



Removing Bottlenecks to Private Sector Development
John Gara, CEO, Rwanda Development Board
Government of Rwanda and Development Partners Meeting
5th November 2010

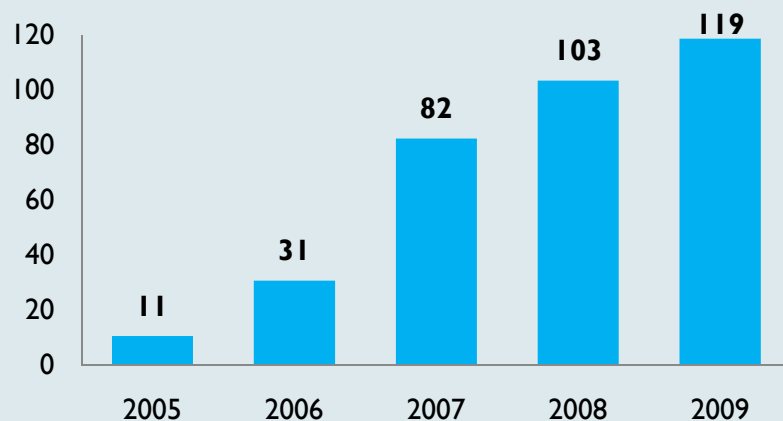
GoR has made a commitment to fast track private sector development

- ▶ **Vision 2020 and EDPRS have set ambitious private investment goals**
 - ▶ Private sector as an engine of economic growth and poverty reduction, overtaking public sector as % of GDP invested in 2010
 - ▶ Private investment rising from 8% of GDP in 2008 to 15% of GDP in 2012

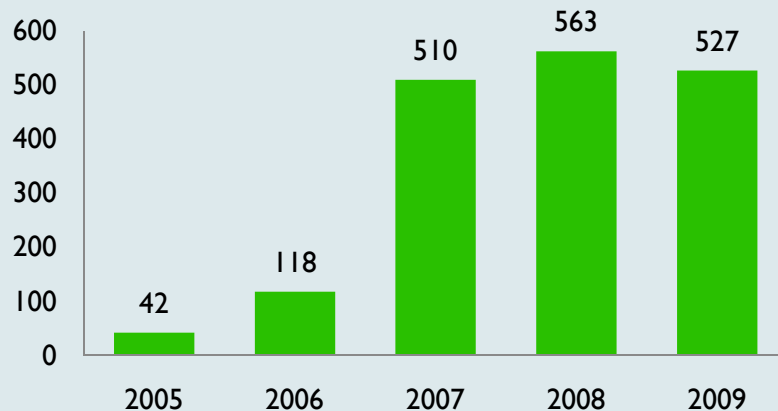
- ▶ **RDB has a new strategy after 2010 restructuring**
 - ▶ *“Fast tracking economic development in Rwanda by enabling private sector growth”*
 - ▶ Performance measures:
 - ▶ Share of private sector contribution to GDP
 - ▶ Level of private investment
 - ▶ Jobs created in the private sector

Private investment has grown considerably in recent years but this growth needs to accelerate to meet GOR targets

Foreign Direct Investment (\$m)



RDB Project Commitments (\$m)



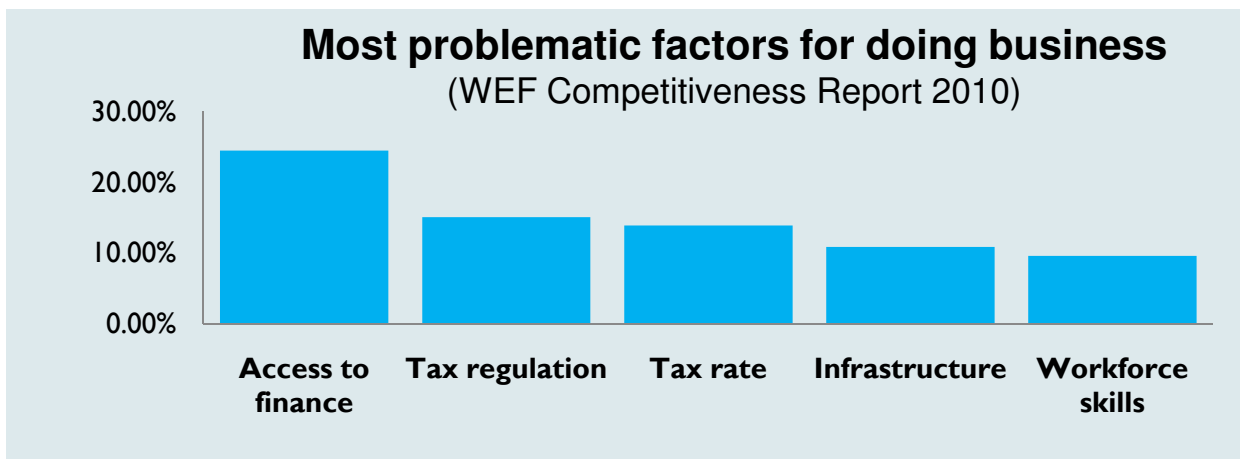
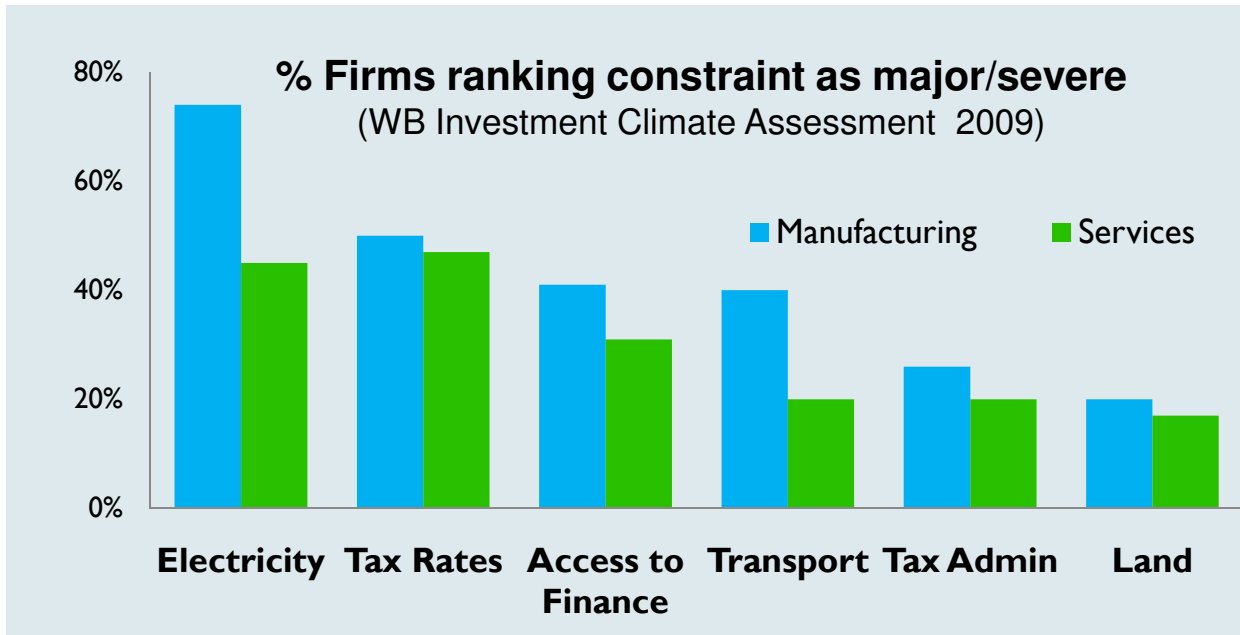
Private investment has shown a strong positive trend

Significant improvements on Doing Business have been achieved

- Top Reformer in 2010 World Bank Doing Business Report and 2nd global reformer in 2011.
- Ranked 6th in Africa and 1st in East Africa in WEF Competitiveness Report
- But, quick win reforms have been exhausted

Need to tackle deep rooted bottlenecks & accelerate investment

Principal bottlenecks to private sector development are well known but complex to resolve



Key bottlenecks

- ▶ Access to Land
- ▶ High Transport Costs
- ▶ Access to Electricity
- ▶ Access to Finance
- ▶ Tax Rates/ Administration
- ▶ Skilled Labour Force

Bottlenecks require cross government action and DP support for:

- (1) Financing
- (2) Capacity Building

Availability and cost of land is consistently raised as a concern by investors

Bottleneck

- **Access** to agricultural land and industrial land is limited
- **Cost** of land is high
- **Process** of obtaining land is long and complex



Government Approach

Access

- Land Use Master Plan
- Land Titling Program
- First ever SEZ in Rwanda
 - SEZ Policy approved in Cabinet in July 2010 and law currently in Parliament
- Land Information System currently being developed

Cost

- Published Reference Prices for land

Process

- Kigali City One Stop Shop for Construction Permits (May 2010)

High transportation costs increase the cost of doing business and limit access to foreign markets

Bottleneck

- **High transportation costs**
Average \$165 per ton versus \$95 in region
- **Poor road conditions** in neighbouring countries
- **Limited air freight** linkages to Europe and western markets
- Compounded by NTBs



Government Approach

- **Infrastructure enhancement**
 - Isaka Railway
 - Bugesera Airport
 - Roads
 - **International:** Northern Corridor (Mombasa to DRC via Kigali) & Southern Corridor (Dar es Salaam-Isaka-Kigali)
 - **Local roads** e.g. Kigali-Ruhengeri Road
- **New air routes** e.g. KLM Amsterdam & Rwandair Dubai
- **EAC opportunities** for new cross border projects & NTB elimination (e.g. 24 hour border crossings)
- Open to private sector investment

High cost and limited availability of electricity gives Rwanda a comparative disadvantage to its neighbours

Bottleneck

- **Generation** principally via hydro and thermal
- **Cost** is 22 US cents/kW
40% higher than Kenya
30% higher than Uganda
- **Access** is still restricted



Government Approach

- **EDPRS target** of 130MW by 2012 and 230 MW in 2015 up from 85MW today
- **7 year plan enhanced access targets** 1000MW and 50% access by 2017
- **New technologies** including, methane gas, mini-hydropower, and geothermal
- Encouraging **private sector provision**

But need

- Legal and financial expertise to negotiate investment deals
- Capacity to develop /adapt new technology

Tax rates and administration are top concerns but perception of high tax burden reflects GOR effectiveness at tax collection

Bottleneck

- Companies complain about **high tax rates**, but rates are comparable to region
- Efficient collection results in perceived high tax burden
- **Multiple procedures** for filing and paying taxes
- Low comprehension of tax requirements by SMEs



Government Approach

- **Mapping of tax procedures** complete
- Redesign of the **SME taxation system**
 - Quarterly filing of VAT
 - Software for tax calculation RRA website
- **Doing Business 2011** has strong tax focus
 - Electronic payment and filing
 - Quarterly PAYE
 - Tax advisory services at BDS centres

Limited access to skilled labour increases firm costs, constrains firm productivity and limits innovation

Bottleneck

- **Skills shortages** result in **high labour costs**
- **Low value add** per manufacturing worker
 - Rwanda: \$2178
 - Tanzania: \$3395
 - Kenya: \$6893
- **Limited entrepreneurship & business planning skills** limit SME start up & growth



Government Approach

- 15 universities and higher institutions of learning (private and public)
- GOR scholarship and student loan program for students abroad
- Workforce Development Authority for technical and vocational training
- 30 BDS centres nationwide being established/strengthened for SMEs

But need

- Further expansion of educational facilities and technical and vocation training

A new Private Public Dialogue Mechanism is being established to address the priority bottlenecks

- ▶ New PPD Mechanism to be launched soon by RDB to address critical constraints to business
- ▶ PPD will complement and build on success of Doing Business Taskforce

▶ **PPD Objective**

- ▶ Develop **evidence based policy reforms**
- ▶ Establish mechanism for the Private Sector to play an active role in improving the business environment

▶ **PPD Key Features**

- ▶ Inclusive membership and balanced representation
- ▶ Engagement of private sector throughout the key steps of the reform process
- ▶ Permanent Secretariat hosted at RDB
- ▶ Bi-Annual Presidential Forum with private sector

▶ **First Year Program (Pilot Phase)**

- ▶ Focus on 1 sector (Horticulture) and 2-3 crosscutting issues (e.g. business access to land; and cost of domestic finance)

Development Partners can help by targeting their programs at specific bottlenecks

- ▶ GOR is committed to target bottlenecks to private sector growth
- ▶ DPs should support GOR in developing projects that directly tackle key bottlenecks and unlock private sector investment
- ▶ Primary areas of DP support should address critical gaps
 - ▶ Financing for infrastructure projects
 - ▶ Technical expertise and capacity building support
 - ▶ E.g. Legal and financial expertise to negotiate complex PPPs