

THE POSTER CHILD REFORMER AND MAIN SOURCE OF IMPACT

SUPPORT TO INVESTMENT CLIMATE REFORMS

The World Bank Group's (WBG) engagement in investment climate (IC) reform in Rwanda began in late 2005, with some diagnostic work on business taxation and informality. Operational activities started in 2008. In the early days, assistance was largely aimed at improving Rwanda's ranking in the annual Doing Business (DB) reports by assisting the government authorities "in implementing the Doing Business ... reform action plan." Over time, the emphasis placed on DB-related reforms diminished, and WBG sought to address a broader range of IC issues.

WBG assistance was delivered into two phases. During the first phase (2008-2010), the focus was initially on four themes, namely: (i) the reform of business registration; (ii) legal reforms linked to DB-indicators (labor legislation, enforcement of contracts, etc.); (iii) the simplification of trade logistics arrangements; and (iv) the strengthening of investment promotion activities. During implementation, the scope of activities was expanded to encompass work on business taxation reform, special economic zones (SEZ), and public private dialogue (PPD). The second phase (2011-2013) saw a renewed focus on some themes dealt with in the previous phase (SEZ, business taxation, and trade logistics) as well as the launch of industry specific reform initiatives in the tea and horticulture sectors. The WBG program had a total budget of

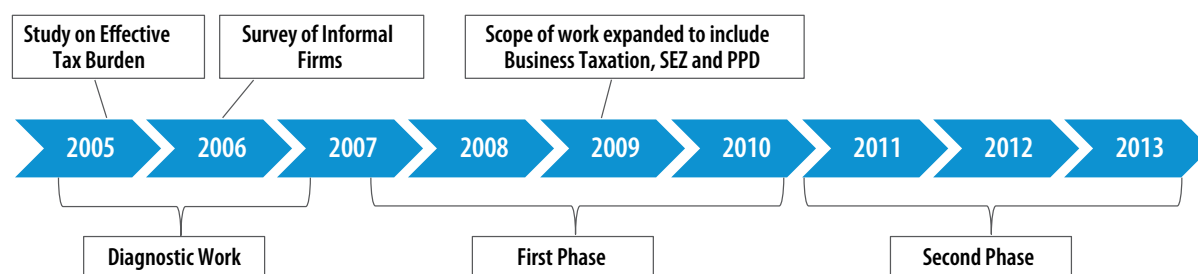
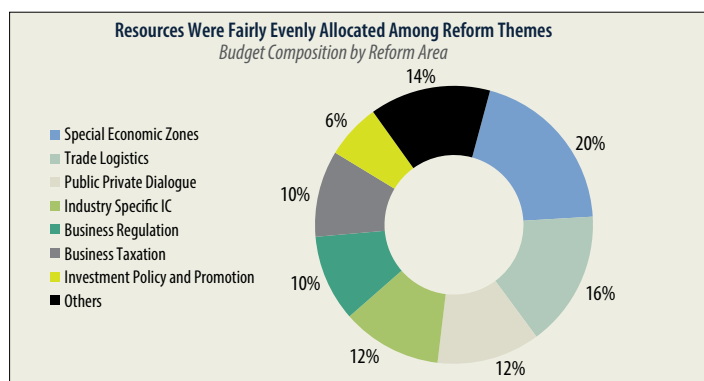
RWANDA – KEY FACTS

Rwanda is a small, landlocked country, with a population of 11.8 million (2013), which makes it one of the most densely populated countries in Africa. After decades of intense civil conflict, culminating in the 1994 genocide, over the last twenty years Rwanda has experienced a period of remarkable stability under a strong leadership. This has provided a backdrop for steady economic growth, with real GDP increasing at an average 7.4% per year over the 2006-2013 period and nominal GDP reaching US\$ 7.5 billion in 2013. However, the economy is still dominated by low value added agricultural and service activities, and average income levels remain fairly low, with a per capita GNI (Atlas method) of US\$ 620 (2013).

US\$ 4.6 million. Budgetary allocations reflect the broad IC reform approach, with four fifths of funds allocated to six reform areas of similar importance, each accounting for between 10% and 20% of the total budget.

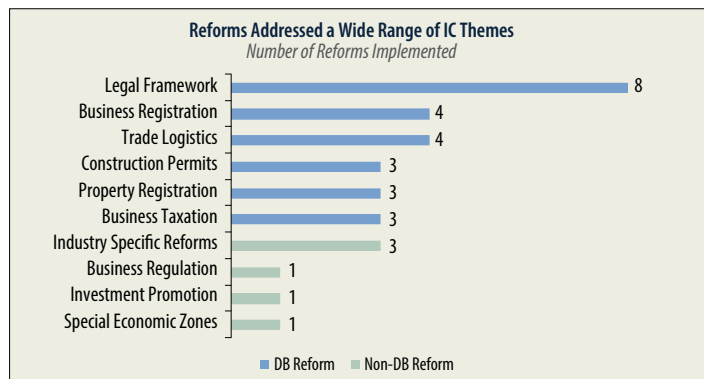
The WBG program was implemented in parallel with numerous other IC reform initiatives funded by various donors. In particular, WBG reform efforts were actively supported by the Investment Climate Facility for Africa (ICF), which provided some US\$ 10 million to finance technical assistance and investments in various areas (strengthening of business registration, modernization of tax administration, etc.).

Program implementation was greatly facilitated by the extremely high commitment to reform displayed by government authorities, which ensured full cooperation on the part of officials at all levels. In the early stages of implementation, the program encountered some problems due to unexpected changes in the institutional framework, with the merging of various entities into a multipurpose development organization, but difficulties were quickly overcome and positive relations were established with all counterparts.



RESULTS OF IC REFORM EFFORTS

The WBG program was very successful, contributing to the implementation of no less than 31 reforms over the 2008-2013 period. Four fifths of these reforms refer to themes linked to DB indicators, with general legal framework reforms, business registration and trade logistics cumulatively accounting for half of all IC reforms. Non-DB reforms mainly refer to industry specific interventions (e.g. the adoption of a new pricing mechanism in the tea sector), although improvements were also recorded in other areas (new legislation on SEZ, strengthening of investment promotion services, and simplification of procedures for the issuance of certain business licenses).



WBG-supported reforms led to an impressive improvement in Rwanda's DB ranking. In fact, starting from a fairly low position in the mid-2000s, around the 160th place, the country managed to reach the 32nd position in the DB2014 report, better than several OECD countries (such as Belgium, France, Spain and Italy). The remarkable improvement in Rwanda's IC is confirmed by other indicators intended to measure the quality of the business environment, such as the World Bank's Regulatory Quality Indicator and the Heritage Foundation's Economic Freedom Index.

ACHIEVEMENTS IN SELECTED REFORM AREAS

Business Registration. The reform of business registration absorbed limited WBG resources, but this was compensated by substantial parallel financing from ICF. Improvements have been quite substantial, with a drastic simplification of documentation and a major reduction in registration fees and other registration related costs (e.g. fees for the notarization of documents). In addition, online registration was introduced on a pilot basis in 2011. Given the positive results achieved (some 4,000 businesses registered online by end 2013), online registration was made mandatory in February 2014, with the complete elimination of registration fees.

Business Taxation. The WBG adopted a comprehensive reform approach, addressing both tax administration and tax policy issues. The main achievements include: (i) the simplification of VAT filing and payment procedures for small businesses; (ii) the introduction of a new simplified tax regime, applicable to a larger number of firms and involving a reduced tax rate (from 4% to 3% of sales); and

(iii) the introduction of the M-Declaration Platform, an innovative IT solution for the filing and payment of taxes. The WBG also promoted the rationalization of tax incentives offered to investors. The government generally agreed with WBG proposals, but as the matter must be agreed at the East Africa Community level, formal adoption was still pending in early 2014.

SEZ and Investment Promotion. The WBG program played a critical role in creating a comprehensive framework for the development of SEZs, with the adoption of a SEZ law and related regulation and the establishment of the relevant regulatory body, the SEZ Authority of the Rwanda (SEZAR). This greatly helped in accelerating the development of the Kigali Special Economic Zone, Rwanda's first SEZ initiative. WBG also provided capacity building assistance to the Rwanda Development Board (RDB) to improve its investment attraction and retention capabilities, which helped in reviving some investments that had remained dormant for sometime.

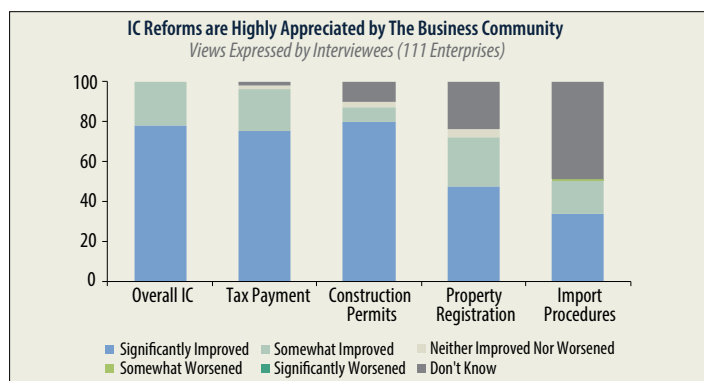
Industry Specific Reforms. Industry specific reform work concentrated on agriculture, with focus on the tea and horticultural sectors. In the tea sector, the WBG program most notably contributed to the reform of the green leaf tea pricing mechanism, which allows for a closer alignment with the prevailing international price. This increased the price paid to smallholders and cooperatives, with a positive influence on production levels and farmers' incomes. In horticulture, the WBG focused on the reform of the land leasing framework, coupled with some investment promotion activities. By end 2013, the reform was still in process, but some investments had nonetheless materialized.

Property Registration and Construction Permits. In the area of property registration, the WBG succeeded in removing the 6% tax on transfer of property as well as in eliminating some procedures (e.g. the notarization of sale contracts) and related fees. Regarding construction permits, procedures were greatly simplified thanks to the creation of Kigali's One Stop Center (OSC), which is currently able to issue construction permits in less than one month, below the statutory limits.

PRIVATE SECTOR'S VIEWS ON IC REFORMS

Attitudes towards IC reforms were assessed through a survey of domestic small and medium enterprises (SME) and interviews with selected foreign investors. IC reforms are highly appreciated by the Rwandan business community, with very high approval rates. Indeed, nearly 80% of the firms surveyed/interviewed assessed the overall IC to have 'significantly improved' and all the others expressed only marginally less positive views. The quite enthusiastic assessment extends to virtually all the specific IC themes investigated. Views are particularly positive regarding tax payment procedures, with no less than 96% of positive answers. This is linked to the recent

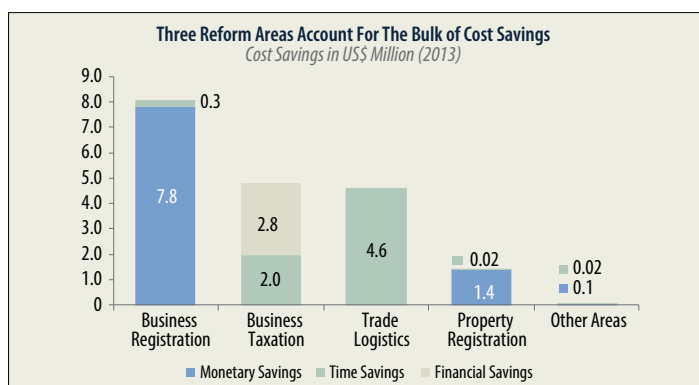
introduction of the M-Declaration Platform, which was highly appreciated by businesses (“With the introduction of e-taxes, the payment has been made easy and this helps in saving time”, “The tax system has helped me a lot; initially I would hire an accountant to do the job”). A solid majority of firms also showed appreciation for the simplification of procedures for construction permits and for the reform of property registration, areas in which WBG also played a significant role. In the case of import procedures, half of interviewees were unable to comment due to lack of direct experience, but among those familiar with the matter positive views are largely prevalent.



IMPACT OF IC REFORMS – REDUCTION OF COMPLIANCE COSTS

WBG-supported reforms greatly contributed to reduce the administrative burden faced by the private sector in complying with business regulations, resulting in significant cost savings. Over the 2008–2013 period, 12 reforms generated cost savings worth some US\$ 19.0 million. More than half of total savings consist of ‘monetary savings’, related to the elimination or reduction of fees and other out-of-pocket expenses. However, there are also significant ‘time savings’, associated with the reduction in the time required to handle administrative procedures, and some ‘financial savings’, linked to the cash flow benefits resulting from less frequent VAT payments.

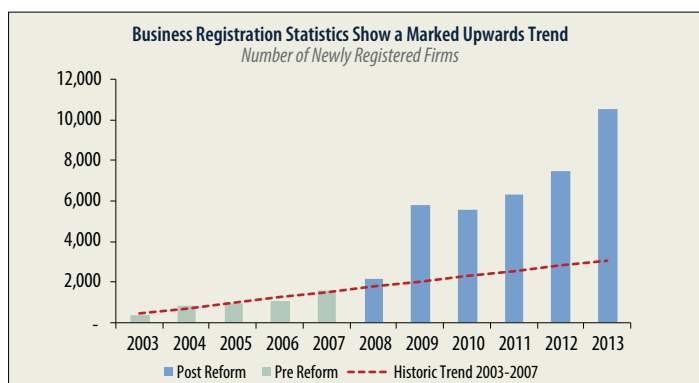
The streamlining of business registration procedures is the main source of cost savings, about US\$ 8 million, with one single reform, the elimination of registration fees for companies, generating alone cost savings for US\$ 5.7 million. Business taxation reforms generated savings of about US\$ 5 million, mostly thanks to the shift from monthly to quarterly VAT filing and payment, which led to considerable time savings and financial gains. Similar results were achieved in trade logistics, where simplification measures concerned a very large number of transactions (in 2011–2013 the annual number of import transactions ranged between 93,000 and 102,000). Reforms in other areas (property registration, construction permits, etc.) cumulatively account for some US\$ 2 million.



The value of cost savings has been increasing overtime, due to the coming on stream of new reforms and the increasing number of firms/transactions benefiting from earlier reforms. In relative terms, over the 2008–2012 period PSCS accounted for about 0.3% of private investment, and their importance grew from 0.1% in 2008 to about 0.4% in 2011 and 2012.

IMPACT OF IC REFORMS – ENTERPRISE FORMATION AND FORMALIZATION

Enterprise Formation. In Rwanda, business registrations have been increasing since the early 2000s, but with a marked acceleration since 2008 in coincidence with the launch of IC reforms. The number of annual registrations climbed from less than 500 in 2003 to about 1,500 in 2007, and topped the 10,000 benchmark in 2013. Comparing the historic trend, which is calculated on data for the 2003–2007 pre reform period, with registration figures for the 2008–2013 period suggests that IC reforms contributed to about 23,000 additional registrations.¹



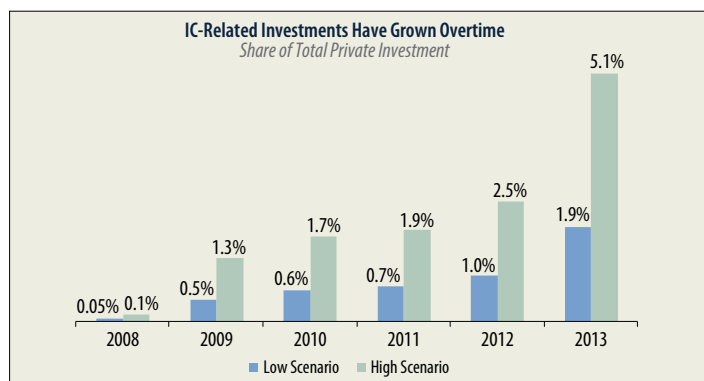
However, new registrations do not necessarily involve the launch of new business activities and newly established firms may go out of business shortly after their establishment. Available evidence suggests that the share of non-operational firms is quite substantial. In fact, a recent World Bank study that compared business registrations with taxpayers records, estimated that a mere 40% of all the firms registered in the 2008–2012 period were still active in 2013.² Accordingly, IC reforms plausibly facilitated the establishment of about 9,400 new operational firms.

¹ These results are broadly in line with the findings of other analyses that relied on more sophisticated methodologies, with the building of counterfactual scenarios. See in particular Gathani S, M Santini and D Stoelinga, “Innovative techniques to evaluate the impact of private sector development reforms: An application to Rwanda and 11 other countries.” MPESA Annual Conference, 2013.

Formalization. The impact of IC reforms on the formalization of previously informal firms is difficult to gauge. About one fifth of the local firms surveyed for the study operated informally prior to registration. In general, economic considerations (better access to customers, suppliers and finance; ability to enter the public procurement market) and/or pressure from government authorities were the main motivations for abandoning informality. Improvements in business registration procedures (easier access to registration information, lower registration burden) were also mentioned among the motives for registering, but the number of available observations is quite limited (only twenty informal firms), and no conclusive assessment is possible.

IMPACT OF IC REFORMS – INVESTMENT AND EMPLOYMENT GENERATION

Impact via the Enterprise Formation Process. The acceleration of the enterprise formation process induced by IC reforms translated into an increase in both investment and employment levels. Information on the investments made and jobs created by newly established firms was collected through the survey of local firms, which provided data for investment and job creation both at the time of establishment and in subsequent years. The total investment associated with IC reforms ranges between US\$ 33 million and US\$ 88 million. The difference between the two estimates depends upon the parameters used, with the ‘low scenario’ being based on median values and the ‘high scenario’ referring to (significantly higher) average values. Estimates of job creation range from some 18,800 jobs in the ‘low scenario’ to 24,100 in the ‘high scenario’. The value of investment associated with IC reforms increased overtime, reaching US\$ 31 million in 2013. The incidence of investments associated with IC reforms also grew in relative terms, passing from less than 0.1% of total private investment in 2008 to a much more substantial 5% in 2013.

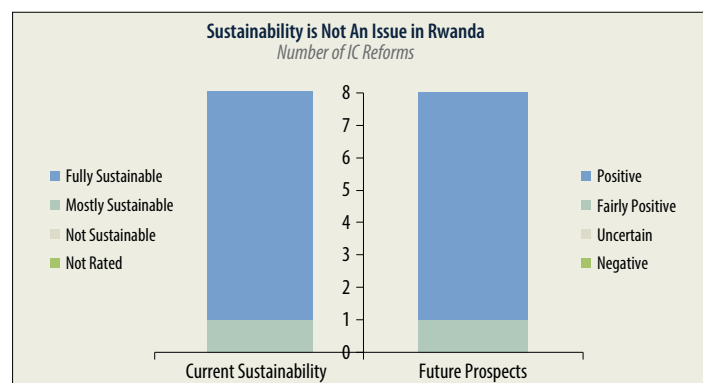


Impact of Investment Promotion and Industry Specific Reforms. WBG assistance to establish RDB’s investor after care unit contributed to revive eight investment projects, worth an estimated US\$ 8 million and involving the creation of 470 jobs. In horticulture,

the program succeeded in attracting two investments, worth about US\$ 1.7 million and involving the creation of some 200 new jobs (of which about two thirds had materialized by end 2013). In the tea sector, the support provided by WBG to the privatization of tea factories helped to attract investments worth US\$ 9 million from two philanthropic investors (of which US\$ 5 million was invested by end 2013), with the creation of about 500 jobs. Overall, by end 2013, WBG’s investment promotion and industry specific interventions contributed to mobilize investments activities worth US\$ 14 million and generated nearly 1,200 jobs.

SUSTAINABILITY OF IC REFORMS

In Rwanda, the government’s strong reformist stance translates into a very high level of sustainability, and none of the eight reforms analyzed in detail are currently suffering, or are expected to suffer in the future, from policy reversal.



Reforms aimed at simplifying procedures are fully in force and in several cases, the government authorities have taken steps to deepen and/or expand the scope of the reform process. For instance, the system devised for construction permits in Kigali is being extended to another six urban centers. Similarly, the Office of Registrar General (ORG) has progressively extended its functions, notably through the establishment of a register of pledges. In the area of trade logistics, the streamlining of procedures has increasingly been accompanied by structural measures to facilitate import — export transactions, such as setting up an electronic single window at the border (with assistance from a multi-donor regional facility).

The picture is also positive regarding capacity building interventions, although there are some operational challenges. In particular, in early 2014 SEZAR was operating with a skeleton staff of three, which is insufficient for the smooth running of operations. Although the recruitment of additional staff is envisaged there are uncertainties regarding the timing. Instead, in RDB’s investment promotion unit staffing levels are more aligned to the volume of work, but the quality of services could still benefit from “more practically oriented training and coaching”.