REPUBLIC OF RWANDA

MINISTRY OF TRADE AND INDUSTRY

Revised SEZ Policy

Addressing the infrastructure constraint to industrialisation in Rwanda

January 2018

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Acronyms

AFU	Advance Factory Units
BOOT	Build-Own-Operate-Transfer
CIT	Corporate Income Tax
CSR	Corporate Social Responsibility
CBA	Cost-Benefit Analysis
BRD	Development Bank of Rwanda
DGIE	Directorate General of Immigration and Emigration
EAC	East African Community
EAX	East African Exchange
EDPRS II	Economic Development and Poverty Reduction Strategy II
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GOR	Government of the Republic of Rwanda
GDP	Gross Domestic Product
HA	Hectare
IDEC	Industrial Development and Exports Council
IP	Intellectual Property
KAM	Key Account Manager
KIAC	Kigali International Arbitration Centre
KIC	Kigali Innovation City
KSEZ	Kigali Special Economic Zone
MIR	Made in Rwanda
MOU	Memorandum of Understanding
MO	Ministerial Order
MINEDUC	Ministry of Education
MININFRA	Ministry of Infrastructure
MIFOTRA	Ministry of Labour and Public Service
MINICOM	Ministry of Trade and Industry
NEP	National Employment Programme
NIRDA	National Industrial Research and Development Agency
OSC	One Stop Centre
PEZ	Prime Economic Zone
PMO	Prime Minister's Office
PPP	Public-Private Partnership
RRT	Rapid Response Training
RDB	Rwanda Development Board
RRA	Rwanda Revenue Authority
RSSB	Rwanda Social Security Board
RURA	Rwanda Utilities Regulatory Authority
REMA	Rwandan Environmental Management Agency

RWF	Rwandan Franc
RSB	Rwanda Standards Board
SEZAR	Special Economic Zone Authority of Rwanda
SME	Small and Medium-Enterprise
SMI	Small and Medium-Sized Industries
SEZ	Special Economic Zone
SPV	Special Purpose Vehicle
TIN	Tax Identification Number
VAT	Value-Added Tax
VIP	Very Important Person
WDA	Workforce Development Agency
WTO	World Trade Organisation

1 Summary

This document is not a new Policy. It is a revision of an existing policy from 2010. Key lessons have been learnt since the Government of Rwanda (GOR) adopted the 2010 SEZ Policy, especially through the operations of the Kigali Special Economic Zone, and these lessons should be incorporated into the policy and regulatory framework. New GOR investments in Zone development across Rwanda have also necessitated the present review, in order to clarify certain issues that the 2010 Policy was silent about. Finally, there is a need to mainstream the 'Made in Rwanda' mind-set and to clarify the conditions within which small and medium-sized industrialists may access GOR support to relocate to Zones. The table below summarises the key changes set out in this policy review:

Table 1: Changes compared to 2010 SEZ Policy

Issue	2010 Policy Recommendation	2017 Policy Recommendation
Scope of Zones and Eligibility Criteria	1. A flexible regime allowing different types of Zones 2. Broad set of activities allowed, subject to general negative list 3. No eligibility criteria for Users	1-3 stand as before, with the addition that: 1. There is no differentiation of zones when it comes to incentives. All receive those offered by the Investment Code 2. Performance incentives are introduced for Zone Operators to maximise economic value of Zones
Public and Private Participation in Zones	1. Full spectrum of PPPs allowed with emphasis on encouraging private sector to take the lead, including provision for fully private Zones 2. Public investment to be guided by economic CBA 3. Government equity investment should be guided by internal rate of return; co-investing to reduce risk to private developer, where there is potential of later privatisation 4. Zones be operated on commercial terms, except where there is a monopoly	Additional clarifications: 1. Land price regulation is introduced 2. The role of public vs private actors, including the issue of routine maintenance
Zone Designation Process and Criteria	1. Both public and private entities may suggest new Zones	No substantive changes to the 2010 position. Clear direction on the progressive nature of zone development and on internal zoning requirements.

	2. Both pre-designated and non-pre-designated land may be suggested 3. Defined, formal designation process, including demand forecasts, feasibility study and physical planning 4. SEZAR to conduct CBA and make recommendation to Cabinet	
Land Use	1. SEZ land be classified as 'public interest' 2. Specific Land Regime be issued for SEZs a. Foreigners may lease; locals may lease or own b. Maximum lease terms are 99 years, renewable and transferable c. Full transfer lease rights d. Creditors' rights be protected in case of default e. Right to continued occupancy and non-disturbance f. Liberal rights to change land use, within zoning regulation 3. 'Use it or lose it' clauses for both Developers and Users	No substantive changes, except for the provision that neither locals nor foreigners may own land outright, only lease. More details are also introduced on the 'use it or lose it' clause.
Zone Benefits	1. Special fiscal incentives, such as 15% CIT and duty-free imports on inputs 2. GOR obliged to provide and maintain public infrastructure and services 3. Regulatory relief and streamlined procedures, to be implemented through OSSs in each Zone	No special fiscal, immigration or customs regimes for SEZs beyond those offered by the Investment Code. No changes to points 2-3, but clearer definitions are put forth of which stakeholders should be represented in each OSC and recommendations for MOUs to be signed between all contributors and SEZAR.

Complementary Policies and Safeguard Measures	1. Developers and GOR actively encouraged to develop support programmes for backwards linkages and technological/knowledge spill-overs 2. Maintain labour and environmental standards	1. The principle of Point 1 is kept but elaborated in much more detail to truly incorporate the Made in Rwanda mind-set. IDEC and SEZAR form the institutional framework to ensure it happens 2. Labour and environmental standards are maintained 3. Sector-specific SMI Parks are to be set up in each Zone, to support SMIs with huge growth potential which are currently scattered around the country and don't have the capacity to access Zone land on commercial terms
Zone Authority	SEZAR as a single regulator should be established as a unit in MINICOM, with adequate administrative powers, funding and staffing.	SEZAR remains as a unit in RDB, but must acquire adequate administrative powers, funding and staffing. SEZAR's mandate should be extended to land earmarked by GOR for Zone development. SEZAR should as a matter of priority set out MOUs with all relevant GOR stakeholders, to ensure that SEZ Users do not have to go through two processes to obtain User Licenses and the benefits under the Investment Code from Investment Certification

2 Introduction and Context

Special Economic Zones (SEZs) have the potential to address several constraints facing investors and businesses in Rwanda and support the achievement of key goals under EDPRS II and Vision 2020. SEZs have been used successfully across the developed and developing world as investment promotion tools. The success of SEZs is, however, in large part, determined by policy choices on the regulation, development and operation of SEZs and what benefits and incentives are provided to developers, operators and users of SEZs. It is therefore crucial to get these policy choices right for the current Rwandan context.

Rwanda's SEZ Policy was adopted in 2010 with the objective to ensure the successful development of existing and new SEZs. SEZs were to contribute to the achievement of several of the government's ambitious developmental targets. Specifically, SEZs would contribute to:

1. Increased foreign and domestic private sector investment
2. Increased employment and income generation (Direct and Indirect)
3. Export growth and diversification and increased foreign exchange
4. Development of industry and other sectors
5. Skills upgrade and technological transfer

The SEZ policy, and the broader Rwandan Special Economic Zones Programme, spawned from a 2006 idea to create a "Rwanda Free Zone" offering serviced land and fiscal incentives to companies targeting the regional market. The Free Zone was to have an adjacent Industrial Park, providing much needed infrastructure to industrialists predominantly targeting the local market. This idea evolved into Kigali Special Economic Zone (KSEZ) when, in 2007, Rwanda joined the East African Community and was no longer able to offer fiscal incentives to companies exporting to the region due to the common EAC Customs Territory. KSEZ was formed out of the Free Zone and Kigali Industrial Area. A separate provision under the 2015 Investment Code provided Export Processing Zone status to individual companies, who export more than 80% of their produce outside the EAC, including many tax incentives originally envisaged for the Free Trade Zone only. The SEZ Policy and SEZ Law (2011) were therefore developed to provide the legal and policy framework for the new zone and a Special Economic Zone Authority of Rwanda (SEZAR) was established to provide regulatory oversight.

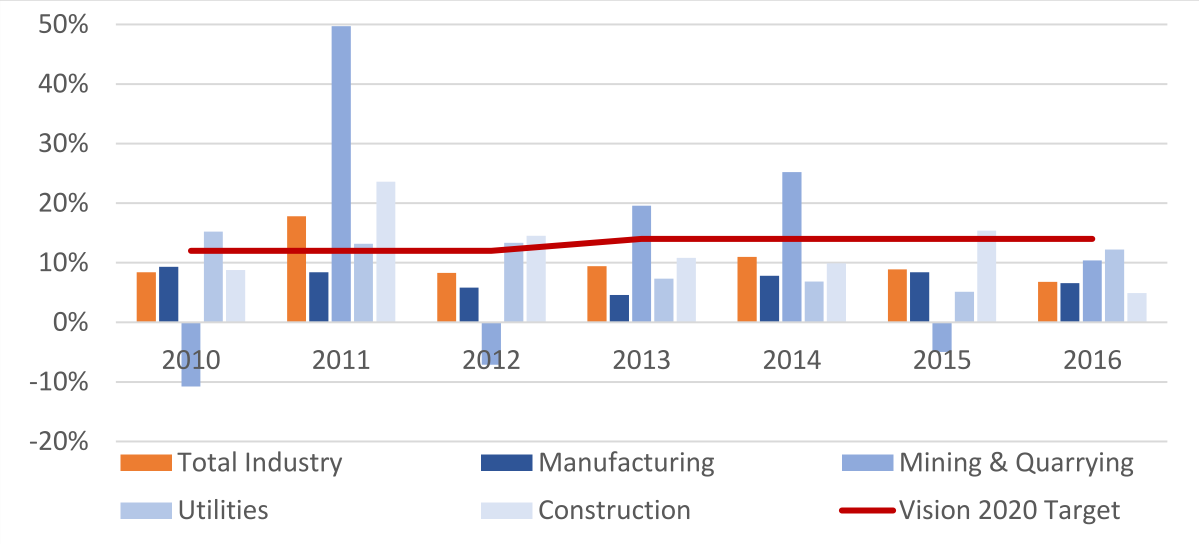
In 2013, when it became obvious that KSEZ would soon be fully booked, GOR began an ambitious expansion of its SEZ Programme. GOR earmarked land in nine additional locations across Rwanda, bringing the total area to be developed to over 1000ha. Through the implementation of this expansion under the 2010 SEZ Policy, it became apparent that certain changes and clarifications to the existing Policy framework were required, hence the present document has been developed. Particularly, several policy recommendations from the 2010 Policy require more detail and regularity to enhance the transparency and predictability of the investment climate. This revised Policy seeks to address those gaps.

2.1 Economic Context and Industrial performance

The core target for the industrial sector under Vision 2020 is to contribute 20% of GDP. This is an important metric for achieving economic diversification, macro-stability, skills and technology upgrading and a stable balance of payments.

To achieve this target, it was estimated that industrial growth had to average 14%[1] per annum through to 2020. However, since the SEZ Policy was validated in 2010, the Rwandan industrial sector has had mixed results. Annual growth has averaged 10.3%, yet the overall share in GDP has only reached 17% from 14% in 2010 and growth rates of industrial sub-sectors have fluctuated:

Figure 1: Industrial growth targets vs actual growth since 2010. Source: NISR, 2014 constant prices



Since 2010, however, there has been impressive growth in average market entry rates amongst industrial firms, capturing both new entrants and formalisation of existing informal firms:

Table 2: Number of active industrial firms in Rwanda. Source: RRA tax information

Number of Active Firms	Q1 2011	Q3 2016	Growth (%)
Mining & Quarrying	**17**	**62**	**265%**
Manufacturing	**96**	**327**	**241%**
Food	*13*	*59*	*354%*
Beverages & Tobacco	*3*	*10*	*233%*
Textiles, Clothing & Leather	*8*	*22*	*175%*
Wood, Paper & Printing	*9*	*68*	*656%*
Chemicals, Rubber & Plastics	*7*	*8*	*14%*
Non-metallic Mineral Products	*17*	*21*	*24%*
Metal Products, Machinery, Equipment	*10*	*16*	*60%*
Furniture & Other Manufacturing	*29*	*123*	*324%*
Utilities	**11**	**77**	**600%**
Construction	**326**	**848**	**160%**
TOTAL INDUSTRY	**450**	**1,314**	**192%**

[1] When the original policy was drafted, this target was 12% year-on-year growth, revised upwards in 2012.

As one would expect, this has also resulted in impressive off-farm job creation over the past number of years:

Table 3: Off-farm jobs in Rwanda since 2001, '000. Source: NISR, EICV surveys.

	2001	2006	2011	2014	Number of Jobs created per year '000	Average annual growth rates
Services total	**344**	**743**	**1049**	**1274**	**72**	**11%**
Industry Total	**61**	**168**	**316**	**412**	**27**	**16%**
Mining and quarrying	*7*	*18*	*48*	*61*	*4*	*18%*
Manufacturing	*30*	*80*	*112*	*106*	*6*	*10%*
Utilities	*4*	*4*	*10*	*11*	*0.6*	*8%*
Construction	*20*	*66*	*146*	*234*	*16*	*21%*
Off-farm jobs total	**405**	**911**	**1365**	**1686**	**99**	**12%**

Thus, the Rwandan Industrial Sector has delivered mixed results over the past six years. The provision of serviced infrastructure in the form of Zones has been a significant enabler of productivity and sustainable growth, even if achievements have fallen short of targets. To increase the momentum of industrial growth, it is therefore important to fast-track the development of SEZs, under a transparent policy framework that reflects the strategic priorities of GOR.

2.1.1 Why expand the Special Economic Zones Programme?

SEZs have been a key policy tools for countries seeking to overcome constraints of scale and competitiveness via the provision of strong enabling environments. SEZs lower administrative burdens for investors via 'One Stop Centres' (OSCs), ensure access to stable and affordable power, water and telecommunications and, in some instances, speed up the process from registration to operationalization via the provision of 'plug and play' advanced factory units (AFUs).

2.1.1.1 KSEZ land is expensive, not fully sustainable, yet also almost full

KSEZ was designed to be developed in three phases. The initial phase I of 98HA was completed in 2013 and is now fully booked, with 31 industrial firms and 15 warehouses operational. 20 more industrial firms and 7 warehouses are still under construction. Development of the larger (178HA) Phase II began in 2013 and was completed in 2017. Currently over 77% of plots are booked with four companies already operational. GOR has itself booked significant areas within Phase II for e.g. Kigali Innovation City (KIC). So far, just 58% of investment in Phase II is in the manufacturing sector and 37% in services, down from a 65% investment in manufacturing in Phase I. Phase III has been discontinued due to rising cost of expropriation in the surrounding area as Kigali expands around KSEZ.

KSEZ is owned, operated and developed by Prime Economic Zones (PEZ) of which the government is one of seven shareholders, alongside RSSB, SONARWA, BRD, MAGERWA, Crystal Ventures Ltd. and Prime Holdings. PEZ raised capital finance on the domestic market for development, which has proved expensive, resulting in high land prices, further compacted by the absence of competition from other Zones. Finally, operations at KSEZ suffer from lack of clarity of its operational sustainability. PEZ is currently negotiating with utility operators and Users to come up with a financing model for infrastructure maintenance, which no stakeholder at the moment has budgeted for.

2.1.1.2 KSEZ has been a crucial factor in attracting foreign investment

44% of investment in KSEZ Phase I came from foreign direct investment (FDI). This is expected to be 26% in phase II. Whilst perhaps low, the existence of KSEZ has been vital to attracting that investment and all but one respondent of a 2017 survey of KSEZ Users said the existence of KSEZ was either an 'important' or 'crucial' determining factor for their decision to invest in Rwanda. The substantial demand for land in KSEZ would suggest it has also been successful in boosting domestic private sector investment, a core aim under the original SEZ Policy and therefore worth expanding. A 2017 study found that KSEZ has had substantial impact on companies' success, resulting in doubling of sales and value-added, while also increasing employment and the value of locally purchased inputs substantially[2]. This, the authors attribute to the increased facilitation and investor aftercare that is available for investors in SEZs and extending this service to more investors is a key motivation for expanding the SEZ Programme.

Attracting FDI has significant positive impacts on the economy, helping the economy generate foreign exchange, jobs and exports. In 2016, operational companies in KSEZ employed roughly 6880 permanent and temporary employees. Companies operating in SEZs also tend to employ more people than the average firm: only 1% of firms across the country employ more than 100 people, but in KSEZ 21% of firms do[3]. Beyond these more obvious benefits, two other important roles are played out by the FDI that SEZs attract:

- **Knowledge transfer:** This occurs via the dissemination of best practices**,** boosting labour-force productivity, facilitating technological upgrades and creating opportunities across Rwanda to move into higher-value parts of supply chains. Local companies also benefit from hiring workers previously employed by international companies in SEZs
- **Demonstration effect:** Through showcasing the success of an SEZ, the international perception of a country's economy may be positively impacted. KSEZ success stories are perhaps the best marketing GOR can use to grow market confidence and attract new investors

2.1.1.3 Providing industrial infrastructure cost-effectively

Government consultations with the private sector continue to highlight high costs of production as a factor impacting the competitiveness of Rwandan firms. In turn, low competitiveness means firms struggle to operate at maximum capacity and therefore often cannot reach the production levels necessary to benefit from economies of scale-leading to a downward spiral.

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[2] Steenbergen and Javorcik, 2017, *Analysing the Impact of KSEZ on Firm Behaviour.* International Growth Centre, Kigali.

[3] It is worth noting that these job figures reflect the entire labor force of the companies operating in KSEZ and not just in their factories in the zone. The number employed directly in KSEZ could be significantly less, with UNIDO estimating it to be just over 3000. The point however remains the same, with SEZs being a vital tool for attracting large companies.

A comprehensive 2014 MINICOM study put average capacity utilisation at 50% in the Rwandan Industrial sector. The 2016 survey conducted on a smaller sample put this figure close to 45%.

SEZs can partially tackle issues of high cost of production by concentrating government resources in particular Zones, allowing GOR to feasibly support its industrial sectors at a lower cost than if Users are spread across the country. This means that GOR may ensure that Zones are serviced with high-quality connectivity, strong logistics services and reduces the cost of compliance via one-stop-centres (OSC), all of which lowers the overall cost of production.

2.2 Why update the 2010 SEZ Policy?

Several dynamics make the SEZ review particularly pressing, especially when considered in conjunction with the scope of the investment made in the zones.

2.2.1 Implementation Challenges and Lessons Learnt

Through the implementation of the SEZ expansion (See Annex 6.1) under the 2010 SEZ Policy, it became apparent that certain changes and clarifications to the existing Policy framework were required. It was found that several policy aspects required more detail and regularity to ensure that the economic value of Zones is maximised. Specifically, there was a need to clarify:

- The role of public vs. private sector in Zone development, operations and maintenance, as well as the role of central vs. local government;
- Interim management of land earmarked for Zones but awaiting funds for development yet already being occupied by Users;
- The common incentive package and benefits offered to Zone Users, ensuring transparency on which incentives are available to all Users of a Zone; and
- The institutional setup for Zone regulation and monitoring.

Furthermore, experience from the Kigali Special Economic Zones (KSEZ) showed that there was a need to address:

- Monopolistic pricing of Zone land, which disincentives investments;
- The issue of who is responsible for maintenance of shared Zone infrastructure;
- The lack of Operator incentives to maximise the economic value of Zones (i.e. incentives to attract industrial firms over warehouses);
- Cross-GOR coordination in running One-Stop Shops (OSSs);
- How the SEZ Programme will support the ‘Made in Rwanda’ concept and how backwards linkages from Zone Users to the local economy will be established; and
- Barriers to access Zones for small and medium-sized industrial firms (SMIs) with high growth potential but currently scattered in non-industrial areas across Rwanda.

Clear guidance on these issues is provided throughout this document.

2.2.2 New Government Interventions

The most obvious reason necessitating the review is that there have been several government interventions since 2010 that have meant the policy has been overtaken by events. It is therefore vital that the policy is brought up-to-date to ensure full alignment with the government's current regulatory and strategic position.

- *The expansion of the Zone program*

GOR has initiated an ambitious plan to develop nine additional SEZs, alongside the completion of phase II of KSEZ (see section 5.1 below). These nine zones will have a total surface area of close to 800HA and are situated in proximity to each of the secondary cities and additional strategic locations. The Bugesera Zone (330 HA) for example, is in close proximity to the new international airport. It is therefore important that the SEZ Policy is updated to clarify the broader strategic framework under which these new zones will be developed, operated and managed, based on lessons learnt from KSEZ. Important questions over prioritisation, development phasing and management structures have been raised in connection to these new Zones and need to be fully clarified.

- *Updates to the Rwandan legal framework on investment*

Over the past few years several government regulations and laws relating to investment have been passed, most notably the 2015 Investment Code and 2016 PPP Law that set out what incentives GOR can offer to potential new investors and on what terms it may enter PPPs, respectively. It is therefore important that the SEZ Policy is updated to reflect these changes, especially removing reference to special benefits to Zone Users where these have become common practise for all investors in priority sectors.

The SEZ Policy is the backbone of the government's interaction with investors seeking to develop, manage or operate within Rwandan SEZs. It is therefore crucial that there is clarity on how the Zones link with other policies, and the wider economy. The Revised SEZ Policy links the SEZ program with the industrial policy and with the need to also develop strong SMEs, via a focus on developing strong linkages with the domestic economy and with infrastructure needs. The review has placed particular focus on how Zones can promote SME development, earmarking land especially for Rwandan producers with growth potential.

2.2.3 Strong regional competition

SEZs have become a common tool for investment promotion across both the developing and developed world. Whilst some countries on the continent, such as Mauritius, Senegal and Liberia, have pioneered the development of Zones since the 1970s, the idea really spread across the world in the 1990s and 2000s. Most East African countries have developed Zones programs to various levels of success over the past decade. Uganda began developing 22 Zones across the country in 2007, of which three so far are operational. Tanzania has plans to develop 21 SEZs with eight Zones currently operational. Ethiopia is attracting large attention for its ambitious Zones programme that includes specialised utilities provision for the parks, aimed to cover an astonishing 100,000ha. Zone programmes vary in their incentive structures from the provision of serviced infrastructure, to providing a level of fiscal incentives, to all out tax-breaks for Users. Usually, companies also have to meet certain criteria in order to operate in these parks – in Tanzania, for example, it must be a new investment, with differing minimal capital requirements depending on whether it is a foreign or local company.

Many of these countries not only have substantially more available land than Rwanda, but they have had all a substantial head start. Therefore, it is important that Rwanda learns from best practices elsewhere, ensuring clear and transparent regulations, affordable and stable utilities supply and strong links with the local economy in order to maximize job creation, skills diffusion and economic transformation.

2.2.4 Strong Investor Interest

Despite robust competition regionally, there has been impressive increases in interest in investing in Rwanda in recent years, especially in non-traditional manufacturing sectors. In the first three quarters of 2016, for example, Rwanda saw registered investment in 'Other Manufacturing' almost equalling the total figure for the previous full two years:

Table 4: Registered investment in industrial sectors in Rwanda 2014-2016 Q3. Source: RDB, current prices.

Industrial Sector	2014 ($m)	2015 ($m)	2016 (Q1-3) ($m)
Mining & quarrying	**24**	**49**	**70**
Manufacturing	**67**	**100**	**157**
Manufacturing Agro-processing	*15*	*52*	*3*
Manufacturing other	*51*	*48*	*153*
Utilities total	**170**	**230**	**204**
Construction	**64**	**28**	**63**
Total	**324**	**408**	**493**

Albeit starting from a low base, increasingly strong investor interest makes it critical that the SEZ policy accelerates the provision of serviced land at affordable cost for the incoming investors, in a way that ensures value for money and maximises developmental outcomes for Rwanda.

2.2.5 Made in Rwanda

Since the adoption of the Domestic Market Recapturing Strategy in 2015, the Made in Rwanda campaign has been rolled out across the country, in order to boost consumption of Rwandan-made products at home and abroad. Three Expos have been organised in Kigali, showcasing Rwandan products and generating publicity about the concept.

In 2017, GOR developed a specific Made in Rwanda Policy, which focuses on key constraints and issues to competitiveness. The SEZ Programme is closely related to the Made in Rwanda and there is a huge potential to promote Made in Rwanda through the SEZ Programme. Furthermore, the MIR objective is crucial for maximising the economic value of the SEZ Programme, by explicitly setting out policy guidance on achieving backwards linkages and setting up institutional frameworks and support for small and medium-sized industrialists and service providers to benefit from the large GOR investments going into the SEZ Programme.

3 Vision, Objectives and Guiding Principles

The vision and objectives of this Revised SEZ Policy is inspired by and aligned to those found in the Vision 2020, the EDPRS II and the 2011 Industrial Policy, namely to achieve middle-income status by 2020 through economic transformation and value addition.

3.1 Vision

Additionally, the Vision of this Policy is:

"Industrial investors have adequate access to high-quality infrastructure and a stream-lined regulatory environment, resulting in increased industrial production, exports and job creation through enhanced competitiveness."

3.2 Objectives

This Policy has several objectives, all related to promoting investment in industrial sectors, both domestic and FDI. These objectives include:

- Provide high-quality industrial infrastructure
- Increase industrial productivity and value-addition
- Promote off-farm job creation
- Diversify economic base
- Diversify and promote exports
- Boost competitiveness of Rwandan producers in the spirit of promoting Made in Rwanda
- Offer regulatory relief and favourable costs of production through streamlined business procedures and sector-specific incentives

3.3 Guiding Principles for the Review

This Policy review has been informed by the following guiding principles:

1. <u>Safeguarding Competition:</u> Rwanda is a market economy and a member of EAC. Rwanda is committed to trade liberalisation and regional integration
2. <u>Promoting Diversification:</u> GOR wants to promote value adding industrial sectors, to reduce exposure to trade shocks, promote jobs and increase productivity. GOR wants to promote technological advancements, adaptation and adoption
3. <u>Promoting FDI:</u> Zones should be useful as an investment promotion tool. Hence, they must address the major constraints faced by investors, namely access to affordable, serviced land and the cost of regulatory compliance. Any policy commitment must be credible to be effective
4. <u>Value for money and leveraging private funds:</u> Infrastructure projects are expensive and GOR has limited funds. Therefore, ensuring value for money is a key priority, as well as leveraging private funds wherever possible

5. Complementary Policy Alignment: Infrastructure projects will not solve everything. There are several complementary policies and much regulatory streamlining that need to be in place to ensure that Zones are effective investment promotion tools
6. Flexibility in Zone Setup: Each Zone is to be treated as a separate investment project, with room for different management models as a result of different financial viability and economic benefits, and hence rationale for GOR involvement
7. Promoting Made in Rwanda: The 'Made in Rwanda' objectives of increased competitiveness and quality of Rwandan products should be promoted through the SEZ programme. This is done by facilitating small and medium-sized industrial producers with access to serviced land and business development services as well as promote backward linkages from international firms to local suppliers and service sectors

4 Revised Policy Framework

The areas of concern under the Revised SEZ Policy are the same as in 2010, given that the overall objectives and nature of the programme have not changed substantially. However, as highlighted above, several important lessons have been learnt over the past seven years, necessitating the review of some of the recommended positions on each aspect of the Policy. In several cases, the key lesson learnt was that there is a need for more detail and clearer guidance, which this review has sought to address. This section sets out the 2010 position, key lessons learnt and the proposed changes to 2010 positions, where applicable.

4.1 Policy Issue 1: Scope of Zones and Eligibility Criteria

4.1.1 Summary

Guiding Principles:	1. Safeguarding competition 2. Promoting Diversification 3. Promoting FDI 4. Value for money and leveraging private funds 6. Flexibility in Zone setup 7. Promoting Made in Rwanda
2010 Policy Recommendation	1. A flexible regime allowing different types of Zones 2. Broad set of activities allowed, subject to general negative list 3. No eligibility criteria for Users
Revised Policy Recommendation	1-3 stand as above, with the addition that: 1. There is no differentiation of Zones when it comes to incentives. All receive those offered by the Investment Code 2. Performance incentives are introduced for Zone Operators to maximise economic value of Zones

A key recommendation from the 2010 Policy was to keep a flexible policy position on the types of Zones allowed with as few restrictions as possible on Users and sectors. In practice, this has proved appropriate with both high-value industrial and high-value service sector Users booking land in KSEZ. However, with the revision of the 2015 Investment Code and amendments to the VAT Law, Rwanda's general incentive package to industrial investors in priority sectors has become quite lucrative and resembles to a large extent to the incentive package initially intended to be offered only in SEZs in 2010. The need for further special incentives has therefore become somewhat unnecessary. This policy therefore sets out only one form of Zone, where the general Investment Code applies.

However, experience from KSEZ shows that both Developer and Operators need to become interested parties in maximising the economic benefit to Rwanda stemming from the Zones. While KSEZ has proven a key investment promotion tool and has generated a lot of jobs as described in the introduction, Operators are currently not formally incentivised to lease plots to Users who will maximise e.g. jobs or exports per ha. KSEZ therefore has a high proportion of warehouses compared to value-adding factories. GOR does not want to restrict Users to certain sectors, but rather seek to generate economic value across the board. Therefore, the Revised Policy sets out in-built incentive structures for Operators to maximise the economic benefit for Rwanda.

4.1.2 Zone Definition and Categories

Given the changes to the general business environment set out in the 2015 Investment Code, it is proposed that there will now be only one category of Special Economic Zone:

- Special Economic Zone Definition: Prioritised industrial development areas, serviced by streamlined regulatory process and a One-Stop Centre but otherwise governed by the prevailing national Laws and the Investment Code

SEZs have also formerly been known as Industrial Parks. However, given that the SEZ regulatory framework should apply to all land earmarked for Zone development, regardless of whether it is developed or designated as a Zone yet, this distinction is no longer meaningful.

All Zones must be designated as such via a Prime Ministerial Order. This order may afford additional Zone-wide incentives to reflect a type of investors or sectors sought attracted. This kind of incentives may include but are restricted to fiscal, customs, immigration, facilitating or other incentives.

4.1.3 Zone Operator Incentives

The agreement signed between GOR and the Zone Operator should include incentives for the Operator to generate economic value for Rwanda. The tool used for incentivising Operators is the concession fees to GOR or dividends received from a Special Purpose Vehicle, depending on the management model. Operators may qualify for either a larger share of dividends or a concession fee deduction if they can demonstrate economic value added above minimum thresholds, defined either as exports, fulltime jobs, local supply contracts, domestic market recapturing or any other indicator deemed appropriate for the Zone. Box 1 below details an example of how this might look in practice, using an imaginary case study. Individual thresholds will be established within each Operator agreement, depending on the location and targeted sectors. The Zone Operator must submit monthly proof to SEZAR on the economic value generated in order to classify for the incentives.

Box 1: Example of Zone Operator Incentive Structure (numbers are intended for illustration purposes only and will be negotiated individually for each Zone).

GOR signs a concession agreement with Operations Ltd to operate Rwanda SEZ of 100ha. As per the agreement, Operations Ltd must pay 70m RWF per month to GOR as concession fee, or 840m RWF annually. However, the concession agreement allows for a choice of one of two ways to reduce this monthly fee:

1. *For each full-time job created within Rwanda SEZ above an average of 40 fulltime jobs per ha across all plots with an 18 months or older lease, Operations Ltd may deduct 100,000 RWF, OR*
2. *For each $1,000 worth of exports generated from Rwanda SEZ above an average of $10,000 per ha across all plots with an 18 months or older lease, Operations Ltd may deduct 100,000 RWF.*

Currently, Rwanda SEZ has 65ha with an 18 months or older lease. The average number of fulltime jobs per ha across these 65ha is 55, while average export revenue per ha is $41,500. This means that Operations Ltd may deduct one of the following amounts:

1. *55 jobs/ha – 40 jobs/ha = 15 jobs/ha above the threshold. 15*100,000 RWF = 1,500,000 RWF, OR*

2. *$41,500/ha - $10,000/ha = $31,500/ha above the threshold. 31.5*100,000 RWF = 3,150,000 RWF.* *Naturally, Operations Ltd would choose Option 2, which allows them to deduct a greater amount and would therefore pay 66.85m RWF per month instead of 70m RWF.* *In this example, Rwanda SEZ has generated 975 jobs and $2,047,500 worth of exports <u>above</u> the threshold, which is to be compared to the annualised deduction of 37.8m RWF out of the forecasted 840m RWF concession income. Across the operational 65ha, Rwanda SEZ will have created 3,575 off-farm, fulltime jobs and $2.7m worth of exports annually.*

There are several benefits to such an incentive structure over establishing performance targets or user eligibility criteria:

1. Incentivising Operators is in line with the first Guiding Principle above; Rwanda is a market economy
2. Incentives to Operators are less complex to monitor and administer than incentives offered to individual users
3. It recruits the Operator for the key task of ensuring economic value for Rwanda, incentivising them to target potential users which generate a high ratio of jobs, exports, backward linkages and/or import displacement per ha
4. It avoids a situation where GOR has to enforce performance targets and potentially terminate an agreement with a Zone Operator, which will be costly for GOR and therefore may not be a credible threat
5. It incentivises Zone Operators to lease plots to investors who may become operational within the timeframe stipulated to trigger the incentives and will therefore limit speculation in Zone land

The specific thresholds will be negotiated on a Zone-by-Zone basis, but should be designed to increase progressively so that Zone Operators are incentivised to continuously increase the economic benefit of Zones.

4.2 Policy Issue 2: Public and Private Participation in SEZ Programmes

4.2.1 Summary

Guiding Principles:	1. Safeguarding competition 2. Promoting Diversification 3. Promoting FDI 4. Value for money and leveraging private funds 5. Flexibility in Zone Setup
2010 Policy Recommendation	1. Full spectrum of PPPs allowed with emphasis on encouraging private sector to take the lead, including provision for fully private Zones 2. Public investment to be guided by economic CBA 3. Government equity investment should be guided by internal rate of return; co-investing to reduce risk to private developer, where there is potential of later privatisation 4. Zones be operated on commercial terms, except where there is a monopoly

Revised Policy Recommendation	Additional clarifications: 1. Land price regulation is introduced 2. The role of public vs private actors, including the issue of routine maintenance

The 2010 Policy seeks to leverage private investment in Zone development and operations as far as is possible. This principle has been maintained. Similarly, the recommendations for when to invest public money in development remains the same as in 2010, i.e. when there are significant economic returns. However, given the financing model in place for KSEZ and the lack of competition from other Zones, land prices have become prohibitively high and currently act as a deterrent on investment. Therefore, regulations on land prices within Zones is recommended, both to maintain the usefulness of Zones as investment promotion tools and to incentivize Developers and Operators to provide business support services to generate other streams of revenue.

4.2.2 Management Models permitted and preferred

Similar to the 2010 Policy, range of management models are permitted under this policy, from fully private to PPPs with significant GOR involvement. The only restriction remains that GOR will not be directly involved in Zone operations, which in all cases will be carried out by a private operator. This is due to international experiences indicating that fully public Zones tend to be less successful, cost more to develop and often constitute a continuous drain on scarce public resources.

Each Zone should be allowed to have a different management model, reflecting the different risks and economic benefit profile of the different Zones. It should be assumed that a separate Developer and/or Operator will be involved in each Zone. Should one company, however, wish to develop or operate more than one Zone, that is permitted if they can demonstrate adequate capacity.

The table below sets out four main types of PPP models that are permitted under this policy, ranked in terms of preference, i.e. Option 2 should only be considered where Option 1 is not possible and so forth. Preference is determined based on the cost and risks borne by GOR, the complexity and hence monitoring demand the model puts on the Rwandan public sector and the extent to which the model leverages private investment and knowledge to ensure the success of the Zone. The models are intentionally loosely defined to allow flexibility in negotiations, but should be structured so as to maximise private investment as far as the risk profile of the specific Zone allows.

Table 5: Permitted management models ranked in terms of preference

Management model	Land facilitation and ownership	Development of basic infrastructure	Development of specialised infrastructure	Operations and maintenance
1a – Special purpose vehicle	GOR	SPV	SPV	SPV
1b – Concession agreement (BOOT)	GOR	Private	Private	Private

2 – Concession (GOR constructs basic infrastructure)	GOR	GOR	Private	Private
3 – Concession (GOR constructs all infrastructure)	GOR	GOR	GOR	Private
Common for all models	• GOR through MININFRA will develop necessary connectivity to the Zones' external perimeters • Land ownership remains with GOR • SEZAR will be the regulator and run OSCs in each Zone • Zone Operators must ensure routine maintenance is carried out • GOR revenue from Zones is shared with local government			

Options 1a and 1b are equally preferable. In Option 1a, GOR joins one or more private investors to set up a Special Purpose Vehicle (SPV) which will develop, operate and maintain the Zone. The specific contributions from the different shareholders to this SPV will be set out in the shareholder agreement, but it is presumed that in addition to facilitating land and connectivity to the Zone boundaries, GOR will also contribute share capital to the SPV to develop infrastructure within the Zone boundaries. To complement GOR's contributions, the private partner is expected to also contribute to the SPV's share capital, as well as provide management for development, operations and maintenance. In Option 1b, GOR's contribution will be limited to land and connectivity, and a concession agreement with rights to build, own, operate and transfer (BOOT) will be signed with a private developer on a favourable, long-term basis.

In Option 2, GOR procures a contractor directly to build basic infrastructure within the Zones, such as roads, electricity, water and internet connectivity, while a concession agreement with a private partner will be signed to construct specialised industrial infrastructure (e.g. AFUs and warehouses) and operate and maintain the Zone. In Option 3, GOR also constructs specialised industrial infrastructure and the private partner will only be responsible for operations and routine maintenance. Given the higher costs, lower private share in risk and hence increased complexity of GOR's contributions associated with Options 2 and 3, respectively, they are less preferable to Options 1a and 1b. Options 2 and 3 will therefore only be considered when the expected economic benefits are sufficient to outweigh the additional costs and risks.

In Option 1a, GOR will receive dividends as a shareholder in the SPV, while in all other options, GOR revenue will be in the form of concession or lease fees, which will be negotiated separately for each Zone. As noted in section 4.1.3 above, discounts of such fees may be offered to incentivise Developers and Operators to generate jobs, exports and local supply contracts. In Options 2 and 3 concessions or lease fees will be set to achieve cost recovery for GOR's cost of expropriation, and all revenue should be shared with Districts to incentivize local government's ownership and interest in facilitating the Zone Users.

4.2.3 Responsibilities for Maintenance of Zone Infrastructure and Services

The 2010 SEZ Policy did not clearly set out the principles for maintaining the Zones. Agreeing to appropriate roles and responsibilities amongst the various stakeholders has proved a challenge and it is therefore one of the key triggers for the present review of the policy. As a principle, the Zone Operator must ensure that maintenance is carried out, even if they are not required to cover all associated costs. Rather, the guiding principles for Zone maintenance responsibility and cost sharing are given as follows:

For basic, public utilities such as roads, electricity and water, Users, similar to all other companies and households in Rwanda are neither responsible nor expected to directly contribute to their maintenance through user fees. Rather, utility companies responsible for providing these basic utilities across Rwanda are also expected to provide and maintain the appropriate level of service within Zones. Zone Operators must work with utility companies to ensure that the Zones' basic infrastructure never falls into disrepair as part of their service provision to Users.

For additional utilities and services such as cleaning, centralised sewage systems and Zone security, Zone Operators are expected to provide appropriate levels of service. The costs of doing so may be leveraged to Users through fees in addition to lease fees, but ultimately the Operator is expected to provide such services to Zone Users.

Finally, for facilities within Zones of commercial nature, such as conference facilities and buildings intended to be leased out as offices for backbone services providers such as law firms, catering companies and RRA offices, the Operator is expected to run these on purely commercial terms and not charge fees to Users, beyond the price set for utilising the facilities themselves.

GOR through SEZAR will be responsible for providing government services required by Users, through OSCs, details of which are provided in Section 4.5 below.

4.2.4 Land Price Regulation within Zones

Zone land has many characteristics of a structural monopoly, given limited competition and the high cost for Users to relocate. KSEZ experience has demonstrated that left to their own devices, Operators may charge land prices that are regionally uncompetitive and won't strive to offer additional services that may generate revenue for them.

To address this issue, the combined price that Operators may charge Users, inclusive of all fees and one-off costs, will be subject to SEZAR regulation. Such regulation will set out a uniform formula for regulating land prices and will consider:

- GOR's need to facilitate access to affordable serviced land
- GOR's need to position Rwanda as a competitive investment destination within the region
- Developers' need to realise financial return on investments within reasonable timeframes

This will also incentivize operators to provide services and additional business support for which they can freely set prices to generate additional revenue, rather than rely solely on rental income. Due to different cost structures in different Zones, actual prices may differ from Zone to Zone.

4.3 Policy Issue 3: Zone Designation Criteria and Process

4.3.1 Summary

Guiding Principles:	1. Safeguarding competition 2. Promoting Diversification 3. Promoting FDI 4. Value for money and leveraging private funds. 5. Flexibility in Zone setup 6. Promoting Made in Rwanda
2010 Policy Recommendation	1. Both public and private entities may suggest new Zones 2. Both pre-designated and non-pre-designated land may be suggested 3. Defined, formal designation process, including demand forecasts, feasibility study and physical planning 4. SEZAR to conduct CBA and make recommendation to Cabinet
Revised Policy Recommendation	No substantive changes to the above. Clear direction on the progressive nature of zone development and on internal zoning requirements.

The 2010 SEZ Policy set out a clear framework for who may propose new Zones, how and on what grounds an entity may be allowed to establish such Zone. This process remains broadly unchanged in the revised Policy. A clarification is introduced, however, on the process for progressive Zone development on land already earmarked for Zone development as well as internal zoning regulations.

4.3.2 Designation Process for New Zones

For an area of land to be designated as a new Zone, i.e. not within the 9 Zones currently operational or planned, the following process must be followed:

1. The (public or private) entity wishing to propose a new Zone must carry out:
    a. Demand study covering:
        i. Quantitative-based demand and market assessments, identifying targeted investor sectors, their sources and primary export destinations, sector trends and details about their production requirements incl. land uptake, utility requirements, inputs, skills and so on
        ii. Economic Rate of Return (ERR) and Economic Value Added (EVA) estimations based on jobs/ha, salaries, sales and export norms for the targeted industrial sectors. This analysis should consider the opportunity cost of the proposed location as well as existing idle Zone capacity if any
        iii. The location's Unique Selling Proposition (USP)
    b. Feasibility study, detailing infrastructure needed to be developed within and surrounding the proposed Zone as well as proposed management model of Zone. Internal infrastructure designs must adhere to SEZAR Regulations on

minimum distances between polluting and sensitive industries to safeguard the latter

2. The Proposer should submit these to SEZAR and, if found satisfactory, SEZAR will make the recommendation to the PMO to establish the Zone. The Designation PM Order will include the specific sector to be targeted in the SMI Park to be established within the proposed Zone (see section 4.6.3 below)

Thus, if a private investor wants to suggest a new Zone, including for land that is not already designated as Zones, this is possible. The private entity will have to submit their proposal to SEZAR and be able to demonstrate both positive economic benefits and financial viability, taking into account the opportunity cost of the land. Should their proposal be considered favourably, SEZAR will make a recommendation to the PMO, who will designate the Zone as such.

4.3.3 Progressive Development in line with demand

The eight earmarked areas set out in GOR's SEZ programme covers almost 800ha, in addition to land already developed in KSEZ (see section 5.1 below). In the short term, Bugesera SEZ will be the first Zone to become operational, adding 330ha to the total stock of serviced land over three phases. This leaves just over 400ha to be developed, ideally in partnership with the private sector. However, even in cases where private development funds are sourced, Zone development will still translate into significant costs for GOR to develop connecting infrastructure and run OSCs. Therefore, a progressive approach to development is necessary, based on evidence of demand from investors to set up in that particular Zone.

In reality, due to the shortage of suitable land for industrial uses in Rwanda, several of those areas earmarked for Zone development already have one or more occupants, despite lack of infrastructure. GOR will therefore as a matter of priority seek to provide basic infrastructure such as murram roads and connect the Zones to the main grids for electricity, water and internet in order to facilitate existing Users and to make the site more attractive to potential Developers.

4.4 Policy Issue 4: Land Use Regime for SEZs

4.4.1 Summary

Guiding Principles:	1. Promoting FDI 2. Complementary Policy Review
2010 Policy Recommendation	1. SEZ land be classified as 'public interest' 2. Specific Land Regime be issued for SEZs a. Foreigners may lease; locals may lease or own b. Maximum lease terms are 99 years, renewable and transferable c. Full transfer lease rights d. Creditors' rights be protected in case of default e. Right to continued occupancy and non-disturbance f. Liberal rights to change land use, within zoning regulation

	3. 'Use it or lose it' clauses for both Developers and Users
Revised Policy Recommendation	No substantive changes, except for the provision that neither locals nor foreigners may own land outright, only lease. More details are also introduced on the 'use it or lose it' clause.

The 2010 Policy recommended that SEZ land be classified as public interest and that a special land regime be set out for SEZs. While the Investment Code adopted many of the 2010 recommendations for the general business environment, land rights are governed by a separate law, namely the prevailing Land Law of Rwanda, which currently allows for a special SEZ land regime to be set out by Presidential Order. This Order was issued in 2016, however, the decision to restrict freehold titles within SEZs is a central policy decision that deviates from the general land regime in Rwanda, necessitating that it be reflected in the Land Law itself. Therefore, the Land Law needs to be amended to reflect this central position on land rights.

4.4.2 SEZ Land Regime

Land regimes are important for attracting investment and SEZ Land is therefore classified as public interest. Two aspects are important regarding land use, price and rights to ownership, transfer and use. As recommended by the 2010 SEZ Policy, a special land regime should therefore be in place, reflecting the strategic importance of the SEZ programme for Rwanda.

Zone Users will no longer be able to buy land outright, but rather sign up to 99-year leases with rights to transfer, use and develop. Long-term leases instead of outright purchases will also secure a steady source of revenue for Zone Operators. Lease fees may be separate to fees charged for maintenance and Zone services, or be combined, whichever is deemed more appropriate for the parties involved.

Both Users and Developers will be required to not delay progress towards operationalizing their plots according to submitted business plans. This is known as 'use it or lose it' clauses, determining a maximum amount of time a User or Developer show significant evidence of progress towards development or risk repossession with fair compensation. A maximum time of two years from the time of obtaining a license will be permitted for such evidence to be submitted to SEZAR, if so requested.

Currently, the Land Law requires GOR permission to sell or transfer land. Under the SEZ land regime, this should not be the case. Rather a generally liberal land regime should be instated, subject to existing zoning regulations.

4.5 Policy issue 5: Zone Benefits

4.5.1 Summary

Guiding Principles:	1. Safeguarding competition 2. Promoting Diversification 3. Promoting FDI 4. Value for money and leveraging private funds. 5. Flexibility in Zone setup
2010 Policy Recommendation	1. Special fiscal incentives, such as 15% CIT and duty free imports on inputs

	2. GOR obliged to provide and maintain public infrastructure and services 3. Regulatory relief and streamlined procedures, to be implemented through OSCs in each Zone
Revised Policy Recommendation	No general special fiscal, immigration or customs regimes beyond what is offered by the Investment Code. No changes to points 2-3, but clearer definition is put forth of which stakeholders should be represented in each OSC and a recommendation for MOUs to be signed between all contributors and SEZAR.

The 2010 SEZ Policy detailed a number of Zone benefits to be available to Users, including special fiscal regimes; obligations on GOR to provide and maintain public infrastructure and services; and regulatory relief and streamlined compliance procedures through OSCs to be established in each Zone. The 2015 Investment Code extends many of the fiscal benefits to all investors in priority sectors, regardless of their location, negating the need for special and potentially costly fiscal regimes in all Zones. This Policy therefore sets out base-level benefits to be offered in Zones without special fiscal, immigration or customs regimes. The obligations on GOR to provide and maintain public infrastructure is maintained, as is the principle of regulatory relief and streamlined compliance procedures through OSCs.

So far, KSEZ does not have its own OSC, using instead the one in RDB which is available to all investors. This OSC does not yet have all functions intended in the 2010 Policy, and the centre has faced some operational confusion about the contributions and obligation of various GOR stakeholders. This revised policy therefore sets out more detailed recommendations to the OSCs, while confirming GOR commitment to provide an OSC in each Zone.

4.5.2 Proposed Zone Benefits

In addition to those benefits set out in the Investment Code, Users in Special Economic Zones also have access to the following benefits:

- Dedicated and high-quality infrastructure connectivity
- Dedicated and high-quality OSC run by SEZAR to facilitate necessary permits and licenses

The One-Stop Centres will be a key benefit offered to Users, offering significant reductions to the cost of regulatory compliance. As such, the following services that should be available in-house in each OSC include but are not limited to:

- Investment and company registration
- Tax registration and issuance of TIN numbers
- Immigration services
- EIA services
- Utility connection and payments, including water, power, internet and telecommunications
- Customs services
- Trademark and IP registration
- Mortgage registration
- RSB certification application and test facilitation

- Construction permits
- Certificates of Origin
- Dispute mediation and process advisory services
- Other services deemed necessary, including sector-specific services if the Zone or parts of it is designated as a sector-specific Zone

As is clear from this list, ensuring that OSCs can provide these services will require close partnership between SEZAR, who will operate the OSCs, and a long list of GOR stakeholders including RRA, RDB, REMA, DGIE, RURA, KIAC, RSB and local government, as well as private utility and telecommunications companies. Experience to date shows that these working relationships may be challenging and SEZAR should therefore as a matter of priority sign MOUs with each stakeholder, detailing expectations to staff, resources and other commitments from each. As a general principle, SEZAR should have supervisory oversight of staff seconded to its OSCs and staff should have sufficient administrative powers within the OSCs to accommodate Users' requests.

All OSCs should offer a VIP service to Users. This means that each User will be assigned to a Key Account Manager (KAM) who will be dedicated to that User and develop a personalised working relationship with them. Such KAMs will also be able to connect Users with sector-specific freelance experts as required.

4.6 Policy Issue 6: Complementary Policies and Safeguard Measures

4.6.1 Summary

Guiding Principles:	1. Complementary Policy Alignment 2. Promoting Made in Rwanda
2010 Policy Recommendation	1. Developers and GOR actively encouraged to develop support programmes for backwards linkages and technological/knowledge spill-overs 2. Maintain labour and environmental standards
Revised Policy Recommendation	1. The principle of Point 1 is kept but elaborated in much more detail to truly incorporate the Made in Rwanda mind set. IDEC and SEZAR form the institutional framework to ensure to happen 2. Labour and environmental standards are maintained 3. Sector-specific SMI Parks are to be set up in each Zone, to support SMIs with huge growth potential which are currently scattered around the country and don't have the capacity to access Zone land on commercial terms

It cannot be assumed that SEZs will automatically reach their maximum potential in terms of jobs, exports and output per ha. Several policy measures are therefore required to incentivise Operators pick Users with high economic value for Rwanda and to incentivise Users develop backward linkages and technological spill-overs to the local economies, including the establishment of a dedicated institutional setup to facilitate the establishment of linkages. This is in line with the spirit of the Operator incentives set out in section 4.1.3 above. Furthermore, it is important to maintain adequate safeguards on labour and environmental protection standards.

Furthermore, the main objective of the 2017 Made in Rwanda (MIR) Policy is to promote the competitiveness of Rwandan products. The constraints on competitiveness are multi-faceted and therefore the MIR Policy is comprehensive and far-reaching. MIR is also a mind-set, whereby support to domestic production is to be mainstreamed across GOR Policies and Strategies. In line with this mind set, this Revised SEZ Policy pays special attention to facilitating Rwandan producers to access serviced land in a transparent and cost efficient manner.

4.6.2 Mainstreaming Made in Rwanda

Ensuring Special Economic Zones are at the forefront of implementing the Made in Rwanda policy will be vital to their success and the development of Rwanda. As such, both IDEC (Industrial Development and Export Council) and SEZAR will monitor the performance of Zones in implementing Made in Rwanda and other pertinent policies. Core work areas will include:

- Zone integration into the National Employment Programme, especially workforce development and internship components. There may be scope for conducting cross-company training programmes under RRT (Rapid Response Training) to e.g. secretaries or mid-level managers
- Public transport facilitation
- Facilitation of on-site business support service provision, such as catering, legal, logistics and accounting services
- Export facilitation to Users, such as linking Users to Export Advisers, traders and export aggregators
- Facilitation of CSR (Corporate Social Responsibility) initiatives from investors, if so requested
- Sector-specific linkages where Zones are sector-specific

4.6.3 Promoting Made in Rwanda through SMI Parks

All across Rwanda, small and medium-sized industrialists (SMIs) are scattered around, often in areas that are not zoned for industrial development, creating environmental and social problems and complicating their access to adequate infrastructure and other services. Many SMIs struggle as a result, lacking adequate power and water connectivity as well as access to business development services and space to expand, constraining their competitiveness. Yet many of these SMIs also have a huge potential to growth, if such constraints were addressed by e.g. relocating to SEZs. The cost of relocating to Zones, however, is prohibitively high for most SMIs and GOR may therefore support those with high growth potential and proven business record to relocate.

To facilitate SMIs access serviced land, GOR will book plots of 5-10ha within Zones and develop it for specific sub-sectors, including constructing advance factory units (AFUs) as required. Agro-processing sectors will be targeted in the first instance for SMI Parks, extended to other sub-sectors as demand develops. The main benefit of this approach is that GOR may pool certain infrastructure development projects and service several producers of the same sector simultaneously, lowering the cost for all. Users meeting the requirements set out below, may access land on a subsidised basis, but not entirely for free.

In conjunction with infrastructure developments, GOR will also provide sector-specific technical assistance to the Users of these SMI Parks as well as general business development services through dedicated business development advisers. This technical assistance component will be housed in the Zones' OSC but only available to the SMI Park Users. NIRDA will oversee and implement the BDS component of the SMI Parks.

In line with the 2010 Policy recommendation, there are no general eligibility criteria for Zone Users. However, in order to be facilitated to access land in SMI Parks which will be subsidised, the following criteria must be met:

1. Must operate in the priority sector defined for the specific SMI Park
2. Must have proven track record of business acumen
3. Must submit a credible business plan with significant employment or exports growth
4. Must demonstrate how current operating premises are a direct hindrance to realising this business plan

The target beneficiary is thus not a start-up, but an existing firm with high potential to grow if given the right premises and BDS support.

4.6.4 Other Complementary Policies and Safeguard Measures

Investment Code and Policy – The overall objective of this Policy is to promote investment in the industrial sectors in Rwanda. The guiding legal framework for investment promotion is the 2015 Investment Code, which sets out a number of fiscal and other incentives for investors that meet the specified requirements. A key observation from this Policy Review is that SEZ users should not need to acquire Investment Certificates separately, but rather that RDB and SEZAR should ensure that one process is sufficient for both licenses. Secondly, there must be complete alignment between the industrial sectors prioritised in the Industrial and Made in Rwanda Policies and those prioritised in the Investment Code.

Environmental protection – Environmental protection is sometimes seen as opposite to investment facilitation. However, as Rwanda has shown this need not be the case, when adequate steps are taken to ensure that all projects go through environmental impact assessments. All Zones should be set up with proper waste water treatment facilities and garbage collection systems. Finally, NIRDA is an agency dedicated to improving industrial technology including resource efficiency and REMA will continue to monitor the environmental impact of zones.

Labour – The SEZ Law allows for a Ministerial Order by the Ministry of Labour to set out more flexible labour regime in SEZs. At present time, there is little indication that Rwanda's labour laws are a serious hindrance to attracting investors, necessitating the issuance of this MO. However, if at any point felt to be required, SEZAR will initiate the process to develop such an MO on the basis of evidence that it will facilitate a positive economic return for Rwanda.

Skills and training – The SEZ programme should be mainstreamed into the NEP and other skills development programmes. The employment potential of the planned Zones is significant, but conversely, the demand for productive labour will also be high. RDB, MINEDUC and MIFOTRA who together are mandated with skills development should explicitly target Zone users and tailor their interventions to the needs of these companies.

Energy and other utilities – Given that the base premise of the Zones programme is to provide high quality infrastructure in dedicated industrial areas, utility connectivity and quality is paramount to the success of the programme. The MIR Policy sets out the government's commitment to maintain competitive industrial tariffs for electricity and water, but the quality of utilities is perhaps even more important than the price. This is because fluctuations in especially power quality can have serious negative effects on installed equipment. As such, the SEZ Programme should be mainstreamed and prioritised into GOR Energy and Utility policies and strategies, such as the Rwanda Energy Policy and the Energy Sector Strategic Plan. SEZAR should as a matter of priority engage MININFRA on the matter and dedicated power lines and water supply should form a central tenant of SEZAR's MOU with that institution.

4.7 Policy Issue 7: Institutional Framework for the management of SEZ Program

4.7.1 Summary

Guiding Principles:	1. Safeguarding competition 2. Value for money and leveraging private funds
2010 Policy Recommendation	1. SEZAR as a single regulator should be established as a unit in then-MINICOM, with adequate administrative powers, funding and staffing.
Revised Policy Recommendation	SEZAR remains as a unit in RDB, but must acquire adequate administrative powers, funding and staffing. SEZAR's mandate should be extended to land earmarked by GOR for Zone development. SEZAR should as a matter of priority set out MOUs with all relevant GOR stakeholders, to ensure that SEZ Users do not have to go through two processes to obtain User Licenses and the benefits under the Investment Code from Investment Certification.

Implementation of the 2010 recommendation has been partial, and not entirely as was originally intended. Specifically, SEZAR has been a unit within RDB, not MINICOM, using RDB's OSC as the OSC for KSEZ. As yet, there has therefore not been an OSC on-site at KSEZ or any of the other SEZs. Furthermore, not all intended Regulations drafted following the 2010 Policy were issued.

4.7.2 SEZ Regulatory Authority

The success of Rwanda's SEZ Programme depends on the existence of a competent and independent regulator, namely the SEZ Authority of Rwanda, SEZAR. In recognition that much of SEZAR work, notably the OSC operation, is closely linked with investment facilitation, SEZAR will remain as a department within RDB. Its functions include:

- Enforcing the SEZ Law
- Advise GOR on SEZ Strategic Policy and on establishment, development, maintenance and operation of Zones, including the 8 earmarked areas for zones development

- Issue Developer, Operator and User licenses and collect associated fees
- Operate OSCs, based on MOUs with all relevant stakeholders
- Prohibit and restrict activities in SEZs based on a general negative list
- Impose penalties and sanctions for violations of SEZ regulations
- To monitor economic and social impact of each Zone
- Issue Certificates of Origin for goods shipping from the Zones

To deliver these functions effectively, SEZAR through RDB restructuring, will need to be empowered to have the necessary administrative powers and adequate resources to fulfil its mandate.

4.7.3 MINICOM oversight capacity

MINICOM is currently the custodian of the land earmarked for zone development in eight districts. This responsibility goes with the workload of preparing projects documents for zones development until private investors are selected to partner with the Government to develop and operate the zones. Such preparatory work include the expropriation of land in earmarked zones, the keeping of land titles for earmarked zones, the feasibility studies for zones development and the participation to the PPP negotiation process to select strategic investors for the zone development.

SEZs and other large industrial infrastructure projects are complex in nature and have many moving parts. Experience to date has shown the importance of having proper contract management for the large infrastructure contracts and agreements that are associated with SEZ development and operations. To mitigate the risks involved going forward, this revised policy has established the following principles:

- As far as possible, private investment will be leveraged to develop the required infrastructure while GOR's role will be supervisory and facilitating
- Adequate resources and time must be allocated for PPP and concession agreement negotiations, which are led by RDB with active input from MINICOM, to mitigate legal and implementation risks and to maximise the overall economic benefit of the Zones
- Projects should be monitored continuously by capable teams comprising of legal, financial, engineering and project management staff to help ensure that they remain on schedule and within budget
- The teams monitoring projects must conduct regular on-site visits and actively engage with the private investors and/or contractors and their implementing partners

Several of the earmarked land for industrial park have one or more occupants despite lack of infrastructure. There is currently an urgent need to provide basic infrastructure to the earmarked zones to facilitate existing users and to make the sites more attractive to potential developers. Districts have been requested to play an increasing role in the interim management of these zones but experience show that close monitoring by MINICOM is needed to safeguard the basic principles of the SEZ policy in the medium to long term horizon.

4.7.4 Legal Implementation

To implement the revised SEZ Policy there is a need to update and review the existing laws in relation to land in SEZs to ensure harmonization of the laws and policy.

a. Land regime reforms:

- Land law

To implement the proposed policy decision whereby all users (foreigners and locals) will only be entitled to leasehold rights in SEZs, there is a need to amend the land law which currently provides in its art 24 paragraph 2 that “Special Economic Zones, a foreigner shall be treated as a national and may be granted a free hold title”. The amendment shall remove that right to freehold title in SEZ and provide for only leasehold.

- Presidential Order N° 002/01 of 27/4/2016 determining the management and use of land in Special Economic Zones

Once the land law is revised, there will be a need to revise the above mentioned presidential order that provides in its article 16 that “local and foreign investors shall be entitled to freehold rights to land in SEZ. Freehold rights shall only be granted to developed land and its boundaries in accordance with the intended use of the land”.

b. SEZ law reforms:

- Price regulation

Due to the implementation of the policy provision that prices for land in SEZ shall be regulated by SEZAR, there will be a need to amend the SEZ law, in its art. 24 paragraph 2 that provides that “A zone developer or operator shall also be entitled to freely set prices for land and fees for service delivery in the area depending on invested capital and expected profits”.

- ‘Use it or lose it’

The updated policy will also require strengthening art.25, the current ‘use it or lose it’ provision, to provide clearer guidance for the circumstances in which land will be expropriated on the grounds that it has been insufficiently developed within a certain explicit time period, to be determined by SEZAR.

- Zoning regulations

The SEZ Law will also need to be updated to insert a new provision for SEZAR to issue zoning regulations, determining minimum distances between polluting and sensitive industries to safeguard the latter, amongst other zoning matters.

c. Cross-government collaboration for implementation

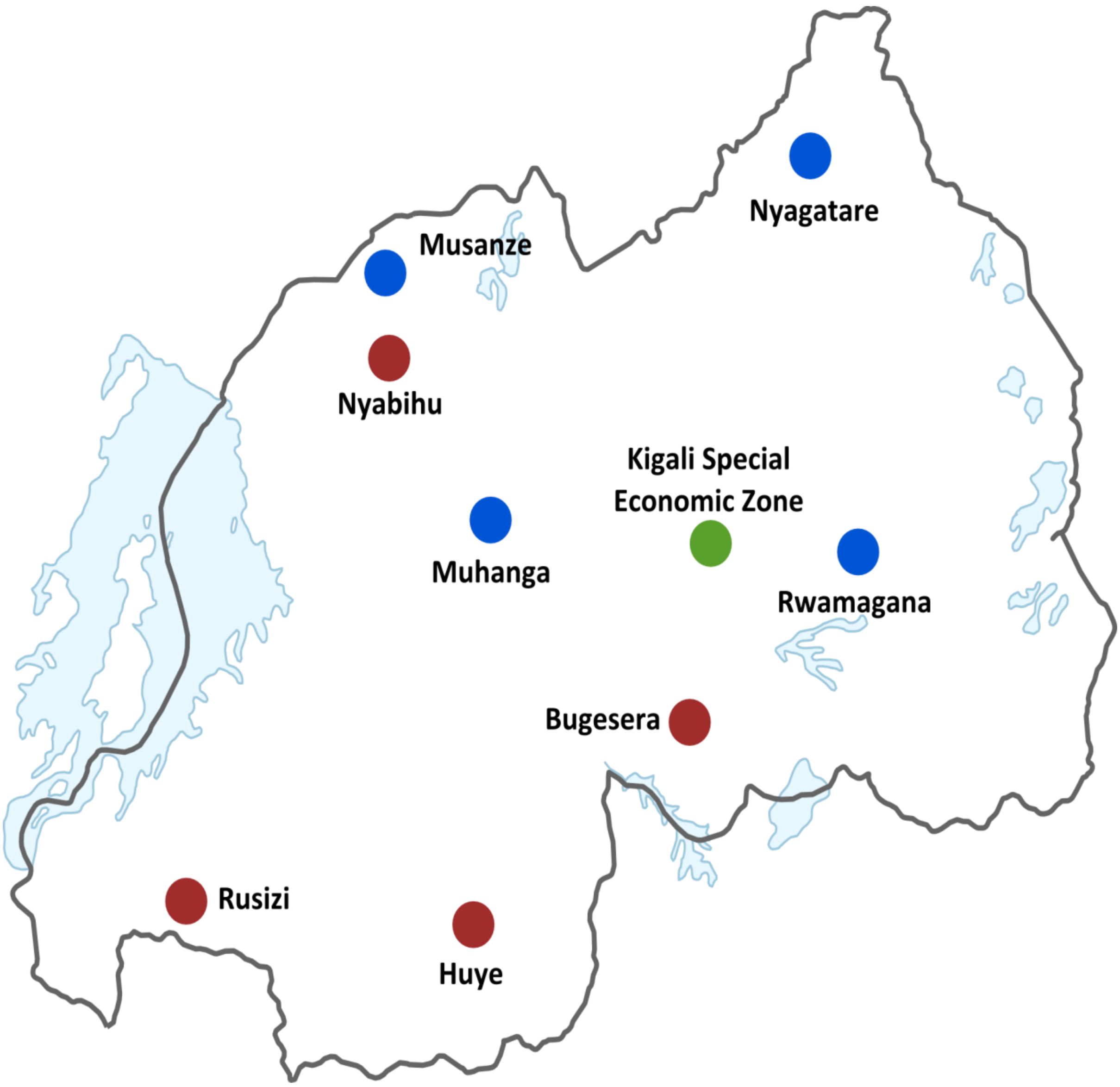
To run the OSCs and otherwise ensure cross-GOR collaboration, SEZAR will require close coordination with and/or seconded staff from several GOR institutions and private service providers. These include MINICOM, RSB, RRA, REMA, WDA, MININFRA, Districts, DGIE, RURA, telecom providers, notaries, KIAC and more. SEZAR should therefore sign MOUs as a matter of priority with all these institutions, setting out the expectations to their contributions to the SEZ programme, relevant reporting structures and frequency of interactions.

5 Annexes

5.1 Status of the SEZ Programme Expansion as of August 1st, 2017

GOR has set out an ambitious Zone development program, with the aim of further developing secondary cities and strategic locations around the country. Land has been designated for Zones in Bugesera, Huye, Kicikurio SME Park, Muhanga, Musanze, Nyabihu, Nyagatare, Rusizi and Rwamagana and is at various stages of expropriation/development. The total land size for the parks, including KSEZ, is 1095HA.

Figure 3: Pipeline SEZs in Rwanda



5.1.1 Bugesera

The Bugesera Zone is in a prime location, due to its proximity to Kigali and the under-construction new international airport. Detailed engineering and feasibility study for 330HA has been completed and 160HA have been expropriated. Construction of Phase I (100ha) began in 2015 and is 36% complete at the time of writing. It is expected that Phase I will be completed in 2017 and strong investor interest has already been received for the Zone.

5.1.2 Other Zones

Beyond KSEZ and Bugesera Zone there are eight other Zones to be developed in phases over the coming years. The table below highlights the size, location and status of each of these parks, whilst the phasing of their development will be determined by the criteria outlined below.

Location	Size	Status
Huye	50HA	• Feasibility study and Detailed engineering study completed • Park fully expropriated • Connectivity to be complete by 2018 • Three operational industries
Kicukiro SME Park	43.2HA	• GOR provided basic infrastructure on district industrial land but did not expropriate • Close to full occupancy
Muhanga	63HA	• Expropriation planned 2018-2019 • Feasibility study and Detailed engineering study completed
Musanze	164HA	• Land earmarked • Feasibility study and Detailed engineering study completed • Expropriation process has started • Strong investor expressed interest to develop 100 ha
Nyabihu	44HA	• Fully expropriated • Feasibility study and Detailed engineering study completed • Two operational Industries • Strong investor interested in the rest of the park
Nyagatare	50HA	• Half expropriated • Feasibility study and Detailed engineering study completed
Rusizi	45HA	• Feasibility study and Detailed engineering study completed • Land fully expropriated
Rwamagana	80HA	• Feasibility study and Detailed engineering study completed for 80HA • 50HA currently expropriated • Two operational industries

The 43.2HA Kicukiro SME Park, which is close to full occupancy, provides an interesting case study in how to also develop Rwandan SMEs via Zones. Whilst Zones are traditionally used by governments as investment promotion tools, Kicukiro SME Park has the potential to serve as

a strong example of how best to utilise the remaining land zoned for industry across the country to boost SMEs. In Kicikurio, the government conducted studies on the park and provided the basic infrastructure, whilst expropriating no land itself, leaving the companies to negotiate directly with the land-owners. Across Rwanda there is 5400ha spread across all districts earmarked for industries, the development of which along a similar model to the Kicukiro SME Park offers significant potential for a low-cost solution to addressing the infrastructure constraint to local, small industrial firms.

5.2 Guidelines on Concession Agreements and PPP agreements

SEZAR in conjunction with the MINICOM and RDB legal teams will develop a set of Concession Agreement template documents and negotiation guidelines to ensure a legally vetted and uniform approach to concluding these complexes, long term contracts with any private partners entering agreements with the GOR. Two to three different templates will be developed with a menu of terms to be adjusted in accordance with the nature of the individual zone and the length of the agreement.

The key terms that these templates will address include:

- Identification of the specific data sources that are needed to calculate land prices for the specific Zone
- Requirements on the Operator for marketing and support to investment promotion, to ensure that the Zone's potential for generating value is maximised
- Incentive benchmarks for the Zone Operator, in the form of both objective and subjective measures of the Operator's performance, such as:
    - Number of jobs created per square metre (objective);
    - Units of exports from the zone (objective);
    - Value of supply contracts concluded with local businesses provided goods or services to the zone (objective);
    - Reported zone user satisfaction levels on a number of service related measures such as quality of OSC, maintenance of infrastructure, helpfulness of staff (subjective); and
    - Numbers of complaints submitted to SEZAR by users of a zone (subjective).

  Achievement of the incentive targets would trigger a discount on the concession fee owed by the Operator under the Agreement to SEZAR, and could be designed to become more ambitious over the course of the agreement to encourage continued improvement and innovation.

- Requirements on the Operator to participate in or provide for any SMI Parks within the Zone
- Requirements on the Operator to mainstream Made in Rwanda as well as facilitate public transportation and other backbone services
- Regular reporting obligations on the Operator to ensure SEZAR oversight of the Zone's operations, compliance, and achievement of incentive targets
- Requirements for the provision of construction and operation bonds to ensure that the GOR's interests are adequately protected in the case of non-performance by the operator
- Dispute resolution provisions which encourage amicable settlement where possible

- Serious, persistent acts or omissions of the Operator which would trigger the right of SEZAR to terminate the contract, to ensure there is a mechanism for removing non-performing Operators in a worst-case scenario
- 'Lock in' obligations that require that the Operator not change ownership or control during the course of the agreement without the approval of SEZAR, which is necessary as the Operator's corporate experience and turnover are key requirements for their licencing.

Any other operator obligations necessary in the specific context of an individual zone (i.e. above and beyond the general obligation imposed by the SEZ Law and Regulations)

5.3 Capacity enhancement for MINICOM General Directorate of Industry and Entrepreneurship Development to implement SEZ policy

In light of the significant expansion of the SEZ programme and hence increased monitoring complexity, MINICOM will have to enhance the capacity of the General Directorate of Industry and Entrepreneurship Development by adding two additional specialists to its current staffing. The first one needed is a Project Management Specialist to support the Director General in the planning and monitoring of industrial development projects. The second one needed is an additional Industrial Infrastructure Policy Specialist to increase the capacity to oversee the progressive development of the areas earmarked for zone development.