GOVERNMENT OF RWANDA

RWANDA NATIONAL EXPORT STRATEGY (NES)

March 2011

List of Acronyms:

ADB	African Development Bank
AGOA	African Growth and Opportunities Act (for U.S. market)
BDC	Business Development Center
BICS	Business Investment Climate Survey
BNR	National Bank of Rwanda
BPO	Business Process Outsourcing
CBC	Commonwealth Business Council
CDF	Common Development Fund
CEPGL	Communauté Economique des Pays des Grands Lacs
COMESA	Common Market for Eastern and Southern Africa
COOJAD	Youth Cooperative Bank for Employment and Development
CTC	Cut Tear Curl
CWS	Coffee Washing Station
DB	Doing Business
DTIS	Diagnostic Trade Integration System
EAC	East African Community
EDPRS	Economic Development and Poverty Reduction Strategy
EIA	Environmental Impact Assessment
EU	European Union
FDI	Foreign Direct Investment
GTZ	Deutsche Gesellschaftfür Technische Zusammenarbeit
IDEC	Industrial Development and Export Council
IFC	International Finance Corporation
IPRC	Integrated Polytechnic Regional Center
IRST	Institute of Scientific and Technical Research
ISAR	Agricultural Research Institute
KIST	Kigali Institute of Science and Technology
LWH	Land Husbandry and Water Harvesting Project
MIGEPROF	Ministry of Gender and Family Promotion
MINAGRI	Ministry of Agriculture and Animal Resources
MINEAC	Ministry of the East African Community
MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
MINICOM	Ministry of Trade and Industry
MINICT	Ministry of Information Technology
MINIJUST	Ministry of Justice
MINITERRE	Ministry of Lands
MT	Metric Ton
NES	National Export Strategy
NISR	National Institute of Statistics Rwanda
NLC	National Land Council
OGMR	Rwanda Geology and Mines Authority

OTF	On the Frontier Group
PPD	Public Private Dialogue
PSF	Private Sector Federation
RADA	Rwanda Agricultural Development Agency
RBS	Rwanda Bureau of Standards
RDB	Rwanda Development Board
RDF	Rwanda Defence Forces
REMA	Rwanda Environmental Management Authority
RHODA	Rwanda Horticulture Development Authority
RICTA	Rwanda Information Communications Technology Association
RIG	Rural Investment Group (Investment Facility run by PSF)
ROAM	Rwanda Organic Agriculture Movement
RPPA	Rwanda Public Procurement Authority
RRA	Rwanda Revenue Authority
RURA	Rwanda Utilities Regulatory Agency
RWF	Rwandan Franc
SACCO	Savings and credit cooperative
SADC	Southern African Development Community
SIMTEL	Sté Interbancaire de Monétique et de T-compensation au Rwanda
SME	Small and Medium Enterprise
SPU	Strategic and Policy Unit (President's Office)
TIFA	Trade and Investment Framework Agreement
TVET	Technical and Vocational Education and Training
UGC	User Generated Content
USAID	United States Agency for International Development
USD	United States Dollars
UNWTO	United World Tourism Organization
VAT	Value Added Tax
WB	World Bank
WDA	Workforce Development Authority
WTO	World Trade Organization

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EXECUTIVE SUMMARY

This document provides the 5-year framework for viewing the country's export challenges and opportunities, and provides the platform for various organizations to engage in a joint prioritisation process. The goal is to mobilize and organize Rwanda stakeholders to accelerate export growth, create jobs, increase revenues, and ultimately improve the prosperity of the average citizen. Rwanda can create a virtuous cycle of prosperity, by focusing on cross cutting issues that support all industries and specific high priority sectoral issues.

Rwanda's exports have increased significantly in recent years. Revenues rose from $367 million in 2009 to $454 million in 2010 including tourism[1,2]. Imports have also grown from $282 million in 2003 to US$1.3 billion in 2010. The country has made significant improvements in its business environment, with its entry as the most competitive East African country in the WEF ratings, and its 2011 World Bank Doing Business rankings of 58th. Rwanda continues a shift from exports of raw materials and commodity products to more sophisticated niche products. This is due the development of sector strategies, human capital improvements, and public-private discourse. The key to Rwanda's long-term export growth will be facilitating this transition through strategy implementation, and technology infusion across industries.

The priority sectors for the 5-year National Export Strategy (NES), in the short and medium term, are the traditional sectors of tea, coffee, tourism and mining, as well as nascent, non-traditional export sectors of horticulture and business process outsourcing. In addition several Greenfield sectors are also important to Rwanda's long-term exporting success, and this document seeks to support all sectors through the cross cutting issues. The cross cutting strategies for the NES are human capital development; finance & investment; infrastructure; monetary and fiscal policy; business environment; creating a platform for innovation & economic diversification; trade facilitation & promotion; and gender equality, youth, rural and environmental areas.

The NES requires government and private sector coordination. Efforts should focus on removing the key barriers and constraints to trade in Rwanda. Effective implementation of the NES will depend on focusing on cross cutting issues and key industries, but more specifically, the cluster of industry networks and the supporting environment.

Initiatives must be prioritised as objectively as possible, and relevant private and public stakeholders must own and commit sufficient resources to the strategy, until initiatives are complete. For this reason the NES has sought ongoing feedback from key private and public sector actors, and provided a detailed action plan. Going forward, the NES should not be seen as a static document, but as the first stage in an ongoing process of planning and implementation that will allow Rwanda to be effective in achieving its vision for exports in the years ahead. Through a robust private and public sector mechanism, MINICOM and the RDB will ensure that the NES implementation, monitoring and evaluation are managed successfully.

[1] Tourism is included in the NES because it generates foreign exchange, while consumed locally.
[2] The methodology for calculating tourism receipts may change in the next year, to account for people coming to Rwanda solely to visit family and friends. This is likely to reduce tourist visitor estimates by as much as 60%.

1. ISSUE

In Rwanda's Vision 2020 plan, the country set ambitious goals for growth that required an *almost seven-fold increase* in the economy. Because of the progress made in the last decade, the economy now needs to expand by just 250% between 2010 and 2020 in order to increase its per capita GDP from US$550 to at least US$900.[3] But this growth in the decade ahead will be more challenging, and thus far, Rwanda's scorecard in terms of meeting its export growth of 15% per annum is mixed.

While Rwanda's exports have increased significantly in recent years from $367 million in 2009 to $454 million in 2010 including tourism,[4] imports have grown more rapidly – from US$282 million in 2003 to US$1.3 billion in 2010. Rwanda is a net importer from the EAC region, representing a third of Rwanda's overall imports. Rwanda still fails to capture most of the value of its products, depending instead on volatile commodity products within its tea, coffee, and minerals industries for the majority of its product-based export revenues.

However, Rwanda has made significant improvements in its business environment, as recognized in the 2011 World Bank Doing Business ranking, which moved Rwanda up eighty-five places from 143rd to 58th in the space of two years. The 2010 World Economic Forum's annual Global Competitiveness Report ranked Rwanda as the 6th most competitive market in sub-Saharan Africa, and among the world's best on indicators such as female participation in the labour force, staff training, and legal rights. Fitch Ratings recently upgraded Rwanda to a "B," citing Rwanda's "uninterrupted" period of economic growth and significant improvement of its business environment.

To guarantee continued and steady growth, and in alignment with Vision 2020 and EDPRS, the 2010 Kivu Retreat called for RDB to develop the NES as a comprehensive and coordinated approach to driving export growth. The strategy would drive export capacity, sophistication and revenues, while taking into account the many inter-related cross-cutting components that build trade competitiveness.[5]

The 5-year NES provides both a framework for viewing the country's challenges and opportunities in exporting, as well as a strategy to engage stakeholders in jointly establishing and implementing priorities for Rwanda's growth. As such, it balances both sectoral and cross cutting issues with specific activities to reduce growth constraints. It is designed to provide *general incentives* and a business environment to enable new exports – ones that perhaps a creative entrepreneur or investor can identify, but which will grow dramatically in Rwanda's business climate. This is combined with *well-defined interventions* in sectors where the potential is known and public intervention can redress a market failure or offset a temporary deterrent to entry.

2. CONTEXT

2.1 IMPORTANCE OF EXPORTS TO RWANDA

In order to achieve its goal of US$900 GDP per capita, Rwanda now requires a 4.6% annual growth rate, a rate which has been surpassed in the last five years (assuming the population grows at a rate of 2.5-3%). Exports are central to achieve the economic goals of Rwanda's Vision 2020 and EDPRS. In Vision 2020, export growth is targeted at 15% per annum and is marked as a crucial component to achieving balance of trade and balance of payments improvements. Thus far, this effort has contributed to the balance of payments deficit reduction from 17% of GDP in 2001 to 9% in 2010.

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[3] Based on Rwanda's economic progress, there has been some discussion that this GDP per capita target might be increased; however, as of this writing, the official Vision 2020 target is still set at US$900 (assuming population growth rate of 2.5-3%).

[4] The methodology for calculating tourism receipts may change in the next year, to account for people coming to Rwanda solely to visit family and friends. This is likely to reduce tourist visitor estimates by as much as 60%. Under this methodology, total exports including tourism for 2009 were $260M.

[5] Farole, Reis, Wagle. "Analyzing Trade Competitiveness, A Diagnostics Approach". World Bank, Policy Research Working Paper 5329.

2.2 EXPORT ISSUES AND CHALLENGES

Rwanda's 2009 export revenue decreased by US$85 million in comparison with 2008 figures, due to the impact of global downturn of key sectors. However, exports rebounded in 2010, increasing by 23.8 percent to US$454 million*:*

- Minerals suffered a 40% decline in export revenues in 2009. This rebounded to US$68 million in 2010;
- Both coffee and tea production declined (18% and 6%, respectively) and coffee prices fell 4%; however coffee and tea exports in 2010 reached US$56.1 million and US$55.7 million respectively;
- Tourism declined by 6%, translating into total receipts of US$175 million. Revenue from tourism in 2010 totalled US$200 million.

Rwanda's exports show robust growth – and so do imports. Rwanda's exports, including tourism, have increased significantly over the past decade, rising to US$454 million in 2010. This marks an impressive trend in nominal export revenue growth since 2003. Export growth was led by tourism, tea, coffee and mining sectors, as well as strong growth of re-exports.[6] At the same time as this impressive growth in exports, imports to Rwanda have grown more rapidly, from US$282 million in 2003 to US$1.3 billion in 2010. Efforts to both expand exports and reduce or substitute targeted imports through competitive measures can reduce the trade deficit, as donor aid and international transfers, which currently subsidize this deficit, are being reduced.

Rwanda is a net importer from the EAC with imports from the region representing a third of Rwanda's overall imports. Rwanda's main trading partners in the EAC region are Uganda and Kenya, with 2009 trade at US$ 249 million and US$172 million[7], respectively. However, this mostly constitutes imports into Rwanda from EAC nations. The only country with which Rwanda has a largely positive trade balance is Burundi, although this only represents less than 1% of Rwanda's trade.

Rwandan exports are underdeveloped vis-à-vis the rest of Africa. Although the export sector is growing, Rwanda lags other African nations in terms of exports as a percentage of GDP. Closing this gap will require expansion of production and the creation of niche products and services that respond to the specific needs of target markets.

Rwanda depends on volatile commodity products within its tea, coffee, and minerals industries, for the vast majority of its export revenues. Over-dependence on commodities for exports can contribute to lower long-term growth.[8] While Rwanda's coffee, tea and tourism strategies focus on moving towards more targeted, high-end market niches, progress is not complete and a global downturn may impact these specialty markets as well. Rwanda can escape the "commodity trap" by diversifying its exports into targeted products and services, innovating, increasing productivity, and serving higher margin, niche markets. The global market is becoming increasingly complex, with value chains stretching across continents. By moving downstream, closer to end consumers, Rwandan firms can capture larger product margins and learn better from customers.

Past Export Promotion activities have been uncoordinated and of low impact. While the GoR, through the RDB is becoming more coordinated with export promotion activities, the activities had previously not been executed in a coordinated manner.[9] The NES addresses previous implementation weaknesses and suggests a systematic and coordinated approach to export development, through the RDB.

[6] Re-exports refers to foreign goods that are imported into the country and then re-exported, e.g., when minerals pass through Rwanda from Congo on their way to ports in Kenya and Tanzania.

[7] Trade Map 2009 data

[8] Farole, Reis, Wagle. "Analyzing Trade Competitiveness, A Diagnostics Approach". World Bank, Policy Research Working Paper 5329.

[9] Because the export facilitation and promotion measures have not been done in a systematic manner, Rwanda has had instances in the past where market access and buyers will be secured for certain products, with the subsequent discovery that the Rwanda producers do not have the capacity to meet the volumes of the product agreed in the supply contracts; or instances where would-be exporters invest in capital and machinery for an

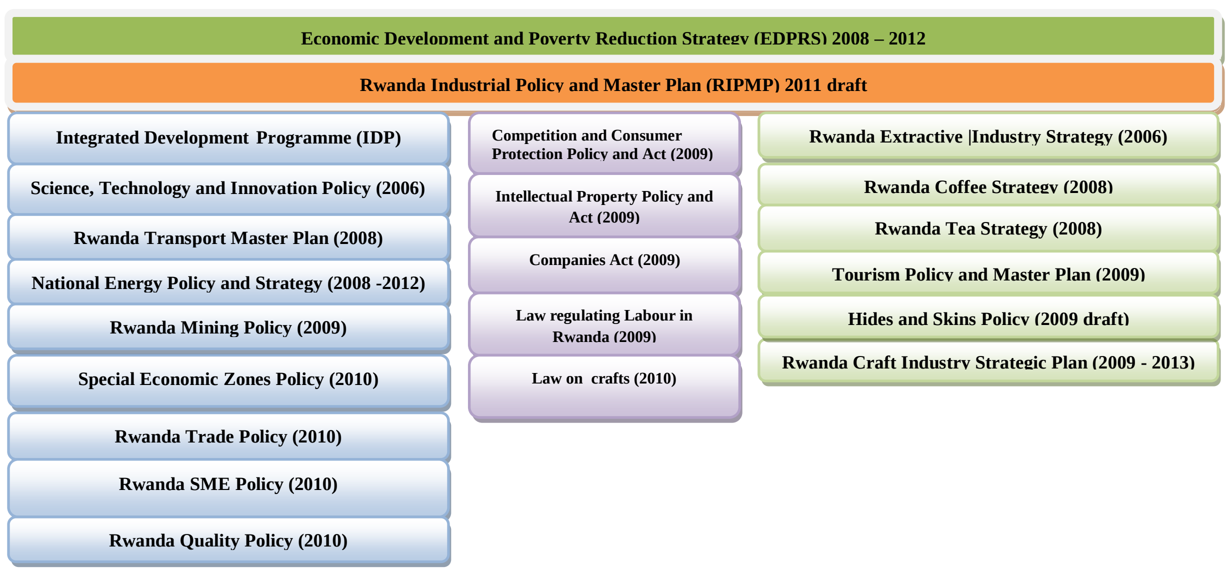
2.3 ALIGNMENT WITH EXISTING GOVERNMENT POLICIES

The NES draws on existing government policies and focuses attention on export growth. It should be noted that the NES alignment with existing policies must extend beyond plans and guidelines, and must be maintained throughout implementation, monitoring and evaluation. The NES is supported by and aligns with GoR policies, most of which are identified in the Figure 1 below:

Figure 1: Existing strategies related to the NES

Export Partnering

A wide range of Policy and Strategy documents need integration for implementation



The NES emphasizes refinements to support all exports and overcome constraints in specific sectors. This crosscutting, export-focused approach aligns with the strategic initiatives of Rwanda's SME Development Policy, Trade Policy, and Industrial Policy and Master Plan. The Trade Policy defines the need for an NES that articulates Rwanda's priorities for exports and strengthens links between export development and socio-economic growth. The NES addresses practical issues at macro and operational levels to facilitate decision-making. It introduces a framework to allocate resources on specific initiatives to achieve priority export objectives.

The NES attempts to inform and support targeted sectors by reinforcing the importance of embedding and leveraging these cross cutting issues to increase productivity in export sectors. Sectoral activities listed in the NES do not replace the existing sectoral strategies. Instead, the NES seeks to compliment sectoral strategies by identifying cross cutting actions, which increase export levels.

Finally, it should be noted that the NES implementation structure fits with the Trade policy's call for institutional capacity building and successful implementation of the NES will require coordination among many policies and diverse stakeholders. This document aims to provide a unified vision that is actionable, achievable, valuable and sustainable for Rwandan export growth.

export business without being fully aware of the basic requirements for becoming a global or regional supplier of that product, leading to losses for such investors.

3. VISION AND OBJECTIVES

3.1 VISION

The vision of the National Export Strategy is to: ***"Transform Rwanda into a globally competitive export economy."***This is closely aligned with the Trade Policy Mission: *"Growing sustainable and diversified products and services for trading locally, regionally, and internationally, with the aim of creating jobs, increasing incomes, and raising the living standards of Rwandans."*

3.2 OBJECTIVES

The goal of the NES is to identify prioritised actions that respond to issues that affect Rwanda's international competitiveness, or Rwanda's upgrade to high value-added products in export clusters. The NES provides an action plan to increase export growth in the decade ahead through an emphasis on cross-cutting issues, targeted sector strategies and coordinated implementation of export policies. Five-year projected revenues for NES targeted sectors are provided in the Figure 2 below:

Figure 2: Projected Revenues for NES Targeted Sectors 2010-2015[10]

Targeted Sectors (Projections in USD millions)	2009 (Base Year)	*2010E*	*2011E*	*2012E*	*2013E*	*2014E*	*2015E*
Tourism[11]	174	200	216	230	261	288	320
Tea[12]	52	56	91	105	120	138	159
Coffee[13]	37	56	75	89	105	117	130
Minerals & Mining Services[14]	56	68	85	91	97	103	111
BPO[15]	10	13	17	21	30	41	53
Horticulture[16]	3	3	4	5	7	8	9
Home Décor & Fashion[17]	3	3	5	7	10	13	17
Greenfield Industries[18]	1	1	12	26	26	56	91
TOTAL	**336**	**400**	**505**	**574**	**656**	**764**	**890**

[10] Source: 2010/2011 Budget Speech (p.5), Minister of Finance and Economic Planning and sectoral strategies; Real GDP growth data from the IMF Policy Support Instrument.

[11] Revenue projections from 2010/2011 Budget Speech, Minister of Finance and Economic Planning; Tourism Sectoral Strategy (2007); and OTF analysis and extrapolation, based on revised revenue figures for 2009. Tourism export revenue projections depend on appropriate investments in the sector as itemized in its sectoral strategy.

[12] Revenue projections from 2010/2011 Budget Speech, Minister of Finance and Economic Planning; Tea Sectoral Strategies (2008); and OTF analysis and extrapolation, based on revised revenue figures for 2009. Tea export revenue projections depend on appropriate investments in the sector as itemized in its sectoral strategy.

[13] Revenue projections from 2010/2011 Budget Speech, Minister of Finance and Economic Planning; Coffee Sectoral Strategy (2008); and OTF analysis and extrapolation, based on revised revenue figures for 2009. The 2009-2012 Coffee Strategy projects 2012 revenue estimates to be $115M, the National Export Strategy projects a more conservative revenue for that period (reaching $US 89M in 2012) due to downward revisions of current production levels and other factors. Coffee export revenue projections depend on appropriate investments in the sector as itemized in its sectoral strategy. 2010 Estimates were revised to $50M from initial estimates of $68M due to extended dry season in coffee producing parts of the country in Comments attributed to the Director General OCIR-CAFÉ, Alex Kanyankore in The New Times Daily Newspaper, October 6th 2010.

[14] Revenue projections from 2010/2011 Budget Speech, Minister of Finance and Economic Planning; Mining Sectoral Strategy (2006, 2010 updates); adjustments from BNR export data; and OTF analysis and extrapolation.

[15] Revenue projections from 2010/2011 Budget Speech, Minister of Finance and Economic Planning; BPO Sectoral Strategy (2010); and OTF analysis and extrapolation.

[16] Revenue projections from 2010/2011 Budget Speech, Minister of Finance and Economic Planning; Horticulture Sectoral Strategy (2007); adjustments from BNR export data; and OTF analysis and extrapolation.

[17] Home Décor & Fashion includes estimates for silk, handicrafts and leather goods. Revenue projections from 2010/2011 Budget Speech, Minister of Finance and Economic Planning; Handicrafts, Silk and Leather Sectoral Strategies; and OTF analysis and extrapolation.

[18] Greenfield, for the purposes of this NES, includes biotech and Pyrethrum. Projections were made with a logarithmic curve to indicate slow growth in early years but acceleration in later years with further investment. By these projections, Rwanda's greenfield industries could comprise 2% of GDP by 2020. However, these sectors are still in infancy stage and may exceed the projected targets if investments are secured.

4. ANALYSIS

4.1 METHODOLOGY

The NES frames and identifies the components that contribute to competitiveness, through leveraging cross-cutting and sector - specific solutions, and recommending prioritized initiatives in the appendix. A comprehensive approach to boost exports is required, which views exports as the output of a wide range of interactive factors, and focuses on increasing export levels as well as sectoral growth, diversification, and export sophistication. In order to meet these imperatives, the document addresses three activities:

1. Cross-cutting Issues: Identifying and prioritising actions to improve the overall business environment. The aim is to identify actions that improve a broad range of sectors and boost the competitiveness of firms operating throughout Rwanda. The NES identifies several best practices from countries where attention to cross cutting issues has had dramatic impact on exports.[19]
2. Targeted Sectors – Identifying sector - specific actions for prioritised export sectors. Reviewing issues that inhibit sectoral growth and leveraging cross-cutting issues in sector-specific detail to achieve an industry's export potential. The short and medium term targeted sectors for the National Export Strategy are:
   - Traditional export sectors of **Tourism, Tea, Coffee, and Mining,** focusing on increased production and value addition;
   - Non - traditional export sectors of **Business Process Outsourcing and Horticulture (with focus on agro-processing);** and
   - Potentially high growth export sectors of **Home décor and fashion (including crafts, textiles and silk) and Greenfield industries (such as Pyrethrum and biotech).**
3. Implementation – Develop a robust institutional mechanism to implement and monitor activities for export growth; creating a prioritised list of initiatives and guiding set of principles.

Priority issues and strategic actions for these are outlined in the following pages. The specific activities to address these issues are detailed in the Implementation Plan attached as an annex to this document.

1. **Market Opportunities -** Identifying market opportunities including demand trends and strategically choosing the highest priorities. This will leverage Rwanda's various trade agreements and preferential market access linkages. The NES requires a systematic structure to maximize market opportunities.

2. **Trade Facilitation and Promotion -** Trade promotion consists of programs to develop cross **-** border trade, by assisting exporters and optimizing trade infrastructure. It complements trade promotion efforts by improving the country's image as an efficient trading center. The NES suggests a coordinated approach to trade facilitation and promotion, which can be easily monitored and evaluated, for the most effective use of government resources. A key activity is the launch of the Rwanda Exporters Development Program (REDP), which involves registering all Rwandan exporters into an export development program to facilitate provision and monitoring of technical assistance to Rwandan exporters.

3. **Monetary and Fiscal Policies affecting Exporter Incentives -** The monetary and fiscal policies that comprise an incentive framework for exports, which include the exchange rate, tariffs and

[19] Specific examples identified include: *General Cross cutting Actions:* Chilean Wine (see Section 4.2)*; Trade Facilitation & Promotion*: Agora Partnership in the U.S. (see Section 4.4)*; Branding*: Korea's Public-Private Brand Strategy (see Section 4.5)*; Finance & Investment*: Costa Rica's CINDE (see Section 4.6)*; Human Capital Development*: UNCTAD/WTO International Trade Centre's Quality Management Program (see Section 4.8)*; Leveraging Gender, Youth & Environment*: The National Open Apprenticeship Scheme in Nigeria (see Section 4.9)*; Business Environment*: Singapore's Enterprise One (see Section 4.10)*; Leveraging Technology*: Sectoral Synergies in India (see Section 4.11)

taxes/subsidies. They either encourage or discourage exports by changing export prices relative to domestic prices. The NES establishes a framework to review these, to reduce an anti-export bias.

4. **Business Environment** - The ease of doing business by the private sector, especially in relation to government policies, procedures and actions. For example, this would include WB Doing Business metrics, such as starting a business, obtaining construction permits, employing workers, enforcing contracts, closing a business as well as safety, property security, and government transparency. It also includes the broader enabling environment. The NES identifies initiatives that are aligned with ongoing efforts for improving Rwanda's business environment, for increasing export levels.

5. **Finance & Investment** - This involves the private sector's ability to access start-up funding, development funds, working capital, credit products, insurance, investment and trade finance. The NES identifies initiatives to mobilize extensive investments to attract capital, technology and FDI into the identified priority sectors and cross-cutting investments in infrastructure to improve exports.

6. **Infrastructure** - These are man-made structures (such as roads, electricity, and water) that facilitate the flow of goods and services. Rwanda's export competitiveness is hampered by infrastructure challenges, particularly in energy and transport. The NES identifies strategic investments needed in infrastructure to boost Rwanda's export competitiveness in the medium to long term.

7. **Branding** - Involves influencing feelings, associations and experiences connected with Rwanda, particularly related to exports of goods and services. This is a key element for the differentiation of Rwandan exports, and the NES identifies activities for strengthening the Rwandan export brand.

8. **Leveraging ICT** - The NES aims to use ICT to improve Rwanda's key sector and general export competitiveness. In order to achieve Vision 2020 goals of becoming a knowledge - based economy, high - tech capacity must be developed to generate foreign currency and to infuse higher productivity into established sectors. The NES identifies activities for this purpose and examines linkages between high technology firms and Rwanda's developed industries.

9. **Human Capital Development** - This requires education and training, skills, attitudes and motivation necessary for export competitiveness. It includes professional degrees and certifications and job - related skills. Education, knowledge and investments in R&D will allow Rwanda to develop knowledge - intensive production and export competencies. Human capital investments must also be made at the sectoral level to improve the sectors' competitiveness. The NES identifies the need for human capital development to implement its national and sector export strategies

10. **Gender, Youth & Environmental Sustainability for Competitiveness** - This involves supporting networks of inclusivity systems that boost export competiveness in an environmental and socially sustainable manner. The NES identifies activities and initiatives to ensure that vulnerable groups in the society are mainstreamed into export development efforts. It also highlights that Rwanda's export development should be carried out in an environmentally sustainable manner.

Finally, NES presents seven guiding principles:[20]

1. Increase export revenues through quantity and value addition, as well as export diversification.
2. Create a favourable business environment that encourages the formalization of export – related industries and increases the number of export firms.
3. Improve the understanding of international standards, requirements, and opportunities.
4. Encourage institutional and public - private coordination around key market - led export initiatives, while maintaining a flexible export strategy, based on continued monitoring and evaluation.
5. Increase the export-related number of jobs, particularly with high living standards.
6. Improve and leverage human capital, innovation, and technology investments, including the development of competitive mindsets across key export sectors.
7. Support broader areas of social development such as gender equality, youth development, environmental sustainability, and inclusion of vulnerable groups.

These guiding principles should be adopted by all stakeholders, but it will be necessary to have a strong institutional arrangement to oversee their inclusion as part of agenda-setting, prioritisation, resource allocation, coordination and implementation.

4.2 CROSS-CUTTING ISSUES

Cross-cutting initiatives support all trade sectors. Export activities that strengthen cross-cutting issues such as improvements in the incentive framework, finance, human capital and innovation can improve a country's competitiveness, reduce economic risk and enable underestimated sectors to become winners. For example, Chile's cross-cutting successes are particularly illustrative.[21]The Chilean government did not support wine as an export industry, and pursued an economic policy that favoured "strategic sectors" such as copper. However, the Chilean government adopted liberalized economic policies beginning in the 1970's to encourage FDI investments, provide incentives exports, and improve cross-cutting issues that accelerate innovation. This included a competitive exchange rate after 1982, a low and uniform tariff (that today is about 4%), and limited targeted subsidies and tax expenditures. This allowed importation of new machinery, and Chilean wineries rapidly adopted new technologies. The competitive exchange rate allowed Chilean wines to get a foothold in foreign markets. Local boutiques formed an association to compete globally, and in the ten years up to 1996, Chilean wine exports rose from US$10M to US$290M, and quadrupled by 2009 to $1.4B.

The following sections introduce cross-cutting issues, challenges, and strategic actions for export growth.

4.2.1 MARKET OPPORTUNITIES

Rwanda has preferential market access to a number of international markets as a member of the WTO. Rwanda also benefits from preferential market access schemes to many countries through initiatives such as the EU's 'Everything But Arms' program and the United States of America's Africa Growth and Opportunity Act (AGOA). Rwanda has negotiated and is negotiating a number of bilateral and regional

[20] These principles were developed over the course of a three day workshop organized by the RDB's Trade and Manufacturing department, which include key stakeholders from key areas of the government, including RDB (Trade & Manufacturing, Tourism & Conservation, Information Technology, Human Capital & Institutional Development, Investment Promotion and Implementation, Ministry of Trade and Industry, Ministry of EAC affairs, Gender Monitoring Office, Private Sector Federation, Ministry of Agriculture and Animal Resources, Rwanda Bureau of Standards, and the Ministry of Finance and Economic Planning.

[21] Manuel Agosin, "Export Performance in Chile: Lessons for Africa," World Institute for Development Economics Research, Working Papers No. 144, October 1997 (ISBN 0782-8233); and Bordeu, E. (1995), 'Exportaciones de Vino: La Importancia del Mejoramiento de la Calidad', in P. Meller and R. E. Saez (eds.), Auge Exportador Chileno - Lecciones y Desafios Futuros, CIEPLAN/Domen Editores, Santiago.

trade agreements including the Economic Partnership Agreements (EPA) with the EU and the COMESA-EAC-SADC Free Trade Area. Additionally, Rwanda is a member of the EAC Customs Union and Common Market, as well as the wider Common Market for Eastern and Southern Africa (COMESA).

Despite access to a wide variety of preferential trade schemes, Rwanda's exports are currently structured around traditional trade partners and there is low utilisation of these preferential market access opportunities. There is a need to ensure that Rwanda's foreign policy advances its national interests towards expanding and utilizing market access at bilateral, regional and global levels.

Rwanda will take advantage of the market access opportunities from membership in the East African Community (EAC) Customs Union and Common Market. The EAC is the regional intergovernmental organization of the Republics of Rwanda, Burundi, Kenya, Uganda and the United Republic of Tanzania, with headquarters in Arusha, Tanzania. The EAC aims at improving co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit. The Community envisions achieving full integration, under Articles 2 and 5 of the Treaty for the Establishment of the EAC, through the following stages: Establishment of a Customs Union in 2005; Establishment of a Common Market by 2010; Establishment of a Monetary Union by 2012; and ultimately a Political Federation.

Since its establishment, there has been an across the board growth in intra EAC trade, which has benefited Rwanda. In 2008, total intra-EAC trade increased by 38% reaching a record value of US$2,715 million compared to the previous year. The total intra-EAC imports increased by 42% to US$ 1,173 million in 2008 compared to US$ 825 million in the previous year. The total intra-EAC exports rose to US$ 1,542 million in 2008 compared to US$ 1,149 million in the previous year. Rwanda's total trade with EAC Partner States amounted to US$ 338 million in 2008 compared to US$ 238 million in 2007, at 27% of total trade. Rwanda's exports to the EAC region remained stable at US$ 38 million in 2008.

This provides key opportunities for Rwandan exporters. While it may increase access to a larger market of over 130 million potential consumers for Rwandan goods and services, the deep integration that will bring the greatest gains to Rwandan producers and consumers may require further effort. Deep integration will require eliminating non-tariff barriers, improving the efficiency of transport corridors, and harmonizing standards. To take advantage of Rwanda's potential as a services hub, intra – EAC regulatory barriers now inhibiting services trade should be reduced, and mutual recognition agreements for professional services will need to be developed.

Priority Issues and Challenges

Issue #1 *Negotiated market access advantages should be utilized and monitored.* While Rwandan products enjoy preferential access with a number of key markets, this access is underutilized. This is partly due to the lack of knowledge among Rwandan exporters of these opportunities, but it is also due to the absence of an effective commercial plan to exploit these market opportunities. There is therefore a need to sensitise businesses on the opportunities offered by these agreements and for institutions involved in export promotion to develop market strategies to effectively exploit individual markets.

For instance, using AGOA trade preferences would enable Rwanda to increase its lifestyle/handicraft exports to the U.S. substantially. A 2009 RDB study indicates that Rwandan stakeholders should improve export skills to better leverage AGOA, as U.S. bound exports account for less than 1% of Rwandan exports. However, if skills were developed, exports under AGOA could reach between 3% and 7% of Rwandan product exports, for an additional annual US$10 to 15 million in revenues over the next 5 years. This would add 5,000 new jobs to the Rwandan economy. More importantly, servicing the American market may lead to new export discoveries and generate learning from servicing demanding customers.

Issue #2 *Market entry strategies need to be developed.* Identifying new potential markets will allow Rwanda to increase exports substantially. Rwanda needs to identify which countries' imports are growing for Rwandan products and evaluate the attractiveness of entering these markets. For example, with rising roasted coffee sales at close to a median US$10 per 250 gram packet, China could be an attractive export market for Rwandan coffee. A joint venture with a Chinese counterpart to import, process, market and distribute Rwanda Coffee on the Chinese market could allow estimated gross earnings of between US$5.7 and US$9.6 per kilogram.

Issue #3 *Foreign policy and commercial interests need to be aligned.* Improved coordination is needed between the Ministry of Foreign Affairs and Cooperation, the Ministry of Trade and Industry, the PSF and the RDB. The placement of Rwandan Missions abroad should be closely aligned with Rwanda's trade policy and its investment and export promotion strategies. Rwandan Missions could be more effectively leveraged for market development and access, as well as promoting priority sectors and products. This can be done through securing buyer contacts, cold calling, market research, and product show casing. Rwandan missions abroad can also play a key role in helping Rwanda's businesses source appropriate technologies, and identifying new market opportunities for Rwandan exporters.

4.2.2 TRADE FACILITATION & PROMOTION

Trading Across Borders, as identified by the World Bank's Doing Business report, remains a difficult issue for Rwanda, ranking 159th of 183 countries surveyed.[22] The criteria and Rwanda's performance provide an assessment of Rwanda's challenges:

Figure 3: World Bank's Doing Business Survey – Trading Across Borders Best Practices

Good Practice Economies	Documents to export (number)	Time to export (days)	Cost to export (US$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US$ per container)
Denmark	4	**5**	$744	3	5	$744
France	**2**	9	$1,078	**2**	11	$1,248
Malaysia	7	18	**$450**	7	14	$450
Singapore	4	**5**	$456	4	**4**	**$439**
Switzerland	4	**8**	$1,537	5	**9**	**1,540**
OECD	4.4	**10.9**	$1,059	4.9	**11.4**	**1,106**
Botswana	6	**28**	3,010	9	**41**	**3,390**
Sub-Saharan Africa	7.7	**32.3**	$1,962	8.7	**38.2**	**$2,492**
Rwanda	**8**	**35**	**$3275**	**8**	**34**	**$4990**

The table above compares Rwanda's performance in each indicator to the international best performers in each class, as opposed to the performance of its neighbours. It should be noted however that Rwanda will almost certainly always be at a relative disadvantage in terms of transport costs, due to its land-locked position and associated distance to sea ports. The table also compares Rwanda's performance with other land-locked countries such as Switzerland and Botswana, which rank 43rd and 151st on the trading across borders indicator. The GoR therefore needs to provide assistance to enable Rwandan exporters to compete more favourably in the global and regional market. An important component of this assistance will include targeting cross-border trade with DR Congo and Burundi as well as other neighbouring countries. The activities identified under trade facilitation and promotion aim at making exporting easier for the Rwandans. This goes beyond addressing border measures and may involve initiatives such as providing

[22] Data from World Bank's Doing Business 2011 Report. It is important to note that the methodology for this metric does not measure the requirements to trade with one's regional neighbours but rather the, "requirements for exporting and importing a standardized cargo of goods by ocean transport", thus Rwanda is at a comparative disadvantage in terms of the ranking methodology, in that unlike the rest of the countries listed, it does not have sea access.

market information, technical assistance in meeting standards or supporting efforts on packaging requirements. It may also involve the promotion of Rwandan exports in new and existing markets.

Priority Issues and Challenges

Issue #1 *Targeted assistance to Rwandan businesses will be reinforced to build export capacity*. Exporters often lack resources, capacity and technical knowledge. For small exporters and businesses looking to export, these capacity challenges are often a prohibitive barrier. The Rwanda Exporters Development Program and BDCs delivering technical assistance can ensure that small exporters and aspiring exporters are supported to become competitive, and it is important to establish feedback mechanisms to improve assistance.

One of the lessons of East Asia, Chile and Mauritius is that the respective governments and private sectors worked jointly to promote exports and investment. A common solution is that governments set up consultative feedback mechanisms to react to the problems would-be exporters and investor's experience. In Rwanda, some problems are well known – for example, the costs of electric power, finance, and road transport – and the government is addressing them. However, the government should develop a "feedback mechanism" to hear exporters' problems and take action where appropriate. One option is to have an exporters' forum that brings together the largest 50 or 100 exporters (or their associations) to address constraints. This must rule out special interests pleading for subsidies, tax breaks, and government largess, and focus on defining policies that are open to all investors and exporters. These policies might help with standards, more assertive representation in market access discussion, more effective export promotion, and coordinating activities across sectors.

Issue #2 *Centralized information systems connecting market opportunities with Rwandan products would help exporters sell internationally.* Exporters have limited information about opportunities and requirements for accessing key export markets, creating a barrier to increasing the Rwanda export base. Some of the prioritised actions include the development of a National Trade Information System and an online portal for Rwandan exporters to access all information relating to the export of goods into key markets. This will be supplemented by the use of BDCs as a one - stop centres for advice, information, and training for potential exporters. Continued promotion of Rwandan products abroad through trade missions, visits and exhibitions is also critical, for increasing product visibility in current markets and to accessing new markets.

Issue #3 *Facilitate businesses meet export standards.* Exporters often face a challenge in meeting the technical standards necessary for access to key export markets. The Rwanda Bureau of Standards is developing a one – stop – shop for export standards, including sanitary and phytosanitary testing, certificates of origin and other export standard support. In addition, the recently approved National Quality Policy provides for the establishment of the National Quality Inspection Bureau which will further enhance the ability of Rwandan exporters to meet key standards. However, further work is needed to provide potential exporters with clear information on standards, with direct support for meeting those standards.

Issue #4 *Improve packaging facilities for value addition*. Due to the lack of a developed packaging sector in Rwanda, exporters must currently import packaging before they can export. This supply dilemma is further complicated by the ban on the import of plastics. While there has been progress on the plastic packaging issues (e.g., exporters who write officially to REMA can gain authorization to use plastic packages for export purposes), GoR must redouble its efforts to encourage investment in the packaging sector with modern packaging plants. Addressing the cross-cutting issue of high electricity costs will also help packaging firms compete regionally.[23]

[23] For instance, faced with such obstacles, a Rwandan tea firm decided instead to create packaging company in Dubai.

Issue #5 *Non-tariff barriers to trade can be further reduced.* The 2010 Study of NTBs along the Northern and Central Corridors found that the extensive length of time it takes for containers arriving in Mombasa and Dar–Es–Salaam to reach Kigali (and vice versa) results from poor road infrastructure, combined with weigh bridges and police roadblocks along the route, as well as lengthy bureaucratic procedures for customs, health and standards clearance within Rwanda. The newly developed electronic customs forms at border points will help mitigate this issue, but more must and will be done.

Issue #6 *Cross-border trade and re-exports can be further facilitated.* Cross-border trade (both formal and informal) and re-exports contribute a significant proportion of overall trade. Export revenue from other sources including non-traditional sectors totalled $116 million in 2010, of which 40 percent was comprised of re-exported goods. A recent study conducted by MINICOM , RRA and NISR into informal cross border trade estimated that total informal exports and imports were RWF 27.7 billion and RWF 12.4 billion (approximately US$47M and US$21M) respectively for 2009/10. Informal exports were 26 percent of formal exports with bordering countries, and roughly two-thirds of this trade was with DR Congo. GoR will seek to conduct further analysis of these important contributors to regional trade and provide policy recommendations as well as facilitating the distribution of Rwandan products to neighbouring countries.

Transformational Opportunity – Launch of a Rwanda Exporter Development Program (REDP)
Objective

Registering Rwandan exporters into an Exporter development program to facilitate provision and monitoring of technical assistance. Combine non-profit consulting/technical assistance with venture funding/soft loans or grants. Develop selected Rwandan exporters as role models – providing assistance to role models.

Tier 1 - Registered SME Exporters or intending exporters.

The Program will provide the following to all registered Exporters.

- Provide strategic support
- Export training and education
- Technical assistance (standards, certifications, etc.)
- Advice and mentoring
- International market development
- Export finance
- Performance evaluation

***Performance Evaluation* -** Targeting 200 new/registered exporters by 2012 – Minimum of 10 per priority sector

Tier 2 – Selected Exporters – Best Performers/Role Models

Exporters/Entrepreneurs are selected from registered Exporters in Tier 1. The exporter is selected on the basis of the quality of the business plan, product viability, financial opportunity, social and environmental value, and management team. The SEDP program helps selected exporters to analyse their constraints to growth, and assist them in solving a strategy or marketing problem. The program provides grants or concessionary finance to the most promising exporters. Funded companies are monitored and continue to receive education and technical assistance.

***Performance Evaluation* -** Target 15 Exporters/Best performers/role models for grants and technical assistance by 2012.

***Example**: Agora Partnership (US)*: Agora combines non-profit consulting with profit venture funding. For consulting, it partners with business schools in the United States or Nicaragua (where it is active) by matching a team of students from schools with potentially high growth entrepreneurs who normally run a small business. The entrepreneur is selected on the basis of the quality of his business plan, product viability, financial opportunity, social and environmental value, and management team. The matching idea is for the business school students to help entrepreneurs analyse their growth constraints, and assist them in solving a problem. After being coached by student-consultants, Agora Venture provides grants to the best, funding between US$ 25,000 to US$ 250,000. Funded companies are monitored and continue to receive education and technical assistance.

4.2.3 MONETARY AND FISCAL POLICIES THAT AFFECT EXPORTER INCENTIVES

Exporters should not suffer due to policies that inadvertently depress export earnings relative to sales in the domestic market, such as in export taxes. Although the government abolished these taxes in 1999, other policies can have the same effect as this tax. These include monetary policies that raise the real value of the Rwandan franc vis-à-vis trading partners, and tariffs, which can have the same effect as an export tax.[24] Tariffs can raise the price of inputs into exports – for example, high tariffs on consumer goods may affect the competitiveness of the tourist industry or increase the cost of labour. Further, the incentive framework is not limited to exchange rate and tariff policy. Taxes on labour or capital – sometimes in interaction with other elements in the incentive framework – can be systematically biased against or for exports. The incentive framework, comprising the exchange rate, tariffs and taxes/subsidies, either encourages or discourages exports by changing export prices relative to domestic prices. The challenge is to offset an anti-export bias.

[24] See A.P. Lerner, 1936. "The Symmetry Between Import and Export Taxes". Economica, Vol. 3, No. 11.

Issue #1 *Monetary policy might better support exports.* The most important incentive price is the real exchange rate. Studies show that overvaluation and exchange rate volatility lead to slow productivity growth, and that devaluation is a significant predictor of economic growth accelerations.[25] The competitiveness of Rwanda's current export portfolio fell from 2007 through 2009 as the value of the Rwandan Franc appreciated relative to the U.S. dollar.[26] Rwanda's significantly reduced but continued dependency on donor aid tends to appreciate the value of the Rwandan Franc, and from 2003 to 2008, the Rwandan Franc was overvalued by 10-25%. Attention must also be paid to the strong popular support for cheaper imports, also partially resulting from the exchange rate. These concerns, of course, must be balanced with inflation concerns.

Large donor inflows and the small size of the financial sector make sterilization difficult. As such, it is crucial to continue to invest donor inflows carefully, such as in infrastructure. Additionally, because spending abroad reduces the upward pressure on the Rwanda Franc, Rwanda should focus on spending abroad *and* increasing the export growth rate while donor inflows are high, and worry less about the trade balance. Additionally, Rwanda is working closely with the East African Community's Monetary Affairs Committee to address exchange rate overvaluation. Rwanda is also involved in EAC talks on the establishment of the East African Monetary Union, for a single East African currency, as well as the harmonization of tax and fiscal measures. Historical research has demonstrated that common currencies have had a tripling effect on trade between members of the currency union.[27]The NES draws the attention of policymakers and regulators to the impact of the real exchange rate on Rwanda's exports.

Issue #2 *Tariffs and trade policy can be leveraged to increase the competitiveness of Rwanda's exports.* Rwanda's adoption of the East African Community's common external tariff has changed the prices for domestic and export producers. More than 20% of the products that Rwanda's imports are subject to a tariff of 25% or more under the EAC common external tariff (CET). While the CET is levied on products originating outside of the region, domestic producers may raise their prices to the border price plus the CET in industries with limited competition. Since Rwanda suffers from high transport costs on inputs, tariffs add to this cost, even if only on consumer goods. For these reasons, analysis of common external tariff implications is critical for Rwanda's export sectors. This analysis can inform the 2011 review of the EAC CET, and the development of Rwanda's requested exemptions from the EAC CET. Non-Tariff Barriers within the EAC and in other foreign markets can take the form of inappropriate standards or other technical barriers and inhibit trade. In 2008, a joint committee of the EAC identified 35 NTBs. The National Monitoring Committee on NTBs provides a permanent structure for monitoring, reporting and coordinating efforts to eliminate NTBs.

Trade in Services is increasingly important to Rwanda. Regulations may act like competition-inhibiting tariffs for services, and Rwanda must assess and negotiate for the removal of regulatory barriers to entry. This is critical in the backbone (telecommunications, transport, financial, energy) and business services sectors. A recent study has shown that Rwanda is the most open of EAC countries in four of six major services sectors,[28] positioning it to advocate for the creation of "one services market."

Issue #3 *Developing sound industrial policies (taxes, tax expenditures, and subsidies) that efficiently enable growth and production for foreign markets.* As part of fiscal policy, the government can support current and potential exporters throughout Rwanda. Moreover direct and indirect taxation policies should not discourage the growth of Rwandan exports. In some export sectors, tax incentives may be beneficial, (e.g., temporary price controls) or subsidies through the credit system (e.g., preferred access to credit).

[25] See for example Aghion 2006, Hausmann et al 2004, Eichengreen 2008.

[26] Rwanda's primary product exports (tea, coffee, and minerals) are valued in US dollars, therefore in order for monetary policy to encourage exports it is important to focus on the exchange rate between Rwandan Francs and US dollars. Since 2003, the RWF:USD nominal exchange rate has remained relatively constant, while domestic inflation has been much greater than US inflation, leading to a relative strengthening of the exchange rate for exporters (whose costs have increased while revenues have held constant) .

[27] Rose, Andrew. "One money, One Market: Estimating the Effect of Common Currencies on Trade." *Economic Policy*, 2000.

[28] See Gootiiz and Mattoo, 2009.

For example, temporary subsidies may be warranted where export volumes are small or where cost barriers to entry exist. However, Rwanda can learn from countries that have mistakenly directed public resources towards unproductive investments (the Malaysian and Indonesian automobile efforts). Further, key reforming countries such as Georgia and Mauritius have benefited from a flat tax rate.

As such, the NES recommends a three step strategy – (1) quantification and assessment of which sectors are benefitting from the existing fiscal incentive regime (2) the development of a framework for deciding how tax expenditures will be allocated across activities, and (3) a process designed to ensure that activities supported by tax expenditures have clearly defined objectives, are periodically evaluated, and are subject to an automatic sunset clause to ensure that government support does not become permanent.[29]

4.2.4 BUSINESS ENVIRONMENT

Among the NES cross cutting issues, there is perhaps no single indicator better than the 'Business Environment' that captures the opportunities and challenges exporters face. An increasingly accepted metric for this is the World Bank's Doing Business ranking, which "presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies," including starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.[30]It should be noted, however, that while the World Bank's indicators are informative, they are not complete. For example, Rwanda's success in areas such as safety, security of property and transparency of government procurement are not credited. Further, new indicators continually come on line, such as electricity in 2011, which will likely decrease Rwanda's rating in the report.

The RDB must continue to improve the indicator rankings, including efforts to reduce the time and costs for closing businesses. Without mechanisms for dealing with bankruptcies and defunct companies, investors interested in establishing an export hub in Rwanda will increasingly choose a country where recovery rates are higher, and deprive Rwandan exporters of investment, skills and know-how.

As some of the indicators are covered by other cross cutting issues in the NES (e.g. infrastructure), Business Environment as presented, focuses mainly on the role public sector can play in enabling - or constraining - export growth. These would include, for example, tax policy and procedures, regulatory mandates, and the cost and complexity of compliance for exporters.

Finally, in addition to operational efficiencies to ease the burden on private sector, GoR must play a constructive role to differentiate Rwanda's business environment. More can be done, but recent progress in this direction has been impressive:

- Formation of the Rwanda Development Board, a government institution providing comprehensive private sector advocacy and support, and modelled after international best practices by economic development agencies in markets such as Singapore and Costa Rica.
- Improvement in packaging options for exporters, such as the ability to apply to the Rwanda Environmental Management Authority (REMA) for permission to use plastics for export.
- A one-stop-shop for export standards, in which RBS and MINAGRI are working together to provide sanitary and phytosanitary testing, certificates of origin and other support.

Priority Issues and Challenges

Issue #1 *Processes for tax compliance can be clarified and streamlined.* Rwandan taxes are similar to those in the region, but perceptions by businesses are that the system is complex, requiring the hiring of professionals to administer, which increases business costs. There is a perception that the tax

[29] Dani Rodrik argues that incentives should be subject to 10 principles –See Rodrik (2004) "An Industrial Policy for the 21st Century".

[30] "To make the data comparable across economies, the indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies." Source: World Bank's Doing Business Indicator's website: http://www.doingbusiness.org

administration does not offer incentives for businesses, especially SMEs, to pay taxes. Recent studies cite tax as a significant hindrance to operating in Rwanda.[31] Many of the rules are new, and few tax collectors have an adequate understanding of business to properly apply rules related to deductions and depreciation. As a consequence, numerous businesses and banks complain that tax liabilities are uncertain because it is difficult to predict what will be allowed or disallowed, which raises business risks.

Issue #2 *Rwanda should continue improving the regulatory environment directly affecting businesses.* Rwanda has made significant progress in the World Bank's Doing Business Indicators, moving up 85 places from 143rd in 2009 to 58th place overall in 2011. The main areas for improvement according to the World Bank were closing a business (Rwanda ranked 183rd out of 183 countries), trading across borders (Rwanda ranked 159th), and dealing with construction permits (Rwanda ranked 82nd).[32] Tax incentives for exporters and clear government procurement procedures would also help improve the business environment for exporters. In countries with better rankings, such as Georgia and Mauritius, flat taxes were recently introduced and had a positive impact on business development and the WB ratings.

4.2.5 FINANCE & INVESTMENT

While the Doing Business indicators show that Rwanda has made remarkable progress in terms of registering property, accessing credit, and protecting investors, there is still room for improvement in sub-areas such as the number of days to register property (55 in Rwanda vs. the OECD average of 25), ramp up the development of credit registries (which until recently existed in much of sub-Saharan Africa, but not Rwanda), and in shareholders' rights to sue officers and company directors for misconduct (Rwanda lags both Sub-Saharan Africa and the OECD).[33]This impacts the long-term investment and financing levels in the country, and will need to be addressed to unlock financing in Rwanda's private sector.

Over two-thirds of businesses queried in the Private Sector Federation's 2008 Business Investment Climate Survey cite finance as a major challenge.[34] Lack of collateral is ranked as the biggest challenge, but as illustrated by figure 3 below, there are additional constraints.

These constraints are particularly difficult to overcome for exporters as they seek new market access, relationships with foreign traders, and lines of credit to develop distribution. Rwanda is not the only developing country that needs to increase finance and investment, and it can follow other examples by adopting operational efficiencies used by export-leading countries (e.g. export insurance schemes and credit services for trade finance), to lower the cost of capital for its businesses.

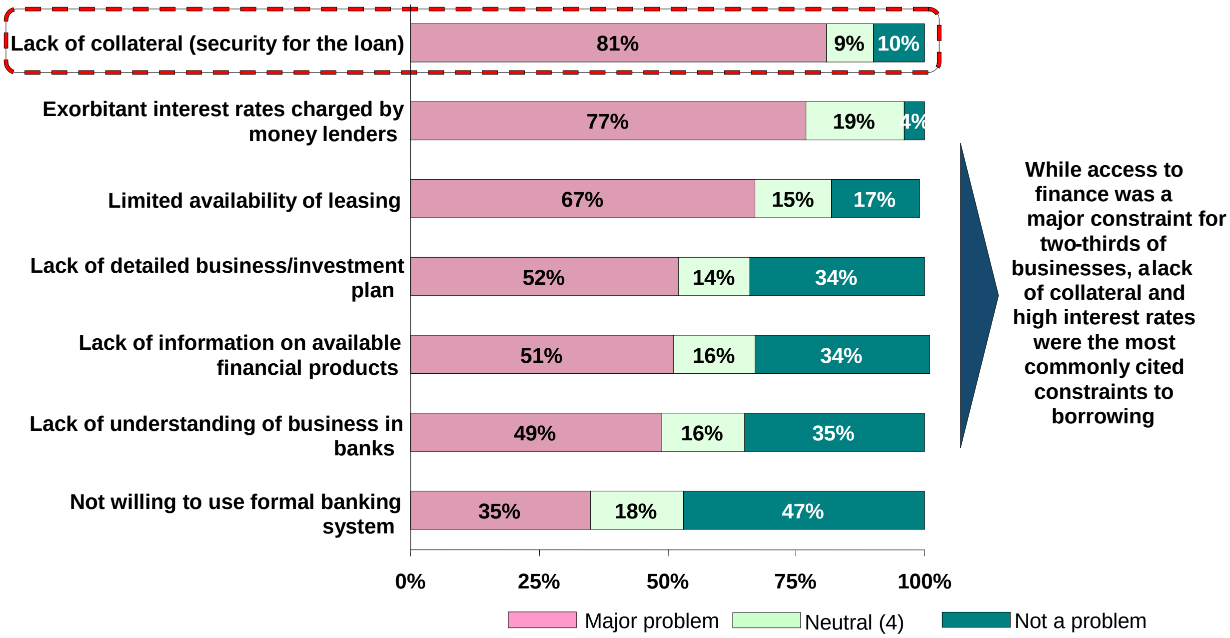
Notwithstanding the chart below, progress has been registered in several areas including:

- Use of formal financial services increased from 1.4 million citizens in 2007 to almost 2 million in 2009.
- GoR reduced bank reserve requirements from 8% to 5%, and BNR's lending interest rate to commercial banks decreased from 9% to 7% in 2010.
- Private sector credit surged 40% in 2008 and held fairly steady in 2009 (with only a 2% decline).

At a macroeconomic level, private direct investment increased from US$103 million in 2008 to US$119 million in 2009, and approximately US$1 billion in FDI has been committed in the last decade.

[31] See PSF, GTZ (2008) Cutting the cost of red tape for business growth in Rwanda and PSF (2008) Business Investment Climate Survey (BICS)
[32] World Bank's Doing Business Indicator's website: http://www.doingbusiness.org
[33] World Bank Doing Business Indicators for Rwanda: http://www.doingbusiness.org/exploreeconomies/?economyid=160#GettingCredit
[34] PSF Business Investment Climate survey, July 2008, n=909: Qn. 8. How important are the following issues in constraining your access to finance?

Figure 4: Constraints to Accessing Finance



Priority Issues and Challenges

Issue #1 *Increase lending levels to meet the demands of the commercial sector.* Lending is constrained by costs and risks arising from several factors, including: lack of adequate collateral, insufficient legal and regulatory environments, crowding out by government bonds, asymmetrical information (caused in part by a dearth of credit registries), and inconsistent skills for assessing and managing risk. Most importantly, lending is constrained by Rwanda's low savings rate, at 8% of GDP.

Issue #2 *Accessibility of finance for exporters.* In addition to these, the NES recommends a review of alternative mechanisms to reduce the cost of finance to exporters. This could take various forms, including improvements to the duty drawback system to avoid "export taxes." It might also examine facilities to provide pre-shipment finance and/or other forms of trade finance e.g. the EXIM Bank model.

Issue #3 *Financing can be made more accessible through a consolidated SME Development Fund.* Different funds managed by different entities have led to poor coordination and clarity for which fund serves which segment. Consolidation and promotion will make it clear that one fund serves SMEs.

Issue #4 *Increase the level and quality of investment in productive sectors*. Currently, there is a low level of successful investment promotion. More research is required to determine best practices and methods for promotion, including targeting markets, industries, and investor types. Rwanda needs to attract targeted FDI, particularly from firms in new industries or those with a history of strong training programs and new technologies. By linking local firms to international partners, and supporting linkages, Rwanda can upgrade key export sectors. In addition, Rwanda will seek to leverage relationships with interested Africa venture capitalists such as Business Partners International (BPI), "angel investors" and microfinance institutions (e.g. Accion International, and Opportunity International) to increase financing of entrepreneurial ventures.

Issue #5 *Develop financial mechanisms to support high-risk/high-reward ventures that would boost exports*. Economic development agencies around the world have recognized the role start-ups and other high-risk/high-reward ventures can play in improving an economy's trajectory. Rwanda in particular needs a mixed approach to boost exports – adopting financing schemes to continuously push incremental gains as well as venture financing to support non-collateralised opportunities (e.g. commercialising research). Therefore, Rwanda through the Development Bank of Rwanda (BRD) will design special financing schemes targeting key sectors in order to drive export growth. Rwanda will borrow from best practices of countries including Mauritius, Malaysia, South Africa, South Korea and China.

4.2.6 INFRASTRUCTURE

Energy cost is a major impediment to the Rwandan industrial sector. Biomass, such as wood, charcoal and peat accounts for 85% of Rwanda's energy supply. The remaining share of energy is from petroleum (11%), and electricity (3%).[35] Rwanda has an installed 95.24 Megawatts (MW) of electricity capacity, whereas the available capacity currently stands at 84.85 MW. Rwanda has low per capita electricity consumption relative to the East Africa Community: only 13% of the population has access to electricity, and there are reported power outages. Electricity generation cost is high and the feed in tariff of power is high with 112 RWF/kWh for households and RWF 102/kWh for industries, despite GoR subsidizing the utility. Rwanda's electricity cost at $0.24/Kwh or 24 US c/Kwh is at least double that of its neighbours. 64% of businesses surveyed in the 2008 Business Investment Climate Survey cited access and cost of electricity as a major constraint.

However, there is a high commitment of the GoR to boost the power sector to serve as an engine for socio-economic development. A Power Sector Steering Committee chaired by the Prime Minister has been put in place and an inter-ministerial taskforce is in place to assist the Ministry of Infrastructure to implement the 7 year electricity development program, with the aim to have a cumulative installed capacity of 1000 MW and access rate of 50% by 2017.

Rwandan investor surveys continually list transport as a major constraint, due in part to the poor quality of roads. Further, the majority of road investment is focused on already paved national roads, while neglecting district feeder roads. The government has budgeted RWF 65 billion for road repairs and for the development of rural feeder roads. USAID is examining feeder road programs, but more is required. High vehicle operating costs are also a problem.

Priority Issues and Challenges

Issue #1 *A more consistent and widespread energy supply is needed.* It is estimated that 13% of Rwanda's population is connected to the energy grid, with a goal to reach 16% by 2013 and 50% by 2017. 55% of businesses surveyed in the 2008 BICS survey reported that power outages were a constraint to growth, with the average business experiencing five power outages per month. Some programs to address this might include better grid management through state of the art ICT solutions, in addition to adding MW capacity. GoR has significantly invested in the energy sector in order to increase supply and reduce cost and estimates that the cost of energy will drastically reduce within the next 3 years.

Issue #2 *Energy supply needs to be provided at a lower cost in order to compete internationally.* Sufficient supply and efficient use of energy are important factors for economic development. Moreover energy resources are limited and dependency on imported energy such as petroleum products is rising. Energy costs almost double that of Kenyan and East African Community costs, and almost three times the amount for more developed countries.

Issue #3 *Roads in Rwanda need ongoing maintenance and upgrading.* According to the Business Investment Climate Survey, transport makes up 15% of total monthly costs, and up to 25% for micro firms. Transport costs are particularly high in Rwanda due to the poor rural road quality, vehicle costs and high insurance premiums. With its mountainous terrain and associated rainfall erosion, severe strains have been placed on the country's road network – for which the maintenance cost is twice as high as that of most Sub-Saharan countries.

Issue #4 *Air, rail and water (Lake Kivu), need to be developed further in order to reduce the overall costs of transport.* Air transport is too expensive for sectors such as horticulture, and more momentum for the railroad is required, to reduce Rwanda's transport costs to the Indian Ocean.

[35] NISR – In constant 2006 prices.

4.2.7 BRANDING

Rwanda's brand strategy defines branding as "the sum of all feelings, associations and experiences connected with the place." This includes the quality of exports; the ability of Government to deliver on promises (on progress and reform); ease of doing business; investment attractiveness; quality of life; culture; and standard of customer service.[36]

A positive national image is essential for both export and investment promotion. When presenting investment opportunities abroad, promoters face questions about Rwanda before they can attract investors vs. Singapore or Switzerland, where the brand of the country helps promoters secure FDI. In an export context, national branding consists of developing and communicating an image – both internally and externally – based on a country's positive values and perceptions relevant to export development. The brand, once researched, tested and defined, is used for promotional campaigns to encourage trade, tourism and inward investments and for touch points with customers and stakeholders.[37]

Compared to more developed countries, small developing countries such as Rwanda face budgetary and operational challenges while forging their national brands abroad. As such, Rwanda will explore creative and cost-efficient ways to create, position and communicate Brand Rwanda. Some smaller locations, such as Austin, Texas, had success with unique branding efforts. For tourism purposes, Austin developed the memorable "Keep Austin Weird" campaign, and immediately increased visitors by several hundred thousand annually.

Priority Issues and Challenges

Issue #1 *Rwanda's brand is not well established internationally and suffers from unwanted associations.* Rwanda often receives unfair press through questionable sources. In a competitive global market, this association can hinder product positioning in key exports markets. A positive brand must be established for Rwandan products internationally in order to convey the true spirit of Rwanda.

Issue #2 *Ensure that sectors become brand champions for Rwanda.* Efforts will be made to ensure that sectoral marketing efforts contribute to the development of the overall Rwanda Export Brand. Best performing sectors will be showcased as Rwanda brand champions and weaker sectors should leverage the positive perceptions of the brand champions. Rwandan missions abroad will support this task.

Issue #3 *Develop a brand that resonates with diverse stakeholders.* There is a need for strategic differentiation, and branding beyond the consumer context ("B2C") to more data-driven decision-makers ("B2B") as well. Rwanda's brand managers should consider the factors that influence these business decision makers, whether executives who decide on the viability of Rwanda as a component of their global supply chains, or fund managers and angel investors that will provide the financing. The Rwanda brand strategy will be tailored to ensure that the relevant story is told to each stakeholder.

Issue #4 *"Made in Rwanda" should become a recognizable phrase worldwide*. Apart from targeted branding for decision makers, the Rwanda export brand will be crafted to appeal to different segments of global consumers. The brand will be applicable to all the products that Rwanda exports.

Issue #5 *Manage Rwanda's global brand image.* Impressions about a country's brand are formed in different ways including international media, events, academic literature, arts and culture, etc. Rwanda

[36] RDB Presentation on Brand Rwanda: A Brand for the Private Sector, March 2010.

[37] In 2000, the Korean Ministry of Commerce, Industry and Energy announced that, Koreans needed to shift from supplying generic products to developing their own brands. The Ministry's strategic policy was to support branding at the national level. As a start, it reorganized and renamed the "Quality and Design Division" to the "Design and Brand Policy Division". The Government released its "Vision for Brand Power Korea 2010", which aims to have 70% of total exports in Korean brand-name products and list more than ten Korean brand names in the world's 100 most recognizable brands by 2010. The Government supported companies in building a "Made in Korea" trademark, with a Brand Management Centre that provides brand consulting and a brand database where companies can find best practices, market trends, overseas consumer analysis and Korean brands' export trends. It developed a National Brand Competitiveness Index and self-assessment tool for companies to measure their brand equity and plan future strategy.

will develop a strategy for identifying the different channels through which these impressions are formed as well as a strategy for aggressively managing its brand position in these channels.

4.2.7 LEVERAGING TECHNOLOGY

Almost 85% of Rwandan *product* exports are concentrated in Rwanda's commodity export sectors of tea, coffee and minerals. Tourism, which comprised 44% of all exports in 2010, has been growing at a fast rate, but industry players do not leverage ICTs. In order to achieve Vision 2020 goals of becoming a knowledge-based economy, high- tech capacity must be developed to generate foreign currency, and to infuse higher productivity into established sectors. This should include creating linkages between high technology firms and Rwanda's developed industries. Rwanda has laid a firm foundation for ICT development and some of the key ICT infrastructure deployed include: the national fiber optic backbone; wireless broadband network (WIBRO); and Internet data centre. As of 2010, the ICT subscriber base had increased as follows: Fixed line (21,687 in 2005 to 32,000 in 2010); Mobile (304,000 in 2005 to 3,600,000 in 2010); Internet (6,814 in 2005 to 450,000 in 2010).

Priority Issues and Challenges

Issue #1 *Increase the skill base for innovation and high productivity.* A strong skill base is essential for the technological advancement that will help to improve the productivity in export sectors. Programs include incentivizing the private sector, expanding internship programs, and leveraging FDI that has access to the latest technology and training. Skills can be further developed as local firms gain access to major government IT projects, including the African Payment Gateway in partnership with the Commonwealth Business Council (CBC), and an e-platform to showcase Rwandan firms.

Issue #2 *Improve access to networks of productivity.* First, telecommunications must conform to regional and international standards. Half of the businesses surveyed in the BICS cite access and cost for telecommunication as a constraint. Fewer than 2% of the businesses surveyed can access the internet, while only 5% have mobile phone access.[38] Second, firms need better linkages with supply chains, experts and local and regional networks outside their industry for new innovations. This will include accelerating the infusion of ICTs into current and nascent industries and involves identifying and attracting anchor tenants, and marketing Rwandan firms for regional projects.

4.2.9 HUMAN CAPITAL DEVELOPMENT

Rwanda has made significant investments in developing its human capital and will continuously develop relevant market skills in order to successfully implement its national and sector export strategies. Education, knowledge and investments in R&D will allow Rwanda to develop knowledge -intensive production and export competencies to compete in international markets.

Priority Issues and Challenges

Issue #1 *Improve Government Agencies' capacity to facilitate private sector export*. Training of Government officials on export-related issues can help support exports. Currently, stakeholders complain of a lack of knowledge among government support institutions. In order to rectify this situation, each institution could encourage the development of experts on export-related issues. For example, RRA could have a specific person assigned to export taxation issues in each of export sector and MAGERWA could better classify exports to international markets to meet the requirements of buyers.

Issue #2 *The skills gap within the export labour market must be addressed*. There is a need to improve skills at an accelerated rate throughout the economy. Recruiting and training staff is seen by Rwandan businesses as a major human resource problem, with nearly 40% of those surveyed in the Business Investment Climate Survey reporting difficulties recruiting and training competent staff. An informal World Bank study states that 41% of businesses cannot perform basic accounting, and although training programs are beginning to address this, much more is needed. High staff turnover and a lack of

[38] Source is the 2008 PSF Business Investment Climate Survey

relevant local training are seen as the primary constraints to developing competent personnel. Furthermore, manufacturing firms find there is a shortage of skilled labour for technical positions.

Issue #3 *Technical and Vocational Education Training (TVET) needs further support*. More emphasis is required on TVET. An adequate TVET sector is crucial to overcome this difficulty and ensure that a wide range of skilled technicians and professionals are available. To this end, the Workforce Development Authority in partnership with the World Bank created a Skills development fund, which can be accessed by the private sector and exporters that demonstrate export potential and alignment of their training needs with the NES.

Issue #4 *Promotion of Business development skills among cooperatives and SMEs.* Ongoing support services for the establishment and capacity building of cooperatives and SMEs are central to the GoR's current efforts to professionalize rural communities. However, more innovation is required, such as supporting partnerships between international firms and local firms for training (e.g. by government contracts for these partnerships should be encouraged).

4.2.10 GENDER, YOUTH & ENVIRONMENTAL SUSTAINABILITY FOR COMPETITIVENESS

Investment in gender, youth and environmental sustainability translate into a compelling competitive advantage for Rwanda – immediately, for the next decade, and for generations to come. Studies have shown that there is high correlation between an increase in gender equality and (a) corporate profitability,[39] (b) per capita GDP[40] and (c) a country's economic growth.[41] While Rwanda has taken bold steps in gender equality[42] and youth development,[43] more must be done to bring the benefits of this inclusiveness to the bottom line. For instance, supporting more women's ventures, which both globally and in Rwanda tend to favour consumer-oriented sectors,[44]can rebalance Rwanda's sector portfolio to target increasingly high-end customer markets.

Engaging youth is a higher stakes endeavour: employment, education and entrepreneurship in the youth population can reinvigorate an economy. More importantly, research studies have demonstrated that those who do not become contributing members to the country's growth in early adulthood may fall out of the labour pool altogether.[45]

Finally, Rwanda has the potential to use natural resources both as a competitive differentiator and to improve its operational efficiency. For example, the tourism industry knows "promoting a pristine environment helps tourism marketing, and safeguarding the environment reduces future costs."[46] Admirably, the Rwanda Tourism Policy addresses this by encouraging destinations "to develop guidelines

[39] A 19-year study of 219 Fortune 500 firms demonstrated that companies with the best record for promoting women were 18-69% more profitable than their competitors. Adler, Roy D. "Women in the Executive Suite Correlated to High Profits," Harvard Business Review (November 2001).

[40] The Economist, "A guide to Womenomics." April 12, 2006.

[41] See, for example, Tran-Nguyen, Ang-Nga, and Americo Beviglia Zampetti, eds. Trade and Gender: Opportunities and Challenges for Developing Countries. New York and Geneva: United Nations, 2004, for a positive correlation between women in the workforce and economic growth in 61 countries between 1980 and 1990.

[42] Rwanda has the highest percentage (56%) of female parliamentarians in the world. More broadly, "The Government of Rwanda is found to be highly committed to the cause of gender equality and women's empowerment as demonstrated by its 2003 Constitution, the approval of the National Gender Policy, the establishment of National Gender Machineries, ratification of the CEDAW, following of the Beijing PFA, the Vision 2020 and the development of the EDPRS." Source: EAC Gender & Community Development Analysis – Rwanda, p.38 (January 2009).

[43] For example, The Cooperative des Jeunes pour l'Auto-emploi et Developpement (COJAD), a youth cooperative for self-employment and development, has offered more than RwF 200,000,000 as credits to members.

[44] Women-led consumer-oriented ventures outnumber men's by over 50%. Source: Global Entrepreneurship Monitor 2007 Report on Women and Entrepreneurship, p.3.

[45] For example, a South African survey revealed that 39 per cent of unemployed youth simply stopped searching for employment. See du Toit, R. (2003) "Unemployed youth in South Africa: the distressed generation?" and Kanyenze G., Mhone G., and T. Sparreboom (2000) "Strategies to Combat Youth Unemployment and Marginalisation in Anglophone Africa," ILO/SAMAT Discussion Paper, No.14.

[46] MINICOM's Rwanda Industrial Policy (2010).

and tools for responsible tourism, including codes for tourists and operators on sustainability issues," such as "waste disposal, energy use, local economic impact and cultural sensitivity."[47]

Although tourism is an organized cluster that is highly-dependent on the environment for revenue, other sectors have yet to use the environment in a operationally efficient, sustainable and competitive manner – thereby all but ensuring higher costs and reduced profitability will constrain future export revenues. For example, it has been estimated that 70% of industry in Rwanda is located in the city of Kigali,[48] "which implies concentration of pollution in the capital" – as the majority of these firms do not have equipment to treat their own industrial waste.[49] Further, some coffee producers use insecticides that harm the environment and can stop sales in high end, organic markets.

Priority Issues and Challenges

Issue #1 *Mitigate the effects of trade on the environment.* Environmental degradation can compromise growth opportunities, particularly in the long-term. Firms should be supported to handle their own waste, at source, particularly where it includes complex chemicals and dangerous metals. Environment impact assessments (EIAs) should be undertaken for new and existing investments to ensure that they will not damage the environment, or where they might, that this is addressed through mitigating actions.

Issue #2 *Agriculture needs to be environmentally responsible*. Agriculture is the backbone of Rwanda's economy with over 80% of the population employed in the sector. However, Rwanda faces the challenge of needing to cultivate more arable land than is available, given continued population growth. The stress on the land is evidenced through erosion and depletion of nutrients in the soil, and made worse by poor use of fertilizer. There are several agricultural initiatives such as the CIP, RSSP and LWH programs that seek to increase the amount of arable land and improve productivity per hectare, which should be encouraged, but also monitored for environmental impact. Sustainably increasing land productivity can increase food security, while freeing additional land for value added export crops.

Issue #3 *Disadvantaged groups can contribute more to export growth.* The NES must support networks of productivity that are inclusive. By creating inclusive networks of productivity, which grant opportunities for all, the NES can ensure national buy-in and achieve goals of poverty reduction through employment generation and export growth.

Issue #4 *Collect relevant data on gender disparities, female empowerment, and youth* The participation of women and young people in export sectors can accelerate the achievement of Rwanda's export goals. Issues such as wage disparities and employment need to be studied, to ensure that women and youth are given an equal opportunity to participate in competitive industries. Where challenges are discovered, these should be addressed through collaborative private-public dialogue.[50]

Issue #5 *Foster entrepreneurship and apprenticeship amongst the youth in order to drive exports going forward.* Approximately 67% of Rwanda's population is under 25 years old, and the number of labour market entrants is outpacing the ability to absorb them, resulting in high youth unemployment. Therefore, it is essential that entrepreneurship and apprenticeship programs continue to develop in the export sectors to contribute to the long-term economic development of the country.[51]

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[47] Rwanda Tourism Policy (2009).

[48] Kigali Master Plan of Waste Water Management (2008)

[49] MINICOM's Rwanda Industrial Policy, p.24.

[50] In some cases, targets that have been set are not necessarily reflective of gender equality. For example, the percentage of girls enrolling in primary school has met its target, but attendance can be very low. The consequence of this is that disparities between genders in enrolment actually increases as you continue up to secondary school and university.

[51] In 1987, the Government of River State in Nigeria launched an innovative programme dubbed the National Open Apprenticeship Scheme (NOAS) as an attempt to link education and training with the workplace. The scheme provides vocational education and training to unemployed youth. It utilizes facilities such as workshops and technical instructors from private industries, government institutions, and by way of subcontracting arrangements, way-side craftsmen and tradesmen in the informal sector. Under this scheme, unemployed youth and school leavers are trained for a period of 6 to 36 months under reputable master craftsmen. They are also taught management, business and

4.3 SECTORAL STRATEGIES

In addition to the above cross-cutting, economy-wide reforms aimed at facilitating export growth irrespective of sectoral origin, the NES identifies specific sectoral strategies for selected industries. The selection criteria for these sectors focus on potential economic and social returns to planned activities, which address market failures and bottlenecks in public service delivery. Nonetheless, these strategies are designed to fully accommodate unanticipated export sectors from developing, which will themselves benefit from cross-cutting actions outlined in Section 4.2.

The selection process for the prioritised sectors builds upon previous work undertaken by the OTF Group in 2009, which analysed in depth more than 50 potential export sectors. The results of this analysis were presented along with the current sectors' status and strategic actions during a three-day NES Core Team retreat in 2010. The final approach integrated this analysis with input from RDB's Strategy and Competitiveness Unit, and utilised a cluster selection approach[52].

Many of the sectors considered (e.g. dairy, floriculture, others) are important to Rwanda's long-term exporting success, and once again the NES seeks to support all sectors through its emphasis on cross-cutting issues for differentiation and operational efficiency. As a group, however, the NES Core Team agreed that the priority sectors in the *short and medium term* should be the traditional export sectors of tourism, tea, coffee and mining, as well as the non-traditional export sectors of BPO and horticulture, and Home Décor & Fashion. Greenfield sectors - including but not limited to bio-plastics, pharmaceuticals and other biotech in agriculture and health, as well as pyrethrum - merit mention as candidates with especially high-growth export potential. However, the composition of Greenfield sectors will largely depend on private sector investment that results from market demand and a generally conducive business environment created by implementation of cross-cutting activities.

The selected sectors also share a common trait: they have value chains that would dramatically benefit from the NES emphasis on improving cross-cutting issues. Not all value chains benefit equally from all cross-cutting actions, but sectoral strategies in the NES are those which would be most able to capitalize on improvements in cross-cutting issues and move closer to customers in their respective markets.

Figure 4 provides further details about the criteria, scoring and ranking of the targeted sectors for export growth.

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administrative skills. The scheme has succeeded in training over 600,000 unemployed youth in over 80 different trades out of which about two-thirds started their own micro-enterprise. A mobile training scheme dubbed School-On-Wheels programme introduced in 1990 has provided vocational training to over 21,000 school leavers and other unskilled persons in rural areas. The programme is of a three-month duration, after which graduates are absorbed into the NOAS. Another related scheme is the Waste-to-Wealth Scheme under which youth are trained in the techniques of converting waste material into useful objects. At least 8,000 people have been trained under this scheme. Source: UNECA.

[52] The British economist, Alfred Marshall, who developed the notion of price-demand elasticity, also developed the notion of clusters in 1922. He noted that firms concentrating on the manufacture of certain products were geographically clustered. The characteristics of a Marshallian industrial district are high degrees of vertical and horizontal specialization, trust among firms on collaboration, and reliance on market mechanism for exchange. Firms tend to be small and to focus on a single function in the supply chain, and be highly competitive. The proximity allows easier recruitment of skilled labour and rapid exchanges of commercial and technical information through informal channels. As per Professor Michael E. Porter of the Harvard Business School, "clusters are geographically proximate groups of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. Well-developed clusters normally include end product or service companies; suppliers of specialized inputs, components, machinery, and specialized services; financial institutions; and firms in related industries. Clusters often include firms in downstream or customer industries; producers of complementary products; specialized infrastructure providers; government, universities, and other institutions providing specialized training, education, information, research, and technical support; and standard setting agencies." Finally, clusters include trade associations and other private sector bodies.

Figure 5: Scoring for Priority Export Sectors

	Potential Export Contribution	Job Creation	Number of Existing Firms/Coops	Market Attractiveness	Existing Skill Base Relative to Competitors	Opportunity for Differentiation	Investor Prospects	Total Score (0-100)
Weighting levels:	*x5*	*x2*	*x4*	*x2*	*x3*	*x2*	*x2*	100
Tourism	5	4.5	5	4.5	3	5	5	92
Tea	5	5	3	5	5	4	4	88
Coffee	5	5	3	5	5	4	3	86
Mining	5	4	3	5	1	3	5	74
BPO	5	4	2.5	4.5	2	2.5	5	73
Horticulture	3.5	5	4	4	3	3	3	73
Home Décor & Fashion	2	5	5	4	2	5	2	68
Dairy	3	5	2	2	4	1	3	57
Hides & Skins	3	3	2	3	2	2.5	3	52
Floriculture	3	4	1	2	3	2	3	50
Silk	2	3	2	3	3	3	2	49
Pharma	4	2	1	3	1	2	3	47
Scoring: 1 = Very Challenging, 2 = Somewhat Challenging, 3= Neutral, 4 = Attractive, 5= Very Attractive.								

There is a clear dividing line in the scores attained by sectors, with six in particular scoring 73 and above (out of 100). Whilst scoring seventh best in the rankings, Home Décor & Fashion was recognized to have strong growth potential, significant social benefits, and can support country branding. The global market for home décor and fashion is over US$250 billion annually, and in Rwanda, it is an extremely dynamic industry involving thousands of players, with several handling large export orders. As a result of this and significant stakeholder support for the sector, Home Décor & Fashion is included as a sector meriting targeted actions within the NES.

4.3.1 TOURISM

Rwanda's tourism sector has been exceeding expectations and is Rwanda's top foreign exchange earner. However, the industry requires "game changer" activities and investments to leap frog towards becoming a truly world-class and high-demand tourism destination. Plans are being developed to add to the gorilla product, diversify into new products and experiences (cultural, conference and birding tourism), and target specific customer segments (Explorers, Eco-travellers and business travellers). In 2009, in conjunction with UNWTO, the tourism workgroup developed a new tourism master plan that sets the direction for the industry by setting revenues targets from US$186M in 2008 to US$627M by 2020. In 2010 the sector recorded revenues of US$200M. Further, plans are being developed for adding additional events and conferences on a year-round basis, to attract more tourists.

Rwanda's natural attractions need to be leveraged through investments in the potential experiences in these locations. Along with maximizing the use of Rwanda's natural resources, product diversification is essential to the continued growth of the tourism industry. Development of business tourism, cultural and religious tourism, and creating an events-based tourism are among the ways in which Rwanda can continue to grow its tourism revenues and meet the targets for 2020. However, customer service and associated training is required to launch Rwanda's tourism experience to world-class levels.

Priority Issues and Challenges

Issue #1 *Perception of Rwanda as a destination: brand and customer service.* Despite the fact that the U.S. travel warning for Rwanda has been removed, the perception of Rwanda as a destination remains tarnished among broad groups. Continued political stability and entry of foreign tourism brands such as Marriott or Hyatt would help to alter this perception. However, world-class customer service provided to each current international visitor could draw four more arrivals, while one sub-par customer service experience can deter seven arrivals. Unqualified managers and poor customer service was the biggest cause of dissatisfaction among visitors (recent visitor satisfaction survey) and impedes Rwanda from being known as a truly high-end destination, and changing its perception globally. Additionally Rwanda's overall destination brand must be strengthened.

Issue #2 *Rwanda is too dependent on gorilla tourism*. Additional experiences, such as avitourism, business and cultural tourism, can be developed for targeted segments in line with the country's positioning.

- *Develop birding specific product development initiatives*: The avitourism product has been recognized for its potential to diversify Rwanda's current tourism offerings. It is urgent that the industry invests in trained bird guides, as there are currently less than five in country.
- *Invest in MICE specific product development initiatives:* MICE tourism is one of the fastest growing segments globally and Rwanda is in a position to take advantage of the opportunity given its location and reputation. However, several investments in developing supporting institutions and infrastructure are lagging. In particular, Rwanda can organize and pursue growth opportunities at the intersection of clusters. For instance, India capitalizes on the intersection between its biotech industry and tourism to create a unique tourism service.
- *Initiate Cultural Tourism specific product development initiatives*: Along with developing an event strategy to attract tourists to cultural events, investments need to be made in developing existing products. For instance, products such as museums must be packaged as experiences and marketed to targeted segments rather than have them as ad hoc products as they are currently.
- *Implement tourism Master Plan on a country wide level*: along with developing tourism at a national level, districts need to be involved and implement the tourism plans they are responsible for as part of the national plan. For example, the district of Rubavu needs to be responsible for ensuring that the waterfront at Gisenyi is available for its intended use under the Tourism Master Plan, the citizens need to be sensitised as to the plans and investors should be sought.
- *Transformative Opportunity*: Invest in world-class event-based tourism, such as creative marketing Fespad, including documentaries, or creating new profitable events.

Issue #3 *High cost of coming to Rwanda.* Given the cost of coming to Rwanda, EAC integration can be leveraged in 2 ways: (1) increase regional tourism by marketing to EAC members, and (2) developing East Africa circuit tours with other countries and channel partners.

4.3.2 TEA

Since its introduction in the 1960s, tea has been one of Rwanda's strongest export sectors mounting to almost 35% of national exports and revenues, growing from US$22M in 2003 to US$55.7M in 2010 with close to 13,000 hectares under plantation. The sector employs 53,000 people directly and is a source of revenue for over one million people. Rwanda seeks to achieve US$159M in estimated revenues from tea by 2015, which will require increase yields of green leaf by hectare and increasing current capacity of the tea factories. In order to achieve its objectives, several issues faced by the tea cluster will need to be addressed.

The 2008 Rwanda Tea Strategy identifies the need to improve yields and quality, through better fertilizer application, plucking and pruning training, and improved transportation, as well as long-term efforts to consolidate land plots. It also identifies the need for improved investments in factories, both in terms of expanding factory capacity to process green leaf, but also in terms of processing new tea types to ensure product diversification. The strategy also states the need for improved marketing of teas by targeting specific channels for high-end teas. The GoR continues to support training for management of cooperatives, and for agronomists, auction publicly owned factories and supports packaging efforts in Dubai. Several private firms are moving to higher value teas and organics. The NES prioritises the following issues to enable stakeholders to reach export targets.

Priority Issues and Challenges

Issue #1 *Improve yield and quality of green leaf.* A key constraint to increasing production and processing is fertilizer: its cost, availability, suitability and distribution, and costs have spiked by 300% in the past two years thanks to gasoline prices and other variables. Green leaf quality is compromised by poor farming practices, which will require training and/or better incentives to farmers,[53] as well as transport methods. Agronomist training can help improve the quality.

Issue #2 *Improve the quantity and quality of made tea.* In order for factories to be able to reach targets of tea produced, capacity will need to be almost doubled. Three factories have recently expanded production, but more needs to be done, as some factories turn away from green leaf due to capacity issues.

Issue #3 *Reduce the cost of production*. The cost inputs and machinery that are mostly imported (labour, power, and transport) are higher than other countries in the region, yet Rwandan teas have to compete on an even keel with Kenyan teas in Mombasa.

Issue #4 *Target markets with diversified value-added products through developed distribution channels.* The oversupply of bulk black tea on international markets is likely to worsen over the next five years. Rwanda needs to move from producing almost solely bulk black tea, the majority of which is sold at auction producing better quality teas, to producing diversified teas including green, white or orthodox teas, and branded Rwandan packaged teas, which are sold directly to buyers using strong relationships.

4.3.3 COFFEE

Rwanda's coffee industry is a traditional export and a priority sector for the GoR and its partners. Rwanda has excellent growing conditions for Arabica coffee, which is evidenced in the growing number of awards its specialty coffees receive, its increased demand worldwide, and the higher premiums paid. More than 10% of Rwanda's coffee is now fully washed; most of it falls in the category of specialty coffee and is in high demand from gourmet roasters, and retailers such as Sam's Club and Starbucks.

Over the last decade, export receipts from the coffee sector have averaged US$58M and held steady as one of Rwanda's major foreign exchange earners. However, rising international prices for coffee are currently compensating for a now dropping national yield. Coffee revenues generated US$56M in 2010. This is an increase from US$37M in 2009, but it was hampered by an extended dry season in some coffee producing areas.[54] While increased investments in the sector increased the productivity from 0.7 tons of green coffee / hectare over the last decade, soil acidity, lack of distribution of appropriate fertilizer and cyclical coffee production cycles currently conspire to bring yields down.

According to the 2009-2012 national coffee strategy developed by MINAGRI, OCIR CAFÉ, and the OTF Group, revenues are projected to reach US$115M by 2012. The NES projects more conservative revenues, reaching $US 89M in 2012, due to downward revisions of current production levels and other factors. Increasing the quantity and quality of coffee as well as developing value added products (e.g. fully washed coffee, roasted packaged coffee) will be critical to the continued success and future growth

[53]Per the Strategy, in addition to approximately $250,000 allocated for training and $85,000 for farmer incentives by OCIR-Thé, there is a gap of US$750,000 for related agronomist support and worker training through 2013,. Through training on plucking, the Pfunda factory increased yields by 16%.

[54] Comments attributed to the Director General OCIR-CAFÉ, Alex Kanyankore in The New Times Daily Newspaper, October 6th 2010, page 4.

of the sector. In addition, efforts must be made to improve the business environment and operational efficiency for farmers, washers and exporters.

The National Coffee Strategy identified five priority programs to remove binding constraints to success. These include improving the use of good farming practices and integrated pest management systems through focused agronomist support; continuing a voluntary turnaround support program for selected Coffee Washing Stations through continued management training and improved transportation with associated quality improvements and cost reductions; improving sales and distribution mechanisms through capacity building of private exporters; implementing a census and GIS study of all coffee producing regions; and implementing value addition activities. These may include toll roasting in China and the Middle East, and a partnership with Marks & Spencer's. These five key priority programs are further supported by a number of other actions in five areas – production, processing, sales and marketing, research and development, and infrastructure. The NES seeks to complement these activities, some of which are already being implemented, by prioritizing the following issues.

Priority Issues and Challenges

Issue #1 *Production levels need to increase.* Production has remained cyclical and stagnant since 2003. Production challenges have been due to inappropriate distribution systems for (and lack of demand for) fertilizers and other inputs; high prevalence of pests and diseases; insufficient number and capacity of agronomists; and poor farming practices. These challenges have resulted in low and variable quantities of coffee cherry production, which in turn have affected farmers' revenues and reduced washing station profitability. Of particular importance are rising soil acidity levels which must be counteracted with a liming process which could be supplied with local lime inputs at approximately 2 RWF per coffee tree.

Issue #2 *Improve operational efficiency of washing stations.* Coffee washing stations face low profitability with half of the 130 coffee stations running at a loss in 2008. Challenges in processing are due to the poor location of some washing stations with little access to cherries (leading to lower volumes); weak management, costly and damaging transportation, which are a part of high operating costs; inadequate infrastructure; and weak understanding of the business by the financial sector. To address these challenges, the 2007 strategy developed a coffee washing station turn around program, and led to the success of a number of stations. Fully washed coffee is a crucial component in stabilizing and growing Rwanda's coffee exports, and the 2009 strategy planned for washing more than half of Rwandan coffee.

Issue #3 *Improve business environment for coffee exporters*. While the additional fees on coffee exporters is justified as it transfers a portion of the burden of providing fertilizer from the farmer to the exporter, this rate of 5% of the previous months weighted average contract price, in addition to the fixed fee per kilogram exported for fertilizer and pesticides should be reviewed and perhaps aligned more closely with fees applied by regional competitors. Additionally, exporters face long waiting times for shipping containers, which are delayed due to long customs times on the import side, an issue which will continue to grow as coffee exports increase. Further, the tax is used to provide free fertilizer, which is sometimes sold outside of the sector, despite recent GoR enforcement.

Issue #4 *Improve domestic and international contract enforcement capacity in coffee*. Some international coffee buyers are not buying Rwandan coffee due to product inconsistencies and lack of ability to enforce contracts. In particular, specialty buyers state that despite having contracts in place, Rwanda's exporters will disregard a contract and sell to a higher bidder.

4.3.4 MINING

The mining sector was recently privatised, which improved production levels, productivity and value addition. Export revenues increased from US$32M in 2004 to US$93M in 2008, but due to the global downturn, decreased to US$56M in 2009. Still, mining has been the largest revenue earner in terms of export *products*, for the past six years (2004 – 2009). In 2010, mining sector export revenues increased to US$68M.

Primary minerals being extracted and traded are cassiterite (a tin ore); Colombo - tantalite (commonly called coltan - an ore that is the source of niobium and tantalum); and wolfram (a tungsten ore). Construction materials that are used in their primary state or processed include amphibolites, granites and quartzites, volcanic rocks, dolomites, clay, kaolin, sand and gravel. Peat and travertine/lime are also being exploited for energy, agriculture and cement.

The sector is split between artisanal miners and mid-sized international companies. The government's key areas of focus for developing a sustainable mining sector include strengthening regulatory institutions, attracting investment, improving sector skills and practices, increasing productivity, diversification, and value addition. The sector currently employs35,000 people, and according to the director of OGMR, there is a need for 30 additional trained professionals, 4,000 technicians, and thousands of trained employees, as more than 80% of industry management states that human capital constrains the industry. Suggestions for human capital development include sending students abroad, developing lab facilities and training, creating local degrees, and installing regulation that encourages local knowledge transfer.

In the medium to long-term, the industry will need to overcome challenges, such as the dearth of human capital, and high-energy costs for processing and transport. Fortunately, Rwanda also has competitive advantages, which could position her as a mining "hub," such as its relative stability, zero tolerance for corruption, and centralized position in the region. The Rwanda Mines and Geology Authority's strategic plan for 2010 – 2013 provides a roadmap for industry improvement. This plan addresses challenges in five core areas:[55]

- Strengthen the enabling legal, regulatory and institutional environment;
- Develop competitive investment and fiscal policies for mining;
- Improve mining sector knowledge, skills and use of best practices;
- Raise productivity and establish new mines; and
- Diversify into new products and increase value addition.

The NES addresses the export of Rwandan Mining products as well as increasing the growth of Rwandan mining services exports through initiatives such as the Mining Campus.

Priority Issues and Challenges

In the minerals sector, challenges to extraction remain, including difficulties accessing finance, dealing with taxes, coping with price risks, hiring internationally for advanced skills, and creating value-added work as compared to exporting basic materials. The main challenges are:

Issue #1 *Professional skills can improve.* There is a dearth of skilled mining engineers, geologists and metallurgists in Rwanda, requiring companies to import skilled staff. These gaps are being addressed with efforts to train young mining professionals and attract FDI, but this will take time.

Issue #2 *Knowledge of reserves can be increased.* The knowledge of reserves remains a major challenge, but it can be addressed by clarification and implementation of the new mining law's licensing

[55] The 2010 – 2013 Rwanda Mines and Geology Authority strategic plan aims to improve geological and mining knowledge in Rwanda, improve operating and investment condition in Rwanda, and add value to mineral and quarry resources: Source OGMR, 2010 – 2013 Strategic plan, 2010.

requirements and by gathering information on Rwanda's mining sector from international sources. The government is also investing in the generation of new geological data to facilitate investment.

Issue # 3 *Mineral audit trails can be improved.* Creating an institution and mechanisms to trace the origins of all minerals exported from Rwanda will allow Rwanda to trade freely with countries that have bans on "conflict minerals."

Issue # 4 *Opportunities exist for value addition.* Post-extraction value addition to minerals suffers from a number of challenges, especially the high cost of energy. Efforts to develop processed quarry products will face the same issue, but have the potential to be competitive against existing imports. Additionally, the government is committed to providing concessional energy tariffs for strategic mining industries such as smelting. Moreover, incentives should be reviewed to encourage processors to add value to minerals, such as with the new Bashyamba Processing, which purifies metals prior to exporting.

Issue #5 *Kigali Mineral Campus could provide a full array of services for the region.* Long-term, the most impact in terms of additional revenues and sector diversification could be achieved by establishing a mineral campus to provide an array of value-addition services, investment facilitation, and training and certification in Rwanda.

4.3.5 BUSINESS PROCESS OUTSOURCING

Business Process Outsourcing (BPO) is defined as the contracting of specific business tasks to a third-party service provider. It includes ICT, financial and other outsourcing activity. BPO is an industry that creates knowledge-based employment, which aligns with Rwanda's strategic document, Vision 2020. A domestic BPO industry can help reduce the trade imbalance, create non-agriculture based employment, and infuse innovation and productivity into several local sectors. BPO will also support economic growth through the integration of Rwanda with local, regional and international networks.[56]

Business Process Outsourcing is one of the largest and fastest growing global industries. This growth is driven by an overall change to business models. BPO has a limited presence in East Africa; however, its growth rate of outsourcing will likely surpass the global growth rate. This growth is supported by a strong industrial growth rate and an increase in the percent of a business given to third party service providers. Estimated current domestic demand for BPO services is around US$50 million, which will increase to US$200 million by 2020. Regional market demand for BPO services will be around US$1.9 billion by 2020.[57] Rwanda has a solid foundation from which to expand, including a diverse array of firms providing both IT services and business process services to various industries, both domestically and regionally.

This support will give the BPO sector, driven by ICT and marketing services providers, the ability to contribute significantly to the economic and social goals of Rwanda. Rwanda could achieve BPO export revenues of US$161 million by 2020 from US$10 million in 2009[58]. Additionally, BPO will contribute to the social goals of Rwanda by creating a large number of jobs in the services, thus helping to transition Rwanda to a knowledge-based economy, and increasing female participation in the workforce. It can also improve productivity in other sectors.

The Rwandan BPO cluster is a diverse array of firms providing both ICT services and back office services in finance and administration to various industries, both domestically and regionally. The BPO cluster is comprised of members of the public sector, academic institutions, and the private sector. The public sector includes institutions such as the Rwanda Development Board (RDB), staff of the Minister in the Office of the President in Charge of ICT, and the National Public Procurement Authority, amongst others. Key academic institutions in this cluster include Kigali Institute of Science and Technology (KIST), and the National University of Rwanda (NUR). The private sector includes service providers and product vendors, the Rwanda ICT Association (RICTA), with over 70 members, and the Rwanda Private

[56] RDB BPO Strategy Document, September 2010.
[57] Source: OTF estimates based on Nelson Hall study cited in CBI Market Survey: The Business Process outsourcing Market in the EU, and stakeholder interviews
[58] OTF estimates based on stakeholder interviews and OTF Group BPO market survey, 2010: n=136.

Sector Federation (PSF). Service providers are divided into two categories: the first category is ICT services, including systems integration, infrastructure, consultancy and software development. The second category is other business services including finance, administration, human resources and marketing services. The cluster can create an opportunity for major productivity improvements by focusing on Greenfield investments, such as Cloud Computing.

Cloud computing is a potential transformative industry for internal productivity improvements and for export activity. Cloud computing is Internet-based computing, when computing tasks are assigned to a combination of remote connections, software and services on demand. End-users no longer need expertise in, or control of the technology infrastructure. The technology and skills are located and managed remotely. Organizations can buy access to IT resources from cloud providers on a pay-by-usage basis. A good Internet connection is required to remotely access the IT infrastructure that is located in the cloud provider's data center. Rwanda will soon have the infrastructure to take advantage of this growth industry. Rwanda's new national data center will be fully functional by 2011, and the new fiber optic cable is being installed, allowing firms quick access to this infrastructure. Domestic cloud providers will be able to offer access to IT services for a lower cost than an on-premise IT infrastructure. This low cost is achieved by the cloud provider's ability to share IT infrastructure among a large number of consumers, and by utilizing efficient IT service management.

Priority Issues and Challenges

Issue #1 *A major constraint to the progress of the BPO cluster is the lack of a strong domestic ICT and business skills base*. Employers in Rwanda have often complained that the skills produced by Rwandan institutions are not properly aligned to the skills needed in the private sector.[59] Domestic ICT programs lack breadth and practicality and do not provide accessible certification courses. Since Rwandan employees require additional training, which is often done by the hiring company, they are more expensive than their East African counterparts. Many ICT firms in Rwanda hire labour from Kenya, where experienced professionals are looking for regional opportunities, due to the competition and weak demand for labour in their local market. Often the training for the employed Rwandan graduates is not held in Rwanda, and the company pays the cost of sending employees abroad for training. Finally, the cost of existing ICT certification courses is prohibitive to students. As a strategy to compensate for the skills gap, there are a number of certified courses currently offered by universities, e.g. KIST offers CISCO, Microsoft, and LINUX training. The cost of CISCO courses is included in the regular tuition, but Microsoft and LINUX courses are not. These courses are prohibitively expensive for most students. Low enrolment means KIST is struggling to provide them. To address this issue it is necessary to find lower-cost solutions to training Rwandan students in the necessary systems.

Issue #2 *Infrastructure deficiencies, particularly in ICT, create an unfavourable business environment for domestic service providers and international investment.* Electricity tariffs and telephone costs are approximately double the regional average,[60] and while the connection to the fibre optic cable should be soon operational, and reduce the cost of connectivity, infrastructure costs remain a constraint.

Issue #3 *Rwandan service providers face challenges accessing working capital and funding for growth.* When domestic firms are awarded contracts, the small advance they receive from the contractor is often not enough to complete the services. Compounding the issue, some firms may require a guarantee from the provider in order to ensure that the work is completed. The ICT sector could work with the financial sector to develop financing strategies to assist firms to access working capital on specific contracts, through a credit service bureau. Additionally, start-up service firms often cannot expand due to finance issues. The growth of the sector depends on the expansion of existing firms as well as new entrants, which is problematic if they cannot access the required start-up funds and working capital. This

[59] Medium Term Support Pilot Program for Rwanda Companies with High Growth Potential for Export (MTSP 2009-2012), RDB .

[60] The lack of domestic energy production led Electrogaz to increase the electricity tariff from US$ 0.16 KW/h to 0.22 KW/h in 2008. The regional average is US$ 0.10 – 0.12 / kWh - (MINICOM Industrial Policy).

will require that the sector build relationships with angel investors, private equity or venture capital firms, and work with external evaluator bodies to provide firm level reviews to build investor confidence.[61]

Issue #4 *The growth of start-up firms is hampered by their inability to bid successfully on government contracts*. Current procurement practices do not promote competition/industry growth, and favour large firms with solid reputations, making it difficult for smaller firms to compete. The procurement officers on these projects are sceptical about hiring local firms because in the past local firms have failed to execute projects. Additionally, procurement officers often lack knowledge of current technologies and practices in ICT and therefore lack the ability to evaluate ICT proposals that present innovative solutions. Rwandan firms that present innovative ICT solutions that will save money through increased productivity or systems enhancement in the long term miss these tender opportunities. Finally, in cases where the capacity does not exist domestically, the systems in place to mandate cooperation and knowledge transfer between international and domestic firms are weak.

Cloud computing: In order to realize the potential which cloud technologies can offer Rwanda, challenges must be addressed, which include:

- ✓ *Identifying the right partners:* Natural partners for hosting cloud data centers are typically telecommunication companies. They have the skilled IT resources, are the providers of mobile technology to SMEs, and are also the Internet providers following broadband cable investments. They are uniquely positioned to deliver and market SaaS through the Internet.
- ✓ *Choosing the correct cloud applications:* This requires local ISVs developing business applications with designs that meet local realities, as well as inexpensive connectivity and electricity. They must rely on local innovation to address these needs. An example of such an innovation developed in Kenya is M-Pesa, or mobile money. A critical element to a successful cloud-computing platform in emerging markets is building a low-cost solution that is easily absorbed by local businesses.[62]
- ✓ *Improving workforce skills through education, targeted training, and importing foreign expertise*:[63] More targeted training and/or foreign expertise is required to leapfrog Rwanda into the hub position of the Cloud of East Africa. Current certification courses are cost prohibitive to most students, and firms do not have access to state of art technology, through libraries or other means. Further, internships do not currently offer enough training opportunities for students in Universities. One possibility is to develop Rwanda into a regional training hub, partnering with international firms on certifications.

[61] Attracting a large, multinational BPO firm such as IBM or Infosys to Rwanda is a game-changer for the BPO industry. Bringing such a firm to Rwanda would have three distinct effects on the industry and economy: the firm would immediately create a large number of knowledge based Jobs for Rwandan graduates, and transfer skills and best practices directly to these employees. The firm would invest in infrastructure, which would have positive spill-over effects to the economy as a whole; the international firm would bring established market linkages, relationships which the entire industry could develop. The firm would attract supplier firms to the country, as well as competitor firms, helping to build a robust cluster; the firm would be able to spin out tangential firms, increasing the size and diversity of the industry cluster. Finally, the firm could act as a "mother firm," with the ability to organize smaller firms in the sector, bringing together different skills sets and product components. This will help the firms in the sector reach export markets, which individually they cannot access.

[62] Free open source software can address these higher costs. Canonical, a South African ISV is offering Ubuntu, one of the best free versions of Linux. Canonical is an example of FDI that can promote and support Ubuntu to local ISVs, who would develop innovative solutions.

[63] Rwanda is moving in the right direction: the government spends over 20% of its budget on education, and 10,000 Rwandan university graduates enter the workforce annually. NUR and KIST are focusing more on computer and information science, in addition to CMU opening a Masters program in Engineering. Further there is activity with new incubation centers, such as the new Isoko Institute that is under the CMU umbrella, as well as technology parks to support the development of new businesses by innovative entrepreneurs.

4.3.6 HORTICULTURE

Rwanda's horticulture sector includes fruits, vegetables, and flowers for domestic and export sale. Since the principal source of employment in the rural areas of Rwanda is agriculture, the development of this sector can have a significant impact on poverty reduction. Currently, the horticulture sector exports approximately US$3M a year. However, there is need for further export diversification within horticulture.

The sector can develop through value addition and diversification, such as focusing on organic, as well as value-added products, including juices and dried fruits/chillies. These products can be exported both regionally and internationally, to Europe, the Middle East, and the United States. Through these actions, Rwanda's horticulture sector hopes to achieve export revenues of more than US$9 million by 2015.

Key constraints to the sector stem from the lack of adequate land to achieve economies of scale, as well as a lack of knowledge around proper crop cultivation and fertilizer and pest management, export procedures and requirements, and an associated low ratio of agronomists to farmers. Through an array of interventions including agricultural extension agents, land consolidation and tax incentives for value addition, Rwanda can encourage the long-term success of this sector.

Priority Issues and Challenges

There are several challenges that face the ongoing development of this sector. These include:

Issue #1 *Production quantities are low*. Current production levels are low due to many farmers growing horticulture products as an additional crop to staple crops, rather than dedicating limited land to a single crop. Additionally, high incidence of diseases and pests, a lack of production skills and collection centres, and training in post-harvest handling constrain production growth. Training through the Government or the Once Acre Fund has increased yields by more than 200%. Further, attracting investors for commercial farming could significantly increase yields. This is critical, as attractive export markets require consistent production levels, which Rwanda struggles to provide. Several groups of farmers in the south have had 200% to 300% productivity increases, thanks to government efforts, and programs such as One Acre Fund, which train farmers on fertilizer application. This allows a shift from staple – just growing crops to growing more value added crops.

Issue #2 *Government institutions can help increase export quality*. Rwanda's export standards institutions are struggling to provide a reliable and high quality service. Since there are currently no major horticulture exporters in country, systems must be put in place to convince investors that Rwanda has the necessary enabling environment.

Issue #3 *A path to organic production and certification is needed*. The process to become organically certified is difficult and costly for farmers, resulting in very low numbers of certified organic farms, even though an estimated 85% of farmers already are using organic fertilizers or are not using fertilizer. This is more important for exports due to recent worldwide organic growth trends.

Issue #4 *Finance can be more accessible*. It is difficult for farmers to fund their enterprises, and they face constraints in purchasing inputs. Financial institutions see horticultural finance as an unattractive venture because of the high risk and seasonality of the products. Further, there are many small value-added producers in country who are unable to export due to difficulties in financing, lack of input skills and usage, and a lack of market information.

Issue # 5 *Value addition and export trials can be further encouraged.* Agro-processing and other value addition activities that might take place at the commercial farm-level can be encouraged through temporary subsidies in order to enable producers to discover their true costs and profitability. Moreover, airfreight costs from Kigali to international markets are among the highest in the region, severely reducing the profitability for potential investor. GoR can try to lower these costs.

4.3.7 HOME DÉCOR AND FASHION

MINICOM, in the Rwanda Craft Industry Sector Strategic plan, recognized the role that Home Décor & Fashion can play in achieving Rwanda's Vision 2020 goal of earning foreign exchange revenue. It also highlighted how it can reduce the percentage of people dependent on agriculture farming due to its potential to generate employment and income to a large portion of the rural population, especially women, youth and vulnerable people. The Home Décor & Fashion industry in Rwanda currently includes the following products: embroidery and woven products, hand sown textiles and hand-loomed products, ceramics and pottery, wood products, jewellery and imigongo. Products that are newer to the market, and that have the potential to increase export revenues in the sector, include silk and leather products. The development of these industries, as well as support to improve product design and market sophistication in existing industries, would position the sector to increase export revenues and deepen rural economic benefits. It is also a powerful branding tool for Rwanda, through partnerships with tourism.

Between 2002 and 2007, annual export revenues in the handicrafts sector grew almost 1,000% from US$49,841 in 2002 to US$430,000 in 2007. The industry currently provides full or part time employment to over 20,000 Rwandans operating individually, through small businesses and cooperatives of varying sizes from 30 to 1,000 members.

The growth of Home Décor & Fashion can support other export sectors, such as tourism, tea and coffee, by establishing the Rwanda brand internationally. This can be achieved indirectly as Rwandan-made home décor and fashion products are purchased by international clients, and directly, as products can be paired to assist the branding of other products such as coffee and tea. Rwanda has the potential to tap into the global market, which generates over US$450 billion annually, leveraging 'fair trade' and 'social marketing' as a base but then moving beyond to mainstream clients and markets. Going forward, the key areas are enhancing production capacity especially sophistication in product development, client relations and quality control, trade facilitation, export marketing, industry coordination as well as addressing underlying assumptions about the 'handicraft' industry that inhibit sector growth.[64]

Priority Issues and Challenges

The challenges in Home Décor & Fashion are detailed in the Rwanda Craft Industry Sector Strategic Plan, with the following export related issues:[65]

Issue #1 *Developing artisans knowledge about market preferences.* Most producers are ignorant of market preferences, and have limited to no capacity to track global trends to be competitive in the international home décor and fashion market.

Issue #2 *Generating international demand for home décor and fashion items from Rwanda.* Handicraft cooperatives currently do not have access to international markets due to low levels of marketing and networking. The US, through AGOA, is one of the key target markets for the home décor and fashion sector.[66] Efforts should be made to attract targeted buyers to work with existing innovative cooperatives, and thus stimulate innovation and quality throughout the sector.

Issue #3 *Sensitising government, donors and other stakeholders to the potential of the 'craft' industry in Rwanda.* The government, donor and NGO projects largely fuelled the development of Rwanda's international 'handicraft' industry to provide employment for vulnerable populations. Although these efforts have contributed to the development of skilled labour force and organized cooperatives, it has also led to a perception that the 'handicraft' industry is a 'development' project instead of a viable economic sector. Leaders often see those in the industry as lacking the skills and awareness to be internationally competitive, despite a variety of success stories. Recognizing the home décor and fashion

[64] Rwanda Craft Industry Sector Strategic Plan (2009 – 2013)

[65] Challenges quoted from the Ministry of Trade and Industry's, "Rwanda Craft Industry Sector Strategic Plan (Five Years: 2009 – 2013)". January, 2009.

[66] The OTF Group/USAID prepared a detailed AGOA market research study in 2009.

sector as a serious economic enterprise will help to developing the necessary interventions—from modern design to branding—that are necessary for the sector to flourish.

Issue #4 *Export platforms need to compete in niche markets.* A major constraint to international access is that cooperatives rarely provide the economies of scale in transport and shipping that are necessary to be globally competitive and to attract foreign buyers. Therefore, Rwanda needs to compete in niche markets where there is a demand for unique products rather than competing in mass markets.

Issue #5 *Technical know-how of artisans needs improvement*. Skill deficiencies result in poor design, no specialization, inconsistent product standardization and incomplete finishing, which detract from quality. Cooperatives should be encouraged to innovate and seek information on the international market in order to reduce these deficiencies. Given that there is a rising, albeit, small number, of skilled craftsman in Rwanda, knowledge sharing as well as targeted training needs to be encouraged.

Issue #6 *Branding, marketing, presentation and packaging need support.* Inadequate attention is paid to appropriate packaging, to the detriment of product preservation, durability and quality.

Issue #7 *Need to develop export-financing mechanisms customized for the handicraft sector.* Unavailability of flexible credit for this sector hinders exports, as small cooperatives are unable to carry the burden of all the upfront costs of exporting. Finance solutions, as well as developing relationships with buyers willing to share in the cost of exporting will enable the handicraft sector to export.

Issue # 8 *Targeted initiatives are required to develop nascent industries.* Newer industries, such as leather and silk, have a potential to contribute to the home décor and fashion sector. However, these nascent industries need targeted initiatives to develop the local skills base. This is especially true of silk, where there is no real local knowledge base, although it also applies to leather products, where training and value addition will be necessary to become internationally competitive.

4.3.8 OTHER POTENTIAL HIGH GROWTH SECTORS

In addition to traditional sectors, there are nascent sectors, such as biotech and cloud computing, which show opportunity for growth and diversification for the Rwandan economy. In addition, these sectors have been identified in other Government of Rwanda documents, such as the Rwanda Industrial Policy and Master Plan as sectors of potential long-term growth and development. While a number of activities towards developing these sectors have been identified and included in the Implementation plan, a more elaborate discussion on these Greenfield sectors are in Concept Notes within the Department of Trade and Manufacturing at the RDB.

- **Pyrethrum -** Rwanda is exporting pyrethrum pale extracts and is looking at processing and exporting biological insecticides. Export revenues reached US$1.6 million in 2010 with total production at 6,500MT of pale extract (from 378,000MT of dry flowers). This compares to US$1.0 million of exports and 4,010MT of pale extract production in 2009. Rwanda holds 5 percent of world production currently. SOPYRWA, the sole Rwandan exporter projects export revenues of US$ 3.7 million by 2011 and US$10.5 million by 2015. Bio-pesticide from Rwanda, which potentially poses a reduced risk to the environment and to human health vs. traditional pesticides, is an attractive alternative to synthetic pesticides and Sopyrwa is positioning itself to take advantage of this opportunity. On the production side, productive conditions for growing chrysanthemum flowers – the source of pyrethrum – are beneficial in Rwanda: ideal tropical highland growing conditions, labour abundance, and the prevalence of smallholder cultivation.

- **Biotech –** Broadly within agriculture and health. Biotechnology has been identified as a largely untapped and transformative engine of economic growth for Africa. Rwanda has potential in this field. First, Rwanda provides an environment for infectious disease, genome and other research, due to its geographic positioning, as well as due to the unique polyzygotic DNA makeup of its population, which is the subject of NIH scientific research in the region. Further, indigenous crops such as maize, cassava, and potatoes can be used to make bio-plastics. Additionally, Rwanda can provide inexpensive semi-skilled labour for drug production and regional distribution, as well as a hub for the health care, food security, etc. Further, Rwanda can leverage investments for its King Faisal Hospital, with its push to be an ICT hub in East Africa and to create an innovative environment for research of products for the base of the pyramid.

There are three primary initiatives for Biotech in Rwanda. The first is the basic building blocks. This requires strengthening several government agencies to have a biotech focus, such as following Malaysia's approach of a one-stop biotech shop. Second, most of the private sector nodes in a typical cluster are nonexistent or underdeveloped in Rwanda, so FDI or a concerted internal investment regime must be targeted. Finally, compared to other regions, the resources in Rwanda are not as well coordinated and leveraged. However, initiatives that can address these challenges include: establishing a Biotech coordination body to enhance the agenda and action orientation of cluster-specific organizations; leveraging the government to assist in prioritised strengthening of the business environment as support for the one-stop shop; targeting the best FDI; increasing generics production, prior to patent penalties in 2016; improving Rwanda's position as a medical centre and for building medical services and other related sectors.

5. PREFERRED OPTION

The National Export Strategy provides a framework and series of recommended actions to improve the competitiveness of Rwandan exports. As such, the cross cutting issues and activities recommended for the identified priority sectors constitute the high priority options for this document. This recommendation will work in tandem with the efforts of previously produced or new sector specific strategies and organizations. These activities are clearly detailed in the implementation plan attached to this document.

6. STAKEHOLDER VIEWS

6.1 STAKEHOLDER CONSULTATION PROCESS

The NES became a priority at the 2010 Kivu Retreat, as there was a "need to develop a comprehensive national export strategy." This need arose from the fact that "current intervention affecting export development and competitiveness can be found in numerous strategy documents and the implementation and coordination is scattered across a number of institutions and ministries," with the result that it was necessary to "harmonise and consolidate interventions into a coherent export strategy."[67]

The Minister of Trade and Industry initiated the NES and a core team was set up to develop the strategy. The exercise commenced in June of 2010, with meetings between the Trade and Manufacturing Department of RDB (which has overseen the creation of the NES) and OTF Group (as facilitator). In these meetings the timeline for the initial draft of the NES was set with the understanding that the document would mainly synthesize existing strategies and policies throughout the GoR.[68]

At the end of June 2010, an NES retreat was held with representatives from ministries and departments across the GoR[69] as well as private sector representation in order to select the priority areas for the NES, as well as brainstorm on potential priority actions, which the NES should promote.

Following the recommendations and research of the NES team, an initial draft of the NES was completed in July 2010, and distributed for comments within RDB on July 16th, 2010. Feedback from the NES core team was then vetted and incorporated through another meeting of the NES core team on Tuesday, July

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[67] Taken from the Terms of Reference for the NES, June 2010

[68] As it became apparent during June that this timeline would not allow sufficient time for collaboration and the creation of ownership around various aspects of the document within the various ministries, the timeline was extended to ~4 month, i.e. completion expected towards the beginning of October.

[69] The NES core team initial representatives were from: RDB (T&M, IT, IPI, T&C, and HCID), MINECOFIN, MINICOM, MINEAC, Gender Monitoring Office, PSF, MINIAGRIC, and RBS

27th, 2010.[70] This process of vetting feed-backs continued with the RDB management team and associated organizations. A wider strategy validation workshop was then organised in December 2010.

6.2 STAKEHOLDER LIST

The following organizations have so far, had a leading role in NES development:

- Ministry of Agriculture and Animal Resources
- Ministry of EAC affairs
- Ministry of Finance and Economic Planning
- Ministry of Trade and Industry
- Private Sector Federation
- Private Sector Firms representing NES priority sectors
- Rwanda Bureau of Standards
- Gender Monitoring Office
- RDB/Human Capital & Institutional Development
- RDB/Information Technology
- RDB/Investment Promotion and Implementation
- RDB/Tourism & Conservation
- RDB/Trade & Manufacturing (Coordinating Body)

7. IMPLEMENTATION PLAN AND INSTITUTIONAL FRAMEWORK

The detailed implementation plan for the National Export Strategy is attached as Annex 1. This implementation plan includes activities, budgets, key indicators as well as the lead or implementing stakeholders. The implementation efforts of the NES should be coordinated with key institutional stakeholders. Key institutions in these areas include MINICOM, RDB, MINECOFIN, MINAGRI, MININFRA, OCIR CAFÉ, OCIR THE, RHODA, RALDA, RADA, SPU, RBS, private sector players, and Development Partners.

High level coordination of the National Export Strategy will be provided by the **Industrial Development and Export Council (IDEC)**. This Council was proposed in the Industrial Policy and Master Plan as a High-Level Policy Governance Council. The Chair of the IDEC is MINICOM, to ensure high-level political oversight. This Council will be responsible for monitoring and evaluation of the implementation of the NES. In addition, the Council will submit annual reports to the Kivu Retreat on the progress of the implementation of the NES.

RDB will be the key coordinating institution for the NES, responsible for the implementation of the strategy. It will also act as the secretariat for the NES, calling meetings and ensuring stakeholder engagement. The NES needs to be managed daily by an agreed upon permanent structure under a special unit within RDB similar to the "Doing Business Model".

The Public Private Dialogue Framework will be an active platform that provides input into the implementation process and a consistent dialogue between stakeholders working in key clusters, as well as those working on the cross-cutting issues affecting the growth of these sectors.

A summary of the activities and actions to be implemented under the cross-cutting issues and the prioritized sectors is provided in the appendix to the NES document. The detailed sector by sector 5-year

[70] This meeting also incorporated representatives from additional sectors such as BNR, OCIR-The, OCIR-Cafe, etc.

implementation plan will be consolidated in the NES upon final validation with sector and cluster working groups. The detailed implementation plan will include activities, budgets, key indicators as well as the lead or implementing stakeholder.

8. FINANCIAL IMPLICATIONS

Under RDB supervision, the key stakeholders will finalize the section on the financial implications of the NES after validation of the activities and proposed budget in the implementation plan. It is important however, to highlight the proposed expansion of the Rwanda Export Competitiveness Fund. This proposal needs to be considered in light of the decision in the recently adopted SME Policy to consolidate the existing fund along with other financial schemes into the SME Development Fund hosted in BRD.

9. LEGAL IMPLICATIONS

The National Export Strategy does not necessitate major revisions of the Government of Rwanda's laws. In terms of the implementation plan, there is a need to review the Rwandan national laws to ensure consistency with obligations arising from the implementation of the EAC Common Market protocol. This is an existing activity that is already being undertaken by the Ministry of Justice and the Ministry of EAC Affairs. The action was highlighted in the NES to ensure that Rwanda effectively leverages on the regional integration opportunities.

The other important legal action is the review of the National Investment Code to ensure that investment and export promotion incentives are in line with the strategy and direction of both the Trade Policy and the NES. In particular, the review of the Investment Code will provide the legal basis for the proposed incentives for investments in priority sectors and export development.

10. IMPACT ON BUSINESS

The NES is expected to have an overall positive impact on businesses in Rwanda. The primary objective of the strategy is to facilitate Rwandan business interested in, and engaged in exports. The strategy supports the necessary environment for Rwanda exporters to flourish as well as address the challenges that have hindered export businesses in the past. The NES does not seek to usurp the role of the private sector; it aims to help the private sector develop the necessary capacity to become competitive exporters in the global market. It aims to encourage investors in the identified priority sectors as well as improve the general competitiveness of exporters through the cross-cutting issues.

11. IMPACT ON EQUALITY, UNITY AND RECONCILIATION

The NES addresses the Rwanda Trade Policy Vision of "*growing sustainable and diversified products and services for trading locally, regionally, and internationally, with the aim of creating jobs, increasing incomes, and raising the living standards of Rwandans."* The NES therefore aims at improving the quality of life of all Rwandans without discrimination. The inclusion of Gender, Youth and Environmental sustainability as a cross cutting issue seeks to ensure that the vulnerable segments of the Rwanda society are positively impacted by the NES. In addition, a number of the sectoral strategies create opportunities for economic development of the rural areas. In conclusion, the successful implementation of the strategy provides a platform for the continuing economic development of Rwanda, which is a crucial precondition for consolidating equality, unity and reconciliation.

12. HANDLING PLAN

Upon adoption of the strategy by Cabinet, it is proposed that there should be a formal launch of the strategy highlighting key elements such as the Small Exporters Development Program, the key institutions of MINICOM and the RDB. The strategy should be disseminated among development partners as a basis for potential aid for trade development assistance.

The formal launch of the strategy should involve members of the business community, government actors as well as development partners. To coincide with the launch, brochures showcasing the assistance available to the private sector under the strategy should be published and widely disseminated. The brochures should be published in the main languages including Kinyarwanda and French to ensure proper dissemination.

13. ANNEXE 1 – IMPLEMENTATION PLAN

FLAGSHIP IMPLEMENTATION PLAN/Cross-cutting issues

Issue	Action	Lead Institution
Market Opportunities	▪ *Align national policies & strategies with trade agreements* ▪ *Develop market entry strategies* ▪ *Align Foreign policy and commercial interests*	MINICOM/RDB
Trade Facilitation & Promotion	▪ *Provide targeted assistance to Rwandan businesses through a special Small Exporter Development Program* ▪ *Provide trade information and participate in trade promotion events* ▪ *Feasibility study to establish commercial logistics and distribution centres for Rwandan traders in strategic locations e.g. Central Africa; Middle East* ▪ *Implement the Logistics and Distribution Services Strategy for Rwanda* ▪ *Assist businesses in meeting export standards* ▪ *Improve trade infrastructure (packaging, storage facilities)* ▪ *Identify and address Non-Tariff Barriers* ▪ *Conduct annual survey of cross border trade and devise policy recommendations*	RDB/RBS/MINICOM
Monetary and Fiscal Policies	▪ *Undertake a systematic study on ways to maintain the competitiveness of exports and curb excessive real exchange rate volatility* ▪ *Develop sound industrial policies (taxes, tax expenditures, and subsidies) that efficiently enable growth and production for foreign markets*	MINECOFIN/MINICOM
Business Environment	▪ *Reduce processes & procedures related to trading across borders* ▪ *Continue improving the regulatory environment directly affecting businesses*	RDB/RRA/MINECOFIN
Finance & Investment	▪ *Facilitate financing to address specific issues, through sectoral special financing schemes (EXIM finance model)* ▪ *Increase the level and quality of investment in productive sectors*	BRD/RDB
Infrastructure	▪ *Supply more affordable energy to business in order to compete internationally* ▪ *Continue maintaining and upgrading roads, and developing air, rail and water transport alternatives*	MININFRA
Branding	▪ *Build a strong overarching brand that speaks to diverse stakeholders* ▪ *Create and take advantage of branding opportunities*	RDB
Technology	▪ *Increase the private sector's usage of ICT tools through public awareness* ▪ *Strengthen the ICT cluster workgroup and TVET institutions*	RDB
Human Capacity	▪ *Develop training based on the results of a skills audit for priority sectors* ▪ *Improve legislation and strengthen TVET institutions to address the labour market skills gap*	RDB/WDA
Gender, Youth & Environment	▪ *Mitigate the effects of trade on the environment through improved standards and incentives* ▪ *Support initiatives designed to increase the participating of women in trade activities*	REMA/MIGEPROF/MINIYOUTH

FLAGSHIP IMPLEMENTATION PLAN/Targeted sectors

Sector	Action	Lead Institution
Tourism	▪ *Diversify into avitourism and MICE by building supply side capacity, working with incentive houses and undertaking tailored marketing activities* ▪ *Diversify into cultural tourism by establishing a cultural village and events strategy* ▪ *Attracting investment in anchor tourism brands and increased airline traffic*	RDB Tourism and Conservation
Tea	▪ *Increasing production quantity and quality by improving input provision, transportation and factory capacity* ▪ *Privatize Gisovu, Mulindi and Shagasha tea factories* ▪ *Moving up the value chain through product development, new export channels and marketing*	OCIR-The/MINAGRI/RDB Agri-business
Coffee	▪ *Increase production quantity and quality by improving input provision, planting 20 million coffee seedlings annually, improving road access to coffee washing stations, and providing technical support and new financing tools to washing stations* ▪ *Improving the sector's brand through marketing and contract enforcement* ▪ *Reviewing the impact of coffee exporter fees on competitiveness* ▪ *Moving up the value chain by building a roasting factory and partnerships with toll roasters, as well as marketing*	OCIR-Café/MINAGRI/RDB Agri-business
Mining	▪ *Develop a mining database to encourage investment* ▪ *Put in place strong certification systems* ▪ *Create incentives to encourage value addition* ▪ *Establish regional mining services sector (the Kigali Mineral Campus)*	OGMR
BPO	▪ *Audit and improve the skills base* ▪ *Attract investment by establishing incentives to boost investment and domestic demand* ▪ *Lead the deployment of regional cloud activity through the national data centre*	RDB/ICT
Horticulture	▪ *Conduct initial trials for priority crops* ▪ *Establish a wholesale market for fruits and vegetables* ▪ *Improve the provision of inputs, including consolidating an additional 450,000 hectares of land, and promoting organic production* ▪ *Facilitate investment in processing, in part through the provision of incentives and investment in storage and packaging production*	RHODA, RDB
Home Decor & Fashion	▪ *Improve supply side capacity through technical, managerial and marketing capacity building* ▪ *Conduct market research and facilitate linkages with international markets* ▪ *Implement the Rwanda Craft Industry Sector Strategic Plan (2009)* ▪ *Support the development of the handicraft secretariat*	RDB/MINICOM
Green Fields	▪ *Conduct skills and training audits for priority sectors* ▪ *Attract FDI, by establishing a Biotech coordinating body and cluster-specific organizations*	RDB