed. The Strategy provides a medium-term framework for achieving the country's long-term

development goals and aspirations as embodied in Rwanda Vision 2020, the seven-year programme of the Government of Rwanda, and the MDGs.

The four main priorities of the Strategy are as follows:

- To increase economic growth by investing in infrastructure; promoting skills development and the services sector; mainstreaming private sector development and modernizing agriculture by introducing improved land administration, land use management practices and adopting techniques to reduce soil erosion and enhance soil fertility;
- To slow down population growth through family planning and education outreach programmes, while also improving the quality of health care and schooling, particularly for girls;
- To tackle extreme poverty by means of improved food security and targeted schemes of job creation and social protection. It is particularly urgent to create new employment opportunities for young people entering the labour market;
- To ensure greater efficiency in poverty reduction through better policy implementation, which includes enhanced coordination among sectors and between levels of Government, sharper prioritization of activities, better targeting of services for the poor, widespread mobilization of the private sector and more effective use of monitoring and evaluation mechanisms.

According to the *Establishment Census 2011*, the majority of SMEs are in the services sector, highlighting their key potential in developing the services sector in Rwanda. Despite their small size, SMEs can play a major role in boosting trade, employment and growth. Rwanda policymakers have drawn up policies for the development of these firms that will affect services and non-services sectors alike.

The Rwandan Government as well as development partners, financial and non-governmental organizations, have launched various initiatives for SMEs. However, these initiatives have suffered from a lack of resources, coordination and capacity. Within the Government-supported sector, the most prominent of these initiatives was the former Centre d'Appui aux Petites et Moyennes Entreprises, known by its acronym CAPMER, a public-private institution mandated to provide training, advice and technical support to SMEs. In 2009, it was integrated into the

Rwanda Development Board to combine its mandate with export and investment promotion and general private sector development services.

The Rwanda Development Board was formed to coordinate and combine all services and support for the Rwandan private sector. The Board provides several initiatives to support SMEs, including training programmes, networking and moveable asset registration, in addition to working to improve the overall business environment in Rwanda. The SME policy notes that the Board's broad high-level mandate makes the ground-level implementation of SME programming difficult with existing resources.

Rwanda developed the Rwandan Small and Medium Enterprise Policy to complement a set of existing policies and strategies that aim to increase non-farm employment, develop business and technical skills in the Rwandan workforce, support targeted value added clusters, strengthen the financial sector, grow the tax base and facilitate investment finance to generate industrial growth. The key policy objectives are listed below:

- To foster a culture of entrepreneurship among Rwandans;
- To facilitate SME access to development services such as:
 - Business development services;
 - Access to local, regional and international markets and market information;
 - To promote innovation and technological capacity of SMEs for competitiveness;

- To put in place mechanisms for SMEs to access appropriate business financing;
- To simplify the fiscal and regulatory framework for SME growth;
- To develop an appropriate institutional framework for SME development.

The Policy identified the following key constraints facing SMEs in Rwanda:

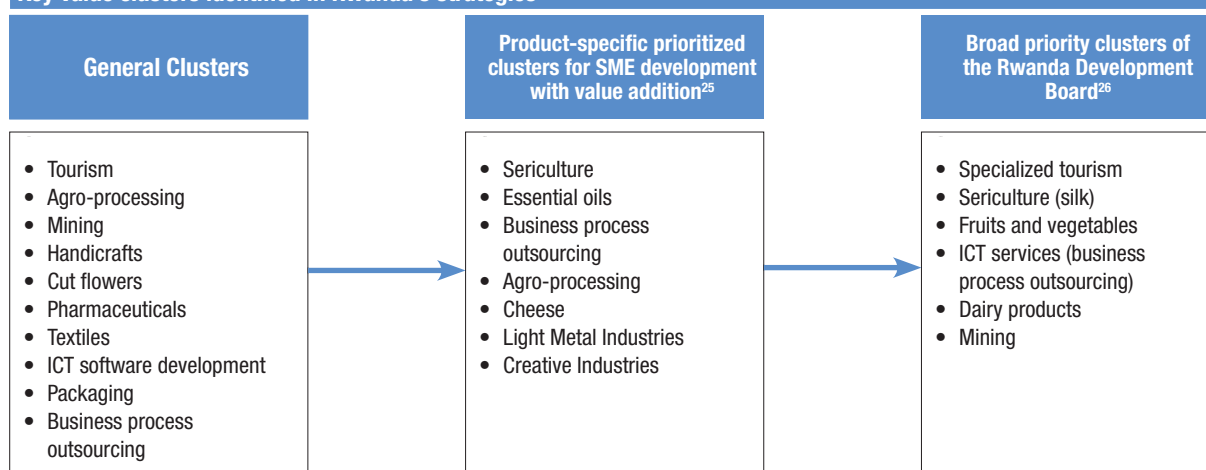
- Lack of entrepreneurial culture;
- Limited technical and business skills;
- Limited business development services;
- High cost of doing business;
- Lack of access to finance;
- Difficulty accessing market information and markets.

The main value clusters, as identified within several existing national plans and strategies that have been prioritized in this policy, are summarized in the table below.

2.2.3. Existing policies and strategies for enhancing growth and performance in Rwanda's services sector

The culture of reform is not new to Rwanda. As early as the mid-1990s the Government has focused on four Rs: reconciliation, reform, reconstruction and regional stability. Reconciliation enabled the return of peace and economic revival. Regional stability was important for Rwanda's trade and economic and cultural linkages

Key value clusters identified in Rwanda's strategies



with the rest of the region. Political and economic reforms attracted support from the donor community, enabled reconstruction and increased the range of social services. Aid inflows, FDI, and remittances have grown as a result of reforms and improved economic conditions, while exports have risen.

The Government has pursued a steady policy of enhancing the investment climate by reducing bureaucracy, streamlining the legal framework and fighting corruption. With a strong record of economic reforms to promote private investment and improve the regulatory environment, Rwanda's ranking on the World Bank's Ease of Doing Business Survey has improved dramatically. Rwanda was ranked 52 of 185 countries surveyed worldwide in Doing Business 2013.²⁵ Within sub-Saharan Africa it ranks fourth, just behind Botswana, South Africa and Namibia, making it the highest-ranked country in East Africa. This is a dramatic improvement from a ranking of 158 in 2007. In addition, the Government's policy of zero tolerance for corruption has also been instrumental in creating an enabling environment for business in Rwanda. However, some problem areas remain, for example, dealing with construction permits, trading across borders and closing a business.

The Rwanda Development Board was established in 2008 to create a one-stop shop for investors and help foreign ventures set up domestic operations as well as facilitate domestic investment. The Board is modelled on international best practice examples of Singapore and Costa Rica. It brings together all the Government agencies responsible for the entire investor experience under one roof. This includes key agencies responsible for business registration, investment promotion, environmental clearances, privatization and specialist agencies, which support the priority sectors of ICT and tourism, as well as SMEs and human capacity development in the private sector. The Board is independent, reports directly to the President and is guided by a body that includes all the key Government ministers.

Rwanda has also liberalized its trade policy, putting in place various reforms: reducing customs duties and taxes, binding all its tariff rates, applying a customs valuation method based on the transaction value, simplifying its tariff structure and substantially lowering maximum ad valorem tariff rates. Rwanda has bound 100 per cent of its tariff in WTO. Its currently applied

most favoured nation rate (18.7 per cent on average) is significantly lower than the bound rate (89.5 per cent). Rwanda joined the EAC Customs Union in 2007, with the full application of the EAC Common External Tariff and the Customs Management Act commencing in 2009.

One of the key positive results of liberalization has been the widening and increase of the tax base of the economy. Government revenue in Rwanda mainly depends on taxes of goods and services, which contributed 50.7 per cent in 2010, followed by direct taxes, which contributed 38.6 per cent, and international trade, which contributed 10.7 per cent during the same period. The taxes on international trade include customs duties, treasury credit cheques and other customs fees, custom duties being the main contributor. Whereas the contribution has been relatively low but steadily growing, international trade taxes fell to \$72.3 million (RF 41.1 billion) in 2009/2010 from \$116.9 million (RF 63.9 billion) in 2008/2009, a decrease of 35.7 per cent or \$40 million (RF 22.8 billion).

This was mainly attributed to tariff changes to the Common External Tariff as a result of Rwanda joining the EAC Customs Union. Products highly affected included petroleum products, declining from the national rate of 30 per cent to 0 per cent under the EAC Common External Tariff; vehicles, from 30 per cent to 25 per cent; and the value of cost, insurance and freight (CIF), by 11.5 per cent or \$135.8 million (RF 77.2 billion). This was due to the calculation of import duties based on the CIF port of first entry, elimination of freight charges in the computation of duties on imports by air and the elimination of the surtax on imported sugar and a reverse charge of value added tax (VAT).²⁶

The Rwanda investment regime provides fiscal and non-fiscal incentives for investors in Rwanda as well. To apply for the incentives, an investor must be registered with the Rwanda Development Board and issued an investment certificate. To qualify for the investment certificate, investors must establish that they will invest more than \$250,000 for foreigners and more than \$100,000 for local companies. Local companies are companies incorporated under Rwandan law, of which more than 50 per cent of the shares are held by persons who hold Rwandan nationality or a nationality of a COMESA member State. EAC nationals will also

be treated as locals according to the Protocol on the Establishment of the East African Community Common Market.

In terms of non-fiscal investment incentives, registered investors are entitled to free initial one-year work permits for foreign workers. Investors who deposit an amount equivalent to \$500,000 in a Rwandan commercial bank account for at least six months are entitled to permanent residency status. Concerning fiscal incentives, the registered investor pays a flat fee of 5 per cent of the CIF value of building materials instead of import duty, VAT and other taxes. They are also exempted from import duties, withholding tax and VAT on imported machinery, raw materials and equipment. A registered investor in a private educational institution is exempted from paying import duties on imported equipment and ordinary material, while those who import specialized vehicles – hotel shuttles, refrigerated vehicles, tourist vehicles, ambulances and fire-extinguishing vehicles – are exempted from paying import and excise duty. Investors operating in special economic zones are also entitled to various tax exemptions, including income, withholding and repatriated profits taxes.

Furthermore, investors who invest in Kigali are entitled to an investment allowance of 40 per cent of the invested amount in new or used assets, while investors who invest outside Kigali are entitled to an investment allowance of 50 per cent of the invested amount in new or used assets. All training and research expenses incurred by a taxpayer are considered deductible expenses from taxable profits.

Registered investors are accorded tax discounts based on the number of jobs created and exporters of goods and services who repatriate their foreign exchange earnings to Rwanda receive tax discounts based on the amount repatriated in a given tax period.

Companies engaging in microfinance activities approved by the competent authorities are exempt from corporate income tax for a period of five years commencing from the time of their approval.

Upon request of the Rwanda Development Board, and depending on the nature of the project and its national importance, location and capital invested, the Cabinet may put in place additional incentives and facilities for the project.

2.3. National trade policies for the expansion of key services sectors

Integration into the world economy has proven to be a powerful means for countries to promote economic growth, development and poverty reduction. In this sense, policies that open an economy to trade and investment and to the rest of the world may have a positive impact in terms of sustained economic growth.

Nonetheless, the services trade figures of developing countries remain insignificant compared with those of developed countries. This can be explained by the barriers to developing countries' services exports and, more importantly, by supply constraints and weak infrastructural services affecting them.

Other challenges faced by developing countries in the realm of services liberalization relate to social welfare and investment attraction. In this regard, concerns have been voiced about the possible negative effects of liberalization on access and equity in the access to key services²⁷ because liberalization may not necessarily lead to increased FDI.²⁸

Thus, it is important to keep in mind that for services trade liberalization to generate pro-development benefits, it should be preceded by proper policy, regulatory and institutional frameworks. In this context, reforms aimed at expanding key services sectors in developing countries should be evaluated in the light of increased market openings and services exports and focus on building a competitive services sector and maximizing the overall level of welfare and development at the national level.

When considering services liberalization, it is important to identify the domestic policy objectives that governments are seeking to achieve. As a means to illustrate this exercise, liberalization should contribute to the following objectives:

- (a) Economy-wide objectives:
 - (i) Strengthening other goods and services sectors (producer services);
 - (ii) Building infrastructure;
 - (iii) Expansion of exports of goods and services;
 - (iv) Ensuring the provision of high-quality services in the domestic market;

- (v) Attracting service providers where only limited capacity presently exists;
- (b) Sector-specific objectives:
 - (i) Strengthening of the sector by introducing competition, efficiency and transfer of technology;
 - (ii) Locking in the process of domestic reform;
 - (iii) Attracting FDI where no or only limited service capacity presently exists;

Developing sectors in which the country has achieved considerable capacity and competitiveness. This process should be accompanied by the identification of opportunities and challenges to export by local services providers, including potential regulatory barriers in major trading partners, and the identification of potential defensive interests in market opening.

Another important factor is the need for coherence between liberalization initiatives at different levels. Indeed, there are several options available for liberalization, which include autonomous, bilateral, regional, interregional, and multilateral negotiations. It is essential that all available options for pursuing trade liberalization be considered in a holistic manner to avoid conflicting obligations and maximize potential benefits.

Most of the services liberalization undertaken by Rwanda consists of commitments carried out in an autonomous or unilateral manner. These commitments relate to the following sectors: banking, insurance, capital markets, telecommunications, hotels, restaurants and distribution. The quest to attract investment was mainly behind the liberalization process.²⁹

The following section maps the extent of Rwanda's current binding trade commitments and the status of the work programme related to services in the context of the General Agreement on Trade in Services (GATS), EAC integration, ongoing negotiations on the economic partnership agreement between EAC and the European Union, and the tripartite integration process involving EAC, the Southern African Development Community (SADC) and COMESA. These initiatives are relevant considerations because they could entail liberalization commitments for Rwanda or changes to the services policy and regulatory frameworks in sectors of interest to Rwanda in the future.

2.3.1. GATS trade liberalization of services and Rwanda's commitments

Since 1995, the entry into force of the Uruguay Round agreements has facilitated an increase in trade and investment for the services sectors in many countries which undertook specific commitments under GATS to open their services economies. These commitments were undertaken as part of the first round of GATS negotiations – an integral part of the Uruguay Round – which commenced in 1986.

Rwanda's commitments are unusual in that they include no horizontal commitments. Horizontal commitments – cross-cutting limitations – are to be applied to all sectors included in the schedule. Typically, countries include horizontal schedules to cover measures relating to foreign investment, tax measures, land acquisition, corporate structures or requirements regarding entry, temporary stay and the right to work of natural persons.

Rwanda has made commitments under GATS concerning a limited number of services sectors and subsectors:

- (a) Professional services (legal, medical and dental services);
- (b) Educational services (adult education);
- (c) Environmental services (sanitation and similar services);
- (d) Tourism and travel-related services (hotels and restaurants);
- (e) Recreational, cultural and sporting services (for environmental tourism centres only).

For each of these services, Rwanda has undertaken not to maintain any market access or national treatment restrictions for modes of supply 1 to 3 (cross-border supply, consumption abroad and commercial presence).

Rwanda has undertaken not to maintain any restrictions on the presence of natural persons (Mode 4) in most sectors mentioned above. However, in the case of medical and dental services, and hotel and restaurant services, Rwanda did include conditions and limitations to the commitments taken (table 4).

Table 4. Rwanda's WTO sector-specific commitments concerning Mode 4: Conditions and limitations

Sector or subsector	Market access condition or limitation	National treatment condition or limitation
Medical and dental services	Unbound, except for specialist physicians	Unbound, except for senior executives
Hotels	Unbound, except for measures affecting senior executives and specialists who possess knowledge that is essential to the provision of the service	Unbound, except for measures affecting senior executives and specialists who possess knowledge that is essential to the provision of the service
Restaurants	Unbound, except for measures affecting natural persons in the following categories: directors, senior executives and specialists who possess knowledge that is essential to the provision of the service	Unbound, except for measures affecting natural persons in the following categories: directors, senior executives and specialists who possess knowledge that is essential to the provision of the service

Source: WTO, Communication from Rwanda: Schedule of specific commitments under the General Agreement on Trade in Services (GATS/SC/107), 30 August 1995.

It is also notable that Rwanda did not make any additional commitments or exemptions to the most favoured nation principle enshrined under article II of GATS. Under “additional commitments”, countries would generally list offers to implement regulation or measures in the future to obtain trade-offs in another negotiating area and they would depart from the most favoured nation principle to enter into economic integration agreements or to mutually recognize regulatory standards, certificates and the like if certain conditions were met. This can partly be explained by the absence of commitments in basic telecommunication services, a sector where most WTO members have made additional commitments.

The current round of market access negotiations under GATS article XIX, launched in 2000, and later integrated into the Doha Round of negotiations, aims to achieve progressively higher levels of liberalization of trade in services through the reduction or elimination of the adverse effects of measures that hamper trade to provide effective market access.

These negotiations provide developing countries with an opportunity to do the following:

- (a) Achieve commercially meaningful market access commitments in sectors and modes of interest to them;
 - (i) GATS articles IV and XIX call for increasing participation of developing countries in world trade, including through liberalization of market

access and in sectors and modes of export of interest to developing countries;

- (ii) The outcome of negotiations should envisage special priority to least developed countries (LDCs) in terms of access for sectors and modes of interest to them;
- (b) Undertake progressive market access opening consistent with their development situation and priorities;
 - (i) This includes the flexibility to open fewer sectors and liberalize fewer types of transactions (i.e. Modes 1–4);
 - (ii) In acknowledgement of the serious difficulties faced by LDCs, a decision was made³⁰ in the sense that they are not expected to make further liberalization commitments in the Doha Round;
 - (iii) The GATS includes principles related to special and differential treatment that recognize the special situation of developing countries and LDCs and particularly the need for technical cooperation and capacity-building to reap benefits from trade liberalization.

The eighth WTO Ministerial Conference, held in Geneva from 15–17 December 2011, saw the adoption of a waiver (document WT/L/847), which allows Members to provide preferential treatment to services and service suppliers of LDCs.

A number of conditions must, however, be fulfilled as follows:

- (a) Any such treatment shall be granted immediately and unconditionally to like services and service suppliers of all LDC Members;
- (b) Preferential treatment with respect to the application of measures other than those described in article XVI, is subject to approval by the Council for Trade in Services in accordance with its procedures and will be annexed to this waiver;
- (c) Each Member according preferential treatment pursuant to this waiver shall submit a notification to the Council for Trade in Services;
- (d) Each Member granting preferential treatment pursuant to this waiver shall, upon request, promptly enter into consultations with any Member with respect to any difficulty or matter that may arise as a result of such treatment;
- (e) Any preferential treatment accorded pursuant to this Waiver shall be designed to promote the trade of LDCs in those sectors and modes of supply that are of particular export interest to LDCs and not to raise barriers or create undue difficulties for the trade of any other Member.

LDCs have indicated that Mode 4 is one of the most important means of supplying services on an international scale. They therefore requested other WTO members to provide access to their markets for all categories of natural persons identified by them in their group requests related to supplying services through Mode 4. Rwanda may wish to consider joining other LDC Members in pursuing this trade objective by identifying specific sectors in which Rwanda has Mode 4 interests and requesting preferential access in target markets through the LDC group platform in WTO.

2.3.2. EAC regional negotiations

In accordance with the Protocol on the Establishment of the East African Community Common Market, ratified in July 2010, the EAC³¹ aims to develop the free movement of services within the region, along with the free movement of goods, labour and capital. Part F of the Protocol addresses the free movement of services. Article 16.1 specifies that this covers both the free movement of services supplied by nationals of the Partner States and the free movement of service suppliers who are nationals of the Partner States within the Community.

Rwanda has identified vast opportunities and potential from regional integration activities relating to services in EAC in terms of increasing competitiveness in the services sector and promoting industrial complementarities in the region.³² Channelling investment for the development of infrastructure services and improving skills, for example, would help build competitiveness in the services sector.

In parallel, efforts are under way to harmonize laws and develop regional policies on key issues:

- (a) EAC is currently working to address standardization and mutual recognition of academic and professional qualifications;
- (b) Other areas of cooperation in services provided for in the Protocol include competition, public procurement, subsidies and consumer protection;
- (c) Priority areas identified for harmonized legislation in the region include commercial law, migration, labour, investment, social security and capital markets. Modalities for harmonization are still under discussion;³³
- (d) Cooperation is envisaged, among others, on transport, financial, social, statistics and tax policies.

To implement the article promoting free movement of services, EAC countries established schedules of progressive liberalization of services, which were annexed to the Protocol. The current schedules are the outcome of the first round of negotiations and focus on seven key sectors (table 5, list A). The future rounds will focus on the further liberalization of these sectors and the five remaining sectors (table 5, list B).

As can be expected, Rwanda's commitments under the Protocol on the Establishment of the East African Community Common Market are much more extensive than under GATS. In total, Rwanda made commitments in 60 subsectors. As set out under the Protocol, Rwanda established the timelines for the liberalization of its services progressively over the years 2010 to 2015.

As indicated in table 6, Rwanda has the highest number of commitments among all five EAC countries.

The extensive liberalization commitments made by the smaller economies (Rwanda and Uganda), compared with the more developed economies (Kenya and the

Table 5. Sectors being negotiated and sequencing of liberalization in the East African Community

List A	List B
<ul style="list-style-type: none"> • Business services • Communication services • Distribution services • Educational services • Financial services • Tourism and travel services • Transport services 	<ul style="list-style-type: none"> • Construction and engineering • Environmental services • Health-related and social services • Recreation, culture and sport • Other services not included elsewhere

Source: <http://www.eac.int/commonmarket/movement-of-services.html>.

Table 6. Total number of subsector commitments by sector and country

Services sector	Burundi	Kenya	Rwanda	United Republic of Tanzania	Uganda
Business	31	15	32	7	33
Communication	6	17	21	17	21
Distribution	3	3	4	2	4
Education	4	4	5	4	5
Financial	9	12	15	16	11
Tourism and travel	4	3	4	4	4
Transport	17	9	20	9	20
Total number of commitments	74	63	101	59	98

Source: Based on JB Cronjé, 2011, TRALAC Trade Brief No. SIITB07/2011.

United Republic of Tanzania), have been interpreted as a way to attract investment and test the effect of services liberalization³⁴ (liberalizing further with more equal negotiating partners first – as opposed to bilateral or multilateral negotiations with more developed negotiating partners). Recognizing the role of regional integration as a building block for durable peace and regional development, Rwanda has decided to fast track the removal of barriers to trade and the free movement of people, labour, goods and capital in the region, while at the same time assessing its benefits and challenges.³⁵

The EAC services liberalization schedules entail commitments with respect to:

- The precise date on which limitations and restrictions to the free movement of services will be removed;
- Mode 4, according to the annex on the Free Movement of Workers to the Protocol. Each Member indicates for a list of different categories of workers in which ones it is undertaking commitments.

Unlike GATS, which provides solely for the temporary movement of persons (that is, not seeking access to labour market or permanent employment in general), the Protocol (annex II) also contains provisions for the movement of workers by the integration of labour markets. This covers the broader right to access to employment opportunities in Partner States and includes acquiring a work permit for the spouse and children of the employee.³⁶

In this regard, Rwanda agreed to make such commitments for the following categories:

- Physical science professionals;
- Mathematicians, statisticians and computing professionals;
- Engineering science professionals;
- Health and life science professionals;
- Teaching professionals;
- Engineering technicians;
- Optical and electronic equipment operators.

(c) Finally, the right of establishment in all countries of the grouping promotes services liberalization among EAC countries for nationals – both natural and legal persons – of a Member State. The right of establishment is provided for in article 13 of the Protocol and applies both to legal persons and self-employed persons seeking to enjoy the right of establishment in the territory of another Partner State.

With regard to legal persons, Partner States shall ensure that all restrictions on the right of establishment based on the nationality of companies, firms and self-employed persons of the Partner States are removed and shall not introduce any new restrictions on the right of establishment in their territories, save as otherwise provided in this Protocol.³⁷

As for self-employed persons, the Protocol seeks to achieve uniformity, transparency, accountability, fairness and predictability among the Partner States concerning procedures related to the right of establishment.

2.3.3. Negotiations on the economic partnership agreement between the East African Community and the European Union

In 2007, the EAC countries initialled the Framework Economic Partnership Agreement with the European Union and a roadmap was agreed for the negotiation of a full EPA on a series of outstanding issues contained in the rendez-vous clause, including trade in services.³⁸ During the negotiations held from 12–15 December 2011, the parties agreed that discussions on outstanding issues on trade in goods, dispute settlement, institutional provisions, the most favoured nation clause and export taxes would be concluded by the summer of 2012. The issue of services may therefore be addressed at a later stage.

Concerning other ongoing negotiations between the European Union and other partners and trade commitments resulting from agreements already signed by the European Union, it is likely that in the specific context of the EAC negotiations on EPA, the European Union will seek:

- To have a model of commitments which combines both services and investment, as per the documents being negotiated with other EPA configura-

tions. This implies extending commitments to cover pre- and post-establishment phases of Mode 3 (commercial presence by foreign investors) and investments in relation to both goods and services;

- To gain substantial new opportunities than what is already committed at WTO. It is important to note in this regard that the European Commission requested Rwanda in WTO to step up its commitments relating to market access and national treatment in business services, telecommunication services and financial services and to intra-corporate transferees and business visitors;³⁹
- To guarantee, through binding commitments, that no new barriers are introduced in sectors that have not been committed or opened. Thus, it is likely they would seek to include a standstill clause.

Objectives of EAC in the context of these negotiations include the following:

- Expediting regional services integration in order to harmonize regulations and build capacities before committing to open markets with the European Union. The EAC region has indicated⁴⁰ that the EPA should not jeopardize regional interests, particularly taking into account ongoing initiatives to enhance the movement of services and services suppliers in the community.
- Obtaining support for competitiveness, emphasizing improvements in EAC infrastructure development, regulatory and institutional frameworks, access to finance and promotion of capacity-building and technical cooperation.
- EAC would like to make individual offers for liberalization while making a joint regional request to the European Union.⁴¹
- EAC has proposed that services be negotiated separately from investment.

Given that the European Union is the most competitive services exporter, there is asymmetry between the two partners in terms of the technological, financial, institutional and regulatory readiness, human resource constraints and market disciplines, in particular with regard to consumer protection and competition regimes. Thus, it is highly probable that market opening in this context will may lead to a situation where European services and services suppliers dominate the EAC services market.⁴² Most importantly, Rwanda and its EAC partners need to ensure that the agreed

commitments and the other areas of cooperation that they are negotiating with the European Union result in the most equitable development gains possible.

2.3.4. COMESA-EAC-SADC Tripartite Free Trade Agreement

As a member of EAC and COMESA, Rwanda is also engaged in regional efforts to achieve a tripartite free trade agreement between COMESA, EAC and SADC. The impetus for the creation of this agreement stems from the broader efforts of the Organization of African Unity to promote economic integration across the continent and the creation of the African Economic Community. This has been an ambition of the Organization since 1980, when the Lagos Plan of Action was adopted. Subsequently, in 1991, the political leaders signed the Abuja Treaty establishing the African Economic Community. The Treaty envisions the economic integration of the whole of Africa into a continental customs union by 2019.

In the meantime, a key strategy for achieving this continental vision is by the establishment of regional economic communities as building blocks that will ultimately merge to establish a continental customs union. The COMESA-EAC-SADC Tripartite Free Trade Agreement – which is also referred to as the Grand Free Trade Area – would be one such building block. The main objective is to establish a free trade agreement on a tariff-free, quota-free, exemption-free basis by simply combining the existing free trade agreements of COMESA, EAC and SADC. Among the areas where intraregional trade is envisaged is liberalization of certain priority services sectors on the basis of existing programmes of the three subregions.⁴³

All three subregions have recognized the importance of trade in services, although they have not advanced at a similar pace in the actual liberalization of the services sectors. For example, in COMESA, the Regulations on Trade in Services were adopted by the Council of Ministers in June 2009, and the guidelines for negotiations on trade in services were adopted by the Committee on Trade in Services in September 2009. In SADC, the importance of services and the need to liberalize trade in services within SADC are recognized in article 23 of the SADC Protocol on Trade (1996). Discussions are under way at the Trade Negotiating Forum for liberalizing trade in services under the framework of the SADC Protocol on Trade in Services (2012) which is still to be signed and ratified

by member States.⁴⁴ Finally, as was stated earlier at EAC, trade in services is part of the framework of the Common Market Protocol, in which the free movement of services is a key component.

In a meeting of the three trade blocs organized on 12 June 2011 a three-year time frame was announced for developing the Grand Free Trade Area. Liberalization would first focus on goods trade and then turn to services and intellectual property. Trade in services negotiations will take place in two stages: the first stage – negotiations to facilitate the movement of business persons – will happen alongside trade in goods, customs and rules of origin, but as a separate track. A timeline of 36 months has been set for completion of negotiations for the first phase. No time frame has, however, been indicated for the second and final phase of free trade agreement negotiations. This could in fact be the grey area, as core negotiations on services have no set timelines and will also depend on the outcomes in services negotiations in the regional economic communities.

The current services chapter of the draft tripartite agreements contains only five provisions. One provision is devoted to the establishment of a tripartite committee on trade in services. Draft negotiating guidelines (annex 12 to the draft agreement) were also prepared. As in the three regional services negotiations, the annex provides that the tripartite services liberalization will be carried out progressively, with commitments initially undertaken in seven priority sectors: business, communication, transport, financial, tourism, energy and construction services.

It has been suggested that it is still too early to determine the developments relating to trade in services at the tripartite level. These will depend on progress made in the regional negotiations; to date, only EAC has moved forward significantly. Moreover, the question remains as to what extent countries will be able to commit themselves to liberalize once they have done so substantially at the COMESA, EAC and SADC levels, as well as in the context of the EPA and GATS negotiations.⁴⁵

2.3.5. Way forward

Rwanda has pursued a liberal approach to services liberalization at the unilateral level. More recently, it has embarked on a regional agenda that includes not only a goal of reciprocal liberalization but also regional

cooperation in the area of infrastructure development and harmonization of standards and laws.

The Government is of the view that past liberalization has led to positive results in terms of investment; however, market access opportunities (achieved through multilateral and regional trade negotiations have been underexploited.

To maximize the opportunities of the regional platform, several challenges must be overcome. Indeed, several studies suggest the lack of regulatory readiness in sectors subject to liberalization, particularly effective domestic regulation to cope with anticompetitive practices and to ensure consumer protection (Charalambides et al., 2009 and Ogalo and Rabinowitz,

2009). In this sense, continuing to pursue and prioritize the development of regulatory frameworks and policy harmonization at the regional level are key to reaping potential gains from increased services liberalization.

Other areas identified for improvement include improved awareness of how to utilize the different markets to facilitate their trade ventures at the regional level and greater private sector involvement in discussions related to regional policies and regional trade negotiations.

To take full advantage of the regional platform, the Government has embarked on an ambitious awareness-raising campaign and legal reform, high on its list of priorities.

SERVICES POLICY REVIEW



3

TOURISM SECTOR

3. TOURISM SECTOR

Tourism has emerged as a driver not only for economic progress but also for social development. The tourism sector has deep roots in national economies, producing economic and employment benefits in related services, manufacturing and agriculture sectors, thereby promoting economic diversification and strengthening developing country economies.

Tourism contributes substantially to reducing poverty and empowering women, youth and migrant workers with new employment opportunities. It also helps revive declining urban areas, open up and develop remote rural areas and promote the conservation of countries' environmental endowments and their cultural heritage.

In the case of LDCs for which tourism constitutes one of the top three foreign exchange earners, this sector can induce significant, income-multiplier effects and progress in terms of national income. By boosting per capita income and human capital, tourism has been a decisive factor supporting graduation from LDC status for countries such as Cape Verde, Maldives and Samoa. Further success in tourism development could lead to significant progress in advancing achievement of the Millennium Development Goals and graduation thresholds in at least 10 LDCs over the next decade.

However, developing countries encounter significant economic, social and environmental challenges in maximizing the gains from their national tourism industries, including the need to strengthen weak intersectoral linkages and reduce excessive revenue leakage from their national economies.

Despite the significant developmental potential of the tourism sector, it is also important to recognize that the sector can generate negative externalities and is vulnerable to external shocks. Tourism's high water and energy requirements may exceed local sustainable limits and displace other economic and social uses of limited water and energy supplies. In locales with fragile ecosystems, tourism's negative environmental impacts can be irreversible, stressing the need for the prevention of negative impacts. Moreover, tourism activities are extremely vulnerable to external shocks. Tourism's share of GDP and exports can easily be affected by decreased demand associated with global economic slowdowns, epidemics, natural disasters,

political instability and terrorism, which also calls for associated mitigation measures and social safety nets for those working in the sector.

3.1. Role and performance of the tourism sector in Rwanda

Travel and tourism have been prioritized by the Rwandan Government as a key driver for future growth, economic diversification and development. The Rwandan policy on tourism is centred on promoting tourism, improving tourist attractions, developing tourist infrastructure, fostering a spirit of entrepreneurship and encouraging quality standards in the hotel and hospitality industry.

3.1.1. Contribution of tourism services to the national economy

Travel and tourism are currently Rwanda's largest source of export earnings, representing 63 per cent of total services exports and 29 per cent of merchandise and services exports in 2011.⁴⁶

The direct contribution of travel and tourism to GDP in 2013 was 3.7 per cent of total GDP, and its total contribution was 7.4 per cent of GDP.⁴⁷

In 2012, this sector ranked first in investment attraction. Significant, though inconsistent amounts of FDI received by Rwanda between 2001 and 2010 ranged between 1 per cent and 41 per cent of total FDI. (See section 2.1.1 for further information on investment.)

Tourism revenues have also increased over the years, from \$200 million in 2010 to \$281.8 million in 2013.⁴⁸

The tourism sector is important to Rwanda in terms of employment generation. In 2012, the travel and tourism sector directly supported 54,000 jobs (2.6 per cent of total employment),⁴⁹ and its total contribution to employment was equivalent to 135,800 jobs, or 6.4 per cent of total employment. Out of the total number of employees in the tourism sector (accommodation and restaurants), male employees account for 70 per cent, and females, 30 per cent.

3.1.2. Performance of the tourism sector

Several policy measures, strategies and incentives have made possible a steady growth of travel

and tourism over the years. Thus, the sector has maintained its position as the leading foreign currency earner in Rwanda.

With continued investment by the Government, travel and tourism are expected to continue to grow over the forecast period in the Tourism Master Plan (2020) and will remain a key foreign exchange earner (table 7).

In addition, the World Travel and Tourism Council also forecast that the tourism sector will continue to perform well in Rwanda, improving its contribution to the economy (table 8).

In terms of arrivals, the most important segment and top performer over the recent three-year period is business tourism, followed by the category “visiting friends and relatives” (figure 8). Indeed, most visitors come to Rwanda for business or conferences (39 per cent in 2012) (Rwanda Development Board, 2014). This has been the trend since 2006, as indicated by a hotel market study (International Finance Corporation, 2008). On average, from 2009–2011, 46 per cent of all tourists in the country were business travellers.

It is important to note however, that the percentage of tourists coming to the country for leisure and visiting friends and relatives has increased in recent years compared with the total number of tourist arrivals: 7 per cent, 10 per cent and 9 per cent for 2009, 2010 and 2011, respectively (figure 9). Visits to friends and relatives were equivalent to 28 per cent, 29 per cent and 35 per cent for the same years.

The increase in the proportion of leisure arrivals has led to a notable increase of revenue from leisure visitors, exceeding revenues from business tourism in 2010 and 2011 (figure 10). In contrast, this has not been the case for the category “visiting friends and relatives”, which contributes little to revenues.

An interesting trend captured by the analysis of the World Travel and Tourism Council relates to the increased importance of national tourism. In 2011, domestic travel spending accounted for 24.7 per cent of direct travel and tourism GDP for that year. Domestic travel spending recorded for 2012 was equivalent to \$114.8 million and is expected to rise to \$258.7 million by 2023.⁵⁰

Table 7. Tourism targets for Rwanda, 2009–2020

	2008 (Actual)	2009	2010	2011	2012	2020
Revenue (million dollars)	210	210	225	244	277	627
Number of arrivals	980 000	980 000	1 031 000	1 089 000	1 199 000	2 219 000

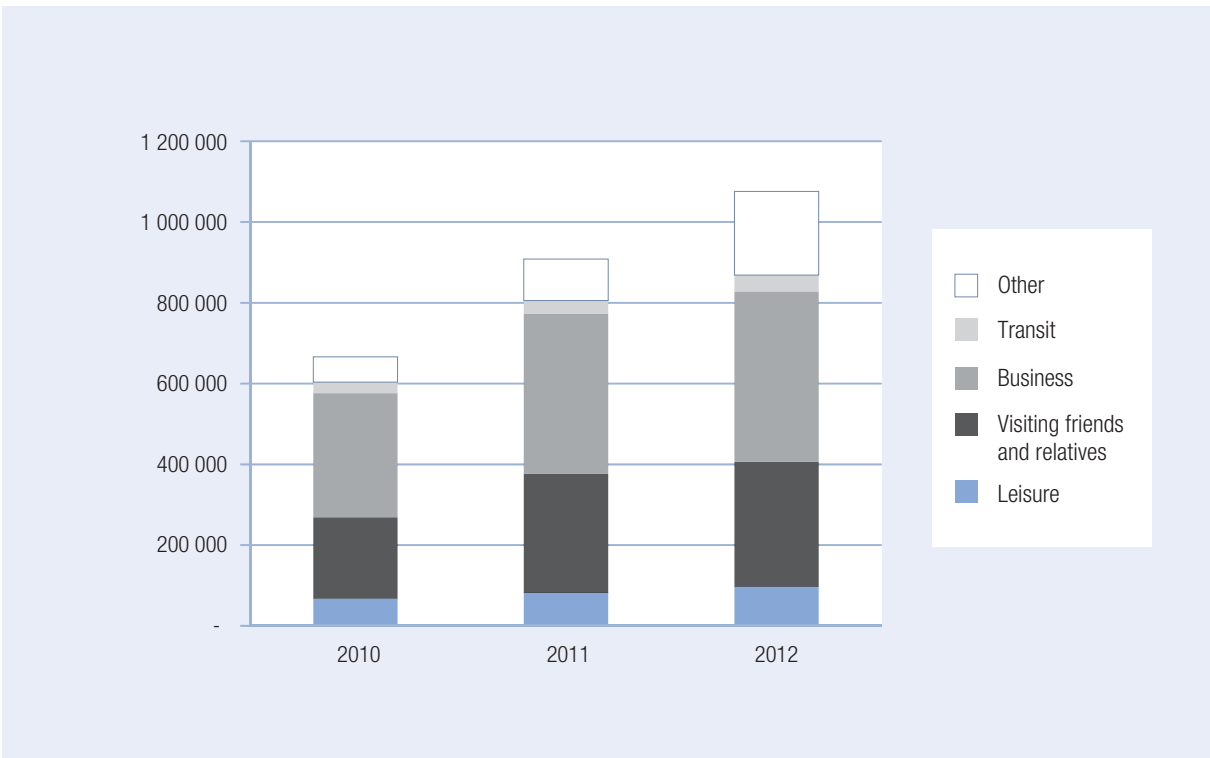
Source: Rwanda Tourism Master Plan.

Table 8. Forecasted contribution of the tourism sector to key economic indicators of Rwanda by 2023

Indicator	Estimated growth
Contribution to GDP	The direct contribution of travel and tourism to GDP is expected to rise by 4.4 per cent per annum from 2014 to 2.9 per cent of total GDP by 2024. The total contribution of travel and tourism to GDP, including its wider economic impacts, is forecast to rise by 6 per cent per annum, equivalent to 6.9 per cent of GDP by 2023.
Employment	The direct contribution of travel and tourism to employment is expected to rise by 0.7 per cent per annum to 2.4 per cent of total employment by 2024. The total contribution of employment is forecast to rise by 2.2 per cent per annum, equivalent to 6 per cent of total employment, or 171,800 jobs, by 2023.
Investment	Travel and tourism investment is estimated to rise by 3.5 per cent per annum over the next 10 years to reach 6.5 per cent of total investment in 2024.

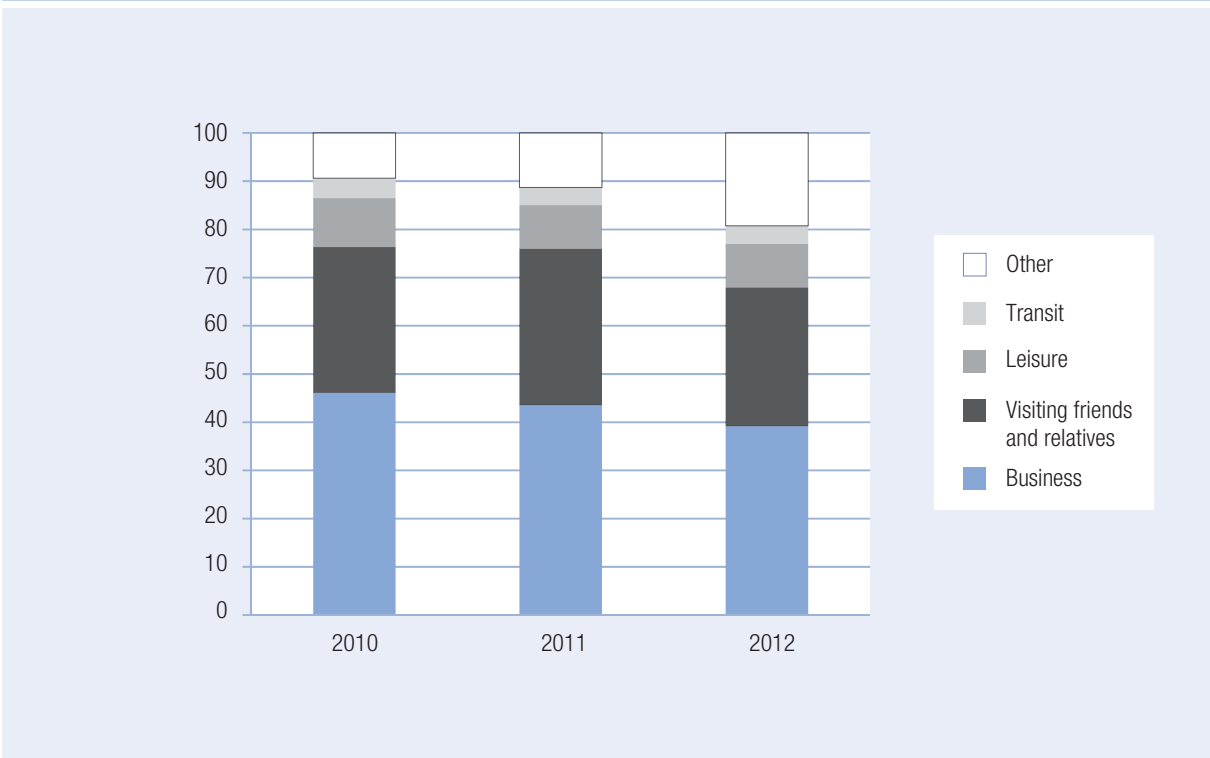
Source: World Travel and Tourism Council, 2014, *Travel & Tourism: Economic Impact 2013 – Rwanda*.

Figure 8. Visitor arrivals in Rwanda by purpose of visit, 2010–2012

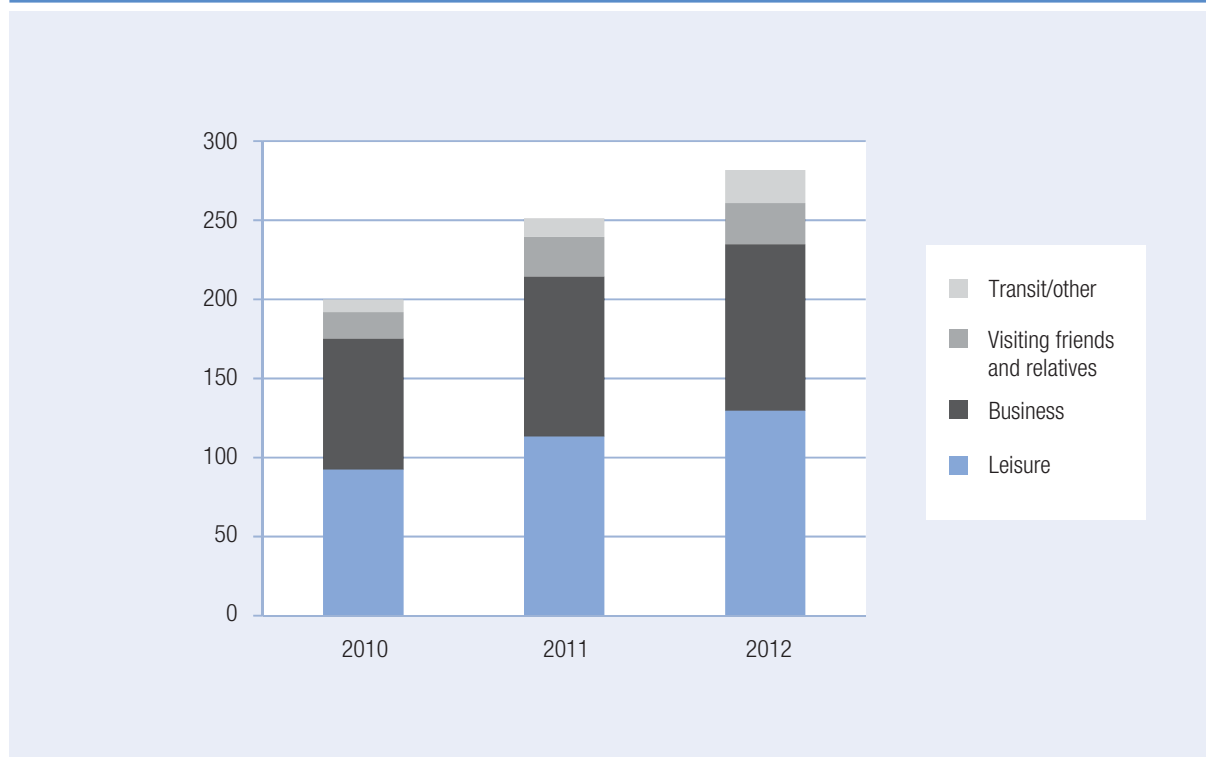


Source: Rwanda Development Board, 2013, *Tourism Report 2012*.

Figure 9. Percentage of visitors in total arrivals by purpose of visit, 2010–2012



Source: Rwanda Development Board, 2013, *Tourism Report 2012*.

Figure 10. Visitor expenditures in Rwanda by purpose of visit, 2010–2012 (Million dollars)

Source: Rwanda Development Board, 2013, *Tourism Report 2012*.

In terms of tourism attractions, the most important segments and top performers are wildlife sightseeing and ecotourism. The main tourist attraction consists of gorilla-viewing tourism. Aside from this area, in 2008,⁵¹ 11 per cent of international visitors took part in chimpanzee trekking in Nyungwe National Park, 6 per cent experienced mountain biking, and 65 per cent toured the genocide memorial centre.

3.1.3. Comparing the performance of Rwanda's tourism sector with its regional partners

Rwanda's performance is good, compared with its regional competitors, particularly Kenya, Uganda and the United Republic of Tanzania, as shown in table 9.

The number of tourist arrivals in Rwanda increased from 104,000 in 2000 to 666,000 in 2010. Though Rwanda's success has not yet affected its rank among the EAC countries in terms of absolute number of tourist arrivals, the analysis is totally different when comparing per capita tourist arrivals. In 2010, Rwanda was the top destination among EAC countries, with almost

63 tourist arrivals per 1,000 people, almost twice as many as for the second highest, Kenya. (See table 10.)

However, Rwanda's success in boosting tourist arrivals has not led to a proportional increase in its total receipts from foreign travellers (table 11). In 2011, Rwanda registered \$278 million in tourism revenues, which is roughly one fourth of Uganda's revenues, and one sixth of Kenya's. The problems appear to be related to average spending by tourists in Rwanda, which remained fairly stagnant during the last decade. Perhaps, the crucial question is why Kenya is receiving six times more travel receipts per visitor than Rwanda.

Despite the importance of tourism services in terms of exports and revenues for the EAC countries, the region is considered to be over-reliant on tourism revenues in its services exports. Figure 11 shows the sector's share is well above 60 per cent in Uganda and the United Republic of Tanzania, and around 50 per cent in Rwanda. The gradual fall in the sector's share in services exports is an indication of a slow but persistent diversification of services sectors in the region.

Table 9. Travel and tourism competitiveness index, 2013 ranking

	Overall index	
	All countries	Sub-Saharan Africa
Kenya	96	8
Rwanda	105	9
United Republic of Tanzania	109	12
Uganda	116	13
Burundi	138	30

Source: World Economic Forum, 2013, *The Travel and Tourism Competitiveness Report 2013: Reducing Barriers to Economic Growth and Job Creation*.

Table 10. Number of tourist arrivals to countries of the East African Community, 2000 and 2010

Year	Thousands of people		Per 1 000 people	
	2000	2011	2000	2011
Rwanda	104	908 ^a	12.8	85.4
Burundi	29	142 ^b	4.5	19 ^b
Uganda	193	1 151	8.0	35.5
Kenya	899	1 470 ^b	28.8	37.27 ^b
United Republic of Tanzania	459	795	13.5	17.8

Source: Calculations of the UNCTAD secretariat based on United Nations data.

^a Rwanda changed its definition of tourist arrivals in 2007 from number of non-residents tourists to non-resident visitors. Therefore Rwanda's definition of arrivals in 2009 is different from its 2000 figure as well as other countries' statistics.

^b 2001 figure.

^c 2004 figure

^d Estimates.

Table 11. Various tourism statistics in countries of the East African Community, 2000 and 2011

	Tourism expenditures (Million dollars)		Travel revenues (Per visitor)		Tourism balance (Million dollars)	
	2000	2011	2000	2011	2000	2011
Rwanda	27	278	260	306	-8	152
Burundi	1	4	28	137	-12.6 ^d	-45.3
Uganda	187 ^b	974	969	846	110	446
Kenya	500	1 844	556	1 254	344	1 647 ^d
United Republic of Tanzania	381	1 487	830	1 870	12	559

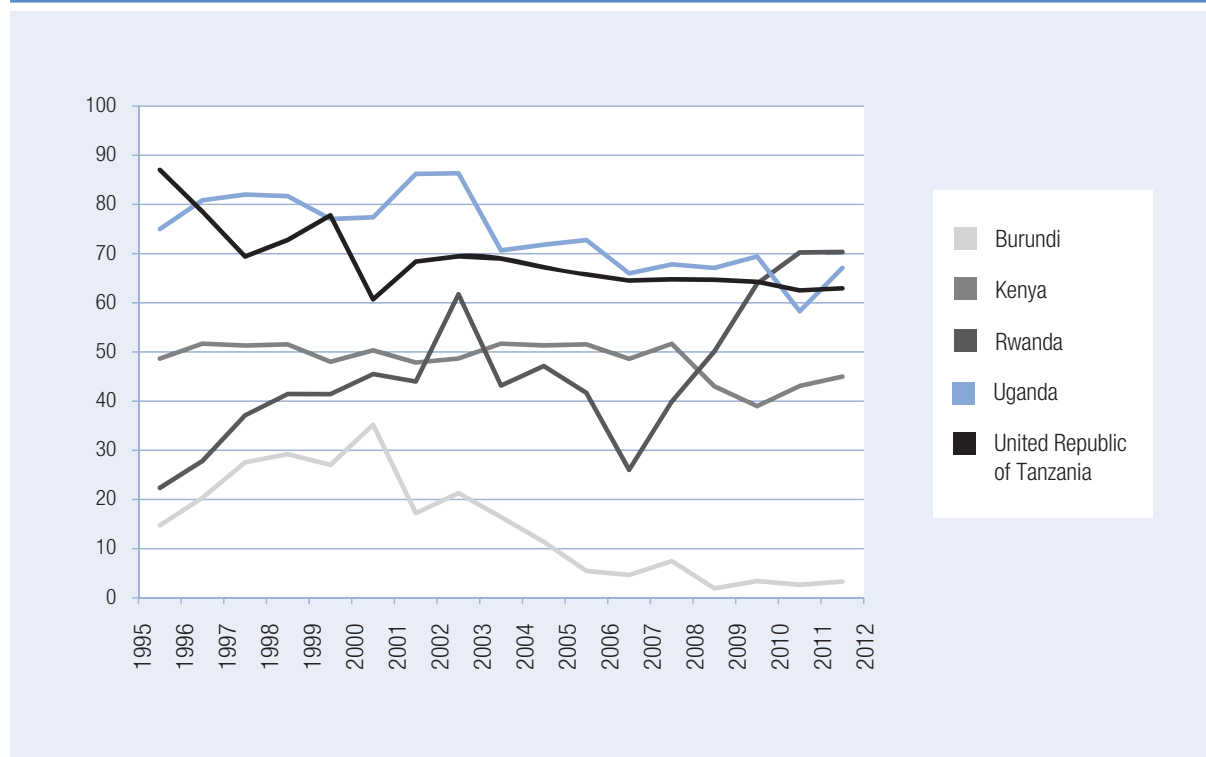
Source: Calculations of the UNCTAD secretariat based on United Nations data.

^a Rwanda changed its definition of tourist arrivals in 2007 from number of non-residents tourists to non-resident visitors. Therefore Rwanda's definition of arrivals in 2009 is different from its 2000 figure as well as other countries' statistics.

^b 2001 figure.

^c 2004 figure

^d Estimates.

Figure 11. Share of travel revenues in services exports in countries of the East African Community, 1995–2011 (Percentage)

Source: UNCTAD secretariat's calculations and estimates based on United Nations data and UNCTADStat.

3.2. Structure of the market

As per 2008, the tourism and travel and tourism sector included 48 tour operators employing about 200 persons and 163 tourism accommodation units with 3,150 rooms of different types. In all, there are 9 hotels in the upper-range category, 38 in the middle range and 116 in the lower range.⁵²

Unlike other sectors where most activity is concentrated in Kigali or the cities, the establishments are not concentrated in Kigali but are spread all over the country with the most located in the Northern Province, followed by the Southern Province and last, Kigali City with the least.

Of the total establishments in the country, 27 per cent are in tourism (accommodation and food service activities), of which over 55 per cent are small establishments⁵³ with a capital value of approximately \$176 or RF 0.1 million.

Some 99 per cent of the establishments in the tourism sector (accommodation and food service) are owned by Rwandans. The largest number of foreign proprietors come from EAC. For details, see table 12.

While data on ownership nationality according to the size of establishments are not available, the establishment census suggests that foreign-owned enterprises are generally larger or more capitalized than locally owned enterprises.

In conclusion, the tourism sector is mainly driven by large-scale companies, if earnings and productivity are to be used as scales of measurement of company size. In this sense, a more rewarding diversification strategy would entail facilitating and expanding the participation of a wider range of enterprises, especially SMEs, in diverse and dynamic productive activities.

Table 12. Number of operating establishments by ownership nationality

Accommodation and food service activities	
Rwanda	33 178
EAC	86
Other African countries	11
Asian countries	14
Other countries	7
Rwanda +EAC	1
Rwanda + other countries	6
Other	1
Not stated	1
Total	33 305

Source: Ministry of Trade and Industry et al., *Establishment Census 2011*.

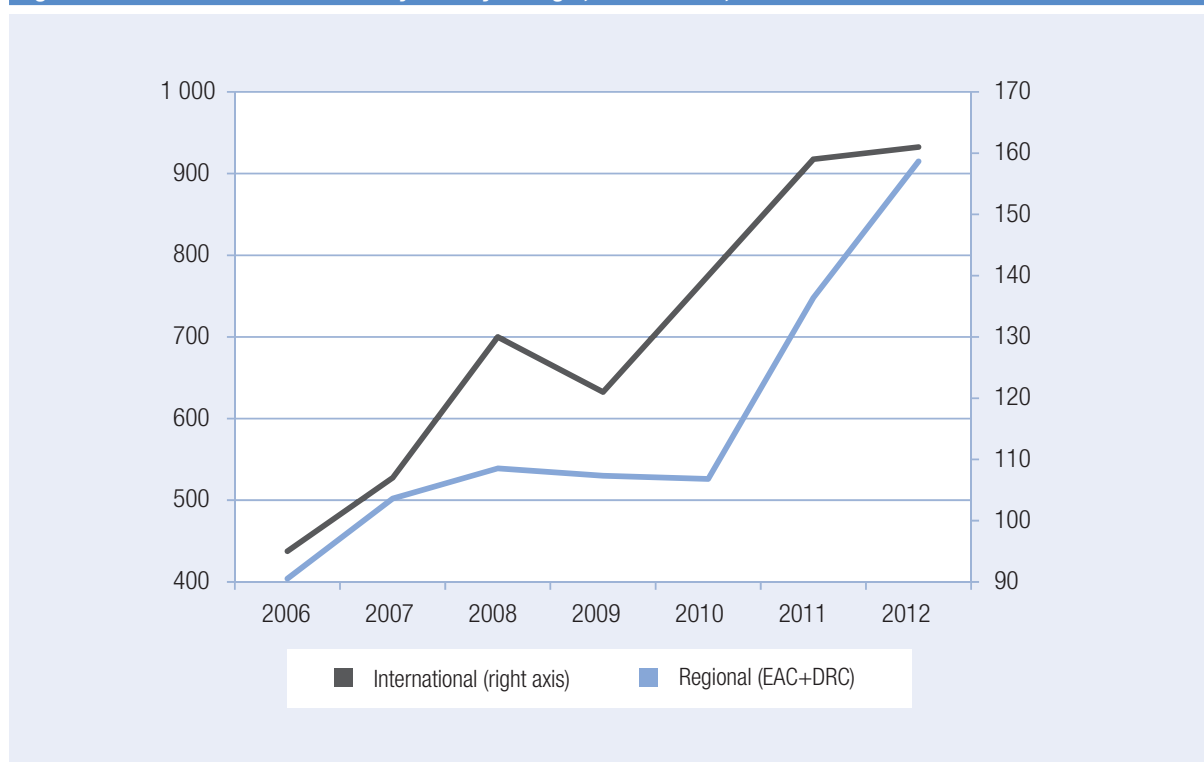
3.3. Trends in trade and investment in the tourism services sector

3.3.1. Trends in trade

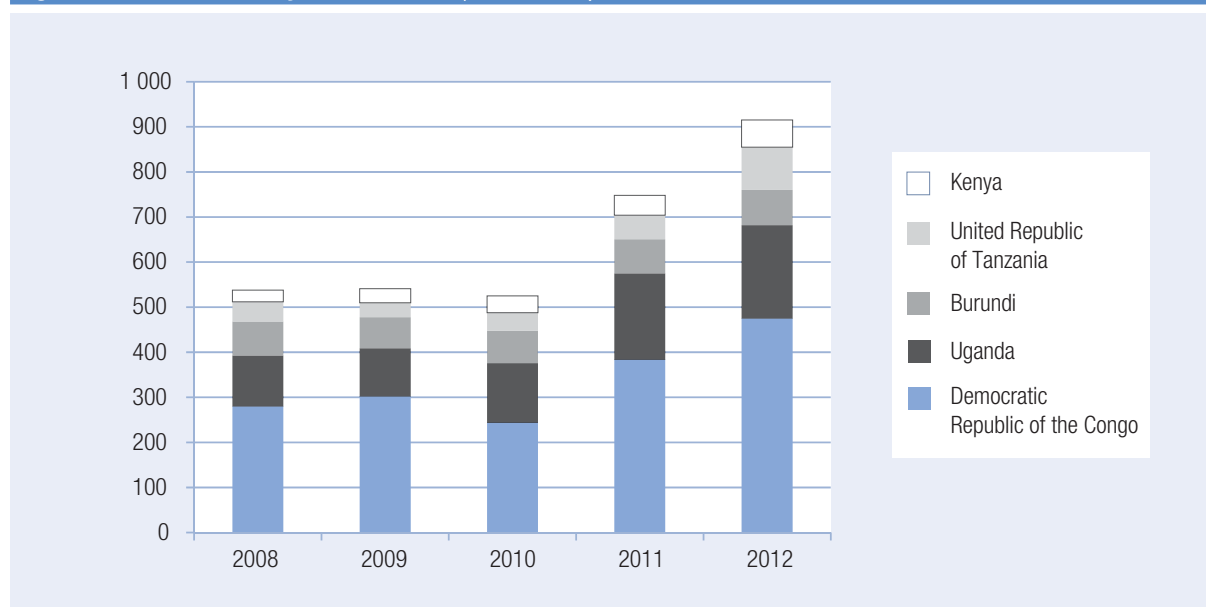
The largest proportion of Rwanda's tourism services exports are destined to the EAC region. This trend

can be explained by the regional integration process. Figure 12 illustrates the importance of the region in terms of tourism exports from 2006 to 2012.

Figure 13 shows that from 2009 to 2011, most tourists in the region came from the Democratic Republic of the Congo (49 per cent), followed by Uganda (24 per cent) and Burundi (14 per cent).

Figure 12. Visitor arrivals in Rwanda by country of origin, in thousands, 2006–2012

Source: Rwanda Development Board, Tourism figures 2008–2012.

Figure 13. Visitor arrivals by main countries (Thousands)

Source: Rwanda Development Board, Tourism figures 2008–2012.

Most visitors from Africa come to Rwanda for business and conferences (85 per cent in 2009, and 83 per cent in 2010 and 2011, respectively). The country's current exports of tourism services show the importance of business visitors from Africa and the EAC region in particular.

Despite the importance of business tourism, leisure tourism has become a highly dynamic segment in terms of revenue generation (see section above and graph on visitor expenditures). The largest numbers of leisure visitors are from Europe, particularly from the United Kingdom, Germany and Belgium, and the Americas, namely the United States and Canada. As a single country, the United States represents the largest share among non-African countries. See table 13.

The data show that the further development of leisure tourism can have a very positive impact in the sector by generating increased revenues. Attractive options derived from the data analysis suggest there is scope for improving leisure markets that can be considered both traditional (European and American tourists) and non-traditional (African tourists) for Rwanda. The analysis also shows the need to generate more revenue from business tourism. To achieve this, improvements are required with respect to the quantity and diversity of Rwanda's tourism products, the quality of the services offered and linkages within the sector and with other sectors. These issues are developed in subsequent sections.

Table 13. Share of visitors, per continent of origin and relative importance of business and leisure tourism, 2011–2012 (Percentage)

	2011			2012		
	Total	Business	Leisure	Total	Business	Leisure
Africa	85	48	4	39	42	5
Europe	7	31	32	6	24	36
America	4	28	39	3	26	41
South Asia	2	na	na	2	na	na

Source: Rwanda Development Board, Tourism Report 2013, Semester 1.

Abbreviation: na – not available.

3.3.2. Trends in investment

According to estimates of the Rwanda Development Board, private investments represent an important share of gross capital formation, ranging from about 50–65 per cent of the total between 2006 and 2012. It reckons that FDI has grown since the turn of the decade, reaching 26 per cent of gross capital formation in 2011 (figure 14). One can approximate FDI in the tourism sector by considering the registered investment in tourism in Rwanda recorded by the Rwanda Development Board.

Although foreign investment exceeds local investment, it has been concentrated in a small number of projects.

3.4. Policy, regulatory and institutional frameworks

3.4.1. Policy framework

Rwanda is seeking to further develop tourism, to become a “truly world class and high demand tourism destination”.⁵⁴ The Tourism Policy 2010 states that its overall objectives are to increase tourism revenues in a sustainable manner and generate profits for reinvestment and jobs. It aims to achieve a number

of strategic objectives (table 14) by implementing the 2009 Sustainable Tourism Development Master Plan for Rwanda.

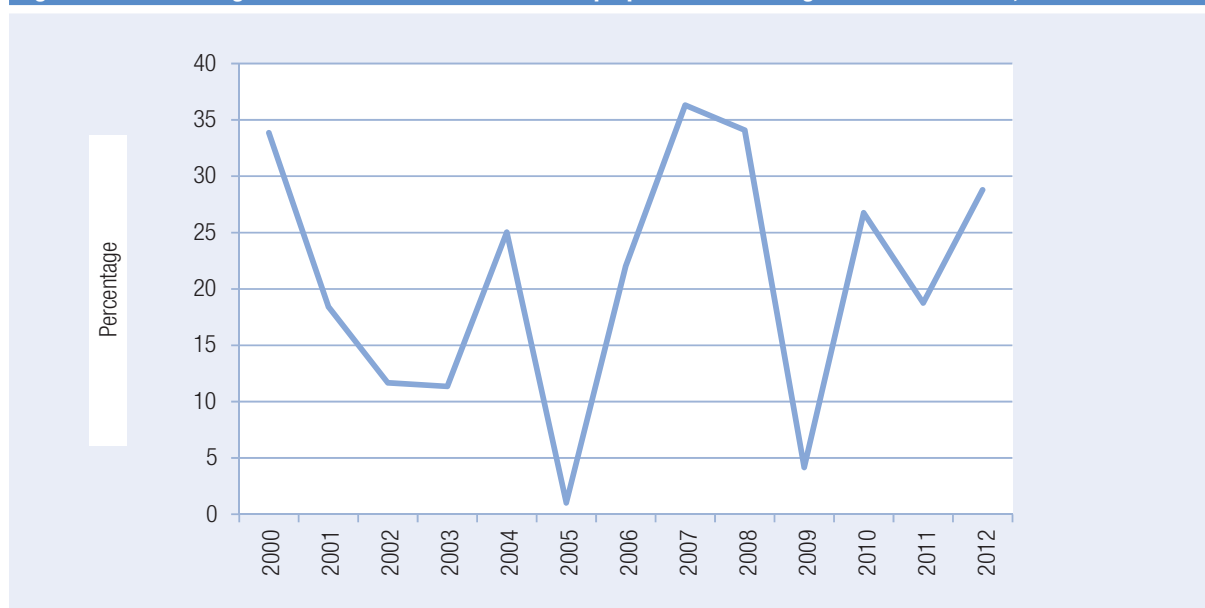
A review of national or regional policy measures that have been introduced with a view to achieving these goals and strategic objectives is provided in the following sections.

3.4.1.1. Product development and diversification

The aim behind the diversification of Rwanda’s tourism offer is to increase revenues. The Government of Rwanda has identified the scope and potential for improvement in this area, for various reasons:

- Over-reliance on gorilla tourism and impossibility of further increasing revenues generated therefrom due to environmental conservation concerns;
- The most frequent length of stay for international visitors in Rwanda is four days;⁵⁵
- The relative lower share of tourists visiting Rwanda for leisure, compared with business tourists, and, at the same time, the potential of leisure tourism to generate more revenue, compared with business tourists.

Figure 14. Share of registered investment in tourism as a proportion of total registered investments, 2000–2012



Source: Rwanda Development Board.

Goal	Strategic objective
Product development and diversification	To develop a range of quality tourism products and services, capable of attracting international, regional and domestic visitors and meeting their needs
Marketing and awareness	To project a clear, distinctive image of Rwanda as a destination offering wildlife, eco-tourism, culture and conferences that appeals to a high-value market
Capacity-building	To develop systematic, high-quality training and to create a skilled workforce in value jobs at every level of the tourism and hospitality industry
Access to Rwanda as a destination	To ensure that international tourists encounter minimal difficulties in their overland journeys or flights to Rwanda, and with respect to visa and other travel requirements
Infrastructure development	To prioritize the provision of infrastructure within the managed areas of a destination and their associated corridors
Appropriate regulation	To establish and maintain regulation that enables the tourism industry to develop in a fast, yet sustainable manner
Appropriate incentives and financial architecture	To develop incentives and a financial architecture that support investment in the tourism industry
Communities and micro-, small- and medium-sized enterprises	To provide support to micro-, small- and medium-sized enterprises, ensuring that they have the capabilities and capacities to enter the tourism value chain, while ensuring that communities contribute to and benefit from the tourism industry
Environmental sustainability	To ensure that the tourism sector is planned and developed for the benefit of future generations of Rwandans, in terms of the sustainability of resource use, the protection of wildlife and the environment

Source: Tourism Policy 2010 and Sustainable Tourism Development Master Plan for Rwanda, 2009.

Thus, diversity in Rwanda's tourism offer is crucial to persuade tourists to extend their length of stay.

There is a prevailing perception that the limited length of stay of tourists and the relative lower share of leisure tourism might be due to three reasons: first that most leisure tourists visit the region as part of multi-country itineraries – Rwanda is thus seen as an add-on to an East African safari tour;⁵⁶ second, Rwanda is perceived as being more expensive than its neighbours with diversity in tourism offerings⁵⁷ and third, pricing of transport of tourists from countries of origin is perceived as being less competitive compared with that of neighbouring countries.⁵⁸

With a view to diversifying Rwanda's tourism offer, tours associated with the cultural heritage and history of the country and wildlife tourism featuring other animals besides gorillas have recently been launched or are being developed.⁵⁹ Religion and events-based tourism are also being considered.

The Tourism Master Plan (2009) identifies several shortcomings that need to be addressed in order to develop products that ensure tourists stay in the country for a longer period and spend more money there. For instance, in order to take greater advantage of business visitors' short stays, the leisure offer needs to be strengthened in the capital and main cities. Ideas to do so could include developing entertainment options, for instance a zoo and botanical gardens.

With respect to the development of leisure tourism, existing shortcomings relate to the low quality or lack of accommodation and food and beverage facilities in the tourism routes leading to main parks and volcanoes.⁶⁰ On the other hand the Tourism Master Plan highlights another important gap: the lack of entertainment for tourists such as organized activities and recreational, cultural and sporting services – including sporting facilities, crafts, dance and film-related offerings, even in popular sightseeing areas.

In conclusion, Rwanda will have to succeed in extending the length of stay of visitors to increase revenues derived from tourism. This in turn requires tackling current shortcomings. In the case of business tourism, such shortcomings relate to developing entertainment alternatives in the main cities. In the case of leisure tourism, this requires improving the quantity and quality of tourist facilities and strengthening linkages with recreational, cultural and sporting services.

3.4.1.2. Tourism promotion and marketing

Tourism promotion has been the focus of aggressive public relations and marketing strategies. Since Rwanda started showcasing the diversity of its beautiful spots and attractions to the world at the World Travel Market 2003 in London, the country has made a name for itself by participating in numerous tourism trade exhibitions at the global level.⁶¹ Other ongoing initiatives aimed at raising awareness of new tourism offerings under development include a book on Rwanda's birds, which will be launched in the course of 2012.⁶²

Rwanda also participates in regional initiatives aimed at promoting the region as a tourism destination. It has therefore fully embraced a joint marketing initiative to promote the region as a single travel package. While the main goal is to develop Rwanda as a unique tourism destination, the Government is conscious of the present limited offer of tourism products in and the high cost of travel to Rwanda and is looking to benefit from the spillover effect of visitors from neighbouring countries.

Rwanda has collaborated with EAC to develop standards for the classification of hotels, restaurants and other accommodation facilities. Rwanda is currently in the process of classifying its tourism facilities and accommodation according to these standards. In this context, the Rwanda Development Board has classified 31 hotels across Rwanda, with 2 given five stars, 4 granted four stars, 16 given two stars and 1 given one star.⁶³ It has been suggested that once this process of classification is complete, the pricing structure might have to be revised in the sector to remain competitive, as prices are high relative to accommodations of equivalent quality in other East African countries.⁶⁴

Rwanda also participates in the East African Tourism and Wildlife Coordination Agency established by EAC.

This setting offers the following benefits:

- A legal framework for cooperation among Partner States and among a wide range of stakeholders;
- A centre ground to develop private and public partnerships;
- An opportunity to initiate and coordinate a regional tourism policy;
- An opportunity to improve branding of the EAC tourism sector;
- An opportunity to initiate and coordinate research according to market needs and trends.

Another sphere for regional cooperation is the East Africa Tourism Platform, which encompasses private sector players solely. A strategic action plan was adopted in 2011,⁶⁵ which foresees coordinated regional actions to promote regional tourism in domestic markets, networking, data collection, training and the development of joint marketing and advocacy strategies.

It appears that the tourism promotion and marketing strategy has focused more on participation in international fairs. Further improvements could include more awareness-raising campaigns about current and new tourism offerings for visitors who come to the country or travel at the regional level. Such actions may entail further developing linkages with local tour operators, car hire companies, hotels and restaurants and conference organizers as key players in the dissemination of information, who also interact directly with tourists.

The Sustainable Tourism Master Plan identifies capacity-building needs with regard to tourism promotion and marketing in the following areas:

- Product development strategies, market research, marketing and promotion techniques, as well as a grasp of general hospitality;
- Statistical compilation and analysis. Being able to develop strategies responding to the specific needs of target markets requires understanding the needs and behaviours of customers. In this respect statistics compilation and analysis can play a key role in informing policymaking. Although Rwanda has made much progress in this regard, statistics collection could be improved in the following areas: tourists' spending patterns, patterns

regarding domestic tourism, disaggregated employment data per subsector, room occupancy levels in accommodation facilities and visitors to main tourist attractions, except parks.

The National Export Strategy identifies another shortcoming that affects tourism promotion and marketing: the lack of a coordinated approach to export promotion, which hinders the country's capacity to maximize opportunities from its participation in trade agreements. Based on the mandates and work areas defined above of the East African Tourism and Wildlife Coordination Agency and the East Africa Tourism Platform, it appears that the regional framework can contribute to meeting Rwanda's own tourism development needs, for instance to promote intra-African leisure tourism, in areas such as monitoring and increasing knowledge of sector trends, sensitizing business and developing market strategies to exploit individual markets.

Maximizing the use of the regional framework might require a more systematic approach to identifying comparative advantages at the regional level in services provision and designing a policy framework to achieve the following objectives:

- To raise awareness of services providers and tourism operators, particularly SMEs, on the best usage of existing opportunities to generate economies of scale arising from the regional integration;
- To develop jointly tourism facilities and key infrastructure, for instance by means of regional joint ventures.

3.4.1.3. Capacity-building and skills development

Human capital development has been prioritized by the Government of Rwanda in a cross-cutting manner to develop the competitiveness of the overall services economy, but particularly in the tourism sector, where the role of employees is significantly ascribed to interaction with customers. In this sector, this area is considered crucial to increase profitability – to attract higher-end tourists and capture larger margins – and to pursue Rwanda's diversification strategy in the sector.

The importance of this issue was underscored by a survey conducted by the On the Frontier Group in 2009 of representatives of the tourism industry and

visitors.⁶⁶ According to the survey findings, customers considered that the service was lacking in quality, that they were excessively overcharged and received little value for their money.

This survey led to an increased awareness at the Government level of this being a hindering factor affecting tourism promotion and of the need to upgrade skills in the sector. This issue is particularly important to Rwanda in the context of strategies aimed at developing leisure tourism and high-end segments, where tourist expectations can be considered higher and correlated to international standards. Following the analysis by IPAR – Rwanda, several studies were undertaken to understand better the skills gaps and needs in the sector,⁶⁷ and the issue was captured in several policy instruments.⁶⁸

One of these studies⁶⁹ quantifies the extent of the skills gap in the tourism sector, as per 2009, as follows:

- The hospitality industry had a total skills gap of 69.4 per cent;
- With regard to technician cadres (supervisors, assistant chefs), only 4 per cent of skills required were available. This means that in this essential category there is a 96 per cent deficit;
- Only 30 per cent of artisans (waiters and cleaners) are in place, that is to say, a 70 per cent deficit;
- There is an acute shortage of skills in the private hospitality sector, where the gap among the professionals is 55 per cent, among technicians, 12 per cent and artisans, 53 per cent;
- Part of the skills gaps is currently covered by foreigners: The tourism industry has the largest complement of foreign experts, where they account for 2.3 per cent of the skills base. In terms of expertise, the largest contribution of foreign experts is in hospitality, where they account for 1.6 per cent of the skills base, predominantly in the artisan cadre.

To improve the qualifications of the workforce in the sector, several training-related initiatives were recently launched. The Government, under the aegis of the Work Force Development Authority, set up courses in institutions providing technical and vocational education and training to promote artisan or technical skills in the sector. These include courses relating to culinary art, housekeeping, front-desk operations, and table waiting. In addition, the Rwanda Tourism

Box 1. Key Issues in Building the Capacity of SMEs and Improving Linkages in the Tourism Sector

According to an analysis by the Organization for Economic Cooperation and Development (OECD), building the capacity of SMEs in the tourism sector requires targeted interventions, aside from macro level policies to develop the sector (i.e. improving macroeconomic stability, promoting a tourism-friendly business environment, offering attractive public goods and developing an innovation-oriented tourism policy). SMEs face several challenges to participate effectively in the tourism sector, mainly due to their size and lack of economies of scale, for instance regarding their capacity to procure land, lack of skilled human resources and of access to financial capital. This leads to higher costs and prices. In addition SMEs compete with bigger and more capitalized enterprises of the international travel industry (tour operators, airline companies, hotel and catering chains, and car rental companies), which are more productive at delivering travel services to destination markets.

OECD has identified two key areas for policy intervention to improve the capacity of SMEs in the tourism sector:

- (a) Maximizing the use of online technology to facilitate marketing, enabling direct linkages between tourists and tourism services suppliers;
- (b) Increasing integration in the tourism value chain, promoting greater cooperation between tourism SMEs through network and clusters, taking into account that belonging to a cluster or a network can bring the following benefits:
 - i. Enhance productivity and the rate of technological innovation;
 - ii. Help to build a common industry view to lobby local authorities;
 - iii. Overcome some of the disadvantages of small size by undertaking cooperative actions (e.g. in marketing);
 - iv. Pool resources for human resource development;
 - v. Enhance growth and the competitive performance of firms.

OECD finds that a supportive role of the State means putting in place effective frameworks for the ICT sector, promoting training and skills development, encouraging innovation and establishing standards and quality norms.

Source: OECD, 2008, *Tourism in OECD Countries 2008: Trends and Policies*.

University has been established to promote the participation of the private sector in capacity-building. Programmes offer bachelors of hotel and restaurant management, bachelors of travel and tourism management and certificates in housekeeping, front office/reception techniques, kitchen operations, restaurant services, food and beverage services, tour guiding and administration, tour and travel operations, cabin crew training, exhibition and event management, and customer care.

According to several of these studies, ensuring quality in the delivery of tourism services goes beyond improving training programmes and curricula. In this sense, to change the current culture of customer service in Rwanda, it is necessary to tackle challenges in other areas:

- Business practices. These studies concur that the skills gap is more acute in the private sector. Business development and supervisory and managerial skills require strengthening to ensure business performance and quality management in services delivery. In particular, SMEs need to meet exporters' requirements to enter the sector value chain successfully;

- Labour market. The culture of studying tourism does not exist in this area (technicians and university education account only for 1 per cent of the workforce⁷⁰). This could lead to increased wages and lower employability prospects of trained professionals in the sector. There is also a need to promote a change in perception of continuous learning in the workplace;
- Qualifications framework and accreditation system. Another important issue related to skills development is setting standards for the recognition of training and education diplomas linked to international standards;
- Prioritizing. This is necessary in capacity-building initiatives and settings where workers, such as tour guides, receptionists, front-line workers and food and beverage waiters deal with customers face to face. In this area, language training is considered important.

Although initiatives have been launched to meet training needs, these remain unaddressed at the policy and strategic level. Other shortcomings identified in this area include limited resources allocated to skills development, the lack of public institutions having a

faculty or department of hospitality or tourism studies, the lack of institutes offering teacher training in these areas in Rwanda and inadequate training materials.

Some ideas to address these shortcomings are as follows:

- Business development of SMEs, in partnership with larger firms (particularly hotels), in accordance with Rwanda's policy of attracting big hotel groups;
- Strengthening the educational framework, that is to say, institutions and legislation, for tourism capacity-building. This can be done, for example, by developing support programmes to train the trainers, designing incentives to promote skills upgrading and training in SMEs and the private sector and promoting information and experience sharing in policymaking and business practices (for instance through study tours in the region);
- Developing policies and strategies at the macro and micro levels to monitor and continuously improve quality in services delivery;
- Using the regional framework to develop the qualifications framework and accreditation system.

3.4.1.4. Access to finance and investment incentives

Access to finance

Commercial banks are authorizing loans to the private sector with commerce, restaurants and hotels as the major beneficiaries (table 15).

The cost of finance is perceived by the private sector⁷¹ as being too high to enable the development of the sector: interest rates range between 13 per cent and 16 per cent, and loan amortization is short (between 3–6 years), immediately after the loan is received. Usually, a one-year grace period is given, but even so, interest is still charged.

This assessment coincides with conclusions of the Strategic Action Plan for the development of the East Africa Tourism Platform, which identifies access to finance as a challenge to further develop the sector and to seek increased involvement of the private sector. This paper finds that access to long-term financing has been a challenge for the industry because of the nature of tourism products. In this sense, most banks and other financial institutions require security; for an industry that is mainly service driven, this may not always be possible. In addition, because it is a season-driven industry, this has made it difficult for firms to access financing.

Investment attraction and incentives

Strong incentives are offered in Rwanda to promote investment in the tourism sector. These incentives have been successful in attracting FDI, particularly in hotels and the leisure sector.⁷² Apart from the general incentives available to all registered investors,⁷³ investors in the tourism and hotel industry are exempted from import duties on certain equipment, as shown in table 16.

Table 15. New loans authorized by commercial banks and the Development Bank of Rwanda (Million dollars)

Activity branch	2008	2009	2010	2011
Commerce, restaurant and hotels	136.8	128.5	191.7	205.6
Public works and building industry	98.4	64.6	77.3	138.4
Manufacturing industries	20.9	35.4	46.0	31.2
Communications, transport, warehousing and	30.9	56.1	38.9	30.3
Other financial services, insurance and other non-financial services	4.4	13.2	14.6	32.0
Services provided to the community	18.8	8.3	16.8	16.0
Agriculture, animal husbandry and fishing	7.1	6.5	9.3	19.8
Energy and water	0.4	5.6	2.4	0.9
Mining industries	0.0	0.2	0.2	0.0
Activities not classified elsewhere	21.8	31.0	53.2	85.8
Total	339.5	349.1	450.0	559.7

Source: Calculations of the UNCTAD secretariat based on annual reports 2010 and 2011 of the National Bank of Rwanda.

Table 16. Import duties exemptions applicable to the tourism sector

Reception	Switchboards, water sprays, safes and air conditioners
Bedroom fittings	Carpet; beds and accessories; televisions; small refrigerators; safe; window fittings for sound, heat and light proofing; room furniture (as part of overall house design); air conditioners
Conference halls	Furniture and carpets (not plastic), sound systems and microphones, overhead projectors, liquid-crystal display video projectors, air conditioners
Kitchens	Stoves, ovens, deep fryers, grills, dish warmers, cold rooms, refrigerator, dishwashers
Swimming pools	Water pumps and filters; equipment for fitness centres, saunas, steam baths and massage
Outdoor leisure equipment	Playground equipment: swings, slides, carousels and trampolines; equipment for tennis courts and maintenance; nets, steamrollers, training machines and lighting, golf equipment
Lobby, public places and room corridors	Carpets, furniture
Machines for house maintenance	Generators, machinery for to install plumbing, electricity, air conditioning and refrigeration; solar systems for electricity or water production; water treatment systems; liquid waste treatment plants; lightning conductors; chillers; air conditioning shafts; private automatic branch exchange (radio communication machines in hotels and bars, broadcasting systems for television and music in rooms and public areas, other radio communication systems); fire detectors; fire extinguishers and sprinklers; ventilation and extraction of unpleasant smells in technical rooms and basements
Gardens	Integrated watering system
Dance halls and bars	Sound system equipment, refrigerators, air conditioners and lighting

Source: Rwanda Investment Code, 2005, and Information Package for Investors, 2011.

Investment attraction is being pursued in the current tourism strategy as a means to anchor existing and new tourism brands. Investment opportunities have been identified in the regional conference business in Kigali,⁷⁴ with plans to build more three-, four- and five-star hotels in Kigali and in regional cities such as Butare, Gisenyi, Muhazi, Nyanza and Akagera, to attract premium eco-tourism operators and thus widen the activity base in this subsector.⁷⁵

Rwanda's investment strategy has yielded positive results. However, a 2013 report by the World Economic Forum⁷⁶ has identified areas that could be further improved. This would have implications

on a broader investment attraction strategy, such as the promotion of a business friendly environment and shortcomings in terms of infrastructure, human capital, and cultural and natural resources. Table 17 positions the international competitiveness of the Rwandan tourism sector and compares this position with that of Rwanda's neighbours.

The strategic action plan for the development of the East Africa Tourism Platform⁷⁷ finds that existing investment levels are insufficient to sustain product development strategies and diversification efforts in the region. This view is also shared by the private sector in Rwanda,⁷⁸ which sees a need to increase investment

Table 17. Travel and tourism competitiveness index, 2013 ranking

	Business environment and infrastructure	Human, cultural and natural resources
Rwanda	117	104
Kenya	105	60
United Republic of Tanzania	125	59
Uganda	121	79
Burundi	139	138

Source: World Economic Forum, 2013, *The Travel and Tourism Competitiveness Report 2013: Reducing Barriers to Economic Growth and Job Creation*. Tourism Competitiveness Report 2013.

Box 2. Trends, lessons learned and best practices relating to attracting investment in the tourism sector

Investment commonly relates to a mode of entry for transnational corporations (or commercial presence). Most of the investment received in the tourism sector goes to accommodation, restaurants and car rentals. Tour operators, reservation systems and airlines tend to attract less investment. Investment in the tourism sector usually takes place in non-equity forms such as management contracts, and leasing, franchise and marketing agreements.

Many factors affect investment decisions. According to an often-used theoretical approach, a foreign firm will invest abroad only if three factors converge simultaneously:

- Ownership: The company possesses ownership-specific advantages that allow it to compete effectively with local companies;
- Location: There are benefits to setting up business in the host country – large markets, cheap labour, a rich cultural heritage or a pleasant climate;
- Internalization: There are benefits from directly controlling the business activity in the host country rather than hiring a local firm to provide it.

Other factors affecting investment include the quality of infrastructure (particularly airports and roads), ICT technologies, tourism facilities (sightseeing attractions and heritage sites) and access to friendly means of transport such as trains and buses.

Investment promotion agencies play a key role in identifying investments opportunities and targeting these. In cases where a national tourism strategy is in place, the needs prioritization process will be based on identification of key tourism subsectors requiring capital to implement the strategy. Several policy objectives are considered when targeting investment, for example, creating linkages to support local economic development, knowledge transfer (for instance in areas such as environmental conservation to suppliers), contributing to better working conditions for employees, and reducing negative environmental and social impacts.

Incentives that investment promotion agencies can use to promote the tourism sector include duty-free imports of capital goods, equipment and inputs; training grants for locally employed staff; accelerated depreciation of environmentally friendly assets; assistance with long-term leases of business property; loan guarantees for small firms and grants or tax breaks for investors in key opportunity areas.

- Some interesting ideas that emerge from UNCTAD's work and study in this field include the following:
- Attracting investment to provide support for infrastructure development (water supply and electricity) by establishing tourism development zones that concentrate a cluster of tourism-related facilities, to stimulate large-scale investment;
- Promoting collaboration among public and private players in the industry through public–private partnerships. These partnerships are sometimes used to upgrade tourist sites or open up new regions to tourism;
- Real estate incentives can help attract investment to develop high-end tourism. For example, Mauritius provides incentives to purchase luxury residences in specific areas, giving rights to holders of residency permits, the right to rent and sell property and freedom to repatriate funds or revenues raised from the sale or renting of the property;
- Defining goals and targets is important to assess the success of investment promotion strategies. Goals should be related to the wider tourism strategy, the desired impacts of the promotional activity should be clearly defined to assess long-term results and operational targets should be put in place to measure short-term results. A framework for this could include a track record of the number of general enquiries, of serious enquiries leading to visits and extensive information exchanges and projects carried out.

Source: UNCTAD (2010). *Promoting Foreign Investment in Tourism*.

in the following areas: world class accommodation establishments, world class tourism and hospitality training institutions, boats and water sports facilities, zoological and botanical gardens and theme parks. Another area requiring additional investment is infrastructure development, particularly road infrastructure linking the main city centres with parks and recreational areas.⁷⁹

The Government of Rwanda has recognized the need to assess the effectiveness of investment incentives regimes in the broader context of creating a more conducive environment for investment and addressing emerging needs for sector development.⁸⁰ Objectives in this regard include, among others, identifying and proactively developing sources of investment on a sector-targeted basis and targeting better incentives, particularly for small-scale and eco-tourism operators.

Based on the above analysis, the following actions are recommended:

- To extend the Rwandan Export Development Programme to SMEs linked to value chains in the tourism sector (aside from hotels and restaurants). This programme provides SME exporters or intended exporters with strategic support, export training and education, technical assistance with respect to standards, mentoring, market development, access to finance (soft loan modalities) and performance evaluation;
- To design a framework to assess the effectiveness of investment incentives regimes and performing an evaluation of the current fiscal incentives against objectives set for the sector;
- To develop a tourism and hospitality guarantee fund. In the view of the private sector in Rwanda,⁸¹ having a public fund in place contributed greatly to achieving access to finance in the agriculture sector, a major challenge;
- To put in place a tourism and hospitality training levy to finance initiatives aimed at improving skills in the sector.⁸²

3.4.2. Regulatory frameworks

Rwanda is in the process of passing a tourism bill to regulate the industry. The draft bill has been presented to Parliament and is currently undergoing the process

towards its adoption. Main features of the draft bill are as follows:

- Provides a regulatory framework for the main areas in the tourism sector of hotels, tour guides, tour agents and other tourism services;
- Establishes the Rwanda Development Board as the regulatory agency for the tourism sector and provides the framework for the regulation of the sectors of the industry;
- Provides for an agency to issue operational licences for accommodations and restaurants, tourist enterprises and tourist guides; to grade various accommodations, restaurants and tourist enterprises according to their infrastructure/facilities and service capability as well as to inspect and advise the various accommodations and restaurants, tourist enterprises and other tourist facilities in matters relating to their infrastructure, hygiene and services;
- Grants the Minister of Trade and Industry the authority to make further regulations where necessary upon the recommendation of the regulatory agency;
- Provides for the protection of tourists and visitors, the regulation of hotels, restaurants, and tourist enterprises and services.

At the time of writing of this report, the bill had not been passed.

Other relevant national-level laws and regulations related to the tourism sector include the following:

- Organic Law on Environmental Protection and Management (2005) and environmental impact assessment regulations, decreeing that environmental impact assessments are mandatory for the approval of major development project activities and programmes;
- Organic Land Law Act (2005), which establishes that all land belongs to the State, districts and cities. The public institutions then lease out the land to individuals or companies for 99 years. Under this law, there is no discrimination in law between Rwandan nationals and foreigners;
- Law on Crafts (2010), which seeks to organize and formalize the sector by means of cooperatives and promote specialization in specific crafts and certification by the Rwanda Development Board;

- Law No. 03/2009 (27 March 2009), seeking to strengthen institutions involved in technical and educational vocation and training by means of a new institutional framework for the governance, management and delivery of technical and educational vocation and training. Most notably, this law provided for the establishment of the Workforce Development Authority and Integrated Polytechnic Regional Centres;
- Ordinance 41/291 of 2 September 1955 related to the exploitation of hotels, restaurants and drinking areas, establishing that a licence is required and standards of hygiene must be met.

According to a report on travel and tourism competitiveness by the World Economic Forum (2013), Rwanda ranks higher than all other EAC countries in the regulatory framework index, thus providing it a competitive edge against other regional competitors (table 18).

Nonetheless, some weak areas have been identified which could be further developed to continue strengthening the sector:

Lack of legislation to regulate and protect the industry and governing tourism professions (lack of licensing system for services providers);⁸³

Regulation concerning accreditation, certification of recognition of equivalence of academic and vocational qualifications in the tourism industry (see 3.4.1.3 Capacity-building and skills development).

3.4.3. Institutional frameworks

Since 2010, the main institution responsible for tourism development, marketing, promotion of sustainable

tourism and conservation of wildlife (encompassing wildlife preservation and management of national parks) is the Rwanda Development Board.⁸⁴ Its mission emphasizes private sector development and growth. The Board was affiliated to the Ministry of Trade and Industry until 2010, when it was moved under the President's Office. While no longer directly affiliated to the Ministry, the Board still implements the majority of policies developed by the Ministry, namely policies relating to SMEs and industry, tourism, intellectual property, the national export strategy, and trade and investment. The department responsible for the tourism sector is also responsible for policies related to environmental conservation.

Private Sector Federation (PSF) Rwanda has a tourism chamber consisting of four industry associations, namely accommodation, tour operators, transport and taxis, and private educational institutions. It is a forum for industry cooperation, training, lobbying and raising awareness of the industry's role and contributions.

Local authorities also play an important role in tourism development. The district councils are responsible for community planning; land-use planning; urban and rural development; provision and maintenance of tourist services, sites, attractions and monitoring standards.

The Rwanda Development Board has taken the leading role in the development of the tourism sector and regarding investment attraction in the sector. However, it has been suggested that the Board lacks sufficient personnel to supervise and monitor tourism development⁸⁵ and that is under-resourced⁸⁶ and that the private sector (tourism chamber) needs to be strengthened to participate more actively in tourism development.

Table 18. Travel and tourism competitiveness index, 2013 ranking (Regulatory framework)

	Regulatory Framework
Rwanda	78
Kenya	108
United Republic of Tanzania	118
Uganda	116
Burundi	130

Source: World Economic Forum, 2013, *The Travel and Tourism Competitiveness Report 2013: Reducing Barriers to Economic Growth and Job Creation*.

Box 3. Institutional structure for the promotion of tourism: selected experiences of developing countries

A typical institutional framework for the tourism sector in most countries includes units dealing with the following factors:

- (a) Investment attraction – creating conditions to ensure attraction of foreign investment in the tourism sector;
- (b) Marketing and promotion – disseminating information to achieve maximum growth in arrivals;
- (c) Product or tourism offer development – developing, for instance, facilities attractions, skills and infrastructure and ensuring quality in the sector or a subsector;
- (d) Market intelligence – research and monitoring in the tourism industry to identify emerging needs and inform policy development.

It is less clear to what extent there is a typical institutional setting aimed at maximizing development gains from tourism (for instance, enhancing the contribution of the sector in terms of employment through improved linkages with other economic sectors, local communities and SMEs) and minimizing any potential negative effects of tourism development from the social or environmental perspective.

Several of the mandates mentioned above are currently being carried out by the Rwanda Development Board. The following sections describe certain aspects of institutional frameworks that differ from those of Rwanda in the case of a few developing countries that were ranked higher than Rwanda in a report by the World Economic Forum (Rwanda is ranked 102).

Barbados (ranked 28 – first developing country mentioned on the list)

The Ministry of Tourism is responsible for policy formulation in the sector. A tourism agency, Barbados Tourism Investment Inc., is charged with facilitating investment in tourism. The Barbados Tourism Authority, an agency of the Ministry of Tourism, is responsible for promoting tourism; carrying out marketing and market intelligence; registering, licensing and classifying tourist accommodation and restaurants; licensing hotels and regulating other tourist services as determined by the Ministry of Tourism. It also is charged with maintaining existing air and sea passenger transport services to and from Barbados, and cultivating new routes. Interesting features of the institutional structure include the following: the Ministry of Tourism has an agency called Barbados Conference Services Limited responsible for the promotion of event marketing, and the Barbados Tourism Authority maintains 11 offices abroad focused on promotion and event marketing to tourists about Barbados.

Costa Rica (ranked 44 – success story in the development of eco-tourism)

The Costa Rican Tourism Institute is responsible for the design of tourism promotion policy. Its central goal is the promotion of sustainable tourism development by maintaining a balance between economic and social outcomes, environmental protection, culture and country assets. The Institute is also responsible for the implementation and monitoring of tourism policy.

Other public sector organizations share responsibilities in this area. The Ministry of the Environment, for instance, enforces national environmental laws, particularly in national protected areas and other natural assets. It also monitors the environmental performance of tourism companies. Local governments are responsible for policy implementation, as it relates to territorial planning, infrastructure development and public services at tourism sites. The General Controller is responsible for monitoring policy mechanisms, especially tourism incentives. Private sector organizations, such as the National Chamber of Tourism and other business and professional associations, play a consulting and lobbying role in policy design and implementation.

An interesting aspect of Costa Rica's institutional framework is the Institute's development and oversight of several certification schemes for tourism attractions and sustainable tourism businesses. The latter certification takes into account the level of impact on sustainability, as well as economic, social, and environmental variables, and is aimed at reinforcing Costa Rica's image as a sustainable tourism destination.

Mauritius (ranked 53 – first African/regional partner mentioned in the list)

The Ministry of Tourism is responsible for policy development. It encompasses several associated agencies. The Mauritius Tourism Promotion Authority establishes codes of practice and standards, and monitors their compliance. It also promotes Mauritius abroad by conducting advertising campaigns, participating in tourism fairs, and organizing, in collaboration with the local tourism industry, promotional campaigns and activities. The Tourism Authority is in charge of delivering licences and permits. All tourist establishments, as well as listed activities, must obtain a tourist enterprise license from the Tourism Authority before starting their operations. It is administered and managed by a board consisting of a chairperson appointed by the minister in charge of tourism and representatives of the Prime Minister's Office and Government ministries in charge of tourism and finance; the Mauritius Tourism Promotion Authority and three other persons with wide experience in the tourism industry, appointed by the Minister.

Box 3. Institutional Structure for Promotion of Tourism: Selected Experiences of Developing Countries (continued)

An interesting institutional feature of policymaking in the Mauritian tourism sector is an associated agency of the Tourism Ministry dealing solely with finance for tourism development, the Tourism Fund. The Fund finances tourism-related projects and development and maintenance of tourist sites and attractions in regions with high tourist potential. It also caters for community development. In addition, the Tourism Employees Welfare Fund was set up to provide social and economic welfare to employees of tourism enterprises and their families. The Government acts as a facilitator of private sector expansion in tourism development. A well-articulated policy framework, as well as solid links and public collaboration among diverse stakeholders, have been crucial in developing a strong private sector response.

Cape Verde (ranked 89 – LDC graduated in 2007)

In Cape Verde the Ministry of Tourism, Industry and Energy was set up to ensure coherence in policymaking in different spheres that were considered key to develop the tourism sector, that is, extending access to energy and developing linkages with the industrial sector, particularly light manufacturing. In the view of its current Minister, good governance and strategic support for development were crucial to the success of the tourism sector in Cape Verde. In this sense, the country made an effort to develop a brand associated with good governance to attract investment and developed diverse initiatives that have led to increased contribution of the tourism sector to employment and development of an entrepreneurship spirit in the private sector. Other agencies deal with other aspects of policymaking in this area. For instance, the Ministry of Environment and Territorial Planning develops and implements policies to ensure conservation at the same tourism attraction in mountain areas and beaches, and ensures the enforcement of environmental regulation in protected areas. An interesting feature of Cape Verde's institutional framework is an agency that promotes business and private sector development and innovation (part of the Ministry of Economic Planning, Growth and Competitiveness). This institution manages programmes to develop local enterprises and SMEs following a clustering and incubators approach. These programmes provide business coaching and access to market information. Achievements include employment generation in the informal sector and increased numbers of tourism businesses or enterprise creation.

The Gambia (ranked 92 – first LDC mentioned in the list)

The Ministry of Tourism and Culture is the leading agency with a mandate to develop the sector. The Ministry has oversight over several agencies: the National Centre for Arts and Culture (in charge of development and maintenance of main tourist attractions), the Gambia Hotel School (institution offering specialized training in tourism leading to the awarding of professional management certificates and diplomas) and the Gambia Tourism Authority (responsible for marketing, development of value added products, improving quality standards, encouraging investment in targeted subsectors)

Source: World Economic Forum, 2013, and different institutional sources from various developing countries

3.5. Trade liberalization commitments affecting the sector

Under GATS, Rwanda has undertaken the following trade liberalization commitments with regard to tourism services and recreational services:

- Fully liberalized: recreational, cultural and sporting services related to ecotourism facilities under the four modes of supply;
- Partially liberalized: services related to hotels and restaurants, including catering (CPC 641), and restaurant services (CPC 642). In these subsectors, services trade under Modes 1, 2 and 3 have been fully liberalized, while limitations are maintained with respect to trade under Mode 4. In this regard, limitations relating to market access and national treatment exist for the following measures:
- Those affecting senior executives and specialists who possess knowledge that is essential to the

provision of the service, in the case of hotels;

- Those affecting natural persons in the following categories: directors, senior executives and specialists who possess knowledge that is essential to the provision of the service;
- Not liberalized: travel agencies and tour operators services (CPC 7471) and tourist guide services (CPC 7472).

Liberalization in the GATS context means that countries cannot retract from these commitments and undertake more protective measures, for instance in regional or bilateral negotiations. GATS commitments are thus assumed to be a baseline for further negotiations aimed at liberalization. Thus, taking into account that tourism services have been identified as a priority services sector for liberalization under EAC, COMESA and in the Tripartite Agreement, it is likely that Rwanda will move beyond these commitments in the future.

3.6. Tourism services sector: An analysis of strengths, weaknesses, opportunities and threats

Sectoral SWOT diagram

<p>Strengths</p> <ul style="list-style-type: none"> - Tourism attractions, including gorilla sites, and national parks, offering a range of wildlife and biodiversity - International recognition of Rwanda as a tourism destination (specialized fairs and events) - Existence of clear policy, strategy and master plan for sector development - Positive image associated with the country because of environmental standards and safety - Small size of the country makes it easy to tour with easy access to key attractions 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Training facilities are limited, expensive or of questionable quality - Limited length of stay of international visitors (four days) - Limited entertainment alternatives in main cities - Transport of tourists from countries of origin to Rwanda is not competitive compared with neighbouring countries. - Over-reliance on a single tourism product - Low capacity and underskilled staff - Expensive and difficult to access from key tourism source markets as a destination - Underdeveloped regulatory framework for the tourism sector - Constraints due to quality and quantity of tourism facilities in main tourism attracting areas (i.e. parks) - Difficulty of accessing land for tourism investments - Insufficient levels of investment to sustain product development strategies and diversification efforts and to develop infrastructure - Low availability of finance and partnership for private sector investment in the sector - Lack of legislation governing the industry and tourism professions
<p>Opportunities</p> <ul style="list-style-type: none"> - Ongoing projects for infrastructure development (more hotel rooms, restaurants and conference centres) - New and promising areas for diversification have been identified and some of them have recently been launched, i.e. birding routes - Single EAC visa and recently created platforms to enhance intraregional cooperation to develop the sector may offer opportunities for increased trade in tourism services in the region 	<p>Threats</p> <ul style="list-style-type: none"> - Tough competition from regional partners with respect to brand, reputation and well-established operators - Local tour operators find it difficult to offer services to tourists brought in on packages or staying in international hotels

Required spill-ins from other sectors: transport (air and road), education, construction, financial, ICT, electricity and water

Anticipated spillovers into other sectors: food supply chain, promotion of hospitality and event management, handicrafts, arts, sporting and recreational services

Key stakeholders: travel and tour operators, hotels, restaurants, tour guides, transporters, the Rwanda Development Board and Government ministries and/or regulating agencies in charge of transport, education, financial, ICT, electricity and water, and the Tourism Chamber



4

ICT AND ICT-ENABLED SERVICES

4. ICT AND ICT-ENABLED SERVICES

The information and communications technology (ICT) sector is at the very heart of Rwanda's development efforts. Indeed, its transformation from a subsistence agriculture economy to a knowledge-based society was identified as the catalyst for its transition from a least-developed economy to a middle-income economy.⁸⁷ Its development agenda, as set out in Rwanda Vision 2020,⁸⁸ calls for efforts to be made to widen access to ICT among the population and to promote it for e-governance, education and capacity-building, and for use by the private sector. Special attention has been given to ICT within the services sector with regard to policy and government resource allocations.

The Government of Rwanda believes that the efficient development of ICTs can contribute significantly to harmonious development across regions and address rural-urban imbalances relating to living conditions and access to education, health and other social services. By offering a number of opportunities for the rural population, ICTs can contribute to the fight against poverty and improve the ability of the people to participate in the economic, social and political life of the country.

Indeed, over the past few decades, ICTs have enormously contributed to economic and social progress in both developed and developing economies. The ICT sector is not only a means of achieving development and economic growth but also a productive sector in its own right composed of ICT goods and services.

Although there is no commonly agreed definition of ICT services, it is useful to distinguish between ICT services and ICT-enabled services, because the two categories of services may call for different policymaking and interventions. ICT services are composed of IT services such as programming, systems integration, application testing, IT infrastructure management and maintenance, IT consulting, software development and implementation services, data processing and database services, IT support services, data warehousing, content management and development, and certain communication services (mainly telecommunication and audiovisual services). ICT-enabled services can

be divided into three subcategories: front-office services (call centres and customer contact centres), back-office services (data entry, human resources, payroll, finance and accounting, procurement and transcription) and knowledge-processing outsourcing services (financial analysis, data mining, engineering, research and development, insurance claims processing, architectural design, remote education and publishing, medical diagnostics and journalism).

ICT-enabled services are becoming increasingly important in world trade. This is largely related to outsourcing (sourcing of services outside a firm) and offshoring (sourcing of services outside a national territory). ICT and ICT-enabled services offer growing business and trade opportunities. "Between 2000 and 2009, international trade in communication services almost tripled, and trade in computer and information services more than quadrupled. Communication services in 2009 accounted for 2.5 per cent of total services trade, while the share of computer and information services was about 5.6 per cent. The potential value of ICT-enabled services has been estimated at around \$475 billion (WTO, 2010)."⁸⁹

Another important feature of the ICT sector in recent years has been the development of innovative products that address countries' specific economic and social conditions. Mobile money, which refers to various financial services offered through mobile phones and other handheld mobile devices, is one such product. Mobile money services initially focused on sending money easily, cheaply, and securely but are rapidly evolving to services such as savings accounts and microloans in a number of countries. The market that mobile money represents worldwide is said to be one that should reach \$7.8 billion in direct and indirect revenues from serving 364 million clients by 2012.⁹⁰ This market has drawn much interest from many players, such as mobile network operators, banks, consumers, airtime sales agents, utility companies, donors and government officials, including regulators. But the incredible successes in some countries, including for the East African region in Kenya with M-Pesa, should not create the illusion that these are easy to replicate. The successful development of mobile money requires not only an enabling environment but also a large number of customers, who perform many transactions.⁹¹ Since not all countries will have markets with such characteristics, they should seek to adapt their services or develop new services adapted

to their needs and local conditions rather than merely seeking to replicate the successes of their neighbours.

4.1. Role and performance of the ICT services sector in Rwanda

4.1.1. Role of ICT in the economy

Until recently, the telecommunications subsector had four private companies on the market i.e. MTN Rwanda, Rwandatel, Airtel and Tigo. As can be seen in the table 19, Rwanda's telecommunications market consists mainly of mobile communication services, with fixed telephony representing only a small portion of the market. As of December 2012, MTN Rwanda controlled 60.1 per cent of the market base compared with Tigo's 32.5 per cent, Airtel's 6.8 per cent and Rwandatel's 0.55 per cent. The four operators had over 5.6 million mobile subscribers and some 44,000 fixed telephony subscribers. In comparison, the number of mobile subscribers had increased substantially in March 2013 by about 350,000 new subscriptions, with the majority of the increase coming from Airtel.

Rwandatel's mobile licence was revoked in April 2011;⁹² however, the company was allowed to maintain fixed telephony operations and Internet services using a different licence. The cancellation of the licence resulted from a failure to implement its licence requirements, which include coverage rollout obligations, quality of services and an investment plan. The telecommunication industry witnessed the appearance of a new entrant, Airtel, in 2011, with the lowest market share – 13 per cent – as of March 2013.

MTN Rwanda is owned by MTN Group Ltd (80 per cent) and Crystal Ventures Ltd (20 per cent). Tigo ownership is fully controlled by Millicom, a Luxembourg-based

company operating in 15 emerging market under the Tigo brand. Airtel is controlled by Bharti Airtel Limited, an Indian multinational telecommunications services company headquartered in New Dehli. Rwandatel is owned by the Libya Investment Authority Portfolio Network (80 per cent) and the Social Security Fund of Rwanda (20 per cent).

The broadband industry is also an oligopoly, with Rwandatel as the main player with a 41 per cent market share followed by Broadband Systems Corporation which accounts for 34 per cent of the market; MTN, 13 per cent; and Altech Stream, 9 per cent, while the six other Internet service providers share the remaining 3 per cent of the market. Concentration is within the top four firms; the others have little market power. The number of Internet service providers also increased from 9 in 2007 to 10 in 2013.⁹³

A broad range of ICT services, including networking, ICT capacity development, systems development and integration, user support and mobile applications development, are also expanding in Rwanda. Local and foreign business ventures are producing ICT goods and services, such as local assemblies of computers and software development. The development of ICT products in Rwanda can be a key factor in supporting the uptake of ICT by the population and local firms. For example, a phone assembly plant was set up in Rwanda by a Chinese firm named A-Link Technologies, a digital and technology subsidiary of ChinaLink in Beijing. The plant, located in the ICT Park in Kacyiru, assembled five different kinds of Rwandan-branded mobile phones, which were relatively cheap and assembled from imported materials. A-Link's mobile phones were the first to be programmed in the local Kinyarwanda language.⁹⁴

Table 19. Telecommunications industry market structure

Operators	Mobile subscribers March 2013	Market share (percentage)	Fixed telephony	Mobile subscribers December 2012	Fixed telephony	Total	Market share (percentage)
MTN Rwanda	3 452 182	57.16	10 495	3 432 755	12 630	3 445 385	60.075
Tigo	1 806 271	29.90	-	1 866 924	-	1 866 924	32.552
Airtel Rwanda Ltd	781 162	12.93	-	391 072	-	391 072	6.818
Rwandatel	-	0	31 828	-	31 733	31 733	0.553
Total subscribers	6 039 615	100	42 323	5 690 571	44 363	5 735 114	100

Source: Rwanda Utilities Regulatory Authority, Statistics and Tariff Information in Telecom Sector as of December 2012 and March 2013.

The development of local products can also promote the development of related ICT services. The Rwanda Computer Network for example has developed not only computer assembly and computer parts sales but also computer programmes, network installation and configuration, and various IT courses. The company has built facilities on a large company campus, with assembly, storage and training rooms for computer courses.⁹⁵ Similarly, K-lab, an innovation centre in Kigali, houses young entrepreneurs developing home-grown applications that meet local needs. The capacity of these firms to compete on the domestic and regional markets, however, still needs to be established.

More recently, mobile money services have been developed by local telecommunications service providers, with services ranging from sending money in Rwanda, to withdrawing cash from authorized telecommunication mobile money agents (1,387 agents as of November 2011, as shown in table 20), and buying airtime and cash power (electricity bills payment). There are currently only two telecommunication companies in Rwanda engaged in mobile money service provision, Tigo and MTN. In 2012 the number of subscribers in the country was reported to be 1,440,541, more than twice as many subscribers as in the previous year (639,673). A record number of transactions – 22.2 million – were conducted in the same period, amounting to \$263.4 million (table 20). The growth in the number of transactions with

respect to the previous year has been outstanding since in 2011, when only 697,497 transactions in mobile payments were carried out. Mobile banking also grew, although at a more moderate pace, with 1.5 million transactions conducted in 2012, three times more than in 2011.

4.1.2. Performance of the sector

The extension of telecommunications services coverage (table 21) is ensured through the obligation put to all telecommunication companies to cover all the districts in Kigali and at least 10 districts outside Kigali. This has facilitated the coverage or provision of telecommunication services to over 70 per cent of the country. This however is biased in favour of mobile telecommunication services, which have covered over 90 per cent of the population, with Internet services (for example, cyber cafes) concentrated in the urban areas.

The low figures for fixed telephony services reflect a world trend of slow or negative growth of landline subscriptions explained by developments in mobile telephony and the voice over Internet Protocol (VoIP). In more developed countries the trend has been to replace traditional voice services (delivered over the public switched telephone network) with VoIP or voice over broadband while in developing countries basic voice telephony is covered by mobile services.⁹⁶

Table 20. Mobile financial service development in 2012

Payment type	Agents/branches ^a	Subscribers	Number of transactions	Value (Million dollars)
Mobile payments	1 387	1 440 541	22 191 674	263.4
Mobile banking	215	297 537	1 458 063	6.4

Source: Calculations of the UNCTAD secretariat based on Monetary Policy and Financial Stability Statements, February 2012 and February 2013, National Bank of Rwanda.

^a Data for January–November 2011.

Table 21. Telecommunications service coverage

Company	Geographical coverage (Percentage)	Population coverage (Percentage)
MTN Rwanda	98.18	98.42
TIGO	79	99
Airtel Rwanda Ltd	6	45

Source: Rwanda Utilities Regulatory Authority, Statistics and Tariff Information in Telecom Sector as of March 2013.

The developments within the ICT sector have been financed by the Government of Rwanda, the private sector and international organizations such as the World Bank, which funded an eRwanda project as part of the National Information and Communication Infrastructure (NICI) II Plan (June 2006 to December 2010).⁹⁷ Achievements in the diffusion of ICTs have been spurred by a range of innovative pro-development applications such as e-banking, e-agriculture, e-education, e-government and e-trade from the ICT sector spread across the development agenda within the agriculture, health, manufacturing, infrastructure and education sectors.

Investment going to the ICT sector has been increasing in Rwanda as shown by the world development indicators (World Bank). During the 2000–2011 period, the sector received \$552.7 million investments, most of them since 2007. Efforts to revive the sector have

lifted off the sector's development indicators (figure 15). There has been a remarkable improvement in the use of telecommunications services, especially since 2007.

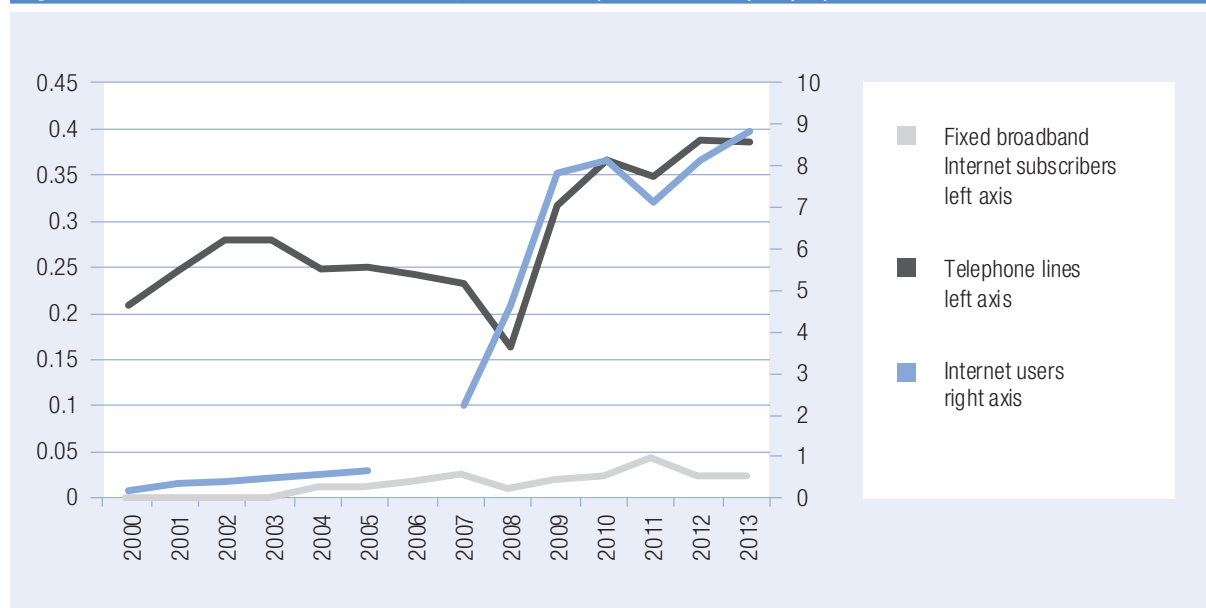
Rwanda's overall combined teledensity improved greatly from 1.1 connections per 100 people to 35.2 per 100 people in the last decade. As of March 2013, the general teledensity in the countries reaches 57.7 per cent.⁹⁸ These figures compare favourably with the experience of other African countries. The growth has been mainly driven and dominated by increased mobile phone penetration. This rose from 332,762 in 2006 to 3,548,761 subscriptions in 2010 and to 5,690,751 in December 2012. Landlines increased by more than 100 per cent during the same time frame, though usage was limited to about 0.35 per 100 inhabitants in 2011.

Box 4. Information and communications technology in public institutions

The use of computers has been fairly widespread across public institutions. In 2006, almost 57 per cent of public institutions used computers to support their activities and operations. In 2010, all public administration institutions used computers on a daily basis to support their activities. In addition, all public institutions surveyed in 2010 indicated that they had access to Internet, compared with 78 per cent in 2006.

Source: ICT Status Baseline Survey.

Figure 15. Various ICT indicators in Rwanda, 2012–2013b (Per hundred people)



Source: World Bank, *World Development Indicators* database.

The continuously falling prices of mobile phone devices, which cost as little as \$11.50 (RF 7,000), have been partly responsible for the high growth in mobile subscriptions. This is supported by a reduction in mobile usage charges, which have fallen as low as \$0.03 (RF 20) per minute. In general mobile phones have not only increased access of the population to basic voice communications, but has also provided access to non-voice applications, such as e-banking or e-commerce. A good example is the MTN mobile money service, which was launched in February 2010. Its aim is to help the population by bringing financial services closer to the people, especially in rural areas, where financial institutions are few or non-existent.

Internet usage surged during the past decade from 0.24 per cent of the population in 2001 to 7 per cent in 2011 (see figure 15). Rwanda's ICT sector has already surpassed other EAC countries in some ICT indicators. Rwanda has become the leading EAC country (table 22) regarding the number of Internet subscriptions per inhabitant. The number of households with Internet access was still only 1.8 per cent in 2010. The international Internet bandwidth dramatically improved from 156 megabits per second in 2007 to 2,500 in 2010. However, overall Internet penetration has remained low – 8.4 per cent in 2012. To address the accessibility issue across the country, all 30 districts of Rwanda have telecentres⁹⁹ installed with laptops for low-cost Internet connection¹⁰⁰ and

Table 22. Various ICT indicators in countries of the East African Community

	Year	Rwanda	Burundi	United Republic of Tanzania	Kenya	Uganda
<i>Internet</i>						
Fixed Internet subscriptions per 100 inhabitants	2009	1.43	0.06	1.09 ^a	0.08 ^a	0.09
Fixed broadband Internet subscriptions per 100 inhabitants	2010	0.025	0.002	0.007	0.011	0.059
Fixed broadband Internet connection charge (dollars)	2010	171	na	na	50	135
Fixed broadband Internet monthly subscriptions (dollars)	2010	85.7	na	21.3	37.9	13.7
Households with Internet access at home (percentage)	2010	0.13	na	0.74	4.04	0.37
Individuals using the Internet (percentage)	2010	7.7	2.1	11.0	21.0	12.5
<i>Telephone</i>						
Fixed telephone lines per 100 inhabitants	2010	0.37	0.39	0.39	1.14	0.98
Households with a mobile cellular telephone (percentage)	2008	13.1	na	28.1	na	16.4 ^b
Households with a fixed-line telephone (percentage)	2008	1.1	na	0.7	na	na
Population covered by a mobile cellular network (percentage)	2009	96	83	85	84.5	100 ^c
Mobile phone charges for three-minute local call (peak, dollars)	2009	0.45	0.58 ^b	0.59	0.31	0.50
<i>Other Indicators</i>						
Households with electricity (percentage)	2008	6	na	11.5	na	9.2
Households with television (percentage)	2009	3.3 ^c	na	9.9	na	6.4

Source: World Bank, *World Development Indicators* database.

^a 2010 figures.

^b 2006 figures.

^c 2008 figures.

Abbreviations : na – not available.

Table 23. ICT development and price indices, 2011 (Rank)

	Rwanda	Burundi	Tanzania	Kenya	Uganda
ICT Development Index	133	na	139	114	132
ICT Price Basket	154	na	149	133	134

Source: International Telecommunication Union, 2012, *Measuring the Information Society 2012*, Geneva.
Abbreviations: na – not available.

four ICT buses equipped with computers and Internet, targeting rural areas with limited access to telecasters.

Nevertheless, Rwanda's ICT sector is in the early stages of development and continues to face a number of challenges. Despite the fall in cost of broadband Internet services over the past few years, the services are relatively more expensive in Rwanda than in other EAC countries (table 22). Rwanda still lacks sufficient international bandwidth. As a landlocked country, it is very dependent on neighbouring countries for connectivity, which greatly increases connectivity costs.

The percentage of households with Internet access at home and the overall use of the Internet are still lagging behind Kenya, Uganda and the United Republic of Tanzania. Fixed telephone services are far from satisfactory as well. Only 13 per cent of the population has landlines. Mobile phone services have been growing rapidly, with mobile cellular networks covering 96 per cent of the population in 2009; costs of mobile phone services are lower than most other EAC countries.

In an attempt to reduce wholesale prices and determine charges used by operators to charge one another to interconnect with each other's network, an interconnection rate review was conducted by the Rwanda Utilities Regulatory Authority in 2011. After the review, the rate, which had been in place since 2006, was reduced from RF 40 to RF 28, and this was expected to fall to RF 26 in 2012. The overall impact was to reduce off-net call charges from RF 90 to RF 60. The challenge though is that one of the operators has refused to comply with the official charge of RF 28, and the Authority is in the process of ensuring compliance.

Energy access and high costs are a major impediment to Rwanda's ICT sector. Some 16.5 per cent of the population has access to electricity. Rwanda's electricity costs are approximately \$0.24 per kilowatt-

hour, which is at least double that of its neighbours. About 64 per cent of businesses surveyed in the 2008 Business Investment Climate Survey cited access and cost of electricity as major constraints.

The International Telecommunication Union measures the ICT development index of 152 countries and price index of 165 countries. The indices use a broad set of statistics to capture the current state of the ICT sector in the sample countries. The development index aims to indicate progress made in ICT infrastructure, use and skills. The price index, however, intends to monitor affordability of ICT services. In 2011, Rwanda ranked 133 and 154 in the development index and price index respectively (table 23). From 2008 to 2010, Rwanda's ICT development index ranking improved one step, and the ICT price basket fell by a modest 2.1 per cent. In contrast, ICT prices roughly halved within two years in Uganda and the United Republic of Tanzania.

4.2. Contribution of the sector to the national economy

The ICT sector is a major source of formal and informal employment creation in many countries. The sector is particularly attractive to countries with a large pool of unemployed youth, as employees tend to have an above-average level of education, and are generally younger than the employees in other sectors. Moreover, jobs in the ICT sector are often perceived to be attractive because of upward mobility, job security and the availability of training opportunities. In many developing countries, telecommunications services account for a large share of ICT sector value added. For most low-income countries, telecommunications services still offer the best employment opportunities within the ICT sector. This is the case for fixed telecommunications but also for the mobile sector, which has contributed both to economic growth and the creation of many new jobs across the value chain. With respect to the potential impacts on the poorer segments of the population, many of the new jobs in

the mobile sector in developing countries are informal, and the rate of indirect employment is many times higher than that of direct employment in the sector, including jobs for airtime sales by street-side and official vendors.¹⁰¹

The skills required to provide formal ICT services range from high school diplomas (for example, for call centres and routine business process outsourcing services) to specialized graduate degrees (for the highest level research and analysis required for knowledge processing outsourcing).¹⁰² When devising national policies for the ICT sector, including determining which specific products or services will be developed, it is important for policymakers to take into account the availability of skills domestically both in terms of skills level and number of skilled workers.

With regard to human capacity, Rwanda's ICT sector is still in an early stage of development. Its workforce totals some 1,713 labour units. About 23 per cent of the workforce has received a university education; 45 per cent, a secondary education; and 25 per cent, a primary education. About 7 per cent has no qualifications. Women account for 22 per cent of the ICT workforce, foreigners, 4 per cent (most have received a university education).¹⁰³ The skill sets qualification status in the Rwandan and non-Rwandan ICT sectors is illustrated in tables 24 and 25, respectively.

The challenge of inadequate or insufficient ICT skills has been persistent for the last decade at all levels

of skill sets – artisans, technicians and professionals. To this effect, broad academic programmes have been initiated by the Kigali Institute of Science and Technology to bridge the professional gaps.

The Institute offers several programmes aimed at the development of the ICT sector in the country, such as a Bachelor of Science in computer engineering and information technology, computer engineering, electronics and telecommunication engineering, and computer sciences. It also offers Master degrees in communications management, operational communications and information systems. The Institute houses an ICT service centre which, among other things, seeks to develop, test, prototype and incubate IT infrastructure for the country in areas such as research and development in application software, networking, database management and administration, Web, and multimedia applications. The Institute also has a regional ICT training and research centre, which conducts research in appropriate technologies for poverty alleviation, applies ICT for development in the EAC region, produces ICT professionals and keeps them up to date on the fast-paced world of ICT innovations.

The Work Force Development Authority has also started many ICT training programmes in the polytechnics and institutions of technical and vocational education and training. The challenge is that the trainees are either still within the educational system or have yet to join the workforce. Mismatched skills are a problem for some who manage to find employment.

Box 5. Matching available skills and the workforce to ICT sector development

Egypt can be cited as an example of a country that has successfully developed its ICT sector in recent years. In 2009, not only was the sector the industry with the highest growth rate in the country, the value added of the ICT sector reached \$5.6 billion in 2009, representing 3.8 per cent of GDP. The impact was also obvious in relation to employment, with approximately 182,000 people working in ICT and ICT-enabled services. The country's success in the sector is based on a number of assets, such as its geographic proximity to Europe, a relatively low cost of doing business, a supportive business environment and a young, well-trained, multilingual workforce. Figures indicate that over 300,000 graduates are produced each year in Egyptian universities, 80,000 of which have technical and scientific skills. However, the Egyptian Government has also devised a strategy aimed at developing the ICT-enabled services sector. It includes the following goals: designing a long-term strategy for offshoring and outsourcing in Egypt, promoting investments through FDI incentives, strengthening legislation and regulation pertaining to ICT-enabled services, improving infrastructure and fostering an entrepreneurial culture. Given its employment creation objective, an important focus of Egypt's ICT strategy has been its labour-intensive outsourcing services at the lower end of the value chain. Ultimately, however, the intention is for the country to move up the value chain to more profitable services.

Source: UNCTAD, 2011a, *Information Economy Report*, and UNCTAD, 2011b, *ICT Policy Review of Egypt*.

Table 24. Skill sets qualification status in the Rwandan ICT sector

Province	No qualifications	Primary school	Secondary school	University	Total
Kigali	34	162	545	275	1 016
Southern	26	58	62	28	174
Western	21	71	54	21	167
Northern	11	47	31	4	93
Eastern	31	82	57	18	188
Rwanda	123	420	749	346	1 638

Source: Ministry of Trade and Industry et al., *Establishment Census 2011*.

Table 25. Skill sets qualification status in the non-Rwandan ICT sector

Province	No qualifications	Primary school	Secondary school	University	Total
Kigali	1	2	13	54	70
Southern	0	0	1	1	2
Western	0	0	0	1	1
Northern	0	0	1	0	1
Eastern	0	1	0	0	1
Rwanda	1	3	15	56	75

Source: Ministry of Trade and Industry et al., *Establishment Census 2011*.

A recent initiative designed to tackle the ICT skill shortage in the country is the establishment of Carnegie Mellon University in Rwanda (CMU-R), which will deliver professional development courses targeting mid-career professionals and recent graduates with a strong background in technology and a Master of Science in information technology with a multidisciplinary curriculum. CMU-R will not only benefit Rwandan students and professionals but also those from EAC countries, as the Government of Rwanda has announced that they will also be eligible for scholarships.

The ICT sector has been dominated by large public corporations or transnational corporations. This was in large part due to the large investments required and that they could offer. However, there are also important roles for smaller businesses, and many new opportunities are now emerging for SMEs working in the ICT sector.¹⁰⁴

The main challenges facing the ICT sector in the EAC are related to the following factors:

- (a) Business environment;
- (b) Levels of business skills among entrepreneurs;

- (c) Access to finance with respect to three types of financing gaps: seed money, working capital and capital expenditure;
- (d) Lack of a connected entrepreneurial network.¹⁰⁵

As stated earlier, Rwanda fares well compared with the other countries of the region with respect to factor (a) above, while the other three factors would merit further attention from policymakers.

By their very nature, ICTs are cross-cutting and therefore, in addition to being an economic activity in their own right and contributing to wealth creation and employment, they affect many other sectors of the economy, including key sectors involved in poverty reduction and achievement of MDGs. ICTs are having an impact on all areas of a person's life (for example, health and education), and of society (for example, general economic performance and governance) and on the more ordinary aspects of life such as entertainment. Given the important linkages between sectors, government can have the policy objective of developing ICTs as an economic activity with high growth potential, as well as the dissemination, propagation and accessibility of ICTs as part of their development strategy.

In particular, the linkages between the ICT sector and the tourism sector can be strong, as observed previously. In all regions, including in Africa, the tourism and handicrafts industries routinely use ICTs to deliver product information directly to their target consumers. Tourist lodges and hotels, but also governments through national tourism websites, are advertising their unique products and engaging directly in reservations or sales of tourism products to consumers. As the Rwandan economy and economic agents further develop and become more and more competitive, the use of ICTs will become an increasingly important tool enabling them to make their products and services known to a wider audience and to access global markets.

The Government has from the start put a strong emphasis in its development plans on the diffusion of ICT across the economy. It has been successful in promoting key national policy objectives both of a commercial and non-commercial nature by improving the internal efficiency of firms and Government entities through ICT uptake. Rwanda is thus regarded as an example to be followed by countries in the region and on the continent.

Most Government institutions have websites with information targeting the general public. Some offer online services. For example, the Immigration and Emigration Directorate General allows visa applications to be submitted via the Internet, the Rwanda Revenue Authority accepts online tax declarations and the National Electoral Commission is open for online enquiries about the electoral list. The private sector has also begun providing online services. Commercial banks offer online SMS banking, mobile banking and web-based services; a few companies sell services online such as ticketing, airtime, cash power, airline tickets and hotel reservations.¹⁰⁶

As explained below, it would be important for Rwanda to review its ICT priorities and the extent to which its ICT plans aim to capitalize on new opportunities to export a wider range of ICT services, in addition to promoting the broader role of ICTs in the economy through the diffusion and uptake of ICT goods and services by individuals, firms and Government entities.

Box 6. Using ICT for development in health and agriculture

ICT has been integrated into Rwanda's health-care management system. Among the many initiatives put in place are the following: an open-source medical records system – OpenMRS – which tracks patient-level data; the TracNET47 and Trac PLUS systems, which help monitor infectious diseases such as HIV/AIDS, tuberculosis and malaria; CAMERWA, a drug and medical supply management system; telemedicine delivering health care services, information and education to remote areas; health management information systems that integrate data collection processing, reporting and the provision of information for decision-making; and finally, health sector e-learning for nurses. As a result, ICT accessibility has been increased in the health sector, and health benefits have been promoted.

In the agricultural sector, the agricultural management information system was adopted in 2010. The system compiles data relating to the prices of agricultural products from various markets, informing farmers about current international prices for their products so as to reduce exploitation by the middlemen by improving information asymmetries between the two parties. Farmers, traders and consumers receive market price information via text messaging or interactive voicemail for those who cannot read or write. The service helps people follow price trends for various commodities and enables them to get in touch with large-scale traders in local and international markets.

Source: Electronic University of Leipzig Papers on Africa, 2011, *Modernizing Rwanda: Information and communication technologies as driver for economic growth?*

4.3. Reforms in the ICT services sector and services trade

Governments have an important role to play in facilitating the expansion of the ICT sector by creating an enabling framework for its development. Among the policy measures that the Government can consider are privatization and liberalization, regulation of the ICT sector, policies to enhance trust in the use of ICT services, provision of training in ICT skills, incubation of ICT enterprises (for example by setting up technology parks), and public procurement.

The Government of Rwanda has introduced specific policies and measures with a view to promoting the ICT sector. The liberalization of the market was a most significant step, whereby privatization and increased competition occurred in parallel with significant upgrading of regulatory frameworks. As in many countries, Rwanda initially provided communication services (postal and telecommunications) through a common entity, the *Poste, Téléphone et Télécommunications* (PTT). Rwandatel was founded in 1993 and became Rwandatel S.A. in 1995 when the postal and telecommunications services were officially separated. Rwandatel's performance, as measured inter alia by its market penetration, was low before the privatization process was launched in 1996, through Law No. 2 on Privatization and Public Investment and a presidential decree. The company was privatized in June 2005, when it was licensed to provide fixed, mobile and Internet services. The company passed through several changes of ownership, with the Government at one point taking back ownership after the company failed to honour its engagements. In the meantime, the first mobile operator, MTN Rwandacell, had been launched in 1998. In 2004, the Government also sold its shares of MTN Rwandacell to promote competition in the sector. A third mobile licence was issued in 2008 to an international operator (Millicom/Tigo).¹⁰⁷

The liberalization of the telecommunications market was successful in promoting new market entrants and promoting competition, as there was increased participation of different companies in the market, in all segments (fixed telephony, mobile telephony, Internet service provision and television), with most progress in the mobile and Internet services segments. Growing competition, coupled with increased investment in network infrastructure, has had a positive impact by lowering call charges. Heightened competition has

also created awareness about consumer protection. The regulator has thus received complaints against existing operators about billing, services interruption, poor customer services and equipment damage.

The Government, the private sector and development partners have rolled out major investments in ICT infrastructure, which include the following:

- A national fibre-optic backbone network spanning about 3,000 kilometres has been laid throughout the country, connecting all districts, nine main border posts and several other public and private institutions such as schools and health centres. This includes the connection to the main route of Gatuna–Kigali and Kigali–Rusumo, allowing international connectivity to the submarine cable with a view to acquiring affordable and reliable connectivity. A network operations centre has been built and is operational; some 224 Government institutions have joined the national backbone network;
- The Kigali metropolitan network project has been completed, and about 115 Government institutions are already connected with fibre-optic cable. The project aims to provide broadband connectivity to all Government institutions in Kigali City, including the commercial banks in Kigali, and further link them to the national backbone network for interconnection with all the districts;
- The National Data Centre project provides hosting and colocation services to Government and the private sector;
- The Communication Navigations and Surveillance/ Air Traffic Management project, whose objective is to manage air space safety in the region, has been deployed;
- The local area network in 28 districts and all ministries of the Government of Rwanda have been standardized to facilitate the deployment of e-government applications and ensure enhancement of ICT infrastructure;
- In a bid to automate government processes and improve public service delivery, the e-government application has been deployed in central and local government institutions, and 37 e-forms for the migration office have been developed;
- Nine video conferencing facilities and 29 telepresence units¹⁰⁸ have been deployed in Government institutions;

- 124 websites have been developed and have migrated to TYPO3, a content management system;
- IT equipment has been provided for 30 telecentres, which have been converted to business development service centres;
- Four state-of-the-art mobile ICT buses offering training services have been deployed, serving more than 3,586 people in rural areas and a number of SMEs. The buses have helped the locals to easily, conveniently and affordably access ICT facilities;
- Several applications have been developed: a tourism online reservation system, a mortgage registration system, a labour market information system, online trade information portals, an online tax calculator, a land administration and management information system, an online business registration system, an agricultural management information system, public information kiosks, the electronic single window; an agricultural market information system (eSoko) and a financial management information system (SMART-FMIS).

The Government's investment attraction strategy can be considered successful. The private sector responded positively to market liberalization by investing considerable amounts in network infrastructure development, including fibre-optic cables. Nonetheless, the privatization process has presented some challenges and revealed some shortcomings. As stated earlier, the Government in 2007 took back ownership of Rwandatel, when the latter failed to meet its contractual obligations in terms of expansion, quality and reliable services provision and nationwide outreach. After that, the Government re-nationalized the operator and swiftly proceeded with its re-privatization plans with the sale of an 80 per cent stake to Libya-based Green Communications.

Universal access is promoted in Rwanda by Presidential Order 05/01 of 13 April 2004, which established the Universal Access Fund to speed up the use of ICT in the country. It is funded by contributions of 2 per cent of the turnover of licensed operators in the country. The Regulatory Board manages the Fund, which provides partial finance for the extension of universal access and the spread and take-up of ICT in designated areas of the country. The Board has spent RF 837,720,088, or \$1.4 million to facilitate the provision of accessible Internet connections in Government institutions,

police stations, military camps, schools, universities and hospitals.¹⁰⁹

Based on countries' experiences in developing their ICT markets, the roll-out of infrastructure and uptake of ICT use among enterprises in countries with market entry restrictions have typically been more limited than elsewhere. "A more open market for ICT services allows private enterprises to enter, stimulates growth and investment, increases the availability of infrastructure and affordable services, and fosters innovation. At the same time, adequate regulation is required in order to reap full benefits from opening up.

Despite the rapid growth of the ICT sector in the past few decades, various constraints to its expansion remain. A number of countries have not liberalized the ICT sector fully, and even in those that have, barriers to entry may remain in terms of high licensing costs or significant market power over key facilities that are hard to replicate. The role of Governments includes minimizing direct and indirect barriers to market entry, as well as providing adequate regulation of existing players. Limits on market entry – through the de facto or de jure monopolization of specific market segments, high administrative prices for licences or spectrum, complex and cumbersome licensing processes and a lack of effective regulation for dealing with companies that have significant market power constrain the effectiveness of the market."¹¹⁰

Given the size of the Rwandan market, the number of operators that can operate in a sustainable manner may be relatively limited. However, it would be useful for the Government of Rwanda to undertake a careful review of the domestic situation to determine whether further measures can be carried out to facilitate the functioning of the telecommunications subsector, including measures that reduce the complexity of licensing processes and the cost of licences, as well as measures to deal with possible anticompetitive practices by firms with market power.

4.4. Inventory of policy measures, legislation, regulation and institutions

4.4.1. Policies

The first attempts to promote the use of computers in public offices were recorded in 1985. By 1990,

the Ministry of Planning had adopted a systematic approach to IT development. A national IT policy was adopted in 1992, followed in 1993 by a master plan on IT. Full implementation of the plan and policy was not possible until 1998, when it was found that they were already obsolete.¹¹¹ Today, the policies affecting the ICT sector in Rwanda are the Policy on Science, Technology and Innovation (2006), the NICI Plans and the Rwanda National Export Strategy (2011).

The overriding objectives of the Policy on Science, Technology and Innovation are as follows:

- To support the growth of the Rwandan economy, in particular to support Rwanda Vision 2020 targets for a steady growth in GDP – 8 per cent per year from 2010 to 2020;
- To advance the quality of life for all the citizens of Rwanda, specifically to support the Rwanda Vision 2020 target of GDP per inhabitant of \$900 by 2020;
- To improve skills and knowledge among the population, especially to create a knowledge-based economy;
- To maintain viability and strategically choose to enhance opportunities for growth in rural areas;
- To integrate technical education with commerce, industry and the private sector in general.

The Government aims to achieve these objectives and the ICT goal of Rwanda Vision 2020 by implementing the NICI Plans.

The NICI Plans are made up of programmes and projects to incorporate ICT at every level and in every sector of society based on the following 10 pillars:

- Education;
- Human capacity development;
- Infrastructure equipment and content;
- Economic development;
- Social development;
- E-government and e-governance;
- Private sector development;
- Rural and community access;
- Legal, regulatory and institutional provisions and standards;
- National security.

The plans are to be implemented in four five-year periods: phase 1, 2001–2005; phase 2, 2006–2010; phase 3, 2011–2015 and phase 4, 2016–2020. The NICI Plans emphasize the exploitation and utilization of ICT products and services to support the delivery of Government services and the activities of various sectors of the economy. The Government did not prioritize between the sectors because of the low levels of ICT application in all the sectors.

The first two of these plans, NICI I (2001–2005) and NICI II (2006–2010) have been completed, and NICI III (2011–2015) is under way. Emphasis in NICI I was placed on creating a conducive environment by establishing an institutional framework for ICT policy, putting in place the necessary legal and regulatory mechanisms, liberalizing and reducing entry barriers to the telecommunications market and putting in place an effective implementation and coordination mechanism. NICI II focused on providing a world-class communications infrastructure as a backbone for current and future communications requirements. Several projects ranging from increased nationwide coverage of telecommunications networks, a versatile and high-capacity national fibre-optic backbone network, a national data centre and a centralized monitoring and operations centre were among the projects accomplished. NICI III will build on the two previous phases to propel Rwanda to the fourth and final phase of the NICI process. In NICI IV, emphasis will be placed on service delivery across five focus areas identified to fuel continued growth. These focus areas include private sector development, community development, e-government, cyber security and skills development. The NICI III Plan has identified a number of projects and measures focusing on these five areas. It is expected that NICI III will seek to maximize the return on major Government investments with a focus on the delivery of efficient ICT-supported services.

The trade policy objectives of Rwanda for the ICT sector are described in the Rwanda National Export Strategy. The Strategy identifies business process outsourcing among the nascent, non-traditional export sectors to be prioritized. The document states that it has a limited presence in East Africa but that its growth rate will likely surpass the global growth rate. In addition, it states that Rwanda has a solid foundation from which to expand, based on existing firms active in the provision of IT and business process outsourcing services (back office services in finance and administration) to various local

and regional industries. Moreover, business process outsourcing is considered crucial in terms of providing employment, including for women. Finally, the National Export Strategy specifically identifies cloud computing as an area of export interest for Rwanda, to be fully exploited once the new national data centre and fibre-optic cable are in place.

The challenges identified by the National Export Strategy are well known: a lack of strong domestic ICT and business skills base, insufficient language skills in English and French of many secondary and tertiary graduates to compete in the global business process outsourcing market, infrastructure deficiencies and related costs in electricity and telecommunications, lack of access to working capital and funding for Rwanda service providers, and limited ability of start-up firms to bid for Government contracts.¹¹²

4.4.2. Legislation and regulation

The main laws relating to the ICT sector are the following:

- Law No. 44/2001 of 30 November 2001 governing telecommunications;
- Law No. 18/2010 of 12 May 2010 relating to electronic messages, signatures and transactions;
- A draft bill on ICT.

Law No. 44/2001 regulates the ICT sector in Rwanda. It provides for regulation of the telecommunications networks and telecommunications services in Rwanda by the Regulatory Board. It empowers the Board to ensure that telecommunication services are available throughout the country and safeguard the interests of users and potential users.

The Law also states that the regulator will maintain and promote effective competition in the provision of telecommunications services throughout the country. The Regulator is responsible for issuing licences to relevant applicants based on specific conditions. The licences are to be granted in a transparent and objective manner, without discrimination. Licences may however be refused for a number of reasons:

- To protect national integrity and/or national security;
- For reasons of limitations on the frequency spectrum;

- If competition in the sector can be adversely affected;
- If the applicant has substantially failed to meet obligations.

The Law also provides that subject to the Ministerial order, based on the advice of the Regulatory Board, there are circumstances in which licences may not be required.

Law No. 18/2010 addresses issues relating to legal requirements and recognition for electronic messages, liability of communication network service providers, licensed certification authority and intermediaries, communication of electronic messages, electronic signatures, secure electronic messages and signatures, effect of digital signatures, consumer protection, computer misuse and cybercrime, regulation of certification authorities, electronic transactions and government use of electronic messages and electronic signatures.

Rwanda has submitted a draft ICT bill to Parliament for approval. The aim of the draft bill is to establish a harmonized framework for ICT policy and regulation. Specific objectives include the following:

- Promoting national ICT policy objectives for the ICT industry;
- Setting up a licensing and regulatory framework in support of national policy objectives for the ICT industry, taking into account the convergence of technologies;
- Establishing and strengthening related institutions with powers and procedures for the administration of this law.

The draft bill identifies and establishes the responsibilities of policymakers and the regulatory entities for each of the ICT subsectors, including universal access and electronic communication, and sets out the central principles of ICT policy and regulation. Its objectives are as follows:

- To establish Rwanda as a major global centre and hub for communications and multimedia information and content services;
- To promote a civil society where information-based services will provide the basis for continuing the enhancement of quality of both work and life;

- To grow and nurture local information resources and cultural representation that facilitate the national identity and global diversity;
- To regulate the sectors for the long-term benefits of the consumers and investors;
- To promote a high level of consumer awareness and confidence in service delivery from the industry;
- To ensure an equitable provision of affordable infrastructure services ;
- To create a conducive business environment for robust ICT applications;
- To facilitate the efficient allocation of resources such as skilled labour, capital, knowledge and national assets;
- To promote the development of capabilities and skills within Rwanda's convergence industries;
- To ensure information security, network reliability and integrity.

The draft ICT bill represents a comprehensive overhaul of the legal framework for the ICT sector in Rwanda. It provides a framework for both the technical and economic regulation of the sector and includes provisions for ensuring effective competition regulation and consumer protection, universal access, data security and electronic communications in the sector. It also provides for a new licensing framework that creates new business opportunities, which will allow operators to provide all types of services with a standard licence. The law was drafted in a spirit of harmonization with ICT laws and regulations in EAC and COMESA, while complying with guidelines and recommendations established by the International Telecommunication Union.¹¹³

4.4.3. Legislative gaps

It would be important for the Government of Rwanda to determine whether its regulatory framework adequately addresses the current situation in its ICT sector. For example, mobile money projects have recently been developed but if they need to be made sustainable it will be important that adequate regulation be put in place. Such regulation should enable the development of mobile money, within parameters of fair competition for established service suppliers such as banks but without creating overly burdensome

requirements for providers. Mobile money providers generally emphasize the need for regulations that are incremental and proportional. Banks generally contend that mobile network operators operating outside the regulations that apply to banks gives them a competitive advantage. Regulators in the countries concerned are looking to create an environment that allows for the development of mobile money as a means to promote financial inclusion and support national socioeconomic development. They may however at times lack experience in the convergence of financial and telecommunications regulatory regimes as well as financial and technical capacity. To strike a balance, financial inclusion and consumer protection should be promoted by the adequate regulation of mobile money.¹¹⁴

4.4.4. Institutional framework

The key public institutions in the telecommunications sector in Rwanda are the Ministry of Youth and ICT,¹¹⁵ the Rwanda Utilities Regulatory Authority, the regulator, and the Rwanda Development Board. A national ICT steering committee was also set up in the context of the NICI Plans.

As the Government ministry in charge of ICT, the Ministry of Youth and ICT has inherited the following roles and responsibilities from the Ministry of ICT:

- Develop and disseminate ICT policies, strategies, programmes and mobilize resources for sector programmes;
- Oversee and coordinate the implementation of national ICT programmes as well as institutions and agencies under supervision;
- Monitor and evaluate the implementation of sector and subsector policies, strategies and programmes;
- Promote the integration, adoption and use of ICT in all areas of the society and economy;
- Coordinate with international agencies and institutions working in the sector of ICT;
- Promote institutional and human resources capacities and professional skills development in the sector.

As a multi-sector regulator, the Rwanda Utilities Regulatory Authority is responsible for the regulation of energy, transport, communications, water and waste

management utilities. The Authority was established by Law No 39/2001 as an independent national authority to administer different sectors offering public services, promote transparency, protect free competition, provide inclusive service and protect users' rights. In accordance with the Telecommunication Regulation Law, the Authority has the mandate to regulate the telecommunications sector, enhance and deploy services in compliance with the most advanced technology to meet user needs at the most suitable prices.¹¹⁶

RDB-ICT is the unit within the Rwanda Development Board that focuses on one of the five economic clusters covered by the institution: ICT. The unit takes over the mandate and functions of the previous entity known as the Rwanda Information Technology Authority and is entrusted with the implementation of the NICI Plans, monitoring and evaluating the implementation of ICT programmes across Government ministries, departments and agencies, increasing ICT awareness and providing advisory and support services to ICT programmes.¹¹⁷

The national ICT steering committee is responsible for the implementation of the NICI Plans and ensuring increased accountability and effective implementation. It is chaired by the minister in charge of youth and ICT. The Committee also comprises eminent Rwandan and international experts who offer strategic direction and guidance to the process as well as other ICT initiatives of the Government of Rwanda with a view to expediting decision-making and fostering and increasing participation of all stakeholders. According to NICI III, the Committee will report to the Office of the President and collaborate with the joint sector working group to review progress of NICI III and mobilize resources. The Ministry of Youth and ICT will form technical, policy and strategy committees comprised of national and international experts who will provide advice on key national ICT strategic initiatives, and more importantly, the long-term strategic alignment of ICT to National goals. The current responsibilities of the Committee are as follows:

- To conduct a biannual review of the NICI III implementation progress;
- To ensure that improvements are incorporated in and aligned with NICI III objectives;
- To mobilize resources;
- To promote NICI III advocacy.

Rwanda is a member of COMESA and the Association of Regulators of Information and Communication for Eastern and Southern Africa.¹¹⁸ As such, Rwanda benefits from the COMESA ICT policy that was developed to serve as a policy model for the harmonious development and application of ICTs across member States. The strategic importance of this sector has also been identified at the regional level, where a process of regulatory and technology convergence is gradually taking place, and a series of strategies and plans are under way to promote ICT in the region. Rwanda is also a member of the East African Regulatory, Postal and Telecommunications Organization, now called the East African Communications Organization.

4.5. Trade liberalization commitments affecting the sector

During the Uruguay Round negotiations relating to services, Rwanda did not opt to liberalize its telecommunications, audiovisual or computer and related services. This implies that while the country has undertaken a number of policy options to privatize and liberalize these sectors it has not taken an internationally legally binding commitment not to reverse policies in these areas in WTO.

As an LDC, Rwanda is currently exempted from the obligation to offer further liberalization commitments in the current round of WTO services negotiations. However, for a country committed to developing its ICT and ICT-enabled services sectors, and given the benefits that liberalization has brought to date, for example in the telecommunications sector, it is unlikely that there will be any incentives to reverse the trend in the liberalization of certain ICT subsectors. In this context, the Government of Rwanda could consider to what extent commitments could be offered at the international level, in all or some of the sectors that have tested liberalization for a number of years now.

As an LDC, Rwanda does, however, benefit from the adoption of a waiver enabling WTO members to offer preferential treatment to LDC members, including in terms of market access in modes and sectors of export interest to them. It may be useful for Rwanda to consider whether any of the WTO Members are particularly important target markets for its exports of ICT and ICT-enabled services so as to present them with a request for preferential market

access.¹¹⁹ In particular this could be the case of the temporary movement of natural persons, including in the categories of independent professionals who provide services on a contractual basis or graduate trainees who are transferred for career development purposes or for training in business methods. Through the temporary movement of such persons to supply services in markets where ICT and ICT-enabled services are possibly more developed than in Rwanda, the country could gain from the experience and skills, including management skills that they would bring back to Rwanda.

At the regional level Rwanda has undertaken to liberalize the main ICT sectors, that is to say, computer and related services: consultancy services related to the installation of computer hardware, software implementation services, data-processing services, database services, all telecommunications services and all audiovisual services. A number of other services relevant to the provision of ICT-enabled services were also liberalized, including legal services; accounting, auditing and bookkeeping services; research and development services; management consulting services; and maintenance and repair of equipment. This implies that Rwanda has committed to allowing EAC services and services suppliers to enter its market. Rwanda's commitments are very liberal across all sectors, thereby allowing services to be imported into the country from EAC partners either across the border (for example, over the Internet) or following the establishment of commercial presence by EAC firms. These commitments could contribute to increased investments from the region into Rwanda.

In communication services, other EAC countries – with the exception of Burundi – have also made commitments in a large number of subsectors, which should provide preferential export opportunities for Rwandan services and services suppliers. With regard to the other relevant services sectors, a careful review of the schedules of commitments of EAC partners would be required. However, Burundi in 2010 liberalized all

four subsectors¹²⁰ in the area of computer and related services, and Kenya liberalized consultancy services related to the installation of computer hardware. Uganda pledged to liberalize all four subsectors by 2015, and the United Republic of Tanzania has taken on some liberalization commitments on communication services. These commitments offer a number of export opportunities but Rwanda can take advantage of future EAC services liberalization negotiating rounds to pursue further market access in all areas of export interest.

When considering the training requirements that may be needed to ensure that an adequate workforce is available for the development of the ICT and ICT-enabled sectors, it is noteworthy that Rwanda has liberalized its higher education sector at the regional level. This would allow regional services suppliers in a position to provide services relevant to the development of ICT skills or skills useful for ICT-enabled services to access Rwanda's market, thereby helping to close the skills gap.

4.6. Analysis of strengths, weaknesses, opportunities and threats

An analysis of strengths, weaknesses, opportunities and threats analysis of the sector clearly shows the progress that has been made and reveals some of the strengths on which these achievements have been based. A number of weaknesses are also identified so as to point to areas where further progress could be sought. For example, while the Government's commitment to the development of the sector is a clear strength, as can be seen by its investments in the sector and the NICI Plans, it is clear that more private sector involvement is needed to ensure that the ICT market is properly developed. In addition, the issues of limited capacity and skills continue to be constraints in the sector. Regional competition is also a major challenge to Rwanda's goal of becoming a regional ICT hub.

Sectoral SWOT diagram

Strengths

- High level of political will to take ICT development forward as a priority
- Existing national ICT policy frameworks and plans
- Multilingual population (English, French, Swahili, Kinyrwanda)
- Profitability of sector
- Infrastructure is relatively easy to develop due to size of country
- Market is relatively untapped

Weaknesses

- Lack of skilled workforce (developers related to certain technologies)
- High costs compared with other EAC partners (e.g. call centre, human resources training and mobile services)
- Limited competition in certain segments of the sector (oligopolic market structures)
- Lack of cybercrime law
- Perceived weak protection and enforcement of intellectual property
- Existing microwave network requires major upgrading
- Shortage of electricity

Opportunities

- ICT sector is growing rapidly in other segments of the economy, creating a demand for ICT services
- Import substitution through local assembly creates a market for a wide range of components and accessories and offers new business opportunities such as partnerships with global vendors
- Partnership with leading IT and software and network companies providing back-up and reputation
- Regional interconnectivity

Threats

- Need to scale up investment for human resources and other costs.
- Strong competition (all EAC partners are seeking to become the ICT regional hub)

Required spill-ins from other sectors: education, energy (electricity)

Anticipated spillovers into other sectors: health, education, government services, agriculture, tourism, transport and financial services

Key stakeholders: Rwanda Utilities Regulatory Authority (multisector regulator), RDB-ICT, Ministry of Youth and ICT, Ministry of Science, Technology and Scientific Research, consumers associations, private sector

SERVICES POLICY REVIEW



5

RECOMMENDATIONS

5. RECOMMENDATIONS

5.1. Cross-sectoral recommendations

Development of national services sector policy and trade-in-services strategy

While Rwanda has clearly done well in articulating sector-specific strategies for the development of the services sector, there is still a need for a holistic national services policy or trade-in-services strategy that will focus on the coordination, improvement and implementation of existing strategies, as well as boosting services exports. Such a policy or strategy would identify overall services sector goals and measures, which will cut across all services sectors in boosting services exports. This would complement the existing sector strategies to ensure the overall development of services exports.

Developing culture of quality in services production and provision

Services sector development in Rwanda should emphasize the development of quality in the different sectors. The development of a culture of quality in the services sector would enable Rwandan service firms to be competitive enough to deal with the competition from the region. The objective therefore, is to develop competitive, efficient, cost-effective and professional service firms. This would entail the development of necessary skills at all levels for all Rwandans who will be engaged in the services sector. However, lack of human capacity is a major challenge in the services sector. Rwanda needs to produce able technicians and craftsmen for industry and services. There is a need to increase opportunities for training in various areas with certifications to identify the levels of competence of service professionals. The development of these skills is also key to ensuring that the growth in the services sector in Rwanda is reflected in the growth of formal employment in those sectors.

The Government of Rwanda should support programmes ensuring that quality standards are adopted and maintained in the services subsectors. This will be crucial in establishing a competitive edge in services in the region, as regional competition is seen as a threat to the country's international competition.

Appropriate sequencing of sector reforms

It is necessary to appropriately sequence the services sectors reforms and regulatory changes. For example, if State monopolies are privatized without the creation of a competitive environment and an efficient regulatory framework, it may lead to private monopolies and a mere transfer of monopoly rents to private owners, possibly foreigners. Similarly, if the increased entry of foreign firms into the financial sector is not accompanied by adequate supervision and full competition, this may lead to a market concentration in few firms and a deterioration in credit lending and investment decisions. Indeed, if policies to ensure universal access to financial services are not put in place, liberalization may not improve the access of SMEs and the poor to essential financial services. Managing reforms of services markets, therefore, requires integrating trade liberalization policies with a careful combination of competition policies and regulatory reforms.

There are strong economic and regulatory linkages between the liberalization of trade in services and competition policy. It is important that the Government ensure that an effective competition policy, laws and institutional framework are in place for the proper development of the services sector. Rwanda has adopted a competition policy. In addition, Parliament is currently finalizing the adoption of a competition law that will establish a competition authority and rules for regulating competition. In parallel, an EAC competition law serves to regulate anticompetitive activities across the region. It is important that Rwanda implement these competition laws as a way of ensuring the effective functioning of these markets. If sector regulators are also regulating competition, it is important that they also cooperate with national and regional competition authorities. Therefore, Rwanda needs to prepare its regulatory and supervisory structure before liberalizing its trade in services, for example prudential regulation of financial services, pro-competitive regulation of telecommunications and so forth. In the context of EAC Common Market liberalization, Rwanda also needs to adopt appropriate regulatory frameworks in all sectors that have been committed for liberalization.

Initiating reforms of the services sector through regional and international engagement

Rwanda should use international agreements to enhance the credibility of potential domestic reform and strengthen domestic regulation. However, it would need cooperation from partners to provide support at four levels: devising sound policy, strengthening the regulatory institutions, enhancing participation in the development of international standards and ensuring access to essential services in the poorest areas. Rwanda should therefore seek technical assistance and aid for trade in these areas.

There is also a need for deeper integration that creates a single market in one or more sectors through regulatory harmonization and infrastructural coordination. This particularly concerns EAC and COMESA. There is therefore a need for Rwanda to push for integration and harmonization in the regional context, particularly the full implementation of the EAC Common Market.

In the light of Rwanda's small domestic market and its land-linked nature, it is essential that its services sector strategy be regional in outlook. Rwanda must look to becoming the regional hub for certain key services. Its strategy to becoming a regional hub can be reduced to three basic steps:

- To review regulation in specific services sectors with a view to developing a framework to develop Rwanda as the regional hub for the specific sectors;
- To conclude arrangements with its neighbours, which would facilitate the entry of its service firms into neighbouring markets, and develop strategies that would actively promote such entry;
- To target investments to strengthen Rwanda's service industries. Its service providers are not competitive enough; Rwanda should seek out and invite world-class companies and firms into priority services sectors. Rwanda should be sold as the perfect entry point into the East and Central African market.

With regard to the negotiation of these international agreements, there is a need to do the following:

- Ensure ongoing exchange of information and coordination of national positions with relevant

Government ministries and agencies to establish a coherent and uniform negotiating position of the country;

- Ensure continuing dialogue with private sector organizations, chambers of commerce, labour unions, academic and non-governmental organizations to obtain sector specific information on their activities and be aware of offensive and defensive trading interests of services sectors in the country;
- Follow closely the services-related activities in WTO, particularly in view of a possible re-launch of the Doha negotiations, to ensure coherence and WTO compatibility of EPA obligations and commitments; develop a national strategy regarding the relationship between multilateral (GATS) and regional (EPA and other regional trade agreements) services liberalization, preventing conflicting regional obligations and ensuring WTO compatibility.

Building effective regulatory institutions

Trade in services, far more than trade in goods, is affected by a variety of domestic regulations: qualification and licensing requirements and procedures in professional services, prudential requirements and rules on consumer protection in financial services, pro-competitive regulation in telecommunications services, universal access requirements in health and education services, and safety regulations in transportation services. The benefits of trade and investment liberalization – whether multilateral, regional or bilateral – may be realized only if the regulatory environment in the host country is appropriate. There is thus a need to achieve the following objectives:

- Establish convergence with other strategies and economic development policies and plans to ensure appropriate services sector reform. In particular, Rwanda's policies relating to trade, competition, industry, export strategy, investment promotion and SMEs contribute to creating an environment where the services sector strategies will be implemented. It is therefore necessary to ensure that the policies and strategies are complementary;
- Establish a strong, comprehensive, effective and transparent legal and regulatory regime for trade in services with consistent implementation, in

accordance with international trade rules and standards, which ensures that domestic and foreign services suppliers work towards achieving national policy objectives;

- Ensure full and permanent cooperation from Government ministries and authorities involved in horizontal issues of services liberalization, in particular those responsible for the commercial presence of foreign service providers in the country (Mode 3), transborder movements of foreign service suppliers (Mode 4), immigration, the labour market, monetary policy (currency controls, liberalization of payments and transfers) and the like;
- Ensure full cooperation from Government ministries and agencies involved in the policies concerning the services sectors and their regulation (including transport, telecommunication, financial services – banking and insurance – tourism, professional services and other sectors under negotiation);
- Incorporate the services sector into the national strategy for overall economic development and employment, enhancing the competitiveness of industries and agriculture, attracting FDI, and promoting exports. It is necessary to integrate the services sector strategy into EDPRS.

Allocating incentives to attract investors and promoting competitiveness of the Rwanda services sector

There is a need for the Government to put in place targeted incentives to ensure growth in the services sectors. There is also a need to ensure that the necessary support infrastructure is set up to ensure that the services industry in Rwanda is competitive, particularly when compared with others in the East African region. In this regard the Government should, for instance, introduce policies that encourage or require financial institutions to dedicate a minimum share of their credits to be used for financing exports of SMEs.

Ensuring the even distribution of the economic benefits from the development of the services sector

An analysis of the tourism sector reveals that tourism establishments are not concentrated in Kigali but are spread out throughout the country. This is an important

feature of the sector in terms of potential economic impact. This is not the case for all sectors, as, for example, economic activity in ICT is concentrated in urban areas. Strategies and policies relating to the development of the services sectors should take this into consideration by ensuring that there is not only universal access to these services, but that the economic benefits are evenly distributed across the country.

Recommendations to ensure beneficial outcomes from services liberalization

These are as follows:

- To advance and prioritize the design and implementation of regulatory frameworks in sectors that are subject to liberalization in the regional setting;
- To ensure coherence between these sector-specific regulatory frameworks with other Government and regional policies, including social safety nets and pro-poor policies, and financial, monetary, technological and labour market policies;
- To coordinate and ensure coherence among commitments under various trade agreements;
- With regard to sequencing, to make the regional process a priority and ensure that further liberalization at the interregional and multilateral levels entails commitments that are coherent with the outcome of the regional integration process;
- To further support businesses and services providers in their entry into neighbouring countries and help make them competitive at the regional and global levels.

5.2. Recommendations regarding the tourism sector

Rwanda has developed strategic objectives, policies and incentives aimed at enhancing tourism promotion, tourist sites, entrepreneurship capabilities, quality in the tourism offer and relevant regulations and institutions for the sector. Through these means, Rwanda has increased investment and revenue in the tourism sector and the number of tourist arrivals.

Rwanda still faces challenges in generating increased revenues in the sector. On the demand side, there is scope for improving leisure markets that can be

considered traditional for Rwanda (tourists from Europe and the United States), as well as non-traditional (African tourists) and for extending the length of stay of visitors. To achieve this, it is necessary to make further marketing efforts and diversify and develop Rwanda's tourism offer.

On the supply side, improvements are required with respect to the quantity and quality of Rwanda's tourism products, and linkages within the sector and with other sectors. Addressing current shortcomings requires dealing with challenges related to skills upgrading, SME development, investment and access to finance, marketing, statistics collection and the institutional framework dealing with tourism development.

In many instances, developing regional synergies and collaboration could help tackle the challenges mentioned previously. The current study has clearly identified the potential and current underutilization, by Rwanda, of the regional framework. Overcoming this might require a more systematic approach to identifying comparative advantages at the regional level in services provision and enhancing the current regional policy framework.

The following recommendations provide ideas on ways to achieve this.

Policies

Developing the capacity to improve quality in the delivery of tourism services requires designing strategies at the macro and micro level to promote a culture of customer orientation and of continuous learning and improve the capacity to monitor results

To achieve this, it is suggested that a national qualifications framework be developed for the tourism sector and that skills required in the sector be correlated with means to develop qualifications in the educational system and through non-formal and informal learning means. This framework could serve as a strategic tool for guiding the overall modernization of the educational and training system towards improved quality of service in the tourism sector. Doing this will require reviewing the key elements in the country's education and training system and matching it with the labour market. It could entail developing competence-based

curricula for specific areas within the tourism sector (for instance for workers meeting with customers face to face or in the hospitality, restaurants and food businesses, in the conference and event organization subsectors).

The National Skills Audit Report, published by the Institutional Capacity Development Agency (HIDA), the Multi-Sector Capacity Building Programme (MSCBP) and the Ministry of Public Service and Labour (2009), clearly identified the shortcomings and challenges facing Rwanda in this context and could serve as a basis for developing this national qualifications framework.

Because many tourism workers come from other countries in the region, there is merit in exploring ways in which the regional framework could be used to achieve regional comparability of different qualifications in the tourism industry, given the current skills gap in Rwanda,

Promoting opportunities for SMEs

The analysis shows that earnings and productivity in Rwanda appear to be concentrated in large-scale companies. Given the importance of tourism SMEs for destination competitiveness and their economic development potential, it is therefore recommended that policies be developed to cater for their specific needs, mainly aimed at promoting skills development and improving their integration in the tourism value chain.

It also reveals the need to develop capabilities of SMEs to improve their business performance and quality in services delivery. To overcome this challenge, the development of policies targeted at business and skills development of SMEs is recommended. Increased investment in training for entrepreneurs and workers in tourism SMEs will be required to do so.

Training should be aimed at providing SME entrepreneurs with knowledge about supervisory and managerial practices and sector dynamics, emphasizing quality standards. This could be done by incorporating business skills modules in the curricula of all high schools and universities or by creating a strong national network of consulting centres, which could supply SMEs with a broad range of sector-specific services such as financial analysis, human resources and market access. The creation of a portal serving as a one-stop shop for SMEs would provide

them with relevant, practical information, including up-to-date ICT business tools, to help tourism companies set up, manage and promote their business, and could be considered a step in the right direction.

It is also recommended that the use of online technology be maximized. This platform could facilitate marketing and enable direct linkages between tourists and tourism services suppliers. Examples of specific actions could include helping SMEs set up their websites and promoting the use of social media, blogs and mobile applications to enable online reservation of travel, hotel and tour arrangements.

The study suggests that efforts should be pursued to further promote the integration of SMEs in the tourism value chain. Maximizing collaboration among SMEs could result in economies of scale and beneficial exchanges of ideas, for instance, to build a common industry view to lobby local authorities. Strengthening the capacity of SMEs to form associations and organize themselves at the national level in networks and clusters could be a way to achieve this objective.

This could be done by increasing the interest of hotel chains, restaurants and tour operators to invest more in local sourcing. To do so, business linkages should be enhanced, for example through matchmaking, developing partnerships with larger firms, particularly hotels, in accordance with Rwanda's policy of attracting big hotel groups.

Another idea would be to increase the participation of SMEs in networks and clusters. Products and services currently sourced from abroad by the tourism industry, which local providers could potentially supply, should be identified. In parallel, an analysis of the local value chain could identify key productive activities related to the tourism sector, such as accommodation, food and beverages, souvenirs, transportation and excursions, agrifood and creative industries, to match supply and demand. SMEs could also work together for marketing purposes.

Regional synergies could also be envisaged with respect to increasing business linkages among supply-and-demand activities and encouraging the participation of SMEs in networks and clusters. Raising awareness of SME services providers, tourism operators and best usage of existing opportunities to generate economies of scale arising from the regional integration and matchmaking could constitute objectives in this direction.

Regulatory frameworks

Investment attraction and access to finance

Finance is a challenge if Rwanda is to further develop the sector and increase private sector involvement. The study shows that existing investment levels are insufficient to sustain product development and diversification efforts in accordance with Rwanda's tourism sector needs identified in this study. With regard to leisure tourism, the goals are to improve the quantity and quality of tourism facilities and strengthen linkages with recreational, cultural and sporting services. As for business tourism, the focus should be on developing entertainment alternatives in major cities.

Additional investment would be required to meet the following needs: world-class accommodation; world-class tourism and hospitality training institutions; boats and water sports facilities; the establishment of zoological and botanical gardens; the creation of theme parks; and infrastructure development, in particular road infrastructure linking the main city centres with parks and recreational areas.

Therefore, it would be necessary to improve the targeting of incentives to attract investment to key areas, such as human capital and cultural, recreational and natural resources. The following actions are recommended:

- Extending the Rwanda Exporters Development Programme to SMEs linked to value chains in the tourism sector, aside from hotels and restaurants. This programme provides SME exporters or intended exporters with strategic support, export training and education, technical assistance with respect to standards, mentoring, market development, access to finance under soft-loan modalities and performance evaluation.
- Designing a framework to assess the effectiveness of investment incentive regimes and conducting an evaluation of the current fiscal incentives in terms of objectives set for the sector;
- Developing a tourism and hospitality guarantee fund. The basis for this recommendation is the Rwandan private sector view that a dedicated public fund contributes greatly to overcoming problems of access to finance in the agriculture sector;

- Putting in place a tourism and hospitality-training levy to finance initiatives aimed at improving skills in the sector.

Regional synergies should be promoted with respect to investment and access to finance. For example, regional joint ventures could be used to develop jointly tourism facilities and key infrastructure, and to promote intraregional tourism. Joint tourism development zones could prove useful in areas where tourism attractions are located near the border.

Developing legislation to regulate and protect the industry and govern tourism professions. The study identified a lack of such legislation, which could compromise future growth and high quality standards in the sector. It would therefore be necessary to take the following steps:

- To design a licensing system for services providers;
- To develop regulation on accreditation, certification of recognition of equivalence of academic and vocational qualifications in the tourism industry, as explained in the recommendation about the national qualifications framework;
- To take greater advantage of regional collaboration and ongoing regional initiatives and strategies so as to develop these regulatory frameworks.

Institutional frameworks

The current study identified the need to strengthen institutional frameworks with respect to the following points:

Capabilities for statistics collection and analysis, particularly with regard to tourists' spending patterns, domestic tourism patterns, disaggregated employment data per subsector, room-occupancy levels in accommodation facilities and visitors to main touristic attractions, except parks.

Academic and other training institutions. This study found that the limited resources allocated to skills development and the limited number of institutions forming the framework for capacity-

building in the tourism sector are major shortcomings.

To overcome them, the following recommendations are suggested:

- To create at least one public institution having a faculty or department of hospitality or tourism studies;
- To set up a teacher-training institute focusing on hospitality and tourism and that will develop relevant and up-to-date training materials;
- To allocate resources for support programmes to train the trainers and design incentives to promote skills upgrade and training for businesses, SMEs in particular.

To strengthen the institutional framework dealing with tourism development and entrepreneurship. Although the Rwanda Development Board has shown leadership in the development of the tourism sector and investment attraction therein, the study suggests that the Board has insufficient personnel to supervise and monitor tourism development, a critical component of Rwanda's diversification strategy. Board functions related to marketing and promotion, product development and market intelligence require strengthening. The following actions could be considered to achieve this:

- Centralizing registration, licensing and classification of tourism accommodation and restaurants in one unit that will be responsible for oversight of quality standards. Such a unit could also develop certification schemes for quality, impact on sustainability, taking into account economic and social and environmental variables;
- Assigning resources to increase capacity-building activities for staff of the Rwanda Development Board in product development strategies and statistical compilation and analysis;
- Creating a unit responsible for the development and oversight of programmes to develop local enterprises and SMEs. Such a unit could be responsible for promoting clusters and incubators and for providing business coaching and access to information about tourism markets;

- Establishing a unit responsible for raising awareness about current and new tourism offerings for visitors who come to the country or potential visitors. This would promote information flows among sector operators to improve tourism demand. Such an entity would compile information about the current offer of tourism activities and improve linkages between services providers, such as local tour operators, car hire companies, hotels, restaurants and conference organizers, as key players in the dissemination of information, interacting directly with tourists.

Regional capacity-building synergies could also be envisaged to strengthen institutional frameworks, for instance by the following means:

- Initiatives, such as study tours in the region, and forums to share information and experience in policymaking and business;
- A more coordinated approach to export the promotion of tourism activities in the region, to maximize opportunities drawn from taking part in trade agreements.

5.3. Recommendations for the ICT sector

Continue to develop the infrastructure and inputs required to draw full benefits from ICT sector development

The Government of Rwanda can be commended for having identified early on the importance of the ICT sector as an enabler and the basis for an increasing number of economic and social activities. In particular, it is commendable that the Government introduced its ICT agenda to the highest levels of government, thereby signalling to all stakeholders – including investors, entrepreneurs and consumers – the priority attached to the development of ICT and ICT-related products, including services.

Despite a significant number of achievements realized over the years, a number of challenges still remain to be addressed if Rwanda is to reap the full benefits linked to the development of the ICT sector. These include prices for broadband services, which remain relatively expensive compared with other EAC countries, and insufficient bandwidth; limited access and high energy

costs; and inadequate or insufficient ICT skills at all levels of skill sets as well as skills mismatches.

At the regional level a number of challenges have also been identified, some of which are relevant in the Rwandan context. These include limited business skills among entrepreneurs, limited access to finance and lack of a connected network of entrepreneurs across the region.

The following recommendations provide suggestions on how to address these challenges.

Policies

Continue to put in place policies to develop the ICT infrastructure and inputs required to derive full benefits from ICT sector development

The Government of Rwanda should continue implementing policies aimed at improving access to different ICT services at affordable rates, as this will be a determining factor in the successful development of various ICT-producing activities. Indeed, countries – particularly those that are relative latecomers – must focus on developing as many locational advantages as possible and identifying the niches in which they can compete most effectively. In this regard, the cost and quality of broadband connections and the availability of human resources in the areas targeted are key factors that need to be addressed by policymakers.¹²¹ For example, cheap and reliable broadband connectivity are essential inputs for the development of an outsourcing industry, and affordable mobile services are a requirement for the development of mobile applications, such as mobile money services.¹²²

In addition to connectivity costs, wages are a major cost item. It follows that the development of services exports can be hindered by connectivity costs, which are kept relatively high by telecommunications operators. Similarly, this will reduce the scope for paying higher salaries to employees.¹²³

Further, a policy to ensure sufficient numbers of skilled persons for the targeted ICT or ICT-enabled services will promote the development of the local ICT industry and may serve as an incentive for attracting FDI. To do so, however, the Government, in collaboration with the private sector, will need to identify the services it wishes to develop and the needs of businesses, be

they domestic or foreign. It is necessary to establish measures ensuring that supply matches demand to guarantee that skills developed through education and training are those are sought by ICT enterprises.¹²⁴

This could involve developing an industry-driven training programme supported by Government with elements such as facilities (training rooms and computer labs for example) and a budget for trainers. Industry professionals from the private sector would be in charge of designing and delivering the training. Another useful measure would be for participants to be given a short-term work placement with the possibility of this leading to full-time employment where companies feel this is feasible based on their needs and trainee profiles. The target audience for such a programme would be school leavers or young unemployed persons who have a high-school diploma. Adequate certification at the end of the programme would ensure sustainability of benefits for the participants. Internationally recognized professional associations could be involved in the training programme to allow for certification that is recognized both at home and abroad.

It is important that the Government further fine-tune its ICT strategy to clearly identify and establish priorities in the ICT subsectors and activities that will be supported. In particular the role of Government is to create an enabling regulatory and investment environment and provide the necessary infrastructure that will allow for development of products and services. Another important factor to consider is the extent to which the domestic market or export markets will be targeted by ICT sector development.

Building on the 2010 approval of the ICT bill, Rwanda should seek to take greater advantage of outsourcing opportunities relating to ICT and ICT-enabled services. This would include considering the different categories of services that can be provided along the value chain. For example, within IT outsourcing there are services that correspond to the low, middle and high segments of the value chain; business process outsourcing services are found in the low and middle segments, and knowledge process outsourcing services are considered the highest segment of the chain.

As the early movers in the provision of offshore services may be moving up the value chain, opportunities for newcomers can arise in its low and middle segments. However, offshoring market services are becoming

increasingly consolidated on the supply side, which implies that leading firms continue to expand their global markets. When considering opportunities from the sector, countries need to be realistic in terms of what they expect to accomplish, as local – and even regional – firms will have difficulties in competing with established offshore services giants.¹²⁵

Prioritization criteria including the types of technology needed to perform a given service will depend in part on the type of services. For example, fibre-optic connectivity may be more relevant for voice-based services, while there can be more flexibility for data traffic, making it possible in certain situations to rely on satellite connections. Technological requirements, which can be company specific, are also relevant. For companies processing large quantities of data, the extent of bandwidth may be greater than the reliability of the connections. Finally, the cost factor is important.¹²⁶ Developments such as the spread of submarine cables in Africa will therefore have an impact on how potentially interesting countries will be considered in future as locations for contact centres.

The level of interaction between the client and the supplier will also vary according to the level of services provided, with high value added services requiring a relatively high degree of interaction. Indeed, activities relating to the high-technology, automotive, aerospace and health-care sectors are complex and require a high degree of customization. While this type of services allows for greater opportunities for knowledge transfer to the host country – which is true for offshoring – than the IT outsourcing and business process outsourcing segments, the latter may be easier to develop as they have become largely commoditized and require little interaction between the client and provider.¹²⁷

When identifying niches services for production, the Government of Rwanda may also wish to plan how the country may seek to move from the production of relatively low value added services to more complex services over time. In this respect, it is necessary to plan for the human resources and the regulatory framework that need to be developed to ensure for example, adequate protection of intellectual property and private data.¹²⁸

Continue to promote private sector development, including through procurement policies

The Government of Rwanda may consider the extent to which public procurement can be used as a catalyst for local ICT industry development, in particular with respect to small, medium-sized and micro enterprises. Indeed, Government ICT procurement has been shown to represent an important part of domestic demand in low-income countries. For such a strategy to be successful, procurement rules should be designed in such a way that local ICT enterprises are given a real opportunity to qualify for the tender process.¹²⁹

Private sector development could also be fostered by forging partnerships with regional and continental ICT leaders or first movers who may have acquired expertise in areas of interest to Rwanda (be they Kenya, Egypt or Mauritius). Such efforts could be assisted by strategic Government interventions and would also serve to develop trusted networks and mentorship, as these were also found to be lacking in the region.¹³⁰

Regulatory framework: Continue to develop the legal environment: intellectual property rights, data privacy legislation

Rwanda's cyber security should be reinforced to mitigate ever-increasing cyber threats. Cyber security awareness will need to be disseminated and public-

private institutional collaboration strengthened. Furthermore, a strong policy, legal and regulatory framework to ensure cyber security and compliance will be required, particularly if the development of ICT-enabled services continues to be prioritized by the Government. Rwanda should therefore seek to finalize the discussions on its draft policy on data protection so as to identify what legislation would be required to tackle the identified threats and initiate the legislative process as quickly as possible.

Continue to collect data and improve measurement of trade in ICT and ICT-enabled services

Informed decision-making requires that policymakers, negotiators and other Government officials have access to data and statistics regarding the production and trade of services. While efforts with the support of development partners are under way to measure ICT for development (i.e. the definition and analysis of internationally comparable statistical ICT indicators and the setting up of a global database on core ICT indicators) steps should be taken to record economic activity in ICT and ICT-enabled services production as well as in services trade, including through the implementation of the *Manual on Statistics of International Trade in Services*.

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- ¹¹⁸ Its constitution provides that, in pursuit of the above objectives, the Association may, inter alia deliberate on issues related to the development and implementation of ICTs and make recommendations to the relevant authorities or take any other appropriate action; develop and adopt guidelines and model regulations for ICTs; and contribute to the development, harmonization and implementation of ICT policies and regulations within the subregion and the African continent and at international level.
- ¹¹⁹ According to the waiver conditions, market access will be offered to all LDC members of WTO, not solely to Rwanda .
- ¹²⁰ Consultancy services related to the installation of computer hardware, software implementation services, data-processing services and database services.
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